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

	December 31, 2009	December 31, 2008
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 138	$ 124
Special deposits	50	50
Accounts receivable	11,773	11,457
Unbilled revenues	7,239	6,421
Other receivables	579	480
Affiliate accounts receivable	5,151	7,110
Materials and supplies	2,591	1,625
Income taxes receivable	10,762	9
Other current assets	1,012	958
Total current assets	39,295	28,234
Other Property and Investments:		
Other investments	270	550
Non-utility property	2,111	2,111
Total other property and investments	2,381	2,661
Utility Plant:		
Plant in service and plant held for future use	864,260	816,076
Less accumulated depreciation and amortization	292,608	291,228
	571,652	524,848
Construction work in progress	9,832	30,948
Net utility plant	581,484	555,796
Deferred Charges and Other Assets:		
Regulatory assets	149,005	134,660
Goodwill	226,665	226,665
Other deferred charges	10,225	23,982
Total deferred charges and other assets	385,895	385,307
	$ 1,009,055	$ 971,998

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

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

	December 31, 2009	December 31, 2008
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ -	$ 150,000
Short-term debt – affiliate	23,500	14,100
Current installments of long-term debt	-	167,690
Accounts payable	6,243	11,846
Affiliate accounts payable	2,281	1,238
Accrued interest and taxes	16,505	35,118
Other current liabilities	2,194	3,111
Total current liabilities	50,723	383,103
Long-term Debt	309,712	-
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	136,944	111,193
Regulatory liabilities	34,109	35,028
Asset retirement obligations	772	711
Accrued pension liability and postretirement benefit cost	16,132	16,453
Other deferred credits	8,872	1,820
Total deferred credits and other liabilities	196,829	165,205
Total liabilities	557,264	548,308
Commitments and Contingencies (See Note 16)		
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	443,187	427,320
Accumulated other comprehensive income (loss), net of income tax	(74)	(142)
Retained earnings (deficit)	8,614	(3,552)
Total common stockholder's equity	451,791	423,690
	$ 1,009,055	$ 971,998

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

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

	Year Ended December 31,		
	2009	**2008**	**2007**
		(In thousands)	
Cash Flows From Operating Activities:			
Net earnings (loss)	$ 12,166	$ (8,793)	$ 18,408
Adjustments to reconcile net earnings (loss) to			
net cash flows from operating activities:			
Depreciation and amortization	42,589	42,418	35,383
Regulatory disallowances	670	-	-
Impairment of goodwill	-	34,456	-
Deferred income tax expense (benefit)	31,855	(7,714)	(8,727)
Other, net	593	(2,506)	(2,928)
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(1,134)	(4,697)	(10,092)
Materials and supplies	(966)	(200)	(46)
Other current assets	(712)	306	3,562
Other assets	(3,467)	(33,434)	(257)
Accounts payable	(5,604)	6,181	(2,844)
Accrued interest and taxes	(29,254)	938	52,924
Other current liabilities	2,147	1	(13,706)
Other liabilities	(2,679)	14,639	(461)
Net cash flows from operating activities	46,204	41,595	71,216
Cash Flows From Investing Activities:			
Utility plant additions	(53,063)	(51,116)	(42,725)
Net cash flows from investing activities	(53,063)	(51,116)	(42,725)

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

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

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Cash Flow From Financing Activities:			
Short-term borrowings (repayments), net	(150,000)	150,000	-
Short-term borrowings, net- affiliate	34,606	10,696	3,404
Long-term borrowings	309,242	-	-
Repayment of long-term debt	(167,690)	(148,935)	(100,500)
Equity contribution by parent	-	-	101,249
Dividends paid	(9,339)	-	(35,000)
Debt issuance costs and other	(9,946)	(2,303)	1
Net cash flows from financing activities	6,873	9,458	(30,846)
Change in Cash and Cash Equivalents	14	(63)	(2,355)
Cash and Cash Equivalents at Beginning of Year	124	187	2,542
Cash and Cash Equivalents at End of Year	$ 138	$ 124	$ 187
Supplemental Cash Flow Disclosures:			
Interest paid, net of capitalized interest	$ 24,465	$ 17,246	$ 23,625
Income taxes paid, (refunded) net	$ 5,887	$ 16,613	$ (15,529)

Supplemental schedule of noncash investing and financing activities:

As of January 1, 2007, TNMP transferred its New Mexico operational assets and liabilities to PNMR through a redemption of TNMP's common stock. PNMR contemporaneously contributed the TNMP New Mexico operational assets and liabilities to PNM. See Note 2.

	2009	2008	2007
Current assets			$ 15,444
Other property and investments			10
Utility plant, net			96,468
Goodwill			102,775
Deferred charges			1,377
Total assets transferred to PNM			216,074
Current liabilities			17,313
Long-term debt			1,065
Deferred credits and other liabilities			30,673
Total liabilities transferred to PNM			49,051
Net assets transferred – common stock redeemed			$ 167,023
Equity contribution from parent through forgiveness of short-term debt	$ 25,206		

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY

	Common Stock			Accumulated Other	Retained	Total Common
	Number of Shares	Aggregate Value	Paid-in Capital	Comprehensive Income (Loss)	Earnings (Deficit)	Stockholder's Equity
				(Dollars in thousands)		
Balance at December 31, 2006	9,615	$ 96	$ 492,812	$ 562	$ 21,149	$ 514,619
Redemption of common stock	(3,257)	(32)	(166,991)	-	-	(167,023)
Equity contribution from parent	-	-	101,249	-	-	101,249
Adoption of amendment to GAAP regarding uncertain tax positions	-	-	-	-	684	684
Income taxes on goodwill adjustment	-	-	250	-	-	250
Net earnings	-	-	-	-	18,408	18,408
Total other comprehensive income	-	-	-	261	-	261
Dividends on common stock	-	-	-	-	(35,000)	(35,000)
Balance at December 31, 2007	6,358	64	427,320	823	5,241	433,448
Net earnings (loss)	-	-	-	-	(8,793)	(8,793)
Total other comprehensive income (loss)	-	-	-	(965)	-	(965)
Balance at December 31, 2008	6,358	64	427,320	(142)	(3,552)	423,690
Equity contribution from parent	-	-	25,206	-	-	25,206
Net earnings	-	-	-	-	12,166	12,166
Total other comprehensive income	-	-	-	68	-	68
Dividends on common stock	-	-	(9,339)	-	-	(9,339)
Balance at December 31, 2009	6,358	$ 64	$ 443,187	$ (74)	$ 8,614	$ 451,791

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

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

	Year Ended December 31,		
	2009	**2008**	**2007**
		(In thousands)	
Net Earnings (Loss)	$ 12,166	$ (8,793)	$ 18,408
Other Comprehensive Income (Loss):			
Pension liability adjustment, net of income tax (expense) benefit of $32, $520, and $(161)	(57)	(965)	261
Fair Value Adjustment for Designated Cash Flow Hedge:			
Change in fair value, net of income tax (expense) benefit of $182, $0, and $0	(329)	-	-
Reclassification adjustment for (gains) losses included in net earnings (loss), net of income tax expense (benefit) of $(252), $0, and $0	454	-	-
Total Other Comprehensive Income (Loss)	68	(965)	261
Comprehensive Income (Loss)	$ 12,234	$ (9,758)	$ 18,669

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009, 2008 and 2007

(1) Summary of the Business and Significant Accounting Policies

Nature of Business

PNMR is an investor-owned holding company of energy and energy-related businesses. PNMR's primary subsidiaries are PNM, TNMP, and First Choice. PNM is a public utility with regulated operations primarily engaged in the generation, transmission and distribution of electricity and, through January 29, 2009, the transmission, distribution and sale of natural gas. As described in Note 2, PNM completed the sale of its natural gas operations on January 30, 2009. PNM began service to TNMP's New Mexico customers effective January 1, 2007. TNMP and First Choice are wholly owned subsidiaries of TNP, which is a holding company that is wholly owned by PNMR. TNMP provides regulated transmission and distribution services in Texas. First Choice is a competitive retail electric provider operating in Texas. PNMR owns 50% of Optim Energy (formerly EnergyCo), which is focused on unregulated electric operations, principally within the areas of Texas covered by ERCOT, including the development, operation and ownership of diverse generation assets and wholesale marketing. PNMR's common stock trades on the New York Stock Exchange under the symbol PNM.

Financial Statement Preparation and Presentation

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

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

Certain amounts in the 2008 and 2007 Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2009 financial statement presentation. At December 31, 2007, PNM Gas, a segment of PNM, became classified as held for sale and is shown as discontinued operations for all periods presented. See Note 2 and Note 23.

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 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. PNMR's primary subsidiaries are PNM, TNMP, First Choice and, through May 31, 2007, Altura. PNM 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, including Optim Energy. These services are billed at cost, except for Optim Energy, which includes a profit element. Other significant intercompany transactions between PNMR, PNM, and TNMP include energy purchases and sales, transmission and distribution services, lease payments, dividends paid on common stock, and interest paid by PVNGS Capital Trust to PNM. All intercompany transactions and balances have been eliminated. See Note 20.

Accounting for the Effects of Certain Types of Regulation

The Company maintains its accounting records in accordance with the uniform system of accounts prescribed by FERC and adopted by the NMPRC and PUCT.

Certain of the Company's operations are regulated by the NMPRC, PUCT and FERC and the provisions of GAAP for rate-regulated enterprises are applied to its regulated operations. Regulators may assign costs to accounting periods that differ from accounting methods applied by nonregulated utilities. When it is probable that regulators will permit recovery of costs through future rates, costs are deferred as regulatory assets that otherwise would be expensed. Likewise, regulatory liabilities are recognized when it is probable that regulators will require refunds through future rates or when revenue is collected for expenditures that have not yet been incurred. Regulatory assets and liabilities are amortized into earnings over the authorized recovery period. Accordingly, the Company has deferred certain costs and recorded certain liabilities pursuant to the rate actions of FERC, the NMPRC and the PUCT. Information on "regulatory assets" and "regulatory liabilities" is contained in Note 4.

Cash and Cash Equivalents

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

Utility Plant

Utility plant is stated at cost, which includes capitalized payroll-related costs such as taxes, pension and other fringe benefits, administrative costs and an allowance for funds used during construction where authorized by rate regulation.

Repairs, including major maintenance activities, and minor replacements of property are expensed when incurred, except as required by regulators for ratemaking purposes. Major replacements are charged to utility plant. Gains or losses resulting from retirements or other dispositions of regulated property in the normal course of business are credited or charged to the accumulated provision for depreciation.

Allowance for Funds Used During Construction

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

In 2009, 2008, and 2007, PNM recorded $8.0 million, $7.9 million, and $7.7 million of allowance for funds used during construction on certain projects and TNMP recorded $1.1 million, $1.0 million, and $0.4 million.

Capitalized Interest

PNMR capitalizes interest on its construction projects and major computer software projects not subject to the computation of an allowance for funds used during construction. Interest was capitalized at the overall weighted average borrowing rate of 6.9%, 6.5%, and 6.0% for 2009, 2008, and 2007. PNMR's capitalized interest was $0.7 million, $0.8 million, and $4.1 million in 2009, 2008, and 2007; PNM's was $0.2 million, $0.5 million, and $3.7 million; and TNMP's was zero in 2009 and less than $0.1 million in 2008 and 2007.

Carrying Charges on Stranded Costs

TNMP's estimate of allowable carrying charges on stranded costs that it may recover from its transmission and distribution customers is based on a Texas Supreme Court ruling, and the PUCT's application of that ruling.

Materials, Supplies, Fuel Stock, and Natural Gas Stored

Materials and supplies relate to transmission, distribution and generating assets. Materials and supplies are charged to inventory when purchased and are expensed or capitalized as appropriate when issued. Materials and supplies are valued using an average costing method. Obsolete materials and supplies are expensed when identified.

Natural gas in underground storage was valued using a weighted average method. Withdrawals were charged to sales service customers through the PGAC.

Coal is valued using a rolling weighted average costing method that is updated based on the current period cost per ton. Periodic aerial surveys are performed on the coal piles and adjustments are made. In addition to coal delivered and included in inventory, PNM prepays the SJGS coal supplier for coal mined but not yet delivered. At December 31, 2009 and 2008, prepayments for coal amounted to $32.1 million and $30.7 million

Inventories consisted of the following at December 31:

	PNMR		PNM		TNMP	
	2009	2008	2009	2008	2009	2008
	(In thousands)					
Coal	$ 15,079	$ 16,884	$ 15,079	$ 16,884	$ -	$ -
Gas in underground storage	-	9,886	-	9,886	-	-
Materials and supplies	35,552	35,362	32,710	33,219	2,591	1,625
	50,631	62,132	47,789	59,989	2,591	1,625
Discontinued operations	-	12,735	-	12,735	-	-
Continuing operations	$ 50,631	$ 49,397	$ 47,789	$ 47,254	$ 2,591	$ 1,625

Investments

In 1985 and 1986, PNM entered into eleven operating leases for interests in certain PVNGS generation facilities (see Note 7). The remaining 10.3% and 10.15% lessor notes that were issued by the owners of the assets subject to these leases were subsequently purchased by and are now held by the PVNGS Capital Trust, which is consolidated by PNM. Eight leases continue and are classified as operating leases. The PVNGS Capital Trust intends to hold the lessor notes until such notes mature. Similarly, in 1985, PNM entered into two operating leases for the EIP transmission line for which the owners had issued lessor notes. In 2003, PNM acquired a 60% ownership interest in the EIP, collapsing the lease relating to it, and in 2004 purchased the outstanding lessor note relating to the remaining 40% interest. The remaining EIP lessor note bears interest at 10.25%, matures in 2012, and is carried on the Consolidated Balance Sheet in other investments at $6.7 million and $8.6 million as of December 31, 2009 and 2008. Both the PVNGS and EIP lessor notes are carried at amortized cost.

The Company's other investments, including the NDT, are primarily comprised of United States, state, and municipal government obligations and corporate securities. All investments are held in the Company's name and are in the custody of major financial institutions. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and deductions. At December 31, 2009 and 2008, substantially all of these investments were classified as available for sale. PNM holds investment securities in the NDT. PNM evaluates these investment securities for impairment on an on-going basis. Since third party investment managers have sole discretion over the purchase and sales of the NDT securities, PNM records a realized loss as an impairment for any security that has a market value that is less than cost at the end of each quarter. For the years ended December 31, 2009, 2008 and 2007, PNM recorded impairment losses on securities held in the nuclear decommissioning trust of $8.1 million, $12.3 million, and $1.8 million. No gains or losses are deferred as regulatory assets or liabilities. Unrealized gains on these investments are included in other comprehensive income, net of any related tax effect.

Investment in Optim Energy (formerly known as EnergyCo)

PNMR accounts for its investment in Optim Energy using the equity method of accounting because PNMR's ownership interest results in significant influence, but not control, over Optim Energy and its operations. PNMR records as income its percentage share of earnings or loss of Optim Energy and carries its investment at cost, adjusted for its share of undistributed earnings or losses. The difference between PNMR's book value of its investment in Optim Energy and its proportionate share of Optim Energy's equity is being amortized into results of operations over the useful lives of the underlying assets and contractual periods of the liabilities that resulted in the difference. See Note 22.

Goodwill and Other Intangible Assets

Under the provisions of GAAP, the Company does not amortize goodwill. Certain intangible assets are amortized over their estimated useful lives. Goodwill and non-amortizable other intangible assets are evaluated for impairment annually, or more frequently if events and circumstances indicate that the goodwill and intangible assets might be impaired. Amortizable other intangible assets are amortized over the shorter of their economic or legal lives and are evaluated for impairment when events and circumstances indicate that the assets might be impaired. Impairments recorded in 2008 are discussed in Note 25.

Asset Impairment

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

Revenue Recognition

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

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

PNM's gas operations, which were sold on January 30, 2009 and are reflected as discontinued operations, purchased gas on behalf of its end-use sales-service customers while other marketers or producers purchased gas on behalf of their end-use transportation-service customers. PNM collected a cost of service revenue for the transportation, delivery, and customer service provided to all on-system end-use customers. Cost of service tariffs were set by the NMPRC while gas commodity rates were subject to the terms of the PGAC with oversight provided by the NMPRC.

PNM's wholesale electricity sales are recorded as operating revenues and the wholesale electricity purchases are recorded as costs of energy sold. In accordance with GAAP, derivative contracts that are net settled or "booked-out" are recorded net in earnings. A book-out is the planned or unplanned netting of off-setting purchase and sale transactions. A book-out is a transmission mechanism to reduce congestion on the transmission system or administrative burden (see further discussion below in Derivatives). For accounting purposes, a book-out is the recording of net revenues upon the settlement of a derivative contract.

Unrealized gains and losses on contracts that do not qualify for the normal purchases or normal sales exception or are not designated for hedge accounting are classified as trading transactions or economic hedges. Trading transactions are defined as derivative instruments used to take advantage of existing market opportunities. Changes in the fair value of trading transactions are reflected on a net basis in operating revenues. The Company stopped entering into speculative trading transactions during 2008. Economic hedges are defined as derivative instruments, including long-term power agreements, used to hedge generation assets and purchased power costs. Changes in the fair value of economic hedges are reflected in results of operations, with changes related to economic hedges on sales included in operating revenues and changes related to economic hedges on purchases included in cost of energy sold.

Depreciation and Amortization

PNM's provision for depreciation and amortization of utility plant, other than nuclear fuel, is based upon straight-line rates approved by the NMPRC. Nuclear fuel is based on units-of-production. TNMP's provision for depreciation and amortization of utility plant is based upon straight-line rates approved by the PUCT. Depreciation of non-utility property is computed based on the straight-line method. The provision for depreciation of certain equipment is allocated between depreciation expense and construction projects based on the use of the equipment. Average rates used are as follows:

	2009	2008	2007
PNM			
Electric plant	2.31%	2.35%	2.42%
Gas plant (see Note 2)	-	-	2.82%
Common, intangible, and general plant	4.29%	4.24%	6.32%
TNMP	3.44%	3.44%	3.48%

Amortization of Debt Acquisition Costs

Discount, premium and expense related to the issuance of long-term debt are amortized over the lives of the respective issues. Gains and losses incurred upon the early retirement of long-term debt are recognized in other income or deductions, except for amounts attributable to NMPRC or PUCT regulation, which are amortized over the lives of the respective issues.

Derivatives

The Company records derivative instruments in the balance sheet as either an asset or liability measured at their fair value. GAAP requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting or normal purchase and sale criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to offset related change in value of the hedged item in the statement of earnings, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. GAAP provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of AOCI and be reclassified into earnings in the period during which the hedged forecasted transaction affects earnings. The results of hedge ineffectiveness and the portion of the change in fair value of a derivative that an entity has chosen to exclude from hedge effectiveness are required to be presented in current earnings. See Note 8.

The Company treats all forward electric purchases and sales contracts subject to unplanned netting or book-out by the transmission provider as derivative instruments subject to mark-to-market accounting, unless the contract qualifies for the normal exception by meeting the definition of a capacity contract. Under this definition, the contract cannot permit net settlement, the seller must have the resources to serve the contract and the buyer must be a load serving entity.

In addition, all energy contracts held for trading purposes are presented on a net margin basis in the statement of earnings. Energy contracts that do not meet the definition of a derivative are recognized in current earnings and are not marked to market.

GAAP gives guidance on whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis and concludes such classification is a matter of judgment that depends on the relevant facts and circumstances. PNM nets all realized gains and losses on derivative transactions that do not physically deliver and that are offset by similar transactions during settlement. For the years ended December 31, 2009, 2008, and 2007, wholesale purchases of $2.8 million, $12.6 million, and $122.0 million were netted with electric revenues in the Consolidated Statements of Earnings (Loss).

Decommissioning Costs

PNM owns and leases nuclear and fossil-fuel generating facilities. In accordance with GAAP, PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists. Nuclear decommissioning costs and related accruals are based on site-specific estimates of the costs for removing all radioactive and other structures at PVNGS and are dependent upon numerous assumptions. PNM's accruals for PVNGS Units 1, 2 and 3 have been made based on such estimates, the guidelines of the NRC and the probability of a license extension. PVNGS Unit 3 is excluded from PNM's retail rates while PVNGS Units 1 and 2 are included. PNM collects a provision for ultimate decommissioning of PVNGS Units 1 and 2 and its fossil-fueled generation facilities in its rates and recognizes a corresponding expense and liability for these amounts. See Note 15.

In connection with both the SJGS coal agreement and the Four Corners fuel agreement, the owners are required to reimburse the mining companies for the cost of contemporaneous reclamation as well as the costs for final reclamation of the coal mines. The reclamation costs are based on site-specific studies that estimate the costs to be incurred in the future and are dependent upon numerous assumptions . PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. See Note 16 for a discussion of the final reclamation costs.

Pension and Other Postretirement Benefits

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

Stock-Based Compensation

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

Income Taxes

Income taxes are accounted for using the asset and liability method for accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis. Current NMPRC and PUCT approved rates include the tax effects of the majority of these differences. GAAP requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Because the NMPRC and the PUCT have consistently permitted the recovery of tax effects previously flowed-through earnings, the Company has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities. Items accorded flow-through treatment under rate orders, deferred income taxes and the future ratemaking effects of such taxes, as well as corresponding regulatory assets and liabilities, are recorded in the financial statements.

The Company recognizes only the impact of tax positions that, based on their merits, are more likely than not to be sustained upon an IRS audit. See Note 11.

Excise Taxes

The Company pays certain fees or taxes which are either considered to be an excise tax or similar to an excise tax. Substantially all of these taxes are recorded on a net basis in the Consolidated Statements of Earnings.

(2) Acquisitions, Dispositions and Impairments

PNM Gas Sale

On January 12, 2008, PNM reached a definitive agreement to sell its natural gas operations, which comprised the PNM Gas segment, to NMGC, a subsidiary of Continental, for $620.0 million in cash, subject to adjustment based on the actual level of working capital at closing. PNM received an additional $32.9 million related to working capital true-ups. In a separate transaction conditioned upon the sale of the natural gas operations, PNMR proposed to acquire CRHC, Continental's regulated Texas electric transmission and distribution business, for $202.5 million in cash. On July 22, 2008, PNMR and Continental agreed to terminate the agreement for the acquisition of CRHC. Under the termination agreement, Continental agreed to pay PNMR $15.0 million upon the closing of the PNM Gas transaction. PNM completed the sale of PNM Gas on January 30, 2009 and recognized a gain of $65.3 million, after income taxes of $33.1 million, in 2009, which is included in discontinued operations on the Consolidated Statements of Earnings (Loss). This gain reflects the reduction for the increase in the PBO of the PNM pension plan related to the retirement of employees transferred to NMGC. See Note 12. PNMR recognized an additional pre-tax gain of $15.0 million ($9.1 million after income taxes) due to the CRHC termination payment, which is included in other income on the Consolidated Statements of Earnings (Loss). In connection with the sale, PNM retained obligations under the frozen PNM pension and executive retirement plans for employees transferred to NMGC. PNM had a regulatory asset related to these plans, which was removed from regulatory assets on the date of the sale and transferred to AOCI. The after-tax charge to AOCI was $64.8 million. PNM also retained obligations for certain contingent liabilities that existed at the date of sale. PNM recognized $5.4 million in expense related to these liabilities in 2009, which is included in discontinued operations on the Consolidated Statements of Earnings (Loss).

PNM used proceeds from the sale to retire short-term debt and paid a dividend of $220.0 million to PNMR. The remaining funds were used to pay income taxes on the gain from the sale. PNMR used the dividend from PNM and the $15.0 million from Continental to retire debt. There were no material prior relationships between the PNMR and Continental parties other than in respect of the transactions described herein. PNM and PNMR Services Company provided certain corporate administrative and customer service support at cost to NMGC under a transition services agreement. The agreement term began January 30, 2009 and terminated in July 2009 with the exception of shared meter reading services, which will continue through 2010. See Note 23 for financial information concerning PNM Gas, which is classified as discontinued operations in the accompanying financial statements.

Twin Oaks

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased the Twin Oaks business, which included a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas for $480.0 million in cash plus the assumption of contracts and liabilities. Effective June 1, 2007, PNMR contributed Altura, including the Twin Oaks business, to Optim Energy. See Note 22. The results of Twin Oaks operations have been included in the Consolidated Financial Statements of PNMR from April 18, 2006 through May 31, 2007. Beginning June 1, 2007, the Twin Oaks operations are included in Optim Energy, which is accounted for by PNMR using the equity method.

The Twin Oaks purchase agreement included the development rights for a possible 600-megawatt expansion of the plant, which PNMR classified as an intangible asset with a value of $25.0 million at the date of acquisition. PNMR reassessed this valuation as of April 1, 2007 and determined that the asset was impaired, resulting in a pre-tax loss of $3.4 million, which was recorded in energy production costs. In 2008, Optim Energy made a strategic decision not to pursue the Twin Oaks expansion and wrote off the development rights as an impairment of intangible assets.

As part of the acquisition of Twin Oaks, PNMR determined the fair value of two contractual obligations to sell power. The first contract obligated PNMR to sell power through September 2007 at which time the second contract began and extends for three years. In comparing the pricing terms of the contractual obligations against the forward price of electricity in the relevant market, PNMR concluded that the contracts were below market. In accordance with GAAP, the contracts were recorded at fair value to be amortized as an increase in operating revenue over the contract periods. The amortization matches the difference between the forward price curve and the contractual obligations for each month in accordance with the contract as of the acquisition date. For the first contract, $94.9 million was recorded in other current liabilities and $52.4 million was recorded in other deferred credits for a total of $147.3 million. For the second contract, $29.6 million was recorded in other deferred credits. As of May 31, 2007, PNMR had amortized $105.9 million for the first contract and nothing for the second contract.

TNMP – New Mexico

In connection with the 2005 acquisition of TNP and its principal subsidiaries, TNMP and First Choice, the NMPRC stipulated that all TNMP's New Mexico operations would transfer to the ownership of PNM. This transfer took place on January 1, 2007 when TNMP transferred its New Mexico operational assets and liabilities to PNMR through redemption of TNMP's common stock. PNMR contemporaneously contributed the TNMP New Mexico operational assets and liabilities to PNM.

Due to the fact the net assets were distributed to TNMP's parent, PNMR, the assets and liabilities were considered "held and used" up until the date of transfer. No gain or loss or impairments were recognized on the disposition due to the fact the transfer was among entities under common control. Furthermore, the TNMP New Mexico operations are subject to traditional rate of return regulation. Subsequent to the transfer, the NMPRC regulates these operations in the same manner as prior to the transfer. Under GAAP for rate-regulated enterprises, the assets and liabilities were recorded by PNM at TNMP's carrying amounts, which represent their fair value within the regulatory environment.

The asset transfer did not meet the definition of a "change in reporting entity" since PNM's financial statement composition remained unchanged after the transfer. The assets and operations transferred from TNMP are in the same line of business as PNM and are immaterial to both PNM's assets and net earnings. Information concerning the TNMP New Mexico assets and liabilities transferred to PNM is set forth on their Consolidated Statements of Cash Flows.

Other

See Note 25, for a discussion of impairments of intangible assets recorded in 2008.

In 2006, the NMPRC approved a stipulation to allow PNM to convert its 141-megawatt combustion turbine Afton Generating Station to a combined cycle plant and bring Afton into retail rates in its next rate case, which was anticipated to be effective January 1, 2008. The Afton costs, including the costs of conversion, allowable for ratemaking were stipulated to be the lower of the actual cost or $187.6 million. The combined cycle plant was declared commercial on October 12, 2007 and was included in PNM's retail rates beginning in May 2008. During the final start-up stages, problems were encountered that required piping modifications and significant problems were encountered with the control software and interfaces. Furthermore, the new turbine and generator experienced problems that required inspection of all five bearings. The combination of these issues caused delays and increased costs. The total Afton costs exceeded the stipulated maximum amount and the excess will not be recoverable in rates. Therefore, the Afton asset has been impaired, as defined under GAAP. A pre-tax impairment charge of $19.5 million ($11.8 million after income taxes) was recorded in 2007 by PNM in energy production costs.

On June 29, 2007, a wholly-owned subsidiary of PNMR purchased 100% of a trust that owns a 2.27% undivided interest, representing 29.8 MW, in PVNGS Unit 2 and a 0.76% undivided interest in certain PVNGS common facilities, as well as a lease under which such facilities are leased to PNM. The beneficial interest in the trust was purchased for $44.0 million in cash and the assumption of $41.2 million in long-term debt payable to PVNGS Capital Trust. This long-term debt offsets a portion of the investment in PVNGS lessor notes and is eliminated in PNMR's consolidated financial statements. The funds for the purchase were provided by PNMR. The lease remained in effect and the transaction had no impact on PNM's consolidated financial statements. As described in Note 17, the Resource Stipulation allowed the Unit 2 interest to be transferred to PNM and the acquisition costs to be recovered in PNM's rates beginning with the 2008 Electric Rate Case. In July 2009, PNM purchased the trust from the other PNMR subsidiary for $39.1 million in cash. The purchase price was equal to the book value of the underlying assets less deferred taxes and miscellaneous accruals. The other PNMR subsidiary paid a dividend of that same amount to PNMR. PNMR then made an equity contribution of that amount to PNM. The trust had $32.0 million of debt owing to the PVNGS Capital Trust, which is consolidated by PNM. The transfer had no impact on the financial statements of PNMR. The impacts on the financial statements of PNM were to increase net plant in service by $73.7 million, increase common stock by $39.1 million, reduce investment in the PVNGS lessor notes by $32.0 million, reflecting the elimination of the debt owed by the trust to the PVNGS Capital Trust, and increase deferred income taxes and other accruals by $2.6 million .

