Docket # 50-528
Accession # 9112170321
Date 12/9/91 of Ltr
Regulatory Docket File

Public Service Company of New Mexico

1990 ANNUAL REPORT

Together we create opportunities for growth.

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printed on recycled paper

WE BELIEVE

TOGETHER WE CREATE OPPORTUNITIES FOR GROWTH.

OUR MISSION is to be the energy supplier of choice in New Mexico and regional markets and to provide high-quality, competitive utility products and services.

WE BELIEVE that to achieve our mission, we must work together as a team unified by our commitment to excellence and high ethical standards.

CUSTOMERS

WE BELIEVE our first responsibility is to our customers. Customer satisfaction is the foundation for growth in a competitive energy environment. We are dedicated to serving our external customers' needs by providing safe, dependable, high-quality and competitively-priced electric, natural gas, and water services. We support each other, our internal customers, and believe each work force member serves a customer.

INVESTORS

WE BELIEVE that business must make a fair profit while dealing honestly and responsibly with our customers, work force members, our communities, and our environment. We are committed to generating profits that will provide a competitive return to those who invest in the company.

WORK FORCE

WE BELIEVE each of us is responsible for his or her performance and shares responsibility for the performance of our company. Acceptance of these responsibilities is critical to the success of the company. We respect the dignity of individual work force members. Our work environment shall provide an opportunity for personal growth and satisfaction, for working together as teams, for rewarding quality performance, and for recognizing the value of diversity in our work force.

COMMUNITY

WE BELIEVE we are responsible to the communities we serve. We accept our role in enhancing the quality of life by supporting civic pride, economic development, better health and education, and protection of the environment. We are dedicated to our communities through volunteer leadership and providing company resources where possible.



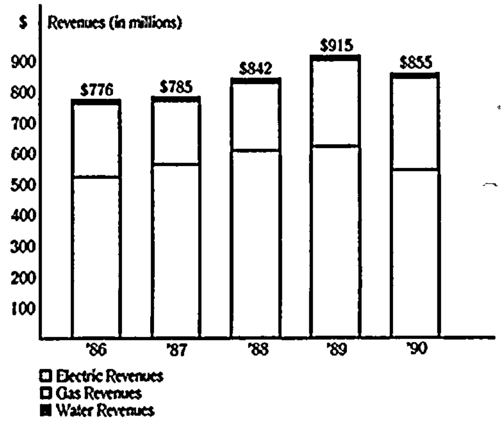

This statement of commitment was developed by the employees of Public Service Company of New Mexico.

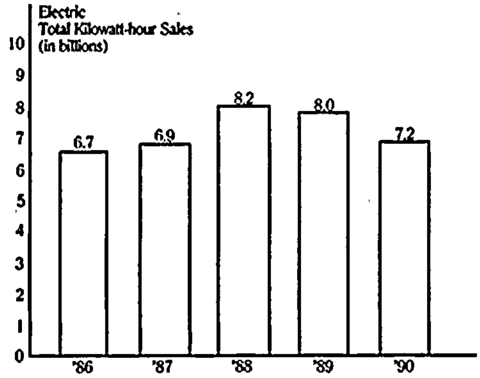
Operations Summary

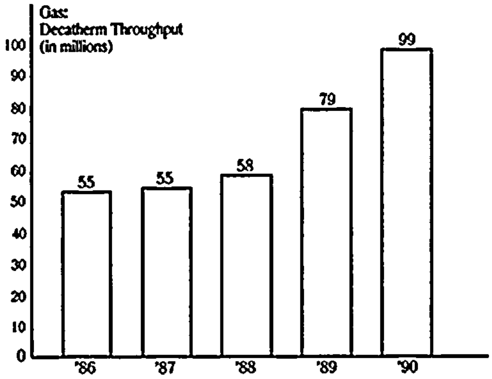
Public Service Company of New Mexico and Subsidiaries

	1990	1989	% Change
Operating revenues	$ 855,134,000	$ 915,310,000	(6.6)
Operating expenses	$ 762,693,000	$ 762,074,000	0.1
Net earnings	$ 442,000	$ 82,593,000	(99.5)
Return on average common equity	(1.3)%	9.5%	N/M
Earnings (loss) per common share	$ (0.23)	$ 1.73	N/M
Dividends paid per common share	$ 0.00	$ 0.38	N/M
Book value per common share at year-end	$ 17.36	$ 18.02	(3.7)
Construction expenditures	$ 84,236,000	$ 78,289,000	7.6
ELECTRIC:			
Total kilowatt-hour sales	7,168,066,000	8,006,050,000	(10.5)
GAS:			
Decatherm throughput	99,045,000	79,015,000	25.3

N/M Not meaningful







To the Stockholders:

The past year continued a period of transition for investors, work force members and customers of Public Service Company of New Mexico. This decade promises even more change. Out of this change, together, we can create opportunities for growth.

In November 1988, the company began a return to our core business and exit from non-utility operations. These activities carried over and dominated 1989 and much of 1990. This course of action is now well established.

In 1990, your company put into place the foundation for long-term shareholder value. We have established a new management team, with new leadership at the top. We created a new set of goals and guiding principles for our work force. In addition, we are moving to realize gains in efficiency through combined operations of some of our electric and gas units. Savings from this and other activities will allow us to freeze our base rates for three years. Finally, new governance practices were developed by our Board of Directors.

Those are positive steps, but there is much more to be done. We must put behind us the turmoil and uncertainties of the past. We must seek a successful resolution of the Albuquerque franchise, and we must market our excess capacity. In this letter, we will outline our approach for addressing these key areas of concern.

Chairman of the Board Ashton B. Collins, Jr., seated, and President and Chief Executive Officer John T. Ackerman.

STOCKHOLDER LAWSUITS AND SPECIAL LITIGATION COMMITTEE ACTIONS

Issues of the past continue to be a part of our present. That past includes six stockholder lawsuits, including three derivative actions.

In July 1989, following the filing of the first stockholder lawsuit, the board established a Special Litigation Committee (SLC) to conduct an independent investigation of allegations of mismanagement against present or former directors and officers. In January 1991, following 16 months of comprehensive investigation and analysis, the SLC filed its report with the appropriate courts. The SLC concluded that it was not in the company's best interests to pursue certain of the claims in the derivative lawsuits, and directed counsel to seek dismissal of those claims. If the motions to dismiss are granted, no current directors or officers would be defendants in the remaining pending claims.

Also, at the direction of the SLC, the company filed a lawsuit against three former executives seeking return of compensation it claims was excessive and for cancellation of the company's obligation to make certain future payments.

Details are discussed in the company's report on Form 10-K, which is a part of this 1990 Annual Report.

ALBUQUERQUE FRANCHISE

Issues surrounding the Albuquerque electric franchise continue to cause uncertainty in our business and we intend to resolve this issue in a way that benefits our key constituencies: our owners, our customers, the community and employees. The city is exploring three options: purchase our system, build its own system or condemn our system.

Our effort is geared toward remaining the supplier of choice for our Albuquerque customers. We have initiated actions to further the public and our customers' understanding of the issues. To date, we have not seen any analysis or proposal which satisfies us that the city's options can be implemented in a way that benefits our key constituencies. The Albuquerque franchise is further discussed elsewhere in this 1990 Annual Report.

CUSTOMERS

WE BELIEVE our first responsibility is to our customers. Customer satisfaction is the foundation for growth in a competitive energy environment. We are dedicated to serving our external customers' needs by providing safe, dependable, high-quality and competitively-priced electric, natural gas, and water services. We support each other, our internal customers, and believe each work force member serves a customer.

Customer Service Representative Diana D'Angelo assists a customer at our newest Neighborhood Office in Albuquerque's South Valley.

A NEW MISSION DEFINES OUR COURSE

In 1990, we developed a new mission statement for our company that sets forth our core values and defines our future direction. With this mission in mind, we outlined our objectives and identified key strategies to address them. And, we developed measurements to assess our progress on these objectives. Our intent is that clear, measurable goals will require accountability by every member of our work force.

OUR CUSTOMERS ARE OUR FOUNDATION

Our customers are the foundation of our business. They expect and demand a competitively-priced product and a high level of service. We intend to be price-competitive with other regional utilities and have set a long-term goal of offering rates in the lowest one-third of regional energy suppliers. To help meet that objective, we intend to freeze our current base rates for the next three years. In addition, we have targeted all major cost components to reduce our budgeted non-fuel operations and maintenance expense ten percent by 1993.

VALUE FOR OUR INVESTORS

Our investors have been faced with tough decisions regarding their investment in our company. For our investors, our goals are to reinstate a sustainable dividend and improve our bond rating. The key to our success will be our ability to manage changes in the energy market, while finding innovative ways to meet the needs of our customers. In other words, we must be competitive.

RESPONDING TO A CHANGING MARKETPLACE

We believe electric industry deregulation is continuing to evolve. To meet this challenge, we've reorganized the company to reflect a new market orientation.

Five new marketing centers have been established: Retail Electric, Retail Gas, Wholesale Electric, Wholesale Gas, and Water. This new organization allows for consolidation of some support services and certain gas and electric functions, avoiding duplication of some tasks. Other savings may come from the efforts of a new team formed to work full-time to review all major "fixed" cost elements of our company. The charter of this team is to evaluate and take actions, if appropriate, to significantly reduce our cost structure. Another important area of emphasis is selling or marketing our excess, non-productive, or non-competitive assets.

It won't be easy, but we've already begun.

GOALS AND INCENTIVES FOR OUR WORK FORCE

Our work force is our greatest resource. In 1990, we conducted a survey that showed our workers want to do their jobs well. In the survey, the employees expressed concerns which we intend to address in a variety of ways, including new programs to reward individual, team and company performance.

At this writing, the company does not have a signed agreement with our employees represented by the International Brotherhood of Electrical Workers (IBEW), Local Union No. 611. These workers, numbering about 744, are currently on the job working under our last offer, made September 28, 1990. Issues concerning the union bargaining agreement are before the U.S. District Court. We will continue to work toward the goal of resolving these issues to reach a contract which sustains a long-term and productive relationship with those work force members represented by the IBEW.

TRUST WITHIN OUR COMMUNITY

For us to succeed in the future, it is imperative that we regain the trust and credibility we once enjoyed. We are deeply committed to responsible actions and open and forthright communication.

BOARD OF DIRECTORS

Your board has taken an aggressive role in formulating the necessary changes outlined above. In addition, a separate Chairman of the Board was designated, independent of the President and Chief Executive Officer. Further, a board tenure policy has been set in place, with a four term (of three years each) limit.

In December 1990, two board members retired, each having served, loyally, beyond their normal board retirement date. They are E.R. "Ned" Wood, who retired after 22 years of service, and Russell H. Stephens, who retired after 20 years.

On December 20, 1990, the board announced the appointment of Vickie L. Fisher to fill Mr. Wood's position. Ms. Fisher currently is Controller for ABQ Federal Savings Bank. The Nominating Committee is currently interviewing candidates for Mr. Stephens' position.

Two additional board members will complete their terms in 1991 and will not stand for reelection. John P. Bundrant, formerly President of Electric Operations, will have served on the board for eight years and is not standing for reelection due to his retirement as an employee. Ashton B. Collins, Jr. will have served the full allowed term of 12 years on the board, the last year as Chairman.

We thank these board members for their combined 62 years of service. Their leadership in critical times, loyalty and effectiveness in setting a new course for this company will be of lasting value.

A CLEAR VISION

To chart the future one must first understand the past and come to terms with the present. We have done that in this most difficult year and the work we've begun will continue. Our mission will be to work relentlessly to address, constructively, the concerns of our customers, our investors, our work force, and our community.

Then, our future will be more than a vision. It will be the reality of the Public Service Company of New Mexico.

Ash Collins Jr.

Ashton B. Collins, Jr.
Chairman of the Board

J. T. Ackerman

John T. Ackerman
President and Chief Executive Officer

February 22, 1991

INVESTORS

WE BELIEVE that business must make a fair profit while dealing honestly and responsibly with our customers, work force members, our communities, and our environment. We are committed to generating profits that will provide a competitive return to those who invest in the company.

A local broker discusses the company's outlook with a potential investor.

Operations Overview

OPERATING RESULTS

THE COMPANY REPORTED a net loss per common share in 1990 of 23 cents, compared to earnings of $1.73 in 1989. The loss experienced in 1990 primarily reflects after-tax write-offs of 46 cents per share resulting from the New Mexico Public Service Commission's (NMPSC) decision on the company's electric rate case. Also affecting our 1990 results, as compared to 1989, was the expiration of a long-term power sale contract with a regional utility. This long-term power sales contract had contributed $109.8 million in revenues in 1989. Details concerning results of operations are found in the company's report on Form 10-K, which is a part of this 1990 Annual Report.

NEW MARKETING CENTERS

A SIGNIFICANT CHANGE in the company was the recent reorganization of the company's work force. Five major marketing centers were developed in early January 1991 which will serve as our foundation in the years ahead. These new marketing centers are: Retail Electric, Retail Gas, Wholesale Electric, Wholesale Gas, and Water. As a result, management changes at many levels of the company occurred and consolidation of some departments was initiated. The following summarizes activities in the five major areas over the last year, as well as some information about the company's environmental commitment.

RETAIL ELECTRIC

ELECTRIC SALES TO RETAIL CUSTOMERS INCREASED in 1990 by 2.8 percent over 1989 due to increased use by residential, commercial and industrial jurisdictional customers. On April 12, 1990, the NMPSC issued its final order in the company's electric rate case. The company had proposed a $12.2 million rate increase and a phase-in plan relating to our investment in Palo Verde Nuclear Generating Station (PVNGS) Units 1 and 2. The result was mixed. While the order included Units 1 and 2 in rates, it disallowed the phase-in plan and also reduced our base electric rates by $2.9 million per year. It also resulted in a write-off of approximately $19 million, net of taxes.

TO PLAY A STRONGER ROLE IN NEW MEXICO'S ECONOMIC GROWTH, we offer a range of economic development rates and services to help attract new businesses and aid expansion for existing customers. These special rates, authorized by the New Mexico Legislature and approved by the NMPSC, helped attract a new General Mills cereal manufacturing plant to Albuquerque. In addition, Intel and Motorola are taking advantage of our economic development rates for their plant expansions.

THE CITY OF ALBUQUERQUE ELECTRIC FRANCHISE has been a major issue for the company throughout 1990. The Albuquerque franchise area accounts for about 47 percent of our electric revenues. Our franchise with the city expires in early January 1992. The city has stated that it must comply with Article XV, an amendment to the city charter, passed in November 1989, which would preclude the city from issuing a franchise agreement unless it is through a competitive bid process.

We believe that the franchise is basically a right-of-way agreement. We further believe that the price and terms and conditions of service are subject to the jurisdiction of the NMPSC and that Article XV conflicts with the powers delegated to the NMPSC under State law. The NMPSC has agreed to hear this matter.

Recently, a study was commissioned on behalf of the company which examined the impact of municipalization on our customers' rates. This analysis, conducted by an independent engineering firm, indicated that, should the city of Albuquerque condemn our facilities and go into the electric utility business, our Albuquerque customers may face as much as a 45 percent increase in their rates over a ten-year period. The city has also commissioned an independent study which asserts that potential rate savings for the three municipal options could range from one to 26 percent over the same period.

We will strive for a resolution of the Albuquerque franchise matter in a way which protects our property interests while assuring continued reliable service to customers in the Albuquerque area. Should the franchise expire without an agreement in place, we would continue to have the obligation, as a New Mexico public utility, to serve our Albuquerque customers.

RETAIL GAS

GAS COMPANY OF NEW MEXICO NOW SERVES more than 345,000 retail gas customers in 80 communities throughout New Mexico. Our primary goal is to offer these customers competitively-priced and reliable natural gas and services throughout the year. Through our winter supply planning effort, we have secured natural gas supplies during winter months, our peak season. In 1990, we continued to renegotiate and reform gas supply contracts. Through these efforts, our customers have and will continue to realize savings of hundreds of millions of dollars over the life of those contracts. These efforts have also entailed the payment of substantial settlement costs. The right to seek recovery of necessary and prudent settlement costs has been approved by the NMPSC. Yet to be decided, however, are the total recovery amount, the timetable, and exact method of recovery of these costs.

TOTAL DELIVERED GAS VOLUMES in 1990 were the highest since 1986 and greatly exceed 1989 totals. Of this record amount in 1990, transportation volumes accounted for 43 percent of total system throughput.

Gas operating revenues increased $19.3 million in 1990 due mainly to increased gas liquids revenues resulting from increased price and throughput, to increased gas consumption by residential and commercial customers in the spring of 1990, and to an increase in transportation throughput.

WORK FORCE

WE BELIEVE each of us is responsible for his or her performance and shares responsibility for the performance of our company. Acceptance of these responsibilities is critical to the success of the company. We respect the dignity of individual work force members. Our work environment shall provide an opportunity for personal growth and satisfaction, for working together as teams, for rewarding quality performance, and for recognizing the value of diversity in our work force.

At Power Operations in Albuquerque, employees Lewis McComb, John Kuhlen and Bob Winn analyze and plan wholesale power sales for customers throughout the West.

WHOLESALE ELECTRIC

AS ANTICIPATED, THE DECEMBER 1989 EXPIRATION of a wholesale electric sale contract with a regional electric utility adversely impacted our results in this important marketing center in 1990. In 1989, this contract represented $1.13 of the reported $1.73 per share earnings. Efforts to replace these revenues through long-term sales of excess capacity have been hampered by regional excess capacity and limited transmission access to the marketplace. The company has been successful in making spot market sales. We continue to pursue the sale of excess capacity and the sale of generation assets; currently, several proposals are outstanding.

To facilitate sales, we have taken the first steps in strengthening our ties to markets in the West by signing an interconnection agreement and an exchange of service agreement with the Salt River Project Agricultural Improvement and Power District in Arizona. In conjunction with these agreements, the company is pursuing construction of the Ambrosia-Coronado Line, which will interconnect our western New Mexico system with the northern Arizona system. Preliminary public meetings on proposed routes have begun, but construction will not proceed until all environmental and regulatory approvals have been obtained. This project would provide vital access to western wholesale markets in southern California and Nevada.

ANOTHER TRANSMISSION PROJECT which we are pursuing is the Ojo Line Extension Transmission Project, which would be a new 345-kV transmission line through the Jemez Mountains. The new line would greatly improve the reliability of our system for northern New Mexico customers.

PALO VERDE NUCLEAR GENERATING STATION (PVNGS) made history in 1990. The facility operated at 62 percent average capacity factor in 1990, a dramatic improvement over 1989's operating average of 23 percent. The national average capacity factor for nuclear generating stations in 1989 was 63 percent. PVNGS has operated at an average capacity factor of 91 percent since Units 1 and 2 were returned to service in July 1990.

The U.S. Nuclear Regulatory Commission (NRC) found in its annual review of the plant that improvements had been made in its management and operations and that the facility generally was performing well after recent difficulties. On the other hand, in 1990 the NRC assessed two fines at PVNGS associated with certain violations of NRC requirements.

