



# Executing Our Long-term Strategy

Jeff Sterba, CEO  
Chuck Eldred, CFO

January 15, 2008

***Sale of PNM Natural Gas  
Operations***

***Purchase of  
Cap Rock Holding Corporation***

# Safe Harbor

## Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements made in this news release that relate to future events or the Company's expectations, projections, estimates, intentions, goals, targets and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. You are cautioned that all forward-looking statements are based upon current expectations and estimates and the Company assumes no obligation to update this information. Because actual results may differ materially from those expressed or implied by these forward-looking statements, the Company cautions you not to place undue reliance on these statements. The Company's business, financial condition, cash flow and operating results are influenced by many factors, which are often beyond its control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. These factors include the risk that the joint venture EnergyCo LLC ("EnergyCo") is unable to identify and implement profitable acquisitions, including development of the Cedar Bayou Generating Station, or that the Company and ECJV Holdings, L.L.C. will not agree to make additional capital contributions to EnergyCo, the potential unavailability of cash from the Company's subsidiaries or EnergyCo due to regulatory, statutory or contractual restrictions, the outcome of any appeals of the Public Utility Commission of Texas order in the stranded cost true-up proceeding, the ability of First Choice Power to attract and retain customers, changes in Electric Reliability Council of Texas protocols, changes in the cost of power acquired by First Choice Power, collections experience, insurance coverage available for claims made in litigation, fluctuations in interest rates, conditions affecting the Company's ability to access the financial markets, including actions by the ratings agencies affecting the Company's credit ratings, or EnergyCo's access to additional debt financing following the utilization of its existing credit facility, weather, water supply, changes in fuel costs, availability of fuel supplies, the effectiveness of risk management and commodity risk transactions, seasonality and other changes in supply and demand in the market for electric power, variability of wholesale power prices and natural gas prices, volatility and liquidity in the wholesale power markets and the natural gas markets, changes in the competitive environment in the electric and natural gas industries, the performance of generating units, including the Palo Verde Nuclear Generating Station, the San Juan Generating Station, the Four Corners Plant, and EnergyCo generating units, and transmission systems, the ability to secure long-term power sales, the risk that the Company and its subsidiaries and EnergyCo may have to commit to substantial capital investments and additional operating costs to comply with new environmental control requirements including possible future requirements to address concerns about global climate change, the risks associated with completion of generation, including pollution control equipment at the San Juan Generating Station, and the EnergyCo Cedar Bayou Generating Station, transmission, distribution and other projects, including construction delays and unanticipated cost overruns, state and federal regulatory and legislative decisions and actions, the outcome of legal proceedings, changes in applicable accounting principles and the performance of state, regional and national economies, and the risk that the closings of the pending sale of the PNM natural gas utility and pending purchase of certain Continental Energy Systems subsidiaries may not occur due to regulatory or other reasons. For a detailed discussion of the important factors that affect the Company and that could cause actual results to differ from those expressed or implied by the Company's forward-looking statements, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's current and future Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q and the Company's current and future Current Reports on Form 8-K, filed with the SEC.

# Agenda

---

- ▶ Strategic Focus
- ▶ Transaction Overview
- ▶ Financial Highlights

# Strategic Focus

- ➔ Achieve fair regulatory treatment for all our regulated utilities
  - Current focus on PNM electric rate case
- ➔ Perform top-to-bottom review of our operations to streamline process, reduce costs and maximize efficiency
- ➔ Separate merchant operations from PNM utility for regulatory simplicity
  - Sell merchant book
- ➔ Concentrate focus on our core competency: electric operations

***The sale is part of the company's strategy to concentrate investment focus and strengthen financial position in an era of rising costs, growing power demand and significant capital investment needs***

# Transaction Summary

	<u>Sale</u>	<u>Purchase</u>
<b>Entity:</b>	PNM Gas	Cap Rock Holding Corporation
<b>Price:</b>	\$620M	\$202.5M
<b>Consideration:</b>	100% cash	100% cash <i>(amount financed yet to be determined)</i>
<b>Required Approvals &amp; Conditions:</b>	NM PRC Hart-Scott-Rodino	PUCT FERC Hart-Scott-Rodino
<b>Expected Closing:</b>	By year-end	By year-end

# A Compelling Strategic Opportunity

---

- ▶ Advances PNM Resources' long-term vision and strategy
  - Creates pure-play utility with focus on core electric business
  - Expands geographic footprint in Texas
  - Diversifies business risk
- ▶ Buyer is experienced gas operator committed to New Mexico community and our gas company employees
  - Seamless transition ensured
  - Collaborative effort to reduce costs
- ▶ Strengthens PNM Resources' financial position
- ▶ Financially attractive to shareholders

# PNM Gas Operations



- ▶ PNM agreed to purchase gas company in 1985 and restore health to its operations
- ▶ Gas company headquarters to remain in Albuquerque
  - Current gas employees and majority of shared function employees will be retained
- ▶ Services agreement will insure seamless transition

