

# *Third Quarter Earnings*

*Nov. 2, 2007*

## **Jeff Sterba**

Chairman, President &  
CEO

## **Pat Vincent**

President, Utilities

## **Chuck Eldred**

Executive Vice President &  
CFO

# Safe Harbor Statement



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 EnergyCo is unable to identify and implement profitable acquisitions, including development of the Cedar Bayou Generating Station and implementation of the acquisition of the Lyondell facility, or that the Company and ECJV 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 PUCT 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, 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, the expansion of the Afton 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. 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.

## Non-GAAP Financial Measures

For an explanation of the non-GAAP financial measures that appear on certain slides in this presentation (ongoing earnings, ongoing earnings per diluted share and ongoing EBITDA), as well as a reconciliation to GAAP measures, please refer to the Company's website as follows: <http://www.pnmresources.com/fin>

# Quarter Highlights

## ▶ 3<sup>rd</sup> Quarter EPS

- Ongoing EPS: \$0.41; down from \$0.62 last year
    - Excludes impact of net unrealized mark-to-market gains and losses on economic hedges
  - Afton write-down - \$0.15
  - Non-recurring costs associated with business improvement initiatives - \$0.10
  - GAAP: \$0.11; down from \$0.62 last year
- ▶ YTD ongoing EPS: \$0.96; down from \$1.27 last year
- ▶ Announced initiatives to cut costs and improve efficiencies in regulated utilities

# First Choice Power Performance Drivers



Key Drivers	YTD 2006	YTD 2007
Weather (2 <sup>nd</sup> and 3 <sup>rd</sup> Qtrs)	Warmer than normal	Milder than 2006
Customer Growth	Full year 2006: 17%	Expected 2007: 5-6%
Average Retail Unit Margin (\$/MWh)	\$27/MWh	\$22/MWh
Trading Margins*	\$7 million gain	(\$7 million loss)

\*Includes settled transactions and net unrealized mark-to-market gains/(losses) on trading activities.

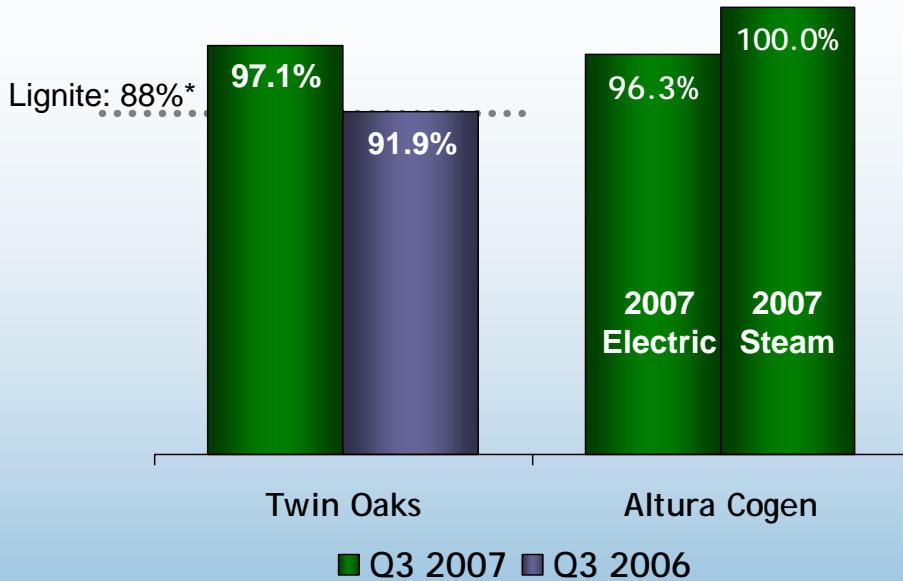
# First Choice Power Looking Ahead



- ▶ Solid position in a maturing competitive market
  - Expect accelerating growth in 2008
- ▶ Better prepared for market opportunities in 2008
  - Completed system conversion will support advanced enrollment capabilities and new product offerings, along with substantially more efficient operations
  - More distinct value proposition through affinity programs and more consistent branding
  - Expect margins to stabilize in the low \$20's range
- ▶ Continue wholesale-led retail strategy
  - Preparing for transition to nodal market
  - 94% hedged for Q4 2007; 68% hedged for Q1 2008