WHOLESALE GAS

INCREASED UTILIZATION OF GAS ASSETS enabled us to widen the market for New Mexico resources by transporting natural gas produced in-state to California and other markets. The gas division continued to rely on New Mexico gas wells for nearly all of its supplies. "Off-system" transportation and spot sales accounted for 33 percent of the year's total gas throughput, compared to 25 percent in 1989. These accomplishments were the result of contract reformation, marketing our system to producers connected to our facilities, and attracting new supplies through competitive services.

A project we are pursuing is the Rio Puerco Compression project, which would add a maximum of 11,900 horse power to our transmission line from the San Juan Basin to interconnects with interstate pipelines. The new compression should greatly enhance our ability to move gas from the San Juan Basin into the interstate pipeline grid and should provide additional transportation revenues.

WATER

SANGRE DE CRISTO WATER COMPANY total revenues for 1990 were $11.7 million, a decline from 1989 of about $400,000. Water consumption in Santa Fe declined from 1989's record level by almost 6 percent. This reduction was due to 1990's normal weather conditions as opposed to 1989's dry conditions which increased consumption.

PROTECTING OUR ENVIRONMENT

THE ENVIRONMENT continues to be of major concern to our company, as well as our customers. From supporting grass roots environmental groups, like Tree New Mexico, who intend to plant 16 million trees in our state by the year 2000, to supporting on-going research on electric and magnetic fields (EMF), the company makes an investment in the future.

The 1990 amendments to the Clean Air Act are anticipated to have a minimal impact on the company with respect to sulfur and nitrous oxide emissions due to the existing air pollution equipment at San Juan Generating Station and Four Corners Generating Station.

The company has invested in air pollution control since the early 1970s. In 1990, our customers paid 11 cents of every dollar of their electric bills for environmental controls at our generating plants. Investment in air and water pollution control at our coal-fired plants has reached more than $400 million.

Environmental concerns also led the gas company to ask the NMPSC to authorize several new rate classes and two experimental rates designed to offer incentives to customers. These incentives, approved in August 1990, are offered in the area of gas air conditioning and natural gas vehicle usage. In addition, the gas company is currently involved in a natural gas vehicle pilot program with several customers.

The past year has seen a growing concern by customers about EMFs. Scientific and medical studies are still examining possible linkages between EMFs and health problems. The company provides EMF readings for customers and has developed a company task force to assess and monitor various on-going industry-wide studies. This task force provides presentations to company and public groups while keeping abreast of current research findings. In addition, we support scientific research through our affiliation with the Electric Power Research Institute.

As a company with concerns for the environment, we intend to be part of the solution.

COMMUNITY

WE BELIEVE we are responsible to the communities we serve. We accept our role in enhancing the quality of life by supporting civic pride, economic development, better health and education, and protection of the environment. We are dedicated to our communities through volunteer leadership and providing company resources where possible.

Skip Cowan, Executive Director of the Focus Foundation, Inc., and employee Teri Aragon work with high school sophomores.

Stockholder Information

ANNUAL MEETING

The annual meeting of Public Service Company of New Mexico stockholders will be held in the auditorium of the UNM Continuing Education Center, 1634 University Boulevard N.E., Albuquerque, New Mexico on May 23, 1991 at 9:30 a.m. Mountain Daylight Time. Stockholders are urged to attend; however, whether or not attending, proxies should be marked, signed, dated and returned promptly. A proxy statement and form of proxy will be mailed to stockholders on or about April 15, 1991.

STOCKHOLDER INFORMATION

Stockholders may obtain information relating to their share position, dividends, transfer requirements, lost certificates, and other related matters by telephoning Stockholder Services (numbers given below). Stockholders must provide their Tax Identification Number, the name(s) in which their shares are registered and their address of record when they request information. This service is available to all stockholders Monday through Friday 7:30 a.m. to 5:00 p.m. Mountain Time Zone.

ABOUT YOUR SECURITIES AND RECORDS

The common stock of the company is listed on the New York Stock Exchange and is also traded on the Pacific and Philadelphia Stock Exchanges. A consolidated quote is published in numerous daily stock tables carried by many newspapers. The ticker symbol for the common stock is PNM. The most common newspaper symbol is PSvNM.

Public Service Company of New Mexico is the sole transfer agent and registrar for our common and preferred stock. The company maintains all corporate stockholder records.

TAX REPORTS ON PREFERRED DIVIDEND INCOME

Public Service Company of New Mexico is required by the Internal Revenue Service to report the total amount of stockholder dividends paid to each stockholder during the preceding year. Information supplied by the company was mailed to preferred stockholders in January 1991 on Form 1099 or 1042. Common stockholders were not paid a dividend in 1990; therefore, a 1099 or 1042 was not mailed to common stockholders or reported to the Internal Revenue Service. Dividends paid to preferred stockholders in 1990 are 100 percent taxable as ordinary income.

The Internal Revenue Service may require the company to begin 20% backup withholding from dividends of stockholders who fail to provide a Taxpayer Identification Number (TIN), or provide an incorrect number, or when the Internal Revenue Service has notified the company that a stockholder has underreported income. Verify the TIN we have on record for your account by looking at your dividend check stub. If the TIN is incorrect, notify the Stockholder Records Department and a Form W-9 will be sent to you.

INQUIRIES-ADDITIONAL INFORMATION WRITE OR CALL:

Public Service Company of New Mexico
Alvarado Square
Albuquerque, New Mexico 87158
1 (800) 545-4425

Investor Relations	Stockholder Relations	Stockholder Services
(Institutions & Analysts)	(Stockholders & Brokers)	(Stockholders & Brokers)
Frank Craig (505) 848-2366	Ernie C'deBaca (505) 848-2806	Yvonne Johnson (505) 848-2054

Directors and Officers

BOARD OF DIRECTORS

John T. Ackerman 4, 5, 6
Director since 1990, age 49
President and Chief Executive Officer
Public Service Company of New Mexico

John P. Bundrant 2, 4
Director since 1983, age 58
Retired former President, Electric Operations
Public Service Company of New Mexico

Ashton B. Collins, Jr. 4
Chairman of the Board
Director since 1979, age 58
President and Chief Executive Officer
Reddy Communications, Inc.,
a management consulting and services firm
Albuquerque, NM

Vickie L. Fisher
Director since 1990, age 44
Controller, ABQ Federal Savings Bank
Albuquerque, NM

Joyce A. Godwin 2, 3, 6
Director since 1989, age 48
Vice President, Southwest
Community Health Services
Albuquerque, NM

Claude E. Leyendecker 1, 5, 6
Director since 1970, age 68
Chairman of the Board, United
New Mexico Bank at Mimbres Valley
Deming, NM

Arturo G. Ortega 3, 4, 6
Director since 1985, age 70
Attorney
Albuquerque, NM

Robert R. Rehder 1, 3, 5
Director since 1975, age 60
Professor of Management
The Robert O. Anderson Graduate
Schools of Management
University of New Mexico
Albuquerque, NM

1 Member of Audit Committee
2 Member of Compensation Committee
3 Member of Corporate and Public Responsibility Committee
4 Member of Executive Committee
5 Member of Finance Committee
6 Member of Nominating Committee

OFFICERS

Ashton B. Collins, Jr.
Chairman of the Board, age 58

John T. Ackerman
President and Chief Executive Officer
(19), age 49

William M. Eglinton
Executive Vice President and Chief Operating
Officer, Electric and Water Operations
(20), age 43

James B. Mulcock, Jr.
Senior Vice President, Corporate Affairs
and Secretary, (18), age 51

Max H. Maerki
Senior Vice President and
Chief Financial Officer, (7), age 51

William J. Real
Executive Vice President, Gas Operations
(12), age 42

M. Phyllis Bourque
Senior Vice President,
Gas Management Services, (3), age 43

Judith A. Zanotti
Senior Vice President,
Human Resources and Communications
(5), age 52

Jeff E. Sterba
Senior Vice President, Retail Electric
and Water Services, (13), age 35

Billy D. Lackey
Vice President and Corporate Controller
(17), age 54

Jerry L. Godwin
Senior Vice President,
Wholesale Marketing and Power Supply
(10), age 48

Edwin A. Kraft
Vice President,
Central Rio Grande Customer Services
(20), age 42

Ellen A. Wilson
Vice President, Human Resources
(12), age 43

Lawrence D. Ratliff
Vice President,
Power Production, and Plant Manager
(16), age 44

Michael E. Slota
Vice President, (17), age 44

D.A. "Zan" James
Vice President, Strategic Services
(4), age 47

John Renner
Vice President, Processing and San Juan
Operations, Gas Operations, (4), age 62

James A. Hunter
Vice President, Marketing, (4), age 49

David J. Davis
Vice President, Metropolitan Operations,
Gas Operations, (17), age 46

Terry D. Rister
Vice President, Regional Operations,
Gas Operations, (19), age 39

Alfonso R. Lujan
Vice President, Regional Customer
Services, (18), age 42

Milo L. McGonagle
Vice President,
Industrial Development Services
(3), age 60

Robert M. Wilson
Controller and Assistant Secretary,
Electric and Water Operations
(13), age 45

Andrew R. Vogt
Controller and Assistant Secretary,
Gas Operations, (3), age 40

Karen A. Knight
Assistant Secretary, (16), age 51

Mitchell J. Marzec
Treasurer, (15), age 43

( ) Years of service with the company or a company controlled affiliate. Ages, years of service and committee assignments as of February 19, 1991.

Financial Information Index

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [*FEE REQUIRED*]

For the Fiscal Year Ended December 31, 1990

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [*NO FEE REQUIRED*]

For the transition period from ____________ to ____________
Commission File Number 1-6986

Public Service Company of New Mexico

(Exact name of registrant as specified in its charter)

New Mexico (State or other jurisdiction of incorporation or organization)	85-0019030 (I.R.S. Employer Identification No.)
Alvarado Square Albuquerque, New Mexico (Address of principal executive offices)	87158 (Zip Code)

Registrant's telephone number, including area code: (505) 848-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)

Cumulative Preferred Stock ($100 stated value and without sinking fund) comprised of the following series:

1965 Series, 4.58% 8.48% Series 8.80% Series

8.75% Cumulative Preferred Stock ($100 stated value and with a periodic sinking fund)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES ✓ NO ___

The total number of shares of the Company's Common Stock outstanding as of February 1, 1991 was 41,774,083. On such date, the aggregate market value of the voting stock held by non-affiliates of the Company, as computed by reference to the New York Stock Exchange composite transaction closing price of $8⅜ per share reported by the Wall Street Journal, was $349,274,752.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into the indicated part of this report:

Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the annual meeting of stockholders to be held on May 23, 1991 — PART III.

TABLE OF CONTENTS

GLOSSARY

AFUDC	Allowance for funds used during construction
APS	Arizona Public Service Company
BHP-Utah	BHP-Utah International, Inc.
BTU	British Thermal Unit
Century	Century Power Corporation
decatherm	1,000,000 BTUs
DOE	United States Department of Energy
EIP	Eastern Interconnection Project
El Paso	El Paso Electric Company
EPA	United States Environmental Protection Agency
EPNG	El Paso Natural Gas Company
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Gathering Company	Sunterra Gas Gathering Company, a wholly-owned subsidiary of the Company
GCNM	Gas Company of New Mexico, a division of the Company
KWh	Kilowatt Hour
Los Alamos	The County of Los Alamos, New Mexico
mcf	Thousand cubic feet
Meadows	Meadows Resources, Inc., a wholly-owned subsidiary of the Company
M-S-R	M-S-R Public Power Agency, a California public power agency
MW	Megawatt
MWh	Megawatt Hour
NMEIB	New Mexico Environmental Improvement Board
NMIEC	New Mexico Industrial Energy Consumers
NMPSC	New Mexico Public Service Commission
NRC	United States Nuclear Regulatory Commission
PGAC	GCNM's Purchased Gas Adjustment Clause
Processing Company	Sunterra Gas Processing Company, a wholly-owned subsidiary of the Company
PVNGS	Palo Verde Nuclear Generating Station
Salt River Project	Salt River Project Agricultural Improvement and Power District
SCE	Southern California Edison Company
SDG&E	San Diego Gas and Electric Company
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
Southern Union	Southern Union Company
SPS	Southwestern Public Service Company
Sunbelt	Sunbelt Mining Company, Inc., a wholly-owned subsidiary of the Company
throughput	Volumes of gas delivered, whether or not owned by GCNM or Gathering Company
Tucson	Tucson Electric Power Company
uncommitted capacity	Capacity in excess of that included in New Mexico jurisdictional rates or otherwise required to serve firm system load
WSCC	Western System Coordinating Council
WSPP	Western Systems Power Pool

PART I

ITEM 1. *BUSINESS*

THE COMPANY

Public Service Company of New Mexico was incorporated in the State of New Mexico in 1917 and has its principal offices at Alvarado Square, Albuquerque, New Mexico 87158 (telephone number 505-848-2700). The Company is a public utility engaged in the generation, transmission, distribution and sale of electricity and in the gathering, processing, transmission, distribution and sale of natural gas within the State of New Mexico. The Company also owns facilities for the pumping, storage, transmission, distribution and sale of water in Santa Fe, New Mexico.

The total population of the area served by one or more of the Company's utility services is estimated to be approximately one million, of which 54% live in the greater Albuquerque area.

For the year ended December 31, 1990, the Company derived 63.3% of its utility operating revenues from electric operations, 35.3% from natural gas operations and 1.4% from water operations.

As of December 31, 1990, the Company employed 3,187 persons.

Financial information relating to amounts of revenue and operating income and identifiable assets attributable to the Company's industry segments is contained in note 13 of the notes to consolidated financial statements.

ELECTRIC OPERATIONS

Service Area and Customers

The Company's electric operations serve four principal markets. Sales to retail customers and sales to firm-requirements wholesale customers, sometimes referred to collectively as "system" sales, comprise two of these markets. The third market consists of other contracted sales to utilities for which the Company commits to deliver a specified amount of capacity (measured in MW) or energy (measured in MWh) over a given period of time. The fourth market consists of economy interchange sales made on an hourly basis to utilities at fluctuating, spot-market rates. Sales to the third and fourth markets are sometimes referred to collectively as "off-system" sales. The Company's success in marketing its uncommitted capacity largely depends on its ability to compete in the off-system markets on the basis of availability, price and deliverability, and on its ability to market electricity to retail customers.

The Company provides retail electric service to a large area of north central New Mexico, including the cities of Albuquerque, Santa Fe, Rio Rancho, Las Vegas, Belen and Bernalillo. The Company also provides retail electric service to Deming in southwestern New Mexico and to Clayton in northeastern New Mexico. As of December 31, 1990, approximately 292,000 retail electric customers were served by the Company, the largest of which accounted for 3.8% of the Company's total electric revenues for the year ended December 31, 1990.

The Company holds long-term, non-exclusive franchises of varying durations for electric service in all incorporated communities where it is necessary to do so in order to carry on its electric utility business as it is now being conducted. These franchises are essentially agreements that permit the Company to use municipal property for electric service rights-of-way. The Company believes that while the expiration of a franchise may terminate such permission, the Company remains obligated under state law to provide service to customers in the franchise area. The Company endeavors to renew franchises as they expire. With respect to gas operations, the Company has in the past operated in certain communities without a current franchise. For a discussion of matters related to the renewal of the electric franchise for the City of Albuquerque, see PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — The Retail Electric Market".

In 1990, the Company furnished firm-requirements wholesale power in New Mexico to the cities of Farmington and Gallup, Texas-New Mexico Power Company and Plains Electric Generation & Transmission Cooperative, Inc. ("Plains"). Plains has notified the Company that it intends to terminate its firm-power purchase contract with the Company, which contract provides 25 MW to Plains until August 1991 and 10 MW thereafter until terminated. This termination could be effective as early as October 1992. No firm-requirements wholesale customer accounted for more than 2.1% of the Company's total electric revenues for the year ended December 31, 1990.

Power Sales

For the years 1985 through 1990, retail KWh sales have grown at a compound annual rate of 4.4%. However, retail and firm-requirements wholesale power sales have been lower than had been anticipated at the time the Company committed in the 1970's to construct new generating units. As a result, the Company has substantial uncommitted capacity and must rely on off-system sales to try to recoup the cost of this capacity. Substantial portions of the Company's off-system sales are made in the economy interchange market at prices which average only slightly above incremental costs. The Company's system and off-system sales and system peak demands in summer and winter are shown in the following tables:

ELECTRIC SALES BY MARKET
(Thousands of dollars)

	1990	1989	1988	1987	1986
Retail	$427,505	$413,644	$404,863	$387,542	$363,748
Firm-requirements wholesale	25,739	27,679	27,554	32,312	34,431
SPS contract (see "Sources of Power")	—	109,773	100,006	91,064	72,090
Other contracted sales	70,640	52,804	62,525	44,351	42,704
Economy interchange*	21,541	4,267	6,903	4,642	6,369

*Economy interchange sales are net of economy purchases and are accounted for as a reduction of fuel and purchased power expense.

ELECTRIC SALES BY MARKET
(Megawatt hours)

	1990	1989	1988	1987	1986
Retail	5,048,830	4,909,592	4,684,588	4,447,798	4,233,296
Firm-requirements wholesale	376,040	397,792	362,934	396,297	471,676
SPS contract (see "Sources of Power")	—	1,618,694	1,577,950	1,585,639	1,482,189
Other contracted sales	1,743,196	1,079,972	1,567,712	508,990	540,369
Economy interchange*	1,183,489	289,432	356,681	226,941	349,689

*Net of economy purchases

SYSTEM PEAK DEMAND*
(Megawatts)

	1990	1989	1988	1987	1986
Summer	1,051	1,006	956	916	916
Winter†	897	896	862	880	838

*System peak demand relates to retail and firm-requirements wholesale markets only.

†For the winter season beginning in the year noted.

During 1990, the Company's only major off-system sale contract in effect was with SDG&E. In November 1985, the Company and SDG&E executed an agreement providing for SDG&E to purchase 100 MW from the Company for the period May 1988 through April 2001. (See "RATES AND REGULATION — SDG&E Sales Agreement".) Energy sales under this agreement, which commenced in June 1988, accounted for 4.1% of the Company's total 1990 MWh sales and 6.3% of total 1990 electric revenues.

For discussion of the competitive conditions affecting off-system sales and of negotiations of sales contracts, see PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — The Wholesale Power Market".

Sources of Power

The total net generation capacity of facilities owned or leased by the Company was 1,591 MW as of December 31, 1990, comprised of generation from a nuclear plant, located in Arizona, and from two coal-fired plants and two gas/oil-fired plants, located in New Mexico. This amount does not include capacity purchases, totalling 109 MW, from other participants in SJGS Unit 4. The two gas/oil-fired plants are used for peaking capacity and transmission support requirements. In addition, the Company is interconnected with various utilities making possible economy interchanges and mutual assistance in emergencies.

