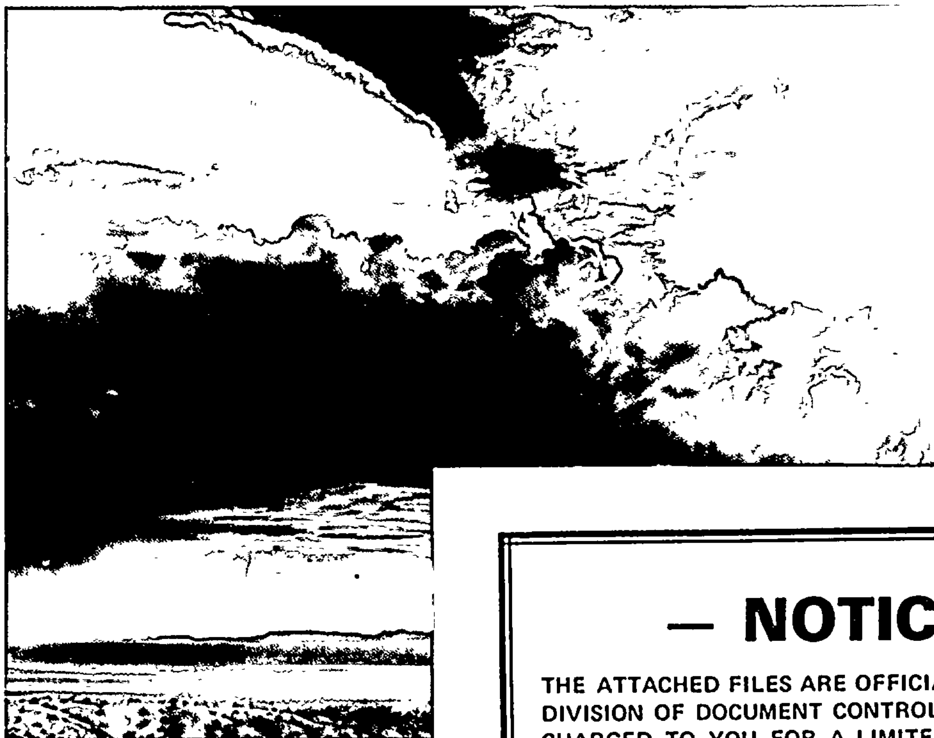
"A fine wind is blowing the new direction of time"

—D.H. Lawrence

PNM ANNUAL REPORT 1984



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Changing, Yet Unchanged

The Southwest is a land of sharp contrasts—modern cities rising from timeless deserts, multistory granite and glass office buildings standing within sight of adobe Indian villages.

Laura Gilpin's "Storm From La Bajada Hill, New Mexico," on the cover of this year's annual report, reveals a dramatic landscape. Since the Gilpin photograph was taken in 1946, a modern interstate has been built across La Bajada's weather-beaten, high mountain desert. Wise travelers have a healthy respect for the storms that often rack the otherwise serene hill.

As you turn the pages of the report you'll see other vintage photographs that convey the ageless quality of New Mexico. They are accompanied by quotes from well-known authors and others whose work has been deeply influenced by experiences in the Southwest.

PNM has also been influenced by the natural beauty and the rich cultural heritage of New Mexico and the Southwest. As we've grown, as we've changed to meet the challenges and take advantage of the opportunities of the 1980s, we've retained our close affinity for the land and for the people we serve.

"STORM FROM LA BAJADA HILL, NEW MEXICO," *Laura Gilpin 1946 © 1985 Amon Carter Museum*

Table of Contents

Financial Highlights

	1984	1983	% Change
Operating revenues	$ 445,328,000	$ 397,474,000	12.0
Operating expenses	$ 298,834,000	$ 261,227,000	14.4
Operating income	$ 146,494,000	$ 136,247,000	7.5
Net earnings	$ 132,840,000	$ 140,519,000	(5.5)
Net earnings applicable to common stock	$ 108,850,000	$ 116,332,000	(6.4)
Return on average common equity	12.5%	14.3%	(12.6)
Average number of common shares outstanding	35,011,000	32,956,000	6.2
Earnings per common share	$ 3.11	$ 3.53	(11.9)
Dividends paid per common share	$ 2.85	$ 2.81	1.4
Book value per common share at year-end	$ 25.28	$ 25.20	0.3
Utility construction expenditures	$ 278,205,000	$ 261,964,000	6.2
Gross investment in utility property	$2,405,961,000	$2,139,329,000	12.5
Kilowatt-hour sales	6,317,338,000	6,105,201,000	3.5
Number of electric customers served at year-end	243,864	233,256	4.5
Average kWhr usage per residential customer	6,022	5,915	1.8
System peak demand (MW)	976	998	(2.2)
Number of PNM employees	2,822	2,845	(0.8)
Number of common shareholders	66,855	70,210	(4.8)

Chairman's Letter

The midpoint of this decade is pivotal for the Public Service Company of New Mexico.

For years we have been building, endowing New Mexico and the Southwest with the energy resources needed to carry vigorous economic growth well into the next century. That long-term construction strategy is now approaching completion, and we have begun to focus on new services, fresh approaches to marketing and investments that help spur the growth of our state and region.

Such a period of transition demands innovation along with cautious management of the Company's resources. Change is inevitable, a positive response to needs and opportunities. Yet a critical management function is to recognize what should *not* change—the values, policies and traditions that give a corporation its character and durability—the stable business base that makes it possible to innovate without undue risk to shareholders or customers.

With this in mind, I think it appropriate to report this year not only on the changes underway, but also on those qualities of PNM which we recognize as changeless.

A Year of Opportunity

For PNM, this has been an exciting year. We entered 1984 faced with enormous challenges. The events of the past twelve months have proven that those challenges were, in fact, opportunities.

The year brought settlement of a landmark antitrust lawsuit in which PNM was an active plaintiff. The settlement led to PNM's acquisition, early in 1985, of the Gas Company of New Mexico and other New Mexico utility assets of the Dallas-based Southern Union Company. With the acquisition, PNM has added 303,000 gas customers to its service community and should realize approximately $400 million in new revenues during 1985.

Late in the year, the Palo Verde Nuclear Generating Station, in which PNM holds a 10.2 percent interest, received an operating license from the Nuclear Regulatory Commission for Unit 1 of the project. Fuel loading in Unit 1 was completed on January 11, 1985 and low power operation of the unit is underway. The license allows for possible full power operation later in 1985.

In December, the New Mexico Public Service Commission approved a new ratemaking methodology called Inventory of Capacity. This important ratemaking concept successfully deals with the problem of uncommitted capacity while protecting the interests of shareholders and shielding our customers from the impact of sudden rate increases.

Other 1984 highlights: the under budget and ahead of schedule completion of our Eastern Interconnection Project, a 216-mile transmission line which links us to eastern markets and allows immediate bulk power sales to Southwestern Public Service Company; completion—also under budget and ahead of schedule—of Montaña de Fibra, a $67 million medium density fiberboard facility in which our subsidiary, Meadows Resources, Inc., holds a primary interest; and finally, the implementation of a major rate relief package granted by the Commission to our electric utility.

Much of this good news is the outgrowth of years of strategic planning and careful management.

Marshaling of Resources

Our long-term commitment to utility construction began more than a decade ago, triggered in part by two phenomena. The first was the extraordinary growth rate of the 1960s, at times approaching 10 percent annually. The second was the oil crisis of the

1970s, which radically altered the way we and all Americans viewed energy.

We recognized at the time our responsibility to ensure that the economic potential of New Mexico and the Southwest must never be checked by insufficient supplies of energy. We saw clearly that our sources of fuel must be cost efficient, dependable and independent of external manipulation. As a result, PNM launched an intensive construction program to provide a balanced coal and nuclear power base.

Construction activity is now decreasing. The San Juan Generating Station, particularly San Juan Unit 4, which came on-line in 1982, is recognized as one of the most reliable and efficient coal-fired generating units in the nation. At Palo Verde Nuclear Generating Station, Unit 1 should be generating at full power later in 1985. Palo Verde Units 2 and 3 are on schedule and should be in operation by 1987. The ample and dependable energy supplies provided by these facilities represent a major resource for development in New Mexico and throughout the Southwest—a powerful attraction for new industries and businesses.

"Change is inevitable, a positive response to needs and opportunities. Yet a critical management function is to recognize what should not change"

Marketing: The Future Challenge

Added capacity brings with it a necessity for new emphasis on marketing. With the Eastern Interconnection Project complete, PNM is now linked with power systems to the east. We are also seeking markets to the north and in California. The early results of these efforts are notable. The Company has in-hand contracts to sell nearly three-quarters of our capacity in excess of that demanded by our New Mexico customers from 1985 through 1987.

An important element of our marketing program is the recognition that, by promoting the success of our customers, we ensure our own success. We are listening more closely than ever to what our customers are telling us about their energy needs.

Our marketing program is gaining momentum, but to protect our shareholders and customers against the possible negative impact of uncommitted capacity, we have embraced Inventory of Capacity. Inventorying protects customers from "stairstep" rate increases by holding uncommitted capacity out of the rate base until it is needed. At the same time, this new ratemaking concept recognizes the legitimate interests of shareholders by allowing capital costs to earn a fair return and to be recovered in the future.

Broadening Our Base

PNM is now a diversified business family, organized to accomplish two complementary tasks. Our electric and gas utility divisions serve as New Mexico's primary energy resources. Our investment group, headed by Meadows Resources, Inc., enhances corporate profitability while it spreads our investment risk and creates economic opportunities in New Mexico and the Southwest.

Our investment subsidiary, Meadows, accounted for 14 percent of our net earnings applicable to common stock for the year. Meadows has developed a broad base of interests with investments in forest products, minerals, land and new technologies.

Montaña de Fibra, completed in 1984, is expected to produce as much as 88 million square feet of medium density fiberboard annually. It has also generated 200 new jobs in an economically depressed area of New Mexico.

Meadows is tapping into Southwestern real estate markets through its active partnership with Bellamah Associates, Ltd., a New Mexico-based land development firm. The success of real estate activities has far exceeded our expectations, with total sales during 1984 amounting to $83.0 million.

The Meadows venture capital portfolio includes investments in gas lasers and other exciting technologies. Only about 4 percent of Meadows' assets are dedicated to venture investments, but we expect good returns.

Changing, Yet Unchanged

These key events and accomplishments of 1984 and early 1985 represent major milestones in the Company's strategic plan for the 1980s and beyond. But underlying the developments that I have briefly described, which have accelerated the evolution of PNM, there are solid principles of Company practice that do not change.

Among those principles is our commitment to strong leadership. The recent appointment of John Bundrant as President and Chief Operating Officer of our Electric Operations and John Ackerman as President and Chief Operating Officer of our Gas Operations reaffirms that commitment. These new appointments clearly separate our electric utility from our gas operations and assure a strengthening of active competition between the two utilities.

We seek only the best employees. The early completion of major projects such as Eastern Interconnection Project and Montaña de Fibra—at less than projected cost—is a testament to their skill and dedication.

A tough but fair regulatory atmosphere has yielded rate relief—$38.5 million in relief became available last July with another $7.5 million made available on February 1, 1985—and made possible ratemaking innovations such as Inventory of Capacity.

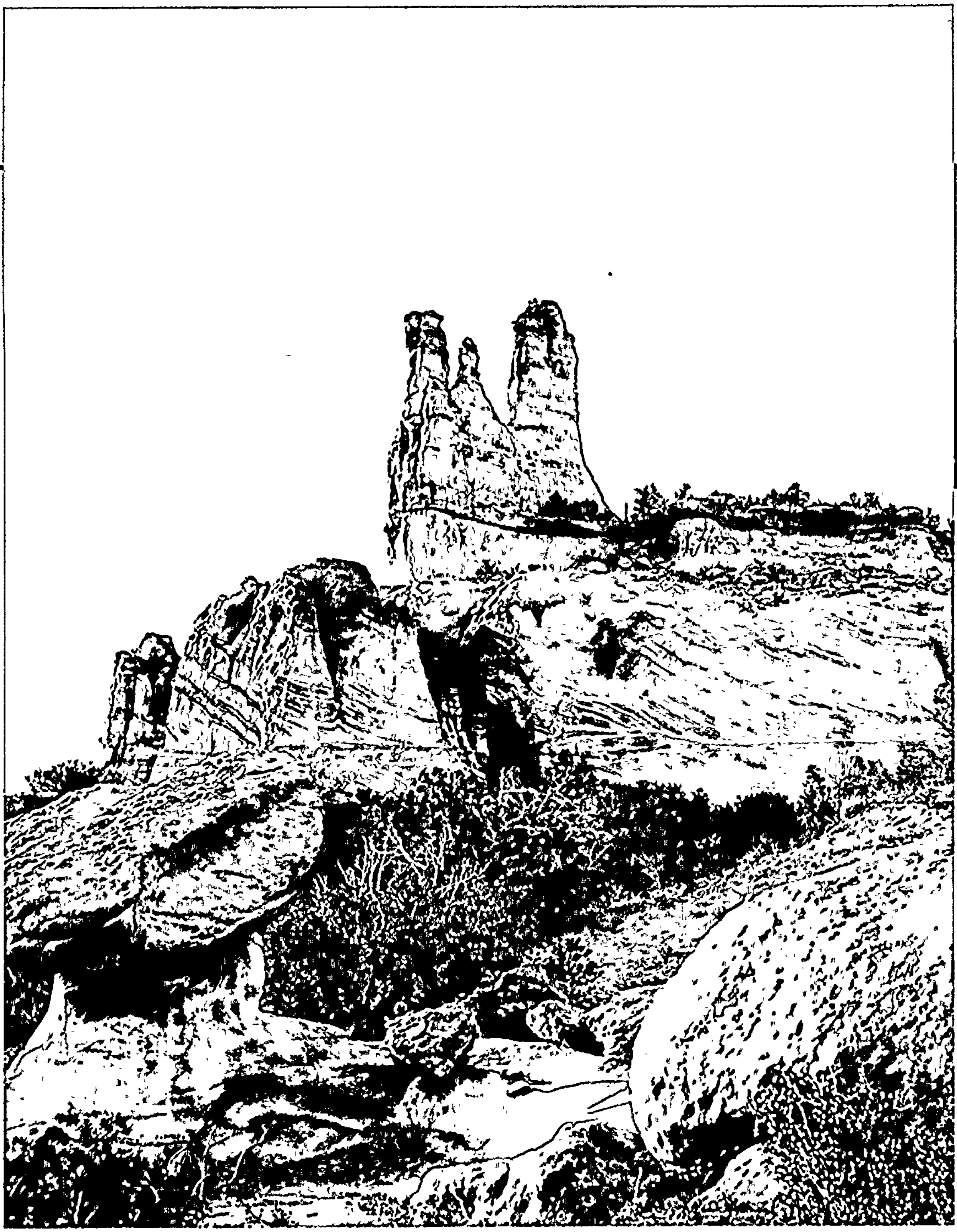
Finally, we are firmly committed to our customers, our state and our region. Our enduring goals are to help preserve an irreplaceable way of life and to enhance it through new opportunities.

Our shareholders, employees and customers recognize the importance of these goals and commitments. The PNM management and directors thank them all for their confidence and support.