(3) 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 as well as the sale of transmission to third parties. PNM Electric also includes the generation and sale of electricity into the wholesale market. This includes the asset optimization of PNM's jurisdictional assets as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale rates.

TNMP Electric

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

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

PNM Gas

PNM Gas distributed natural gas to most of the major communities in New Mexico, subject to traditional rate regulation by the NMPRC. The customer base of PNM Gas included both sales-service customers and transportation-service customers. PNM Gas purchased natural gas in the open market and sold it at cost to its sales-service customers. As a result, increases or decreases in gas revenues resulting from gas price fluctuations did not impact gross margin or earnings. As described in Note 2, PNM completed the sale of its gas operations on January 30, 2009. PNM Gas is reported as discontinued operations in the accompanying financial statements and is not included in the segment information presented below. Financial information regarding PNM Gas is presented in Note 23.

Altura

The Altura segment includes the results of Twin Oaks from the date of its acquisition by PNMR on April 18, 2006 until its contribution to Optim Energy as of June 1, 2007. See Note 2 and Note 22.

First Choice

First Choice is a certified retail electric provider operating in Texas, which allows it to provide electricity to residential, small commercial, and governmental customers. Although First Choice is regulated in certain respects by the PUCT, it is not subject to traditional rate regulation.

Optim Energy

Upon the contribution of Altura to Optim Energy, Optim Energy became a separate segment for PNMR effective June 1, 2007. PNMR's investment in Optim Energy is held in the Corporate and Other segment and is accounted for using the equity method of accounting. Optim Energy's revenues and expenses are not included in PNMR's consolidated revenues and expenses or the following tables. See Notes 2 and 22.

Corporate and Other

PNMR Services Company is included in the Corporate and Other segment.

The following tables present summarized financial information for PNMR by operating segment. Excluding PNM Gas, which is presented as discontinued operations, PNM has only one operating segment. TNMP operates in only one reportable segment. Therefore, tabular segment information is not presented for PNM and TNMP. Explanations for footnotes follow the tables.

PNMR SEGMENT INFORMATION

2009	**PNM Electric**	**TNMP Electric**	**First Choice**	**Corporate and Other**	**Consolidated**
			(In thousands)		
Operating revenues	$ 967,998	$ 151,294	$ 528,818	$ (366)	$ 1,647,744
Intersegment revenues	11	41,338	-	(41,349)	-
Total revenues	968,009	192,632	528,818	(41,715)	1,647,744
Cost of energy	378,145	34,728	346,454	(41,338)	717,989
Gross margin	589,864	157,904	182,364	(377)	929,755
Other operating expenses	420,473	75,540	107,354	(13,503)	589,864
Depreciation and amortization	92,140	37,262	1,809	16,738	147,949
Operating income (loss)	77,251	45,102	73,201	(3,612)	191,942
Interest income	30,543	9	56	(2,219)	28,389
Equity in net earnings (loss) of Optim Energy	-	-	-	(30,145)	(30,145)
Other income (deductions)	6,891	2,860	(438)	17,457	26,770
Net interest charges	(69,058)	(27,820)	(2,782)	(22,545)	(122,205)
Earnings (loss) before income taxes	45,627	20,151	70,037	(41,064)	94,751
Income taxes (benefit)	13,726	7,985	25,622	(18,515)	28,818
Earnings (loss) from continuing operations	31,901	12,166	44,415	(22,549)	65,933
Valencia non-controlling interest	(11,890)	-	-	-	(11,890)
Subsidiary preferred stock dividends	(528)	-	-	-	(528)
Segment earnings (loss) from continuing operations attributable to PNMR	$ 19,483	$ 12,166	$ 44,415	$ (22,549)	$ 53,515
Gross property additions (1) (2)	$ 253,335	$ 53,063	$ 863	$ 16,462	$ 284,597
At December 31, 2009:					
Total Assets	$ 3,775,166	$ 1,009,055	$ 197,062	$ 378,638	$ 5,359,921
Goodwill	$ 51,632	$ 226,665	$ 43,013	$ -	$ 321,310

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2008	PNM Electric	TNMP Electric	First Choice	Corporate and Other	Consolidated
			(In thousands)		
Operating revenues	$ 1,242,837	$ 135,068	$ 582,224	$ (607)	$ 1,959,522
Intersegment revenues	105	55,214	-	(55,319)	-
Total revenues	1,242,942	190,282	582,224	(55,926)	1,959,522
Cost of energy	698,054	32,671	564,326	(55,197)	1,239,854
Gross margin	544,888	157,611	17,898	(729)	719,668
Other operating expenses	465,681	101,466	238,386	(413)	805,120
Depreciation and amortization	85,724	38,695	2,360	17,583	144,362
Operating income (loss)	(6,517)	17,450	(222,848)	(17,899)	(229,814)
Interest income	24,674	63	1,587	(2,228)	24,096
Equity in net earnings (loss) of Optim Energy	-	-	-	(29,687)	(29,687)
Other income (deductions)	(17,613)	3,162	112	(5,682)	(20,021)
Net interest charges	(69,868)	(18,340)	(3,985)	(40,762)	(132,955)
Earnings (loss) before income taxes	(69,324)	2,335	(225,134)	(96,258)	(388,381)
Income taxes (benefit)	(10,029)	11,128	(47,561)	(44,354)	(90,816)
Earnings (loss) from continuing operations	(59,295)	(8,793)	(177,573)	(51,904)	(297,565)
Valencia non-controlling interest	(7,179)	-	-	-	(7,179)
Subsidiary preferred stock dividends	(528)	-	-	-	(528)
Segment earnings (loss) from continuing operations attributable to PNMR	$ (67,002)	$ (8,793)	$ (177,573)	$ (51,904)	$ (305,272)
Gross property additions [1]	$ 240,262	$ 51,116	$ 3,872	$ 12,876	$ 308,126
At December 31, 2008:					
Total Assets [3]	$ 3,758,834	$ 971,998	$ 253,048	$ 494,201	$ 5,478,081
Goodwill	$ 51,632	$ 226,665	$ 43,013	$ -	$ 321,310

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2007	PNM Electric	TNMP Electric	Altura	First Choice	Corporate and Other	Consolidated
			(In thousands)			
Operating revenues	$ 1,136,974	$ 109,818	$ 65,395	$ 600,617	$ 1,225	$ 1 ,914,029
Intersegment revenues	-	70,603	-	78	(70,681)	-
Total revenues	1,136,974	180,421	65,395	600,695	(69,456)	1,914,029
Cost of energy	638,675	29,529	22,063	500,755	(69,497)	1,121,525
Gross margin	498,299	150,892	43,332	99,940	41	792,504
Other operating expenses	381,105	67,821	18,636	57,262	6,943	531,767
Depreciation and amortization	83,223	30,401	7,684	1,881	12,506	135,695
Operating income (loss)	33,971	52,670	17,012	40,797	(19,408)	125,042
Interest income	41,655	85	146	2,137	(869)	43,154
Equity in net earnings of Optim Energy	-	-	-	-	7,581	7,581
Other income (deductions)	11,647	1,468	1	(56)	(5,570)	7,490
Net interest charges	(52,662)	(25,168)	(8,523)	(763)	(33,039)	(120,155)
Earnings (loss) before income taxes	34,611	29,055	8,636	42,115	(51,305)	63,112
Income taxes (benefit)	11,220	10,647	3,419	14,929	(36,989)	3,226
Earnings (loss) from continuing operations	23,391	18,408	5,217	27,186	(14,316)	59,886
Subsidiary preferred stock dividends	(528)	-	-	-	-	(528)
Segment earnings (loss) from continuing operations attributable to PNMR	$ 22,863	$ 18,408	$ 5,217	$ 27,186	$ (14,316)	$ 59,358
Gross property additions (1)	$ 312,988	$ 42,725	$ 919	$ 184	$ 61,770	$ 418,586
At December 31, 2007:						
Total Assets (3)	$ 3,456,800	$ 972,792	$ -	$ 367,838	$ 428,106	$ 5,225,536
Goodwill	$ 102,775	$ 261,121	$ -	$ 131,768	$ -	$ 495,664

Footnote explanations for the above tables are as follows:

(1) Excludes gross property additions related to PNM Gas discontinued operations of $3,434, $36,825, and $39,154 for December 31, 2009, 2008, and 2007.
(2) Includes PNM's purchase of an interest in PVNGS Unit 2 from another subsidiary of PNMR of $39,126.
(3) Excludes total assets related to PNM Gas discontinued operations of $669,901 and $646,600 at December 31, 2008 and 2007.

Major Customers

No individual customers accounted for more than 10% of the operating revenues of PNMR or PNM. First Choice is a customer of TNMP and accounted for 21% of its operating revenues from continuing operations in 2009, 29% in 2008, and 39% in 2007. One unaffiliated customer of TNMP accounted for 20% of its operating revenues from continuing operations in 2009, 22% in 2008, 18% in 2007. Another unaffiliated customer of TNMP accounted for 13% of its operating revenues from continuing operations in 2009 and less than 10% in 2008 and 2007.

(4) Regulatory Assets and Liabilities

Certain of the Company's operations are regulated by the NMPRC, PUCT and FERC and the provisions of GAAP for rate-regulated enterprises are applied to its regulated operations. Regulatory assets represent probable future recovery of previously incurred costs, which will be collected from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets and liabilities reflected in the Consolidated Balance Sheets are presented below. On January 30, 2009, PNM completed the sale of its gas operations. Upon the sale, the regulatory asset of $107.3 million for pension obligations not transferred to NMGC was removed from regulatory assets and charged, net of income taxes, to AOCI. See Note 2 and Note 23.

PNMR

	December 31, 2009	December 31, 2008
	(In thousands)	
Assets:		
Current:		
Underground rate	$ 255	$ 1,311
Fuel and purchased power adjustment clause	7,195	-
Rate case expense	26	230
	7,476	1,541
Non-Current:		
Coal mine reclamation costs	63,826	69,747
Deferred income taxes	57,159	74,902
Financing costs	26,449	28,155
Pension and OPEB	237,580	329,487
Loss on reacquired debt	6,569	11,706
Stranded costs	103,616	112,008
Hurricane recovery costs	17,707	-
Rate case expenses	5,398	2,480
Other	5,832	656
	524,136	629,141
Total regulatory assets	$ 531,612	$ 630,682
Liabilities:		
Current - other	$ (908)	$ (1,746)
Non-Current:		
Cost of removal	(269,864)	(261,078)
Deferred income taxes	(14,220)	(16,333)
Asset retirement obligation	(40,703)	(40,929)
SO_2 credits	(19,312)	-
Pension and OPEB	(2,120)	(1,577)
Other	(4,105)	(7,258)
	(350,324)	(327,175)
Total regulatory liabilities	$ (351,232)	$ (328,921)

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PNM

	December 31, 2009	December 31, 2008
	(In thousands)	
Assets:		
Current:		
Underground rate	$ 255	$ 1,311
Fuel and purchased power adjustment clause	7,195	-
Rate case expenses	26	230
	7,476	1,541
Non-Current:		
Coal mine reclamation costs	63,826	69,747
Deferred income taxes	52,166	70,237
Financing costs	26,449	28,155
Loss on reacquired debt	6,569	11,706
Pension and OPEB	219,731	313,484
Rate case expenses	1,504	496
Other	4,886	656
	375,131	494,481
Total regulatory assets	$ 382,607	$ 496,022
Liabilities:		
Current - other	$ (908)	$ (1,746)
Non-Current:		
Cost of removal	(238,303)	(229,733)
Deferred income taxes	(14,220)	(16,333)
Asset retirement obligation	(40,703)	(40,929)
SO_2 credits	(19,312)	-
Other	(3,677)	(5,151)
	(316,215)	(292,146)
Total regulatory liabilities	$ (317,123)	$ (293,892)

TNMP

	December 31,	
	2009	**2008**
	(In thousands)	
Assets:		
Non-Current:		
Stranded costs	$ 103,616	$ 112,008
Deferred income taxes	4,993	4,665
Pension and OPEB	17,850	16,003
Hurricane recovery costs	17,707	-
Rate case expenses	3,893	1,984
Other	946	-
Total regulatory assets	$ 149,005	$ 134,660
Liabilities:		
Non-Current:		
Cost of removal	$ (31,560)	$ (31,345)
Pension and OPEB	(2,120)	(1,577)
Other	(429)	(2,106)
Total regulatory liabilities	$ (34,109)	$ (35,028)

The Company's regulatory assets and regulatory liabilities are reflected in rates charged to customers or have been addressed in a regulatory proceeding. The Company does not receive or pay a rate of return on the following regulatory assets and regulatory liabilities (and their remaining amortization periods): coal mine reclamation costs (through 2020); deferred income taxes (over the remaining life of the taxable item, up to the remaining life of utility plant); financing costs (over the life of the related debt, through 2038); pension and OPEB costs (through 2033); asset retirement obligations (to be determined in a future regulatory proceeding); and SO_2 credits (through April 2011).

The Company is permitted, under rate regulation, to accrue and record a regulatory liability for the estimated cost of removal and salvage associated with certain of its assets through depreciation expense. Under GAAP, actuarial losses and prior service costs for pension plans are required to be recorded in AOCI; however, to the extent authorized for recovery through the regulatory process these amounts are recorded as regulatory assets or liabilities. Based on prior regulatory approvals, the amortization of these amounts will be included in the Company's rates. See Note 17 for information related to TNMP's stranded costs and 2009 regulatory decisions, which resulted in additions to regulatory assets and liabilities.

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

(5) Stockholders' Equity

Common Stock and Equity Contributions

See Note 6 for details related to PNMR's issuance of common stock.

As described in Note 2, the New Mexico customers of TNMP were transferred to PNM effective January 1, 2007. In connection with the transfer, TNMP transferred those operations to TNP by redeeming a portion of its common stock. TNP then transferred those operations to PNMR, which transferred them to PNM as an equity contribution. PNMR also made cash equity contributions to PNM of $86.3 million, including the transaction relating to the transfer of an interest in PVNGS Unit 2 as described in Note 2, in 2009. PNMR made an equity contribution to TNMP by forgiving intercompany borrowings of $25.2 million in 2009 and made a cash equity contribution of $101.2 million in 2007.

Dividends on Common Stock

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

Following the sale of PNM Gas, PNM paid a dividend to PNMR of $220.0 million on February 5, 2009 and paid additional cash dividends of $79.7 million in 2009. PNM paid cash dividends of $40.0 million to PNMR in 2008. PNM did not pay any cash dividends to PNMR in 2007. TNMP paid cash dividends to PNMR of $9.3 million in 2009 and $35.0 million in 2007. TNMP did not pay any cash dividends to PNMR in 2008.

Each of the PNMR Facility, the PNM Facility, and the TNMP Revolving Credit Facility contain covenants that require the maintenance of debt-to-capital ratios of less than or equal to 65%. For PNMR and PNM these ratios reflect the present value of payments under the PVNGS and EIP leases as debt. The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including the restriction that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC provisions allow PNM to pay dividends from equity contributions previously made by PNMR and current earnings, determined on a rolling four quarter basis, without prior NMPRC approval. The Federal Power Act also imposes certain restrictions on dividends by public utilities. PNM also has other financial covenants that limit the transfer of assets, through dividends or other means, including a requirement to obtain approval of certain financial counterparties to transfer more than five percent of PNM's assets. As of December 31, 2009, none of the numerical tests would restrict the payment of dividends from the retained earnings of PNMR, PNM, or TNMP. However, PNM would not be able to distribute amounts in excess of its retained earnings and TNMP would not be able to distribute amounts in excess of approximately $176 million without approval of regulators or financial counterparties. Other PNMR subsidiaries have no restricted net assets.

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

Preferred Stock

PNMR had no preferred stock outstanding prior to November 17, 2008, when it issued 477,800 shares of Series A convertible preferred stock in connection with the purchase obligation of the holder of PNMR's private equity-linked units. See Note 6. The Series A convertible preferred stock is convertible into PNMR common stock in a ratio of 10 shares of common stock for each share of preferred stock. The Series A convertible preferred stock is entitled to receive dividends equivalent to any dividends paid on PNMR common stock as if the preferred stock had been converted into common stock. The Series A convertible preferred stock is entitled to vote on all matters voted upon by common stockholders, except for the election of the Board. In the event of liquidation of PNMR, preferred holders would receive a preference of $0.10 per common share equivalent. After that preference, common holders would receive an equivalent liquidation preference per share and all remaining distributions would be shared ratably between common and preferred holders using the number of shares of common stock into which the Series A convertible preferred stock is convertible. The terms of the Series A convertible preferred stock result 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 is convertible is included in the weighted average number of common shares outstanding for periods after the Series A convertible preferred stock was issued. Similarly, dividends on the Series A convertible preferred stock are considered to be common dividends in the accompanying Consolidated Financial Statements.

PNM's cumulative preferred shares outstanding bear dividends at 4.58% per annum. PNM preferred stock does not have a mandatory redemption requirement but may be redeemed, at PNM's option, at 102% of the stated value plus accrued dividends. The holders of the PNM preferred stock are entitled to payment before the holders of
common stock in the event of any liquidation or dissolution or distribution of assets of PNM. In addition, PNM's preferred stock is not entitled to a sinking fund and cannot be converted into any other class of stock of PNM.

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

(6) Financing

Impacts of Difficulties of Financial Institutions

Disruptions in the credit markets in 2008 and early 2009 had a significant adverse impact on a number of financial institutions, which resulted in certain institutions being restructured or formulating plans to be acquired by other financial institutions. This includes some financial institutions that are lenders under the PNMR Facility, PNM Facility, and Term Loan Agreement (which was terminated effective January 30, 2009), which are described below. Other than as described below, the flux in the banking industry has not impacted these credit agreements to date and the Company does not anticipate it will have a significant impact on TNMP's 2009 Term Loan Agreement, the TNMP Revolving Credit Facility, the PNMR Facility or the PNM Facility, in each case prior to their expirations.

LBB was a lender under the PNMR Facility and the PNM Facility. LBH, the parent of LBB, has filed for bankruptcy protection. Subsequent to the bankruptcy filing by LBH, LBB declined to fund a borrowing request under the PNMR Facility amounting to $5.3 million. The PNMR Facility and the PNM Facility agreements contain procedures for substituting another financial institution to take the place of any lender who defaults under the agreements. A replacement bank has taken the place of LBB under the PNM Facility. PNMR is discussing with the participants in the PNMR Facility amending the PNMR Facility to remove LBB, which would reduce the total capacity under the PNMR Facility to $568.0 million. PNMR does not believe amending the PNMR Facility to remove LBB or the LBH bankruptcy will have a significant impact on the liquidity provided by the PNMR Facility.

LBCS, another subsidiary of LBH, has also declared bankruptcy and was a counterparty to various energy transactions with First Choice and Optim Energy. First Choice had no receivables from LBCS, but as a result of the bankruptcy, First Choice terminated its contract effective September 24, 2008 and recognized a $3.9 million loss as settled purchase power contracts. These power supply contracts were replaced with other counterparties, which partially offset the $3.9 million loss. Optim Energy had a receivable from LBCS, which has been written off. PNMR's equity share of the write off was $0.6 million. The bankruptcy of LBCS is not expected to have a significant impact on future operations of the Company.

Financing Activities

On June 26, 2007, the City of Farmington, New Mexico issued $20.0 million of its PCRBs to finance or reimburse PNM for expenditures incurred in connection with pollution control equipment at the SJGS. PNM is obligated to pay amounts equal to the principal and interest on the PCRBs. In addition, PNM issued $20.0 million of senior unsecured notes to secure and guarantee the PCRBs. Both the PCRBs and the senior unsecured notes mature in 2037 and bear interest at 5.15%.

Effective June 15, 2007, TNMP redeemed $100.0 million of its 6.125% senior notes due 2008 at a redemption price of 100.5% of the principal amount redeemed, plus accrued interest. To facilitate the redemption, PNMR made a cash contribution, recorded as equity, of $101.2 million to TNP, which then made an equity contribution to TNMP in the same amount. On March 7, 2008, TNMP entered into a $150.0 million short-term bank loan agreement with two lenders. TNMP borrowed $150.0 million under this agreement on April 9, 2008 and used the proceeds to redeem the remaining $148.9 million of its 6.125% senior unsecured notes prior to the maturity date of June 1, 2008. The $150.0 million borrowing under this agreement was repaid in October 2008, through borrowing $150.0 million under the TNMP Facility described under Short-term Debt below.

On May 5, 2008, PNM entered into a $300.0 million unsecured delayed draw term loan facility (the "Term Loan Agreement") with Merrill Lynch Bank USA, Morgan Stanley Senior Funding, Inc. and Wachovia Bank, National Association. The Term Loan Agreement allowed PNM to borrow up to $300.0 million. The Term Loan Agreement provided that if PNM received net cash proceeds from the sale of certain debt securities or the sale of assets, the amount of the commitments under the Term Loan Agreement would be reduced. As described below, on May 13, 2008, PNM completed the offering of $350.0 million aggregate principal amount of senior unsecured notes. On May 28, 2008, PNM was notified that the lenders under the Term Loan Agreement had reduced their commitments to $150.0 million. As provided by the Term Loan Agreement, upon the closing of the sale of PNM Gas described in Note 2, the Term Loan Agreement terminated. No borrowings were made under the Term Loan Agreement.

On May 8, 2008, PNM entered into a $100.0 million unsecured letter of credit facility pursuant to a reimbursement agreement (as amended, the "Reimbursement Agreement") with Deutsche Bank AG and Royal Bank of Canada. The Reimbursement Agreement allowed PNM to obtain, from time to time, standby letters of credit up to the aggregate amount of $100.0 million at any time prior to April 30, 2009. Upon the sale of PNM Gas on January 30, 2009, PNM voluntarily requested the termination of the Reimbursement Agreement. No letters of credit were issued under this arrangement.

On May 13, 2008, PNM issued $350.0 million aggregate principal amount of senior unsecured notes. The notes pay interest semi-annually at a rate of 7.95% per year, payable on May 15 and November 15 of each year, beginning November 15, 2008, and mature on May 15, 2018.

On May 15, 2008, TNMP entered into a credit agreement with eight lenders for the TNMP Facility, which had a stated maturity of May 13, 2009. The TNMP Facility provided TNMP with a revolving credit facility for up to $200.0 million. In connection with entering into the TNMP Facility, TNMP withdrew as a borrower under the PNMR Facility and is no longer a party under the PNMR Facility. Upon entering into the TNMP Revolving Credit Facility described below, the TNMP Facility was terminated.

On October 31, 2008, TNMP entered into a $100.0 million term loan credit agreement with two lenders (the "TNMP Bridge Facility") to provide an additional source of funds to repay TNMP's $167.7 million of senior unsecured notes that matured January 15, 2009. On January 14, 2009, TNMP borrowed $100.0 million under the TNMP Bridge Facility. On January 15, 2009, TNMP repaid the entire principal and interest due on the $167.7 million principal amount outstanding of 6.25% senior unsecured notes utilizing the proceeds from the TNMP Bridge Facility and inter-company borrowings from PNMR.

PNM had $300.0 million aggregate principal amount of senior unsecured notes that matured in September 2008. PNM repaid these notes by utilizing cash on hand and borrowing $240.0 million under the PNM Facility.

PNMR previously issued 4,945,000 6.75% publicly held equity-linked units. Each of these equity-linked units consisted of a purchase contract and a 5.0% undivided beneficial ownership interest in one of PNMR's senior notes with a stated amount of $1,000, which corresponded to a $50.00 stated amount of PNMR's senior notes. The senior notes were scheduled to mature in May 2010 (subject to the remarketing described below) and bore interest at a rate of 4.8% per year. The purchase contracts entitled their holders to contract adjustment payments of 1.95% per year on the stated amount of $50.00. Each purchase contract contained a mandatory obligation for the holder to purchase, and PNMR to sell, at a purchase price of $50.00 in cash, shares of PNMR's common stock on or before May 16, 2008. Generally, the number of shares each holder of the equity-linked units was obligated to purchase depended on the average closing price per share of PNMR's common stock over a 20-day trading period ending on the third trading day immediately preceding May 16, 2008, with an adjusted maximum price of $32.08 per share and minimum price of $26.29 per share. In accordance with the terms of the equity-linked units, the senior note components were remarketed on May 16, 2008. The proceeds from the remarketed senior notes amounted to $247.3

million and were utilized by the holders of the equity-linked units to satisfy their obligations to purchase 9,403,412 shares of PNMR's common stock for the same aggregate amount on May 16, 2008. In connection with the remarketing, PNMR sold an additional $102.7 million of senior notes with the same terms for a total offering of $350.0 million. The senior notes pay interest semi-annually at a rate of 9.25% per year, payable on May 15 and November 15 of each year, beginning November 15, 2008, and mature on May 15, 2015.

PNMR also had outstanding 4,000,000 privately held 6.625% equity-linked units. Each of these equity-linked units consisted of a purchase contract and a 2.5% undivided beneficial ownership interest in one of PNMR's senior notes with a stated amount of $1,000, which corresponds to a $25.00 stated amount of PNMR's senior notes. The senior notes aggregating $100.0 million were scheduled to mature in August 2010 (subject to the remarketing described below) and bore interest at the annual rate of 5.1%. The purchase contracts entitled the holder to quarterly contract adjustment payments of 1.525% per year on the stated amount of $25.00. Each purchase contract contained a mandatory obligation for the holder to purchase, and PNMR to sell, at a purchase price of $25.00 in cash, shares of PNMR's common stock (or PNMR preferred stock in a ratio of one preferred share for each 10 shares of common stock) aggregating $100.0 million on November 17, 2008. Generally, the number of shares the holder was obligated to purchase depended on the average closing price per share of PNMR's common stock over a 20-day trading period ending on the third trading day immediately preceding November 16, 2008, with a maximum price of $25.12 per share and minimum price of $20.93 per share. In accordance with the terms of the equity-linked units, PNMR attempted to remarket the senior note components in November 2008, but was unable to complete the remarketing. As provided in the agreement under which the equity-linked units were originally issued, the holder tendered the $100 million of senior unsecured notes to PNMR to satisfy its obligations under the purchase contracts. The holder chose to receive 477,800 shares of PNMR Series A convertible preferred stock on November 17, 2008 in lieu of 4,778,000 shares of PNMR common stock. See Note 5.

On January 5, 2009, PNMR commenced a tender offer whereby it offered to repurchase up to $150.0 million of its 9.25% senior unsecured notes due 2015. The tender offer requested the holders of the notes to submit the amount of notes they would be willing to sell to PNMR and at the price they would be willing to sell, within the range of 83% to 93% of face value, including additional compensation of 3% of face value for those holders that tendered their notes and did not withdraw them prior to the stated early participation date. Prior to expiration of the offer, $157.5 million of notes were tendered to PNMR for purchase. Under the applicable rules for this type of arrangement, PNMR was able to purchase $157.0 million of notes at the 93% cap price. On February 5, 2009, PNMR repurchased and retired these notes for $146.0 million plus accrued interest. On February 26, 2009, PNMR purchased an additional $0.4 million of the 9.25% senior unsecured notes at 93% of face value in a private transaction. PNMR recognized a pre-tax gain on these transactions of $7.3 million, net of related transaction costs and write-off of the proportionate amount of the deferred costs of the original issuance of the notes, which is included in other income on the Consolidated Statements of Earnings (Loss).

On March 23, 2009, TNMP issued $265.5 million aggregate principal amount of 9.50% First Mortgage Bonds, due 2019, Series 2009A (the "Series 2009A Bonds") at a price equal to 97.643% of their face value. The bonds bear interest at the rate of 9.50% per annum of their face value. TNMP may redeem some or all of the bonds at any time at a redemption price that reflects a make-whole provision, plus accrued interest. The Series 2009A Bonds are secured by a first mortgage on substantially all of TNMP's property.

On March 25, 2009, TNMP entered into a $50.0 million loan agreement with Union Bank, N. A. (the "2009 Term Loan Agreement"). TNMP borrowed $50.0 million under this agreement on March 30, 2009. Borrowings under the 2009 Term Loan Agreement must be repaid by March 25, 2014 and are secured by $50.0 million aggregate principal amount of TNMP first mortgage bonds (the "Series 2009B Bonds"). Through hedging arrangements, TNMP has established fixed interest rates for the 2009 Term Loan Agreement of 6.05% for the first three years and 6.30% thereafter. In January 2010, the hedging relationship was modified to reduce the fixed interest rate to 4.80% through March 31, 2012 and to 5.05% thereafter. The hedging obligations are also secured by the Series 2009B Bonds. The hedge is accounted for as a cash-flow hedge and its December 31, 2009 pre-tax fair value of $0.2 million is included in other deferred charges and in AOCI on the Consolidated Balance Sheets.