The Company and SPS entered into an agreement in 1982 to provide for a transmission interconnection between the two utilities. The interconnection agreement required the purchase by SPS of energy at a rate of 200 MW per hour from 1985 through 1989. This portion of the contract expired on December 31, 1989. The agreement further requires the Company to purchase from SPS up to 100 MW of interruptible power from June 1991 to 1995 and up to 200 MW of interruptible power from 1995 through 2011. The Company may reduce its purchases under the contract by 25 MW annually beginning in 1994 and upon three-years' notice.

Coal-fired Plants

SJGS is located in northwestern New Mexico, and consists of four units operated by the Company. Units 1, 2, 3 and 4 at SJGS have net rated capacities of 316 MW, 312 MW, 488 MW and 498 MW, respectively. SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson, Unit 3 is owned on a 50% shared basis with Century and Unit 4 is owned 55.525% by the Company, 8.475% by the City of Farmington, 28.8% by M-S-R and 7.2% by Los Alamos. (See PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — Tucson Electric Power Company.") The Company's net aggregate ownership in SJGS is 835 MW. In connection with the Company's sale to M-S-R in December 1983 of a 28.8% interest in SJGS Unit 4, the Company agreed to purchase under certain conditions 73.53% (105 MW) of M-S-R's capacity through April 30, 1995, an amount which may be reduced by M-S-R under certain conditions. The Company also agreed to market the energy associated with the remaining 26.47% portion of M-S-R's capacity through April 30, 1995. This marketing arrangement may be terminated by M-S-R at any time upon 30 days notice. In connection with the Company's sale to Los Alamos in July 1985 of a 7.2% interest in SJGS Unit 4, the Company agreed to purchase capacity and associated energy of up to 4 MW beginning January 1, 1988 and ending December 31, 1990.

The Company also owns 192 MW of net rated capacity derived from its 13% interest in Units 4 and 5 of the Four Corners plant located in northwestern New Mexico on land leased from the Navajo Nation and adjacent to available coal deposits. Units 4 and 5 at the Four Corners plant are jointly owned with SCE, APS, Salt River Project, Tucson and El Paso and are operated by APS.

Nuclear Plant

The Company's Interest in PVNGS. The Company is participating in the three 1,270 MW units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), Salt

River Project, El Paso, SCE, Southern California Public Power Authority and The Department of Water and Power of the City of Los Angeles. The Company has a 10.2% undivided interest in PVNGS, with its interest in Units 1 and 2 held under leases. The Company's ownership and leasehold interests in PVNGS amount to 130 MW per unit, or a total of 390 MW. PVNGS Units 1, 2 and 3 were declared in commercial service by the Company in January 1986, September 1986 and January 1988, respectively. Commercial operation of PVNGS requires full power operating licenses which were granted by the NRC. Maintenance of these licenses is subject to NRC regulation. For additional discussion relating to the operation of PVNGS, see PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — PVNGS".

In eleven transactions consummated in 1985 and 1986, the Company sold and leased back its entire 10.2% interest in PVNGS Units 1 and 2, together with portions of the Company's undivided interest in certain PVNGS common facilities. In each transaction, the Company sold interests to an owner trustee under an owner trust agreement with an institutional equity investor. The owner trustees, as lessors, leased the interests to the Company under lease agreements having initial terms expiring January 15, 2015 (with respect to the Unit 1 leases) or January 15, 2016 (with respect to the Unit 2 leases). Each lease provides an option to the Company to extend the term of the lease as well as a repurchase option. The aggregate lease payments for the Company's PVNGS leases are approximately $84.6 million per year. Throughout the terms of the leases, the Company continues to have full and exclusive authority and responsibility to exercise and perform all of the rights and duties of a participant in PVNGS under the Arizona Nuclear Power Project Participation Agreement and retains the exclusive right to sell and dispose of its 10.2% share of the power and energy generated by PVNGS Units 1 and 2. The Company also retains responsibility for payment of its share of all taxes, insurance premiums, operating and maintenance costs, costs related to capital improvements and decommissioning and all other similar costs and expenses associated with the leased facilities. Each lease describes certain events, the occurrence of which could require the Company to, among other things, (1) pay the lessor and the equity investor, in return for such investor's interest in PVNGS, cash in the amount provided in the lease, which amount, primarily because of certain tax consequences, would exceed such equity investor's outstanding equity investment, and (2) assume debt obligations relating to the PVNGS lease. The Company believes the probability of such events occurring to be remote. The PVNGS leases are classified as operating leases in accordance with generally accepted accounting principles.

Decommissioning Funding. The Company has a program for funding its share of decommissioning costs for PVNGS. Under this program, the Company will make a series of annual deposits to an external trust fund over the estimated useful life of each unit, and the trust funds will be invested under a plan which allows the accumulation of funds largely on a tax-deferred basis through the use of life insurance policies on employees. The Company began funding its share of decommissioning costs for PVNGS Units 1 and 2 in 1987 and Unit 3 in 1988. The annual trust deposit, currently set at $396,000 per unit, is based upon the Company's 10.2% share of total estimated PVNGS decommissioning costs and projected earnings on the trust funds over time. Based on current assessments, the use of life insurance policies will necessitate the Company prefunding certain annual trust deposits for the aggregate amount of approximately $4.8 million for the years 1991 through 1993. The annual funding amount is subject to periodic adjustment for changes in decommissioning cost estimates and earnings of the trust fund. The Company's share of PVNGS decommissioning costs is presently estimated, in 1990 dollars, at approximately $81.4 million.

PVNGS Liability and Insurance Matters. The PVNGS participants have insurance for public liability payments resulting from nuclear energy hazards to the current $7.8 billion limit of liability under Federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident occurring at any nuclear power plant in the United States is approximately $66 million, subject to an annual limit of $10 million per incident. Based upon the

Company's 10.2% interest in the three PVNGS units, the Company's maximum potential assessment per incident is approximately $20 million, with an annual payment limitation of $3 million. The insureds under this liability insurance include the PVNGS participants and "any other person or organization with respect to his legal responsibility for damage caused by the nuclear energy hazard."

The PVNGS participants maintain "all-risk" (including nuclear hazards) insurance for nuclear property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.325 billion as of January 1, 1991, a substantial portion of which must first be applied to decontamination. The Company has also secured insurance against a portion of the increased cost of generation or purchased power resulting from certain accidental outages of any of the PVNGS units.

Fuel and Water Supply

The percentages of the Company's generation of electricity (on the basis of KWh) fueled by coal, nuclear fuel and gas and oil, and the average costs to the Company of those fuels (in cents per million BTU), during the past five years were as follows:

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
1986	85.6	121.3	13.2	76.0	1.2	216.6
1987	79.7	141.1	20.0	73.3	0.3	246.6
1988	70.0	142.5	29.6	75.9	0.4	320.9
1989	89.3	139.3	10.3	76.3	0.4	364.1
1990	74.6	152.0	25.2	73.1	0.2	310.3

Although not included in the above table, start-up and test energy was available from PVNGS in 1986 and 1987.

The estimated generation mix for 1991 is 75.2% coal, 24.3% nuclear and .5% gas and oil. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits and the generally abundant supply of nuclear fuel, the Company believes that adequate sources of fuel are available for its generating stations.

Coal

The coal requirements for SJGS are being supplied by SJCC, a wholly-owned subsidiary of BHP-Utah, from certain Federal, state and private coal leases under a coal sales agreement, pursuant to which SJCC will supply processed coal for operation of SJGS until 2017. BHP-Utah guaranteed the obligations of SJCC under the agreement, which contemplates the delivery of approximately 147 million tons of coal during its remaining term. Such amount would supply substantially all the requirements of SJGS through approximately 2017. The primary sources of coal are a mine adjacent to SJGS and a mine located approximately 25 miles northeast of SJGS in the La Plata area of northwestern New Mexico. The average cost of fuel, including ash disposal and land reclamation costs, for SJGS for the years 1988, 1989 and 1990 was 153.9 cents, 145.9 cents and 161.9 cents, respectively, per million BTU ($30.04, $28.80 and $32.38 per ton, respectively).

The Four Corners plant is supplied with coal under a fuel agreement between the owners and BHP-Utah, under which BHP-Utah agreed to supply all the coal requirements for the life of the plant. BHP-Utah holds a long-term coal mining lease, with options for renewal, from the Navajo Nation and operates a strip mine adjacent to the Four Corners plant with the coal supply expected to be sufficient to supply the units for their estimated useful lives. The average cost of fuel, including ash disposal and land reclamation costs, for the years 1988, 1989 and 1990 at the Four Corners plant was 101.4 cents, 108.3 and 112.2 cents, respectively, per million BTU ($17.70, $18.96 and $19.92 per ton, respectively).

Natural Gas

The natural gas used as fuel for the Company's Albuquerque electric generating plant is delivered by GCNM. (See "NATURAL GAS OPERATIONS".) In addition to rate changes under filed tariffs, the Company's cost of gas increases or decreases according to the average cost of gas supplied by GCNM or other sources.

Nuclear Fuel

The nuclear fuel cycle includes services performed by others. These services and the dates through which they are under contract for PVNGS are as follows:

	Units 1 and 2	Unit 3
Mining and milling of uranium concentrate	1997(a)	1997(a)
Conversion of uranium concentrate to uranium hexafluoride	1994(b)	1994(b)
Enrichment of uranium hexafluoride	1999(c)	1999(c)
Fabrication of fuel assemblies	1996(d)	1998(d)
Storage and disposal of spent fuel	— (e)	— (e)

(a) The Company and the PVNGS participants have obtained quantities of uranium concentrate anticipated to be sufficient, if certain contract options are exercised, to meet operational requirements through 1997. The Company and the PVNGS participants are currently purchasing uranium in the spot market. Spot purchases on the open market will be made as appropriate in lieu of any uranium that might be obtained pursuant to the contract options.

(b) The participants have contracted for a substantial portion of conversion services required through 1994.

(c) DOE has contracted to provide enrichment services to the three PVNGS units.

(d) Existing contracts will provide fuel assembly fabrication services for each of the PVNGS units for at least the first ten years of operation and if options are exercised, for approximately fifteen additional years of operation.

(e) PVNGS is designed to permit on-site storage of spent fuel discharged from normal operation of all three PVNGS units through at least the year 2003. Pursuant to the Nuclear Waste Policy Act of 1982, APS, on its own behalf and on behalf of the other participants, entered into a contract with the DOE for spent fuel disposal. Under the agreement, DOE is responsible for the ultimate disposition of spent fuel. The DOE announced in November 1989 that a permanent disposal facility would not likely be available until 2010. The Company believes that alternative interim spent fuel storage facilities will be available for use by PVNGS until DOE's scheduled shipments from PVNGS begin.

Water

Water for the Four Corners plant and SJGS is obtained from the San Juan River. (See ITEM 3 — "LEGAL PROCEEDINGS — SAN JUAN RIVER ADJUDICATION".) BHP-Utah holds rights to San Juan River water and has committed a portion of such rights to the Four Corners plant. The Company and Tucson have a contract with the United States Bureau of Reclamation for consumption of 16,200 acre feet of water per year for SJGS, which contract expires in 2005, and in addition the Company has been granted the authority to consume 8,000 acre feet per year of water under a state permit that is held by BHP-Utah. The Company is of the opinion that sufficient water is under contract for SJGS until 2005. However, steps are being taken to extend water rights permits to the year 2045.

Sewage effluent used for cooling purposes in the operation of the PVNGS units has been obtained under contracts with certain municipalities in the area. The contracted quantity of effluent exceeds the amount required for the three PVNGS units. The validity of these effluent contracts is the subject of litigation in state and Federal courts. (See ITEM 3 — "LEGAL PROCEEDINGS — PVNGS WATER

SUPPLY LITIGATION".) APS has stated that, although the litigation remains subject to further evaluation, it expects that the litigation will not have a material adverse impact on the operation of PVNGS.

NATURAL GAS OPERATIONS

Acquisition of Natural Gas Properties

On January 28, 1985, the Company acquired substantially all of the New Mexico natural gas utility assets of Southern Union (principally a natural gas retail distribution system operated by Southern Union as the Gas Company of New Mexico division and now operated by the Company as GCNM) and Sunbelt acquired all of the stock of Southern Union Gathering Company (subsequently renamed Sunterra Gas Gathering Company), a wholly-owned subsidiary of Southern Union, in connection with the settlement of antitrust litigation against Southern Union in which the Company and others were plaintiffs. In a separate transaction, Transwestern, a wholly-owned subsidiary of Sunbelt, acquired from Southern Union all of the stock of Southern Union Processing Company (subsequently renamed Sunterra Gas Processing Company) on December 31, 1986. In January 1990, the Company acquired all of the common stock of Gathering Company and Processing Company from Sunbelt and Transwestern, respectively. Together with GCNM, Gathering Company and Processing Company are referred to as the Company's natural gas operations.

Gas Company of New Mexico Division

The Company distributes natural gas through GCNM to most of the major communities in New Mexico, including Albuquerque and Santa Fe, serving approximately 346,000 customers as of December 31, 1990. GCNM's customers include "sales-service" customers and "transportation-service" customers. Sales-service customers purchase natural gas and receive transportation and delivery services from GCNM for which GCNM receives both cost-of-gas and cost-of-service revenues. Cost-of-gas revenues collected from sales service customers are a recovery of the cost of purchased gas in accordance with NMPSC rules and regulations and in that sense do not contribute to the net earnings of the Company. Transportation-service customers, who procure gas independently from third parties but contract with GCNM for transportation and related services, provide GCNM with cost-of-service revenues only.

GCNM is organized along geographic lines into three operating regions (central, eastern and western) and one pipeline district. The central region, comprised primarily of Albuquerque, accounts for approximately 55% of GCNM's total customers. The Company holds long-term, non-exclusive franchises with varying expiration dates in all incorporated communities where it is necessary to do so in order to carry on its gas utility business as it is now being conducted. The expiration dates for the Company's franchises in Albuquerque and Santa Fe are 1998 and 1995, respectively.

For the twelve months ended December 31, 1990, GCNM had throughput of approximately 80.1 million decatherms, including sales of 48.4 million decatherms to sales-service customers. No single customer accounted for more than 3% of GCNM's therm sales in 1990.

GCNM's total operating revenues for the year ended December 31, 1990, were approximately $244 million. Cost-of-gas revenues, received from sales-service customers, accounted for approximately 60% of GCNM's total operating revenues.

Since a major portion of GCNM's load is related to heating, levels of therm sales are affected by the weather. Approximately 44% of GCNM's total therm sales in 1990 occurred in the months of January, February and December.

During the 1980's, FERC and NMPSC orders relating to the nondiscriminatory transportation of gas in certain instances, as well as other changes in the natural gas industry, led to increased competition for sales of natural gas within New Mexico. An order issued by the NMPSC requires New Mexico gas utilities to offer transportation service to all customers on an available capacity basis. Thus, GCNM's customers may choose to purchase natural gas from sources other than GCNM and require transportation by GCNM, subject to the capacity of GCNM's system. Approximately 40% of GCNM's total therm deliveries in 1990 were of gas owned by transportation-service customers. Transportation-service customers pay GCNM according to the services they receive.

Natural Gas Supply

GCNM obtains its supply of natural gas primarily from New Mexico wells pursuant to contracts with producers. A significant portion of GCNM's natural gas supply is provided through Gathering Company. (See "Gathering Company".) The contracts of GCNM and Gathering Company are generally sufficient to meet GCNM's peak-day demand.

GCNM depends on EPNG and Transwestern Pipeline Company for its transportation of gas supplies purchased from sources that are not on GCNM's system. Such transportation is regulated by the FERC. Gas purchased from or transported by these companies is the sole supply for GCNM in certain locations.

At the time of the Company's acquisition of GCNM and Gathering Company, GCNM obtained its natural gas supply generally pursuant to long-term contracts with producers that obligated GCNM and Gathering Company to take volumes of gas in excess of their annual demand. As a result of changes in regulations and market conditions since the execution of these long-term contracts, GCNM and Gathering Company have faced the challenge of marketing excess gas under unfavorable, off-peak conditions.

GCNM and Gathering Company have sought and are seeking reformation or termination of certain gas supply contracts with producers in an effort to match their obligations to take gas with the demand of GCNM customers. In recent years, GCNM has obtained new gas supplies through the negotiation of medium-term contracts containing no take-or-pay provisions and through spot market purchases. GCNM and Gathering Company have also renegotiated or terminated a significant portion of their long-term contracts. These reformed contracts contain provisions that (a) greatly reduce GCNM's and Gathering Company's take-or-pay requirements and allow GCNM and Gathering Company (without penalty) not to purchase gas during the off-peak seasons; or (b) have no take-or-pay requirements. Currently, approximately 56% of GCNM's gas supply sources connected to the Company's gathering and transmission systems is pursuant to contracts entered into or reformed since the Company's acquisition of GCNM and Gathering Company, up from about 50% from a year ago.

In 1989 and 1990, GCNM and Gathering Company settled litigation involving substantial claims relating to gas purchase contracts. Even though significant natural gas contracts have been reformed or terminated, GCNM and Gathering Company are still disputing claims by certain natural gas producers relating to take-or-pay obligations, contract pricing and other matters. Near the end of 1990 and in response to a December 1989 order of the NMPSC relating to GCNM's recovery of settlement and reformation costs, eight producers brought lawsuits against GCNM or Gathering Company or both seeking to recover damages relating to GCNM's or Gathering Company's performance under gas purchase contracts. (See ITEM 3 — "LEGAL PROCEEDINGS — NATURAL GAS SUPPLY LITIGATION.") Based on provisions made for the natural gas contract disputes and on the Company's current expectation of regulatory recovery of certain settlement amounts (see "RATES AND REGULATIONS —Natural Gas Supply Matters"), the Company believes it is unlikely that the pending litigation will have a material adverse impact on the Company's financial condition or results of operations.

Gathering Company

Gathering Company is engaged in the ownership and operation of gas gathering facilities primarily in the San Juan Basin in northwestern New Mexico, the purchase of gas under long-term contracts from sources in the San Juan Basin, the sale of gas to GCNM and third parties and the transportation of gas for third parties. In 1990, Gathering Company sold approximately 20.1 million decatherms to GCNM and 8.1 million decatherms to third parties primarily in the spot market and transported 10.8 million decatherms for third parties.

In January 1988, Gathering Company entered into a natural gas sale and gas gathering contract with GCNM that was subject to NMPSC review. Consistent with an order from the NMPSC, a new contract was entered into between Gathering Company and GCNM in January 1990. The new contract allows Gathering Company to recover from GCNM substantially all of its operating costs, net of its third-party revenues (including revenues received from Processing Company), and to earn a regulated return on its investment in its operating assets. In addition to the recovery of its operating expenses plus a return on its investment in its operating assets, Gathering Company is permitted under the contract to charge to GCNM all costs arising from take-or-pay obligations and from contract reformation. (See "RATES AND REGULATION — Natural Gas Supply Matters".)