J. D. Geist
Chairman and President

"The wind lay upon me. The monoliths were there in the long light, standing cleanly apart from time."

—N. Scott Momaday



"NAVAJO CHURCH NEAR FORT WINGATE (New Mexico)," *John K. Hillers, Circa 1880, Albumen Print*

Corporate Overview

In the decades ahead, the Public Service Company of New Mexico (PNM) anticipates a continuing population shift to the Southwestern Sunbelt. A land of rich cultural heritage and burgeoning economic development, the Southwest will require a steady and reliable supply of energy to match this expansion. As New Mexico and the Southwest region grow, the Company is committed to meet increasing customer demand—with its electric, gas, and water utilities.

Recognizing its obligation to promote the success of its customers as well as its shareholders, PNM plays a unique role in the development of the region. PNM believes in the importance of beneficial traditions—of development, of goals shared with the citizens it serves, and of a special concern for the land and the resources with which it is entrusted.

1984 Earnings

Careful management of Company resources is reflected in revenues and earnings. Net earnings for 1984 totaled $132.8 million. This represented a 14 percent increase in earnings over 1983, after eliminating a nonrecurring gain of $24.1 million, in 1983, on the sale of the equity interest in a trust which held certain coal leases.

Earnings per share of common stock were $3.11 in 1984. The average number of shares outstanding was 35.0 million, up 6.2 percent from the 33.0 million shares outstanding in 1983. Return on average common equity was 12.5 percent.

Regulatory Environment

During 1984, PNM was successful in negotiating settlements of several important cases before the New Mexico Public Service Commission (Commission). PNM believes that vigorous negotiation in good faith better serves all interests—the shareholder's, the customer's and the public's—than does prolonged and adversarial litigation.

Rate Filings

In 1984, the Commission approved the stipulated settlement of a rate relief request filed in August 1983, the Company's first electric rate filing since October 1981. The April 1984 settlement allowed PNM's electric utility to collect approximately $300 million in annualized revenues (excluding fuel adjustment clause revenues). The rate relief amounted to $46 million to be implemented in two steps. The first increase, of $38.5 million, was implemented in July 1984. An additional increase of $7.5 million was effective in February 1985.

The bulk of the overall rate adjustment reflects inclusion in the rate base of PNM's portion of construction costs for the fourth and final unit at the Company's coal-fired San Juan Generating Station (San Juan), located in northwest New Mexico.

Inventory of Capacity

The Commission also approved in December 1984 a stipulation between PNM, the Commission staff and other parties that established a ratemaking methodology called "Inventory of Capacity." This methodology places new generating facilities into the rate base gradually. Inventorying protects shareholder investment in new generating plant, while shielding customers from the sudden rate impacts that would otherwise occur if a new plant were put into the rate base all at once.

Faced with the challenge of placing new, capital intensive plant on-line while minimizing the impact on customers, the Company and the Commission began, in 1982, to study this new ratemaking concept, which places certain portions of uncommitted plant capacity into "inventory." In 1983 the Commission established a task force representing the Commission staff, PNM, the Attorney General's staff and three customer groups. This task force was charged with examining the inventorying concept and providing a recommendation on its application as a ratemaking method.

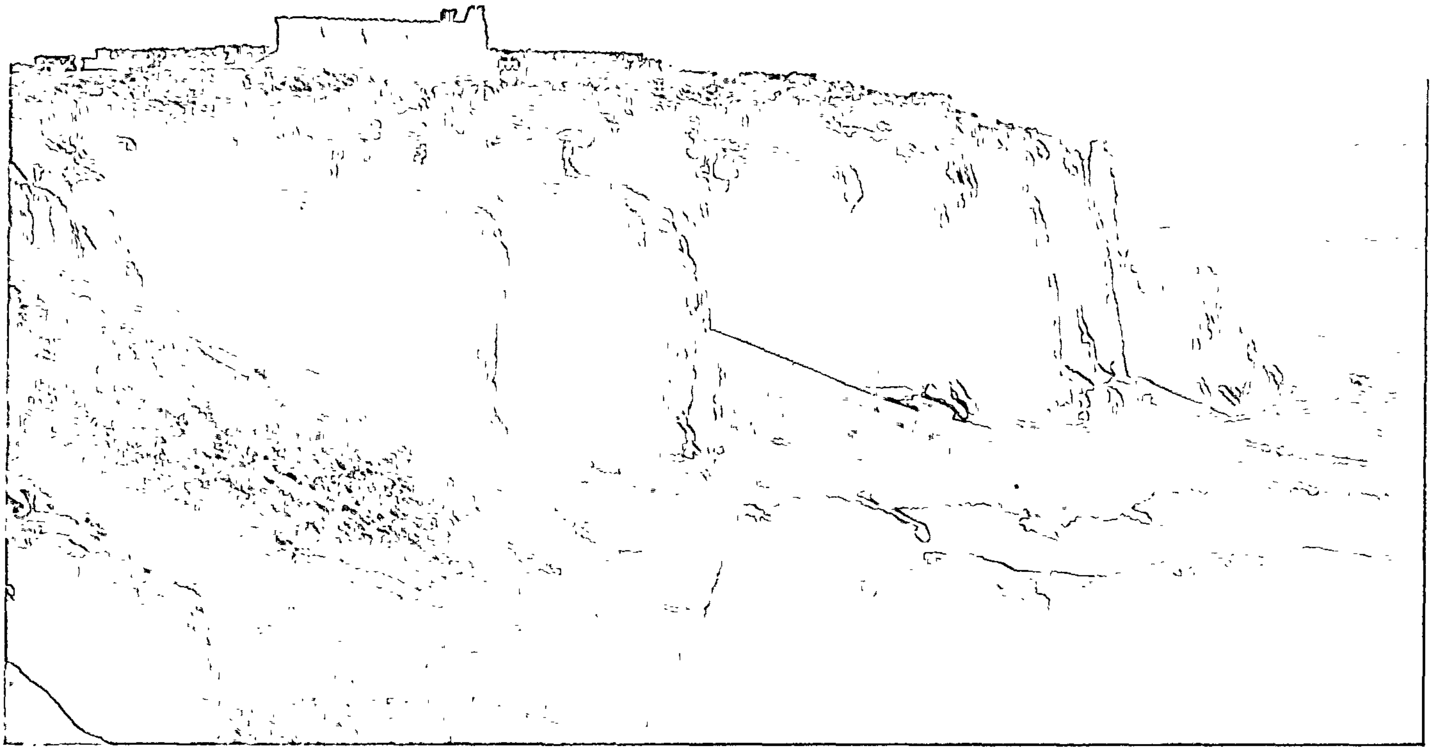
Inventorying defers certain costs associated with uncommitted capacity above a 20 percent reserve margin. It also defers some of the cash return on shareholders' investment and accrues non-cash earnings while the plant is in inventory. Such deferred carrying costs will be recovered from future customers when the inventoried plant is placed into the rate base.

Inventorying includes other cost-recovery methods. Revenues from bulk sales of inventoried capacity will be used first to pay fuel costs and other variable operating costs, then to pay up to half of the depreciation and property tax costs. Any additional revenues will be allocated to these costs and carrying charges, which would otherwise be paid by future customers.

The plan also contains a cap which limits the cost that customers will pay in the future.

"Wherever humanity has made the hardest of all starts and lifted itself out of mere brutality, is a sacred spot."

—Willa Cather



"CLIFF PERCHED ACOMA," *Edward S. Curtis, 1904, Glass Plate Negative*

Securities Transactions

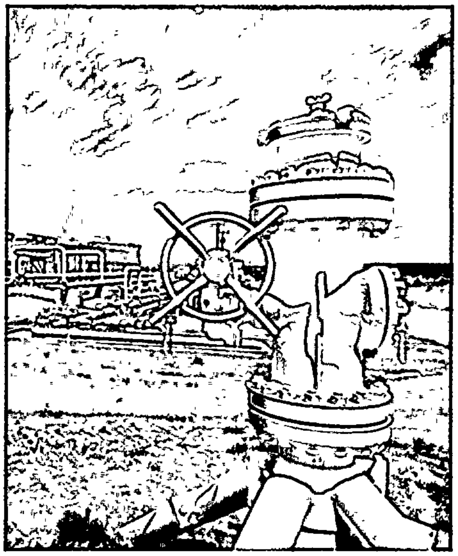
Bonds issued in 1984 were comprised of first mortgage bonds and pollution control revenue bonds. In August, PNM sold $65 million of its First Mortgage Bonds, 13 1/8% Series due 1994. Proceeds were applied to reduce short-term debt. In September, approximately $77 million of first mortgage bonds was issued to secure PNM's guarantee of an equal amount of 5.9% Pollution Control Revenue Refunding Bonds, Series 1977 due 2007, issued by the City of Farmington, New Mexico. The refunding bonds were issued in 1977 to provide funds to pay two prior issues of pollution control revenue bonds which matured October 1, 1984.

In December, a total of $38.5 million of pollution control revenue bonds was sold in two series through the Maricopa County, Arizona Pollution Control Corporation. The bonds were issued to defray a portion of cost to PNM of certain pollution control facilities associated with the Palo Verde Nuclear Generating Station (Palo Verde) Units 1, 2, and 3. Of the $38.5 million, $23 million was Annual Tender Bonds maturing in 2009 which were sold in a public offering and secured by the Company's first mortgage bonds, and $15.5 million was in a separate series sold as a private placement on an unsecured basis.

Approximately $48 million of new equity capital was raised through the Company's special stock plans throughout the year. About 2.2 million shares of PNM common stock were issued through such plans, including the Company's Dividend Reinvestment Plan.

As of December 31, 1984, on a consolidated basis, commercial paper and short-term notes totaling $30.3 million had been borrowed under PNM's $164 million of bank lines of credit and revolving credit arrangements.

During the year, four rating agencies reviewed the Company's securities. Standard & Poor's Corp. and Fitch Investors Service, Inc. reaffirmed their ratings. Duff and Phelps, Inc. removed the Company from its creditwatch list, maintaining its prior rating. Moody's Investors Service lowered its rating on the Company's first mortgage bonds and secured pollution control revenue bonds from A1 to A2. Unsecured pollution control revenue bond ratings have been lowered from A2 to A3, with preferred stock ratings reduced from a2 to a3.



PNM Acquires Gas Company of New Mexico

Among the most significant developments in PNM's history is the recent substantial broadening of its utility commitment. In January 1985, PNM completed the acquisition of Gas Company of New Mexico (GCNM) from the Texas-based Southern Union Company (Southern Union) as partial settlement of an antitrust suit. With the acquisition PNM anticipates that total utility revenues will nearly double in 1985.

PNM purchased Southern Union's New Mexico gas utility assets for net book value (less assumed liabilities) of approximately $224.3 million, with Southern Union to receive $172.8 million. The $51.5 million difference represents Southern Union's settlement of the suit with all parties, including PNM. As part of the settlement, PNM funded $15.6 million, in cash and by issuing a note for $20 million, of the total $51.5 million settlement amount to the other plaintiffs. The remaining $15.9 million of the settlement, less expenses, will be refunded to PNM's electric customers by PNM.

Customers will benefit from direct refunds made as part of the settlement and by PNM negotiations, made possible through the acquisition, for lower gas prices at the wellhead.

Planning for the Future: New Mexico Generating Station

PNM is considering a project with extraordinary potential for serving new markets while contributing to the quality of life in the region. In August, the Company entered into an agreement in principle with the Navajo Nation, General Electric Company and Bechtel Power Corporation to explore the possibility of jointly building and operating a major regional power project in New Mexico. Participants will be evaluating markets, design, fuel sources and financing to determine whether the project would be economically viable in the 1990s.

The proposed coal-fired plant, New Mexico Generating Station, would not be designed as generating capacity for PNM's New Mexico electric customers, but would position the Company to respond to growing regional power needs. The project would complement electric operations with associated new transmission lines and facilities that would enhance the Company's ability to market and deliver power.

"It is the same now, as a thousand years ago once you overlook the cities:
The desert begins just beyond those lights it crouches."

—Keith Wilson

"CHURCH BUTTRESS, RANCHOS DE TAOS CHURCH," *Paul Strand, 1932, Silver Print*

Gas Company of New Mexico

Attorney Gene Gallegos argued one of the strongest cases of his career at an altitude of 35,000 feet. In 1981, chance placed the Santa Fe lawyer in an airline seat beside Al Robison, PNM's Vice President of Finance. It was a meeting with far-reaching consequences for hundreds of thousands of New Mexico gas and electric customers, for PNM and, ultimately, for PNM shareholders.

Two years earlier, a group of New Mexico school teachers had hired Gallegos to challenge natural gas pricing practices in court. Gallegos believed he could make a credible antitrust price-fixing case against Southern Union Company, the Dallas-based owner of the Gas Company of New Mexico, and several major natural gas producers and suppliers. An antitrust lawsuit was filed on behalf of residential gas consumers purchasing natural gas from GCNM. Certain agencies of the State of New Mexico, all large volume purchasers of natural gas, joined the lawsuit.

The battle dragged on for 23 months through depositions and hearings. Then, on an east-bound airliner, Gallegos found an "attentive ear" in Robison, and laid out the facts of his case.

"As I listened, I realized PNM needed to look at this case very, very carefully," says Robison.

Some of PNM's generating plants were fired by natural gas. If allegations of price fixing were true, PNM was paying too much for its gas and, worse, passing the higher costs along to its own electric customers.

When Robison returned to Albuquerque, he discussed the matter with Jerry Geist, PNM's President, who authorized a further investigation. A few weeks later, PNM joined the suit on the side of the residential gas consumers.

Shortly after PNM entered the case, two defendants, Southland Royalty Company and Supron Energy Corporation, settled out of court. After seven weeks of trial in Las Cruces, New Mexico, the jury ruled against Southern Union and the remaining defendants. However, the liability verdict was overturned on a technicality and a new trial ordered. Conoco and Consolidated Oil and Gas, also defendants, then settled, bringing the settlement total to $70.3 million for PNM and the other plaintiffs.

By the fall of 1983, all defendants except Southern Union had settled. With a second trial scheduled for the spring of 1984, settlement negotiations with Southern Union were conducted over a period of weeks. When these negotiations failed, Sherman G. Finesilver, Chief Judge of the United States District Court for the District of Colorado, ordered top officials of Southern Union and PNM to Denver for a face-to-face talk.