Amounts reclassified from AOCI are included in other interest expense. The fair value determination was made using Level 2 inputs under GAAP.

TNMP used the proceeds received from the Series 2009A Bonds and the 2009 Term Loan Agreement to repay the $100.0 million borrowed under the TNMP Bridge Facility, which then terminated, and the $150.0 million outstanding under the TNMP Facility. The remaining proceeds, after offering expenses, were used to reduce intercompany borrowings from PNMR.

On April 30, 2009, TNMP entered into the TNMP Revolving Credit Facility, a new $75.0 million revolving credit facility, and the existing TNMP Facility was terminated. Borrowings under the TNMP Revolving Credit Facility are secured by $75.0 million aggregate principal amount of TNMP first mortgage bonds (the “Series 2009C Bonds”). The TNMP Revolving Credit Facility will expire in April 2011.

On May 23, 2003, PNM issued $36.0 million of 4.00% PCRB senior unsecured notes, which had a scheduled maturity in 2038, but were subject to mandatory repurchase and remarketing on July 1, 2009. PNM repurchased these notes for $36.0 million on July 1, 2009 utilizing available cash balances and borrowings under the PNM Facility. PNM held these bonds (without legally canceling them) until December 1, 2009, on which date they were remarketed. The remarketed bonds bear interest at 6.25% and mature on January 1, 2038.

PNMR offers new shares of PNMR common stock through the PNMR Direct Plan. On July 15, 2009, PNMR began purchasing shares of its common stock on the open market rather than issuing additional shares to satisfy subscriptions under the PNMR Direct Plan. PNMR had offered new shares of its common stock through an equity distribution agreement, which was terminated in July 2009.

In August 2009, PNMR filed an automatically effective shelf registration statement with the SEC for common stock and in April 2008, PNMR filed an automatically effective shelf registration statement for debt securities. These registration statements expire three years from the date of filing and can be amended at any time to include additional securities of PNMR. As a result, these shelf registration statements have unlimited availability, subject to certain restrictions and limitations.

In April 2008, PNM filed a shelf registration statement for the issuance of $750.0 million of senior unsecured notes that was declared effective on April 29, 2008. As of February 15, 2010, PNM had $600.0 million of remaining unissued securities registered under this and a prior shelf registration statement.

Borrowing Arrangements Between PNMR and its Subsidiaries

PNMR has one-year intercompany loan agreements with its subsidiaries. Individual subsidiary loan agreements vary in amount from $20.0 million to $100.0 million and have either reciprocal or non reciprocal terms. Interest charged to the subsidiaries is equivalent to interest paid on the PNMR Facility. On January 8, 2009, TNMP entered into an agreement for an additional $50.0 million borrowing from PNMR that was subordinated to the TNMP Bridge Facility described above. The agreement for additional borrowing terminated in April 2009. As of December 31, 2009 and 2008, TNMP had outstanding borrowings of $23.5 million and $14.1 million from PNMR. At February 15, 2010, TNMP has borrowings of $26.1 million from PNMR.

On February 26, 2009, the Finance Committee of the PNMR Board authorized PNMR to provide support for the debt of TNMP by approving one or more additional loans to TNMP as a contingency in the event TNMP was unable to obtain external financing sufficient to pay amounts borrowed under the TNMP Facility and the TNMP Bridge Facility when they came due. With the completion of the financings described above, the PNMR support terminated on April 30, 2009.

Short-term Debt

PNMR and PNM have revolving credit facilities for borrowings up to $600.0 million under the PNMR

Facility and $400.0 million under the PNM Facility that primarily expire in 2012. In addition to the reduction in the PNMR Facility related to LBB discussed above, the PNMR Facility and the PNM Facility will reduce by $26.0 million and $14.0 million in 2010 and an additional $25.0 million and $18.0 million in 2011 according to their terms. The Company does not believe amending the PNMR Facility to remove LBB or the scheduled reduction in the facilities will have a significant impact on PNMR's and PNM's liquidity.

In addition, PNMR and PNM each have a local line of credit amounting to $5.0 million. TNMP has a revolving credit facility for borrowings up to $75.0 million under the TNMP Revolving Credit Facility that expires in April 2011. PNMR and PNM had commercial paper programs under which they could have issued up to $400.0 million and $300.0 million of commercial paper. No commercial paper has been issued since March 11, 2008 and the programs were terminated on July 2, 2009.

At December 31, 2009, the weighted average interest rate was 1.48% for the PNMR Facility, 0.88% for the PNM Facility. The TNMP Revolving Credit Facility had no borrowings outstanding at December 31, 2009. Short-term debt outstanding consists of:

Short-term Debt	December 31, 2009	December 31, 2008
	(In thousands)	
PNM		
Commercial paper	*	$ -
Revolving credit facility	$ 118,000	340,000
Delayed draw term loan facility	-	-
Local lines of credit	-	-
	118,000	340,000
TNMP		
Revolving credit facility	-	150,000
Bridge facility	-	-
	-	150,000
PNMR		
Commercial paper	*	-
Revolving credit facility	80,000	254,667
Local lines of credit	-	-
	$ 198,000	$ 744,667

* The commercial paper programs were terminated on July 2, 2009.

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of $61.1 million, $22.3 million and $1.5 million at December 31, 2009 that reduce the available capacity under their respective revolving credit facilities.

At February 15, 2010, PNMR, PNM, and TNMP had $430.4 million, $229.7 million, and $73.5 million of availability under their respective revolving credit facilities and local lines of credit, including reductions of availability due to outstanding letters of credit. TNMP also had availability of $23.9 million under its intercompany borrowing agreements with PNMR. Total availability at February 15, 2010, on a consolidated basis, was $733.6 million for PNMR. Such availability includes $29.9 million that represents the unfunded portion of the PNMR Facility attributable to LBB. At February 15, 2010, PNMR, PNM, and TNMP had invested cash of $16.4 million, $2.6 million, and none.

Long-Term Debt

Information concerning long-term debt outstanding is as follows:

Long-term Debt	December 31, 2009	December 31, 2008
	(In thousands)	
PNM Debt		
First Mortgage Bonds, Pollution Control Revenue Bonds:		
5.70% due 2016	$ 65,000	$ 65,000
Senior Unsecured Notes, Pollution Control Revenue Bonds:		
6.30% due 2016	77,045	77,045
5.75% due 2022	37,300	37,300
5.80% due 2022	100,000	100,000
6.375% due 2022	90,000	90,000
6.30% due 2026	23,000	23,000
6.60% due 2029	11,500	11,500
4.875% due 2033	46,000	46,000
4.875% due 2033	100,000	100,000
5.15% due 2037	20,000	20,000
4.00% due 2038	-	36,000
6.25% due 2038	36,000	-
Senior Unsecured Notes:		
7.95% due 2018	350,000	350,000
7.50% due 2018	100,025	100,025
Other, including unamortized discounts	(137)	(153)
	1,055,733	1,055,717
Less current maturities	-	36,000
	1,055,733	1,019,717
TNMP Debt		
First Mortgage Bonds:		
6.05% due 2014, Series 2009B	50,000	-
9.50% due 2019, Series 2009A	265,500	-
Senior Unsecured Notes - 6.25% due 2009	-	167,690
Other, including unamortized discounts	(5,788)	-
	309,712	167,690
Less current maturities	-	167,690
	309,712	-
PNMR Debt		
Senior unsecured notes, 9.25% due 2015	192,592	350,000
Other	9,294	11,298
	201,886	361,298
Less current maturities	2,125	2,004
	199,761	359,294
Total Consolidated PNMR Debt	1,567,331	1,584,705
Less current maturities	2,125	205,694
	$ 1,565,206	$ 1,379,011

Interest Rate Swaps

PNMR entered into three fixed-to-floating interest rate swaps with an aggregate notional principal amount of $150.0 million, which matured September 15, 2008. Under these swaps, PNMR received a 4.40% fixed interest payment on the notional principal amount on a semi-annual basis and paid a floating rate equal to the six month LIBOR plus 58.15 basis points (0.5815%) on the notional amount. The initial floating rate was 1.91% and was reset to 6.09% on September 15, 2007 and 3.28% on March 17, 2008. The swaps were accounted for as fair-value hedges.

See Financing Activities above for information concerning a TNMP interest rate swap.

In January 2010, PNM entered into a floating-to-fixed interest rate swap with a notional amount of $100.0 million. The effect of this swap is to convert $100.0 million of borrowings under the PNM Facility from an interest rate based on the one-month LIBOR rate to a fixed rate of 1.245% through January 14, 2011. This swap will be accounted for as a cash-flow hedge.

New Mexico Energy Investments LLC

In 2002, PNM entered into an agreement with FPL to develop a 200 MW wind generation facility in New Mexico. PNM began receiving commercial power from the project in June 2003. FPL owns and operates the New Mexico Wind Energy Center, which consists of 136 wind-powered turbines on a site in eastern New Mexico. PNM has a PPA to purchase all the power generated by the New Mexico Wind Energy Center for 25 years.

PNMR entered into purchase and sale agreement with ESI Northeast Energy LP, Inc., an affiliate of FPL, and acquired an interest in the New Mexico Wind Energy Center by the purchase of a 1% membership interest in New Mexico Energy Investments, LLC for $21.2 million. At closing, PNMR paid $6.2 million in cash and issued a promissory note for $15.0 million at an annual interest rate of 6%. PNMR will make an annual payment of $2.7 million for principal and interest until the final maturity date of the promissory note on December 31, 2013. PNMR will receive state and federal tax benefits from its ownership interest. PNMR's ownership interest terminates on December 31, 2013.

(7) Lease Commitments

PNMR leases office buildings and other equipment under operating leases. PNM leases interests in Units 1 and 2 of PVNGS, an interest in the EIP transmission line, office buildings, vehicles and other equipment under operating leases. TNMP leases radio tower antenna space, office buildings, vehicles and other equipment under operating leases.

PNM has a PPA for the entire output of Delta, a gas-fired generating plant in Albuquerque, New Mexico, which is classified as an operating lease with imputed annual lease payments of $6.0 million. See Note 9 for additional information about the Delta operating lease. PNM also had a PPA for 40 MW of capacity from Pyramid Unit 4, which was classified as an operating lease and was sold in 2008. See Note 8.

A portion of PVNGS Unit 2 was leased by PNM from another subsidiary of PNMR from June 2007 until July 2009, at which time the leased assets were transferred to PNM and became subject to rates established by the NMPRC. See Note 17. The table below includes lease expense for PNM of $5.4 million in 2009, $9.6 million in 2008, and $4.8 million in 2007 paid to that subsidiary of PNMR. After the July 2009 transfer, PNM stopped recognizing lease expense for the transferred assets.

Operating lease expense was:

	PNMR	PNM	TNMP
		(In thousands)	
2009	$ 76,301	$ 74,470	$ 2,493
2008	$ 83,255	$ 82,101	$ 2,121
2007	$ 86,532	$ 80,491	$ 3,233

The amounts included in the above table reflect the total amount of expense for the lease payments PNM makes under the PVNGS and EIP leases, excluding payments made related to transferred assets explained above. As discussed under Investments in Note 1, the PVNGS Capital Trust, which is consolidated by PNM, acquired the lessor notes that were issued by the PVNGS lessors and PNM acquired the remaining lessor note issued by the remaining EIP lessor. Of the total annual payments of $69.1 million made by PNM under the PVNGS and EIP leases, $55.0 million in 2009, $50.0 million in 2008, and $50.8 million in 2007 was returned in cash to PNM in the form of principal and interest payments on the lessor notes and through its ownership of the PVNGS Unit 2 leased assets.

Future minimum operating lease payments at December 31, 2009 shown below have been reduced by PNM’s lease payments for the owned portion of PVNGS Unit 2 and amounts that will be returned to PNM on the lessor notes, which amounts vary but are approximately $56 million annually thru 2011 reducing thereafter to approximately $33 million annually in 2015:

	PNMR	PNM	TNMP
		(In thousands)	
2010	$ 27,797	$ 21,268	$ 3,324
2011	28,402	21,902	3,311
2012	40,543	33,990	3,311
2013	45,274	38,685	3,308
2014	49,736	43,494	3,302
Later years	56,661	55,118	-
	248,413	214,457	16,556
Future payments under non-cancelable subleases	1,902	-	-
Net minimum lease payments	$ 246,511	$ 214,457	$ 16,556

The PVNGS leases, which expire in 2015 and 2016, contain options to renew the leases at a fixed price or to purchase the property for fair market value at the end of the lease terms. PNM must give notice to the lessors if it wishes to exercise, or not exercise, these options at dates, varying by lease, through January 15, 2014. PNM is exploring its alternatives. Covenants in PNM's PVNGS Units 1 and 2 lease agreements limit PNM's ability, without consent of the owner participants in the lease transactions, (i) to enter into any merger or consolidation, or (ii) except in connection with normal dividend policy, to convey, transfer, lease or dividend more than 5% of its assets in any single transaction or series of related transactions. PNM is exposed to losses under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider to be reasonably likely to occur. Under certain circumstances (for example, 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 equity participants, and take title to the leased interests, which, if appropriate, may be required to be written down in value. If such an event had occurred as of December 31, 2009, PNM could have been required to pay the equity participants up to approximately $186.2 million. In such event, PNM would record the acquired assets at the lower of their fair value or the aggregate of the amount paid and PNM’s carrying value of its investment in PVNGS lessor notes. If PNM exercises its renewal options under the leases, the amount that would be payable to equity participants under the circumstances described above would increase to the fair market value as of the renewal date.

(8) Fair Value of Derivative and Other Financial Instruments

Energy Related Derivative Contracts

Overview

The Company is exposed to certain risks relating to its ongoing business operations. The primary objective for the use of 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. Substantially all of the Company's energy related derivative contracts are entered into to manage commodity risk and the Company does not currently engage in speculative trading, which it ceased in the second quarter of 2008. Effective January 1, 2009, the Company adopted amendments to GAAP, which enhanced disclosures for derivative instruments and hedging activities.

Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. The Company routinely enters into various derivative instruments such as forward contracts, option agreements and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the risk of market fluctuations in wholesale portfolios. The Company monitors the market risk of its commodity contracts using VaR and GEaR calculations to maintain total exposure within management-prescribed limits.

PNM's unregulated operations are managed primarily through a net asset-backed marketing strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM would be exposed to market risk if its generation capabilities were to be disrupted or if its retail load requirements were to be greater than anticipated. If all or a portion of the net open contract position were required to be covered as a result of the aforementioned unexpected situations, commitments would have to be met through market purchases. As discussed in Note 17, effective July 1, 2009, additional resources that had been part of unregulated operations were included in rates subject to the jurisdiction of the NMPRC pursuant to the Resource Stipulation thereby mitigating PNM's exposure to market risk.

First Choice is responsible for energy supply related to the sale of electricity to retail customers in Texas. TECA contains no provisions for the specific recovery of fuel and purchased power costs. The rates charged to First Choice customers are negotiated with each customer. As a result, changes in purchased power costs can affect First Choice's operating results with respect to margins and changes in retail customer load requirements. First Choice is exposed to market risk to the extent that it has not hedged fixed price load commitments or to the degree that market price movements affect customer retention, customer additions or customer attrition. Additionally, volumetric fluctuations in First Choice retail load requirements due to weather or other conditions may subject First Choice to market risk. First Choice's strategy is to minimize its exposure to fluctuations in market energy prices by matching sales contracts with supply instruments designed to preserve targeted margins.

Accounting for Derivatives

Under derivative accounting and related rules for energy contracts, the Company accounts for its various derivative instruments for the purchase and sale of energy based on the Company's intent. Energy contracts that meet the definition of a derivative under GAAP and do not qualify 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. Derivatives that meet the normal sales and purchases exception are not marked to market but rather recorded in results of operations when the underlying transactions settle.

For derivative transactions meeting the definition of a cash flow hedge, the Company documents the relationships between the hedging instruments and the items being hedged. This documentation includes the strategy that supports executing the specific transaction and the methods utilized to assess the effectiveness of the hedges. Changes in the fair value of contracts qualifying for cash flow hedge accounting are included in AOCI to the extent effective. Ineffectiveness gains and losses were immaterial for all periods presented. The amounts shown as current assets and current liabilities relate to contracts that will be settled in the next twelve months. Gains or losses related to cash flow hedge instruments are reclassified from AOCI when the hedged transaction settles and impacts earnings. Based on market prices at December 31, 2009, after-tax gains of $11.2 million for PNMR and $12.7 million for PNM would be reclassified from AOCI into earnings during the next twelve months. However, the actual amount reclassified into earnings will vary due to future changes in market prices. As of December 31, 2009, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is through December 2010.

The contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as either economic hedges or trading transactions. 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. Trading transactions include speculative transactions, which the Company ceased in 2008. Also included in this category are transactions that lock in margin with no forward market risk and are not economic hedges; changes in the fair value of these transactions are reflected on a net basis in operating revenues.

Fair value is defined under GAAP as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability varies based on commodity location, market liquidity, and term of the agreement. As stated in GAAP, valuations of derivative assets and liabilities must take into account nonperformance risk including the effect of the Company's own credit standing. The Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although management uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimation technique.

At December 31, 2009, amounts recognized for the right to reclaim cash collateral are $4.2 million for PNMR and $1.4 million for PNM. PNMR and PNM had no obligations to return cash collateral at December 31, 2009.

The following tables do not include activity related to PNM Gas. See Note 23.

Commodity Derivatives

Commodity derivative instruments are summarized as follows:

	Economic Hedges		Trading Transactions		Qualified Cash Flow Hedges	
	December 31,		December 31,		December 31,	
	2009	2008	2009	2008	2009	2008
	(In thousands)					
PNMR						
Current assets	$ 15,728	$ 5,699	$ 13,889	$ 19,469	$ 21,002	$ 26,082
Deferred charges	2,413	2,060	-	7,594	-	15,966
	18,141	7,759	13,889	27,063	21,002	42,048
Current liabilities	(11,375)	(12,630)	(12,650)	(18,142)	-	(3,179)
Long-term liabilities	(4,549)	(551)	-	(6,365)	-	(18)
	(15,924)	(13,181)	(12,650)	(24,507)	-	(3,197)
Net	$ 2,217	$ (5,422)	$ 1,239	$ 2,556	$ 21,002	$ 38,851
PNM						
Current assets	$ 3,496	$ 2,976	$ -	$ 347	$ 21,002	$ 25,529
Deferred charges	-	2,060	-	-	-	15,684
	3,496	5,036	-	347	21,002	41,213
Current liabilities	(1,509)	(7,785)	-	(86)	-	(13)
Long-term liabilities	(556)	(551)	-	-	-	(18)
	(2,065)	(8,336)	-	(86)	-	(31)
Net	$ 1,431	$ (3,300)	$ -	$ 261	$ 21,002	$ 41,182

In 2007, First Choice entered into a series of forward trades that arbitraged basis differentials among certain ERCOT delivery zones. During the three months ended March 31, 2008, these trades were negatively affected by extreme transmission congestion within the ERCOT market. This congestion resulted in historically high basis differences between the various delivery zones. As a result, in the first quarter of 2008, First Choice recorded a total pre-tax loss of $47.1 million in the trading margins from these speculative trades that is reflected in electric revenues. Because of continued market volatility and the concern that the forward basis market would continue to deteriorate, First Choice decided to end any further speculative trading and flattened remaining speculative positions. At December 31, 2009 and 2008, the trading transactions column of the above table includes $13.9 million and $19.1 million of current assets, zero and $7.6 million of deferred charges, $12.7 million and $18.1 million of current liabilities, and zero and $6.4 million of long-term liabilities related to the flattened speculative positions of First Choice. No significant additional costs are expected related to speculative trading.

The following table presents the effect of PNMR's and PNM's commodity derivative instruments, excluding qualified cash flow hedging instruments, on earnings:

		Year ended December 31, 2009	
	Location	**Economic Hedges**	**Trading Transactions**
		(In thousands)	
PNMR	Electric operating revenues	$ 4,331	$ 97
	Cost of energy	(16,693)	-
	Total gain (loss)	$ (12,362)	$ 97
PNM	Electric operating revenues	$ 4,331	$ 84
	Cost of energy	(11,326)	-
	Total gain (loss)	$ (6,995)	$ 84

The following table presents the impact, excluding tax effects, of PNMR's and PNM's qualified commodity cash flow hedge instruments on OCI, as well as the location and amount of income reclassified from AOCI as the hedged transactions settled and impacted earnings:

	Year ended December 31, 2009		
	Gain (Loss)		
	Recognized In OCI	**Reclassified from AOCI into Earnings — Location**	**Amount**
		(In thousands)	
PNMR	$ (18,762)	Electric operating revenues	$ 36,982
		Cost of energy	(20,354)
		Total	$ 16,628
PNM	$ (20,195)	Electric operating revenues	$ 36,982
		Cost of energy	(29)
		Total	$ 36,953

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 at December 31, 2009:

	Decatherms			MWh		
	Economic Hedges	**Trading Transactions**	**Qualified Cash Flow Hedges**	**Economic Hedges**	**Trading Transactions**	**Qualified Cash Flow Hedges**
PNMR	17,852,500	(1,963,293)	-	1,658,101	-	(788,400)
PNM	6,087,500	-	-	468,525	-	(788,400)

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 as of December 31, 2009 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	Contractual Liability	Existing Cash Collateral	Net Exposure
		(In thousands)	
PNMR			
Credit rating downgrade	$ 17,124	$ 1,000	$ 14,104
PNM			
Credit rating downgrade	$ 1,211	$ 1,000	$ 37

Sale of Wholesale Contracts

On January 18, 2008, PNM entered into an agreement to sell certain wholesale power, natural gas and transmission contracts. These contracts represented a significant portion of the wholesale activity portfolio of PNM Electric, and included several long-term sales and purchase power agreements. Included in the sales agreement were the Tri-State Pyramid Unit 4 operating lease and certain transmission agreements, which were not considered derivative instruments. In connection with an amendment to GAAP, pre-tax gains on these contracts amounting to $17.2 million were recorded as an adjustment to January 1, 2008 retained earnings. On June 19, 2008 PNM completed the sale for $6.1 million. PNM recognized gains on the sale of these contracts of $5.1 million in the year ended December 31, 2008.

Sale of Power from PVNGS Unit 3

In April 2008, PNM entered into three separate contracts for the sale of capacity and energy related to its entire ownership interest in PVNGS Unit 3, which is 135 MW. Under two of the contracts, PNM will sell 90 MW of firm capacity and energy. Under the remaining contract, PNM will sell 45 MW of unit contingent capacity and energy. The term of the contracts is May 1, 2008 through December 31, 2010. Under the two firm contracts, the two buyers made prepayments of $40.6 million and $30.0 million. These amounts were recorded as deferred revenue and are being amortized over the life of the contracts. At December 31, 2009 and 2008, $29.5 million and $29.1 million were included in other current liabilities related to these contracts. The prepayments received under the firm contracts, as well as required subsequent monthly payments on them, are shown as a financing activity in the Consolidated Statement of Cash Flows as required by GAAP. The firm contracts are considered energy derivatives and a loss of $4.8 million was recognized at inception. The firm contracts are accounted for as cash flow hedges and changes in fair value are included in AOCI. The contingent contract is accounted for as a normal sale.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Consolidated Balance Sheets approximate fair value for cash, temporary investments, 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 trust for its share of decommissioning costs of PVNGS and, in 2008, PNM's executive retirement program. The trusts hold equity and fixed income securities. The carrying value, gross unrealized gains and losses and estimated fair value of investments in available-for-sale securities are as follows:

	Unrealized Gains	Unrealized (Losses)	Fair Value
		(In thousands)	
December 31, 2009			
Equity securities:			
Domestic value	$ 1,684	$ -	$ 21,458
Domestic growth	8,901	-	38,132
International and other	1,558	-	9,985
Fixed income securities:			
Municipals	1,715	-	36,901
U.S. Government	25	-	20,451
Corporate and other	309	-	8,006
Cash investments	-	-	2,099
	$ 14,192	$ -	$ 137,032
December 31, 2008			
Equity securities	$ 1,181	$ -	$ 50,941
Fixed income securities:			
Municipal bonds	708	-	31,509
U.S. Government	90	-	14,262
Corporate and other	144	-	6,425
Cash investments	-	-	9,345
	$ 2,123	$ -	$ 112,482

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.

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Proceeds from sales	$ 124,519	$ 183,616	$ 165,330
Gross realized gains	$ 6,009	$ 11,279	$ 19,483
Gross realized (losses)	$ (7,359)	$ (14,206)	$ (7,016)

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.

At December 31, 2009, 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	$ 3,239	$ 69	$ 69
After 1 year through 5 years	16,385	70,109	51,946
After 5 years through 10 years	7,938	131,192	125,573
Over 10 years	37,796	-	-
	$ 65,358	$ 201,370	$ 177,588

The carrying amount and fair value of other non-derivative financial instruments (including current maturities) are:

	December 31, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
PNMR				
Long-term debt	$ 1,567,331	$ 1,627,986	$ 1,584,705	$ 1,310,771
Investment in PVNGS lessor notes	$ 159,936	$ 169,863	$ 185,637	$ 190,077
Other investments	$ 25,528	$ 34,078	$ 32,966	$ 42,459
PNM				
Long-term debt	$ 1,055,733	$ 1,044,516	$ 1,055,717	$ 834,157
Investment in PVNGS lessor notes	$ 159,936	$ 169,863	$ 221,422	$ 225,987
Other investments	$ 7,473	$ 8,457	$ 9,951	$ 10,949
TNMP				
Long-term debt	$ 309,712	$ 368,350	$ 167,690	$ 167,690
Other investments	$ 270	$ 270	$ 550	$ 550

The fair value of long-term debt shown above was primarily determined using quoted market values, as were certain items included in other investments. To the extent market values were not available, fair value was determined by discounting the cash flows for the instrument using quoted interest rates for comparable instruments.

Other 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 has the ability to 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.

Derivatives and Investments

The fair values of derivatives and investments that are recorded at fair value on the Consolidated Balance Sheets at December 31, 2009 and 2008 are as follows:

December 31, 2009	Total (1)	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
PNMR				
Assets				
Commodity derivatives	$ 53,032	$ 9,097	$ 43,510	$ 320
Interest rate swap	194	-	194	-
NDT investments				
Cash and equivalents	2,099	2,099	-	-
Equity securities:				
Domestic value	21,458	21,458	-	-
Domestic growth	38,132	38,132	-	-
International and other	9,985	9,985	-	-
Fixed income securities:				
U.S. government	20,451	15,135	5,316	-
Municipals	36,901	-	36,901	-
Corporate and other	8,006	-	8,006	-
Total NDT investments	137,032	86,809	50,223	-
	190,258	95,906	93,927	320
Liabilities				
Commodity derivatives	(28,574)	(10,534)	(17,863)	(72)
Net	$ 161,684	$ 85,372	$ 76,064	$ 248
PNM				
Assets				
Commodity derivatives	$ 24,498	$ -	$ 24,498	$ -
NDT investments				
Cash and equivalents	2,099	2,099	-	-
Equity securities:				
Domestic value	21,458	21,458	-	-
Domestic growth	38,132	38,132	-	-
International and other	9,985	9,985	-	-
Fixed income securities:				
U.S. government	20,451	15,135	5,316	-
Municipals	36,901	-	36,901	-
Corporate and other	8,006	-	8,006	-
Total NDT investments	137,032	86,809	50,223	-
	161,530	86,809	74,721	-
Liabilities				
Commodity derivatives	(2,065)	(958)	(1,090)	(17)
Net	$ 159,465	$ 85,851	$ 73,631	$ (17)

December 31, 2008				
PNMR				
Assets				
Commodity derivatives	$ 76,870	$ 9,390	$ 66,953	$ 13
NDT	111,671	69,150	42,521	-
Rabbi trust	811	811	-	-
	189,352	79,351	109,474	13
Liabilities				
Commodity derivatives	(40,885)	(12,052)	(27,897)	(422)
Net	$ 148,467	$ 67,299	$ 81,577	$ (409)
PNM				
Assets				
Commodity derivatives	$ 46,596	$ -	$ 45,519	$ 13
NDT	111,671	69,150	42,521	-
Rabbi trust	811	811	-	-
	159,078	69,961	88,040	13
Liabilities				
Commodity derivatives	(8,453)	(510)	(6,457)	(422)
Net	$ 150,625	$ 69,451	$ 81,583	$ (409)

(1) The Level 1, 2 and 3 columns in the above table are presented based on the nature of each instrument. The total column is presented based on the balance sheet classification of the instruments and reflect unit of account reclassifications between commodity derivative assets and commodity derivative liabilities of $0.1 million for PNMR and zero for PNM at December 31, 2009 and $0.5 million for PNMR and $1.1 million for PNM at December 31, 2008.