Processing Company

Processing Company processes natural gas owned or transported by GCNM and Gathering Company and others. The natural gas is processed at Processing Company's plants under separate contracts. Both GCNM and Gathering Company executed new contracts with Processing Company in January of 1990. The GCNM contract provides that GCNM will reimburse Processing Company for all of its operating costs, net of its third-party revenues (including fees from Gathering Company), and provides a return on Processing Company's investment in its operating assets, in return for providing the service of processing GCNM's natural gas throughput at the plants. Additionally, Processing Company reimburses GCNM for all revenues from liquid by-products derived from GCNM's throughput through the plants. Such revenues, including all third party processing fees, are ultimately credited to GCNM's ratepayers through the PGAC. The Gathering Company's contract provides the same service for Gathering Company and in return for such service, Gathering Company pays Processing Company a fee per mcf of gas which is processed on behalf of Gathering Company. Processing Company reimburses Gathering Company for all revenues from liquid by-products derived from Gathering Company's throughput through the plants.

Natural Gas Sales

The following table shows gas throughput by customer class:

GAS THROUGHPUT
(Millions of decatherms)

	1990	1989	1988	1987	1986
Residential	25.2	23.2	24.7	24.5	22.1
Commercial	11.3	10.7	11.5	11.4	10.8
Industrial	1.3	1.5	1.7	2.2	5.9
Public authorities	5.3	5.5	6.2	6.8	8.3
Irrigation	1.8	2.0	1.4	1.4	1.9
Sales for resale	3.5	4.6	2.7	1.2	1.5
Transportation*†	42.5	19.6	9.1	5.1	2.2
Spot market sales†	8.1	11.1	—	—	—
Brokerage	—	0.8	0.9	2.8	2.1
	99.0	79.0	58.2	55.4	54.8

*Customer-owned gas.
†Includes gas throughput from Gathering Company beginning January 1, 1989 (see note 1 of the notes to consolidated financial statements).

The following table shows gas revenues by customer class:

GAS REVENUES†
(thousands of dollars)

	1990	1989	1988	1987	1986
Residential	$137,633	$130,130	$122,592	$114,164	$117,011
Commercial	49,575	47,876	45,235	42,120	45,812
Industrial	4,993	5,693	6,063	8,102	23,139
Public authorities	20,392	21,757	22,289	22,729	30,213
Irrigation	5,934	7,001	4,546	3,781	6,142
Sales for resale	7,253	9,874	6,969	3,819	5,675
Transportation*	11,939	7,618	4,841	4,315	2,207
Liquids	39,086	25,294	—	—	—
Processing fees	3,127	448	—	—	—
Spot market sales	13,880	19,810	—	—	—
Brokerage	—	1,378	1,514	5,213	3,759
Other	8,292	5,948	9,742	6,391	10,708
	$302,104	$282,827	$223,791	$210,634	$244,666

*Customer-owned gas.
†Includes gas revenues from Gathering Company and Processing Company beginning January 1, 1989 (see note 1 of the notes to consolidated financial statements).

RATES AND REGULATION

The Company is subject to the jurisdiction of the NMPSC with respect to its retail electric, gas and water rates, service, accounting, issuance of securities, construction of new generation and transmission facilities and other matters. The FERC has jurisdiction over rates and other matters related to wholesale electric sales.

Electric Rate Case

On April 5, 1989, the NMPSC issued an order addressing the Company's excess capacity situation which, among other things, provides for the inclusion in NMPSC jurisdictional electric rates of the Company's jurisdictional interests in PVNGS Units 1 and 2, 147 MW of SJGS Unit 4 and the power purchase contract with SPS. However, the order provides for the exclusion from New Mexico jurisdictional rates of the Company's 130 MW interest in PVNGS Unit 3, 130 MW of SJGS Unit 4 and the power purchase contract with M-S-R. (See "ELECTRIC OPERATIONS — Sources of Power".) The order, which was appealed to the New Mexico Supreme Court by two parties in the case, was upheld by the court on February 20, 1991.

On June 12, 1989, the Company filed a rate request with the NMPSC to increase its retail electric rates by $13.7 million, later revised to $12.2 million, from then current annualized electric revenues. On April 12, 1990, the NMPSC issued its final order in the rate case. As a result of the order, the Company was required to reduce its existing base rates by approximately $2.9 million per year. Also, as a result of the order, the Company wrote off approximately $19.4 million, net of taxes, in March 1990, which resulted primarily from the NMPSC's treatment of prior years' tax benefits from debt retirement and losses on hedge transactions as well as the NMPSC's treatment of amortization periods for gains resulting from sale and leaseback transactions of PVNGS Units 1 and 2 consummated in previous years. The April 12, 1990 order also stated that as long as there is excess capacity in the Company's jurisdictional rates, then that excess capacity will share off-system sales equitably with the capacity excluded. In April 1990, the Company implemented the allocation procedures associated with off-system sales between the jurisdictional excess capacity and that excluded from the NMPSC jurisdictional rates.

PVNGS Cost Investigation

In January 1987, the NMPSC docketed an investigation of PVNGS costs and indicated that the proceeding would determine the prudence of such costs incurred by the Company and quantify the costs resulting from imprudence. On March 6, 1990, the NMPSC issued a final order, adopting a stipulation reached by the NMPSC staff and the Company. Pursuant to the stipulation, all issues of prudence existing at May 31, 1989, as they related to the Company's system planning and construction costs on the Company's 10.2% interest in PVNGS Units 1 and 2, were settled. The stipulation provides for the disallowance of $90 million from NMPSC jurisdictional electric rate base. This disallowance did not require write-offs in addition to the amounts written off by the Company in 1988. The stipulation also set performance standards for the operation of PVNGS Units 1 and 2. Under the performance standards, a "dead band" was established at capacity factors of 60% through 75% as measured by the capacity factor of all three PVNGS units over the fuel cycle. Within the dead band, the Company would receive no reward or penalty. The Company would be penalized with one-half of the additional fuel costs incurred for PVNGS capacity factors of 50% to 60% and would be rewarded with one-half of the avoided fuel costs if PVNGS operates at capacity factors from 75% through 85%. Capacity factors above 85% or below 50% would reward or penalize the Company by an amount equal to the additional fuel costs avoided or incurred. In addition, the stipulation provides that if a FERC audit of the Company's interest in PVNGS Units 1 and 2 construction costs were conducted and resulted in a reduction of more than $90 million, such further reduction shall be reflected on an allocated basis in the next New Mexico rate case.

The New Mexico Attorney General, who did not enter into the stipulation, appealed the NMPSC's final order in the case to the New Mexico Supreme Court. Oral arguments were heard by the court on January 16, 1991 and a decision on the case is pending.

Decertification of Electric Generating Plant

On August 28, 1989, the Company filed with the NMPSC a request for regulatory abandonment and decertification of its interest in PVNGS Unit 3, 130 MW of SJGS Unit 4 and in certain related common and transmission facilities. This capacity had been excluded from New Mexico jurisdictional rates in the NMPSC's April 5, 1989 and April 12, 1990 orders. The Company's request asked the NMPSC to relinquish its authority and jurisdiction over the specified facilities such that the Company may, without further action or assent by the NMPSC, use, change, modify, rebuild, sell, sell and lease back, mortgage, pledge, alienate, decommission or otherwise manage and control the assets, and also to sell power and energy therefrom, such that the Company would be free to use the proceeds of any use or disposition of the assets and that such proceeds would not be allowable to or charged or credited to the Company's New Mexico retail customers to the end that neither such assets nor the proceeds thereof would benefit or burden such retail customers.

The NMPSC bifurcated the case such that the Company's request related to PVNGS Unit 3 was considered separately from its request related to SJGS Unit 4.

On May 21, 1990, the NMPSC approved the Company's request to decertify PVNGS Unit 3.

On June 21, 1990, a NMPSC hearing examiner issued a recommended decision on the Company's request for decertification of 130 MW of SJGS Unit 4. The hearing examiner recommended against the Company's request. He concluded that the SJGS Unit 4 resource will be needed within the near-term as a jurisdictional resource and that it fits the future needs of the Company's New Mexico jurisdictional customers. The hearing examiner concluded that the NMPSC did not intend to relinquish control when it ruled to exclude the portion of SJGS Unit 4 from New Mexico jurisdictional rates. He stated that the Company could need capacity additions before 1997-1998 when the projected costs for purchased power and peaking generation fuel may not be as attractive as the SJGS Unit 4 coal resource.

On August 3, 1990, the NMPSC issued an order adopting the recommended decision of the hearing examiner denying the Company's request for decertification of 130 MW of SJGS Unit 4. On August 29, 1990, the Company filed a motion for a rehearing of the case, which the NMPSC also denied. On September 28, 1990, the Company appealed the NMPSC decision to the New Mexico Supreme Court.

New Mexico customers are not currently paying for the excluded SJGS generation and the Company is making wholesale power sales from the excluded plant which cover a portion of its costs but provide no return on investment. The Company believes that denial of decertification raises significant legal issues including confiscation of property.

SDG&E Sales Agreement

In November 1985, the Company and SDG&E entered into an agreement providing for SDG&E to purchase 100 MW of capacity from the Company for the period May 1988 through April 2001. (See "ELECTRIC OPERATIONS — Service Area and Customers".) In March 1988, the Company submitted the agreement to the FERC for approval. Subsequently, SDG&E filed an intervention and protest challenging the Company's filing at the FERC, and requesting that, due to allegedly inadequate information justifying the Company's request for approval, the FERC either reject the filing or suspend it and set it aside for hearings. SDG&E further requested that the FERC modify the agreement to reflect changes in southwestern utility fuel costs and in the purchase power market since the execution of the agreement. On June 13, 1988, the FERC accepted the agreement and ordered service under the agreement to be effective as of that date. Sales to SDG&E began on June 14, 1988. On July 13, 1988, the Company filed a request for rehearing seeking an effective date of May 1, 1988, as provided in the agreement itself. SDG&E also filed a request for rehearing of the FERC order. On October 6, 1988, the FERC denied both the Company's and SDG&E's requests for rehearing. Subsequently, both the Company and SDG&E filed requests with the United States Court of Appeals for the District of Columbia Circuit for review of the FERC orders. On June 8, 1990, the Court of Appeals upheld the FERC's ruling on all contested issues.

Other Electric Matters

The Company has electric fuel adjustment clauses covering all retail and firm-requirements wholesale KWh sales. There is an approximate 60-day time lag in implementation of the fuel adjustment clause for billing purposes, except for firm-requirements wholesale customers for which there is an approximate 30-day time lag.

On October 18, 1990, the New Mexico Attorney General filed a complaint requesting the NMPSC to initiate a rulemaking proceeding in the matter of amendments to NMPSC Rule 550 (Fuel and Purchased Power Cost Adjustment Clauses for Electric Utilities). The New Mexico Attorney General specifically requested the NMPSC to institute a rulemaking for notice and hearings similar to those imposed on GCNM which provides for mandatory public hearings, with notice to the Attorney General, on any gas cost factor statement which shows a 10% increase in the cost of gas from the previous gas cost factor statement. On October 25, 1990, the NMIEC filed a Joinder in the New Mexico Attorney General's Complaint and Petition for Rulemaking.

On November 19, 1990, the NMPSC dismissed the complaint filed by the New Mexico Attorney General and NMIEC; however, the NMPSC requested that all electric utilities and interested parties file comments on the matter. In addition, the responses were to address if and why the NMPSC should issue a Notice of Proposed Rulemaking as requested by the New Mexico Attorney General and NMIEC.

On December 21, 1990, the Company issued its response to the New Mexico Attorney General and NMIEC's Complaint and Petition for Rulemaking stating that the Company opposes the Notice of Proposed Rulemaking. In the response, however, the Company stated that it would be willing to have informal discussions with interested parties regarding possible mechanisms for levelizing monthly fluctuations in fuel cost recovery. No additional action has been taken on this issue by the NMPSC at this time.

Natural Gas General Rate Case

On January 2, 1990, GCNM filed a request with the NMPSC to increase its retail natural gas revenues $19.0 million or 8% from its then current level. On August 3, 1990, the NMPSC issued an order approving a stipulated settlement in this case in its entirety. The order allowed GCNM to implement rate increases that provide for $7 million, or 3.1%, of additional annualized cost-of-service revenues. The new rates went into effect on August 15, 1990.

Natural Gas Supply Matters

In response to a GCNM report concerning imbalances in its gas supply and demand (see "NATURAL GAS OPERATIONS — Natural Gas Supply"), the NMPSC initiated, on February 29, 1988, a proceeding to examine the matter. The proceeding led to a stipulation which was filed with the NMPSC on July 19, 1989. In the stipulation the parties agreed to a settlement of most of the issues considered in this proceeding.

The stipulation, which was approved by an NMPSC order on December 18, 1989, provides for the partial recovery of certain gas costs arising from reformation of gas purchase contracts and from claims by certain producers relating to take-or-pay obligations, contract pricing and other matters. Under the order, GCNM bears 25% of producer take-or-pay costs (including such costs paid by GCNM to Gathering Company under their gas sale and gas gathering contract) for claims settled or for which litigation has been commenced by December 31, 1990, but in any event the mechanism does not apply to any suits not settled or for which no initial judgement on the merits has been rendered by December 31, 1993. GCNM will be permitted to recover from its sales and transportation customers the remaining 75% of such costs over a period of years. The order allows GCNM to recover from its customers all take-or-pay costs assessed by interstate pipelines. The order also provides that GCNM and Gathering Company may recover all costs prudently incurred (as determined by the NMPSC on a case-by- case basis) as the result of the settlement or litigation of claims ("MDL contract claims") arising from certain intrastate gas purchase contracts that were the subject of the antitrust litigation that resulted in the Company's acquisition of GCNM from Southern Union in January 1985. (See "NATURAL GAS OPERATIONS — Natural Gas Supply".) On September 21, 1990, GCNM filed with the NMPSC seeking approval to recover $73 million of costs arising from settlement of MDL contract claims. This case is presently in the discovery phase, and hearings have been scheduled for October 1991. On June 16, 1990, GCNM filed with the NMPSC for approval of a rate rider that would be the mechanism to recover all costs described above plus interest. Hearings were held in this case in February 1991.

Since January 1988, GCNM has deferred on its books and has not passed through to its customers the difference between the amounts GCNM paid to Gathering Company under the 1988 gas sales and gathering contract (see "Gathering Company" under "NATURAL GAS OPERATIONS") and the amounts that GCNM would have paid to Gathering Company under the previous contract. The order of the NMPSC issued on December 18, 1989 allows the methodology agreed to in the stipulation to become effective as of January 1, 1988. Because the methodology is based on a cost reimbursable concept, the NMPSC order does not allow GCNM to collect the deferred costs until it demonstrates the reasonableness of the expenses incurred by Gathering Company and quantifies the amount to be collected. GCNM filed a reconciliation report with the NMPSC on January 31, 1990 providing the information requested.

Challenges to GCNM's reconciliation report were filed by the NMPSC Staff and the New Mexico Attorney General and a case was docketed by the NMPSC to address the challenges and determine the appropriate amount to be collected. GCNM requested recovery of $10.0 million of deferred costs, plus interest. Hearings were held in this case on October 9, 1990. On February 8, 1991, the Hearing Examiner issued a recommended decision authorizing a $9.1 million recovery. Before becoming effective, the recommended decision must be acted upon by the NMPSC.

Other Natural Gas Matters

GCNM's retail gas rate schedules contain a PGAC which provides for timely recovery of the cost of gas purchased by GCNM for resale to its customers. On August 20, 1990, GCNM filed its biannual application for continued use of its PGAC pursuant to NMPSC rules. This case is presently set for hearing in May 1991. The NMPSC, through its review of the PGAC costs, has jurisdiction over amounts charged by Gathering Company and Processing Company to GCNM for gas purchases and for gathering and processing services provided.

ENVIRONMENTAL FACTORS

The Company, in common with other electric and gas utilities, is subject to stringent regulations for protection of the environment by both state and Federal authorities. PVNGS is subject to the jurisdiction of the NRC, which has authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. (See "ELECTRIC OPERATIONS — Sources of Power — *Nuclear Plant*".) The Company does not currently expect that material expenditures for additional pollution control equipment for its facilities will be required in 1991 and 1992.

The New Mexico regulation for nitrogen oxides is extremely stringent. Four Corners Units 4 and 5, which could not meet this regulation with existing pollution control equipment, have operated for several years under variances from this regulation. In December 1987, the NMEIB granted a variance which extended through September 30, 1989 for Unit 4 and which extends through September 30, 1991 for Unit 5. This variance was granted by the NMEIB to provide time to install certain additional equipment intended to achieve compliance with existing emissions limitations without adverse operational impacts. APS, the operating agent for the Four Corners plant, has successfully completed the installation of additional equipment on Unit 4 and is presently installing equipment on Unit 5 to meet the existing emissions limitations.

Revisions to environmental laws and regulations continue to be proposed and adopted at Federal and state levels. Pursuant to the Federal Clean Air Act Amendments of 1977, the EPA has adopted regulations, applicable to certain Federally-protected areas, that address visibility impairment which can be reasonably attributed to specific sources. The 1990 amendments to the Federal Clear Air Act (the "Act") commissioned a five-year study to identify sources of visibility impairments. The EPA may also adopt regulations to deal with visibility impairment resulting from regional haze, but these regulations are not anticipated in the near future.

On November 15, 1990, amendments to the Act were adopted which, among other things, impose stringent emission control limitations on sulfur and nitrous oxides from fossil fuel fired utility boilers. The Act is intended to reduce air contamination from every sizeable source of air pollution in the nation. Electric utilities with fossil-fuel generating units will be affected particularly by the section of the Act which deals with acid rain. To be in compliance with the Act, many utilities will be faced with installing expensive sulfur dioxide removal equipment, securing low sulfur coal, buying sulfur dioxide emission allowances, or a combination of these. Due to the existing air pollution control equipment on the coal-fired SJGS and Four Corners, the Company currently believes that it will not be faced with any material capital expenditures in order to be in compliance with the acid rain provision of the Act. Under other provisions of the Act, the Company will be required to obtain operating permits for its coal- and gas-fired generating units and to pay annual fees associated with the operating permit program.

NON-UTILITY SUBSIDIARY OPERATIONS

In 1988, the Company made the decision to discontinue the non-utility operations of its subsidiaries and to dispose of non-utility properties. (See note 10 of the notes to consolidated financial statements.) Such operations consisted primarily of fiberboard manufacturing, real estate, coal mining, telecommunications manufacturing, venture capital activities and financial services and were carried out by Meadows, Sunbelt or their subsidiaries. During 1988, the Company's subsidiaries ceased all coal mining operations (although mine-reclamation activities continue). During 1989, the Company's subsidiaries disposed of the fiberboard manufacturing and telecommunications manufacturing operations. In 1990, additional non-utility properties were sold, and the remaining assets are expected to be sold in 1991.