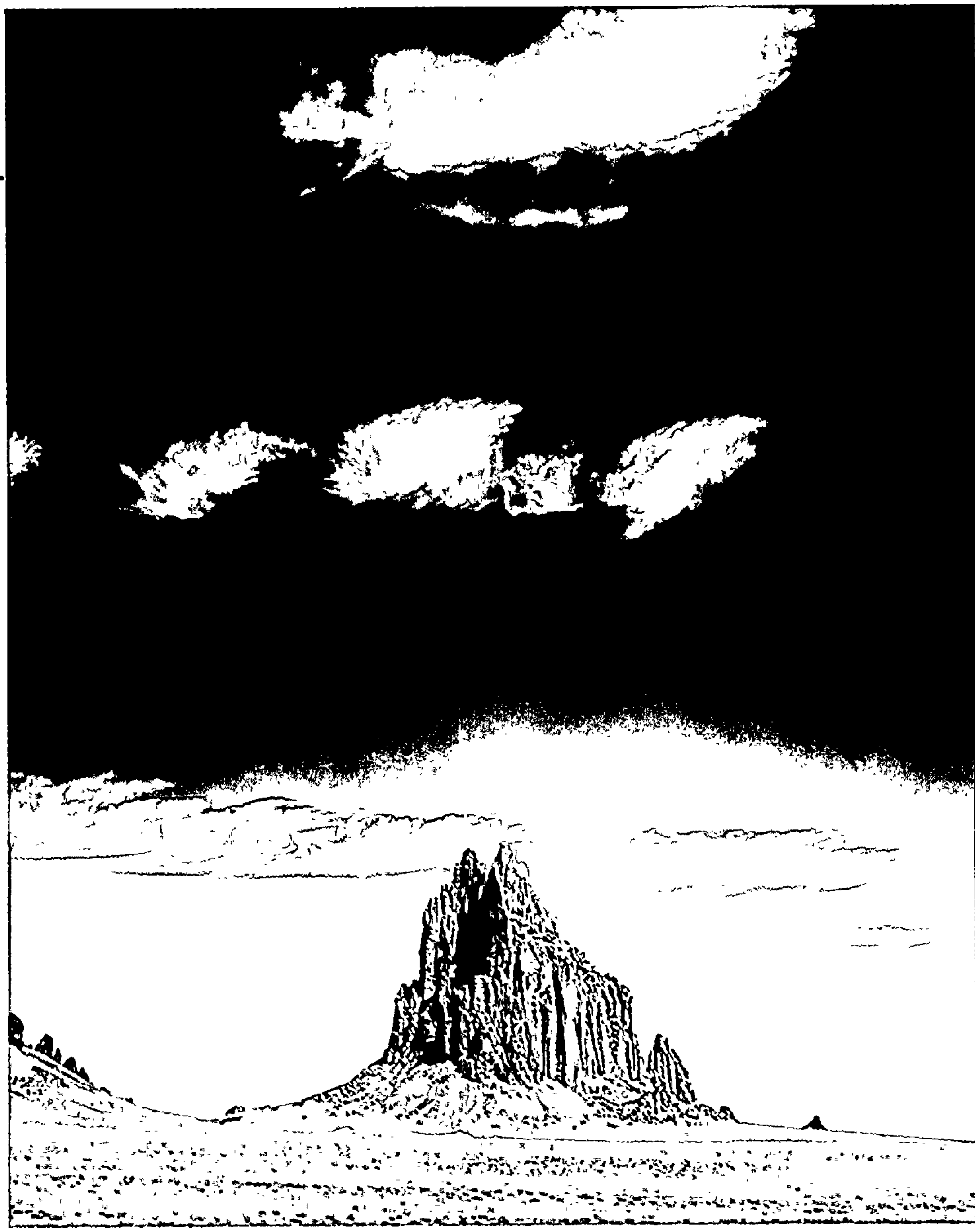
Only a few days before the case was slated for trial, a series of around-the-clock discussions was held. Terms of a settlement were worked out, including an understanding that Southern Union would sell its New Mexico gas utility assets to PNM.

The residential plaintiffs had wanted for several months to bring ownership and control of the gas utility "home to New Mexico." Many months before, Gallegos had suggested to PNM officials that acquisition of GCNM by PNM would be of value to New Mexico and all gas consumers in the state. After careful investigation of the gas utility business, PNM became convinced that the purchase was in the best interest of New Mexico, residential gas customers and the corporation and agreed to the settlement. For PNM, the settlement increases total Company assets, broadens its earnings base and should improve cash flow.

The settlement benefits New Mexicans in a variety of ways. It will provide millions of dollars in refunds to utility customers. And along with bringing control of the state's gas utility back to New Mexico, it may bring lower gas rates as well. According to settlement terms, PNM will renegotiate natural gas supply contracts.

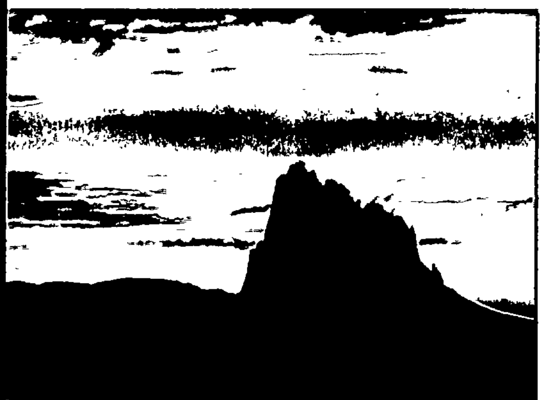
"From any distance it is all by itself . . . Risen alone off the dry plateau, this rock or a mountain of a rock has seemed as alive as it is dead."

—Joseph McElroy



"SHIPROCK, NEW MEXICO," *Jody Forster, 1979, Silver Print*

Electric and Water Utility Activities



The social, political and economic environment has changed over the years, and the utility industry has adapted in a number of ways. Utilities have changed fuel sources to limit dependence on foreign supply. They have broadened resource bases and established nonutility subsidiaries to ensure stability. And they now function in much more competitive markets.

Operating in a changing marketplace, PNM has adapted successfully. Amidst these changes, however, PNM continues to balance its commitments to shareholders, customers and the region with tough productivity goals and innovative marketing.

Electric and Water Utility Report

Total operating revenues for 1984 increased 12.0 percent from $397 million in 1983 to $445 million in 1984. This increase in total operating revenues resulted primarily from rate relief granted by the Commission and increased fuel clause revenues.

Due to significant cost containment efforts, utility operation and maintenance expenses, excluding fuel and purchased power expenses, decreased 2.3 percent from $105 million in 1983 to $102 million in 1984. However, total operating expenses in 1984 increased 14.4 percent over 1983, largely because of higher fuel and purchased power costs.

Kilowatt-hour sales increased 3.5 percent in 1984, while retail sales were up 5.3 percent. Sales to wholesale customers increased slightly over 1983 levels. The average number of electric customers rose to 238,000, up from 228,000 in 1983.

Marshaling Resources For The Future

In the 1960s, PNM recognized two factors in the utility industry that would affect the way the Company operates. Sharply rising demand for electricity indicated that it was time to build additional generating capacity, and fluctuating fuel prices cautioned against reliance upon one fuel source.

In response to these signals, PNM launched a construction program to prepare for anticipated rising consumption. It also began to shift its fuel base away from a dependence on oil and gas to a greater reliance on coal and nuclear fuels.

As the Company enters 1985, it has met these objectives. Net operating capacity for 1984 was 1,337 megawatts. Energy is supplied by two coal-fired plants, as well as by reserve oil-fired and natural gas-fired plants. A major nuclear power plant, in which PNM holds an interest, is nearing completion.

Palo Verde Unit 1 Licensed

Beginning in 1985, PNM's system is scheduled to receive its first energy from a 10.2 percent interest in Palo Verde, located 55 miles west of Phoenix, Arizona.

In December, the Nuclear Regulatory Commission issued a 40-year operating license for Palo Verde Unit 1. The license temporarily restricts power production to 5 percent, with successful low-power testing leading to possible full power operation by the end of 1985. Units 2 and 3 are scheduled for operation in 1986 and 1987, respectively.

When all units are complete, Palo Verde will generate 3,810 megawatts. PNM's share will be 390 megawatts. The projected cost for the Company's total interest in the three units is $938 million.

The new inventorying method of ratemaking will allow shareholders to recover the significant capital investment in Palo Verde, while protecting PNM customers from the "rate shock" attributed to sudden rate increases. More important, Palo Verde is securing energy independence for PNM well into the next century.

San Juan Surpasses Expectations

San Juan represents PNM's early commitment to end its reliance on unstable oil and gas markets. Located adjacent to a rich coal supply, San Juan has surpassed Company expectations for cost, reliability and efficiency.

San Juan Unit 4 stands among the most reliable generating units of its type and size in the country. Since April 1982, when Unit 4 was placed in service, it has been available for service 89.5 percent of the time. This compares to an industry average of about 79 percent.

Much of PNM's pride in San Juan stems from its environmental record. The coal-fired plant is equipped with pollution control equipment that meets or exceeds state and federal regulations.

Eastern Interconnection Project Opens New Markets

With capacity additions in place, PNM is looking ahead toward a period of expanded marketing. One important step in reaching new markets is to improve PNM's transmission capability through efforts such as the construction of the Eastern Interconnection Project (EIP). This 216-mile, 345-kilovolt line runs from just north of Albuquerque to an AC/DC converter station located near Clovis, New Mexico and will link the Company with Texas.

In January 1985, PNM began the sale of up to 220 megawatts per hour of surplus energy to Southwestern Public Service Company (SPS). This energy sale will end in 1989, which SPS may extend into 1990. Starting in 1991, the Company will purchase 100 megawatts of interruptible power from SPS, thus improving system reliability and power mix. Between 1995 and 2011, PNM will purchase up to 200 megawatts of interruptible power from SPS.

To speed recovery of investment, the Company sold the facilities associated with the EIP to private investors in February 1985. The facilities have been leased back to PNM, reducing revenue requirements by approximately $10 million in 1984, or $35 million in present value over the life of the project.

Sangre de Cristo Water Company

In January 1985, the Commission approved an additional $3 million rate increase for PNM's Sangre de Cristo Water Company, to be placed into effect in three-steps: one immediate increase, a second scheduled for April 1985 and a third for October 1985.

In November 1984, at the request of the City of Santa Fe, discussions opened regarding a possible sale of this division to the city. If an agreement is reached, the sale could be completed during 1985.

"One important step in reaching new markets is to improve PNM's transmission capability through efforts such as the construction of the Eastern Interconnection Project"

Developing New Markets

PNM recognizes that utilities operate in an increasingly competitive market. Today's customers have the option to choose energy from a sizeable assortment of alternatives, including wood, propane, solar and cogeneration.

To compete effectively in this market, PNM has stepped up its retail marketing efforts. A new marketing program based on the concept of "customer success" will enable PNM to improve its already strong market position by providing more responsive, flexible services to customers.

The business of the electric utility is service. For PNM's electric utility, customer success means finding ways to assist customers with their energy management needs and seeking new ways to help industrial customers increase their profit margins. The net result of this marketing approach for PNM will be increased profitability and enhanced credibility with its customers.

Marketing New Capacity

The Company initiated a marketing program six years ago to increase sales to wholesale customers. During this period, PNM negotiated long-term contracts and annual sales agreements representing approximately 73 percent of what was projected to be available as uncommitted capacity from 1985 through 1987.

Ongoing sales include contracts to sell as much as 236 megawatts of San Juan Unit 4 capacity to San Diego Gas and Electric Company. Also, PNM has contracted with Arizona Public Service Company to sell 60 megawatts during the 1985 summer peak. Plains Electric Generation and Transmission Cooperative, Inc. will receive 15 megawatts of peaking power until 1989.

During 1984, PNM also sold blocks of energy on the wholesale market to such diverse entities as El Paso Electric Company, Texas-New Mexico Power Company, Nevada Power Company and the California cities of Burbank and Pasadena.

The creative challenge that lies ahead for PNM is to design energy products that improve the Company's marketing ability. For example, the Interutility Marketing Department is developing innovative energy packages to attract bulk power purchasers. At the same time, the Company is studying improvements for the transmission system that would open up entirely new markets.

Eastern Interconnection Project

North of Albuquerque, along the Rio Grande, stands PNM's Bernalillo-Algodones transmission switching station. Eastward, beyond the majestic central mountains of New Mexico, stretch rambling plains and many-fingered gulches, reaching for Texas. To motorists traveling the smooth ribbons of eastbound interstate, the power lines darting in and out of view appear almost part of the landscape.

For the people who surveyed and strung the miles of PNM's Eastern Interconnection Project from Algodones to Clovis, New Mexico, those high transmission lines represent two years of hard work in dramatic terrain.

PNM announced the project in November 1982. Plans called for 216 miles of 345-kilovolt transmission line to be strung and operational in less than two years—about half the normal construction time for a project this size.

Southwestern Public Service Company had agreed to purchase up to 220 megawatts per hour of surplus energy from PNM starting in January 1985 and continuing to at least 1989. In 1991, PNM will begin the purchase of 100 megawatts of interruptible power from SPS, and from 1995 through the remaining life of the contract, SPS will provide PNM with up to 200 megawatts of interruptible power.

PNM built both the line and the AC/DC Blackwater Converter Station (Blackwater). Completed late in 1984 the project linked PNM for the first time with power systems to the east.

Not only does the project enable PNM to sell available power not currently demanded by customers in New Mexico, but, says PNM Senior Vice President Jack Wilkins, "The interconnection gives us flexibility in planning future generating projects to meet New Mexico's energy needs. It also provides both PNM and SPS with additional reliability."

One immediate consideration for the EIP team was to solve the problem of interconnecting the systems of PNM and SPS. The generators of the two systems do not rotate identically, so they needed an "interpreter" to complete the connection. The ultimate solution was the Blackwater high voltage direct current (HVDC) converter station which converts the AC of one system to a uniform HVDC and then to a compatible AC system. This rather simple-sounding conversion at Blackwater is accomplished with complex, state-of-the-art equipment.

Looking back on the project, PNM's EIP Project Manager, Larry Sullivan sees some advantages to working under such a tight construction schedule. "We knew going into the project that we would have to be flexible and creative to meet the extremely short deadline," says Sullivan.