A reconciliation of the changes in Level 3 fair value measurements is as follows:

	Year ended December 31, 2009	
	PNMR	**PNM**
	(In thousands)	
Level 3 Fair Value Assets and Liabilities		
Balance at December 31, 2008	$ (409)	$ (409)
Total gains (losses) included in earnings	(2,123)	(2,388)
Total gains (losses) included in other comprehensive income	(1,046)	-
Purchases, issuances, and settlements [1]	3,826	2,780
Balance at December 31, 2009	$ 248	$ (17)
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	$ 248	$ (17)

	Year ended December 31, 2008	
	PNMR	**PNM**
	(In thousands)	
Level 3 Fair Value Assets and Liabilities		
Balance at December 31, 2007	$ 2,061	$ 2,679
Adoption of amendment to GAAP regarding fair value measurements	16,407	16,407
Balance at beginning of period	18,468	19,086
Total gains (losses) included in earnings	(8,555)	(7,947)
Total gains (losses) included in other comprehensive income	(19)	-
Purchases, issuances, and settlements [1]	(11,383)	(12,628)
Transfers into Level 3 [2]	1,080	1,080
Balance at December 31, 2008	$ (409)	$ (409)
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	$ (409)	$ (409)

(1) Includes fair value reversal of contracts settled, unearned and prepaid option premiums received and paid during the period for contracts still held at end of period and, in 2008, the sale of PNM Electric wholesale contracts.
(2) Transfers into Level 3 from Level 2 are at fair values as of July 1, 2008.

Gains and losses (realized and unrealized) for Level 3 fair value measurements included in earnings are reported in operating revenues and cost of energy as follows:

	Year ended December 31, 2009		
	Operating Revenues	**Cost of Energy**	**Total**
		(In thousands)	
PNMR			
Total gains (losses) included in earnings	$ 237	$ (2,360)	$ (2,123)
Change in unrealized gains or losses relating to assets still held at reporting date	$ -	$ 248	$ 248
PNM			
Total gains (losses) included in earnings	$ 237	$ (2,625)	$ (2,388)
Change in unrealized gains or losses relating to assets still held at reporting date	$ -	$ (17)	$ (17)

	Year ended December 31, 2008		
	Operating Revenues	Cost of Energy	Total
		(In thousands)	
PNMR			
Total gains (losses) included in earnings	$ 11,511	$ (20,066)	$ (8,555)
Change in unrealized gains or losses relating to assets still held at reporting date	$ 13	$ (422)	$ (409)
PNM			
Total gains (losses) included in earnings	$ 10,893	$ (18,840)	$ (7,947)
Change in unrealized gains or losses relating to assets still held at reporting date	$ 13	$ (422)	$ (409)

Investments Held by Employee Benefit Plans

As discussed in Note 12, PNM and TNMP have trusts that hold investment assets for their pension and other postretirement benefit plans. The fair value of the assets held by the trusts impacts the determination of the funded status of each plan, but the assets are not reflected on the Consolidated Balance Sheets. Both the PNM Pension Plan and the TNMP Pension Plan hold units of participation in the PNM Resources, Inc. Master Trust (the "PNMR Master Trust"), which was established for the investment of assets of the pension plans. Fair value of alternative investments is determined based on net asset value as reported by fund managers.

The fair values of investments held by the employee benefit plans at December 31, 2009 are as follows:

	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
PNM Pension Plan				
Alternative real estate investments	$ 2,168	$ -	$ -	$ 2,168
Participation in PNMR Master Trust	358,762	140,003	144,654	74,105
Total Assets	$ 360,930	$ 140,003	$ 144,654	$ 76,273
TNMP Pension Plan				
Participation in PNMR Master Trust	$ 57,757	$ 21,629	$ 23,702	$ 12,426
PNM OPEB Plan				
Cash and equivalents	$ 6,201	$ 6,201	$ -	$ -
Equity securities:				
International	7,849	3,994	3,855	-
Domestic value	3,967	3,967	-	-
Domestic growth	2,745	2,745	-	-
Mutual funds	21,546	-	21,546	-
Fixed income securities:				
Corporate	838	-	838	-
Mutual funds	14,893	14,893	-	-
Total Assets	$ 58,039	$ 31,800	$ 26,239	$ -

TNMP OPEB Plan				
Cash and equivalents	$ 579	$ 579	$ -	$ -
Equity securities:				
International	975	975	-	-
Domestic value	471	471	-	-
Domestic growth	493	493	-	-
Mutual funds	2,463	-	2,463	-
Fixed income securities:				
Corporate	26	-	26	-
Mutual funds	2,124	2,124	-	-
Total Assets	$ 7,131	$ 4,642	$ 2,489	$ -

The fair values of investments in the PNMR Master Trust are as follows:

	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
PNMR Master Trust				
Cash and equivalents	$ 21,424	$ 21,424	$ -	$ -
Equity securities:				
International	44,609	-	44,609	-
Domestic value	69,867	66,197	3,670	-
Domestic growth	70,538	70,538	-	-
Mutual funds	47,742	-	47,742	-
Fixed income securities:				
Corporate	17,778	-	17,778	-
U.S. government	3,461	3,461	-	-
Municipals	2,504	-	2,504	-
Foreign government and other	714	12	702	-
Mutual funds	51,351	-	51,351	-
Alternative investments:				
Private equity funds	26,883	-	-	26,883
Hedge funds	34,921	-	-	34,921
Real estate funds	24,727	-	-	24,727
Total Assets	$ 416,519	$ 161,632	$ 168,356	$ 86,531

A reconciliation of the changes in Level 3 fair value measurements is as follows:

Level 3 Fair Value Assets and Liabilities

	Year ended December 31, 2009 (In thousands)	
PNM Pension	**Master Trust**	**Real estate funds**
Balance at December 31, 2008	$ 95,562	$ 3,129
Actual return on assets sold during the period	(2,991)	-
Actual return on assets still held at period end	3,812	(961)
Purchases, issuances, and settlements	(22,278)	-
Balance at December 31, 2009	$ 74,105	$ 2,168
TNMP Pension		
Balance at December 31, 2008	$ 16,024	
Actual return on assets sold during the period	(502)	
Actual return on assets still held at period end	640	
Purchases, issuances, and settlements	(3,736)	
Balance at December 31, 2009	$ 12,426	

Additional information concerning changes in Level 3 fair value measurements for the PNMR Master Trust is as follows:

Level 3 Fair Value Assets and Liabilities

	Year ended December 31, 2009 (In thousands)			
PNMR Master Trust	**Private equity funds**	**Hedge funds**	**Real estate funds**	**Total**
Balance at December 31, 2008	$ 27,590	$ 49,469	$ 34,527	$ 111,586
Actual return on assets sold during the period	(237)	(3,233)	(23)	(3,493)
Actual return on assets still held at period end	(3,742)	8,685	(491)	4,452
Purchases, issuances, and settlements	3,272	(20,000)	(9,286)	(26,014)
Balance at December 31, 2009	$ 26,883	$ 34,921	$ 24,727	$ 86,531

(9) Variable Interest Entities

Under the model for consolidation promulgated by GAAP, a PPA may qualify as a variable interest if its terms expose the purchaser to variability in supply or operating costs and the contract is for a significant portion of the entity's generating capacity. PNM evaluated its PPAs and determined that one purchase contract entered into prior to December 31, 2003 qualifies as a variable interest. PNM has been unable to obtain the necessary information needed to determine if PNM was the primary beneficiary and if consolidation was needed despite ongoing efforts, including formal written requests to the operator of the entity supplying power under the PPA. The operator cited legal and competitive reasons for refusing to provide the information.

This variable interest PPA is a contract expiring in June 2020 to purchase 132 MW of capacity and energy, which is the full output of the Delta generating plant. The contract is accounted for as an operating lease by PNM. See Note 7 for more information about the Delta operating lease. The contract contains a fixed capacity charge, a fixed O&M charge, and a variable energy charge that subject PNM to the changes in the costs to produce energy and operate the plant. The capacity and O&M charges were $6.4 million in 2009, $9.0 million in 2008, and $8.0 million in 2007. The energy charges were $0.4 million in 2009, $0.8 million in 2008, and $1.0 million in 2007. These charges represent all of PNM's obligations under this PPA, PNM has no other financial exposure related to the Delta operating lease.

On April 18, 2007, PNM entered into a PPA to purchase all of the electric capacity and energy from Valencia, a natural gas-fired power plant near Belen, New Mexico. Valencia became operational on May 30, 2008. A third-party built, owns and operates the facility while PNM is the sole purchaser of the electricity generated. The total construction cost for the facility was $90.0 million. The term of the PPA is for 20 years beginning June 1, 2008, with the full output of the plant estimated to be 145 MW. During the term of the PPA, PNM has the option to purchase and own up to 50% of the plant or the variable interest entity. PNM estimates that the plant will typically operate during peak periods of energy demand in summer (less than 18% of the time on an annual basis). PNM is obligated to pay fixed O&M and capacity charges in addition to variable O&M charges under this PPA. For the year ended December 31, 2009 and 2008, PNM paid $16.1 million and $7.5 million for fixed charges as well as $0.6 million and $2.6 million for variable charges. PNM does not have any other financial obligations related to Valencia and creditors of Valencia do not have any recourse against PNM's assets.

PNM has evaluated the accounting treatment of this arrangement and 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 since PNM will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM has consolidated the entity in its financial statements beginning on the commercial operations date. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the consolidated financial statements of PNM although PNM has no legal ownership interest or voting control of the variable interest entity. The owner's equity and net income of Valencia are considered attributable to non-controlling interest. PNM did not consolidate the variable interest entity prior to May 30, 2008 since PNM had no financial risk.

Summarized financial information for Valencia since May 30, 2008 is as follows:

Results of Operations

	Year ended December 31, 2009	May 30, 2008 to December 31, 2008
	(In thousands)	
Operating revenues	$ 18,175	$ 10,400
Operating expenses	(6,285)	(2,996)
Interest expense	-	(225)
Earnings attributable to non-controlling interest	$ 11,890	$ 7,179

Financial Position

	December 31, 2009	December 31, 2008
	(In thousands)	
Current assets	$ 3,981	$ 9,925
Net property, plant and equipment	86,349	89,011
Total assets	90,330	98,936
Current liabilities	971	430
Owners' equity – non-controlling interest	$ 89,359	$ 98,506

Changes in Owners' Equity – Non-controlling Interest

	Year ended December 31, 2009	May 30, 2008 to December 31, 2008
	(In thousands)	
Balance at beginning of period	$ 98,506	$ (1,155)
Earnings attributable to non-controlling interest	11,890	7,179
Net equity transactions with Valencia's owner	(21,037)	92,482
Balance at end of period	$ 89,359	$ 98,506

(10) Earnings Per Share

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

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Earnings (Loss) Attributable to PNMR:			
Earnings (loss) from continuing operations	$ 65,933	$ (297,565)	$ 59,886
Earnings from continuing operations attributable to Valencia Non-controlling Interest	(11,890)	(7,179)	-
Preferred stock dividend requirements of subsidiary	(528)	(528)	(528)
Earnings from continuing operations attributable to PNMR	53,515	(305,272)	59,358
Earnings (loss) from discontinued operations	70,801	34,628	15,516
Net Earnings (Loss) Attributable to PNMR	$ 124,316	$ (270,644)	$ 74,874
Average Number of Common Shares:			
Outstanding during year	86,634	82,879	76,719
Equivalents from convertible preferred stock (Note 5)	4,778	589	-
Vested awards of restricted stock	23	-	-
Average Shares - Basic	91,435	83,468	76,719
Dilutive Effect of Common Stock Equivalents (a):			
Stock options and restricted stock	236	-	537
Equity-linked units	-	-	672
Average Shares – Diluted	91,671	83,468	77,928
Per Share of Common Stock – Basic:			
Earnings (loss) from continuing operations	$ 0.58	$ (3.66)	$ 0.77
Earnings (loss) from discontinued operations	0.78	0.42	0.21
Net Earnings (Loss)	$ 1.36	$ (3.24)	$ 0.98
Per Share of Common Stock – Diluted:			
Earnings (loss) from continuing operations	$ 0.58	$ (3.66)	$ 0.76
Earnings(loss) from discontinued operations	0.78	0.42	0.20
Net Earnings (Loss)	$ 1.36	$ (3.24)	$ 0.96

(a) Excludes the effect of out-of-the-money options of 3,275,542 shares at December 31, 2009. Due to losses in the year ended December 31, 2008, no potentially dilutive securities are reflected in the average number of common shares used to compute earnings (loss) per share since any impact would be anti-dilutive.

(11) Income Taxes

PNMR

PNMR's income taxes (benefit) from continuing operations consist of the following components:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Current federal income tax	$ (81,963)	$ (31,625)	$ (21,438)
Current state income tax	(3,770)	2,290	(10,112)
Deferred federal income tax	112,707	(22,722)	28,583
Deferred state income tax	4,393	(35,855)	9,517
Amortization of accumulated investment tax credits	(2,549)	(2,904)	(3,324)
Total income taxes (benefit)	$ 28,818	$ (90,816)	$ 3,226

PNMR's provision for income taxes from continuing operations differed from the federal income tax computed at the statutory rate for each of the years shown. The differences are attributable to the following factors:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Federal income tax at statutory rates	$ 33,163	$ (135,933)	$ 22,089
Impairment of goodwill	-	61,024	-
Investment tax credits	(2,549)	(2,904)	(3,324)
Flow-through of depreciation items	3,777	2,682	2,143
Earnings attributable to non-controlling interest in Valencia	(4,162)	(2,513)	-
Gains on the sale and leaseback of PVNGS Units 1 and 2	(55)	(55)	(64)
Reversal of deferred income taxes accrued at prior tax rates	(1,109)	(1,109)	(1,109)
Research and development credit	(424)	(220)	-
Affordable housing credit	(750)	(750)	(750)
Allowance for funds used during construction	(734)	(394)	(523)
State income tax	344	(6,238)	(828)
Favorable IRS settlement	-	-	(16,038)
Texas margin tax and related deferred tax adjustments	-	(2,494)	-
Other	1,317	(1,912)	1,630
Total income taxes (benefit)	$ 28,818	$ (90,816)	$ 3,226
Effective tax rate	30.41%	23.38%	5.11%

The components of PNMR's net accumulated deferred income tax liability were:

	December 31, 2009	December 31, 2008
	(In thousands)	
Deferred tax assets:		
Pension	$ 61,280	$ -
Other	114,055	106,717
Total deferred tax assets	175,335	106,717
Deferred tax liabilities:		
Depreciation and plant related	(432,098)	(394,495)
Investment tax credit	(20,518)	(23,834)
Regulatory assets related to income taxes	(57,413)	(84,067)
Stranded costs	(36,266)	(39,203)
Optim Energy	(25,520)	(39,375)
Other	(155,204)	(122,296)
Total deferred tax liabilities	(727,019)	(703,270)
Net accumulated deferred income tax liabilities	$ (551,684)	$ (596,553)

The following table reconciles the change in PNMR's net accumulated deferred income tax liability to the deferred income tax benefit included in the Consolidated Statement of Earnings:

	Year Ended December 31, 2009
	(In thousands)
Net change in deferred income tax liability per above table	$ (44,869)
Change in tax effects of income tax related regulatory assets and liabilities	3,020
Tax effect of mark-to-market adjustments	7,187
Tax effect of excess pension liability	43,540
Adjustment for uncertain income tax positions	6,022
Deferred tax expense related to discontinued operations	99,867
Other	(216)
Deferred income tax (benefit)	$ 114,551

The Company defers investment tax credits related to rate regulated assets and amortizes them over the estimated useful lives of those assets.

PNM

PNM's income taxes (benefit) from continuing operations consist of the following components:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Current federal income tax	$ (64,342)	$ 10,449	$ (5,295)
Current state income tax	(13,621)	2,167	(1,225)
Deferred federal income tax	77,264	(16,627)	16,795
Deferred state income tax	16,974	(3,305)	3,850
Amortization of accumulated investment tax credits	(2,549)	(2,713)	(2,905)
Total income taxes (benefit)	$ 13,726	$ (10,029)	$ 11,220

PNM's provision for income taxes from continuing operations differed from the federal income tax computed at the statutory rate for each of the years shown. The differences are attributable to the following factors:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Federal income tax at statutory rates	$ 15,969	$ (24,263)	$ 12,114
Impairment of goodwill	-	17,900	-
Investment tax credits	(2,549)	(2,713)	(2,905)
Flow-through of depreciation items	3,776	2,682	2,143
Earnings attributable to non-controlling interest in Valencia	(4,162)	(2,513)	-
Gains on the sale and leaseback of PVNGS Units 1 and 2	(55)	(55)	(64)
Reversal of deferred income taxes accrued at prior tax rates	(969)	(969)	(969)
Research and development credit	-	-	-
Allowance for funds used during construction	(733)	(334)	(472)
State income tax	1,933	(824)	1,788
Other	516	1,060	(415)
Total income taxes (benefit)	$ 13,726	$ (10,029)	$ 11,220
Effective tax rate	30.08%	14.47%	32.42%

The components of PNM's net accumulated deferred income tax liability were:

	December 31, 2009	December 31, 2008
	(In thousands)	
Deferred tax assets:		
Pension	$ 63,227	$ -
Other	85,935	61,190
Total deferred tax assets	$ 149,162	$ 61,190
Deferred tax liabilities:		
Depreciation and plant related	(340,951)	(294,025)
Investment tax credit	(20,518)	(23,834)
Regulatory assets related to income taxes	(45,960)	(72,302)
Pension	-	(27,131)
Other	(126,749)	(82,727)
Total deferred tax liabilities	(534,178)	(500,019)
Net accumulated deferred income tax liabilities	$ (385,016)	$ (438,829)

The following table reconciles the change in PNM's net accumulated deferred income tax liability to the deferred income tax benefit included in the Consolidated Statement of Earnings:

	Year Ended December 31, 2009
	(In thousands)
Net change in deferred income tax liability per above table	$ (53,813)
Change in tax effects of income tax related regulatory assets and liabilities	3,131
Tax effect of mark-to-market adjustments	2,073
Tax effect of excess pension liability	43,510
Adjustment for uncertain income tax positions	(339)
Deferred tax expense related to discontinued operations	99,867
Other	(2,740)
Deferred income tax (benefit)	$ 91,689

TNMP

TNMP's income taxes from continuing operations consist of the following components:

	Year Ended December 31, 2009	2008	2007
		(In thousands)	
Current federal income tax	$ (25,237)	$ 17,233	$ 18,716
Current state income tax	1,584	1,609	973
Deferred federal income tax	31,664	11,285	(9,162)
Deferred state income tax	(26)	(18,808)	538
Amortization of accumulated investment tax credits	-	(191)	(418)
Total income taxes	$ 7,985	$ 11,128	$ 10,647

TNMP's provision for income taxes, from continuing operations differed from the federal income tax computed at the statutory rate for each of the periods shown. The differences are attributable to the following factors:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Federal income tax at statutory rates	$ 7,053	$ 817	$ 10,169
Impairment of goodwill	-	12,059	-
Investment tax credits	-	(191)	(418)
Reversal of deferred income taxes accrued at prior tax rates	(141)	(141)	(141)
Allowance for funds used during construction	-	(10)	(45)
State income tax	1,032	1,045	985
Texas margin tax and related deferred tax adjustments	-	(2,494)	-
Other	41	43	97
Total income taxes	$ 7,985	$ 11,128	$ 10,647
Effective tax rate	39.63%	476.65%	36.64%

The components of TNMP's net accumulated deferred income tax liability at December 31 were:

	December 31,	
	2009	2008
	(In thousands)	
Deferred tax assets:		
Regulatory liabilities related to income taxes	$ 6,682	$ 7,105
Deferred Tax Assets – other	16,208	29,043
Total deferred tax assets	22,890	36,148
Deferred tax liabilities:		
Depreciation and plant related	(96,627)	(94,682)
Stranded costs	(36,266)	(39,203)
Regulatory assets related to income taxes	(11,453)	(11,765)
Other	(15,488)	(1,691)
Total deferred tax liabilities	(159,834)	(147,341)
Net accumulated deferred income tax liabilities	$ (136,944)	$ (111,193)

The following table reconciles the change in TNMP's net accumulated deferred income tax liability to the deferred income tax benefit included in the Consolidated Statement of Earnings:

	Year Ended December 31, 2009
	(In thousands)
Net change in deferred income tax liability per above table	$ 25,751
Change in tax effects of income tax related regulatory assets and liabilities	(112)
Tax effect of excess pension liability	30
Adjustments for uncertain income tax positions	6,255
Other	(286)
Deferred income tax (benefit)	$ 31,638

As of January 1, 2007, the Company adopted an amendment to GAAP, which requires that the Company recognize only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority. As a result, PNMR decreased the January 1, 2007 balance of retained earnings by $1.6 million, PNM decreased the January 1, 2007 balance of retained earnings by $1.1 million, and TNMP increased the January 1, 2007 balance of retained earnings by $0.7 million.

As a result of settlements with the IRS, PNMR recognized $16.3 million of income tax benefit during 2007. Including this benefit, PNMR's effective tax rate was 5.11% for the year ended December 31, 2007. This non-recurring benefit reduced PNMR's effective tax rate by 25.76% for the year ended December 31, 2007.

A reconciliation of unrecognized tax benefits (expenses) is as follows:

	PNMR	PNM	TNMP
		(In thousands)	
Balance at January 1, 2007	$ 33,895	$ (3,564)	$ -
Additions based on tax positions related to 2007	15,721	(29)	-
Reductions for tax positions of prior years	(15,786)	-	-
Settlements	(15,578)	3,346	-
Balance at December 31, 2007	18,252	(247)	-
Additions based on tax positions related to 2008	(1,111)	316	541
Reductions for tax positions of prior years	(753)	-	-
Settlements	-	-	-
Balance at December 31, 2008	16,388	69	541
Additions based on tax positions related to 2009	6,633	(287)	6,255
Reductions for tax positions of prior years	(430)	-	-
Settlements	-	-	-
Balance at December 31, 2009	$ 22,591	$ (218)	$ 6,796

Included in the balance at December 31, 2009 are $3.0 million and $0.1 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate for PNMR and PNM. None of TNMP's unrecognized tax benefits at December 31, 2009 would affect the effective tax rate if recognized. The Company believes that it is reasonably possible that approximately $1.3 million of PNMR's unrecognized tax benefits, $0.2 million of PNM's unrecognized tax expenses, and $0.5 million of TNMP's unrecognized tax benefits will be reduced or settled in 2010 as a result of the conclusion of income tax examinations.

Estimated interest income related to refunds the Company expects to receive is included in Other Income and estimated interest expense and penalties related to potential cash settlements are included in Interest Expense in the Consolidated Statements of Earnings (Loss).

Interest income (expense) related to income taxes is as follows:

	PNMR	PNM	TNMP
		(In thousands)	
2009	$ 6,418	$ 7,746	$ (6)
2008	$ (2,450)	$ (4,874)	$ 537
2007	$ 17,173	$ 10,732	$ (47)

Accumulated accrued interest receivable (payable) related to income taxes is as follows:

	PNMR	PNM	TNMP
		(In thousands)	
December 31, 2009:			
Accumulated accrued interest receivable	$ 14,267	$ 14,267	$ -
Accumulated accrued interest payable	$ (1,105)	$ (23)	$ (107)
December 31, 2008:			
Accumulated accrued interest receivable	$ 6,987	$ 6,521	$ -
Accumulated accrued interest payable	$ (244)	$ (22)	$ (101)

The Company files a federal consolidated and several consolidated and separate state income tax returns. The tax years prior to 2001 are closed to examination by either federal or state taxing authorities. 2001 and 2002 are open for examination only for certain items. Tax year 2004 is closed to examination by federal taxing authorities, but open for some states. Other tax years are open to examination by federal and state taxing authorities.

(12) Pension and Other Postretirement Benefits

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. As discussed in Note 2, PNM completed the sale of its gas operations to NMGC on January 30, 2009. PNM retained the obligations under the defined benefit pension plans and executive retirement plans relating to employees that transferred to NMGC upon the sale. NMGC assumed the postretirement medical and dental obligations for the transferred employees. The periodic costs or income of the PNM Plans and TNMP Plans are included in regulated rates to the extent attributable to regulated operations. In addition, PNM receives a regulated return on the amount it has funded for its pension plan in excess of the periodic cost or income.

Participants in the PNM Plans include eligible employees and retirees of PNMR and other subsidiaries of PNMR. Participants in the TNMP Plans include eligible employees and retirees of TNMP, First Choice and other subsidiaries of TNP. The PNM pension plan was frozen at the end of 1997 with regard to new participants, salary levels and benefits. Through December 31, 2007, additional credited service could be accrued under the PNM pension plan up to a limit determined by age and service. The TNMP pension plan was frozen at December 31, 2005 with regard to new participants, salary levels and benefits.

GAAP requires a plan sponsor to (*a*) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (*b*) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (*c*) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Such changes are reported in other comprehensive income.

GAAP also requires unrecognized prior service costs and unrecognized gains or losses to be recorded in AOCI and subsequently amortized. The amortization of these incurred costs will ultimately be included as pension and postretirement benefits expenses in subsequent years. To the extent the amortization of these items will ultimately be recovered in future rates, PNM and TNMP records the costs as a regulatory asset or regulatory liability.

The Company has in place, for the PNM Plans and TNMP Plans, a policy that defines the investment objectives, establishes performance goals of the asset managers and provides procedures for the manner in which investments are to be reviewed. The plans implement investment strategies to achieve the following objectives:

- Maximize the return on assets, commensurate with the risk that the Corporate Investment Committee deems appropriate to: meet the obligations of the pension plans and other postretirement benefits plans; minimize the volatility of expense; and account for contingencies; and
- Generate a rate of return for the total portfolio that equals or exceeds the actuarial investment rate assumption.

Management is responsible for the determination of the asset target mix and the expected rate of return. The target asset allocations are determined based on consultations with external investment advisors. The expected long-term rate of return on pension and postretirement plan assets is calculated on the market-related value of assets. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the market-related value of assets equally over a period of not more than five years, which reduces year-to-year volatility. For the PNM Plans and TNMP Plans, the market-related value of assets is equal to the prior year's market related value of assets adjusted for contributions, benefit payments and investment gains and losses that lie within a corridor of plus or minus 4.0% around the expected return on market value. Gains and losses that lie outside the corridor are amortized over five years. This market-related valuation recognizes the portion of return that is outside the range over a five-year period from the year in which the return occurs. As such, the future value of assets will be impacted as previously deferred returns are recorded.

Pension Plans

For defined benefit pension plans, including the executive retirement plans, the PBO represents the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to that date using assumptions regarding future compensation levels. The accumulated benefit obligation represents the PBO without considering future compensation levels. Since the plans are frozen, the PBO and accumulated benefit obligation are equal. The following table presents information about the PBO, fair value of plan assets, and funded status of the plans:

	PNM Plan		TNMP Plan	
	Year Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
	(In thousands)			
PBO at beginning of year	$ 491,758	$ 498,859	$ 64,028	$ 66,619
Service cost	-	-	-	-
Interest cost	34,439	33,268	4,396	4,243
Actuarial (gain) loss	55,492	(8,284)	6,181	279
Benefits paid	(35,942)	(32,085)	(5,969)	(7,113)
PBO at end of year	545,747	491,758	68,636	64,028
Fair value of plan assets at beginning of year	332,768	501,718	53,424	81,538
Actual return on plan assets	64,028	(136,865)	10,289	(21,001)
Benefits paid	(35,942)	(32,085)	(5,969)	(7,113)
Fair value of plan assets at end of year	360,854	332,768	57,744	53,424
Funded status-asset (liability) for pension benefits	$ (184,893)	$ (158,990)	$ (10,892)	$ (10,604)

The following table presents pre-tax information about prior service cost and net actuarial (gain) loss in AOCI as of December 31, 2009.

	PNM Plan		TNMP Plan
	December 31, 2009		December 31, 2009
	Prior service cost	Net actuarial (gain) loss	Net actuarial (gain) loss
	(In thousands)		
Amounts in AOCI not yet recognized in net periodic cost (income) at beginning of year	$ 93	$ 11,348	$ 294
Experience loss (gain)	-	20,591	1,985
Regulatory asset (liability) adjustment	-	89,929	(1,889)
Amortization recognized in net periodic cost	(143)	(1,729)	-
Amounts in AOCI not yet recognized in net periodic cost (income) at end of year	$ (50)	$ 120,139	$ 390
Amortization expected to be recognized in AOCI in 2010	$ (143)	$ (2,921)	$ -

The following table presents the components of net periodic cost (income) recognized in the Consolidated Statements of Earnings:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
PNM Plan			
Service cost	$ -	$ -	$ 144
Interest cost	34,439	33,268	31,811
Long-term rate of return on plan assets	(38,763)	(41,345)	(40,780)
Amortization of net (gain) loss	3,818	1,924	3,890
Amortization of prior service cost	317	317	317
Net periodic benefit (income) cost	$ (189)	$ (5,836)	$ (4,618)
TNMP Plan			
Service cost	$ -	$ -	$ -
Interest cost	4,396	4,243	4,229
Long-term rate of return on plan assets	(6,093)	(6,635)	(6,840)
Amortization of net (gain) loss	-	(146)	(7)
Amortization of prior service cost	-	-	-
Net periodic benefit (income) cost	$ (1,697)	$ (2,538)	$ (2,618)

The following significant weighted-average assumptions were used to determine the PBO and net periodic cost (income). Should actual experience differ from actuarial assumptions, the PBO and net periodic cost (income) would be affected.