# Cap Rock

- ▶ Pure bundled T&D business based in Midland, TX
  - 11,000 miles of distribution lines and 6 distribution substations
  - 305-mile, 138-kV looped transmission system with 17 associated substations
- ▶ Three non-contiguous service areas:
  - West Texas (24,500 customers) synchronized with SPP
  - McCulloch (6,700) within ERCOT
  - Hunt Collin (4,800) within ERCOT
- ▶ Minimal commodity/power cost exposure
  - Power supplied under long-term, full requirements purchase power agreements
  - Power cost recovery factor (PCRf) allows for pass-through of all power costs on monthly basis
- ▶ Distribution regulated by the PUCT;  
Transmission regulated by the FERC
- ▶ Current rates implemented in July 2006
  - Rates are regulated and range between 9.5 and 11 cents per kWh

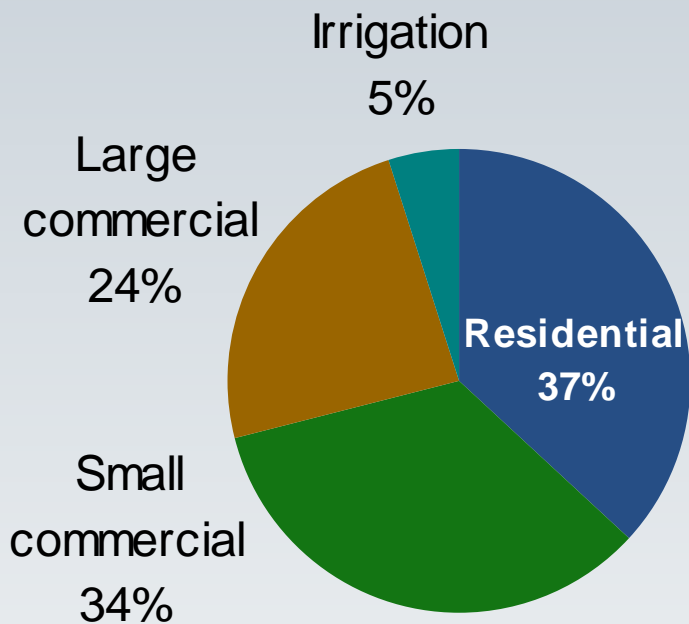


## Legend

- CapRock Service Area
- TNMP Service Area

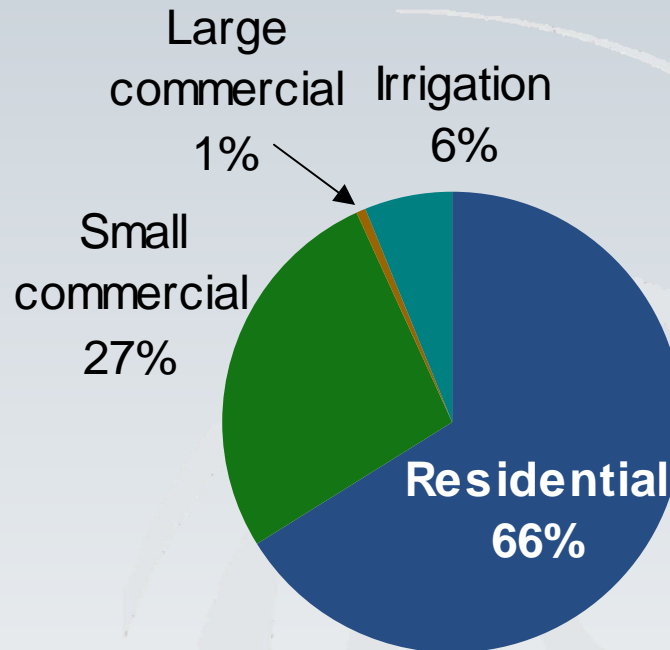
# Growing Service Territory

LTM 9/30/07 Electric Sales



**Total: \$83,838**  
(\$ in thousands)

9/30/07 Accounts



**Total: 35,921 meters**

# A Compelling Financial Opportunity

- ▶ Earnings accretive in first year
- ▶ Management and operational synergy potential
- ▶ Value enhancing
  - Selling at estimated 2007 EBITDA multiple of 11.7X
  - Purchasing at estimated 2007 EBITDA multiple of 8.0X
- ▶ Proceeds to be used for variety of purposes; increases financial flexibility

# Sales and Purchase Multiples

	<b><u>PNM Gas Sale</u></b>	<b><u>Cap Rock Purchase</u></b>
Price	\$620M	\$202.5M
Estimated 2007 EBITDA	\$53.0M	\$24.6M
Total Price / 2007E EBITDA	11.7X	8.0X*

\* Multiple is based on purchase price net of acquired NOLs with a PV of ~\$5M

# Sales Proceeds

## \$ Millions

### ***Net Proceeds***

Gross sale proceeds	\$620
Transaction costs	(15)
Income tax	(142)
<b>After-tax proceeds</b>	<b>\$463</b>

### ***Uses***

Cap Rock Acquisition *	\$202
Reduction of debt associated with gas business	225
Other corporate uses	36
<b>Total uses</b>	<b>\$463</b>

\* May be subsequently financed with 50-60% debt

# Summary

---

- ▶ Advances PNM Resources' long-term vision and strategy
- ▶ Seamless transition ensured
  - Collaborative effort to reduce costs
- ▶ Financially attractive to shareholders
  - Value-enhancing multiples
  - Slight earnings accretion in first year
  - Proceeds increase financial flexibility

# Q&A

---