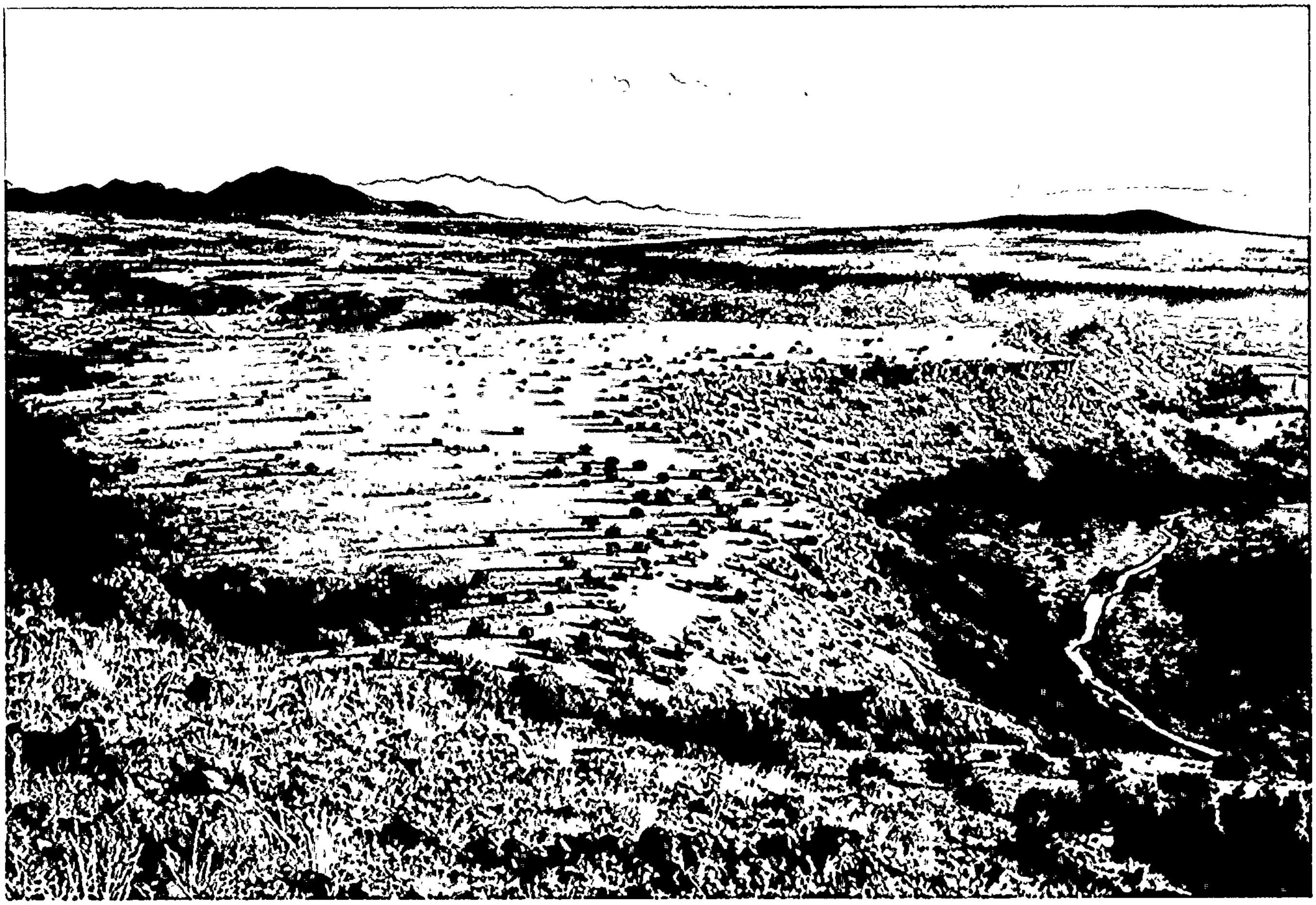
The EIP team devised faster, more efficient ways to perform environmental studies, land surveys, right-of-way negotiations and construction. Even with the tight schedule, the team conducted careful route and environmental studies, consulting with more than a dozen federal, state and, local agencies and community leaders. Along the way, the project turned up such unexpected treasures as historical artifacts, ancient archaeological sites and rare flora—all finds of value to scientists and archaeologists.

Looking for innovative ways to speed up construction, the project team replaced plodding truck caravans with helicopters and increased the pace of tower emplacements from 6 to 30 a day. The 8,000-pound towers were assembled at staging areas about every six miles along the line and lifted by helicopters to their precise concrete foundations where ground crews anchored them with guy wires. The helicopters not only saved time but minimized the amount of needed access land and reduced the project's environmental impact.

With such methods, some of which had never before been used by PNM, the EIP team completed the project ahead of schedule and under budget. "A lot of the innovations just came out of people's enthusiasm," Sullivan says. "We tried to anticipate problems as we went along. Anyone with an idea knew it was going to be heard. It was the enthusiasm of the people involved that made it a success."

"... I found that I was no longer lost in the enormous landscape of hills and sky. I was a very important part of the teeming life of the llano and the river."

—Rudolfo A. Anaya



"LA MESITA, NEW MEXICO," *William Clift, 1978, Silver Print*

Broadening Our Base

At the core of PNM's long-term business philosophy is a diversification strategy aimed at improving return on equity and stimulating economic growth. The broadening of PNM's revenue base will help stabilize earnings in the years ahead, while enabling the Company to contribute to the economic development of the region. PNM is examining an array of nonutility investments with exciting future earnings potential.

Sunbelt Acquires Gas Gathering Company

PNM's mining subsidiary, Sunbelt Mining Company, Inc., (Sunbelt) acquires, markets and develops coal and other mineral resources and provides contract mining services. Under the GCNM settlement agreement, Sunbelt acquired the stock of Southern Union Gathering Company (Gathering Company), which purchases and transports natural gas for GCNM. Gathering Company plant and equipment assets are in excess of $19 million.

Sunbelt also purchased the stock of Transwestern Mining, Inc. (Transwestern). Transwestern's subsidiary, Calgom Mining Inc. is the operator of Goldstripe joint venture, a surface gold mining project located in California.

Investment Subsidiary Creates Opportunities

The Company's nonutility arm, Meadows Resources, Inc. (Meadows), invests in nonutility ventures with high growth potential. Its real estate activities have contributed to overall earnings for three years, while in July its first major New Mexico project, Montaña de Fibra (MdF), began creating revenues and jobs. Examining a wide variety of potential investment opportunities, from manufacturing plants to high technology products, Meadows seeks to enhance PNM's earnings while contributing to the economic development of New Mexico and the Southwest.

Land Partnership Develops New Potential

Three years ago Meadows entered a land development partnership called Bellamah Community Development (BCD). Meadows owns 50 percent of BCD, and a successor to Bellamah Land Company, a long-time New Mexico-based real estate company, owns the other 50 percent.

BCD's activities range from real estate acquisition, planning and development to the marketing of residential lots or commercial and industrial tracts to builders. While approximately 26 percent of the land owned by BCD is in New Mexico, development activities reach into Arizona, Texas, Oklahoma, and Colorado.

BCD has earned a respected place in the Southwestern real estate development market with two large-scale projects in Dallas, Texas. In 1982, BCD acquired Flower Mound, a 3,018 acre development in northwest Dallas. By the end of 1984 almost all Flower Mound acreage had been sold to developers and builders. This success led the partners to purchase the 4,377 acre Mountain Creek development, 10 miles southwest of downtown Dallas.

Both developments involve multipurpose residential, commercial and industrial land use with sales of parcels to smaller developers who build in accordance with BCD specifications. The projects are also similar in two other important respects: (1) they involve very large, previously undeveloped acreage which allows for comprehensive master planning and zoning; and (2) they are large enough to provide a wide mix of land uses and thus eliminate dependence on a single segment of the real estate market.

Montaña de Fibra, Inc.

Meadows has invested approximately $67 million in the Las Vegas, New Mexico MdF facility which manufactures a wood substitute called medium density fiberboard. Construction of the project was completed in 1984.

Formerly a joint venture between Ponderosa Products Inc. and Meadows, MdF is now a corporation in which Meadows holds a 90 percent ownership. In October, Meadows entered into a sale-leaseback transaction with MdF involving assets of about $55 million.

Meadows Invests Capital

One of Meadows' most exciting activities is its venture capital portfolio. By year-end Meadows held interests in eleven companies, representing a total investment of nearly $7.6 million.

The primary investment focus is in companies with high growth potential. These include a range of medium to high technology enterprises, both in start-up and later stages of development. Most such investments range from $250,000 to $1 million.

Meadows has also joined with other venture capital firms located in Texas, New York and California. This network is providing a new channel for capital, contacts and expertise to support development in New Mexico, while expanding Meadows' investment opportunities outside the state and region.

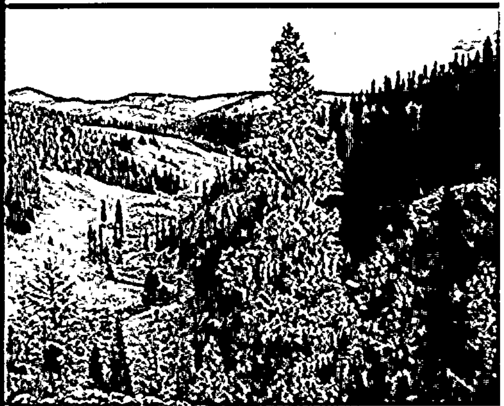
Further development of Meadows' venture capital portfolio should increase return on equity, while contributing to the New Mexico economy. Whenever possible, Meadows invests in companies that either operate in New Mexico or plan expansion into the state. Meadows also lends its expertise and capital support to state economic development efforts, such as the Business Development Corporation, the Technical Innovation Center, New Mexico Entrepreneurs' Club and New Mexico Technet, Inc.

"You should understand the way it was back then, because it is the same even now."

—Leslie Marmon Silko

"CAVE DWELLING, BANDELIER NATIONAL MONUMENT, NEW MEXICO," *David Noble, 1982, Silver Print*

Montaña de Fibra



The eastern slopes of the Sangre de Cristo mountains are covered with pine trees. At the point where the tall, mountain forest meets the broad New Mexico plains stands the once-frontier town of Las Vegas. This historic community has a new and beneficial neighbor.

Montaña de Fibra—that's Spanish for "mountain of fiber"—is also the name of an exciting, new manufacturing facility located a short distance from Las Vegas, New Mexico within view of the mountains and the pine forest it uses as a resource. Completed in 1984—under budget and six months ahead of schedule—the $67 million facility is a source of pride for the town and for Meadows Resources, Inc., PNM's wholly-owned, nonutility investment subsidiary.

MdF takes wood chips, shavings and sawdust— waste from local sawmills, including its own nearby sawmill—and turns them into a highly marketable product called medium density fiberboard. When fully operational, the 250,000-square-foot plant will produce fiberboard at a rate of up to 88 million square feet annually.

You may be more familiar with medium density fiberboard than you think. It's free of knots, saws cleanly and holds a screw just as snugly as the wood in your favorite rocking chair. Unlike particle board, it does not chip or splinter easily. Fiberboard is a high quality product used to manufacture a host of common items, such as furniture, cabinets, heavy-duty crates and even church pews.

Meadows has the majority interest in the plant. Ponderosa Products, Inc., the operating partner, is a company with many years of experience in the wood products industry. Strategically situated near major transportation routes, emerging markets, and the necessary raw materials, the plant may soon capture as much as 10 percent of the national fiberboard market.

Meadows' contribution to the project includes its financial strength, construction experience and knowledge of New Mexico. Ponderosa brought to the joint venture extensive operating experience in forest products, lumber manufacturing, and marketing. The combination has produced an efficient plant operation.

Ecology and efficiency go hand-in-hand at MdF. Use of sawmill waste to manufacture fiberboard eliminates an environmental nuisance, which otherwise must be burned, buried or dumped. MdF plant waste is used to fuel a boiler in the manufacturing process, and the boiler ash is sold to Las Vegas for fertilizer.

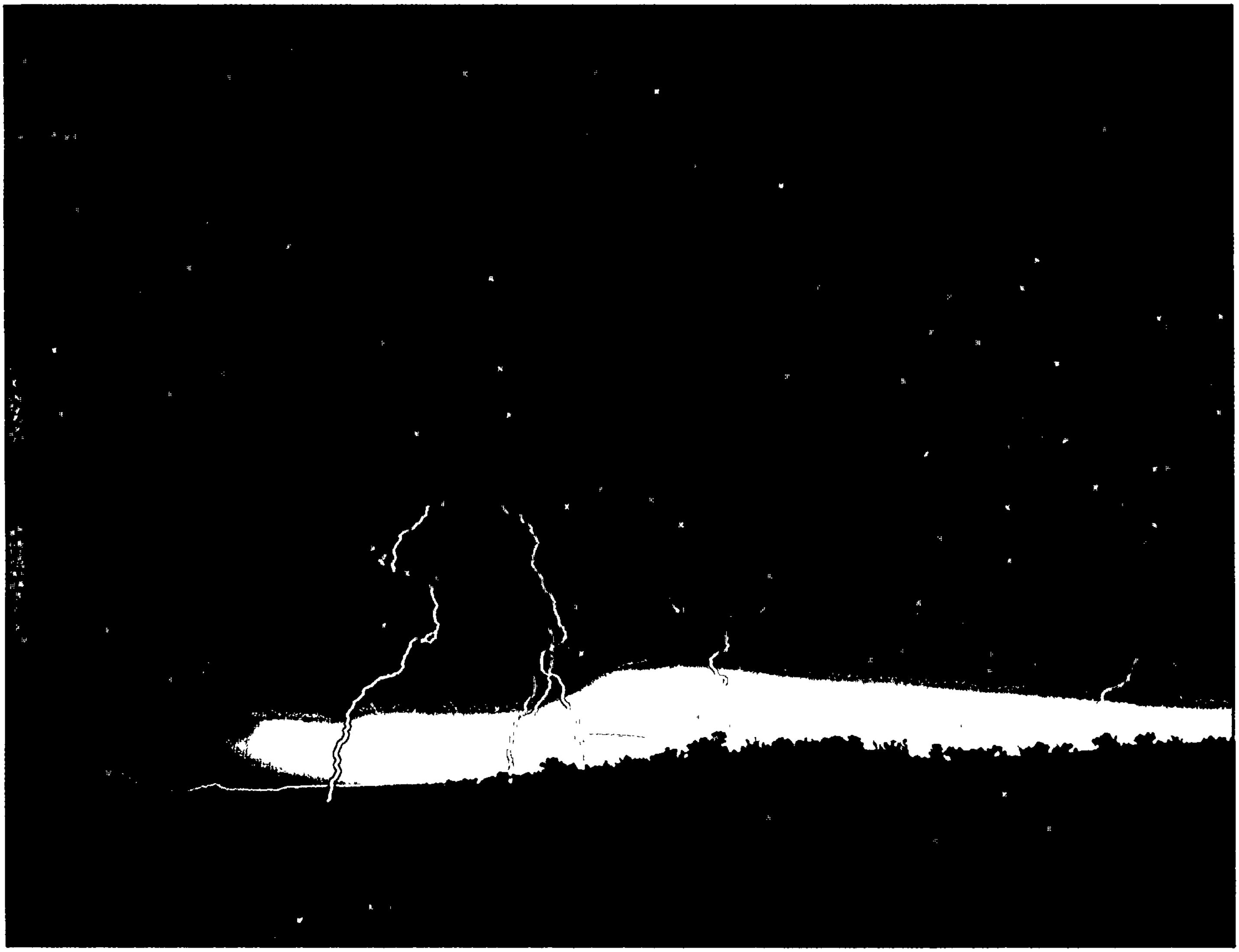
For PNM and its shareholders, MdF is a milestone in a carefully wrought nonutility investment strategy, of which an important element is economic development in New Mexico and the Southwest. The plant already employs over 200 people, and many other new employment possibilities exist because of ancillary businesses attracted to Las

Vegas by MdF. A modest estimate indicates this increased employment will generate $3.5 million in income, $2 million in retail sales and $1.7 million in bank deposits for the area. Demand for electricity from the MdF plant alone is expected to generate revenues for PNM's electric utility of about $300,000 a month.

Las Vegas Mayor Steve Franken says MdF not only has "contributed significantly to the economy of the town, but also has enhanced our image as a good home for industry."

Indeed, the industry has brought a new kind of thinking to the community, says MdF Personnel Manager Abelino Montoya. "More than in buildings and steel, the shareholders of PNM have made a wise investment in the people of New Mexico."