	Year Ended December 31,		
PNM Plan	**2009**	**2008**	**2007**
Discount rate for determining projected benefit obligation at December 31	6.47%	7.25%	6.88%
Discount rate for determining net periodic cost (income)	7.25%	6.88%	6.10%
Long-term rate of return on plan assets	8.75%	8.50%	8.75%
Rate of compensation increase	N/A	N/A	N/A
TNMP Plan			
Discount rate for determining projected benefit obligation at December 31	6.31%	7.25%	6.72%
Discount rate for determining net periodic cost (income)	7.25%	6.72%	6.10%
Long-term rate of return on plan assets	8.75%	8.50%	8.75%
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the PBO was determined based on a review of long-term high-grade bonds and management's expectations. The change in discount rate resulted in an increase in the PNM and TNMP PBO of $38.4 million and $4.7 million at December 31, 2009, which are reflected as actuarial (gain) loss above. The PNM PBO also increased in 2009 by $16.3 million, reflected as actuarial (gain) loss, due to changes in demographics, including $9.6 million associated with early retirement of PNM Gas employees transferred to NMGC. Although the transferred employees do not result in a significant reduction in the expected years of future service of present employees covered by the pension plan and, therefore, under GAAP, a curtailment does not occur, GAAP requires measuring the effects of the reduction in the work force in the same manner as a curtailment for purposes of determining the gain or loss on the sale of gas operations. This $9.6 million, which is not included in net periodic benefit (income) cost above, was recognized as a loss reducing the gain on the sale of PNM Gas.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the PBO. Factors that are considered include, but are not limited to, historic returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The expected long-term rate of return assumption for the PNM and TNMP pension plans compares to the actual return (loss) of 20.3% and 20.4% for the year ended December 31, 2009. If all other factors were to remain unchanged, a 1% decrease in the expected long-term rate of return would cause PNM's and TNMP's 2010 net periodic cost to increase $4.3 million and $0.7 million (analogous changes would result from a 1% increase).

The Company's overall pension investment strategy is to invest in a portfolio that is diversified by asset class and style strategies. The targeted asset allocation is 57.5% equities, 22.5% fixed income, and 20% alternative investments. The objective is over the long term to achieve the actuarial rate of return. Equity securities primarily include investments in large, mid, and small cap domestic companies. The pension has a targeted allocation of 10% to equities of companies domiciled primarily in developed countries outside of the United States. This category comprises of actively managed international and domestic equity securities that are benchmarked against a variety of style indices. Equity mutual funds are enhanced index funds that attempt to beat the S&P 500 index. Fixed income investments are primarily corporate bonds of companies from diversified industries and government securities. Fixed income mutual funds are funds that attempt to match the duration of the pension liability. Alternative investments include investments in hedge funds and private equity funds. These funds are structured as multi-strategy multi-manager fund-of-funds to achieve a diversified position in these asset classes. The plans have invested in funds that have investments in a diversified portfolio of assets including timber, commercial property, and multi-family housing. The hedge funds pursue various absolute return strategies such as relative value, long-short equity, and event driven. Private equity fund strategies include mezzanine financing, venture capital and buy-outs.

See Note 8 for fair value information concerning assets held by the pension plans.

The following pension benefit payments, which reflect expected future service, are expected to be paid:

	PNM Plan	TNMP Plan
	(In thousands)	
2010	$ 38,230	$ 6,490
2011	$ 39,079	$ 6,414
2012	$ 40,028	$ 6,582
2013	$ 41,002	$ 6,029
2014	$ 41,903	$ 6,151
Years 2014 – 2018	$ 218,074	$ 27,113

There has been a significant decline in the general price levels of marketable equity securities held by the pension plans in late 2008 and in early 2009. PNM and TNMP made no contributions to the pension plans in 2009. Based on current law and estimates of portfolio performance, PNM anticipates making contributions to its pension plan trust of approximately $19.5 million in 2010 and a total of $185.7 million for 2011-2013 and TNMP anticipates making contributions to its pension plan trust of approximately $0.3 million in 2010 and a total of $8.0 million for 2011-2013. These anticipated contributions were developed using a probabilistically weighted average discount rate of 6.2% to determine the projected benefit obligation under the pension plan. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rate.

Other Postretirement Benefit Plans

For postretirement benefit plans, the APBO is the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to that date.

The following table presents information about the APBO, the fair value of plan assets, and the funded status of the plans:

	PNM Plan		TNMP Plan	
	Year Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
	(In thousands)			
APBO at beginning of year	$ 120,843	$ 123,672	$ 10,565	$ 10,779
Service cost	418	713	259	284
Interest cost	7,388	8,344	733	715
Participant contributions	1,706	1,579	388	348
Actuarial (gain) loss	16,766	(5,233)	268	(869)
Benefits paid	(9,050)	(8,232)	(659)	(692)
Liability transferred with sale of PNM Gas	(15,654)	-	-	-
APBO at end of year	122,417	120,843	11,554	10,565
Fair value of plan assets at beginning of year	49,480	71,567	5,692	7,907
Actual return on plan assets	12,044	(20,637)	1,378	(2,299)
Employer contributions	2,946	5,203	294	428
Participant contributions	1,706	1,579	388	348
Benefits paid	(9,050)	(8,232)	(659)	(692)
Fair value of plan assets at end of year	57,126	49,480	7,093	5,692
Funded status-APBO net (liability)	$ (65,291)	$ (71,363)	$ (4,461)	$ (4,873)

As a result of the sale of gas operations on January 30, 2009, $15.7 million of the APBO liability was transferred to the purchaser and PNM recognized unamortized prior service costs resulting in a $2.9 million gain, which is not included in net periodic benefit cost below.

The following table presents pre-tax information about prior service cost and net actuarial (gain) loss in AOCI as of December 31, 2009.

	PNM Plan		TNMP Plan	
	December 31, 2009		December 31, 2009	
	Prior service cost/(credit)	Net actuarial (gain)/loss	Prior service cost	Net actuarial (gain)/loss
	(In thousands)			
Amount in AOCI not yet recognized in net periodic cost (income) at beginning of year	$ (971)	$ 4,016	$ 15	$ (89)
Experience loss (gain)	-	10,555	-	(616)
Regulatory asset (liability) adjustment	-	(10,209)	-	602
Amortization recognized in net periodic cost	140	(108)	(2)	6
Amounts in AOCI not yet recognized in net periodic cost (income) at end of year	$ (831)	$ 4,254	$ 13	$ (97)
Amortization expected to be recognized in AOCI in 2010	$ 136	$ (177)	$ (1)	$ 4

The following table presents the components of net periodic cost recognized in the Consolidated Statements of Earnings:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
PNM Plan			
Service cost	$ 417	$ 713	$ 2,530
Interest cost	7,388	8,344	7,712
Long-term rate of return on plan assets	(5,832)	(6,128)	(5,856)
Amortization of net (gain) loss	3,290	4,816	5,842
Amortization of prior service credit	(4,262)	(5,687)	(5,687)
Net periodic benefit cost	$ 1,001	$ 2,058	$ 4,541
TNMP Plan			
Service cost	$ 260	$ 284	$ 394
Interest cost	733	716	661
Long-term rate of return on plan assets	(495)	(486)	(456)
Amortization of prior service cost	60	60	60
Amortization of net (gain) loss	(265)	(271)	(156)
Net periodic benefit cost	$ 293	$ 303	$ 503

The following significant weighted-average assumptions were used to determine the accumulated postretirement benefit obligation and postretirement benefit cost. Should actual experience differ from actuarial assumptions, the APBO and postretirement benefit cost would be affected.

	Year Ended December 31,		
PNM Plan	**2009**	**2008**	**2007**
Discount rate for determining accumulated postretirement benefit obligation at December 31	6.42%	7.25%	6.91%
Discount rate for determining postretirement benefit cost	7.25%	6.91%	6.10%
Long-term rate of return on plan assets	8.75%	8.50%	8.75%
Rate of compensation increase	N/A	N/A	N/A
TNMP Plan			
Discount rate for determining accumulated postretirement benefit obligation at December 31	6.42%	7.25%	6.91%
Discount rate for determining postretirement benefit cost	7.25%	6.91%	6.10%
Long-term rate of return on plan assets	6.70%	6.50%	6.70%
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the APBO was determined based on a review of long-term high-grade bonds and management's expectations. The change in discount rate resulted in an increase in the PNM and TNMP APBO obligation of $8.8 million and $0.8 million.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the APBO. Factors that are considered include, but are not limited to, historic returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The expected long-term rate of return assumption for the PNM and TNMP postretirement benefit plans compares to the actual return (loss) of 25.5% and 24.2% for the year ended December 31, 2009. If all other factors were to remain unchanged, a 1% decrease in the expected long-term rate of return would cause PNM's and TNMP's 2010 postretirement benefit cost to increase $0.6 million and $0.1 million (analogous changes would result from a 1% increase).

TNMP's exposure to cost increases in the postretirement benefit plan is minimized by a provision that limits TNMP's share of costs under the plan. Costs of the plan in excess of the limit are wholly borne by the participants. TNMP reached the cost limit at the end of 2001. As a result, a one-percentage-point change in assumed health care cost trend rates would have no effect on either the net periodic expense or the year-end APBO.

The following table shows the assumed health care cost trend rates:

	PNM Plan	
	December 31,	
	2009	**2008**
Health care cost trend rate assumed for next year	8.5%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2017	2014

The following table shows the impact of a one-percentage-point change in assumed health care cost trend rates:

	PNM Plan	
	1-Percentage-Point Increase	1-Percentage-Point Decrease
	(In thousands)	
Effect on total of service and interest cost	$ 680	$ (586)
Effect on APBO	$ 9,304	$ (8,108)

The Company's other postretirement benefit plans invest in a portfolio that is diversified by asset class and style strategies. The other postretirement benefit plans use the same pension fixed income and equity investment managers and utilize the same overall investment strategy as described above for the pension plans, except there is no allocation to alternative investments. The other postretirement benefit plans have an asset allocation of 70% equities and 30% fixed income. See Note 8 for fair value information concerning assets held by the other postretirement benefit plans.

The following other postretirement benefit payments, which reflect expected future service, are expected to be paid:

	PNM Plan	TNMP Plan
	(In thousands)	
2010	$ 8,279	$ 958
2011	$ 8,734	$ 960
2012	$ 9,102	$ 938
2013	$ 9,331	$ 919
2014	$ 9,735	$ 908
Years 2015 – 2019	$ 52,012	$ 4,747

PNM expects to make contributions totaling $2.5 million to the PNM postretirement benefit plan in 2010. TNMP expects to make contributions totaling $0.4 million to the TNMP postretirement benefit plan in 2010.

Executive Retirement Programs

For the executive retirement programs, the following table presents information about the PBO and funded status of the plans:

	PNM Plan		TNMP Plan	
	Year Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
	(In thousands)			
PBO at beginning of year	$ 16,388	$ 17,262	$ 1,125	$ 1,199
Service cost	59	57	-	-
Interest cost	1,135	1,135	76	75
Actuarial gain	914	(555)	(183)	14
Benefits paid	(1,492)	(1,511)	(151)	(163)
PBO at end of year-funded status	17,004	16,388	867	1,125
Less current liability	1,396	1,404	88	149
Non-current liability	$ 15,608	$ 14,984	$ 779	$ 976

PNM has an irrevocable grantor "Rabbi" trust established in connection with the executive retirement program. Under the terms of the trust, PNM may, but is not obligated to, provide funds to the trust, which was established with an independent trustee, to aid it in meeting its obligations under the program. The trust is recorded as an asset of PNM. Marketable securities with a fair value of $0.8 million were in the trust at December 31, 2008 and cash equivalents of $0.7 million were held at December 31, 2009. Amounts shown as benefits paid in the above table are considered to be contributions to the executive retirement programs.

The following table presents pre-tax information about prior service cost and net actuarial loss in AOCI as of December 31, 2009.

	PNM Plan		TNMP Plan
	December 31, 2009		December 31, 2009
	Prior service cost	Net actuarial loss	Net actuarial loss
	(In thousands)		
Amount in AOCI not yet recognized in net periodic cost (income) at beginning of year	$ 2	$ 165	$ -
Experience loss (gain)	-	914	183
Regulatory asset (liability) adjustment	-	(38)	(183)
Amortization recognized in net periodic cost	-	(1)	-
Amount in AOCI not yet recognized in net periodic cost (income) at end of year	$ 2	$ 1,040	$ -
Amortization expected to be recognized in AOCI in 2010	$ -	$ (32)	$ -

The following table presents the components of net periodic cost recognized in the Consolidated Statements of Earnings:

	Pension Benefits		
	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
PNM Plan			
Service cost	$ 59	$ 56	$ 57
Interest cost	1,135	1,136	1,088
Amortization of net loss	27	52	93
Amortization of prior service cost	10	13	13
Net periodic benefit cost	$ 1,231	$ 1,257	$ 1,251
TNMP Plan			
Service cost	$ -	$ -	$ -
Interest cost	76	75	76
Amortization of actuarial loss	-	-	-
Amortization of prior service cost	-	-	-
Net periodic benefit cost	$ 76	$ 75	$ 76

The following significant weighted-average assumptions were used to determine the projected benefit obligation and net periodic cost (income). Should actual experience differ from actuarial assumptions, the projected benefit obligation and net periodic cost would be affected.

	Year Ended December 31,		
PNM Plan	**2009**	**2008**	**2007**
Discount rate for determining projected benefit obligation at December 31	6.47%	7.25%	6.88%
Discount rate for determining net pension cost	7.25%	6.88%	6.10%
Long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A
TNMP Plan			
Discount rate for determining projected benefit obligation at December 31	6.31%	7.25%	6.72%
Discount rate for determining net periodic cost	7.25%	6.72%	6.10%
Long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the PBO was determined based on a review of long-term high-grade bonds and management's expectations. The change in discount rate resulted in a decrease in the PNM and TNMP PBO of $1.0 million and less than $0.1 million at December 31, 2009.

The following executive retirement plan payments, which reflect expected future service, are expected:

	PNM Plan	TNMP Plan
	(In thousands)	
2010	$ 1,442	$ 91
2011	$ 1,422	$ 90
2012	$ 1,404	$ 89
2013	$ 1,384	$ 88
2014	$ 1,362	$ 86
Years 2014 – 2018	$ 6,381	$ 392

Other Retirement Plans

PNMR sponsors a 401(k) defined contribution plan for eligible employees, including those of its subsidiaries. PNMR's contributions to the 401(k) plan consist of a discretionary matching contribution equal to 75% of the first 6% of eligible compensation contributed by the employee on a before-tax basis. PNMR also makes a non-matching contribution ranging from 3% to 10% of eligible compensation based on the eligible employee's age.

PNMR also provides executive deferred compensation benefits through an unfunded, non-qualified plan. The purpose of this plan is to permit certain key employees of PNMR who participate in the 401(k) defined contribution plan to defer compensation and receive credits without reference to the certain limitations on contributions. In December of 2008, an earlier version of this plan, which was frozen in 2004, was merged into this plan. Effective January 1, 2009, PNMR allowed eligible employees to save on an after-tax basis.

A summary of expenses for these other retirement plans is as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
		(In thousands)	
PNMR			
401(k) plan	$ 16,743	$ 16,766	$ 17,050
Non-qualified plan	2,073	(1,444)	1,722
PNM			
401(k) plan	11,698	10,844	11,803
Non-qualified plan	1,299	(979)	525
TNMP			
401(k) plan	3,323	2,869	3,061
Non-qualified plan	405	(288)	157

(13) Stock-Based Compensation Plans

PNMR has various types of stock-based compensation programs, including stock options, restricted stock and performance shares granted under the Performance Equity Plan ("PEP"). All stock-based compensation is granted through stock-based employee compensation plans maintained by PNMR. Although certain PNM and TNMP employees participate in the PNMR plans, PNM and TNMP do not have separate employee stock-based compensation plans.

Performance Stock Plan

PNMR's Performance Stock Plan ("PSP") expired in December 2000. The PSP was a non-qualified stock option plan, covering a group of management employees. Options to purchase shares of PNMR's common stock were granted at the fair value of the shares at the close of business on the date of the grant. Although the authority to grant options under the PSP expired on December 31, 2000, the options that were granted continue to be effective according to their terms.

Performance Equity Plan

The PEP provides for the granting of non-qualified stock options, restricted stock rights, performance shares, performance units, and stock appreciation rights to officers, key employees, and non-employee board members. Generally, the awards vest ratably over three years from the grant date of the award. However, plan provisions provide that upon retirement, participants become 100% vested in stock awards. The total number of shares of PNMR common stock subject to all awards under the PEP may not exceed 12.32 million, subject to adjustment under certain circumstances defined in the PEP. The number of shares of PNMR common stock subject to the grant of restricted stock rights, performance shares and units and stock appreciation rights is limited to 1.56 million shares. Re-pricing of stock options is prohibited unless specific shareholder approval is obtained.

Source of Shares

The source of shares for exercised stock options, delivery of vested restricted stock, and performance shares is shares acquired on the open market, rather than newly issued shares.

Accounting for Stock Awards

The Company accounts for stock awards utilizing the modified prospective approach for all new awards and awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Compensation expense recognized after January 1, 2006 is based on the grant-date fair value estimated in accordance with GAAP and includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, and for all share-based payments granted subsequent to January 1, 2006.

The unearned stock-based compensation related to stock options and restricted stock awards is being amortized to compensation expense over the requisite vesting period, which is generally equally over three years. However, compensation expense for stock options and restricted stock awards to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized over the vesting period. The Company records compensation cost for performance stock awards based upon periodic estimates of the levels that the performance targets will be achieved.

Total compensation expense for stock-based payment arrangements recognized by PNMR for the years ended December 31, 2009, 2008 and 2007 was $2.2 million, $3.3 million, and $7.6 million. Of this total expense, $1.4 million, $2.4 million, and $6.1 million were charged to PNM and $0.5 million, $0.6 million, and $1.1 million were charged to TNMP.

PNMR receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options and a tax deduction for increases in the value of equity instruments issued under stock-based payment arrangements. PNMR's Consolidated Statements of Cash Flows presentation reports the tax benefits from the exercise of stock options and stock-based payments as financing cash flows.

At December 31, 2009, PNMR had $1.8 million of unrecognized compensation expense related to stock-based payments that is expected to be recognized over a weighted-average period of 1.7 years.

Stock Options

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the following weighted-average assumptions for the indicated periods:

	2009	2008	2007
Dividend yield	6.27%	6.99%	3.02%
Expected volatility	42.03%	28.33%	18.68%
Risk-free interest rates	1.56%	2.69%	4.72%
Expected life (years)	4.5	4.2	4.2

The assumptions above are based on multiple factors, including historical exercise patterns of employees in relatively homogeneous groups with respect to exercise and post-vesting employment termination behaviors, expected future exercising patterns for these same homogeneous groups and both the implied and historical volatility of PNMR's stock price.

The following table summarizes activity in stock option plans:

	Stock Option Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contract Life
Outstanding at December 31, 2006	2,999,606	$ 21.02		
Granted	766,400	$ 30.47		
Exercised	(442,252)	$ 20.32		
Forfeited	(40,177)	$ 27.45		
Expired	(18,679)	$ 20.48		
Outstanding at December 31, 2007	3,264,898	$ 23.26		
Granted	558,261	$ 11.90		
Exercised	(5,001)	$ 16.13		
Forfeited	(19,075)	$ 26.49		
Expired	(73,176)	$ 22.04		
Outstanding at December 31, 2008	3,725,907	$ 21.54		
Granted	790,064	$ 8.23		
Exercised	(6,236)	$ 10.22		
Forfeited	(69,200)	$ 16.40		
Expired	(166,516)	$ 21.32		
Outstanding at December 31, 2009	4,274,019	$ 19.19	$3,966,376*	5.97 years
Exercisable at December 31, 2009	3,054,849	$ 26.85	$ 269,646	4.93 years
Options available for future grant **	5,133,798			

* At December 31, 2009, the exercise price of 3,275,542 outstanding stock options is greater than the closing price of PNMR common stock on that date so those options have no intrinsic value.

** Includes shares available for grants of restricted stock.

The following table summarizes stock option activity for the years ended December 31:

Stock Options	2009	2008	2007
		(In thousands, except per share amounts)	
Weighted-average grant date fair value of options granted	$ 1.63	$ 1.39	$ 4.70
Total fair value of options that vested during the period	$ 1,179	$ 4,003	$ 4,670
Total intrinsic value of options exercised during the period	$ 15	$ 15	$ 4,931

Restricted Stock and Performance Shares

The PEP allows for the issuance of restricted stock awards. As noted above, "restricted stock" is the name of these awards provided for in the PEP and refers to awards of stock subject to vesting. It does not refer to restricted shares with contractual post-vesting restrictions as defined in GAAP. Compensation expense for restricted stock and performance stock awards was determined based on the market price of PNMR stock on the date of grant reduced by the present value of future dividends applied to the total number of shares that were anticipated to fully vest with the following weighted-average assumptions for the indicated periods:

	2009	2008	2007
Expected quarterly dividends per share	$0.125	$0.23	$0.23
Risk-free interest rate	3.11%	2.93%	4.71%

The following table summarizes nonvested restricted stock activity for the year ended December 31, 2009:

Nonvested Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at beginning of period	195,626	$ 17.43
Granted	102,000	$ 7.81
Vested	(99,349)	$ 19.13
Forfeited	(4,336)	$ 12.24
Nonvested at end of period	193,941	$ 11.62

The following table summarizes restricted stock activity for the year ended December 31:

Nonvested Restricted Stock	2009	2008	2007
		(In thousands, except per share amounts)	
Weighted-average grant date fair value of shares granted	$ 7.81	$ 11.50	$ 28.79
Total fair value of shares that vested during the period	$ 1,900	$ 2,365	$ 1,961

During 2009, the Company issued performance share agreements to certain executives that are based upon the Company achieving specified performance targets, partly for 2009 and partly for the 2009 through 2011 period. The determination of the number of shares ultimately issued depends on the levels at which the performance criteria are achieved and cannot be determined until after the performance periods end. For the targets based only on 2009 performance, the optimal level was attained and 106,969 shares were earned and will vest through 2013. The Company would issue an additional maximum of 46,317 shares if all of the performance criteria based on the 2009 through 2011 period are achieved at the maximum level and all the executives remain eligible.

ESPP

PNMR terminated the ESPP effective June 30, 2009. Under the ESPP, employees were allowed to purchase shares of PNMR's common stock at a 5% discount from the market price. The ESPP was not considered to be a compensatory plan. Under the ESPP, 48,202, 92,224, and 55,885 were issued during the years ended December 31, 2009, 2008, and 2007. The source of shares for the ESPP was newly issued shares.

(14) Construction Program and Jointly-Owned Electric Generating Plants

Joint Projects

PNMR's construction expenditures for 2009 were $288.0 million, including expenditures on PNM's jointly-owned projects and including $3.4 million for PNM Gas. TNMP does not participate in the ownership or operation of any generating plants, but incurred construction expenditures of $53.1 million during 2009.

PNM's construction expenditures for 2009 were $256.8 million, including expenditures on jointly-owned projects, including $39.1 million for the purchase of an interest in PVNGS Unit 2 from another subsidiary of PNMR (see Note 17). Under the agreements for the jointly-owned projects, PNM has an undivided interest in each asset and liability of the project and records its pro-rata share of each item in the corresponding asset and liability account on PNM's Consolidated Balance Sheets. Likewise, PNM records its pro-rata share of each item of operating and maintenance expenses for its jointly-owned plants within the corresponding operating expense account in its Consolidated Statements of Earnings.

At December 31, 2009, PNM's interests and investments in jointly – owned generating facilities are:

Station (Fuel Type)	Plant in Service	Accumulated Depreciation	Construction Work in Progress	Composite Interest
	(In thousands)			
SJGS (Coal)	$ 926,580	$ (424,429)	$ 26,990	46.30%
PVNGS (Nuclear) *	423,586	(110,049)	41,178	10.20%
Four Corners Units 4 and 5 (Coal)	144,428	(103,530)	7,735	13.00%
Luna (Gas)	56,822	(8,183)	274	33.33%

* Includes interest in PVNGS Unit 3, interest in common facilities for all PVNGS units, and owned interests in PVNGS Units 1 and 2.

San Juan Generating Station

PNM operates and jointly owns the SJGS. SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson. SJGS Unit 3 is owned 50% by PNM, 41.8% by SCPPA, and 8.2% by Tri-State. SJGS Unit 4 is owned 38.457% by PNM, 28.8% by M-S-R Public Power Agency, 10.04% by the City of Anaheim, California, 8.475% by the City of Farmington, New Mexico, 7.2% by the County of Los Alamos, New Mexico, and 7.028% by UAMPS.

Palo Verde Nuclear Generating Station

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

Operation of each of the three PVNGS units requires an operating license from the NRC. The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986 and Unit 3 in November 1987. The full power operating licenses are valid for a period of approximately 40 years. APS, on behalf of the PVNGS participants, applied for renewed operating licenses for each unit on December 15, 2008 for a period of 20 years beyond the expirations of the current licenses. The NRC is currently reviewing the application. The current NRC schedule for the applications estimates a final decision in the fall of 2011. The PVNGS participants do not anticipate any problems renewing these licenses. However, as a result of potential terrorist threats and increased public scrutiny of utilities, the licensing process could result in increased licensing or compliance costs that are difficult or impossible to predict.

Four Corners Power Plant

PNM is a participant in two units of Four Corners with APS (the operating agent), EPE, SRP, SCE, and Tucson. PNM has a 13.0% undivided interest in Units 4 and 5 of Four Corners. The Four Corners plant site is leased from the Navajo Nation and is also subject to an easement from the federal government.

Luna Energy Facility

Luna is a combined-cycle power plant near Deming, New Mexico. Luna is owned 33.3% by PNM, 33.3% by Tucson and 33.3% by Freeport McMoran, (formerly Phelps Dodge). Prior to July 2009, Luna was operated as a PNM wholesale facility and PNM's 190-megawatt share of its power was sold to wholesale electric customers in the Southwest. Beginning in July 2009, Luna is included in rates subject to the jurisdiction of the NMPRC. See Note 17. The operation and maintenance of the facility has been contracted to North American Energy Services.

Construction Program

The Company anticipates making substantial capital expenditures for the construction and acquisition of utility plant and other property and equipment. A summary of the budgeted construction expenditures, including expenditures for jointly-owned projects, renewable energy projects, and nuclear fuel, is as follows:

	2010	2011	2012	2013	2014	Total
			(In millions)			
PNM	$ 228.8	$ 412.6	$ 190.9	$ 183.9	$ 167.4	$ 1,183.6
TNMP	41.4	60.4	45.0	41.4	55.5	243.7
Other	14.9	16.2	16.1	18.1	17.2	82.5
Total PNMR	$ 285.1	$ 489.2	$ 252.0	$ 243.4	$ 240.1	$ 1,509.8

(15) Asset Retirement Obligations

The ARO is recorded based on the determination of underlying assumptions, such as the Company's discount rate, estimates of the future costs for decommissioning, and the timing of the removal activities to be performed. Any changes in these assumptions underlying the required calculations may require revisions to the estimated ARO when identified. A reconciliation of ARO is as follows:

	PNMR	PNM	TNMP
		(In thousands)	
Liability at December 31, 2006	$ 61,338	$ 60,493	$ 686
Liabilities incurred	204	205	-
Liabilities settled	(8)	-	(8)
Accretion expense	5,204	5,142	52
Asset transferred with TNMP New Mexico asset transfer to PNM	-	68	(68)
Asset transferred with Twin Oaks contribution to Optim Energy	(89)	-	-
Liability at December 31, 2007 (1)	66,649	65,908	662
Liabilities incurred	548	548	-
Liabilities settled	(49)	(42)	(7)
Accretion expense	4,928	4,866	56
Revisions to estimated cash flows (2)	(8,401)	(8,401)	-
Liability at December 31, 2008 (1)	63,675	62,879	711
Liabilities incurred	3,464	3,464	-
Liabilities settled	(8)	(8)	-
Accretion expense	5,751	5,683	60
Revisions to estimated cash flows (2)	(1,919)	(1,919)	-
Liability at December 31, 2009	$ 70,963	$ 70,099	$ 771

(1) ARO for PNMR and PNM includes $0.2 million and $0.2 million at December 31, 2008 and 2007 for PNM Gas, which is reflected as discontinued operations.
(2) Based on studies to estimate amount and timing of future ARO expenditures.

(16) 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 is currently participating in the investigation and remediation of numerous sites. In addition, the Company periodically enters into financial commitments in connection with its business operations. The Company is also involved in various legal 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 proceedings on its results of operations or financial position. It is the Company's policy to accrue for expected liabilities in accordance with GAAP when it is probable that a liability has been incurred and the amount to be incurred is reasonably estimable. 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. Outside legal costs for these and regulatory matters are recorded when the expenses are incurred. The Company does not expect that any known lawsuits, environmental costs, and commitments will have a material adverse effect on its financial condition, results of operations, or cash flows, although the outcome of litigation, investigations, and other legal proceedings is inherently uncertain.