During 1989, Meadows defaulted on obligations owed to secured creditors and such creditors subsequently made a claim against the Company, asserting that the Company was fully liable for the obligations of Meadows due such secured creditors. Although the Company denied such claims, and without admitting any liability, the Company, in November 1989, entered into an agreement with the secured creditors which provided for the Company to pay damages to such creditors. The amount of such damage payments would depend on, among other things, the amount of Meadows' debt payments received and retained by such creditors. In return, the secured creditors released the Company from all claims. At the time of the signing of the settlement, the Company estimated that there would be no damages to be paid by the Company. Upon further evaluation, however, the Company projected damage payments which were recorded in the 1989 consolidated financial statements. (See note 10 of the notes to the consolidated financial statements.) Based on debt payments made by Meadows to such secured creditors in 1989 and 1990, and subject to the secured creditors retaining all such debt payments, the Company has made the damage payments required under the settlement agreement. The settlement agreement would require the Company to make additional damage payments in the event that Meadows, or (among others) any creditor or any trustee, receiver or other person acting on behalf of Meadows or its creditors, recovers from any such secured creditor certain Meadows debt payments. (See ITEM 3 — "LEGAL PROCEEDINGS — DIVERSIFICATION CLAIMS".)

On April 18 and July 20, 1990, the NMPSC issued orders docketing a formal investigation regarding the settlement agreement between the Company and secured creditors of Meadows and the Company's discontinuance of its non-utility subsidiary operations. The Company is required to show cause, if any, as to why the settlement agreement, the discontinuance of the Company's non-utility operations and the disposal of non-utility assets are not subject to prior NMPSC approval and why the resulting effect of the Company's actions has not materially and adversely affected the Company's ability to provide utility service at fair, just and reasonable rates. The formal investigation will also inquire into whether the Company's actions are in compliance with other applicable law and whether sanctions should be imposed. Hearings are set for May 6, 1991. The Company does not believe that the ultimate outcome of the current investigation will have a material impact on its financial condition or results of operations.

ITEM 2. *PROPERTIES*

Substantially all of the Company's utility plant is mortgaged to secure its first mortgage bonds.

As of December 31, 1990, the total net generation capacity of facilities owned or leased by the Company was 1,591 MW. The Company's electric generating stations in commercial service as of December 31, 1990, were as follows:

Type	Name	Location	Net MW Generation Capacity
Nuclear	PVNGS (a)	Wintersburg, Arizona	390
Coal	SJGS (b)	Waterflow, New Mexico	835
Coal	Four Corners (c)	Fruitland, New Mexico	192
Gas/Oil	Reeves	Albuquerque, New Mexico	154
Gas/Oil	Las Vegas	Las Vegas, New Mexico	20
			1,591

(a) The Company is entitled to 10.2% of the power and energy generated by PVNGS Units 1 and 2 under leasehold interests. The Company has a 10.2% ownership interest in PVNGS Unit 3.

(b) SJGS Units 1, 2 and 3 are 50% owned by the Company; SJGS Unit 4 is 55.525% owned by the Company.

(c) Four Corners Units 4 and 5 are 13% owned by the Company.

The Four Corners plant and a portion of the facilities adjacent to SJGS are located on land held under easements from the United States and also under leases from the Navajo Nation, the enforcement of which leases might require Congressional consent. The risk with respect to the enforcement of these easements and leases is not deemed by the Company to be material. However, the Company is dependent in some measure upon the willingness and ability of the Navajo Nation to protect these properties.

As of December 31, 1990, the Company owned, jointly owned or leased 2,788 circuit miles of electric transmission lines, 4,772 miles of distribution overhead lines, 2,451 cable miles of underground distribution lines (excluding street lighting) and 212 substations.

The property owned by GCNM, as of December 31, 1990, consisted primarily of natural gas gathering, storage, transmission and distribution systems. The gathering systems consisted of approximately 1,200 miles (approximately 360 miles of which are leased to Gathering Company) of pipe with compression and treatment facilities. Provisions for storage made by GCNM include ownership and operation of an underground storage facility located near Albuquerque and an agreement with owners of a unitized oil field located near Artesia, New Mexico, in which GCNM has injection and redelivery rights. The transmission systems consisted of approximately 1,300 miles of pipe with appurtenant compression facilities. The distribution systems consisted of approximately 8,900 miles of pipe.

GCNM leases approximately 130 miles of transmission pipe from the DOE for transportation of natural gas to Los Alamos and to certain other communities in northern New Mexico. The lease can be terminated by either party on 30 days written notice, although the Company would have the right to use the facility for two years thereafter.

The property of Gathering Company includes approximately 550 miles of gathering pipe with appurtenant compression facilities.

Processing Company owns facilities located in northwestern New Mexico having an aggregate design capacity for processing of natural gas of approximately 300,000 mcf per day.

The electric and gas transmission and distribution lines are generally located within easements and rights-of-way on public, private and Indian lands.

The Company also owns and leases service and office facilities in Albuquerque and in other operating divisions throughout its service territory.

The Company's water property consists of wells, water rights, pumping and treatment plants, storage reservoirs and transmission and distribution mains.

The Company leases interests in PVNGS Units 1 and 2 and related property (see ITEM 1 — "BUSINESS — ELECTRIC OPERATIONS — Sources of Power — *Nuclear Plant*"), EIP and associated equipment, data processing, communication, office and other equipment, office space, utility poles (joint use), vehicles and real estate.

On May 1, 1984, the Company's Board of Directors approved plans to proceed with the Ojo Line Extension, which involves construction of a 345 kV transmission line connecting the existing Ojo 345 kV line to the existing Norton Station. The project will cost approximately $46 million and will increase the bulk system capability and provide adequate reliability to North-Central New Mexico. This project was originally planned to be in-service in May of 1987. Due to ongoing litigation relating to the Bureau of Indian Affairs Environmental Impact Statement, the project in-service date has been revised to November 1993. The Company has applied for approval of the NMPSC in March 1991 to construct the Ojo Line Extension. See PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — The Wholesale Power Market" for information regarding the proposed Ambrosia - Coronado transmission project.

The Board of Directors has approved GCNM's installation of additional compression facilities between the San Juan Basin and the EPNG and Transwestern Pipeline Company interconnects. These facilities, which will cost approximately $8.9 million, will provide new capacity to producers on GCNM's and Gathering Company's systems, which should permit the transportation of incremental quantities of natural gas and should provide additional transportation revenues.

Additional information required by this item is included in ITEM 1 — "BUSINESS".

ITEM 3. *LEGAL PROCEEDINGS*

SHAREHOLDER LITIGATION

Securities Law-Related Litigation

A civil suit, filed in the United States District Court for the District of New Mexico on April 18, 1989 against the Company and three individuals who currently serve, or formerly served, as officers or directors of the Company, alleges misrepresentations and omissions of material facts in the Company's shareholder reports, Securities and Exchange Commission filings, news releases and other communications. The 1989 suit has been brought as a class action, in which the plaintiff has sought to represent shareholders claimed to be "similarly situated". Generally, the complaint alleges misrepresentations and omissions relating to, among other things, (i) the recovery of investment in excess electric generating capacity, (ii) diversification, (iii) dividends on the Company's common stock and (iv) the attempted restructuring of the Company. It is alleged that the market prices of the common stock were artificially inflated during the class period of March 14, 1987 through April 14, 1989 and that the plaintiffs were damaged by their purchases in reliance upon "the integrity of the market or upon statements disseminated by the defendants". The plaintiff seeks to recover damages, fees and costs. On December 3, 1990, the court granted the plaintiff's motion for class certification with respect to claims based on alleged conduct in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The court's order stated that since a court "retains the power to modify the class period or establish sub-classes at any time prior to judgment, the court will do so if the facts later require such a modification." The court's order denied class certification with respect to the plaintiff's claim based on a common-law theory of negligent misrepresentation.

On April 6, 1990, a civil suit was filed in the United States District Court for the District of New Mexico against the Company and three individuals who currently serve, or formerly served, as officers or directors of the Company, alleging violation of federal securities law and common-law causes of action. The plaintiff, who claims to have purchased 100 shares of the Company's common stock on March 27, 1990, is requesting unspecified compensatory and punitive damages as well as fees and costs. The plaintiff is also seeking class action certification, with the plaintiff class to consist of all persons who purchased the Company's common stock during the class period of April 15, 1989 through April 6, 1990. The complaint alleges that the Company and the individual defendants engaged in conduct in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Generally, the complaint alleges misrepresentations and omissions and other fraudulent conduct relating to, among other things, Company disclosures of (i) non-utility subsidiary losses, (ii) risks to the Company resulting from the financial condition of Meadows and (iii) the Company's settlement with creditors of Meadows in November 1989. (See ITEM 1 — "BUSINESS — NON-UTILITY SUBSIDIARY OPERATIONS".) It is alleged that market prices of the Company's stock were artificially inflated during the class period and that the plaintiff and others were damaged by their purchases in reliance upon statements made by the defendants in the Company's public documents or the integrity of the market price of the stock during the class period. The complaint also seeks recovery based on common-law theories of fraud and negligent misrepresentation.

On September 24, 1990, a shareholder of the Company filed a class action lawsuit in the United States District Court for the District of New Mexico against the Company and eight individual defendants who currently serve, or formerly served, as directors or officers of the Company or its subsidiaries. The plaintiff seeks to bring this action on behalf of all persons who purchased the Company's stock through the consumer stock plan or in sales transacted within the state of New Mexico during the period from October 1, 1985 through April 15, 1989. The complaint alleges, among other things, that the defendants overstated the net earnings of the Company's diversified non-utility operations in the financial statements of the Company, resulting in inflated market prices of the Company's common stock. The complaint further alleges that the Company's public reports and financial statements were materially false and misleading, because they allegedly failed to disclose negative information about the Company's financial condition. The plaintiff claims, among other things, Federal and state securities law violations, common-law fraud, negligent misrepresentation and violations of the New Mexico Unfair Practices Act and seeks compensatory and punitive damages as well as fees and costs. In December 1990, all defendants in this suit filed a joint motion to dismiss the complaint.

Shareholder Derivative Litigation and the Special Litigation Committee

On September 14, 1989, a shareholder of the Company filed a civil suit in the United States District Court for the District of New Mexico, alleging breaches of fiduciary duties, mismanagement and waste by eleven individual defendants who currently serve, or formerly served, as directors or officers of the Company. Subsequently, a second shareholder joined the suit as a plaintiff. The plaintiff shareholders seek to bring the action derivatively on behalf of the Company, which was named as a nominal defendant. The complaint alleges, among other things, that each of the defendants, because of his position as an officer or director of the Company, owed fiduciary duties to the Company and its shareholders in connection with the operations, management and direction of the Company and that each breached those duties by causing the Company to invest in PVNGS, the Dineh Power Project (see note 6 of the notes to consolidated financial statements) and diversified, non-utility operations, by causing a deficit in the retained earnings of the Company, forcing it to suspend dividends on the Company's common stock, and by exposing the Company to substantial liability and expense for securities fraud.

On May 11, 1990, two shareholders of the Company filed a civil suit in the District Court of Bernalillo County, New Mexico, claiming breaches of fiduciary duty by eleven individual defendants who currently serve, or formerly served, as directors or officers of the Company or its subsidiaries. On June 14, 1990, a third shareholder filed a civil suit in the same state court raising similar claims against ten of the same individuals. The plaintiffs seek to bring their respective actions derivatively on behalf of the Company, which was named in each action as a nominal defendant. The complaints allege, among other things, that each of the defendants, because of his position as an officer or director, owed fiduciary duties to the Company and its shareholders in connection with the operations, management and direction of the Company and that each defendant breached those duties by causing the Company to invest in PVNGS, the Dineh Power Project, and diversified non-utility operations; by causing a deficit in the retained earnings of the Company, forcing it to suspend dividends on the Company's common stock; by making false and misleading statements in filings and press releases, resulting in suits for securities fraud; by jeopardizing renewal of the Company's electric franchise with the City of Albuquerque; by causing the Company to purchase certain assets from Meadows in connection with the liquidation of Meadows; by causing Meadows to borrow from various banks in order to continue funding real estate operations; by causing the Company to provide assurances or guarantees to, and to enter into a settlement agreement with, Meadows' lenders, resulting in Company liability with respect to Meadows' loans (see ITEM 1 — "BUSINESS — NON-UTILITY SUBSIDIARY OPERATIONS"); and by causing the Company to enter into a consulting contract with an entity controlled by one of the defendants.

On July 25, 1989, the Company's Board of Directors created a special litigation committee (the "Committee") to conduct an independent investigation, generally encompassing the matters alleged in the three shareholder derivative actions described above, and to determine whether it is in the best interest of the Company to continue or seek dismissal of, or otherwise resolve, the litigation. The Committee consists of the director who was newly-elected to the Board at the May 1989 annual meeting of shareholders and who is not a named defendant in the litigation. The Committee has performed its responsibilities with the assistance of independent legal counsel and independent business advisors. The respective courts stayed the shareholder derivative litigation until the completion of the Committee's report of the results of the investigation.

On January 31, 1991, the Committee filed its report with the respective courts in which the derivative lawsuits are pending. As a result of its 16 months of investigation, the Committee concluded that it was not in the Company's best interests to pursue litigation against any of the defendants with respect to claims concerning excess electric generating capacity, and directed counsel to seek dismissal of such claims in all derivative lawsuits. The report stated that the most important basis for the Committee's conclusion regarding excess capacity was its firm belief that the Company's management, based on what management knew at the time, did not act improperly. The Committee also concluded that it was not in the Company's best interests to pursue claims against any of the defendants based on the securities fraud allegations set forth in three pending class action lawsuits (see "Securities Law-related Litigation"), and directed counsel to seek dismissal of those claims against all defendants, but without prejudice. The Committee stated that its conclusion was based primarily on the fact that pursuing such claims against the defendants at this time would be premature because the Company has denied liability in the three pending class action lawsuits. The report noted that dismissal without prejudice would permit the Company to file claims against appropriate defendants in the future, if the outcome of the class action lawsuits suggests that such claims would be appropriate. The Committee concluded that it was not in the Company's best interests to seek dismissal of pending claims regarding diversification against four individuals who formerly served as directors or officers of the Company or its subsidiaries. The Committee's report states that those four individuals exercised the primary responsibility for decision-making concerning diversification. The Committee concluded that diversification claims against the remaining defendants should be dismissed, and directed counsel to seek dismissal of those claims. The report states that the Committee found no evidence that current senior management of the Company should be considered responsible for diversification losses. The Company is unable to predict whether the motions to dismiss the derivative claims discussed above will be granted or what the ultimate impact of the Committee's report will be. However, the report states that the Committee assumes that the plaintiff shareholders will pursue on the Company's behalf the diversification claims against the four individuals referenced above. In addition, at the direction of the Committee, the Company has filed a lawsuit against its former Chairman and President and two other former officers or directors of the Company or its subsidiaries to recover compensation it claims was excessive and to cancel the Company's obligation to make certain future payments to them. (See "OTHER PROCEEDINGS".)

PVNGS WATER SUPPLY LITIGATION

The validity of the primary effluent contract under which water necessary for the operation of the PVNGS units is obtained was challenged in a suit filed in January 1982 by the Salt River Pima-Maricopa Indian Community (the "community") against the Department of the Interior, the Federal agency alleged to have jurisdiction over the use of such effluent. The PVNGS participants, including the Company, were named as additional defendants in the proceeding, which is before the United States District Court for the District of Arizona. The portion of the action challenging the effluent contract has been stayed until the community litigates certain claims in the same action against the Department of the Interior and other defendants. On October 21, 1988, Federal legislation was enacted conforming to the requirements of a proposed settlement that would terminate this case without affecting the validity of the primary effluent contract. However, certain contingencies are to be performed before the settlement is finalized and the suit is dismissed. One of these contingencies is the approval of the settlement by the court in the Lower Gila River Watershed litigation referred to below.

The Company understands that a summons served on APS in early 1986 required all water claimants in the Lower Gila River Watershed of Arizona to assert any claims to water by January 20, 1987 in an action pending in the Maricopa County Superior Court. PVNGS is located within the geographic area subject to the summons and the rights of the PVNGS participants to the use of groundwater and effluent at PVNGS are potentially at issue in this action. APS, as the PVNGS project manager, filed claims that dispute the court's jurisdiction over the PVNGS participants' groundwater rights and their contractual rights to effluent and, alternatively, seek confirmation of such rights. No trial date has been set in this matter.

SAN JUAN RIVER ADJUDICATION

In 1975, the State of New Mexico filed an action entitled State of New Mexico v. United States, et al., in the District Court of San Juan County, New Mexico, to adjudicate all water rights in the "San Juan River Stream System". The Company was made a defendant in the litigation in 1976. The action is expected to adjudicate water rights used at the Four Corners plant, at SJGS and at Santa Fe. (See ITEM 1 — "BUSINESS — ELECTRIC OPERATIONS — Fuel and Water Supply".) The Company cannot at this time anticipate the effect, if any, of any water rights adjudication on the present arrangements for water at SJGS and the Four Corners plant, nor can it determine what effect the action will have on water for Santa Fe. It is the Company's understanding that final resolution of the case cannot be expected for several years.

DIVERSIFICATION CLAIMS

Bellamah Community Development ("BCD"), a general partnership that engaged in real estate operations in the southwestern United States, is the debtor in a proceeding in the United States Bankruptcy Court for the District of New Mexico that commenced on June 1, 1989 under Chapter 11 of the Bankruptcy Code and converted to a Chapter 7 proceeding by order entered on January 29, 1990. The general partners of BCD include Meadows.

During 1990, the trustee in the bankruptcy case (the "BCD Trustee") filed an adversary proceeding in the case against the general partners of BCD, including Meadows, seeking contribution for all debts of BCD. The BCD Trustee lawsuit further asserts that the claim of Meadows against BCD (including secured claims of approximately $80 million) should be subordinated to the claims of all other creditors. It is the position of Meadows that it made loans to BCD secured by mortgage liens and it is therefore resisting the BCD Trustee's position. The Company currently estimates that the claims against BCD (excluding the claims of Meadows) exceed BCD's assets by a range of $40 million to $60 million. The assets of the general partners are inadequate to fund such excess.

In January 1991, the BCD Trustee placed the Company on notice that he believed that the bankruptcy estate has strong claims against the Company and certain of its officers by reason of tax-sharing payments, amounting to approximately $22 million, made by the Company to Meadows during 1989 and utilized by Meadows to make payments to its secured creditors, the effect of which was to reduce partially the damages that the Company would otherwise have paid to the secured creditors of Meadows. (See ITEM 1 — "BUSINESS — NON-UTILITY SUBSIDIARY OPERATIONS".) The BCD Trustee has further asserted that certain members of the BCD management committee were acting in a representative capacity for the Company and that the Company knew of, endorsed and/or approved of the actions of such management committee members. The BCD Trustee further asserts that the bankruptcy estate may have a direct claim against the Company based on the theory that Meadows was the alter ego of the Company. The Company denies any liability to the BCD Trustee and, if litigation results, will defend vigorously against claims made by the BCD Trustee against the Company.

In 1988 and 1989, the Company made provisions for losses it estimated would result from its investment in Meadows, including the anticipated loss of the Meadows investment in BCD. (See note 10 of the notes to consolidated financial statements.) The Company believes no additional provision is required for any potential loss by reason of the claims of the BCD Trustee or any creditor of Meadows or by reason of any possible increase in damage payments to the secured creditors of Meadows.