"Black thunder-storms used to roll up from behind it and pounce on us like a panther without warning. The lightning would play round it and jab into it so that we were always expecting it would fire the brush. I've never heard thunder so loud as it was there."
—Willa Cather



"LIGHTNING OVER THE RIO GRANDE VALLEY, NEW MEXICO," *Jim Bones, 1983, Dye Transfer*

Financial Data and Consolidated Financial Statements

Comparative Operating Statistics

	1984	1983	1982	1981	1980
Electric Service					
Energy sales—kWhr (in thousands)					
Residential	1,279,917	1,205,046	1,134,827	1,104,827	1,090,003
Commercial	1,706,044	1,600,199	1,515,664	1,483,105	1,441,634
Industrial	762,117	742,272	784,158	858,454	859,178
Other ultimate customers	184,725	185,824	215,853	186,939	167,070
Total sales to ultimate customers	3,932,803	3,733,341	3,650,502	3,633,325	3,557,885
Sales for resale	2,384,535	2,371,860	2,840,957	2,127,249	1,844,213
Total energy sales	6,317,338	6,105,201	6,491,459	5,760,574	5,402,098
Electric revenues (in thousands)					
Residential	$ 107,395	$ 90,020	$ 91,065	$ 80,627	$ 72,596
Commercial	134,532	107,729	110,745	97,699	85,480
Industrial	50,439	44,166	51,714	50,111	44,524
Other ultimate customers	11,950	10,913	14,775	12,170	9,750
Total revenues from ultimate customers	304,316	252,828	268,299	240,607	212,350
Sales for resale	131,013	136,273	149,115	86,781	59,475
Total revenues from energy sales	435,329	389,101	417,414	327,388	271,825
Miscellaneous electric revenues	3,645	2,846	2,743	2,581	2,598
Total electric revenues	$ 438,974	$ 391,947	$ 420,157	$ 329,969	$ 274,423
Customers at year-end					
Residential	217,614	208,368	199,679	195,722	191,495
Commercial	25,614	24,259	22,148	21,164	20,932
Industrial	436	438	453	458	466
Other ultimate customers	194	186	185	180	179
Total ultimate customers	243,858	233,251	222,465	217,524	213,072
Sales for resale	6	5	6	6	6
Total customers	243,864	233,256	222,471	217,530	213,078
Reliable net capability—kW	1,337,000	1,343,000	1,473,000	1,047,000	1,080,000
Coincidental peak demand—kW	976,000	998,000	957,000	992,000	913,000
Average fuel cost per million BTU	$ 1.0970	$ .9957	$ 1.1502	$ 1.1952	$ 1.0961
BTU per kWhr of net generation	11,023	11,296	11,296	11,227	10,551
Water Service					
Sales—gallons (in thousands)	2,392,085	2,315,980	2,842,381	2,729,457	2,699,816
Revenues (in thousands)	$ 6,354	$ 5,527	$ 6,386	$ 6,196	$ 6,093
Customers at year-end	17,717	16,721	20,432*	19,899	19,303

*Includes 4,508 customers for the Las Vegas water system which was contributed to the City of Las Vegas on December 30, 1982.

Selected Financial Data

	1984	1983	1982	1981	1980
	(In thousands except per share amounts and ratios)				
Total operating revenues	$ 445,328	$ 397,474	$ 426,543	$ 336,165	$ 280,516
Net earnings	$ 132,840	$ 140,519	$ 115,822	$ 107,958	$ 71,436
Earnings per common share	$ 3.11	$ 3.53	$ 3.22	$ 4.23	$ 3.36
Total assets	$2,598,744	$2,486,429	$2,145,984	$1,831,803	$1,457,900
Preferred stock with mandatory redemption requirements	$ 121,080	$ 123,700	$ 125,000	$ 90,000	$ 90,000
Long-term debt, less current maturities	$1,030,557	$ 974,290	$ 811,653	$ 707,472	$ 567,190
Common stock data:					
Cash dividends declared per common share	$ 2.85	$ 2.81	$ 2.77	$ 2.68	$ 2.04
Dividend pay-out ratio	91.7%	79.6%	86.0%	63.4%	60.7%
Market price per common share at year end	$ 24.375	$ 25.375	$ 26.00	$ 23.75	$ 19.75
Book value per common share at year end	$ 25.28	$ 25.20	$ 24.35	$ 23.87	$ 23.33
Average number of common shares outstanding	35,011	32,956	28,508	20,804	15,933
Return on average common equity	12.5%	14.3%	13.6%	18.6%	14.9%
Ratio of earnings to fixed charges (S.E.C. method)	2.33	2.81	2.70	3.00	2.94
Capitalization:					
Common stock equity	42.1%	41.5%	42.8%	39.5%	33.3%
Preferred stock:					
Without mandatory redemption requirements	4.9	5.2	5.8	7.1	9.3
With mandatory redemption requirements	5.5	6.0	6.9	6.0	7.9
Long-term debt, less current maturities	47.5	47.3	44.5	47.4	49.5
	100.0%	100.0%	100.0%	100.0%	100.0%

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is management's assessment of the Company's financial condition and the significant factors which have an impact on the results of operations. This discussion should be read in conjunction with the Company's consolidated financial statements.

Liquidity and Capital Resources

The Company is continuing a construction program which will be necessary to meet prospective customer service requirements. The Company's five-year utility construction program for the period 1985-1989 provides for the expenditure of approximately $819 million, including allowance for funds used during construction (AFUDC) of $171 million. Included in such total amount are proposed expenditures during the five-year period of approximately $67 million for the Company's share of nuclear fuel for the Palo Verde Nuclear Generating Station and approximately $112 million for gas utility construction expenditures which will be required as a result of the Company's acquisition of gas utility assets in New Mexico.

The Company currently estimates total utility external funding requirements for the 1985-1989 period to be approximately $427 million including $293 million for long-term debt repayments, mandatory preferred stock redemptions and repayment of notes issued in connection with the acquisition of gas utility assets in New Mexico. Estimates of external funding requirements give effect to the implementation of the "Inventory of Capacity" ratemaking methodology. (See page 5.) The Company's projection of internal cash generation in the 1985-1989 time period assumes timely and adequate rate relief with respect to both retail and wholesale customers. The projection also assumes that the Company's non-utility subsidiaries will provide their capital requirements from internally generated funds and from independent borrowings which would be nonrecourse to the utility.

Utility construction expenditures for the year ended 1984 amounted to $278 million including AFUDC of $73 million. In 1984, internal sources of funds provided from continuing operations equaled $16 million. In 1984, the Company issued $65 million of first mortgage bonds, $48 million of common stock and utilized $15 million of proceeds from pollution control financings to finance the Company's utility construction program. In addition to the issuance of permanent and long-term securities, the Company has financed its capital expenditures on an interim basis through the use of short-term borrowings, commercial paper and reduction of temporary cash investments. Arrangements for bank lines of credit amounted to $21 million and revolving credit arrangements amounted to $143 million at December 31, 1984.

The indenture under which the Company's first mortgage bonds may be issued and the Restated Articles of Incorporation of the Company under which additional shares of its preferred stock may be issued restrict the ability of the Company to issue additional first mortgage bonds and additional preferred stock, respectively, unless certain earnings tests provided therein are met. As of December 31, 1984, after giving effect to the acquisition of gas utility assets in New Mexico, the Company could have issued $238 million of additional first mortgage bonds at an assumed interest rate of 13 1/4 percent. The Company could have issued $307 million of additional preferred stock at an assumed dividend rate of 13 percent without the consent of the holders of outstanding preferred stock.

The Company's capital structure at December 31, 1984 consisted of 47.5 percent long-term debt less current maturities, 5.5 percent preferred stock with mandatory redemption requirements, 4.9 percent preferred stock without mandatory redemption requirements and 42.1 percent common stock equity.

Results of Operations

Operating revenues increased 12.0 percent, or $47.9 million, in 1984 over 1983. The increase reflects increased kWhr sales along with rate relief granted by the New Mexico Public Service Commission which became effective in July 1984.

In addition, increased fuel and purchased power expenses which are passed on to customers resulted in higher recovery of fuel costs through fuel adjustment clauses in 1984. The decrease in kWhr sales to wholesale customers in 1983 was the primary factor contributing to the decreased operating revenues in 1983 from 1982.

Other operation expenses in 1984 decreased approximately $4.5 million from 1983 as a result of the sale of a 28.8 percent ownership interest in San Juan Unit 4 in December 1983. Fuel and purchased power expenses, however, increased substantially in 1984 over 1983 due primarily to a long-term power contract.

The 48.6 percent decrease in fuel and purchased power expense in 1983 from 1982 was due primarily to a greater volume of economy energy sales to other utilities, offsetting fuel and purchased power expense in 1983.

During 1984, the Company earned approximately $14.8 million of interest from temporary cash investments, an increase of $13.7 million over 1983. Such investment funds consisted primarily of proceeds from the sale of a 28.8 percent ownership interest in San Juan Unit 4. However, net other income and deductions decreased in 1984 from 1983 due primarily to inclusion of an after-tax gain of $24.1 million in 1983 from the sale of the equity interest in a trust which held certain coal leases.

Interest on long-term debt has increased steadily over the three-year period, reflecting issuances of first mortgage bonds and pollution control revenue bonds to finance the Company's construction program.

As a result of items discussed above, net earnings of the Company fluctuated during the three-year period. However, net earnings of the Company, exclusive of the gain on the sale of the equity interest in the trust in 1983, have increased over the comparable period. After eliminating the $24.1 million gain ($.73 per share) on the sale of the equity interest in the trust, net earnings applicable to common stock increased in 1983 and 1984, while earnings per share of common stock decreased in 1983 and increased in 1984.

The effect of inflation on the Company's operation is discussed within the Supplementary Information Concerning the Effects of Changing Prices on pages 34-35.

Management's Responsibility for Financial Statements

The management of Public Service Company of New Mexico is responsible for the preparation and presentation of the accompanying financial statements. The financial statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on informed estimates and judgments of management.

Management maintains a system of internal accounting controls which it believes is adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management authorization and the financial records are reliable for preparing the financial statements. The system of internal accounting controls is supported by written policies and procedures, a staff of internal auditors who conduct comprehensive internal audits and by the selection and training of qualified personnel.

The Board of Directors, through its Audit Committee comprised entirely of outside directors, meets periodically with management, internal auditors and the Company's independent auditors to discuss auditing, internal control and financial reporting matters. To ensure their independence, both the internal auditors and independent auditors have full and free access to the Audit Committee.

The independent auditors, Peat, Marwick, Mitchell & Co., are engaged to examine the Company's financial statements in accordance with generally accepted auditing standards.

Auditors' Report

The Board of Directors and Stockholders
Public Service Company of New Mexico:

We have examined the consolidated balance sheet of Public Service Company of New Mexico and subsidiaries as of December 31, 1984 and 1983 and the related consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Public Service Company of New Mexico and subsidiaries at December 31, 1984 and 1983 and the results of their operations and changes in their financial position for each of the years in the three-year period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Albuquerque, New Mexico
February 18, 1985

Consolidated Balance Sheet

	December 31 1984	1983
	(In thousands)	
Assets		
Utility plant, at original cost (notes 3 and 7):		
Electric plant in service	$1,436,929	$1,304,249
Water plant in service	35,729	34,906
Common plant in service	35,909	31,628
	1,508,567	1,370,783
Less accumulated depreciation and amortization	282,602	240,097
	1,225,965	1,130,686
Construction work in progress	832,252	705,191
Electric plant held for future use	65,142	63,355
Net utility plant	2,123,359	1,899,232
Other property and investments:		
Non-utility property, at cost, net of accumulated depreciation, partially pledged	110,602	48,483
Non-utility property under construction, at cost	—	31,050
Investment in unconsolidated affiliates	70,166	51,063
Other, at cost	9,415	8,720
Total other property and investments	190,183	139,316
Current assets:		
Cash	9,434	5,178
Temporary cash investments	140,776	318,977
Receivables, net	53,799	45,774
Fuel, materials and supplies, at average cost	41,629	43,781
Prepaid expenses	4,049	3,029
Total current assets	249,687	416,739
Deferred charges	35,515	31,142
	$2,598,744	$2,486,429
Capitalization and Liabilities		
Capitalization:		
Common stock equity (note 2):		
Common stock—outstanding 36,127,189 shares in 1984 and 33,932,809 shares in 1983	$ 180,636	$ 169,664
Additional paid-in capital	549,633	511,975
Retained earnings	182,964	173,420
Total common stock equity	913,233	855,059
Cumulative preferred stock without mandatory redemption requirements (note 2)	106,000	106,000
Cumulative preferred stock with mandatory redemption requirements (note 2)	121,080	123,700
Long-term debt, less current maturities (note 3)	1,030,557	974,290
Total capitalization	2,170,870	2,059,049
Current liabilities:		
Short-term debt (note 4)	30,313	126,290
Accounts payable	34,650	36,669
Current maturities of long-term debt (note 3)	51,708	5,631
Accrued interest and taxes	33,168	35,823
Provision for refunds	11,151	1,046
Other current liabilities	20,323	24,440
Total current liabilities	181,313	229,899
Deferred credits:		
Accumulated deferred investment tax credits (note 5)	101,805	84,499
Accumulated deferred income taxes (note 5)	114,858	87,683
Other deferred credits	29,898	25,299
Total deferred credits	246,561	197,481
Commitments, contingencies and subsequent events (notes 5, 7, 8, 9 and 12)		
	$2,598,744	$2,486,429

See accompanying notes to consolidated financial statements.