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, is not reasonably estimable. 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 subject to the known uncertainty of litigation. The Company has established appropriate reserves 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.

Commitments and Contingencies Related to the Environment

PVNGS Decommissioning Funding

PNM has a program for funding its share of decommissioning costs for PVNGS. The nuclear decommissioning funding program is invested in equities and fixed income instruments in qualified and non-qualified trusts.

PNM provided an additional $3.0 million, $3.5 million, and $7.9 million funding for the years ended December 31, 2009, 2008, and 2007 into the qualified and non-qualified trust funds. The estimated market value of the trusts at December 31, 2009 and 2008 was $137.0 million and $111.7 million.

Nuclear Spent Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE, and the DOE is required 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 has announced that the repository cannot be completed before at least 2017. In November 1997, the U.S. Court of Appeals for the District of Columbia Circuit issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE’s delay, a number of utilities, including APS (on behalf of itself and the other PVNGS owners including PNM), filed damages actions against the DOE in the Court of Federal Claims and are currently pursuing those damages claims. In August 2008, the United States Court of Appeals for the Federal Circuit issued decisions in three damages actions brought by other nuclear utilities that could result in a decrease in the amount of PNM’s recoverable damages; however, additional appeals in those actions are possible and APS continues to monitor the status of those actions. The trial in the APS matter began on January 28, 2009 and closing arguments were heard in late May. The court has not indicated when it will reach its decision in the matter. In January 2010, on appeal of another utility’s damages case in which the DOE successfully raised the unavoidable delays defense, the U.S. Court of Appeals for the Federal Circuit reversed the lower court’s decision and concluded that the U.S. Court of Federal Claims, which is the court handling the APS matter, is bound by the November 1997 District of Columbia Circuit Court decision that prevents the DOE from excusing its delay in performance. PNM currently estimates that it will incur approximately $46.1 million (in 2007 dollars) over the current life of PVNGS for its share of the fuel costs related to the on-site interim storage of spent nuclear fuel during the operating life of the plant. PNM accrues these costs as a component of fuel expense, meaning that the charges are accrued as the fuel is burned. At December 31, 2009 and 2008, PNM had $15.0 million and $14.5 million recorded as a liability on its Consolidated Balance Sheets for interim storage costs.

The Clean Air Act

Regional Haze

The EPA has established rules addressing regional haze and guidelines for BART determinations. The rule calls for all states to establish goals and emission reduction strategies for improving visibility in national parks and wilderness areas. In particular, the alternatives rule defines how an SO_2 emissions trading program developed by the Western Regional Air Partnership, a voluntary organization of western states, tribes and federal agencies, can be used by western states. New Mexico will be participating in the SO_2 program, which is a trading program that will be implemented if SO_2 reduction milestones, which are still being developed, are not met.

In November 2006, the NMED requested a BART analysis for NO_X and particulates for each of the four units at SJGS. PNM submitted the analysis to the NMED in early June 2007, recommending against installing additional pollution control equipment on any of the SJGS units beyond those planned at that time, the installation of which was recently completed. PNM has provided additional data in response to requests from the NMED. The NMED is presently reviewing the analysis and supplemental data. Potentially, additional NO_X emission reductions could be required. The nature and cost of compliance with these potential requirements cannot be determined at this time.

The EPA previously requested APS to perform a BART analysis for Four Corners. APS submitted an analysis to the EPA concluding that certain combustion control equipment constitutes BART for Four Corners. Based on the analyses and comments received through EPA’s rulemaking process, the EPA will determine what it believes constitutes BART for Four Corners. The EPA recently issued an Advanced Notice of Proposed Rulemaking (“ANPR”) seeking public comments on its BART determination. The public comment period initially expired in October 2009, but the EPA has extended the comment period until March 20, 2010. APS anticipates the EPA will issue proposed and final BART determinations for Four Corners in 2010. The participant owners of Four Corners will have five years after the EPA issues its final determination to achieve compliance with their respective BART requirements. In addition, on February 16, 2010, a group of environmental organizations filed a petition with the U.S. Departments of Interior and Agriculture requesting those agencies to certify to the EPA that visibility impairment in sixteen national park and wilderness areas is reasonably attributable to emissions from Four Corners. If the agencies certify impairment, the EPA is required to evaluate and, if necessary, determine BART for Four Corners. APS’ recommended plan for Four Corners includes the installation of combustion control equipment with an estimated cost to PNM, based on preliminary engineering estimates, of approximately $6.8 million. If the EPA determines that post-combustion controls are required, PNM’s total costs could be up to approximately $69.0 million for Four Corners. The obligation to comply with the EPA’s final BART determinations, coupled with the financial impact of future climate change legislation, other environmental regulations, and other business considerations, could jeopardize the economic viability of the Four Corners plant or the ability of individual participants to continue their participation in it. In order to coordinate with Four Corners’ other scheduled activities, APS is currently implementing portions of its recommended plan on a voluntary basis. Costs related to the implementation of these portions of the recommended plan are included in PNM’s 2009, 2010 and 2011 construction expenditure estimates.

While the Company continues to monitor these matters, at the present time, the Company cannot predict whether the agencies will agree with either PNM’s or APS’ BART recommendations. If the agencies disagree with those recommendations for SJGS or Four Corners, the Company cannot predict the nature of the BART controls the agencies may ultimately mandate or the resulting financial or operational impact.

Citizen Suit Under the Clean Air Act

The operations of the SJGS are covered by a consent decree with the Grand Canyon Trust and Sierra Club and with the NMED that includes a provision whereby stipulated penalties are assessed for non-compliance with specified emissions limits. Stipulated penalty amounts are placed in escrow on a quarterly basis pending review of SJGS’s emissions performance for each quarter. As of December 31, 2008, PNM’s share of the total amount of stipulated penalties was $3.4 million, which had been deposited into the escrow account and was paid in 2009. Subsequent penalties have been insignificant.

Ozone Non-Attainment

In March 2009, the NMED published its draft recommendation of area designations for the 2008 revised ozone national ambient air quality standard. The draft recommended that San Juan County, New Mexico be designated as non-attainment for ozone. SJGS is situated in San Juan County. However, the NMED subsequently determined that the monitor indicating high ozone levels was not reliable and did not recommend to the EPA that San Juan County be designated as non-attainment. On January 6, 2010, EPA announced it would strengthen the 8-hour ozone standard by setting the standard in a range of 0.060-0.070 parts per million ("ppm"). The EPA will make its final determination of the exact number by August 31, 2010. If EPA sets the standard at 0.070 ppm, it is projected that San Juan County and Dona Ana County will be designated as non-attainment for ozone. If the standard is set lower than 0.070 ppm, other counties in the state, including Bernalillo County, may be designated as non-attainment. A non-attainment designation for San Juan County could result in the requirement to reduce NO_x emissions from San Juan Generating Station by 2014. The Company cannot predict the outcome of this matter or if additional NO_X controls would be required as a result of ozone non-attainment designation.

Navajo Nation Environmental Issues

Four Corners is located on the Navajo Reservation and is held under an easement granted by the federal government as well as a lease from the Navajo Nation. The Navajo Acts, enacted in 1995 by the Navajo Nation, purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners. In October 1995, the Four Corners participants filed a lawsuit in the District Court of the Navajo Nation, Window Rock District, challenging the applicability of the Navajo Acts as to Four Corners. The District Court stayed these proceedings pursuant to a request by the parties and the parties are seeking to negotiate a settlement.

In 2000, the Navajo Tribal Council approved operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. The Four Corners participants believe that the regulations fail to recognize that the Navajo Nation did not intend to assert jurisdiction over Four Corners. Each of the Four Corners participants filed a petition with the Navajo Nation Supreme Court for review of the operating permit regulations. Those proceedings have been stayed, pending the outcome of the settlement negotiations mentioned above.

In May 2005, APS and the Navajo Nation signed a Voluntary Compliance Agreement ("VCA") resolving the dispute regarding the Navajo Nation Air Pollution Prevention and Control Act portion of the lawsuit. On March 21, 2006, the EPA determined that the Navajo Nation was eligible for "treatment as a state" for the purpose of entering into a supplemental delegation agreement with the EPA to administer the Clean Air Act Title V, Part 71 federal permit program over Four Corners. The EPA entered into the supplemental delegation agreement with the Navajo Nation on the same day. Because the EPA's approval was consistent with the requirements of the VCA, APS sought dismissal of the pending litigation in the Navajo Nation Supreme Court, as well as the pending litigation in the Navajo Nation District Court to the extent the claims relate to the Clean Air Act, and the Courts have dismissed the claims accordingly. The agreement does not address or resolve any dispute relating to other aspects of the Navajo Acts.

The Company cannot currently predict the outcome of these matters.

Four Corners Federal Implementation Plan Litigation

On April 30, 2007, the EPA adopted a source specific FIP to set air quality standards at Four Corners. The FIP essentially federalizes the requirements contained in the New Mexico State Implementation Plan, which Four Corners has historically followed. The FIP also includes a requirement to maintain and enhance dust suppression methods. APS filed a petition for review in the U.S. District Court of Appeals for the Tenth Circuit seeking revisions to the FIP to clarify certain requirements and allow operational flexibility. The Sierra Club intervened in this action and with other parties filed a petition for review with the same court challenging the FIP's compliance with the Clean Air Act. APS intervened in that action. In APS' lawsuit, APS challenged two key provisions of the

FIP: a 20% opacity limit on certain fugitive dust emissions and a 20% stack opacity limit on Units 4 and 5. During 2008, the EPA voluntarily moved to vacate the fugitive dust provisions of the FIP, and on April 14, 2009, the court granted EPA's motion. The court also rejected the Sierra Club's challenges to the FIP and ruled in favor of the 20% stack opacity limit. APS filed a petition for rehearing related to the stack opacity limit finding because APS did not believe that EPA properly established that limit. The court denied APS's petition on July 24, 2009, and APS does not intend to appeal the matter further. The Company does not believe that compliance with this limit will have a material adverse impact on the Company's financial position, results of operations or cash flows.

Section 114 Request

On April 6, 2009, APS received a request from the EPA under Section 114 of the Clean Air Act seeking detailed information regarding projects at and operations of Four Corners. This request is part of an enforcement initiative that the EPA has undertaken under the Clean Air Act. The EPA has taken the position that many utilities have made certain physical or operational changes at their plants that should have triggered additional regulatory requirements under the NSR provisions of the Clean Air Act. Other electric utilities have received and responded to similar Section 114 requests, and several of them have been the subject of notices of violation and lawsuits by the EPA. APS has responded to the EPA's request. The Company is currently unable to predict the timing or content of EPA's response or any resulting actions.

Santa Fe Generating Station

PNM and the NMED conducted investigations of gasoline and chlorinated solvent groundwater contamination detected beneath the site of the former Santa Fe Generating Station to determine the source of the contamination pursuant to a 1992 settlement agreement between PNM and the NMED.

PNM believes that the data compiled indicates observed groundwater contamination originated from off-site sources. However, to avoid a prolonged legal dispute, PNM entered into settlement agreements with the NMED under which PNM agreed to install a remediation system to treat water from a City of Santa Fe municipal supply well and install an additional extraction well and two new monitoring wells to address gasoline contamination in the groundwater at and in the vicinity of the site. PNM will continue to operate the remediation facilities until the groundwater meets applicable federal and state standards or until such time as the NMED determines that additional remediation is not required, whichever is earlier. The well continues to operate and meets federal drinking water standards. PNM is not able to assess the duration of this project.

The Superfund Oversight Section of the NMED has conducted multiple investigations into the chlorinated solvent plume in the vicinity of the site of the former Santa Fe Generating Station In February 2008, a NMED site inspection report was submitted to the EPA, which states that neither the source nor extent of contamination has been determined and also states that the source may not be the former Santa Fe Generating Station. The NMED investigation is ongoing. The Company is unable to predict the outcome of this matter.

Coal Combustion Waste Disposal

Regulation

SJGS does not operate any CCB impoundments. SJCC currently disposes of CCBs consisting of fly ash, bottom ash, and gypsum from SJGS in the surface mine pits adjacent to the plant. APS currently disposes of CCBs in ash ponds and dry storage areas at Four Corners, and also sells a portion of its fly ash for beneficial uses, such as a constituent in concrete production. The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department currently regulates mine placement of ash at the mine with federal oversight by the U.S. Department of Interior's Office of Surface Mining ("OSM"). The OSM has developed draft proposed regulations for the mine placement of CCBs. OSM's rulemaking effort is currently tabled by the Obama Administration.

The EPA is considering a proposal to regulate CCBs, but the timing of the release of EPA's proposal is unclear. It is possible that the EPA could classify CCBs as a hazardous waste. PNM continues to advocate for the non-hazardous regulation of CCBs, believing the proper place for oversight of mine placement of CCBs is through the OSM and state mining and mining reclamation agencies. PNM cannot predict the outcome of the EPA's actions regarding CCB regulation and whether such actions will have a material adverse impact on its operations or financial position. However, if the regulation ultimately prevents the CCBs from SJGS to be disposed of in the adjacent mine, the increased costs of disposal could be significant, which would negatively impact PNM. The Company's results of operations would be negatively impacted unless the costs are recovered in PNM's customer rates.

Sierra Club Allegations

In December 2009, PNM received a Notice of Intent to Sue ("RCRA Notice") under the Resource Conservation and Recovery Act ("RCRA") from the Sierra Club. The RCRA Notice was also sent to all SJGS owners and to SJCC, which operates the San Juan Mine. The Sierra Club alleges that activities at SJGS and the San Juan Mine are causing imminent and substantial harm to the environment, including ground and surface water in the region, and that placement of CCBs at the San Juan Mine constitute "open dumping" in violation of RCRA. Additionally, PNM has been informed that SJCC has received a separate Notice of Intent to Sue ("SMCRA Notice") under the Surface Mine Control and Reclamation Act ("SMCRA") from the Sierra Club. The SMCRA Notice alleges similar damage to the environment due to activities at the San Juan Mine, including the placement of CCBs from SJGS in the surface pits at the mine. Both Notices state Sierra Club's intent to file citizens' suits to pursue these claims upon expiration of the statutory notice period. If suits are filed, potential remedies include the imposition of civil penalties and injunctive relief. PNM plans an aggressive defense of the RCRA claims and cannot predict the outcome of these matters at this time.

Gila River Indian Reservation Superfund Site

In April 2008, the EPA informed PNM that it may be a PRP in the Gila River Indian Reservation Superfund Site in Maricopa County, Arizona. PNM, along with SRP, APS and EPE, owns a parcel of property on which a transmission pole and a portion of a transmission line are located. The property abuts the Gila River Indian Community boundary and, at one time, may have been part of an airfield where crop dusting took place. Currently, the EPA is only seeking payment from PNM and other PRPs for past cleanup-related costs involving contamination from the crop dusting. Based upon the total amount of cleanup costs reported by the EPA in its letter to PNM, the resolution of this matter is not expected to have a material adverse impact on PNM's financial position, results of operations, or cash flows.

Other Commitments and Contingencies

Coal Supply

Twin Oaks

Altura is the owner of Twin Oaks, a coal-fired power plant, which is being supplied by a long-term coal supply agreement. Altura is not responsible under this agreement for the decommissioning or reclamation costs of this mine. PNMR originally guaranteed Altura's performance under this agreement. On June 1, 2007, when PNMR contributed its ownership interest of Altura to Optim Energy, the guarantee obligation of PNMR was released.

PNM

The coal requirements for SJGS are being supplied by SJCC, a wholly owned subsidiary of BHP Billiton. SJCC holds certain federal, state and private coal leases under an underground coal sales agreement pursuant to which it will supply processed coal for operation of the SJGS through 2017. The coal agreement is a cost plus contract. SJCC is reimbursed for all costs for mining and delivering the coal plus an allocated portion of administrative costs. In addition, SJCC receives a return on its investment. BHP Minerals International, Inc. has guaranteed the obligations of SJCC under the coal agreement. The coal agreement contemplates the delivery of approximately 61 million tons of coal during its remaining term, which would supply substantially all the requirements of the SJGS through approximately 2017. The coal agreement replaced two surface mining operations with a single underground mine located adjacent to the plant.

APS purchases all of Four Corners' coal requirements from a supplier with a long-term lease of coal reserves with the Navajo Nation. The Four Corners coal contract runs through 2016, with options on APS' part to extend the contract for five to fifteen additional years. The Four Corners plant site is leased from the Navajo Nation and is also subject to an easement from the federal government.

In 2003, PNM completed a comprehensive review of the final reclamation costs for both the surface mines that previously provided coal to SJGS and the current underground mine providing coal. Based on this study, PNM revised its estimates of the final reclamation costs. In addition, the mining contract for Four Corners has been renewed until 2016 and the estimate for decommissioning the Four Corners mine was also revised. In 2009, these studies were updated. Based on the most recent estimates, the total final cost of surface and underground mine reclamation are estimated to be $141.1 million and $23.3 million in future dollars excluding contract buyout costs paid to SJCC. During the year ended December 31, 2009, 2008 and 2007, PNM made payments of $7.6 million, $12.7 million, and $11.4 million against the surface mine liability. As of December 31, 2009, and 2008, obligations of $26.6 million and $33.8 million for surface mine reclamation and $2.3 million and $1.6 million for underground mining activities were recognized on PNM's Consolidated Balance Sheets using the fair value method to determine the liability.

In 2003, the NMPRC granted PNM permission to collect as a part of its rates up to $100.0 million of surface mine final reclamation costs. In the 2007 Electric Rate Case, PNM requested recovery of increased surface mine decommissioning costs, as well as underground mine reclamation costs. Recovery of the final underground mine reclamation costs was allowed; however, the NMPRC denied recovery of amounts for surface mine decommissioning in excess of $100.0 million. PNM appealed this decision to the New Mexico Supreme Court, which on September 1, 2009 issued its ruling that the NMPRC had properly denied recovery of these costs. PNM filed a motion with the court seeking rehearing of this issue, which was denied in November 2009 concluding this matter.

PVNGS Liability and Insurance Matters

The PVNGS participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $375 million and the balance by an industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, PNM could be assessed retrospective premium adjustments. The maximum assessment per reactor under the program for each nuclear incident is $117.5 million, subject to an annual limit of $17.5 million per incident, to be periodically adjusted for inflation. Based on PNM's 10.2% interest in the three PVNGS units, PNM's maximum potential assessment per incident for all three units is $36.0 million, with an annual payment limitation of $5.4 million.

The PVNGS participants maintain "all risk" (including nuclear hazards) insurance for property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. The participants have also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). PNM is subject to retrospective assessments under all NEIL policies if NEIL's losses in any policy year exceed accumulated funds. The maximum amount of retrospective assessments PNM could incur under the current NEIL policies totals $6.7 million. The insurance coverage discussed in this and the previous paragraph is subject to policy conditions and exclusions.

Natural Gas Supply

PNM Gas contracted for the purchase of gas primarily to serve its retail customers. The majority of these contracts were short-term in nature, supplying the gas needs for the current heating season and the following off-season months. The price of gas was a pass-through, whereby PNM recovered 100% of its cost of gas. There was also occasion for PNM Gas to purchase gas to source off-system sales. As discussed in Note 2, PNM completed the sale of PNM Gas on January 30, 2009 at which time all commitments for PNM Gas future gas purchases were assumed by the buyer.

PNM Electric procures gas supplies for its power plants from third-party sources and contracts with third party transportation providers, including NMGC, and PNM Gas (through January 29, 2009).

Water Supply

Because of New Mexico's arid climate and periodic drought conditions, there is a growing concern in New Mexico about the use of water for power plants. PNM has secured water rights in connection with the existing plants at Afton, Luna and Lordsburg. Water availability does not appear to be an issue for these plants at this time.

The "four corners" region of New Mexico, in which SJGS and Four Corners are located, experienced drought conditions during 2002 through 2004 that could have affected the water supply for PNM's generation plants. In future years, if adequate precipitation is not received in the watershed that supplies the four corners region, the plants could be impacted. Consequently, PNM, APS and BHP Billiton have undertaken activities to secure additional water supplies for SJGS, Four Corners and related mines. PNM has reached an agreement for a voluntary shortage sharing agreement with tribes and other water users in the San Juan Basin for a term ending December 31, 2012. Further, PNM and BHP Billiton have reached agreement on a long-term supplemental contract relating to water for SJGS with the Jicarilla Apache Nation that ends in 2016. APS and BHP Billiton have entered into a similar contract for Four Corners. Although the Company does not believe that its operations will be materially affected by the drought conditions at this time, it cannot forecast the weather situation or its ramifications, or how regulations and legislation may impact the Company's situation in the future, should the shortages occur in the future.

PVNGS Water Supply Litigation

A summons was served on APS in 1986 that required all water claimants in the Lower Gila River Watershed of Arizona to assert any claims to water on or before January 20, 1987, in an action pending in the Maricopa County Superior Court. PVNGS is located within the geographic area subject to the summons. APS' rights and the rights of the other PVNGS participants to the use of groundwater and effluent at PVNGS are potentially at issue in this action. APS filed claims that dispute the court's jurisdiction over PVNGS' groundwater rights and their contractual rights to effluent relating to PVNGS and, alternatively, seek confirmation of those rights. In 1999, the Arizona Supreme Court issued a decision finding that certain groundwater rights may be available to the federal government and Indian tribes. In addition, the Arizona Supreme Court issued a decision in 2000 affirming the lower court's criteria for resolving groundwater claims. Litigation on both these issues has continued in the trial court. No trial dates have been set in these matters. PNM does not expect that this litigation will have a material adverse impact on its results of operation, financial position, or cash flows.

NRC Matters

Because of several NRC findings relating to situations at PVNGS Unit 3 in 2004 and 2006, PVNGS was subject to a heightened level of oversight by the NRC. On March 24, 2009, the NRC informed APS that it was removing PVNGS Unit 3 from the "multiple/repetitive degraded cornerstone" column of the NRC's Action Matrix (“Column 4”), removing PVNGS Units 1 and 2 from the “one degraded cornerstone” column (“Column 3”), and returning all three units of the plant to routine inspection and oversight by the NRC. This notification follows the NRC's completion of its inspections of the corrective actions taken by PVNGS to address performance deficiencies that caused the NRC to place Unit 3 into Column 4 and Units 1 and 2 into Column 3. The NRC has closed the confirmatory action letter that outlined the performance deficiencies and associated corrective actions.

San Juan River Adjudication

In 1975, the State of New Mexico filed an action entitled “State of New Mexico v. United States, et al.”, in the District Court of San Juan County, New Mexico, to adjudicate all water rights in the San Juan River Stream System. The Company was made a defendant in the litigation in 1976. The action is expected to adjudicate water rights used at Four Corners and at SJGS. In 2005, the Navajo Nation and various parties announced a settlement of the Nation’s reserved surface water rights. On March 30, 2009, President Obama signed legislation confirming the settlement with the Navajo Nation. The Company cannot determine the effect, if any, of any water rights adjudication on the present arrangements for water at SJGS and Four Corners. Final resolution of the case cannot be expected for several years. The Company is unable to predict the ultimate outcome of this matter. An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for an agreed upon cost, sufficient water from its allocation to offset the loss.

Conflicts at San Juan Mine Involving Oil and Gas Leaseholders

SJCC, through leases with the federal government and the State of New Mexico, owns coal interests with respect to the San Juan underground mine. Certain gas producers have leases in the area of the underground coal mine and have asserted claims against SJCC that its coal mining activities are interfering with gas production. SJCC has reached settlement with several gas leaseholders and has other claimants and potential claimants. PNM cannot predict the outcome of existing or future disputes between SJCC and gas leaseholders.

Rights-of-Way Matters

Many of PNM’s electric transmission and distribution facilities are located on lands that require the grant of rights-of-way from governmental entities, Native American tribes, or private parties. Several of the agreements granting the rights-of-way have expired or will expire within the next few years. PNM is actively reviewing these matters and negotiating with certain parties, as appropriate, for the renewal of these rights-of-way. However, there can be no assurance that all of these rights-of-way will be renewed. If PNM is not successful in renewing the rights-of-way on Native American lands, it could be forced to remove its facilities from or abandon its facilities on the property covered by the rights-of-way and seek alternative routes for its transmission or distribution facilities. If rights-of-way on Native American lands are renewed, it is likely they will be renewed at prices that are higher than historical levels, based on current renewal experience. With respect to non-tribal government land and private land, PNM may have condemnation rights. Rights-of-way costs have historically been recovered in rates charged to customers. PNM will seek to recover such costs in future rates.

Republic Savings Bank Litigation

In 1992, Meadows Resources, Inc. (“MRI”), an inactive subsidiary of PNMR, and its subsidiaries (“Plaintiffs”) filed suit against the Federal government in the United States Court of Claims, alleging breach of contract arising from the seizure of Republic Savings Bank (“RSB”). RSB was seized and liquidated after Federal legislation prohibited certain accounting practices previously authorized by contracts with the Federal government.

The Federal government filed a counterclaim alleging breach of obligation to maintain RSB's net worth and moved to dismiss Plaintiffs' claims for lack of standing.

Plaintiffs filed a motion for summary judgment in December 1999 on the issue of liability and on the issue of damages. The Federal government filed a cross motion for summary judgment and opposed Plaintiffs' motion.

On January 25, 2008, the court entered its opinion granting the Federal government's motion to dismiss MRI, denying the Federal government's motion for summary judgment and granting the remaining Plaintiffs' motion for summary judgment on the issues of liability and damages, awarding the Plaintiffs damages in the amount of $14.9 million. MRI had previously received payment from the FDIC in the amount of $0.3 million. This payment reduces the amount of damages owed to $14.6 million.

The federal government appealed this matter to the U.S. Court of Appeals for the Federal Circuit and Plaintiffs cross-appealed. On October 21, 2009, the Federal Circuit issued its opinion, affirming in part and reversing in part the decision of the Court of Claims, resulting in an award to the Plaintiffs of $9.7 million. The period for requesting rehearing and for filing a petition for certiorari in the United States Supreme Court expired in January 2010, and the Circuit Court has issued its mandate, returning the case to the Court of Claims. The government and Plaintiffs intend to file a Joint Motion for Entry of Final Judgment, after which the Court of Claims will issue its final judgment for $9.7 million and the claim should be paid shortly thereafter. Because the procedural posture of this case eliminates the possibility of further review, the amount will be recorded, net of legal expenses, in the first quarter of 2010.

Western United States Wholesale Power Market

Various circumstances, including electric power supply shortages, weather conditions, gas supply costs, transmission constraints and alleged market manipulation by certain sellers, resulted in the well-publicized California and Western markets energy crisis of 2000-2001 and the bankruptcy filings of the Cal PX and PG&E. As a result of the conditions in the Western markets during this time period, between late-2000 and mid-2003, FERC, the California Attorney General and private parties (collectively, the "California Parties") initiated investigations, litigation, and other proceedings relevant to PNM and other sellers in the Western markets at FERC and in both California State and Federal District Courts, seeking a determination whether sellers of wholesale electric energy during the crisis period, including PNM, should be ordered to pay monetary refunds to buyers of such energy. These proceedings were pending at FERC as well as before the U.S. Court of Appeals for the Ninth Circuit. PNM participated in these proceedings at FERC, the Federal District Courts and the Ninth Circuit, including filing appeals to that court.

In December 2009, PNM and the California Parties reached an agreement in principle to settle all remaining claims against PNM in these proceedings and on February 11, 2010, PNM entered into a "Settlement and Release of Claims Agreement" (the "Settlement Agreement"), which was filed with FERC on February 12, 2010. The settlement contemplated by this agreement is subject to FERC approval. The terms of the Agreement provide, among other things, for PNM to pay to the California Parties the amount of $45.0 million, consisting of the assignment of PNM receivables plus interest as of December 31, 2009 from the Cal ISO and the Cal PX in the amount of $13.1 million plus a cash payment of $31.9 million and for the California Parties to release PNM from claims arising from the California energy crisis of 2000 and 2001. To account for the settlement, PNM recorded a pre-tax aggregate of $32.0 million ($19.3 million after income taxes) as reductions of operating revenue in 2009. PNM's liability for the settlement is included in other current liabilities at December 31, 2009. PNM expressly denies any wrongdoing or culpability with respect to the claims against it that are released by the Settlement Agreement and, in entering into the settlement, does not admit any fault or liability.

On January 15, 2010, PNM transferred the cash payment to an escrow account established by the California Parties, pending entry into the Settlement Agreement. Pursuant to the Settlement Agreement, upon approval by FERC satisfactory to the parties, the receivables and the cash payment will be distributed to the California Parties and other entities that purchased electricity through the Cal ISO and Cal PX during the relevant time period as settlement funds in accordance with the terms and conditions of the Settlement Agreement.