# EnergyCo Update

## Third Quarter Availability



## EnergyCo ERCOT portfolio

Two operating assets:

- Twin Oaks Power Facility (305 MW)
- Altura Cogen (614 MW)

One plant under construction:

- Cedar Bayou (275 MW)
  - Project on budget and on schedule for completion summer 2009

### 3<sup>rd</sup> and 4<sup>th</sup> Qtr Scheduled Outages

Twin Oaks Unit #1: 10/13/07-11/17/07

Altura Cogen: 9/15/07-9/29/07  
10/12/07-11/12/07

\* Annual top quartile numbers from the North American Electricity Reliability Council

## Summary of Filed Positions in PNM Electric Rate Case

	Last Allowed	PNM Filing	Staff Filing	Attorney General Filing
ROE	10.5%	10.75%	9.10%	9.57%
Revenue Requirement	\$558.5	\$640.9 million	\$571.3 million	\$568.9 million
Rate Base	\$960 million	\$1.2 billion	\$1.1 billion	\$1.1 billion
Rate Increase	N/A	\$82.4 million	\$11.8 million	\$1.4 million
Fuel Clause	N/A	Implementation	Reject	Reject

## Electric Rate Case

### Schedule

- ✓ Oct. 22 Staff and intervenor testimony due
- Nov. 19 Rebuttal testimony due
- Dec. 5 Hearings begin
- Feb. 28 Recommended decision due
- May 7 Rate suspension period ends

### NEXT STEPS

- Continue rebuttal preparation
- Pursue settlement
- Pursue fully litigated case

## Gas Rate Case Appeals

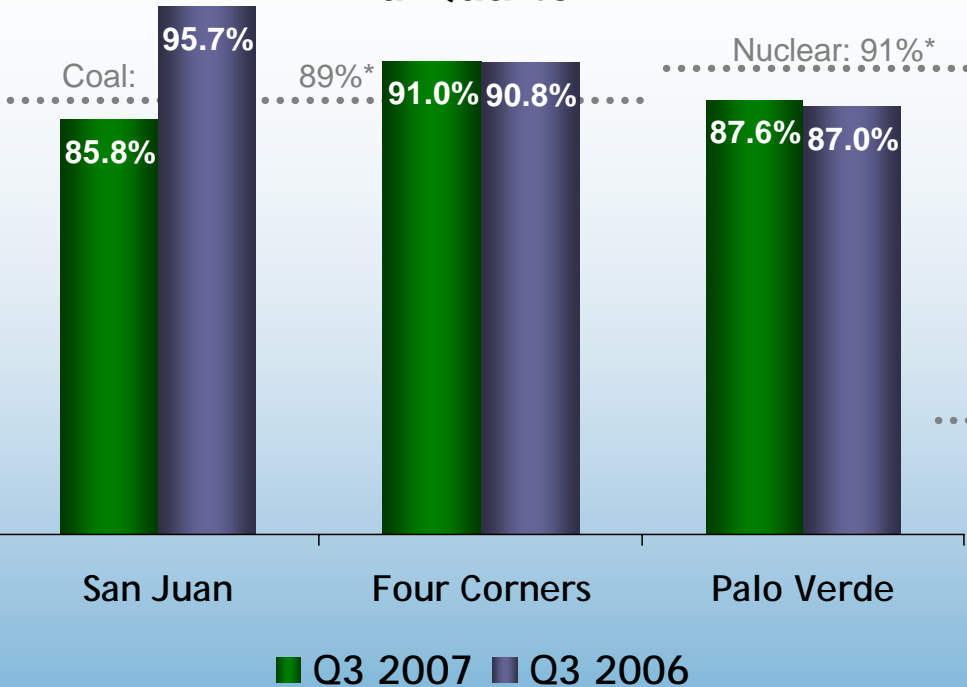
### NM Supreme Court Briefing Schedule

- Nov. 20 Briefs in chief due (in support of appeals)
- Feb. 1 Answer briefs due (in opposition of appeals)
- Mar. 4 Reply briefs due (response to answer briefs)