NATURAL GAS SUPPLY LITIGATION

Near the end of 1990 and in response to a December 1989 order of the NMPSC relating to GCNM's recovery of settlement and reformation costs (see ITEM 1 — "BUSINESS — RATES AND REGULATION — Natural Gas Supply Matters"), eight producers, including Conoco, Inc. ("Conoco") and Amoco Production Company ("Amoco"), brought lawsuits against GCNM or Gathering Company or both seeking to recover damages relating to GCNM's or Gathering Company's performance under gas purchase contracts. In December 1990, Conoco and Amoco amended a suit, initially filed on February 20, 1990 in the United States District Court for the District of New Mexico for claims relating to two gas purchase contracts, to assert claims relating to all of their contracts with GCNM and Gathering Company in northwestern New Mexico. Conoco has claimed damages of at least $12.9 million against Gathering Company. Amoco has claimed damages of at least $15.3 million from Gathering Company and $6.8 million from GCNM. Most of the amount claimed by Conoco and Amoco relate to take-or-pay claims. GCNM and Gathering Company are vigorously defending against these claims.

OTHER PROCEEDINGS

See ITEM 1 — "BUSINESS — RATES AND REGULATION" and "BUSINESS — NON-UTILITY SUBSIDIARY OPERATIONS" and PART II, ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CURRENT ISSUES FACING THE COMPANY — The Retail Electric Market" for a discussion of other proceedings and disputes.

On January 23, 1991, the Company and Meadows filed a lawsuit in the District Court of Bernalillo County, New Mexico, against three individual defendants who formerly served as directors or officers of the Company or its subsidiaries, including the Company's former Chairman and President, as well as against a consulting firm formed by one of the individual defendants. The decision to file the complaint was made by the special litigation committee appointed by the Company's Board of Directors in 1989 to conduct an independent investigation of certain matters. (See "SHAREHOLDER LITIGATION — Shareholder Derivative Litigation and the Special Litigation Committee".) The complaint seeks damages or restitution relating to bonuses, fees and compensation paid to the defendants, alleges breaches of fiduciary duty by the individual defendants and seeks to cancel or reform certain agreements, including supplemental retirement agreements of two of the defendants and the agreement between the Company and the consulting firm.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

None.

SUPPLEMENTAL ITEM. *EXECUTIVE OFFICERS OF THE COMPANY*

Executive officers, their ages, offices held and initial effective dates thereof, were as follows on December 31, 1990:

Name	Age	Office	Initial Effective Date
Ashton B. Collins . . .	58	Chairman of the Board	June 19, 1990
J. T. Ackerman	49	President and Chief Executive Officer	June 19, 1990
W. M. Eglinton	42	Executive Vice President and Chief Operating Officer, Electric and Water Operations	September 1, 1988
J. B. Mulcock, Jr. . . .	51	Senior Vice President, Corporate Affairs and Secretary	April 23, 1985
M. H. Maerki	50	Senior Vice President and Chief Financial Officer	June 1, 1988
W. J. Real	42	Executive Vice President, Gas Operations	June 19, 1990
M. Phyllis Bourque . .	43	Senior Vice President, Gas Management Services	June 19, 1990
J. A. Zanotti	51	Senior Vice President, Human Resources and Communications	July 26, 1990

All officers are elected annually by the Board of Directors of the Company.

All of the above executive officers have been employed by the Company and/or its subsidiaries for more than five years in executive or management positions, with the exception of Ashton B. Collins and M. Phyllis Bourque. Ashton B. Collins has been a director of the Company and President and Chief Executive Officer of Reddy Communications Inc., for more than five years. M. Phyllis Bourque has been employed as an officer of the Company for four years. Prior to employment with the Company, M. Phyllis Bourque was employed by Mid Con Service Company during the period of March 1986 through February 1987 as Assistant Vice President — Gas Acquisition and Contract Management. During the period of March 1985 through March 1986, M. Phyllis Bourque was employed by United Gas Pipeline Company as Vice President, Gas Supply.

PART II

ITEM 5. *MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS*

The Company's common stock is traded on the New York Stock Exchange. Ranges of sales prices of the Company's common stock, reported as composite transactions (Symbol: PNM) for 1990 and 1989, by quarters, are as follows:

Quarter Ended	Range of Sales Prices High	Range of Sales Prices Low
1990:		
December 31	9¾	8
September 30	12⅜	9¼
June 30	12⅜	9⅞
March 31	15½	12⅛
Fiscal Year	15½	8
1989:		
December 31	15¼	12⅞
September 30	15⅞	14
June 30	14¾	11
March 31	14⅛	10¾
Fiscal Year	15⅞	10¾

On February 1, 1991, there were 37,772 holders of record of the Company's common stock.

Dividends paid on common stock for the first quarter of 1989 were $.38 per share. In April 1989, the Company announced the suspension of dividend payments on the Company's common stock as a result of a deficit in retained earnings. For a discussion of the suspension of dividends on the Company's common stock, see note 2 of the notes to consolidated financial statements and ITEM 7 — "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS".

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 1990 and 1989.

ITEM 6. *SELECTED FINANCIAL DATA*

	1990	1989	1988	1987	1986
	(In thousands except per share amounts and ratios)				
Total Operating Revenues*	$ 855,134	$ 915,310	$ 841,924	$ 785,224	$ 775,807
Earnings (Loss) from Continuing Operations	$ 442	$ 82,593	$ (9,942)†	$ 117,121	$ 159,324
Net Earnings (Loss)	$ 442	$ 82,593	$ (230,137)	$ 95,389	$ 151,005
Earnings (Loss) per Common Share From Continuing Operations	$ (.23)	$ 1.73	$ (.50)†	$ 2.52	$ 3.49
Earnings (Loss) per Common Share	$ (.23)	$ 1.73	$ (5.78)	$ 2.00	$ 3.29
Total Assets	$2,313,709	$2,387,005	$2,392,749	$2,717,141	$2,667,639
Preferred Stock with Mandatory Redemption Requirements	$ 45,581	$ 49,268	$ 55,242	$ 60,513	$ 66,147
Long-Term Debt, less Current Maturities	$ 790,126	$ 801,706	$ 980,767	$ 862,962	$ 862,796
Common Stock Data:					
Dividends paid per common share	$ —	$ 0.38	$ 1.87	$ 2.92	$ 2.92
Dividend pay-out ratio	—	22.0%	N/M	146.0%	88.8%
Market price per common share at year end	$ 8.375	$ 14.625	$ 12.50	$ 18.75	$ 33.00
Book value per common share at year end	$ 17.36	$ 18.02	$ 18.03	$ 25.68	$ 26.51
Average number of common shares outstanding	41,774	41,774	41,761	41,647	40,401
Return on Average Common Equity	(1.3)%	9.5%	(23.9)%	7.7%	12.8%
Capitalization:					
Common stock equity	44.8 %	45.3%	40.7 %	52.2%	52.6%
Preferred stock:					
Without mandatory redemption requirements	3.6	3.5	3.2	2.9	2.8
With mandatory redemption requirements	2.8	3.0	3.0	2.9	3.2
Long-term debt, less current maturities	48.8	48.2	53.1	42.0	41.4
	100.0 %	100.0%	100.0 %	100.0%	100.0%

*Includes gas operating revenues (excluding intercompany sales) of Gathering Company and Processing Company beginning with 1989. (See note 1 of the notes to consolidated financial statements.)

†Includes charges for the write-off of deferred carrying costs on uncommitted electric generating capacity, the write-off of a proposed generating station and other non-recurring charges aggregating $120.3 million ($2.88 per share).

N/M — Not meaningful

The selected financial data should be read in conjunction with the consolidated financial statements, the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this report.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

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

LIQUIDITY AND CAPITAL RESOURCES

Construction expenditures for the years 1991-1995 are expected to consist primarily of upgrading generating systems, upgrading and expanding the electric and gas transmission and distribution systems and purchasing nuclear fuel. For the period 1991-1995, the Company expects to incur $526 million of construction expenditures. This amount includes $59 million for the purchase of nuclear fuel and $17 million in AFUDC (a non-cash item that reflects the Company's costs of debt and equity capital used to finance utility construction). The Company currently has no material capital commitments beyond 1995 which would significantly differ from the levels reflected in the five-year construction projections.

Actual construction expenditures for 1990 and the Company's projections for 1991-1995 are shown below:

	1990	1991	1992	1993	1994	1995
			(In millions)			
Cash	$ 81	$116	$116	$ 95	$ 94	$ 88
AFUDC	3	3	5	7	1	1
Total	$ 84	$119	$121	$102	$ 95	$ 89

The Company conducts a continuing review of its construction program. This program and the above estimates are subject to periodic revisions based upon changes in assumptions as to system load growth, rates of inflation, the availability and timing of environmental and other regulatory approvals, the availability and costs of outside sources of capital and changes in project construction schedules.

The Company's other major cash requirements include payments of long-term debt maturities, mandatory redemption of preferred stock, and settlements of certain gas contract disputes (see PART I, ITEM 1 — "BUSINESS — NATURAL GAS OPERATIONS — Natural Gas Supply"). Cash requirements for the above items are estimated at $39.9 million for 1991 and $63.3 million for 1992-1995.

The Company currently estimates that its total internal cash generation during the years 1991-1995 will be adequate to meet its operating expenditures, including the annual lease payments of $84.6 million for the Company's leasehold interests in PVNGS Units 1 and 2, and to meet its other cash requirements for that five-year period. However, the Company anticipates that in 1991 internally generated cash, after meeting operating expenditures, will meet approximately 75% of its 1991 cash requirements for construction expenditures, payments of long-term debt maturities, mandatory redemption of preferred stock and settlement of certain gas contract disputes. To cover differences in the amounts and timing of internal cash generation and cash requirements, the Company intends to utilize short-term borrowings under revolving credit commitments from various banks. The Company currently estimates its peak short-term borrowing requirements for 1991 to be approximately $70 million. The level of these borrowings in any given year will depend on, among other things, the actual amount and timing of cash generation and cash needs. Continuing efforts to boost the Company's internal cash generation include cost control programs and increased efforts to market electricity and gas at both the retail and wholesale levels.

The Company's revolving credit commitments from various banks totaled approximately $253 million as of December 31, 1990. However, $141 million of these commitments expired on

February 1, 1991 and the remaining commitments were scheduled to expire by August 1, 1991. Effective March 8, 1991, the Company replaced its expiring commitments with a $225 million revolving credit facility with major banks. The new facility is secured by first mortgage bonds of the Company and is currently scheduled to terminate on June 30, 1992. The facility contains a provision that could prevent the Company from borrowing under the facility in the event of a material adverse change in the financial condition, results of operations, assets, business or prospects of the Company. Until July 31, 1991, the termination date of the facility is subject to extension, at the Company's option, to December 31, 1993 upon certain conditions, including NMPSC approval. Such an extension, which the Company currently is evaluating, would increase the cost of borrowing under the facility and would subject the Company to additional terms and conditions that, absent lender consent, (a) would generally restrict the Company from making dividend payments or other distributions with respect to common stock or from acquiring shares of common stock and (b) would impose a maximum debt capitalization ratio. However, the Company would be allowed to declare cash dividends on the Company's common stock or acquire shares of the Company's common stock during any twelve month period in an amount not to exceed 100% of the Company's net earnings (excluding extraordinary gains and losses), less the amount of preferred stock dividends.

The Company's ability to raise external capital and the cost of such funds depends on, among other things, its results of operations, credit ratings, regulatory approvals and financial market conditions. In 1989 and 1990, major rating agencies lowered the ratings of certain of the Company's securities, including lease obligation bonds (which are secured indirectly by an assignment of rentals to be paid by the Company) to below "investment grade". One impact of the Company's current ratings, together with covenants in the Company's PVNGS Unit 1 and Unit 2 lease agreements (see PART I, ITEM 1 — "BUSINESS — ELECTRIC OPERATIONS — Sources of Power — *Nuclear Plant*"), is to limit the Company's ability, without consent of the owner participants and bondholders in the lease transactions, (i) to enter into any merger or consolidation, or (ii) except in connection with normal dividend policy, to convey, transfer, lease or dividend more than 5% of its assets, including cash, in any single transaction or series of related transactions. The Company's revolving credit facility imposes similar restrictions irrespective of credit ratings.

Due to earnings tests in the Company's Restated Articles of Incorporation, the issuance of preferred stock (other than in connection with certain exchanges, redemptions or other retirements of preferred stock) would require the consent of the holders of a majority of the shares of preferred stock then outstanding until such time as the tests are met. Also due to 1990 results of operations, earnings tests in its mortgage indenture would limit the amount of first mortgage bonds the Company may issue. The Company has the capability under the mortgage indenture, without regard to the earnings test but subject to other conditions, to issue first mortgage bonds on the basis of certain previously retired bonds. Most of this capacity was used for the bonds securing the Company's revolving credit facility.

The Company's board of directors has not declared dividends on its common stock since January 1989. The Company's board of directors reviews its dividend policy on a continuing basis. The payment of future dividends is dependent upon earnings, the financial condition of the Company, market conditions and other factors.

The Company's capital structure at December 31, 1990 consisted of 48.8 percent long-term debt, less current maturities, 2.8 percent preferred stock with mandatory redemption requirements, 3.6 percent preferred stock without mandatory redemption requirements and 44.8 percent common stock equity.

RESULTS OF OPERATIONS

Net loss per common share in 1990 was $.23, compared to earnings of $1.73 in 1989 and a loss of $5.78 in 1988. The results of operations in 1990 reflect after-tax write-offs of $19.4 million resulting from the NMPSC's decision on the Company's electric rate case. The write-offs resulted primarily from the NMPSC's treatment of prior years' tax benefits from debt retirement and losses on hedge transactions as well as the NMPSC's treatment of amortization periods for gains resulting from the sale and leaseback transactions on PVNGS Units 1 and 2 consummated in previous years. The loss experienced in 1988 was due primarily to a provision for the estimated loss of $137.8 million from the discontinuance of the Company's non-utility operations, a provision for an extraordinary loss on discontinuation of application of regulatory accounting principles regarding certain assets, the write-off of the Company's investment in a proposed coal-fired generating station, the write-off of deferred carrrying costs on uncommitted electric generating capacity and one-time costs related to a work force reduction. The following discussion highlights significant items which affected the results of operations in 1990 and 1989, and certain items impacting future earnings.

Electric operating revenues decreased $79.1 million in 1990 due primarily to the expiration on December 31, 1989 of the long-term power sale contract with Southwestern Public Service Company. However, such decrease was partially offset by higher energy sales to retail customers, which increased by 2.8% in the current year. The $13.1 million increase in 1989 was due primarily to increased energy sales to retail customers of 4.8% and SPS of 2.6%, mostly offset by a 31.1% decrease in energy sales to other contracted wholesale customers as a result of outages at the PVNGS units. The long-term sales contract with SPS contributed $109.8 million and $100.0 million in revenues in 1989 and 1988, respectively. Sales under the SPS contract contributed approximately $1.13 to 1989 earnings per share. Replacement sales have been at prices substantially lower than the SPS contract price.

Gas operating revenues increased $19.3 million in 1990 due mainly to increased gas liquids revenues resulting from increased price and throughput, to increased gas consumption by residential and commercial customers in the spring of 1990 and to an increase in transportation throughput. The $59.0 million increase in 1989 was due primarily to inclusion in 1989 of revenues of $46.4 million from Processing Company and Gathering Company due to a change in regulatory treatment. Revenues from these subsidiaries were included in the caption "Other Income and Deductions, net of taxes" in 1988. A gas rate increase approved in August 1990 also contributed to the increased revenues for the current period.

Fuel and purchased power expense decreased $12.8 million in 1990 due primarily to a decrease in purchased power expense and an increase in economy sales and hazard sharing deliveries in the region, which were partially offset by increases in the cost of fuel during the current year. Fuel and purchased power expense increased $3.3 million in 1989 due mainly to additional purchases of energy and increased coal fuel expense resulting, in part, from the unscheduled outages at PVNGS. The PVNGS units were out of service for substantial periods during 1989.

Gas purchased for resale increased $15.1 million in 1990 due primarily to a higher net cost of gas and increased gas deliveries to residential and commercial customers. Gas purchased for resale increased $32.7 million in 1989 primarily as a result of the inclusion of gas purchase costs of $20.7 million from Gathering Company, whereas such expenses were reflected in the caption "Other Income and Deductions, net of taxes" in 1988. In addition, certain gas processing costs, previously deferred, are being collected from customers, commencing in 1989.

Other operation and maintenance expenses increased $12.7 million in 1990 due primarily to increased operating costs resulting from increased availability of the PVNGS units along with additional personnel and training costs at PVNGS and increased Arizona property taxes on the leased PVNGS units. Increased scheduled outages at SJGS Unit 4 also contributed to such increase in other operation and maintenance expenses. Other operation and maintenance expenses increased $11.3 million in 1989. Included therein are expenses of Processing Company and Gathering Company of $16.9 million for 1989, whereas such expenses were reflected in the caption "Other Income and Deductions, net of taxes" in 1988. Excluding the expenses of the gas subsidiaries, other operation and maintenance expenses decreased $5.6 million in 1989 due primarily to a work-force reduction implemented in August 1988. However, expenses associated with the PVNGS units for 1989 increased $12.1 million due primarily to outages at PVNGS and increased Arizona property taxes on the leased PVNGS units.

Operating income taxes decreased by $18.5 million in 1990 due primarily to lower pre-tax operating income in 1990 partially offset by the absence in 1990 of certain tax benefits which were flowed through in 1989. Operating income taxes for 1989 increased $8.7 million. This increase primarily resulted from a higher pre-tax operating income in 1989.

Other, under Other Income and Deductions, net of taxes, decreased $7.6 million in 1990 due primarily to a reserve for costs related to retirement of utility property and additional provisions for defending shareholders' litigation. The $13.0 million increase in 1989 was primarily due to losses recognized in 1988 primarily as a result of a write-off relating to the stipulation reached between the NMPSC Staff and the Company, which was approved by the NMPSC, settling all issues of prudence as they relate to the Company's 10.2% interest in PVNGS Units 1 and 2 (see PART I, ITEM 1 "BUSINESS — RATES AND REGULATION — PVNGS Cost Investigation"), the write-off of deferred gas processing costs and a provision for other losses.

Interest charges decreased $7.0 million due primarily to the retirement of $30 million of 13⅛% first mortgage bonds in August 1989, and a decrease in other long-term debt outstanding during 1990. Interest charges decreased $10.2 million in 1989 primarily due to a reduction in commercial paper outstanding.

CURRENT ISSUES FACING THE COMPANY

The Company's future financial condition and results of operations may be affected by the factors discussed below.

Regulatory Issues

On April 5, 1989, the NMPSC issued an order addressing the Company's excess electric generating capacity situation which, among other things, provides for the inclusion in NMPSC jurisdictional electric rates of the Company's jurisdictional interests in PVNGS Units 1 and 2, 147 MW of SJGS Unit 4 and the power purchase contract with SPS. However, the order provides for the exclusion from New Mexico jurisdictional rates of the Company's 130 MW interest in PVNGS Unit 3, 130 MW of SJGS Unit 4 and the power purchase contract with M-S-R. (See PART I, ITEM 1 — "BUSINESS — ELECTRIC OPERATIONS — Sources of Power".) The NMPSC approved the Company's request for decertifiction and regulatory abandonment of PVNGS Unit 3 but denied such a request for the 130 MW of SJGS Unit 4. The Company has appealed the denial to the New Mexico Supreme Court.