Consolidated Statement of Earnings

	Year ended December 31		
	1984	1983	1982
	(In thousands except per share amounts)		
Operating revenues:			
Electric (note 8)	$438,974	$391,947	$420,157
Water	6,354	5,527	6,386
Total operating revenues	445,328	397,474	426,543
Operating expenses:			
Fuel and purchased power	95,904	59,365	115,531
Other operation expenses	68,278	72,760	68,842
Maintenance and repairs	34,075	32,028	38,125
Depreciation and amortization	48,975	47,172	34,984
Taxes, other than income taxes	19,246	18,694	16,552
Income taxes (note 5)	32,356	31,208	34,855
Total operating expenses	298,834	261,227	308,889
Operating income	146,494	136,247	117,654
Other income and deductions:			
Allowance for equity funds used during construction	52,754	45,789	45,911
Equity in earnings of unconsolidated affiliates, net of taxes (note 5)	7,975	6,373	2,001
Gain on sale of equity interest in trust, net of taxes (notes 5 and 10)	—	24,129	—
Other, net of taxes (note 5)	8,865	779	1,178
Net other income and deductions	69,594	77,070	49,090
Income before interest charges	216,088	213,317	166,744
Interest charges:			
Interest on long-term debt	98,463	80,922	55,537
Other interest charges	8,421	11,182	14,476
Allowance for borrowed funds used during construction	(23,636)	(19,306)	(19,091)
Net interest charges	83,248	72,798	50,922
Net earnings	132,840	140,519	115,822
Preferred stock dividend requirements	23,990	24,187	24,062
Net earnings applicable to common stock	$108,850	$116,332	$ 91,760
Average number of common shares outstanding	35,011	32,956	28,508
Earnings per share of common stock	$ 3.11	$ 3.53	$ 3.22
Dividends paid per share of common stock	$ 2.85	$ 2.81	$ 2.77

Consolidated Statement of Retained Earnings

	Year ended December 31		
	1984	1983	1982
	(In thousands)		
Balance at beginning of year (note 1)	$173,420	$149,409	$138,002
Net earnings	132,840	140,519	115,822
Dividends:			
Cumulative preferred stock	(23,990)	(24,187)	(24,062)
Common stock	(99,306)	(92,321)	(80,353)
Balance at end of year	$182,964	$173,420	$149,409

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes In Financial Position

	Year ended December 31		
	1984	1983	1982
	(In thousands)		
Funds provided:			
Net earnings	$ 132,840	$140,519	$115,822
Charges (credits) to earnings not requiring funds:			
Depreciation and amortization	52,844	51,060	37,940
Provision for non-current deferred income taxes, net	27,175	34,463	4,279
Investment tax credits, net	17,306	9,076	16,463
Allowance for equity funds used during construction	(52,754)	(45,789)	(45,911)
Earnings of unconsolidated affiliates	(14,153)	(9,321)	(3,138)
Funds derived from operations	163,258	180,008	125,455
Sale of common stock	48,254	50,886	184,068
Sale of cumulative preferred stock	—	—	35,000
Sale of first mortgage bonds	65,000	65,000	60,000
Proceeds from pollution control revenue bonds	14,583	101,183	44,143
Increase in short-term debt, net	—	62,428	—
Increase in other long-term debt	31,377	3,711	4,930
Proceeds from sale of utility plant, net	—	156,406	—
Decrease in working capital, other than short-term debt	214,443	—	—
Other	11,910	8,461	15,482
	$ 548,825	$628,083	$469,078
Funds used:			
Cash dividends	$ 123,296	$116,508	$104,415
Utility plant additions	222,580	210,014	267,137
Increase in other property and investments	39,832	27,788	12,470
Decrease in short-term debt, net	95,977	—	44,946
Reduction of long-term debt	54,266	7,370	4,657
Increase in working capital other than short-term debt	—	255,125	21,152
Other	12,874	11,278	14,301
	$ 548,825	$628,083	$469,078
Changes in working capital other than short-term debt:			
Cash	$ 4,256	$ 457	$ (5,384)
Temporary cash investments	(178,201)	265,270	25,116
Receivables, net	8,025	(13,434)	4,066
Fuel, materials and supplies	(2,152)	(2,461)	12,240
Prepaid expenses	1,020	(634)	1,052
Accounts payable	2,019	(1,307)	12,809
Current maturities of long-term debt	(46,077)	(1,939)	1,698
Accrued interest and taxes	2,655	(9,177)	4,821
Provision for refunds	(10,105)	18,055	(16,951)
Other current liabilities	4,117	295	(18,315)
Increase (decrease) in working capital other than short-term debt	$(214,443)	$255,125	$ 21,152

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1984, 1983 and 1982

(1) Summary of Significant Accounting Policies

System of Accounts

With respect to utility operations, the Company maintains its accounting records in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the New Mexico Public Service Commission (NMPSC). As a result of the ratemaking process, the application of generally accepted accounting principles by the Company differs in certain respects from the application by non-regulated businesses. Such differences generally regard the time at which certain items enter into the determination of net earnings in order to follow the principle of matching costs and revenues. The balance of retained earnings as of January 1, 1982 has been restated by a charge of $512,000 to reflect a FERC audit adjustment applicable to periods prior to those presented herein. The effect of this restatement on the periods presented herein is insignificant.

Principles of Consolidation

The consolidated financial statements include the accounts of Public Service Company of New Mexico, its wholly-owned subsidiaries and its majority-owned joint ventures. All significant intercompany transactions and balances have been eliminated.

The Company's investments in unconsolidated affiliates are accounted for by the equity method.

Utility Plant

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

It is Company policy to charge repairs and minor replacements of property to maintenance expense and to charge major replacements to utility plant. Gains or losses resulting from retirements or other dispositions of operating property in the normal course of business are credited or charged to the accumulated provision for depreciation.

Depreciation

Provision for depreciation of utility plant is made at annual straight-line rates approved by the NMPSC. The average depreciation rates used were as follows:

	1984	1983	1982
Electric plant	3.29%	3.30%	3.16%
Water plant	2.04	1.89	1.94
Common plant	7.28	7.32	6.87

The provision for depreciation of certain equipment, including amortization applicable to capital leases, is charged to clearing accounts and subsequently allocated to operating expenses or construction projects based on the use of the equipment.

Depreciation of non-utility property is computed on the straight-line method.

Allowance for Funds Used During Construction (AFUDC)

As provided by the uniform system of accounts, AFUDC, a noncash item, is charged to utility plant. AFUDC 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) and is allocated based on the method required by FERC. The Company capitalizes AFUDC on construction work in progress (CWIP) to the extent allowed by regulatory agencies. The Company also capitalizes AFUDC on its plant held for future use as allowed by the NMPSC.

AFUDC is computed using the maximum rate, net of taxes, permitted by FERC. Effective May 1983, the FERC changed the prescribed formula and required AFUDC to be calculated on pollution control trust fund balances with the interest earned from such funds to be credited against CWIP. The rates used were 9.34 percent, 8.74 percent and 9.38 percent for 1984, 1983 and 1982, respectively, compounded semiannually.

The Company records as AFUDC carrying charges associated with specifically identifiable uncommitted generating capacity as allowed by the NMPSC. Uncommitted capacity was 97 MW for 1984 and 105 MW for 1983 and 1982. The carrying charge is calculated using the maximum rate, net of taxes, permitted by FERC except for the exclusion of short-term debt from such calculation. In December 1984, the NMPSC issued an order allowing the deferral of carrying charges for the period from January 1, 1984 through June 6, 1984 and allowing the deferral of carrying charges to resume beginning in July 1985. Amounts recorded under NMPSC orders have totaled $17.2 million. Of such amounts, $12.3 million have been or are presently being recovered through rates. The remainder is to be recovered over the useful life of the property when such capacity is required for customers.

Deferred Fuel and Purchased Power

Economy and other near-term energy transactions are shown as a reduction of fuel and purchased power expenses.

The Company uses the deferral method of accounting for the portion of fuel and purchased power costs which is reflected in subsequent periods under fuel adjustment clauses.

Amortization of Debt Discount, Premium and Expense

Long-term debt discount, premium and expense of issuance are amortized over the lives of the respective issues on the debt outstanding method.

Income Taxes

Certain revenue and expense items in the Consolidated Statement of Earnings are recorded for financial reporting purposes in a year different from the year in which they are recorded for income tax purposes. Deferred income taxes are provided on these timing differences to the extent allowed for ratemaking purposes. This method known as tax normalization is used primarily for differences attributable to deferred fuel costs and the use of liberalized depreciation and accelerated cost recovery methods. Certain other timing differences result in reductions of income tax expense in the current year as required by the NMPSC. This flow-through method is used primarily for minor differences between book and tax depreciation and for certain capitalized construction costs.

Rates subject to FERC control allow recovery of amounts necessary to provide additional tax normalization of the items described above which are accounted for under the flow-through method for other customers. Provision has been made for additional deferred income taxes attributable to amounts collected under these rates.

Non-utility deferred taxes are provided on all non-permanent differences between book and taxable income. These differences consist primarily of interest and other expenses which are capitalized for book purposes and income which is taxable in periods other than when recognized for financial reporting purposes.

The Company defers investment tax credits related to utility assets and amortizes them over the estimated useful lives of the related assets. Investment tax credits generated by non-utility properties are recognized as reductions of consolidated income tax expense.

Revenues

Revenues are recognized based on cycle billings rendered to customers monthly. The Company does not accrue revenues for service provided but not billed at the end of a fiscal period.

(2) Common Stock and Cumulative Preferred Stock

The number of authorized shares of common stock with par value of $5 per share is 80,000,000 shares at December 31, 1984 and 40,000,000 shares at December 31, 1983. The Board of Directors has periodically reserved common stock for the Shareholder's Dividend Reinvestment Plan, the Employee Stock Purchase Plan, the Master Employee Savings Plans and the Consumer Stock Plan (Stock Plans), with 1,674,000 shares remaining unissued at December 31, 1984.

The number of authorized shares of cumulative preferred stock is 10,000,000 shares. Information concerning the cumulative preferred stock at December 31, 1984 is as follows:

	Stated Value	Shares Outstanding	Stated Redemption Price	Aggregate Stated Value (in thousands)
Without mandatory redemption requirements:				
1965 Series, 4.58%	$100	130,000	$102.00	$ 13,000
1974 Series, 9.2%	100	170,000	104.00	17,000
1975 Series, 10.12%	100	100,000	107.00	10,000
9.16% Series	25	800,000	26.70	20,000
8.48% Series	100	200,000	106.00	20,000
8.80% Series	100	260,000	106.20	26,000
		1,660,000		$106,000
With mandatory redemption requirements:				
8.75% Series	100	360,800	105.80	$ 36,080
14.75% Series	100	500,000	114.75	50,000
12.52% Series	50	700,000	52.97	35,000
		1,560,800		$121,080

The Company, upon thirty days notice, may redeem the cumulative preferred stock at stated redemption prices plus accrued and unpaid dividends. Redemption prices are at reduced premiums in future years. Redemption may not be made through certain refunding operations prior to April 1, 1990 for the 14.75% Series and October 15, 1991 for the 12.52% Series.

The Company has agreed to indemnify the holders of the 12.52% Series against the loss of certain income tax benefits. However, the Company has the option to redeem the entire series should payments under such indemnification increase the effective dividend rate on the stock by more than one-half of one percent.

Mandatory redemption requirements for 1985, 1986, 1987, 1988 and 1989 are none, $2,000,000, $5,613,000, $5,633,000 and $5,633,000, respectively.

The changes in common stock, additional paid-in capital and cumulative preferred stock were as follows:

	Common Stock			Cumulative Preferred Stock — Without Mandatory Redemption Requirements		Cumulative Preferred Stock — With Mandatory Redemption Requirements	
	Number of Shares	Aggregate Par Value	Additional Paid-In Capital	Number of Shares	Aggregate Stated Value	Number of Shares	Aggregate Stated Value
	(Dollars in thousands)						
Balance at December 31, 1981	24,675,305	$123,377	$327,625	1,660,000	$106,000	900,000	$ 90,000
Public issue of stock	6,000,000	30,000	116,924	—	—	700,000	35,000
Stock plans	1,365,426	6,827	25,928	—	—	—	—
Balance at December 31, 1982	32,040,731	160,204	470,477	1,660,000	106,000	1,600,000	125,000
Stock plans	1,892,078	9,460	41,298	—	—	—	—
Redemption of stock	—	—	200	—	—	(13,000)	(1,300)
Balance at December 31, 1983	33,932,809	169,664	511,975	1,660,000	106,000	1,587,000	123,700
Stock plans	2,194,380	10,972	37,151	—	—	—	—
Redemption of stock	—	—	507	—	—	(26,200)	(2,620)
Balance at December 31, 1984	36,127,189	$180,636	$549,633	1,660,000	$106,000	1,560,800	$121,080

Charter provisions relating to the cumulative preferred stock and the indenture securing the first mortgage bonds impose certain restrictions upon the payment of cash dividends on common stock of the Company. At December 31, 1984, there were no retained earnings restricted under such provisions.

(3) Long-Term Debt

The details of the Company's outstanding long-term debt are as follows:

Issue and Final Maturity	Interest Rates	1984	1983
		(In thousands)	
First mortgage bonds:			
1984 through 1989	3 5/8% to 12.95%	$ 58,140	$ 60,330
1990 through 1994	4 7/8% to 13 1/8%	74,203	9,403
1995 through 1999	5 7/8% to 7 1/4%	30,397	30,716
2000 through 2004	7 1/2% to 10 1/8%	81,449	81,896
2005 through 2009	8 1/8% to 9 1/8%	115,344	116,538
2010 through 2014	12 7/8% to 17 1/2%	185,000	185,000
1993 through 2013—securing pollution control revenue bonds:			
Pollution control series	5.9% to 10 3/4%	414,045	337,000
Annual tender bonds	7 5/8%	23,000	—
Funds held by trustee		(35,468)	(11,099)
Total first mortgage bonds		946,110	809,784
Pollution control revenue bonds:			
1984 through 2013	5% to 10 3/4%	100,000	208,090
1985	59% to 65% of prime rate	39,000	23,500
Funds held by trustee		(39,708)	(70,118)
Other, including unamortized premium and discount		36,863	8,665
Total long-term debt		1,082,265	979,921
Current maturities		(51,708)	(5,631)
Long-term debt, less current maturities		$1,030,557	$974,290

Substantially all utility plant is pledged to secure the first mortgage bonds. A portion of certain series of long-term debt will be redeemed serially prior to their due dates. The aggregate amounts (in thousands) of maturities on all long-term debt outstanding at December 31, 1984 are as follows:

1985	$51,708
1986	11,023
1987	11,301
1988	18,938
1989	11,608

The annual tender bonds are redeemable at the option of the holders annually on November 1. The interest rate will be adjusted annually, as of each November 1, so that the bonds will have a market value as of the date of such adjustment which approximates their par value. The bonds are subject to a maximum interest rate of 15 percent. The Company considers these obligations, as well as $39 million of unsecured pollution control revenue bonds scheduled to mature in 1985, to be long-term debt since the Company has available unused noncancelable long-term lines of credit (note 4) equal to or exceeding the aggregate outstanding principal amounts and it is management's intent to refinance these obligations on a long-term basis. Accordingly, these obligations have been excluded from the above five-year maturity schedule.

In August 1977, the City of Farmington, New Mexico, issued and sold $77,045,000 principal amount of its 5.9 percent Pollution Control Revenue Refunding Bonds, Series 1977, the proceeds of which were used to retire $77,000,000 of outstanding Pollution Control Revenue Bonds on October 1, 1984.

(4) Short-Term Debt

The Company's interim financing requirements are met through the issuance of commercial paper and notes payable to banks which, respectively, amounted to $22 million and $8 million at December 31, 1984 and $91 million and $35 million at December 31, 1983. At December 31, 1984, the company had unused credit commitments from various banks totaling $164 million. These credit arrangements are used to support the issuance of commercial paper and to provide for short-term borrowings. The Company generally pays commitment fees or maintains cash balances on deposit with banks to assure availability of its credit commitments. These commitments consist of both lines of credit and revolving credit agreements ranging in duration from one to six years.

(5) Income Taxes

Income taxes consist of the following components:

	1984	1983	1982
		(In thousands)	
Current Federal income tax	$ 1,878	$ 3,046	$ 1,262
Current state income tax	2,519	3,989	2,349
Deferred Federal income tax	20,365	25,350	7,332
Deferred state income tax	3,966	4,448	980
Investment tax credit utilized	20,726	18,640	16,785
Amortization of accumulated investment tax credit	(3,060)	(2,958)	(2,639)
Total income taxes	$46,394	$52,515	$26,069
Charged to operating expenses	$32,356	$31,208	$34,855
Charged to other income and deductions	14,038	21,307	(8,786)
Total income taxes	$46,394	$52,515	$26,069

The Company has investment tax credit carryforwards of approximately $47 million as of December 31, 1984 which would, if unused, expire in 1996 through 1999 and a charitable contribution carryforward of $3 million which would, if unused, expire in 1987.