# Base Load Plant Performance

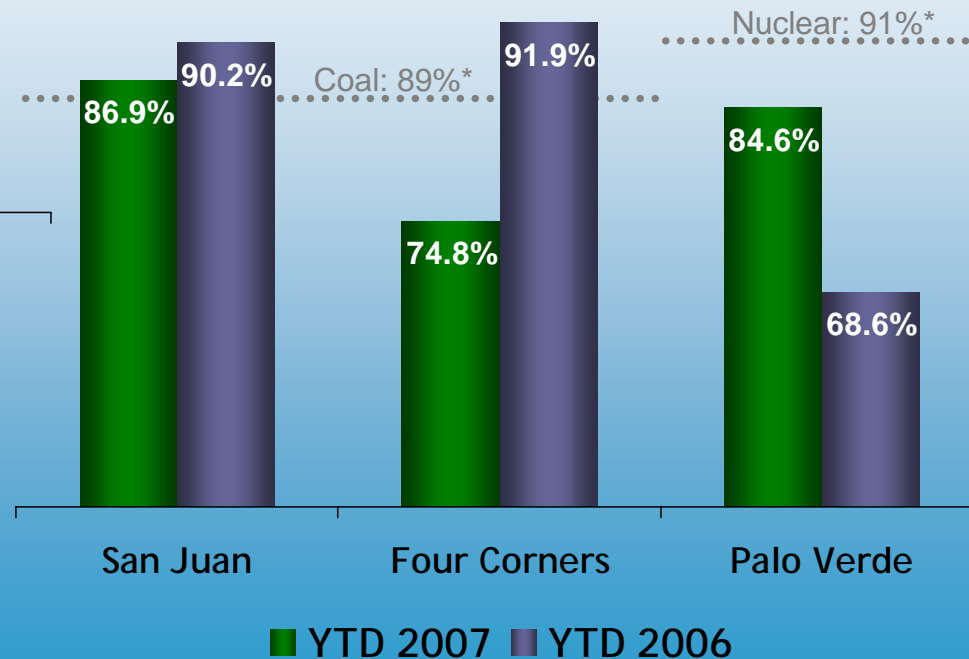


## Third Quarter EAF



**3<sup>rd</sup> and 4<sup>th</sup> Qtr Scheduled Outages**  
 San Juan Unit #4: 9/8-10/31  
 Palo Verde #3: 9/29-12/13

## Year-to-date EAF



\* Annual top quartile numbers from the North American Electricity Reliability Council

- ▶ Capital investments at San Juan
  - 7 week outages at each unit for environmental enhancements as well as preventative work to avoid future boiler tube leaks
  
- ▶ Improvements at Palo Verde
  - Performance challenges and increased O&M costs expected to continue for 12-18 months
  - Frequent interaction with APS senior management
    - Operations and finance
  - Other minority owners

## Multi-phase initiative designed to:

- ▶ Streamline processes and reduce costs across corporation
  - Centralize work functions
  - Expand customer self-service options
  - Rebuild meter-to-cash process
- ▶ Reduce work force by 15% over next 12 months; 5% reduction beginning yesterday and today
- ▶ Save approximately \$35 million on an annualized basis, not including costs to achieve.
  - A portion of savings to be realized in 2008
- ▶ Improve utility operations