On June 12, 1989, the Company filed a rate request with the NMPSC incorporating the effects of the April 5, 1989 order. On April 12, 1990, the NMPSC issued its final order in the rate case requiring the Company to reduce its existing base rates by approximately $2.9 million per year. The order also stated that as long as there is excess capacity in the Company's jurisdictional rates, then that excess capacity will share off-system sales equitably with the capacity excluded. In April 1990, the Company implemented the allocation procedures associated with off-system sales between the NMPSC jurisdiction's excess capacity and that excluded from the jurisdictional rates.

The Company believes that the NMPSC's April 5, 1989 and April 12, 1990 orders and existing wholesale market conditions will cause the Company's shareholders to receive little or no return on their investment over the next several years. Therefore, the Company's management has been evaluating other possible strategic options in an effort to maximize shareholders' investment value. Recently, the Company's management has announced specific objectives and has established action plans designed to achieve these objectives by the end of 1993. The plans include, among other things, no rate increase request for three years (if at all possible), reduction of budgeted non-fuel operation and maintenance expenses by 10% by 1993 and concentration on market expansion, including resolution of the Albuquerque franchise issue (see "The Retail Electric Market"), for revenue growth.

In 1989 and 1990, GCNM and Gathering Company settled litigation involving substantial claims relating to gas purchase contracts. The Company is currently seeking NMPSC approval to recover $73 million arising from settlement of certain contract claims. (See PART I, ITEM 1 — "BUSINESS —

RATES AND REGULATION — Natural Gas Supply Matters".) Even though significant natural gas contracts have been reformed or terminated, GCNM and Gathering Company are still disputing claims by certain natural gas producers relating to take-or-pay obligations, contract pricing and other matters. Near the end of 1990 and in response to a December 1989 order of the NMPSC relating to GCNM's recovery of settlement and reformation costs, eight producers brought lawsuits against GCNM or Gathering Company or both seeking to recover damages relating to GCNM's or Gathering Company's performance under gas purchase contracts. (See PART I, ITEM 3 — "LEGAL PROCEEDINGS — NATURAL GAS SUPPLY LITIGATION".) Based on provisions made for the natural gas contract disputes and on the Company's current expectation of regulatory recovery of certain settlement amounts, the Company believes it is unlikely that the pending litigation will have a material adverse impact on the Company's financial condition or results of operations.

The Wholesale Power Market

The Company is dependent primarily on the wholesale market for the ultimate recovery of its investment in capacity excluded from New Mexico jurisdictional rates. The Company considers its potential market for wholesale power sales to be generally defined by those entities interconnected within the WSCC. The Company's ability to market its uncommitted capacity is under pressure as a result of limited transmission availability and abundant alternative short-term energy resources from competitors.

The Company's ability to sell its power within the WSCC has been enhanced for short-term sales by the WSPP experiment. The WSPP has allowed for market level pricing and negotiated transactions for transmission services. The WSPP experiment is scheduled to terminate on April 30, 1991. However, the participants in this experiment have petitioned the FERC to allow the experiment's concepts to continue under a permanent agreement. The Company currently cannot predict the outcome from the FERC ruling in this matter. Technical limitations and jurisdictional service concerns of other utilities in the WSCC have made and are making long-term transmission service commitments difficult to obtain. Environmental, technical and economic constraints combine to make the construction of new transmission facilities also difficult. Price competition in this market is expected to continue to be intense due to the availability of surplus capacity from other utilities, projected low prices for oil and gas and the existence of cogeneration, independent power producers and self-generation as competing energy sources. In addition, continuing utility merger activity in the WSCC may, the Company believes, add to the difficulty in marketing the Company's uncommitted capacity and its power. The Company's market assessments indicate that other southwestern and western utilities will have increasing capacity and energy requirements in the 1990s. However, the Company projects that the current soft wholesale power market will continue into the mid-1990s and that, as a result, there will continue to be downward pressure on near-term wholesale power prices. Substantial portions of the Company's off-system sales are made in the economy interchange market at prices which averaged only slightly above incremental costs.

On July 26, 1990, the Company's Board of Directors approved plans to proceed with the Ambrosia-Coronado Project (the "ACP"), which involves construction of a 230kV transmission line connecting the Plains Escalante Generating Station in New Mexico to the Salt River Project Coronado station in Arizona. As currently proposed, the Company's portion of the estimated costs of the ACP would be approximately $52 million. The ACP would give the Company additional transmission capability to deliver power to western markets, including Nevada and southern California. This project would also enhance the Company's seasonal interchange capabilities. The line is projected to be completed in 1994. However, the line would not be constructed if necessary rights-of-way, environmental and regulatory approvals cannot be obtained or if the NMPSC orders adverse treatment of the project costs and sales revenues.

On March 7, 1991, the Company executed a power sale agreement with Arizona Power Pooling Association ("APPA") whereby the Company would be a supplier of power under a 17-year contract. The APPA agreement calls for a sale of 15 MW of base power beginning in June 1991, increasing to

35 MW for June 1992 through May 1994 and 80 MW for June 1994 through May 2002, and 15 MW thereafter through 2008. The APPA agreement would also provide for sales of an additional 25 MW of seasonal power in the months of June through September for 1991 through 1998. Regulatory approval of the contract is required.

The Retail Electric Market

The Company's electric service franchise with the City of Albuquerque, covering an area which contributed 46.9% of the Company's total 1990 electric operating revenues, expires in early 1992. In a municipal election held on November 1, 1989, voters approved an amendment to the charter of the City of Albuquerque that provides that the city has no power to grant or extend any franchises, licenses or other rights to provide electricity to the public or to wholesalers unless the franchise, license or right has been awarded by competitive bid to the lowest cost suppliers. The amendment allows the grant of multiple franchises, licenses or rights for all or part of the city and also provides that the total term of any franchise, license or right will not exceed 25 years. The City of Albuquerque has selected a consultant to study alternatives available to it, including municipalization of the Company's distribution system, the viability of other alternatives, and the methods that may be available to the City to implement the recent charter amendment. In October 1990, the City Council of Albuquerque voted to approve the formation of a "Municipal Electric Utility." The goals and objectives of the new entity are at present not well defined, but it is assumed that such an entity was created to become a self-regulated electric supplier in and around Albuquerque. On December 14, 1990, the Company filed a petition for a declaratory order with the NMPSC regarding the inconsistencies between the charter amendment and the NMPSC's jurisdiction over public utility rates and service areas under state law. On February 18, 1991, the NMPSC agreed to consider the Company's petition. The Company has been actively pursuing the renewal of the franchise prior to its expiration. Absent a renewal of the franchise, the Company is likely to continue service to the City franchise area for an undetermined period of time without a franchise. The Company, as necessary, will take vigorous action to protect the value of the Company's distribution system in the City franchise area and related utility plant. While the Company cannot predict the ultimate outcome of the franchise renewal issue, it currently believes that such outcome will not have a material adverse effect on the Company's financial condition or results of operations.

PVNGS

In March 1989, after two of the PVNGS units experienced unscheduled outages and the third unit was removed from service for testing, the NRC issued confirmatory action letters requiring APS to take certain corrective actions and to receive NRC approval before restarting any of the PVNGS units. Unit 2 returned to service in 1989, but was placed in its second refueling outage on February 24, 1990 and did not return to service until July 19, 1990, PVNGS Unit 3 returned to service on January 21, 1990 and Unit 1 returned to service on July 5, 1990. The three units together operated at an average capacity of about 62 percent in 1990, compared to an average capacity factor of 23 percent in 1989.

On several occasions, including during 1990, the NRC has proposed and assessed civil penalties for various violations at PVNGS that have been categorized as problems of Severity Level III or lesser severity (on a scale of I to V in accordance with the "General Statement of Policy and Procedure for NRC Enforcement Actions", with Level I being the most severe). On one such occasion in 1990, the NRC took enforcement action relating primarily to the allegedly unreliable performance of PVNGS's emergency lighting system. In October 1990, the NRC imposed a civil penalty in the amount of $125,000, which APS subsequently paid, for a Severity Level III violation of NRC requirements at PVNGS. The base value of the civil penalty for a Severity Level III problem is $50,000, which amount is subject to either escalation or mitigation. The NRC increased the base level of the civil penalty to $125,000 because (1) the NRC, rather than APS, identified these violations, and (2) the NRC concluded that APS's past performance involving required emergency lighting, engineering and technical support, and quality oversight was not satisfactory. Although the NRC notice indicated that APS's corrective actions appear comprehensive, the NRC did not decrease the base civil penalty because, in the NRC's view, these corrective actions were not sufficiently prompt. After reviewing APS's response, including proposed corrective actions and results of future inspections, the NRC notice indicated that the NRC will evaluate further enforcement action.

In recent years, the NRC has monitored closely the operation of the PVNGS units and, in various instances, expressed concern over certain operational and management aspects. However, a recently-issued Systematic Assessment of Licensee Performance, a comprehensive NRC report for the twelve-month period ending November 30, 1990, showed favorable improvements.

Tucson Electric Power Company

The Company operates and jointly owns SJGS, in which Tucson and Century also have interests. On January 23, 1991, Tucson announced that, in a meeting with its bank group, it proposed a moratorium commencing February 1, 1991, during which it would suspend payment of interest and principal on certain collateralized debts, and asked the banks to refrain from legal action at least through March 15, 1991, on the discontinuance of payments. The Company understands that Tucson instituted a payment moratorium on February 1, 1991, including a payment moratorium with respect to other creditor groups and major suppliers such as Century. The Company understands that Tucson is discussing restructuring Tucson's obligations with its creditors and major suppliers. Tucson has reported that its failure to pay has resulted in a number of events of default under its various financing arrangements.

The Company understands that Tucson is the major customer of Century and that the financial difficulties of Tucson are having an adverse impact on Century.

The Company also understands that Tucson's senior executives had previously briefed the Arizona Corporation Commission (the "ACC") on the implications of a possible bankruptcy filing and that Tucson is attempting to negotiate a comprehensive rate plan with the ACC.

Tucson has reported that, in the event that Tucson's creditors do not forebear from exercising remedies against Tucson during the period while the restructuring of obligations and rate plans are being negotiated or in the event that a comprehensive rate settlement cannot be negotiated with the ACC, Tucson anticipates that it may need to file for protection from its creditors under Chapter 11 of the United States Bankruptcy Code.

In view of Tucson's discussion of the possibility of bankruptcy, the Company is evaluating what impact Tucson's financial difficulties might have on the Company, including indirect impacts that might arise from the effect on Century of Tucson's financial difficulties. The Company currently believes it is unlikely that the financial difficulties of Tucson will have a material impact on the Company's future financial condition or results of operations. However, as a co-participant in and operating agent of SJGS, the Company has certain contingent obligations under the plant operating agreement and joint and several liability with Tucson under the coal supply agreement.

Shareholder Litigation

The Company and certain individuals who currently serve, or formerly served, as officers or directors of the Company or its subsidiaries are defendants in three class action suits brought by shareholders of the Company. These suits allege misrepresentations and omissions of material facts in the various reports filed with the Securities and Exchange Commission and in other communications primarily related to the Company's excess electric generating capacity and diversified non-utility operations. In addition, there are three suits against present and former officers and directors that shareholders seek to bring derivatively on behalf of the Company. These suits allege, among other things, mismanagement and breach of fiduciary duty relating to excess electric generating capacity, diversified non-utility operations and securities fraud. (See PART I, ITEM 3 — "LEGAL PROCEEDINGS — SHAREHOLDER LITIGATION".)

A special litigation committee was created by the Company's Board of Directors in July 1989 to conduct an independent investigation generally encompassing the matters alleged in the derivative suits. In January 1991, the special litigation committee filed its report with the respective courts, concluding, among other things, that it was not in the Company's best interests to pursue litigation against any of the defendants with respect to claims concerning excess electric generating capacity and securities fraud, and directing counsel to seek dismissal of such claims in the derivative suits. The special litigation committee also concluded that it was not in the Company's best interests to seek dismissal of pending claims regarding diversification against four individuals who formerly served as directors or officers of the Company or its subsidiaries.

In 1990, the Company made a provision for the estimated cost of defending the shareholder lawsuits. The Company currently believes that the disposition of these lawsuits will not have a material adverse effect on the Company's results of operations or its financial condition.

Postretirement Benefits

In December 1990, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, effective for fiscal years beginning after December 15, 1992. SFAS No. 106 will require accrual of postretirement benefits (such as medical and dental benefits) during the years employees provide services. The costs of these benefits are currently expensed on a pay-as-you-go basis. The impact of this new standard has not been fully determined, but the change likely will result in significantly greater expense being recognized for these benefits. The Company expects that the increased benefits expense will either be recovered currently through rates or that a regulatory asset will be recorded to reflect amounts to be recovered through rates in the future as the costs are paid; therefore, SFAS No. 106 should not have a significant impact on the Company's financial condition or results of operations.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

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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 consolidated financial statements. The consolidated 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 consolidated financial statements. The system of internal accounting controls is supported by written policies and procedures, by 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, KPMG Peat Marwick, are engaged to audit the Company's consolidated financial statements in accordance with generally accepted auditing standards.

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Public Service Company of New Mexico and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Service Company of New Mexico and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1990, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1989.

KPMG PEAT MARWICK

Albuquerque, New Mexico
February 21, 1991

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

	Year Ended December 31, 1990	1989	1988
	(In thousands except per share amounts)		
Operating Revenues:			
Electric	$541,330	$620,381	$ 607,317
Gas (note 1)	302,104	282,827	223,791
Water	11,700	12,102	10,816
Total operating revenues	855,134	915,310	841,924
Operating Expenses:			
Fuel and purchased power	142,482	155,279	152,017
Gas purchased for resale	170,320	155,232	122,575
Other operation expenses	275,851	268,826	261,687
Maintenance and repairs	56,385	50,755	46,568
Depreciation and amortization	73,204	71,981	66,920
Taxes, other than income taxes	36,961	34,043	34,823
Income taxes (note 4)	7,490	25,958	17,268
Total operating expenses	762,693	762,074	701,858
Operating income	92,441	153,236	140,066
Other Income and Deductions, net of taxes (note 4):			
Allowance for equity funds used during construction	—	2,909	4,658
Deferred carrying costs on uncommitted electric generating capacity (note 11)	—	—	(20,234)
Write-off of proposed generating station (note 6)	—	—	(38,104)
Write-offs due to electric regulatory order (note 11)	(19,396)	—	—
Other	(5,188)	2,392	(10,634)
Net other income and deductions	(24,584)	5,301	(64,314)
Income before interest charges	67,857	158,537	75,752
Interest Charges:			
Interest on long-term debt	61,176	71,572	81,775
Other interest charges	9,697	6,283	6,329
Allowance for borrowed funds used during construction	(3,458)	(1,911)	(2,410)
Net interest charges	67,415	75,944	85,694
Earnings (Loss) From Continuing Operations	442	82,593	(9,942)
Discontinued Operations, net of tax (note 10):			
Loss from operations of non-utility operations	—	—	(35,826)
Estimated loss on disposal of non-utility operations, including provision for operating losses during the phase-out period	—	—	(137,773)
Earnings (Loss) before Extraordinary Item	442	82,593	(183,541)
Extraordinary Item — loss on discontinuation of application of regulatory accounting principles regarding certain assets, net of tax (note 11)	—	—	(46,596)
Net Earnings (Loss)	442	82,593	(230,137)
Preferred Stock Dividend Requirements	10,002	10,456	11,117
Net Earnings (Loss) Available for Common Stock	$ (9,560)	$ 72,137	$(241,254)
Average Number of Common Shares Outstanding	41,774	41,774	41,761
Earnings (Loss) per Share of Common Stock:			
Earnings (loss) from continuing operations	$ (.23)	$ 1.73	$ (.50)
Loss from discontinued operations	—	—	(.86)
Estimated loss on disposal of non-utility operations	—	—	(3.30)
Earnings (loss) before extraordinary item	(.23)	1.73	(4.66)
Extraordinary item	—	—	(1.12)
Net Earnings (Loss)	$ (.23)	$ 1.73	$ (5.78)
Dividends Paid per Share of Common Stock	$ —	$ .38	$ 1.87

See accompanying notes to consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

	Year Ended December 31, 1990	1989	1988
		(In thousands)	
Balance at Beginning of Year	$ 56,263	$(144,004)	$ 175,337
Elimination of deficit through quasi-reorganization of equity accounts (note 2)	—	144,004	—
Net Earnings (Loss)	442	82,593	(230,137)
Dividends:			
Cumulative preferred stock	(10,002)	(10,456)	(11,117)
Common stock	—	(15,874)	(78,087)
Balance at End of Year	$ 46,703	$ 56,263	$(144,004)

See accompanying notes to consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 1990	December 31, 1989
	(In thousands)	
ASSETS		
Utility Plant, at Original Cost (notes 2, 6, and 11):		
Electric plant in service	$1,938,243	$1,920,545
Gas plant in service	445,814	426,666
Water plant in service	49,946	48,901
Common plant in service	40,085	46,579
Plant held for future use	1,258	16,782
	2,475,346	2,459,473
Less accumulated depreciation and amortization	697,744	652,890
	1,777,602	1,806,583
Construction work in progress	86,127	67,981
Nuclear fuel, net of accumulated amortization	50,732	57,281
Net utility plant	1,914,461	1,931,845
Other Property and Investments:		
Non-utility property, at cost, net of accumulated depreciation, partially pledged	9,869	12,601
Other investments, at cost	31,146	19,327
Total other property and investments	41,015	31,928
Current Assets:		
Cash	4,588	6,660
Temporary investments, at cost	1,365	11,130
Receivables	104,053	119,139
Income taxes receivable	11,008	37,024
Fuel, materials and supplies, at average cost	48,013	49,642
Gas in underground storage, at weighted average cost	11,499	11,700
Prepaid expenses	7,775	7,101
Total current assets	188,301	242,396
Deferred Charges	169,932	180,836
	$2,313,709	$2,387,005
CAPITALIZATION AND LIABILITIES		
Capitalization (note 2):		
Common stock equity:		
Common stock outstanding — 41,774,083 shares	$ 208,870	$ 208,870
Additional paid-in capital	469,688	487,465
Retained earnings since January 1, 1989	46,703	56,263
Total common stock equity	725,261	752,598
Cumulative preferred stock without mandatory redemption requirements	59,000	59,000
Cumulative preferred stock with mandatory redemption requirements	45,581	49,268
Long-term debt, less current maturities	790,126	801,706
Total capitalization	1,619,968	1,662,572
Current Liabilities:		
Short-term debt (note 3)	15,000	33,880
Accounts payable	127,516	150,203
Current maturities of long-term debt (note 2)	9,214	12,324
Accrued interest and taxes	30,918	31,143
Other current liabilities	33,946	41,164
Total current liabilities	216,594	268,714
Deferred Credits:		
Accumulated deferred investment tax credits (note 4)	116,495	123,558
Accumulated deferred income taxes (note 4)	146,642	139,756
Other deferred credits	214,010	192,405
Total deferred credits	477,147	455,719
Commitments and Contingencies (notes 6 through 12)		
	$2,313,709	$2,387,005