Deferred income taxes result from certain timing differences between the recognition of income and expense for tax and financial reporting purposes, as described in note (1).

The major sources of these differences for which deferred taxes have been provided and the tax effects of each are as follows:

	1984	1983	1982
		(In thousands)	
Deferred fuel costs	$ 1,251	$ (140)	$(6,566)
Depreciation and cost recovery timing differences	24,000	17,587	16,153
Provision for refunds	(7,071)	(232)	—
Charitable contribution carryforward	2,301	3,926	(6,915)
Sale of an equity interest in a trust	—	10,287	741
Other	3,850	(1,630)	4,899
Total deferred taxes	$24,331	$29,798	$ 8,312

The Company's effective income tax rate was less than the Federal income tax statutory rate for each of the years shown. The differences are attributable to the following factors:

	1984	1983	1982
Federal income tax statutory rate	46.0%	46.0%	46.0%
Allowance for funds used during construction	(19.6)	(15.5)	(21.1)
Charitable contribution of appreciated property	—	—	(3.4)
Taxes recorded at capital gains rate net of related minimum tax	(.6)	(3.5)	(.1)
Amortization of utility and flow-through of non-utility investment tax credits	(4.1)	(1.5)	(1.9)
Other	4.2	1.7	(1.1)
Company's effective tax rate	25.9%	27.2%	18.4%

The cumulative net amount of income tax timing differences (which excludes AFUDC) upon which deferred income taxes have not been provided is estimated to be approximately $17 million as of December 31, 1984.

In August 1984, the Internal Revenue Service issued a statutory notice of deficiency related to the examination of Western Coal Co. for the tax years 1975 and 1977-1981. Western Coal Co., liquidated in 1981, was a corporation owned fifty-percent by the Company. The Company has evaluated its exposure on the issues raised and is of the opinion that any amount eventually found to be due will have an immaterial impact on the financial statements. A provision for estimated additional tax expense has been made in the financial statements.

(6) Pension Plan

The Company and its subsidiaries have a pension plan covering substantially all of their employees, including officers. The plan is noncontributory and provides for monthly pension payments to participating employees with 30 years of service or at age 65 with less than 30 years of service. The amounts of such payments are dependent upon length of service and the average salary of the three highest consecutive years of employment. The Company's policy is to fund pension costs which were $5,560,000 in 1984, $8,500,000 in 1983, and $7,798,000 in 1982, which include normal costs and amortization of past service costs over 30 years. In 1984, the funding was reduced by $2,650,000 due to the utilization of a portion of the existing credit balance in the funding standard account.

Changes in plan characteristics were not deemed significant enough to warrant a 1984 actuarial valuation report. As of the two most recent actuarial valuation dates, accumulated plan benefits and plan net assets for the Company's pension plan are as follows:

	January 1 1983	January 1 1982
	(In thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$29,989	$21,014
Nonvested	4,086	2,163
	$34,075	$23,177
Net assets available for benefits (market value)	$45,308	$29,301

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8 percent for 1983 and 8 3/4 percent for 1982. The effect of this change and a revision in the mortality assumption was an increase in the actuarial present value of accumulated plan benefits by approximately $3.2 million.

(7) Construction Program and Jointly-Owned Plants

The Company operates and jointly owns the steam turbo-electric San Juan Generating Station. In December 1983, the Company sold 28.8 percent of its undivided interest in San Juan Unit 4. The Company received approximately $170 million from the sale, which approximates the book value of the assets sold plus a recovery of applicable income taxes. The Company owns an undivided 50 percent interest in the first three units of the San Juan Generating Station and 62.725 percent in Unit 4.

The Company also is participating with several other utilities in the construction of the Palo Verde Nuclear Generating Station and anticipates that the first unit will be in commercial operation for the Company's 1986 summer peak.

At December 31, 1984, the Company's ownership interest and investments in the jointly-owned generating facilities were as follows:

Station (Fuel Type)	Plant In Service	Accumulated Depreciation	Construction Work In Progress	Ownership Interest
		(In thousands)		
San Juan Generating Station (Coal)	$820,955	$119,868	$ 17,107	53.8%
Palo Verde Nuclear Generating Station (Nuclear)	—	—	736,172	10.2
Four Corners Generating Station Units 4 and 5 (Coal)	56,148	10,965	35,338	13.0

These amounts represent the Company's share of capital costs, for which the Company has provided its own financing. The Company's share of direct expenses is included in the corresponding operating expenses in the Consolidated Statement of Earnings. The Company also has undivided interests in transmission facilities which are not significant.

It is estimated that the Company's electric utility construction expenditures for 1985 will approximate $243 million, including expenditures of the jointly-owned projects. In connection therewith, substantial commitments have been made.

(8) Long-Term Power Purchase and Sales Contracts

The Company has entered into contracts for the purchase of electric power. Under one of these contracts which expires in 1995, the Company is obligated to pay certain minimum amounts and a variable component representing the expenses associated with the energy purchased and debt service costs associated with capital improvements. Total obligations under this contract during 1984 amounted to $36.4 million. Total minimum payment for each of the next five years is $22.8 million.

The Company has contracts to sell power to two unaffiliated utility companies, which accounted for approximately 12.9 percent and 10.0 percent of total operating revenue during 1983 and 12.5 percent and 10.5 percent during 1982. Sales to these unaffiliated utility companies accounted for less than 10 percent of total operating revenues in 1984.

(9) Lease Commitments

The Company leases data processing, communication, office and other equipment, office space, utility poles (joint use) and real estate. The leases for office buildings provide for purchase options equal to fair market value at the end of the primary terms. Other purchase options, renewal options and contingent rental provisions were not significant.

Leased property under capital leases at December 31, 1984 and 1983 is as follows:

	1984	1983
	(In thousands)	
Data processing equipment	$5,283	$5,137
Other	428	409
	5,711	5,546
Less accumulated amortization	1,864	1,869
	$3,847	$3,677

Future minimum lease payments at December 31, 1984 are:

	Capital Leases	Operating Leases
	(In thousands)	
1985	$1,886	$ 4,233
1986	1,584	3,712
1987	1,475	3,603
1988	1,371	3,620
1989	1,163	3,457
Later years	53	58,585
Total minimum lease payments	7,532	$77,210
Less amount representing executory costs	21	
Net minimum lease payments	7,511	
Less amount representing interest	3,056	
Present value of net minimum lease payments	$4,455	

Operating lease expense was $6,047,000 in 1984, $5,252,000 in 1983 and $5,243,000 in 1982. As of December 31, 1984, the aggregate minimum payments to be received in future periods under noncancelable subleases are approximately $3,026,000.

(10) Gain on Sale of Equity Interest in Trust

The Company held, in a trust, a retained economic interest in a sublease covering various Federal, state and private coal leases at the mine which is the primary source of coal for the San Juan Generating Station. See note (7). On June 30, 1983 the interest in the trust was sold to institutional investors for $38.7 million, resulting in an after-tax gain of approximately $24.1 million, or $.73 per share of common stock.

(11) Charitable Contribution of Appreciated Property

On December 30, 1982, the Company entered into an agreement with the City of Las Vegas, New Mexico whereby the Company contributed its Las Vegas water system to the City of Las Vegas. The physical assets contributed had a net book value of $6,726,000 and a fair market value of $19,600,000. The transaction resulted in a $1,171,000 gain after recognition of income tax benefits under the rules governing contributions of appreciated property.

(12) Subsequent Events

Gas Company of New Mexico Acquisition

Effective January 28, 1985, the Company acquired the New Mexico natural gas utility assets of Southern Union Company. The acquisition was in connection with the settlement of antitrust litigation brought against Southern Union by the Company and others. The assets were purchased for net book value net of liabilities assumed, which was approximately $224.3 million, less $51.5 million representing the amount of the settlement to all plaintiffs. Of the $51.5 million settlement, $15.9 million less expenses will be refunded to the Company's customers and $35.6 million represents the other plaintiffs' portion. The Company paid $97.5 million in cash at closing and issued $70.7 million of one-year 8% notes and $40.2 million of two-year 8% notes.

The acquisition will be accounted for as a purchase and, accordingly, the Company's financial statements will reflect the assets, liabilities and operating results from the acquisition date forward. The following unaudited pro forma consolidated balance sheet gives effect to the above transaction as if it had been consummated on December 31, 1984. Valuations assigned are preliminary and subject to change.

	December 31, 1984
	(In thousands)
Assets	
Net utility plant	$2,348,611
Other property and investments	190,193
Current assets	238,878
Deferred charges	42,205
	$2,819,887
Capitalization and Liabilities	
Total capitalization	$2,278,915
Current liabilities	261,507
Deferred credits	279,465
	$2,819,887

The following summarizes on a pro forma basis the unaudited combined results of operations as though the acquisition had occurred on January 1, 1984.

	Year ended December 31, 1984
	(In thousands except per share amount)
Operating revenues	$903,037
Net earnings	142,705
Earnings per share of common stock	3.39

Sale and Leaseback

On February 5, 1985, the Company sold a 216-mile, 345kV bulk electrical transmission line and related facilities to a trust comprised of two institutional investors. The Company will lease the system on a long-term net lease basis. The total consideration from the sale was the appraisal value of $73 million which approximates the book value plus recovery of applicable income taxes. The transaction will be accounted for as an operating lease with semiannual lease payments of $3.7 million over a 30 year term.

Supplementary Information Concerning the Effects of Changing Prices

The following supplementary information is presented in accordance with the requirements of the Financial Accounting Standards Board. These requirements deal with certain aspects of inflation in regard to the effects of changes in specific prices of certain assets of the Company (the "current cost" method).

The Company believes it is important for users of the financial statements to develop an understanding of the more significant impacts of inflation upon the Company. However, the Company advises readers that the information presented is determined through the use of experimental techniques and is not intended to replace traditional statements based on historical cost.

The current cost data reflects the change in specific prices of utility plant and equipment from the date the property was acquired to the present, as measured primarily by the Handy-Whitman Index of Public Utility Construction Costs.

Consolidated Statement of Earnings Adjusted for Changing Prices

Year Ended December 31, 1984	As Reported in the Primary Statement	Adjusted for Changes in Specific Prices (Current Cost)
	(In thousands)	
Operating revenues	$445,328	$445,328
Operating expenses (excluding depreciation and amortization)	249,859	249,859
Depreciation and amortization (note A)	48,975	75,157
Interest charges	83,248	83,248
Other income and deductions, net	(69,594)	(69,594)
	312,488	338,670
Net earnings (excluding reduction to net recoverable cost)	$132,840	$106,658
Increase in specific prices of net utility plant		$187,581
Reduction to net recoverable cost (note B)		(132,143)
Effects of increase in the general price level		(106,441)
Excess of increase in the general price level over the increase in specific prices of net utility plant after reduction to net recoverable cost		(51,003)
Gain from decline in purchasing power of net amounts owed (note C)		38,801
Net		$(12,202)

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

	Years ended December 31				
	1984	1983	1982	1981	1980
	(In thousands of average 1984 dollars except per share amounts)				
Current cost information:					
Net earnings excluding reduction to net recoverable cost	**$ 106,658**	$119,786	$ 90,460	$ 98,253	$ 67,612
Earnings per common share	**$ 2.36**	$ 2.87	$ 2.26	$ 3.63	$ 2.83
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	**$ 51,003**	$ 46,097	$ 49,461	$133,120	$153,161
Net assets at year-end, at net recoverable cost	**$1,005,019**	$985,610	$943,345	$768,684	$586,931
General information:					
Purchasing power gain on net amounts owed	**$ 38,801**	$ 36,981	$ 45,417	$ 94,673	$109,779
Cash dividends declared per common share	**$ 2.85**	$ 2.93	$ 2.98	$ 3.06	$ 2.57
Market price per common share at year-end	**$ 24.04**	$ 26.01	$ 27.66	$ 26.25	$ 23.78
Consumer price index for all urban consumers:					
Average	**311.1**	298.4	289.1	272.4	246.8
Year-end	**315.5**	303.5	292.4	281.5	258.4

Note A—Depreciation and amortization adjusted for changing prices

In adjusting historical cost income statement items for general inflation, changes were made only to the provision for depreciation and amortization. All other revenue and expense items were considered to reflect the current average price level for the year.

Estimated utility plant was determined by applying the indices specified to the historical cost of utility plant by vintage year. Depreciation expense was then determined for the adjusted amounts of utility plant by applying the same rates used to compute the historical amount of depreciation.

Note B—Reduction to net recoverable cost

Under the ratemaking prescribed by the regulatory commissions to which the Company is subject, only historical cost of plant is recoverable in revenues as depreciation and amortization. Therefore, the excess of the cost of plant, stated in terms of current cost over the historical cost of plant, is not presently recoverable in rates as depreciation and amortization, and is reflected as a reduction to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing property, plant and equipment, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

Note C—Gain from decline in purchasing power of net amounts owed

During periods of inflation, the holders of monetary assets suffer a loss of general purchasing power because such items will purchase less at a future date. Alternatively, holders of monetary liabilities such as long-term debt experience a gain because the amount of money required to ultimately settle the liabilities represents dollars of diminished purchasing power.

Since the Company owed net monetary liabilities during a period in which the general purchasing power of the dollar declined, the Company experienced an economic gain in purchasing power. All assets and liabilities other than utility plant and amounts applicable to the cumulative preferred stock not subject to mandatory redemption requirements were treated as monetary items.

Quarterly Operating Results

The unaudited operating results (in thousands except per share amounts) by quarters for 1984 and 1983 are as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Earnings	Earnings per Share
December 31, 1984	$110,838	$32,527	$34,602	$ .80
September 30, 1984	126,922	51,072	44,749	1.10
June 30, 1984	109,574	31,600	25,413	.56
March 31, 1984	97,994	31,295	28,076	.65
December 31, 1983	94,479	30,497	18,761	.38
September 30, 1983	107,227	39,589	40,349	1.03
June 30, 1983	93,217	30,277	49,578	1.33
March 31, 1983	102,551	35,884	31,831	.80

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.

Stock/Dividend Data

Common Stock:

Range of sales prices of the Company's common stock, reported as composite transactions (Symbol:PNM), and dividends paid on common stock for fiscal year 1984 and 1983, by quarters, are as follows:

	Range of Sales Prices High	Range of Sales Prices Low	Dividends Per Share
Fourth Quarter, 1984	25 1/4	22	$0.72
Third Quarter, 1984	22 3/4	19 1/2	0.71
Second Quarter, 1984	24 1/4	20 3/8	0.71
First Quarter, 1984	26 5/8	23	0.71
Fiscal Year	26 5/8	19 1/2	$2.85
Fourth Quarter, 1983	29 5/8	22 3/4	$0.71
Third Quarter, 1983	28 3/4	25 7/8	0.70
Second Quarter, 1983	28 7/8	26 3/4	0.70
First Quarter, 1983 .	28	25 1/2	0.70
Fiscal Year	29 5/8	22 3/4	$2.81

Cumulative Preferred Stock:

While isolated sales of the Company's cumulative preferred stock have occurred in the past, the Company is not aware of any active trading market for its cumulative preferred stock.

Quarterly cash dividends were paid on each series of the Company's cumulative preferred stock at their stated rates during 1984 and 1983.