**Rigorous tracking mechanism will ensure savings**

# YTD Unrealized Mark-to-Market



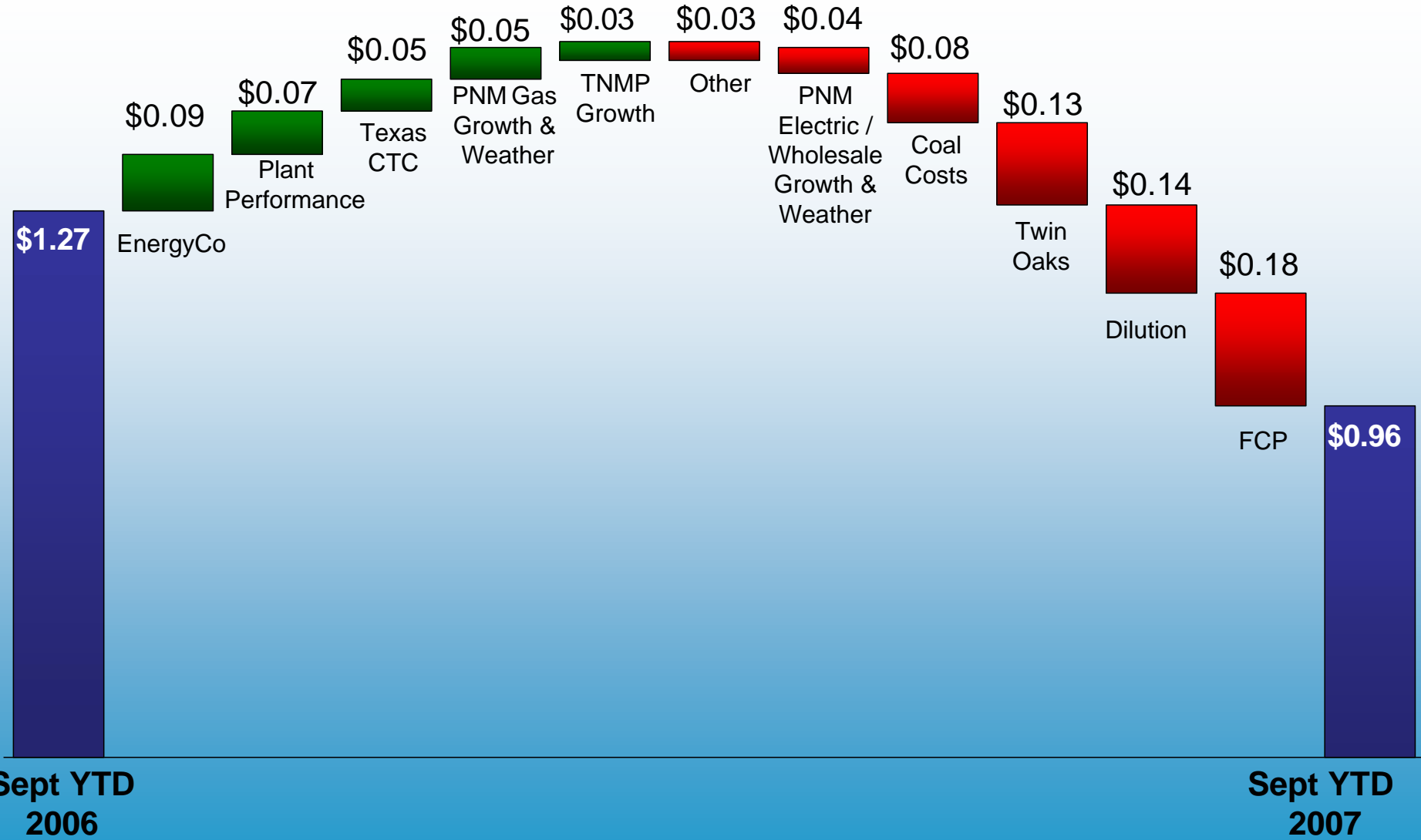
## Net Unrealized Mark-to-Market Gains/(Losses) on Economic Hedges by Forward Maturity

	\$ Thousands			
	2007	2008-2012	2013+	Total
Mark-to-market Gains/(Losses)	(\$4,991)	(\$1,030)	(\$8,376)	(\$14,397)
% of total	35%	7%	58%	
\$ Per Share	(\$0.04)	(\$0.01)	(\$0.06)	(\$0.11)

**2007 Impact:** Hedging transactions impact reflects higher energy costs expected in Q4 2007, already included in year-end earnings guidance.

**Other:** Loss in periods 2012 and beyond are primarily driven by long-term power sales agreements to hedge the PNM merchant business.

# YTD Ongoing Earnings Walk Across



# 2007 Guidance and Beyond



- ▶ Affirm EPS guidance at low end of \$1.30 - \$1.40 range
- ▶ Strong plant performance is crucial
  - Nov/Dec EAF's required to meet guidance
    - Palo Verde: 73%
    - San Juan: 93%
- ▶ 2008 key considerations
  - Conversion of equity-linked securities
  - Impact of Load Growth
  - Plant performance and fuel cost escalation
  - Timing of savings associated with business improvement plan
  - Electric Rate Case Outcome