In certain circumstances the Settlement Agreement may be terminated, in which case, the receivables and accrued interest will not be transferred into the Escrow Account and the Cash Payment together returned to PNM. The Agreement may be terminated a) by its own terms if FERC by final order rejects the settlement; b) by any party adversely affected by a FERC order approving the settlement but imposing a material condition or modification that adversely affects such party; c) by the California Parties based on the failure of FERC to approve the settlement on or before April 30, 2010; or d) by PNM based on the failure of FERC to approve the settlement on or before September 30, 2010.

Complaint Against Southwestern Public Service Company

In September 2005, PNM filed a complaint under the Federal Power Act against SPS. PNM argued that SPS' rates for sale of interruptible energy were excessive and that SPS had been overcharging PNM for deliveries of energy through its fuel cost adjustment clause practices. PNM also intervened in a complaint proceeding brought by other customers raising similar arguments relating to SPS' fuel cost adjustment clause practices (the "Golden Spread complaint proceeding"). Additionally, in November 2005, SPS filed an electric rate case at FERC proposing to unbundle and raise rates charged to customers effective July 2006. PNM intervened in the case and objected to the proposed rate increase. In September 2006, PNM and SPS filed a settlement agreement providing for resolution of issues relating to rates for sales of interruptible energy, but not resolving the fuel clause issues. In September 2008, FERC issued its order approving the settlement between PNM and SPS.

In April 2008, FERC issued its order in the Golden Spread complaint proceeding. FERC affirmed in part and reversed in part an ALJ's initial decision, which had, among other things, ordered SPS to pay refunds to PNM with respect to the fuel clause issues. FERC affirmed the decision of the ALJ that SPS violated its fuel cost adjustment clause tariffs. However, FERC shortened the refund period applicable to the violation of the fuel cost adjustment clause issues. PNM and SPS have filed petitions for rehearing and clarification of the scope of the remedies that were ordered and reversal of various rulings in the order. FERC has not yet acted upon the requests for rehearing or clarification and they remain pending further decision. PNM cannot predict the final outcome of the case at FERC.

Begay v. PNM et al

A putative class action was filed against PNM and other utilities on February 11, 2009 in the United States District Court in Albuquerque. Plaintiffs claim to be allottees, members of the Navajo Nation, who pursuant to the Dawes Act of 1887, were allotted ownership in land carved out of the Navajo Nation. Plaintiffs, including an allottee association, make broad, general assertions that defendants, including PNM, are right-of-way grantees with rights-of-way across the allotted lands and are either in trespass or have paid insufficient fees for the grant of rights-of-way or both. The plaintiffs, who have sued the defendants for breach of fiduciary duty, seek a constructive trust. They have also included a breach of trust claim against the United States and its Secretary of the Interior. PNM and the other defendants have filed motions to dismiss this action. PNM is unable to determine the outcome of this case but intends to defend it vigorously.

(17) Regulatory and Rate Matters

PNMR

First Choice Price-to-Beat Base Rate Reset

Based on the terms of the Texas stipulation related to the acquisition of TNP, First Choice made a filing to reset its price-to-beat base rates in 2005. First Choice's price-to-beat base rate case was consolidated with TNMP's 60-day rate review (see "60-Day Rate Review" below). First Choice requested that the PUCT recognize in its new price-to-beat base rates the TNMP rate reduction and the synergy savings credit provided for in the TNP acquisition stipulation. In 2006, TNMP, First Choice, the PUCT staff and other parties filed a non-unanimous settlement agreement ("NUS"). The PUCT unanimously approved the NUS on November 2, 2006 and made First Choice's new price-to-beat base rates effective on December 1, 2006, as First Choice had requested. As price-to-beat rates expired on December 31, 2006, the approved rates are no longer applicable. In January 2007, TNMP's 60-Day Rate Review proceeding and the underlying NUS were appealed by various Texas cities to a Texas District Court. TNMP and First Choice had intervened in this appeal. On August 31, 2009, the Texas District Court dismissed this matter for lack of prosecution thereby affirming the PUCT decision as requested by First Choice and TNMP.

First Choice Request for ERCOT Alternative Dispute Resolution

In June 2008, First Choice filed a request for alternative dispute resolution with ERCOT alleging that ERCOT incorrectly applied its protocols with respect to congestion management during the first quarter of 2008. First Choice requested that ERCOT resolve the dispute by restating certain elements of its first quarter 2008 congestion management data and by refunding to First Choice allegedly overstated congestion management charges. The amount at issue in First Choice's claim can only be determined by running ERCOT market models with corrected inputs but First Choice believes that the amount is significant. ERCOT protocols provide that ERCOT will notify potentially impacted market participants and subsequently consider the merits of First Choice's allegations. The Company is unable to predict the outcome of this matter.

PNM

Gas Rate Case

In May 2006, PNM filed a general gas rate case that asked the NMPRC to approve an increase in the service fees charged to its 481,000 natural gas customers, including the set monthly fee, the charge tied to monthly usage, and miscellaneous on-demand service fees. Those fees are separate from the cost of gas charged to customers, which would not be affected by the fee increase. The petition requested an increase in base gas service rates of $22.6 million and an increase in miscellaneous on-demand service rates of $0.2 million. In June 2007 the NMPRC unanimously approved an increase in annual revenues of approximately $9 million for PNM. PNM and the AG filed appeals on various issues with the New Mexico Supreme Court. In connection with the acquisition of PNM's gas assets by NMGC , PNM and the AG moved to dismiss their respective gas rate case appeals, which motions were granted on February 6, 2009.

2007 Electric Rate Case

On February 21, 2007, PNM filed a general electric rate case ("2007 Electric Rate Case") requesting the NMPRC approve an increase in service fees to all of PNM's retail customers except those formerly served by TNMP. The request was designed to provide PNM's electric utility an opportunity to earn a 10.75 percent return on equity. The application also requested authorization to implement a FPPAC through which changes in the cost of fuel and purchased power, above or below the costs included in base rates, will be passed through to customers on a monthly basis. On April 24, 2008, the NMPRC issued a final order that resulted in a revenue increase of $34.4 million. The rate increase provides for a 10.1 percent return on equity. New rates reflecting the $34.4 million increase were effective for bills rendered on and after May 1, 2008. In its final order, the NMPRC disallowed recovery of costs associated with the RECs used to meet the New Mexico Renewable Energy Portfolio Standards that were being deferred as regulatory assets. The NMPRC also ruled that recovery of surface coal mine decommissioning costs be capped at $100 million. The order resulted in PNM being unable to assert it is probable, as defined under GAAP, that the costs previously deferred on PNM's balance sheet will be recoverable through future rates charged to its customers. Accordingly, as of March 31, 2008, PNM recorded regulatory disallowances for pre-tax write offs of $19.6 million for coal mining decommissioning costs and $10.6 million for deferred REC costs. PNM appealed the NMPRC's treatment of coal mine decommissioning and the RECs to the New Mexico Supreme Court. Under the terms of the stipulation in the 2008 Electric Rate Case described below, PNM dismissed its appeal of the treatment of the REC costs. The New Mexico Supreme Court affirmed the NMPRC order on coal mine decommissioning in September 2009. PNM filed a motion for rehearing, which was denied in November 2009 concluding this matter.

Emergency FPPAC

On March 20, 2008, PNM and the IBEW filed a joint motion in the 2007 Electric Rate Case requesting NMPRC authorization to implement an Emergency FPPAC on an interim basis. On May 22, 2008, the NMPRC issued a final order that approved the Emergency FPPAC with certain modifications. PNM implemented the Emergency FPPAC from June 2, 2008 through the effective date of the 2008 Electric Rate Case order described below.

The Albuquerque Bernalillo County Water Utility Authority and the New Mexico Industrial Energy Consumers Inc. filed notices of appeal to the New Mexico Supreme Court, which seek to have vacated the NMPRC order approving the Emergency FPPAC. The appeals have been consolidated and PNM has been granted party status. Oral argument was held October 13, 2009. PNM is unable to predict the outcome of these appeals.

The NMPRC order approving the Emergency FPPAC required PNM to pay for an audit of PNM’s monthly FPPAC reports and a prudence review of PNM’s fuel and purchased power costs, to be conducted by auditors selected by the NMPRC. Costs of the audit incurred by PNM will be recoverable through future rate proceedings. The NMPRC has selected an auditor and the audit has begun. On February 19, 2010, the audit report of findings and recommendations was submitted to the NMPRC. The report recommended improvements in several areas but did not identify any imprudent activities or find that PNM’s fuel or purchased costs were unreasonable. These findings and recommendations are subject to NMPRC review and approval. PNM is unable to predict the outcome of this matter.

The Emergency FPPAC provided that if PNM’s base load generating units subject to NMPRC jurisdiction did not operate at or above a specified capacity factor and PNM was required to obtain replacement power to serve jurisdictional customers, PNM would be required to make a filing with the NMPRC seeking approval of the replacement power costs. In its required filing, PNM stated that the costs of the replacement power amounting to $8.0 million were prudently incurred and made a motion that they be approved. The NMPRC staff filed opposition to PNM’s motion and recommended that PNM be required to refund the amount collected. On January 12, 2010, the NMPRC directed the Emergency FPPAC auditor to investigate whether the replacement power costs were prudently incurred. The order also directed PNM to file a response to the auditors’ report, to provide certain additional information, and to show cause why it should not be fined for recovering replacement power costs without prior NMPRC approval. PNM filed its response to the show cause order on February 12, 2010. On February 19, 2010, the auditor’s report on replacement power costs was submitted to the NMPRC. The report concludes that the methodology used to estimate the cost of replacement power was reasonable, that PNM purchased power at the lowest reasonable cost, and that outage planning and scheduling and plant operations were reasonable. These findings are subject to NMPRC review and approval. PNM intends to file a response to the report and will continue to assert that its recovery of replacement power costs was proper and did not violate the NMPRC’s order. PNM is unable to predict the outcome of this matter.

2008 Electric Rate Case

On September 22, 2008, PNM filed a general rate case (“2008 Electric Rate Case”) requesting the NMPRC to approve an increase in electric service rates to all PNM retail customers except those formerly served by TNMP. The proposed rates were designed to increase annual operating revenue by $123.3 million, based on a March 31, 2008 test period and calculating base fuel costs using a projection of costs for the 12 months ending March 31, 2009. PNM also proposed a FPPAC in the general form authorized by the NMPRC, but with PNM retaining 25% of off-system sales margins and crediting 75% against fuel and purchased power costs.

On March 6, 2009, PNM, the NMPRC staff and most of the intervening parties filed a stipulation to resolve all issues in the case, including the approval of the Resource Stipulation described below. No party opposed the stipulation. The stipulation provided for an increase in annual non-fuel revenues of $77.3 million, of which 65% ($50.2 million) would be implemented for bills beginning on July 1, 2009 and the remaining 35% ($27.1 million) to be implemented in rates as of April 1, 2010. The stipulation was amended to reduce the rate increase to $77.1 million and was approved by the NMPRC on June 18, 2009. The new rates went into effect for bills rendered beginning July 1, 2009. As an offset to the non-fuel revenue increase, PNM implemented a credit to customers totaling $26.3 million, representing the amount of revenues from past sales of SO_2 allowances. This amount will be credited to ratepayers over 21 months beginning July 1, 2009. The crediting mechanism will also be used to credit customers with revenues received by PNM from future sales of SO_2 allowances. PNM recorded a regulatory disallowance expense and a regulatory liability for the $26.3 million to be credited to ratepayers. The stipulation also provides that a traditional FPPAC go into effect with the new rates. The stipulation provides that 100% of off-systems sales margins be credited against fuel and purchased power costs in the FPPAC. PNM implemented the new FPPAC on July 1, 2009. The new FPPAC does not include a recovery cap or the capacity factor target of the Emergency FPPAC. The FPPAC factor will be set annually beginning July 1, 2010.

Resource Stipulation

In anticipation of the 2008 Electric Rate Case, on September 10, 2008, a stipulation (the "Resource Stipulation") executed by PNM, the NMPRC staff, the AG and the Coalition for Clean Affordable Energy, and later joined by the New Mexico Industrial Energy Consumers Inc., was filed with the NMPRC. The NMPRC approved the Stipulation on May 26, 2009. The Resource Stipulation allowed recovery in rates of costs related to and resolves all issues in the proceedings regarding 1) the Valencia PPA, 2) PNM's acquisition of an ownership interest in Unit 2 of PVNGS that was being leased, including carrying costs, and 3) the application to own and operate Lordsburg and PNM's interest in Luna as jurisdictional assets.

In June 2007, a wholly-owned subsidiary of PNMR purchased 100% of a trust, which owns a 2.26% undivided interest, representing 29.8 MW, in PVNGS Unit 2 and a 0.76% undivided interest in certain PVNGS common facilities, as well as a lease under which such facilities were leased to PNM. The Resource Stipulation allowed the Unit 2 interest to be transferred to PNM and the acquisition costs to be recovered beginning with the 2008 Electric Rate Case. On July 24, 2009, PNM purchased the trust from the other PNMR subsidiary for $39.1 million in cash. The purchase price was equal to the book value of the underlying assets less deferred taxes and miscellaneous accruals. The other PNMR subsidiary paid a dividend of that same amount to PNMR. PNMR then made an equity contribution of that amount to PNM. The trust has $32.0 million of debt owing to the PVNGS Capital Trust, which is consolidated by PNM. The transfer had no impact on the financial statements of PNMR. The impacts on the financial statements of PNM were to increase net plant in service by $73.7 million, increase common stock by $39.1 million, reduce investment in the PVNGS lessor notes by $32.0 million, reflecting the elimination of the debt owed by the trust to the PVNGS Capital Trust, and increase deferred income taxes and other accruals by $2.6 million.

Renewable Portfolio Standard

The Renewable Energy Act of 2004 was enacted to encourage the development of renewable energy in New Mexico. The act, as amended, establishes a mandatory renewable energy portfolio standard requiring a utility to acquire a renewable energy portfolio equal to 5% of retail electric sales by January 1, 2006, increasing to 10% by 2011, 15% by 2015 and 20% by 2020. The NMPRC requires renewable energy portfolios to be "fully diversified" beginning in 2011 when no less than 20% of the renewable portfolio requirement must be met by wind energy, no less than 20% by solar energy, no less than 10% by other renewable technologies, and no less than 1.5% by distributed generation. The act provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures utilities recovery of costs incurred consistent with approved procurement plans and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. The NMPRC has established a RCT that began at 1% of all customers' aggregated overall annual electric charges, increasing by 0.2% annually until 2011, at which time it will be 2%, and then increasing by 0.25% annually until reaching 3% in 2015.

On July 1, 2009, PNM filed its annual Renewable Energy Portfolio Procurement Plan for 2010 with the NMPRC. Under the plan, PNM proposed to rely on a mixture of solar, wind, and biogas resources and the purchase of RECs to meet its renewable energy requirements for 2010 and 2011. The plan described that PNM could meet its renewable energy requirements in 2010 with existing resources, but required additional resources for 2011 compliance. The plan also stated that PNM would not be able to fully meet the NMPRC's resource diversity requirements without exceeding the RTC and the plan proposed to cap to certain previously approved net-metered, PV distributed generation programs. The plan also committed PNM to file for additional projects later in the year.

In September 2009, PNM entered into settlement discussions with various parties to address issues related to the distributed generation programs, the RCT, and PNM's prospective additional projects. In recognition of these settlement negotiations, the NMPRC issued an order on September 22, 2009 that rejected PNM's July 1 st plan, with the exception of two procurements concerning the acquisition of RECs from a wind resource and from biogas resources, and ordered that PNM file a revised plan. A public hearing on the acquisition of RECs from the wind resource and the biogas program was held in October and an order approving these projects was issued on December 17, 2009. On January 9, 2010, PNM announced that the negotiations had concluded and a settlement had been reached. PNM filed the settlement and its revised plan with the NMPRC on January 25, 2010. Under the revised 2010 procurement plan, PNM would invest approximately $205.7 million on solar PV facilities through the first quarter of 2012 and implement a customer-sited PV distributed generation program to replace current PV programs. On February 1, 2010, motions were filed to dismiss the revised plan and to extend the time period for NMPRC action on the revised plan. PNM and other settling parties filed their joint response in opposition to these motions on February 15, 2010. Under a previous NMPRC order, proceedings on the revised plan are to be completed within six months from the date of filing. PNM cannot predict the outcome of the NMPRC's proceedings on the revised plan.

NMPRC Inquiry on Fuel and Purchased Power Adjustment Clauses

In October 2007, the NMPRC issued a NOI that could lead to the adoption of an amended rule for the implementation of FPPACs for all investor-owned utilities and electric cooperatives in New Mexico. The investor-owned utilities and electric cooperatives have responded to a series of questions and the NMPRC staff made a filing dealing with the need for consistency of FPPACs, streamlining FPPACs, and whether a single FPPAC methodology should be applied to all utilities. Workshops have been held to discuss the comments filed by PNM and others and the proposed changes. The workshop process has concluded and the Hearing Examiner presented proposed rule amendments to the NMPRC for its consideration. The NMPRC has not taken action on the proposed amendments.

NMPRC Rulemaking on Disincentives to Energy Efficiency Programs

In January 2008, the NMPRC issued a NOI to identify disincentives in utility expenditures on energy efficiency and measures to address those disincentives, including specific rate making alternatives, and appointed a Hearing Examiner to conduct workshops to develop proposals for possible rule changes. Based on the workshops, amendments were proposed to the NMPRC energy efficiency rule that would allow utilities to collect $0.01 per KWh for energy savings and $10 per kilowatt for demand savings related to energy efficiency programs and an alternative proposal that would add a decoupling mechanism to the rule. PNM filed comments and testimony addressing the proposed rule. A public hearing was held on June 26, 2009 and a decision is pending. PNM is unable to predict the outcome of this proceeding.

PNM Electric Energy Efficiency and Load Management Program **s**

The NMPRC requires public utilities to obtain approval to implement energy efficiency and load management programs. Costs to implement approved programs are recovered through a rate rider. On September 15, 2008, PNM filed a plan, which included new programs, modifications to existing programs and a request to recover program costs. After proceedings before the NMPRC, a final order approving the programs was issued on May 19, 2009. In August 2009, PNM began recovering the costs of the programs through a rate rider amounting to 1.881% of customers' bills, before taxes and franchise fees based on program costs of $14.1 million. The new programs are being implemented.

On July 7, 2009, the NMPRC ordered an investigation into whether it is prudent for PNM to continue certain load management programs initiated in 2008 with NMPRC approval, considering its recent addition of supply-side resources. PNM offers these programs through contracts with third-party vendors that contain substantial fees for early termination. PNM and the NMPRC staff filed testimony recommending continuing these programs and a public hearing was held on January 12, 2010. A recommended decision, which recommended continuation of the programs, was issued by the Hearing Examiner on February 15, 2010. The recommended decision is subject to the approval of the NMPRC. PNM is unable to predict the outcome of this proceeding.

Investigation on Establishing a Policy Linking Utility Earnings to Quality of Customer Service

On May 28, 2009, the NMPRC ordered an investigation to consider the development of a service quality incentive mechanism for utilities in New Mexico, including PNM. The parties were to look at quality of service mechanisms established in other NMPRC orders, as well as the mechanisms that have been implemented in other states. A workshop process concluded with the filing of a report that concludes that present circumstances do not warrant the implementation of a performance based ratemaking mechanism to either reward or penalize utilities for quality of service. The workshop participants agreed that enhanced reporting requirements would allow the NMPRC to monitor important customer service metrics to determine if service quality is deteriorating so that the Commission can identify and address any adverse trends before they become a problem. The report recommends that utilities be required to file customer service reports no later than April 30th of each year for a three-year period commencing April 30, 2011. A timetable for the NMPRC to act on this recommendation has not been established. PNM is unable to predict the outcome of this proceeding.

Rates for Former TNMP Customers in New Mexico

PNM serves the former New Mexico customers of TNMP ("TNMP-NM") under rates approved by the NMPRC in its order approving PNMR's acquisition of TNMP. Under that order, rates charged to customers were set through December 31, 2010. In January 2009, the NMPRC directed PNM to estimate the revenue requirement increase that would be reflected in a TNMP-NM rate application for rates effective January 2011. PNM estimated that the rate increase could be between 40% and 56% depending on fuel costs. In April 2009, the NMPRC directed PNM, the NMPRC staff, and other parties to attempt to reach consensus on ways to mitigate the impact of this potential rate increase and appointed a mediator. Several mediations have been held and discussions are ongoing. No date has been set for completion of this process. PNM cannot predict the outcome of this matter.

Third-Party Arrangements for Renewable Distributed Generation

On June 16, 2009, the NMPRC initiated a proceeding and requested legal briefs on the topic of whether third-party arrangements for the sale of renewable energy from customer-sited distributed generation facilities are permissible under New Mexico law. Initial briefs and response briefs were filed by utilities, the NMPRC staff and intervenors. In its initial brief, PNM stated that such arrangements that involve the sale of electricity to retail customers in the service territory of existing utilities were not legally permissible. Other utilities' and the NMPRC staff's briefs reached similar conclusions. Certain intervenors argued in their briefs that such arrangements were generally permissible. The Hearing Examiner issued a recommended decision on October 23, 2009 analyzing a number of different scenarios. Among her findings, the Hearing Examiner recommended that the NMPRC determine that developers who sell electricity to a single host or to multiple hosts from different systems each located on the host's premises, without transporting electricity from one location to another, are not public utilities under New Mexico law. On December 31, 2009, the NMPRC issued an order that declared that a third party that owns renewable generation equipment that is installed on a utility customer's premises, pursuant to a long term contract with the customer to supply a portion of that customer's electricity use, payments for which are based on a kilowatt-hour charge, is not a public utility subject to regulation by the NMPRC. The order also declared that a third party developer that owns renewable generation equipment installed on a utility customer's premises, which is used to serve multiple customers for a portion of each customer's electricity use is not a public utility subject to regulation by the NMPRC. However, the order declares that a third party developer may not use a public utility's distribution lines or equipment in order to route electricity to multiple customers. On January 21, 2010 PNM filed a notice of appeal of this order in the New Mexico Supreme Court. Other parties have also appealed. Although PNM believes there are substantial bases for reversal of the NMPRC order, it cannot predict the outcome of this proceeding.

In early 2010, both houses of the New Mexico Legislature passed a bill that would supersede the NMPRC order. The Governor of New Mexico has not acted on the bill. If signed by the Governor, the bill would allow non-utility power generators to be excluded from classification as public utilities under state law provided that such generators use renewable energy resources, that the generators are located on the site of the power consumer, do not involve retail wheeling of power, and that any adverse cost affects to other utility customers are minimized. The bill encourages the development and use of renewable energy, but will safe guard against unreasonable cost shifting to other utility customers while protecting the financial integrity of utilities.

Application to Hedge Fuel and Purchased Power Costs

In August 2009, PNM filed an application for approval of a plan to manage fuel and purchased power costs by entering into certain forward market transactions relating to the procurement of fuel and purchased power and the sale of excess electrical energy in the wholesale market. PNM's application seeks NMPRC authorization to conduct these activities, which involve hedging practices, and to pass through the costs and benefits of the transactions to jurisdictional customers using PNM's FPPAC. The NMPRC staff filed testimony recommending approval of PNM's application with minor modifications. PNM filed rebuttal testimony agreeing with the proposed modifications. A hearing was held on February 23, 2010. PNM cannot predict the outcome of this proceeding.

TNMP

TNMP Competitive Transition Charge True-Up Proceeding

The purpose of the true-up proceeding was to quantify and reconcile the amount of stranded costs that TNMP may recover from its transmission and distribution customers. A 2004 PUCT decision established $87.3 million as TNMP's stranded costs. TNMP and other parties have made a series of appeals on the ruling and it is currently before the Texas Supreme Court. TNMP is unable to predict if the Texas Supreme Court will review the decision or the ultimate outcome of this matter.

Interest Rate for Calculating Carrying Charges on TNMP's Stranded Cost

The PUCT approved an amendment to the true-up rule in 2006, which results in a lower interest rate that TNMP is allowed to collect on the unsecuritized true-up balance through a CTC. The PUCT concluded that the correct rate at which a utility should accrue carrying costs through a CTC is the weighted average of an adjusted form of its marginal cost of debt and its unadjusted historical cost of debt, with the weighting based on the utility's most recently authorized capital structure. The revised rate affects TNMP by lowering the previously approved carrying cost rate of 10.93%. After regulatory proceedings, the PUCT issued an order approving the 8.31% rate proposed by TNMP and the PUCT staff. Various municipal intervenors ("Cities") appealed the PUCT's order to the District Court in Austin, Texas, with TNMP as an intervenor. The District Court affirmed the PUCT's decision and the Cities filed an appeal in the Texas 3rd Court of Appeals. On May 1, 2009, the Court of Appeals affirmed the decisions of the lower court as requested by TNMP. No party appealed the matter to the Texas Supreme Court and it is now concluded.

Interest Rate Compliance Tariff

Following the revision of the interest rate on TNMP's carrying charge, TNMP filed a compliance tariff to implement the new 8.31% rate. TNMP's filing proposed to put the new rates into effect on February 1, 2008. Intervenors asserted objections to the compliance filing. PUCT staff urged that the PUCT make the new rate effective as of December 27, 2007 when the PUCT's order establishing the correct rate became final. After regulatory proceedings, the PUCT issued an order making the new rate retroactive to July 20, 2006. TNMP filed an appeal of this order in the District Court in Austin, Texas. While there is inherent uncertainty in this type of proceeding, TNMP believes it will ultimately be successful in overturning any ruling that the effective date should be prior to December 27, 2007.

60-Day Rate Review

In 2005, TNMP made a required 60-day rate review filing. TNMP's case establishes a CTC for recovery of the true-up balance. As noted above, TNMP's 60-day rate review, along with First Choice's price-to-beat rate reset filing, were consolidated. In 2006, the PUCT issued a signed order which would allow TNMP to begin collecting its true-up balance, which includes carrying charges, over a 14-year period. The order also allows TNMP to collect expenses associated with several cases over a three-year period. TNMP began collecting its CTC and its rate case expenses on December 1, 2006. In January 2007, this proceeding was appealed by various Texas cities to the District Court, in Austin, Texas. TNMP and First Choice have intervened. On August 31, 2009, the Texas District Court dismissed this matter for lack of prosecution thereby affirming the PUCT decision as requested by First Choice and TNMP.

2008 Rate Case

On August 29, 2008, TNMP filed with the PUCT for an $8.7 million increase in revenues, requesting that new rates go into effect in September 2009. In its request, TNMP also asked for permission to implement a catastrophe reserve fund similar to those approved for other transmission and distribution companies in Texas. Catastrophe funds help pay for a utility system's recovery from natural disasters and acts of terrorism. On October 10, 2008, the PUCT issued a preliminary order permitting TNMP to file supplemental testimony on costs caused by Hurricane Ike.

In December 2008, the parties in the TNMP rate case requested that the case be abated and the ALJ granted the request. The abatement suspended procedural deadlines until after the submittal of supplemental testimony by TNMP relating to costs incurred during Hurricane Ike and anticipated increased financing costs. In March 2009, TNMP filed its supplemental testimony, requesting an additional revenue increase of $15.7 million annually. In June 2009, TNMP and the other parties in the rate case announced that a unanimous settlement had been reached. The settlement resolves all issues in the rate case and permits TNMP to increase revenues by $12.7 million annually. This increase reflects interest and other costs associated with its March 2009 debt refinancing and the settlement adjusts the interest rate TNMP is allowed to collect on its CTC to reflect those costs. The rate increase includes recovery of $17.6 million of Hurricane Ike restoration costs plus carrying costs over five years although $0.7 million of the costs incurred by TNMP were not included and were written off in the three months ended June 30, 2009. The settlement authorizes a catastrophe reserve of $1.0 million funded over an eight year period. The settlement was approved by the PUCT in August 2009 and rates went into effect for bills rendered on or after September 1, 2009. No party appealed the decision and the matter is concluded.

TNMP now has the ability to update its transmission rates annually to reflect changes in its invested capital. Updated rates would reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, and the approved rate of return on such facilities.

Senate Bill 769

On April 16, 2009, Senate Bill 769 ("SB 769") concerning the recovery of hurricane costs by utilities was enacted. SB 769 authorizes the PUCT, after a full review, to permit an electric utility to obtain timely recovery of system restoration costs, and permits utilities to use securitization financing for the recovery of such costs. Appropriately incurred costs can be approved in any future proceeding.

Energy Efficiency

On October 28, 2009, TNMP filed an application for approval of its 2010 energy efficiency programs and requested recovery through an energy efficiency cost recovery factor. TNMP's estimated the costs of its 2010 energy efficiency programs to be $2.6 million and requested to collect this amount based on a per customer charge over 11 months. The PUCT staff and intervenors took no issue with TNMP's application. TNMP implemented the factor effective February 1, 2010.

(18) Environmental Issues

The normal course of operations of the Company necessarily involves activities and substances that expose the Company to potential liabilities under laws and regulations protecting the environment. Liabilities under these laws and regulations can be material and in some instances may be imposed without regard to fault, or may be imposed for past acts, even though the past acts may have been lawful at the time they occurred. Sources of potential environmental liabilities include the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980 and other similar statutes.