Stockholder Information

Annual Meeting of Stockholders

The annual meeting of stockholders of Public Service Company of New Mexico will be held at the Kimo Theatre, 419 Central Avenue, N.W., Albuquerque, New Mexico, on Tuesday, April 23, 1985, at 9:30 a.m.

Stockholders are urged to attend; however, whether or not they attend, their proxies should be mailed to the Company. A proxy statement and form of proxy will be mailed to stockholders on or about March 18, 1985.

For copies of the Company's Form 10-K filed with the Securities and Exchange Commission, please contact D. E. Peckham, Secretary, Public Service Company of New Mexico Alvarado Square Albuquerque, NM 87158 (505) 848-2842

Stock Exchange Listing

Common stock of the Company is listed on the New York Stock Exchange under the symbol PNM.

Registrar of Stock

First National Bank in Albuquerque
Post Office Box 1305
Albuquerque, New Mexico 87103

Harris Trust Company of New York
Corporate Trust Department, 9th Floor
110 William Street
New York, New York 10038

Stockholder Communications

To notify the Company of change of address, lost certificates, or to request transfer of stock to another name, please write to:

Public Service Company of New Mexico
Stockholder Services
Alvarado Square
Albuquerque, New Mexico 87158

To request transfer of stock please write to:

Common Stock

Public Service Company of New Mexico
Stockholder Services
Alvarado Square
Albuquerque, New Mexico 87158

Harris Trust Company of New York
Corporate Trust Department, 9th Floor
110 William Street
New York, New York 10038

Preferred Stock

Public Service Company of New Mexico
Alvarado Square
Albuquerque, New Mexico 87158

Questions and Comments

Questions and comments about PNM or any information appearing in the annual report and quarterly reports are welcome and may be directed to:

Public Information:

Gayland Bryant
Director, Public Information
Alvarado Square
Albuquerque, New Mexico 87158
(505) 848-2746

Stockholder Information:

Karen Knight
Director, Stockholder Services
Alvarado Square
Albuquerque, New Mexico 87158
(505) 848-4538

Financial Questions:

Valerie C. Cheeseman
Director, Investor Relations
Alvarado Square
Albuquerque, New Mexico 87158
(505) 848-4673

Duplicate Mailings

Sometimes stockholders receive additional mailings of annual and quarterly reports. The Company is required by law to mail to each name on the stockholder list. If a husband, wife, and child each own stock in his/her own name, reports will be sent to each. Since the quarterly and annual reports are sent with either dividend checks or proxies, it is not possible at this time for PNM to eliminate duplicate mailings.

Dividend Reinvestment Plan

During 1984, the number of stockholders in the Shareholder Dividend Reinvestment Plan increased by 4,237 to 29,978. Dividends and cash invested through the Dividend Reinvestment Plan during the last eight years by shareholders now total $152.2 million. Under present law, stockholders can defer reinvested dividends of up to $750 annually ($1,500 for a joint return) from income on their federal returns. This law will be in effect until December 31, 1985. A prospectus describing the Dividend Reinvestment Plan and an enrollment form are available by writing to the Company, or telephoning (505) 848-2122 (local calls), 1-800-432-4494 (New Mexico), or 1-800-545-4425 (outside New Mexico).

Directors and Officers

Board of Directors

J. P. Bundrant**
President, Electric Operations
Public Service Company of New Mexico

A. B. Collins, Jr.
President
Reddy Communications, Inc.
Albuquerque, NM

J. D. Geist**
Chairman and President
Public Service Company of New Mexico

C. E. Leyendecker*
Chairman of the Board and
Chief Executive Officer
United New Mexico Bank at Mimbres Valley
Deming, NM

A. G. Ortega
Attorney at Law
Ortega & Snead, P. A.
Albuquerque, NM

R. R. Rehder*
Professor of Management
Robert O. Anderson Graduate
School of Management
University of New Mexico
Albuquerque, NM

R. B. Rountree
Senior Vice President
Public Service Company of New Mexico

R. H. Stephens*
President
Stephens-Irish Agency, Inc.
Las Vegas, NM

E. R. Wood**
Vice President and General Manager
Wood & Hill Corporation
Santa Fe, NM

H. L. Galles, Jr.
Director Emeritus
Chairman of the Board
Galles Chevrolet Company
Albuquerque, NM

*Member of Audit Committee
**Member of Executive Committee

PNM Corporate

J. D. Geist
Chairman and President

J. B. Mulcock, Jr.
Senior Vice President,
Corporate Affairs and
Assistant Secretary

A. J. Robison
Senior Vice President
and Chief Financial Officer

R. B. Rountree
Senior Vice President and
Chairman, Meadows Resources, Inc. and
Sunbelt Mining Company, Inc.

M. A. Clifton
Vice President,
Financial Planning

B. D. Lackey
Vice President and
Corporate Controller

J. K. Murphy
Vice President, Regulatory
and Business Policy

P. J. Archibeck
Treasurer and Assistant
Secretary

D. E. Peckham
Secretary and Assistant
Treasurer

H. L. Hitchins, Jr.
Assistant Secretary and
Assistant Treasurer

M. J. Marzec
Assistant Treasurer

Gas Company of New Mexico

J. T. Ackerman
President and Chief Operating Officer
Gas Operations

O. L. Slaughter
Senior Vice President,
Distribution

J. J. Ruiz
District Vice President

W. J. Real
District Vice President

T. D. Rister
District Vice President

D. A. Pickel
District Vice President

T. A. Coers
District Vice President,
Transmission

G. D. Mische
District Vice President,
Transmission

M. H. Lambert
Vice President,
Pipeline Operations

J. C. Wyman
Vice President,
Gas Supply

D. W. McFearin
Vice President,
Controller and
Assistant Secretary

D. J. Davis
Vice President and Chief Engineer,
Distribution

E. R. Corliss
Vice President and Chief Engineer,
Transmission

PNM Electric

J. P. Bundrant
President and Chief Operating Officer

C. D. Bedford
Senior Vice President,
Planning, Finance and
Administration

W. M. Eglinton
Senior Vice President,
Operations

J. L. Wilkins
Senior Vice President,
Power Supply

J. L. Godwin
Vice President, Power Production
and Manager, San Juan Station

W. M. Hicks, Jr.
Vice President, Energy Management

R. A. Lake
Vice President,
Operations Services

M. A. McDonald
Vice President, Human Resources
and Support Service

R. F. Mershon
Vice President,
Regional Division Operations

D. J. Morse
Vice President,
Albuquerque Division Operations

R. M. Wilson
Assistant Controller

Electric Division Managers

L. G. Boyce
Division Manager,
Clayton

C. L. Edwards
Division Manager,
Belen

E. L. King
Division Manager,
Bernalillo

A. R. Lujan
Division Manager,
Las Vegas

J. R. Sloan
Division Manager,
Sangre de Cristo Water Co.

M. C. Slota
Division Manager,
Santa Fe

F. M. Van Gundy
Division Manager,
Deming

PNM Subsidiaries

R. B. Rountree
Chairman, Meadows
Resources, Inc.
Chairman and President,
Sunbelt Mining Company, Inc.

J. F. Jennings, Jr.
President and Chief Operating Officer,
Meadows Resources, Inc.

C. E. Hunter
Vice President and
General Manager,
Sunbelt Mining Company, Inc.

T. D. Bauer
Vice President,
Sunbelt Mining Company, Inc.

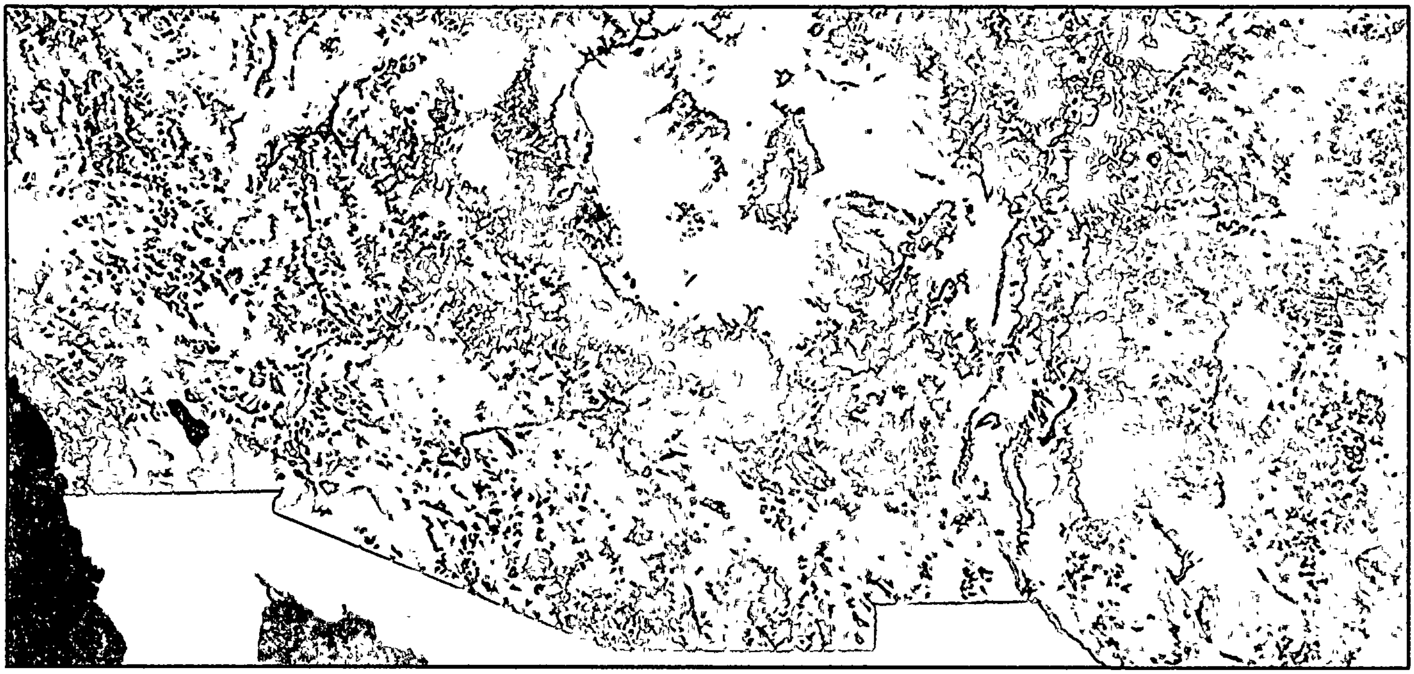
R. C. Rankin
Vice President,
Meadows Resources, Inc.

C. A. Underwood
Vice President,
Paragon Resources, Inc.

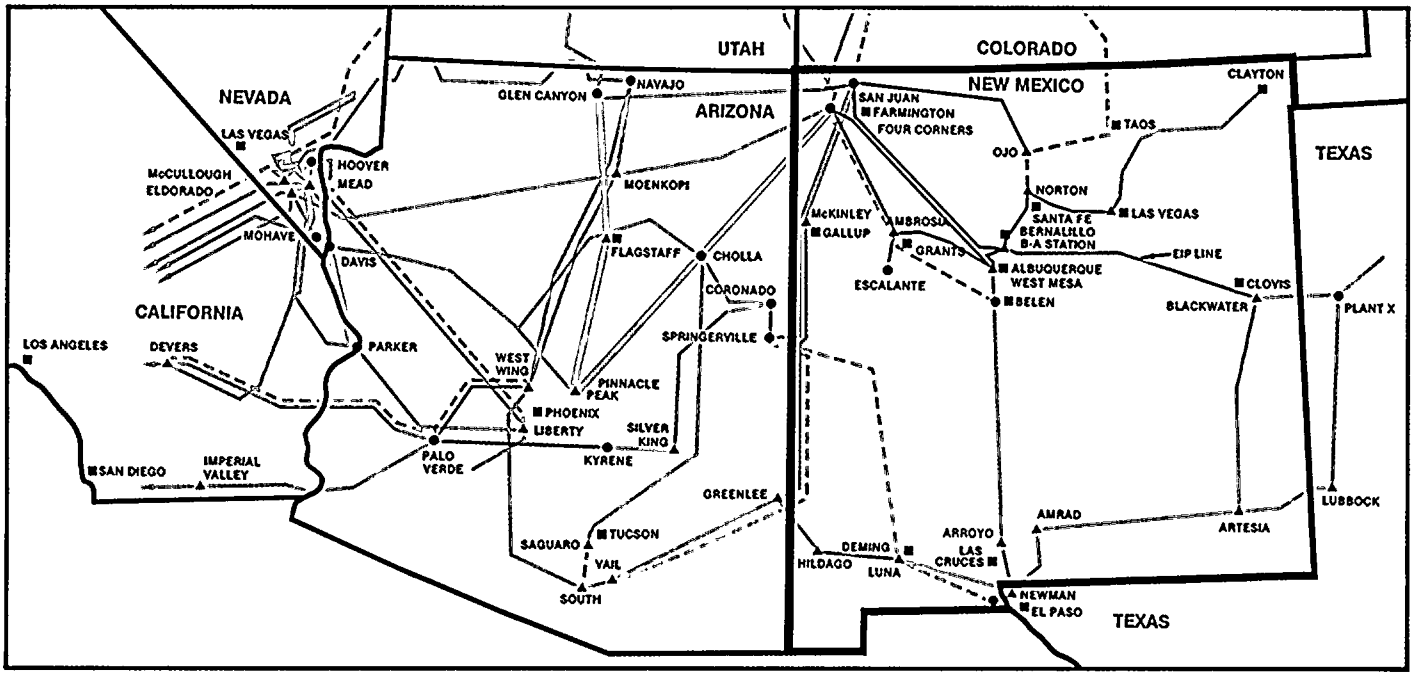
J. H. von Rusten
Controller,
Meadows Resources, Inc., and
Sunbelt Mining Company, Inc.

M. H. Maerki
Vice President,
Meadows Resources, Inc.

Regional Electric System Map



LANDSAT SATELLITE PHOTOGRAPH SCALE: 1: 4,560,300



EXISTING	MAJOR ELECTRIC TRANSMISSION LINES	PROPOSED
———	345 kV and Above Owned by PNM	— — —
———	230 kV and Below Owned by PNM	- - -
———	345 kV and Above Owned by PNM and Others	— — —
———	230 kV and Above Owned by Others	— — —
	115 kV Not Shown	
● Generation	▲ Switching Station	■ Cities and Towns

"Our enduring goals are to help preserve an irreplaceable way of life and to enhance it through new opportunities."

—J.D. Geist

CHAIRMAN AND PRESIDENT, PUBLIC SERVICE COMPANY OF NEW MEXICO

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Page 40: *Landsat map courtesy of National Geographic Society and General Electric Company*	

Additional color photographs by:

Dick Ruddy (Page 2: J.D. Geist, 17: Carson National Forest, NM, 17: MdF plant)

Jim Fisher (Page 12, 13: EIP, near Clovis, NM)

Pat Berrett (Page 7: natural gas gathering system)

Valerie Santagto (Page 5: near Acoma Pueblo, NM)

Dick Kent (Page 9: near Taos, NM, 11: Shiprock, NM)

PUBLIC SERVICE COMPANY OF NEW MEXICO