# Questions and Answers

# **Second Quarter 2007**

## **Appendix**

# Reconciliation of GAAP to Ongoing Earnings



	<u>Quarter Ended Sept. 30</u>				<u>Year-to-Date Sept. 30</u>			
	2007		2006		2007		2006	
	Earnings (in '000s)	EPS Diluted	Earnings (in '000s)	EPS Diluted	Earnings (in '000s)	EPS Diluted	Earnings (in '000s)	EPS Diluted
Net Earnings Available to Common Shareholders (GAAP)	\$ 8,372	\$0.11	\$ 43,520	\$0.62	\$58,277	\$0.75	\$ 85,504	\$ 1.23
Adjustments for Acquisition and Other Non-Recurring Charges (net of income tax effects):								
Favorable Tax Decision	-	-	-	-	(16,037)	(0.21)	-	-
Acquisition Integration Costs	-	-	568	-	-	-	2,277	0.03
Twin Oaks III Impairment	-	-	-	-	2,042	0.02	-	-
Business Improvement Plan	7,591	0.10	-	-	7,592	0.10	-	-
Loss on Altura Contribution	-	-	-	-	2,197	0.03	-	-
Sale of Turbine	(1,678)	(0.02)	-	-	(1,678)	(0.02)	-	-
Afton Write-Down	11,780	0.15	-	-	11,780	0.15	-	-
JV Formation Costs	-	-	-	-	2,543	0.03	-	-
Economic Mark-to-Market	5,770	0.07	(272)	-	8,662	0.11	915	0.01
Total Adjustments	23,463	0.30	296	-	17,101	0.21	3,192	0.04
<del>Net Ongoing Earnings Available to</del> Common Shareholders	<del>\$ 31,835</del>	<del>\$0.41</del>	<del>\$ 43,816</del>	<del>\$0.62</del>	<del>\$75,378</del>	<del>\$0.96</del>	<del>\$ 88,696</del>	<del>\$ 1.27</del>
Average Diluted Shares	77,561		70,761		78,151		69,784	

# 3<sup>rd</sup> Quarter EPS by Segment



(ongoing)

	Q3 2007	Q3 2006	+/-
Total Diluted EPS	\$0.41	\$0.62	(\$0.21)

## Regulated Operations:

PNM Electric	\$0.24	\$0.24	\$0.00
PNM Gas	(\$0.06)	(\$0.07)	\$0.01
TNMP Electric	\$0.13	\$0.08	\$0.05
<b>Total Regulated</b>	<b>\$0.31</b>	<b>\$0.25</b>	<b>\$0.06</b>

## Unregulated Operations:

Wholesale	\$0.05	\$0.25	(\$0.20)
First Choice	\$0.04	\$0.21	(\$0.17)
EnergyCo	\$0.08	\$0.00	\$0.08
<b>Total Unregulated</b>	<b>\$0.17</b>	<b>\$0.46</b>	<b>(\$0.29)</b>

<b><u>Corp/Other</u></b>	<b>(\$0.07)</b>	<b>(\$0.09)</b>	<b>\$0.02</b>
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# 3<sup>rd</sup> Quarter EBITDA by Segment



(ongoing)

(in millions)	Q3 2007	Q3 2006	+/-
<b>Total EBITDA</b>	<b>\$121.2</b>	<b>\$148.9</b>	<b>(\$27.7)</b>
<b><u>Regulated Operations:</u></b>			
PNM Electric	\$56.1	\$52.1	\$4.0
PNM Gas	\$2.1	\$0.6	\$1.5
TNMP Electric	\$28.8	\$24.1	\$4.7
<b>Total Regulated</b>	<b>\$87.0</b>	<b>\$76.8</b>	<b>\$10.2</b>
<b><u>Unregulated Operations:</u></b>			
Wholesale	\$13.1	\$48.6	(\$35.5)
First Choice	\$6.2	\$24.1	(\$17.9)
EnergyCo	\$10.6	\$0.0	\$10.6
<b>Total Unregulated</b>	<b>\$29.9</b>	<b>\$72.7</b>	<b>(\$42.8)</b>
<b><u>Corp/Other</u></b>	<b>\$4.3</b>	<b>(\$0.6)</b>	<b>\$4.9</b>

# YTD EPS by Segment



(ongoing)