The Company records its environmental liabilities when site assessments or remedial actions are probable and a range of reasonably likely cleanup costs can be estimated. The Company reviews its sites and measures the liability quarterly, by assessing a range of reasonably likely costs for each identified site using currently available information, including existing technology, presently enacted laws and regulations, experience gained at similar sites, and the probable level of involvement and financial condition of other potentially responsible parties. These estimates include costs for site investigations, remediation, operations and maintenance, monitoring and site closure. Unless there is a probable amount, the Company records the lower end of such reasonably likely range of costs (classified as other deferred credits at undiscounted amounts).

The Company's recorded liability estimated to remediate its identified sites was as follows:

PNMR		PNM		TNMP	
December 31,		December 31,		December 31,	
2009	2008	2009	2008	2009	2008
		(In thousands)			
$1,894	$5,308	$1,894	$5,308	$ -	$ -

The Company expended the following for remediation, including payments related to the Citizen Suit under the Clean Air Act described in Note 16:

	Year Ended December 31,		
	2009	2008	2007
	(In thousands)		
PNMR	$ 3,638	$ 190	$ 469
PNM	$ 3,638	$ 190	$ 469
TNMP	$ -	$ -	$ -

The ultimate cost to clean up the Company's identified sites may vary from its recorded liability due to numerous uncertainties inherent in the estimation process, such as the extent and nature of contamination, the scarcity of reliable data for identified sites, and the time periods over which site remediation is expected to occur. The Company expects that the majority of the December 31, 2009 environmental liability will be paid over the next five years, funded by cash generated from operations. Future environmental obligations are not expected to have a material impact on the results of operations or financial condition of the Company.

(19) Accumulated Other Comprehensive Income (Loss)

AOCI reports a measure for accumulated changes in equity that result from transactions and other economic events other than transactions with shareholders. The following table sets forth each component of AOCI, net of income taxes:

	Unrealized gain (loss) on securities	Pension liability adjustment	Mark-to-market for cash-flow hedge transactions	Accumulated other comprehensive income (loss)
		(In thousands)		
PNMR				
Balance at December 31, 2008	$ 1,721	$ (8,998)	$ 38,225	$ 30,948
Balance at December 31, 2009	$ 10,759	$ (75,444)	$ 18,628	$ (46,057)
PNM				
Balance at December 31, 2008	$ 1,721	$ (8,854)	$ 24,879	$ 17,746
Balance at December 31, 2009	$ 10,759	$ (75,245)	$ 12,679	$ (51,807)
TNMP				
Balance at December 31, 2008	$ -	$ (142)	$ -	$ (142)
Balance at December 31, 2009	$ -	$ (199)	$ 125	$ (74)

(20) Related Party Transactions

PNMR, PNM, TNMP, and Optim Energy are considered related parties as defined under GAAP. PNMR Services Company provides corporate services to PNMR, its subsidiaries, and Optim Energy in accordance with shared services agreements. These services are billed on a monthly basis to the business units. Billings are at cost, except for Optim Energy, which includes a profit element. There is also a services agreement for Optim Energy to provide services to PNMR.

PNMR files a consolidated federal income tax return with its affiliated companies. A tax allocation agreement exists between PNMR and each of its affiliated companies. These agreements provide that the subsidiary company will compute its taxable income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PNMR. If there are net operating losses and/or tax credits, the subsidiary shall receive payment for the tax savings from PNMR to the extent that PNMR is able to utilize those benefits.

See Note 6 for information on intercompany borrowing arrangements and Note 7 for intercompany lease arrangements.

See Note 22 for information concerning Optim Energy. See Note 23 for information concerning the transfer of operations from TNMP to PNM and the sale of PNM Gas. The table below summarizes the nature and amount of related party transactions of PNMR, PNM and TNMP:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Electricity, transmission and distribution related services billings:			
PNM to TNMP	$ -	$ -	$ 126
TNMP to PNMR	41,338	55,214	72,578
Services billings:			
PNMR to PNM*	80,141	81,726	93,910
PNMR to TNMP	22,919	19,043	23,833
PNM to TNMP	698	129	235
TNMP to PNMR	636	994	872
PNMR to Optim Energy	6,516	8,972	8,316
Optim Energy to PNMR	305	672	116
PNMR Services capital expenditures fees:			
PNM to (from) PNMR	-	-	99
TNMP to (from) PNMR	-	-	18
Income tax sharing payments:			
PNM to PNMR	126,527	2,050	5,604
TNMP to PNMR	4,322	15,079	-
PNMR to TNMP	-	-	(15,529)
Interest payments:			
PNM to PNMR	8	-	3
TNMP to PNMR	849	133	1,165

* PNM Shared services include billings to PNM Gas of $0.9 million, $16.1 million, and $31.6 million in 2009, 2008, and 2007.

(21) New Accounting Pronouncements

Information regarding recently issued accounting pronouncements, including those that have not been adopted by the Company could have a material impact, is set forth below.

Accounting Standard Update 2009-01 -- Generally Accepted Accounting Principles: amendments based on—Statement of Financial Accounting Standards No. 168—The *FASB Accounting Standards Codification* ™ and the Hierarchy of Generally Accepted Accounting Principles

Effective September 15, 2009, the *FASB Accounting Standards Codification* ("ASC") combined all of the FASB's, and its predecessors', technical accounting pronouncements into a single source of authoritative GAAP. As a result, references are no longer made to technical accounting pronouncements but instead to GAAP or the ASC topic. The ASC will be updated thru an Accounting Standard Update ("ASU"). ASU's that affect the current reporting period or may affect the Company's future financial statements or disclosure requirements are described in this section.

Accounting Standard Update 2009-17 -- Consolidation: Improvements to Financial reporting by Enterprises Involved with Variable Interest Entities

The FASB amended GAAP through ASU 2009-17 to require entities to perform an analysis of a company's variable interest entities to determine whether a controlling interest exists and therefore require consolidation. This amendment provides additional guidance and ongoing reassessments of the status of variable interest entities and is effective for interim and annual reporting periods beginning after November 15, 2009. The Company is evaluating the impact of the amendment on the Company's financial statements.

Accounting Standard Update 2010-06 -- Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements

The FASB released amended guidance related to disclosures of fair value measurements. The update requires entities to enhance interim and annual disclosures about fair value measurements, specifically:

- Further disaggregate the level presented for debt and equity securities (i.e. U.S. Treasuries, municipals, etc.)
- Disclose the amount and reason for significant transfers between fair value categories level 1 and level 2
- Disclose information about the purchases, sales, issuances, and settlements for items in level 3 of the fair value measurements on a gross basis rather than net

The enhanced disclosure will be effective for the interim period ended March 31, 2010 for the first two items. The third item regarding level 3 information will be effective for the interim period ended March 31, 2011. The Company will comply with the disclosure requirements as they become effective.

(22) Optim Energy

In January 2007, Optim Energy was created by PNMR and ECJV, a wholly owned subsidiary of Cascade to serve expanding U.S. markets, principally the areas of Texas covered by ERCOT. PNMR and ECJV each have a 50 percent ownership interest in Optim Energy, a limited liability company. Optim Energy's name was changed from EnergyCo on February 2, 2009.

On June 1, 2007, Optim Energy entered into a bank financing arrangement with a term of five years, which includes a revolving line of credit. This facility also provides for bank letters of credit to be issued as credit support for certain contractual arrangements entered into by Optim Energy. Cascade and ECJV have guaranteed Optim Energy's obligations on this facility and, to secure Optim Energy's obligation to reimburse Cascade and ECJV for any payments made under the guaranty, have a first lien on all assets of Optim Energy and its subsidiaries. In June 2007, Optim Energy distributed \$87.5 million to each of PNMR and ECJV from a long-term borrowing under this facility.

In January 2010, Optim Energy entered into floating-to-fixed interest rate swaps with an aggregate notional amount of \$650.0 million. The effect of these swaps is to convert \$650.0 million of borrowings under Optim Energy's credit facility from an interest rate based on the one-month LIBOR rate to a fixed rate of 1.33% through January 7, 2011, exclusive of loan guaranty fees. These swaps will be accounted for as cash-flow hedges.

On June 1, 2007, PNMR contributed its ownership of Altura to Optim Energy at fair value of \$549.6 million (after the working capital adjustment described below). ECJV made a cash contribution to Optim Energy equal to 50% of the fair value amount, and Optim Energy distributed that cash to PNMR. PNMR accounted for this transaction by (1) removing the assets and liabilities transferred to Optim Energy from its consolidated financial statements; (2) recording an additional investment in Optim Energy for an amount equal to 50% of the net carrying value of the Altura assets and liabilities transferred, reflecting that 50% of the items transferred are in effect still owned by PNMR; and (3) reflecting in results of operations the difference between the cash received and 50% of the net carrying value of the items transferred that in effect were sold to ECJV, which resulted in a pre-tax loss of \$3.1 million being reflected in energy production costs. As provided under the contribution agreement, subsequent to

June 1, 2007, an adjustment to the contribution amounts was made for changes in June 1, 2007, an adjustment to the contribution amounts was made for changes in components of working capital between the date for which fair value was determined and closing. The result of this adjustment was a payment by PNMR of $2.1 million.

Effective August 1, 2007, Optim Energy completed the acquisition of Altura Cogen, a 614 MW natural gas-fired cogeneration electric and steam plant, located near Houston, Texas. The purchase price of $477.9 million, after working capital adjustments, was funded through cash contributions of $42.5 million from each of PNMR and ECJV and the remaining amount was financed through borrowings under Optim Energy's credit facility.

In June 2009, Optim Energy and NRG Cedar Bayou completed a jointly developed 550 MW combined-cycle natural gas unit at the existing NRG Cedar Bayou Generating Station near Houston. Optim Energy's share of this unit is 275 MW and its share of the construction costs was $209.6 million. Optim Energy financed its portion of the Cedar Bayou construction with borrowings under its existing credit facility and operating cash flows.

PNMR has no commitments or guarantees with respect to Optim Energy.

Summarized financial information for Optim Energy is as follows:

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Operating revenues	$ 319,507	$ 472,665	$ 224,339
Cost of sales	201,547	366,477	147,312
Gross margin	117,960	106,188	77,027
Non-fuel operations and maintenance expenses	33,118	26,053	13,253
Administrative and general expenses	27,910	26,232	15,445
Impairment of intangible assets	-	21,794	-
Write down of emission allowances	51,586	31,739	-
Depreciation and amortization expense	37,171	30,545	15,665
Taxes other than income tax	11,089	11,954	4,804
Operating income (loss)	(42,914)	(42,129)	27,860
Other income (deductions)	(318)	740	635
Net interest charges	(13,755)	(19,183)	(17,907)
Earnings (loss) before income taxes	(56,987)	(60,572)	10,588
Income taxes (benefit) (1)	(161)	(88)	434
Net earnings (loss)	$ (56,826)	$ (60,484)	$ 10,154
50 percent of net earnings (loss)	$ (28,413)	$ (30,242)	$ 5,077
Amortization of basis difference in Optim Energy	(1,732)	555	2,504
PNMR equity in net earnings (loss) of Optim Energy	$ (30,145)	$ (29,687)	$ 7,581

(1) Represents the Texas Margin Tax, which is considered an income tax.

	December 31,	
	2009	2008
	(In thousands)	
Current assets	$ 128,619	$ 151,677
Net property plant and equipment	951,757	946,420
Deferred assets	137,384	224,776
Total assets	1,217,760	1,322,873
Current liabilities	66,190	104,826
Long-term debt	755,000	730,778
Other long-term liabilities	5,710	7,763
Total liabilities	826,900	843,367
Owners' equity	$ 390,860	$ 479,506
50 percent of owners' equity	195,430	239,753
Unamortized PNMR basis difference in Optim Energy	236	197
PNMR equity investment in Optim Energy	$ 195,666	$ 239,950

Revenue related to power sales and purchases is included net in operating revenues. Costs related to fuel purchases and sales are recorded net in cost of sales.

The contribution of Altura created a basis difference between PNMR's recorded investment in Optim Energy and 50 percent of Optim Energy's equity. While the portion of the basis difference related to contract amortization will only continue through 2010, other basis differences, including a difference related to emission allowances, will continue to exist through the life of the Altura plant. The basis difference adjustment detailed above relates mainly to contract amortization with insignificant offsets related to the other minor basis difference components.

Optim Energy individually valued each asset and liability received in the Altura (Twin Oaks) and Altura Cogen transactions and initially record them on its balance sheet at the determined fair value. For both transactions, this accounting results in amortization since contracts acquired were out of market and emission allowances, while acquired from government programs without cost to Optim Energy, have market value. During 2009, 2008, and 2007, Optim Energy recorded, as a increase (decrease) to operating revenues, income from amortization of contracts acquired of $(6.7) million, $2.2 million, and $36.4 million and amortization expense on emission allowances of $4.7 million, $11.2 million, and $2.3 million, which is recorded in cost of sales.

In July 2008, a federal appeals court ruling by the U.S. Court of Appeals for the District of Columbia Circuit Court invalidated CAIR. This ruling appears to remove the need for emissions allowance credits under the CAIR program. However, in December 2008, CAIR was temporarily reinstated by the courts. Optim Energy has inventory of emissions allowances from the purchase of the Altura Cogen plant and contribution of the Twin Oaks plant. During 2008, Optim Energy recorded a pre-tax write off of $31.7 million for all inventory under the CAIR program. Optim Energy values its remaining emission allowances at the lower of cost or market. In December 2009, Optim Energy reduced the value of its held for sale NOx emission allowances by $51.6 million because of significant price declines in an illiquid market. At December 31, 2009, Optim Energy has $4.9 million remaining held for sale allowances in inventory. As of December 31, 2009, Optim Energy also has $54.6 million in inventory for emission allowances that are held to meet the emission requirements of its generating facilities.

The assets of Altura transferred to Optim Energy included the development rights for a possible 600-megawatt expansion of the Twin Oaks plant, which was classified as an intangible asset. Optim Energy made a strategic decision not to pursue the Twin Oaks expansion and, in 2008, wrote off the development rights as an impairment of intangible assets amounting to $21.8 million. In addition $1.2 million of deferred costs related to this project were written off as administrative and general expense.

Optim Energy has a multi-year hedging program. The level of hedging at any given time varies depending on current market conditions and other factors. Economic hedges that do not qualify for or are not designated as cash flow hedges or normal purchases/sales are derivative instruments that are required to be marked to market. Due to the extreme market volatility experienced in the first quarter of 2008 in the ERCOT market, Optim Energy made the decision to exit the speculative trading business and close out the speculative trading positions. Optim Energy incurred $2.4 million of speculative trading losses in 2008 and has since settled all speculative positions.

See Note 6 for a discussion of the impacts of the bankruptcy of LBCS.

LCC is Optim Energy's counterparty in several agreements for power and steam sales. In addition, LCC leases Optim Energy the land for the Altura Cogen facility and provides other services, including water, to that facility. On January 6, 2009, LCC filed for bankruptcy protection under Chapter 11 of the US Bankruptcy Code. The pre-petition amount due from LCC is immaterial and was fully reserved as of December 31, 2008. LCC has continued to perform under the existing contracts.

(23) Discontinued Operations

PNM Gas

As discussed in Note 2, PNM sold its gas operations, which comprised the PNM Gas segment, on January 30, 2009. Under GAAP, the assets and liabilities of PNM Gas are considered to be held-for-sale as of December 31, 2007 and presented as discontinued operations on the accompanying balance sheets and statements of earnings. In accordance with GAAP, no depreciation is recorded on assets held for sale in 2009 and 2008. PNM also retained obligations for certain contingent liabilities that existed at the date of sale. PNM recognized $5.4 million in expense related to these liabilities in the 2009 Results of Operations for PNM Gas. Summarized financial information for PNM Gas is as follows:

Financial Position

	December 31, 2008
	(In thousands)
ASSETS	
Cash and cash equivalents	$ 25
Accounts receivable and unbilled revenues, net	64,022
Regulatory and other current assets	43,939
Total current assets	107,986
Gas plant in service	775,836
Accumulated depreciation and amortization	(239,280)
Construction work in progress	22,574
Net utility plant	559,130
Regulatory and other assets	2,785
	$ 669,901

LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	$ 44,995
Regulatory and other current liabilities	32,087
Total current liabilities	77,082
Regulatory liabilities	75,296
Deferred credits and other liabilities	19,319
Total deferred credits and other liabilities	94,615
Equity	498,204
	$ 669,901

Results of Operations

	Year Ended December 31,		
	2009	2008	2007
		(In thousands)	
Operating revenues	$ 65,695	$ 506,953	$ 508,546
Cost of energy	44,698	346,571	352,807
Gross margin	20,997	160,382	155,739
Operating expenses	11,264	92,177	97,102
Depreciation and amortization	-	-	21,649
Operating income	9,733	68,205	36,988
Other income (deductions)	292	2,590	1,147
Net interest charges	(962)	(13,210)	(12,225)
Gain on disposal	98,425	-	-
Segment earnings before income taxes	107,488	57,585	25,910
Income taxes (benefit)	36,687	22,957	10,394
Segment Earnings	$ 70,801	$ 34,628	$ 15,516

Information on the regulatory assets and liabilities of PNM Gas is as follows:

	December 31, 2008
	(In thousands)
Assets:	
Current:	
PGAC	$ 13,165
Other	9,670
	22,835
Non-Current:	
OPEB	-
Other	1,435
	1,435
Total regulatory assets	$ 24,270

Liabilities:		
Current:		
PGAC	$	-
Off-system sales margin		(303)
Other		(579)
		(882)
Non-Current:		
Cost of Removal		(75,295)
Total regulatory liabilities	$	(76,177)

PNM Gas's cost-of-gas revenues collected from sales-service customers were recovered in accordance with NMPRC regulations through the PGAC and represented a pass-through of the cost of natural gas to the customer. The NMPRC approved an agreement regarding the hedging strategy of PNM Gas and the implementation of a price management fund program which included a continuous monthly balancing account with a carrying charge. This carrying charge had the effect of keeping PNM Gas whole on purchases of gas since it was compensated for the time value of money that existed due to any delay in collections from customers.

PNM Gas used a variety of hedging instruments including fixed price contracts, call options and financial swaps to facilitate the hedge strategy. PNM Gas also entered into physical gas contracts to meet the needs of its retail sales-service customers. Due to the agreement to sell PNM Gas, the contracts that extended beyond December 31, 2008 no longer qualified for the normal purchases exception pursuant to GAAP as of December 31, 2007 and were marked-to-market. Costs and gains and losses for the above instruments are deferred and recovered through the PGAC with no income statement effect. At December 31, 2008, PNM Gas had $7.0 million of current assets and current liabilities and no long-term assets and long-term liabilities related to these instruments.

(24) Business Improvement Plan

In 2007, the Company began a business improvement process that included a comprehensive cost structure analysis of its operations and a benchmarking analysis to similar-sized utilities. During 2007 and 2008, the Company implemented a series of initiatives designed to manage future operational costs, maintain financial strength and strengthen its regulated utilities. The multi-phase process included a business improvement plan to streamline internal processes and reduce the Company's work force. The utility-related process enhancements were designed to improve and centralize business functions. Activities contemplated under the business improvement plan have been completed and no significant costs were incurred during 2009.

The Company has existing plans providing severance benefits to employees who are involuntarily terminated due to elimination of their positions. Severance benefits payable under the Company's existing plans are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. At December 31, 2008 and 2007, the Company assessed the status of the business improvement process and the positions that were probable of being eliminated. The Company calculated the severance benefits associated with those positions and recorded pre-tax expense of $3.4 million in 2008 and $10.5 million in 2007. In 2008 and 2007, severance expenses of zero and $5.0 million were recorded by PNM and $0.1 million and $0.6 million were recorded by TNMP. The Company also incurred other costs, primarily consulting fees, related to the business improvement plan of $7.5 million and $2.1 million in 2008 and 2007.

(25) Goodwill and Other Intangible Assets; Impairments

The excess purchase price over the fair value of the assets acquired and the liabilities assumed by PNMR for its June 6, 2005 acquisition of TNP was recorded as goodwill and was pushed down to the businesses acquired. In 2007, the TNMP assets that were included in its New Mexico operations, including goodwill of $102.8 million, were transferred to PNM. See Note 2. Of the $79.3 million of other intangible assets acquired in the TNP acquisition, $68.8 million related to the trade name "First Choice." The trade name is considered to have an indefinite useful life; therefore, no amortization is recorded. The other $10.5 million intangible asset related to the First Choice customer list. The useful life of the customer list was estimated to be approximately eight years.

The Company evaluates its goodwill and non-amortizing intangible assets for impairment annually at the reporting unit level or more frequently if circumstances indicate that the goodwill or intangible assets may be impaired. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of long-term growth rates for the business and determination of appropriate weighted average cost of capital for each reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value and the conclusion of impairment for each reporting unit.

For non-amortizing intangibles other than goodwill, the Company compares the fair value of the intangible asset to its recorded value. For goodwill, the first step of the impairment test requires that the Company compare the fair value of each reporting unit with its carrying value, including goodwill. If as a result of this analysis, the Company concludes there is an indication of impairment in a reporting unit having goodwill, the Company is required to perform the second step of the impairment analysis, determining the amount of goodwill impairment to be recorded. The amount is calculated by comparing the implied fair value of the goodwill to its carrying amount. This exercise requires the Company to allocate the fair value determined in step one to the individual assets and liabilities of the reporting unit. Any remaining fair value would be the implied fair value of goodwill on the testing date. To the extent the recorded amount of goodwill of a reporting unit exceeds the implied fair value determined in step two, an impairment loss is reflected in results of operations.

The market capitalization of PNMR’s common stock was significantly below book value during 2008, which is an indicator that intangible assets may be impaired. In addition, changes in the ERCOT market significantly impacted the results of operations of First Choice. The Company performed its annual testing of intangible assets as of April 1, 2008. As a result of this analysis, the Company concluded there was an indication of impairment in the reporting units having goodwill and that the First Choice trade name was impaired and recorded impairments of $135.0 million for goodwill and $9.0 million for the First Choice trade name. The financial challenges facing First Choice continued throughout 2008 and were exacerbated by the impacts of Hurricane Ike and depressed economic conditions resulting in significant increases in the levels of uncollectible accounts. Due to these conditions, additional impairment testing was performed for First Choice as of December 31, 2008. As a result, the Company recorded additional impairment losses of $39.4 million for First Choice goodwill and $33.6 million for the First Choice trade name at December 31, 2008. Although the impairments of goodwill, aggregating $174.4 million, have no income tax effects, the impairment of the First Choice trade name amounting to $42.6 million does have an income tax effect and results in an after-tax impact of $27.7 million. The impairments do not impact the Company’s cash flows. Other than the 2008 impairments, the Company has not recorded any impairments of goodwill.

The 2009 annual evaluation did not indicate impairments of any of PNMR’s reporting units. While the market capitalization of PNMR’s common stock was still significantly below book value at April 1, 2009, PNMR’s stock price has increased since that date. In addition, improved regulatory treatment has been experienced by PNM in New Mexico and by TNMP in Texas. Furthermore, the First Choice business has stabilized in 2009, primarily due to more predictable power and fuel price patterns in the ERCOT market. These factors have resulted in more predictable earnings and increased fair values of the reporting units. Since the annual evaluation, there have been no indications that the fair values of the reporting units with recorded goodwill have decreased below the carrying values.

The changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2009, 2008, and 2007 were as follows:

	PNM	TNMP Electric	First Choice	Total PNMR
	(In thousands)			
Balance as of December 31, 2006	$ -	$ 363,764	$ 131,974	$ 495,738
Adjustments during 2007	102,775	(102,643)	(206)	(74)
Balance as of December 31, 2007	102,775	261,121	131,768	495,664
Impairments during 2008	(51,143)	(34,456)	(88,755)	(174,354)
Balance as of December 31, 2008 and 2009	$ 51,632	$ 226,665	$ 43,013	$ 321,310

The components of PNMR's other identifiable intangible assets are as follows:

	December 31, 2009	December 31, 2008
	(In thousands)	
First Choice trade name	$ 26,157	$ 26,157
First Choice customer list	5,682	5,682
Total other intangible assets	31,839	31,839
Accumulated amortization	5,272	4,672
	$ 26,567	$ 27,167

The Company evaluates its amortizing intangible assets for impairment only when circumstances indicate that the intangible assets may be impaired. Due to conditions at First Choice described above, the Company performed an impairment test of the First Choice customer list asset as of December 31, 2008 and as a result, recorded a pre-tax impairment of $4.8 million ($3.1 million after-tax) for this asset.

See Note 22 for a discussion of impairments recorded by Optim Energy.

(26) Quarterly Operating Results (Unaudited)

Unaudited operating results by quarters for 2009 and 2008 are presented below. In the opinion of management of the Company, all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the results of operations for such periods have been included. On January 30, 2009, PNM completed the sale of PNM Gas, which is considered discontinued operations and excluded from continuing operations in the tables below. See Note 2 and Note 23.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
PNMR				
2009				
Operating revenues	$ 385,865	$ 401,110	$ 477,727	$ 383,042
Operating income	29,903	24,878	101,536	35,625
Earnings from continuing operations	16,407	3,419	58,223	(12,116)
Earnings from continuing operations attributable to PNMR	13,696	512	55,555	(16,248)
Net earnings	92,260	808	56,861	(13,195)
Net earnings (loss) attributable to PNMR	89,549	(2,099)	54,193	(17,327)
Earnings from Continuing Operations Attributable to PNMR per Common Share:				
Basic	0.15	0.01	0.61	(0.18)
Diluted	0.15	0.01	0.60	(0.18)
Net Earnings (Loss) Attributable to PNMR per Common Share:				
Basic	0.98	(0.02)	0.59	(0.19)
Diluted	0.98	(0.02)	0.59	(0.19)
2008				
Operating revenues	$ 364,503	$ 580,310	$ 607,076	$ 407,633
Operating income (loss)	(58,971)	(122,760)	33,664	(81,747)
Earnings (loss) from continuing operations	(71,003)	(145,115)	(1,264)	(80,183)
Earnings (loss) from continuing operations attributable to PNMR	(71,135)	(146,248)	(4,847)	(83,042)
Net earnings (loss)	(48,504)	(142,353)	(1,902)	(70,178)
Net earnings (loss) attributable to PNMR	(48,636)	(143,486)	(5,485)	(73,037)
Earnings (Loss) from Continuing Operations Attributable to PNMR per Common Share:				
Basic	(0.93)	(1.79)	(0.06)	(0.94)
Diluted	(0.93)	(1.79)	(0.06)	(0.94)
Net Earnings (Loss) Attributable to PNMR per Common Share:				
Basic	(0.63)	(1.76)	(0.06)	(0.82)
Diluted	(0.63)	(1.76)	(0.06)	(0.82)
PNM				
2009				
Operating revenues	$ 231,955	$ 226,541	$ 275,025	$ 234,488
Operating income (loss)	10,486	(10,441)	58,952	18,254
Earnings (loss) from continuing operations	(2,344)	(5,146)	33,447	5,944
Net earnings (loss)	73,509	(7,757)	32,085	4,865
Net earnings (loss) attributable to PNM	70,930	(10,532)	29,549	865
2008				
Operating revenues	$ 252,664	$ 386,058	$ 356,397	$ 247,823
Operating income (loss)	(30,582)	(29,637)	47,385	6,317
Earnings (loss) from continuing operations	(26,977)	(46,007)	19,385	(5,696)
Net earnings (loss)	(4,478)	(43,245)	18,747	4,309
Net earnings (loss) attributable to PNM	(4,478)	(44,246)	15,296	1,582
TNMP				
2009				
Operating revenues	$ 41,225	$ 46,819	$ 55,665	$ 48,923
Operating income (loss)	6,085	10,432	16,732	11,853
Net earnings (loss)	1,421	1,766	6,151	2,828
2008				
Operating revenues	$ 42,228	$ 47,118	$ 51,097	$ 49,839
Operating income (loss)	10,583	(21,563)	15,506	12,924
Net earnings (loss)	3,730	(28,753)	8,093	8,137

As discussed in Note 12, the actuarial determination of the PBO for the PNM pension plan at December 31, 2009 revealed that there had been an increase in the PBO of $9.6 million due to the retirement of employees transferred to NMGC following the sale of PNM Gas in January 2009. This increase was expensed, similar to a plan curtailment, as required by GAAP and reduced the gain recognized on the sale. The expense for the PBO increase is reflected through a retroactive adjustment of the March 31, 2009 quarter in the above table and PNMR and PNM will restate that quarter on its Form 10-Qs during 2010. The retroactive adjustment is part of discontinued operations for PNMR and PNM and does not impact earnings from continuing operations or earnings per share from continuing operations. The retroactive adjustment had the following impact on the March 31, 2009 amounts presented above:

	Quarter Ended March 31, 2009	
	As previously Reported	**As Restated**
	(In thousands, except per share amounts)	
PNMR		
Net earnings (loss)	$ 98,082	$ 92,260
Net earnings (loss) attributable to PNMR	95,371	89,549
Net Earnings (Loss) Attributable to PNMR per Common Share:		
Basic	1.04	0.98
Diluted	1.04	0.98
PNM		
Net earnings (loss)	79,331	73,509
Net earnings (loss) attributable to PNM	76,752	70,930