	YTD 2007	YTD 2006	+/-
Total Diluted EPS	\$0.96	\$1.27	(\$0.31)
<b><u>Regulated Operations:</u></b>			
PNM Electric	\$0.44	\$0.46	(\$0.02)
PNM Gas	\$0.06	\$0.01	\$0.05
TNMP Electric	\$0.20	\$0.14	\$0.06
<b>Total Regulated</b>	<b>\$0.70</b>	<b>\$0.61</b>	<b>\$0.09</b>
<b><u>Unregulated Operations:</u></b>			
Wholesale	\$0.21	\$0.47	(\$0.26)
First Choice	\$0.19	\$0.42	(\$0.23)
EnergyCo	\$0.09	\$0.00	\$0.09
<b>Total Unregulated</b>	<b>\$0.49</b>	<b>\$0.89</b>	<b>(\$0.40)</b>
<b><u>Corp/Other</u></b>	<b>(\$0.23)</b>	<b>(\$0.23)</b>	<b>\$0.00</b>

# YTD EBITDA by Segment



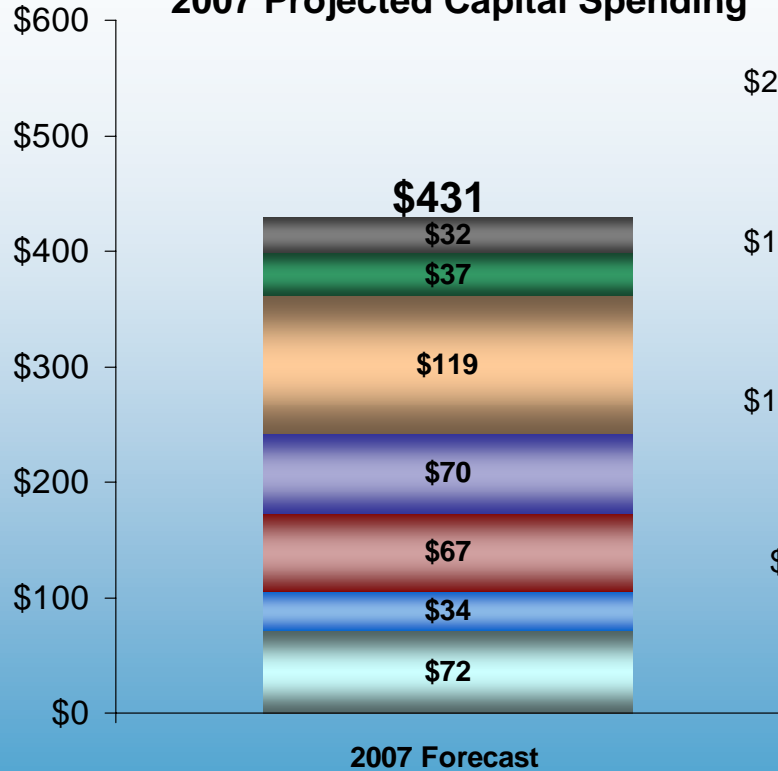
(ongoing)

(in millions)	YTD 2007	YTD 2006	+/-
<b>Total EBITDA</b>	<b>\$338.0</b>	<b>\$358.3</b>	<b>(\$20.3)</b>
<b><u>Regulated Operations:</u></b>			
PNM Electric	\$133.8	\$124.3	\$9.5
PNM Gas	\$35.5	\$28.0	\$7.5
TNMP Electric	\$64.4	\$60.5	\$3.9
<b>Total Regulated</b>	<b>\$233.7</b>	<b>\$212.8</b>	<b>\$20.9</b>
<b><u>Unregulated Operations:</u></b>			
Wholesale	\$63.7	\$98.6	(\$34.9)
First Choice	\$26.6	\$47.5	(\$20.9)
EnergyCo	\$12.2	\$0.0	\$12.2
<b>Total Unregulated</b>	<b>\$102.5</b>	<b>\$146.1</b>	<b>(\$43.6)</b>
<b><u>Corp/Other</u></b>	<b>\$1.8</b>	<b>(\$0.6)</b>	<b>\$2.4</b>

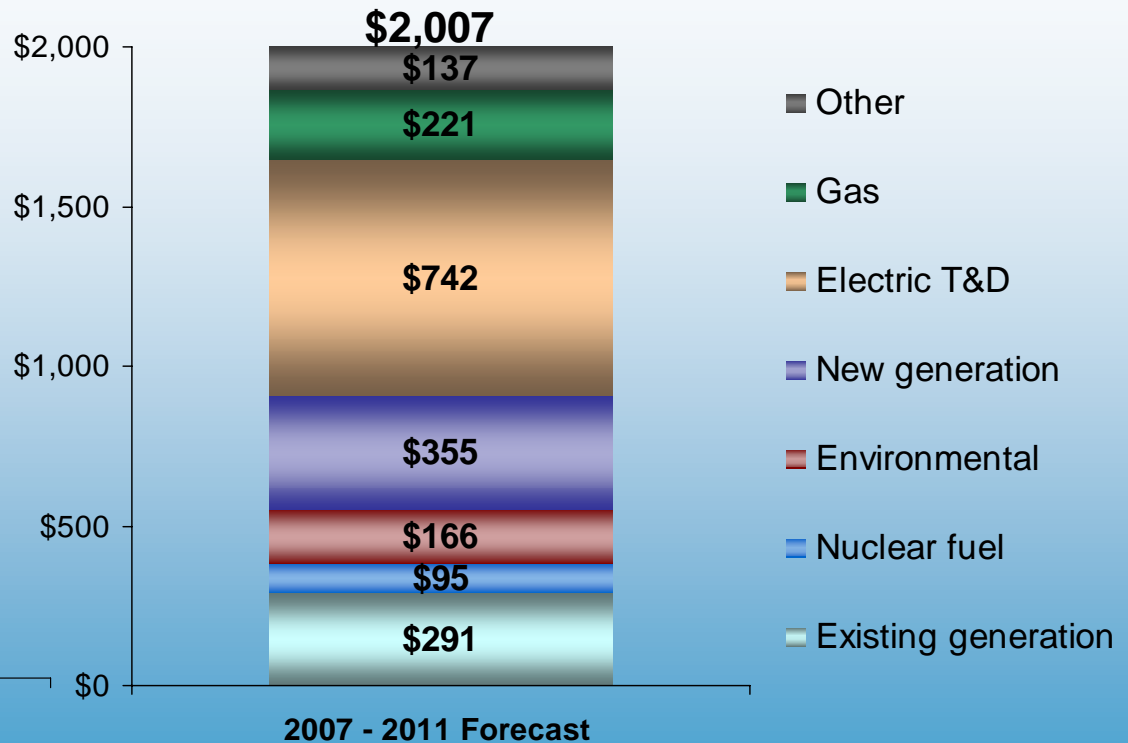
# Capital Expenditures

(In millions)

### 2007 Projected Capital Spending



### Projected Five-Year Capital Spending



*Includes AFUDC and capitalized interest*

# Utility Rate Base



	Rate Base Last Allowed	ROE Last Allowed	Test Period 12-month ended	Filed Rate Base	Filed ROE	Debt/Equity Ratio	Proposed Implementation
<b>PNM Electric</b>	\$960 million	10.5%	Sept. 2006	\$1.2 billion	10.75%	48%/52%	Q1 '08
<b>PNM Gas</b>	\$377 million	9.53%	Dec. 2005	Final order issued June 2007		48%/52%	Implemented July 2007
<b>TNMP-TX</b>	\$402 million	10.25%	Sept. 2004	Rates frozen through 5/07		60%/40%	N/A
<b>TNMP-NM</b> Has transferred to PNM	\$70 million	10.0%	Sept. 2004	Rates frozen through 12/10		55%/45%	N/A

# 3<sup>rd</sup> Quarter Weather Data



## Heating-Degree Days

	2007 Q3	2006 Q3	Normal
PNM	1	57	16
TNMP	0	0	2

## Cooling-Degree Days

	2007 Q3	2006 Q3	Normal
PNM	1,124	778	1,016
TNMP	1,718	1,742	1,678

The heating-degree day (HDD) value is the accumulation in degrees that the daily mean temperature was below 65 degrees F. The cooling-degree day (CDD) value is the accumulation in degrees that the daily mean temperature was above 65 degrees F.

# YTD Weather Data

## Heating-Degree Days

	2007 YTD	2006 YTD	Normal
PNM	2,401	2,069	2,241
TNMP	1,112	730	1,051

## Cooling-Degree Days

	2007 YTD	2006 YTD	Normal
PNM	1,536	1,378	1,493
TNMP	2,770	3,051	2,769

The heating-degree day (HDD) value is the accumulation in degrees that the daily mean temperature was below 65 degrees F. The cooling-degree day (CDD) value is the accumulation in degrees that the daily mean temperature was above 65 degrees F.