See accompanying notes to consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 1990	1989	1988
		(In thousands)	
Cash Flows From Operating Activities:			
Net earnings (loss)	$ 442	$ 82,593	$(230,137)
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation and amortization	88,852	80,286	91,087
Allowance for equity funds used during construction	—	(2,909)	(4,658)
Deferred carrying costs on uncommitted electric generating capacity	—	—	20,234
Accumulated deferred investment tax credit	(7,063)	(6,475)	(20,142)
Accumulated deferred income tax	28,755	42,254	(67,963)
Write-off of proposed generating station	—	—	50,970
Write-offs due to electric regulatory order	19,707	—	—
Loss from extraordinary item	—	—	53,504
Provision for other losses	—	—	38,452
Changes in certain assets and liabilities:			
Receivables	40,897	(38,000)	(17,779)
Fuel, materials and supplies	1,718	9,778	(10,470)
Net assets of discontinued operations	—	—	180,069
Deferred charges	(49,101)	(33,998)	(5,458)
Accounts payable	(22,549)	(5,020)	31,464
Accrued interest and taxes	(1,217)	23,361	6,904
Deferred credits	24,971	1,005	16,006
Other	(572)	(10,101)	16,025
Other	1,053	(10,281)	6,420
Net cash flows from operating activities	125,893	132,493	154,528
Cash Flows From Investing Activities:			
Utility plant additions	(81,290)	(74,088)	(86,549)
Other property additions	(11,156)	(12,081)	(7,701)
Other property sales	1,605	7,560	9,729
Temporary investments, net	9,765	152,877	42,482
Net cash flows from investing activities	(81,076)	74,268	(42,039)
Cash Flows From Financing Activities:			
Proceeds from issuance of common stock	—	—	682
Redemptions and repurchases of preferred stock	(3,813)	(5,510)	(5,257)
Proceeds from long-term debt	—	3,043	50,195
Repayments of long-term debt	(14,570)	(206,170)	(66,468)
Net increase (decrease) in short-term debt	(18,880)	33,880	(3,000)
Dividends paid	(9,626)	(26,723)	(89,524)
Net cash flows from financing activities	(46,889)	(201,480)	(113,372)
Increase (Decrease) in Cash	(2,072)	5,281	(883)
Cash at Beginning of Year	6,660	1,379	2,262
Cash at End of Year	$ 4,588	$ 6,660	$ 1,379
Supplemental cash flow disclosures:			
Interest paid	$ 68,415	$ 86,444	$ 101,179
Income taxes paid (refunded)	$ (52,865)	$ 12,397	$ (9,842)

Cash consists of currency on hand and demand deposits.

See accompanying notes to consolidated financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CAPITALIZATION

	Stated Value	Shares Outstanding at December 31, 1990	Current Redemption Price	December 31, 1990 (In thousands)	December 31, 1989 (In thousands)
Common Stock Equity (note 2):					
Common stock, par value $5 per share				$ 208,870	$ 208,870
Additional paid-in capital				469,688	487,465
Retained earnings since January 1, 1989				46,703	56,263
Total common stock equity				725,261	752,598
Cumulative Preferred Stock (note 2):					
Without mandatory redemption requirements:					
1965 Series, 4.58%	$100	130,000	$ 102.00	13,000	13,000
8.48% Series	100	200,000	103.00	20,000	20,000
8.80% Series	100	260,000	103.10	26,000	26,000
		590,000		59,000	59,000
With mandatory redemption requirements:					
8.75% Series	100	282,463	102.90	28,246	29,918
12.52% Series	50	393,360	—	19,668	22,001
		675,823		47,914	51,919
Redeemable within one year		46,660		2,333	2,651
		629,163		45,581	49,268

Long-Term Debt (note 2): Issue and Final Maturity	Interest Rates	1990	1989
First mortgage bonds:			
1990 through 1995	4⅞%	8,655	8,655
1996 through 2000	5⅞% to 7¼%	28,202	28,417
2001 through 2005	7½% to 10⅛%	100,747	101,465
2006 through 2010	8⅛% to 9 %	86,003	87,040
2011 through 2013	12⅞%	540	1,716
1993 through 2013 — pollution control series, securing pollution control revenue bonds	5.9% to 10¾%	437,045	437,045
Total first mortgage bonds		661,192	664,338
Pollution control revenue bonds:			
2003 through 2013	10% to 10¼%	100,000	100,000
2009	variable rate	37,300	37,300
Other, including unamortized premium and discount		848	12,392
Total long-term debt		799,340	814,030
Current maturities		9,214	12,324
Long-term debt, less current maturities		790,126	801,706
Total Capitalization		$1,619,968	$1,662,572

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Systems of Accounts

The Company maintains its accounts for utility operations primarily in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission ("FERC") and the National Association of Regulatory Utility Commissioners ("NARUC"), 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and subsidiaries in which it owns a majority voting interest. To the extent the operations of the Company's subsidiaries have been discontinued (see note 10), all amounts have been segregated in the accompanying financial statements as discontinued operations. All significant intercompany transactions and balances have been eliminated.

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. Utility plant includes certain electric assets not subject to NMPSC regulation. The operations of such electric assets are included in operating income. (See note 11).

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 and Amortization

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

	1990	1989	1988
Electric plant	2.88%	2.87%	3.06%
Gas plant	3.13%	3.11%	2.97%
Water plant	2.68%	2.78%	2.25%
Common plant	7.36%	9.54%	8.62%

The provision for depreciation of certain equipment 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. Amortization of nuclear fuel is computed based on the units of production method.

Allowance for Funds Used During Construction ("AFUDC")

As provided by the uniform systems 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). The Company capitalizes AFUDC on construction work in progress and nuclear fuel in the process of enrichment to the extent allowed by regulatory commissions.

AFUDC is computed using the maximum rate permitted by the FERC. Beginning in 1989, the Company converted from an after-tax rate to a pre-tax rate in order to comply with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 96, *Accounting for Income Taxes* issued by the Financial Accounting Standards Board ("FASB"). In calculating AFUDC rates for 1990, the average short-term debt balance exceeded the average construction work in progress balance, resulting in a zero AFUDC rate for equity funds. The total AFUDC rates used were 8.96%, 10.94% and 8.37% for 1990, 1989 and 1988, respectively, compounded semi-annually.

Fuel, Purchased Power and Gas Purchase Costs

Economy sales and other near-term energy delivery transactions by the electric utility are shown as a reduction of fuel and purchased power expenses. The Company uses the deferral method of accounting for the portion of fuel, net purchased power and gas purchase costs which are reflected in subsequent periods under fuel and purchased power clauses and gas adjustment clauses. Future recovery of these costs is based on orders issued by the regulatory commissions.

Amortization of Debt Discount, Premium and Expense

Discount, premium and expense related to the issuance and retirement of long-term debt are amortized over the lives of the respective issues.

Income Taxes

Certain revenue and expense items in the consolidated statement of earnings (loss) are recorded for financial reporting purposes in years different from those in which they are recorded for income tax purposes. For ratemaking purposes, customers are charged currently for the tax effects of certain of these differences (normalization). However, the income tax effects of certain other differences result in reductions of income tax expense for ratemaking purposes in the current year as required by the NMPSC (flow-through). This flow-through method is used primarily for certain capitalized start-up and pre-operational costs at the Palo Verde Nuclear Generating Station ("PVNGS"), accelerated amortization of pollution control facilities and for minor differences between book and tax depreciation. A 1990 NMPSC order in an electric rate case required reversal of the flow-through treatment previously accorded the premiums on retirement of first mortgage bonds and losses on hedging transactions and retroactively required tax normalization of these items. (See note 11.)

Prior to 1989, in accordance with generally accepted accounting principles, deferred income taxes were provided to the extent allowed for ratemaking purposes through normalization. In addition, rates subject to FERC jurisdiction allow recovery of amounts necessary to provide additional tax normalization of the differences described above which are treated in ratemaking under the flow-through method for other customers. Provision was made in years prior to 1989 for additional deferred income taxes attributable to amounts collected under these rates. Deferred income taxes were also provided on all non-permanent differences between book and taxable income attributable to non-utility operations.

Effective January 1, 1989, the Company adopted SFAS No. 96, which prescribes a new accounting standard for income taxes. SFAS No. 96 retains the requirement that deferred income taxes be recorded to reflect tax normalization. Additionally, it requires that such deferrals be recorded using the liability method. Under this method, deferred tax liabilities are computed using the enacted tax rates scheduled to be in effect when the temporary differences reverse. For regulated operations, any changes in tax rates applied to accumulated deferred income taxes may not be immediately recognized because of ratemaking and tax accounting provisions contained in the Tax Reform Act of 1986. For items accorded flow-through treatment under NMPSC orders, deferred income taxes and the future ratemaking effects of such taxes, as well as corresponding regulatory assets and liabilities, are recorded as required by SFAS No. 96. The adoption of SFAS No. 96 had no material impact upon 1989 or 1990 operating results.

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

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.

Gas Operations

Due to a change in the regulatory treatment of two of the Company's subsidiaries engaged in the gathering and processing of natural gas, beginning in 1989, these activities are included in the consolidated financial statements as utility operations. Accordingly, the utility portion of their results of operations and property are reflected in operating income and utility plant, respectively, whereas, such items had previously been included in other income and deductions and non-utility property, respectively.

(2) Capitalization

Changes in common stock, additional paid-in capital and cumulative preferred stock are 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, 1987	41,733,504	$208,668	$687,899	590,000	$59,000	888,472	$60,513
Stock Plans	40,579	202	436	—	—	—	—
Redemption of preferred stock	—	—	57	—	—	(49,383)	(2,938)
Redeemable within one year	—	—	—	—	—	(46,660)	(2,333)
Balance at December 31, 1988	41,774,083	208,870	688,392	590,000	59,000	792,429	55,242
Quasi-reorganization of equity accounts:							
Elimination of deficit in retained earnings	—	—	(144,004)	—	—	—	—
Adoption of SFAS No. 96	—	—	(32,302)	—	—	—	—
Other adjustments	—	—	(24,767)	—	—	—	—
Redemption of preferred stock	—	—	146			(53,232)	(3,323)
Redeemable within one year	—	—	—	—	—	(49,837)	(2,651)
Balance at December 31, 1989	41,774,083	208,870	487,465	590,000	59,000	689,360	49,268
Adjustments related to quasi-reorganization of equity accounts	—	—	(17,968)	—	—	—	—
Redemption of preferred stock	—	—	191	—	—	(13,537)	(1,354)
Redeemable within one year	—	—	—	—	—	(46,660)	(2,333)
Balance at December 31, 1990	41,774,083	$208,870	$469,688	590,000	$59,000	629,163	$45,581

Quasi-Reorganization

On May 4, 1989, the Company's board of directors adopted a resolution approving elimination of the Company's deficit in retained earnings through a quasi-reorganization effective January 1, 1989. The quasi-reorganization resulted in the transfer of a portion of additional paid-in capital to retained earnings to eliminate the $144.0 million deficit in retained earnings and set the retained earnings balance to zero as of January 1, 1989.

In implementing the quasi-reorganization, the Company adopted SFAS No. 96 effective January 1, 1989. Such adoption resulted in a direct charge to additional paid-in capital of $32.3 million in 1989 which represents the cumulative effect of applying SFAS No. 96. This amount relates primarily to deferred income taxes accrued under SFAS No. 96 for utility plant assets excluded from New Mexico jurisdictional electric rate base in an order issued by the NMPSC on April 5, 1989. (See note 11.)

The Company also evaluated other assets and liabilities recorded as of January 1, 1989 for the purpose of adjusting such assets and liabilities to fair value. Adjustments were made based on further evaluation of discontinued operations, provisions for settlements of gas purchase contract disputes, abandoned assets, regulatory adjustments and the income tax effects thereof totaling approximately $24.8 million in 1989. In 1990, adjustments of approximately $18.0 million were made, primarily reflecting the results of a FERC examination of the Company's accounts for years prior to 1989. Such amounts have been recorded as charges to additional paid-in capital.

Common Stock

The number of authorized shares of common stock with par value of $5 per share is 80 million shares. Prior to 1989, the Company periodically issued 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"). The board of directors of the Company terminated the Shareholder's Dividend Reinvestment Plan, the Employee Stock Purchase Plan and the Consumer Stock Plan as of September 1, 1988.

The payment of cash dividends on the common stock of the Company is subject to certain restrictions, including those contained in the Company's mortgage indenture, which effectively prevent the payment of dividends on common stock unless the Company has retained earnings. In April 1989, the Company announced the suspension of dividend payments on the Company's common stock as a result of the deficit in retained earnings as of December 31, 1988. Although the implementation of the Company's quasi-reorganization, effective as of January 1, 1989, eliminated the retained earnings deficit, the Company's board of directors has not declared dividends on its common stock since January 1989. The board of directors reviews its dividend policy on a continuing basis. The payment of future dividends is dependent upon earnings, the financial condition of the Company, market requirements and other factors.

Cumulative Preferred Stock

The number of authorized shares of cumulative preferred stock is 10 million shares.

The Company, upon 30 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. No redemptions for the 12.52% Series may be made prior to October 15, 1991, except for the use of sinking fund and optional redemptions.

Mandatory redemption requirements are $2.3 million for 1991 and $3.6 million annually for 1992 through 1995.

In 1990, 1989 and 1988, the Company redeemed or purchased approximately $4.0 million, $5.7 million and $5.3 million, respectively, of the Company's cumulative preferred stock.

Long-Term Debt

Substantially all utility plant is pledged to secure the Company's 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 through 1995 on long-term debt outstanding at December 31, 1990, are as follows:

1991	$ 9,214
1992	$ 1,639
1993	$11,314
1994	$ 2,220
1995	$ 2,235

(3) Short-Term Debt

The Company's interim financing requirements have been met through the issuance of commercial paper and notes payable to banks. As of December 31, 1990, the Company had credit commitments from various banks totaling approximately $252.7 million. As of such date, $15 million of these commitments were being used for bank borrowings and $237.7 million was available for additional bank borrowings. Of these commitments, $141 million expired on February 1, 1991 and the remaining commitments are scheduled to expire by August 1, 1991. As of February 21, 1991, the Company is negotiating with major banks for a $225 million revolving credit facility. The Company generally pays commitment fees or maintains cash balances on deposit with banks to assure availability of its credit commitments.

(4) Income Taxes

Income taxes included in earnings (loss) from continuing operations consist of the following components:

	1990	1989	1988
		(In thousands)	
Current Federal income tax	$21,155	$ 5,425	$ 7,432
Current State income tax	6,611	(920)	1,521
Deferred Federal income tax	(1,667)	26,852	(8,983)
Deferred State income tax	(3,878)	6,669	(916)
Investment tax credit utilized and deferred	(730)	—	(333)
Amortization of accumulated investment tax credits	(6,332)	(6,475)	(6,383)
Total income taxes	$15,159	$31,551	$ (7,662)
Charged to operating expenses	$ 7,490	$25,958	$ 17,268
Charged (credited) to other income and deductions	7,669	5,593	(24,930)
Total income taxes	$15,159	$31,551	$ (7,662)

The Company's provision for income taxes from continuing operations, exclusive of extraordinary items, differed from the Federal income tax computed at the statutory rate for each of the years shown. The differences are attributable to the following factors:

	1990	1989	1988
		(In thousands)	
Federal income tax at statutory rate of 34%	$ 5,304	$38,809	$ (5,986)
Allowance for funds used during construction	—	(989)	(2,403)
Deferred carrying costs on uncommitted electric generating capacity	—	—	6,879
Investment tax credits	(6,332)	(6,475)	(6,383)
PVNGS start-up and pre-operational costs	(1,479)	(3,354)	(3,836)
Depreciation of flow-through items	1,687	1,079	2,971
Gains on the sale and leaseback of PVNGS	1,027	(960)	(907)
Amortization of pollution control facilities	—	(1,533)	(1,528)
Reversal of permanent differences resulting from write-off of proposed generating station	—	—	6,234
Reversal of flow through treatment for debt retirements and hedge transactions as ordered by the NMPSC	14,043	—	—
State income tax	308	3,855	(215)
Tax rate differential on capital loss carryback	—	2,197	—
Other	601	(1,078)	(2,488)
Total income taxes	$15,159	$31,551	$ (7,662)

Deferred income taxes result from certain 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:

	1990	1989	1988
		(In thousands)	
Deferred fuel costs	$ (3,591)	$ 4,366	$ 8,160
Depreciation and cost recovery	12,317	19,504	16,985
Contributions in aid of construction	(1,397)	(1,776)	(4,113)
Advance lease payments	—	14,710	744
Unbilled revenues	(650)	(1,880)	(2,486)
Alternative minimum tax in excess of regular tax	1,671	(6,548)	(5,132)
Write-off of proposed utility facilities	11,756	2,008	(12,865)
Limitation on deferred taxes due to tax net operating losses	(43,606)	—	—
Reversal of flow through treatment for debt retirements and hedge transactions as ordered by the NMPSC	14,043	—	—
Other	3,912	3,137	(11,192)
Total deferred taxes	$ (5,545)	$33,521	$ (9,899)

In addition, the balance of deferred income taxes at December 31, 1990 includes amounts for losses on disposition of assets, premiums on retirement of bonds, deferred gains on sale and leaseback transactions, deferred investment tax credits and regulatory assets and liabilities.

See notes 10 and 11 for income taxes applicable to discontinued operations and extraordinary item.

At December 31, 1990, the Company had net operating loss carryforwards for Federal income tax purposes of $156 million which expire in the years 2003 through 2005.

The application of SFAS No. 96 to regulated enterprises results in the creation of regulatory assets and liabilities. At December 31, 1990 and 1989 deferred charges included regulatory assets of $59.4 million and $93.8 million, respectively, and deferred credits included regulatory liabilities of $82.4 million and $86.7 million, respectively.

(5) Employee and Post-Employment Benefits

Pension Plan

The Company and its subsidiaries have a pension plan covering substantially all of their employees, including officers. The plan is non-contributory and provides for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company and their compensation rates near retirement. The Company's policy is to fund actuarially-determined contributions. Contributions to the plan reflect benefits attributed to employees' years of service to date and also for services expected to be provided in the future. Plan assets primarily consist of common stock, fixed income securities (United States government obligations), cash equivalents and real estate.

In 1988, the Company reduced its work-force by 799 positions in a program that included early retirements, voluntary and involuntary separation packages and layoffs. The effect of this reduction on pension costs is reflected in the table below.

The components of pension cost (in thousands) are as follows:

	1990	1989	1988
Service cost	$ 6,287	$ 4,165	$ 4,338
Interest cost	13,404	12,191	10,634
Actual return on plan assets	(2,469)	(25,360)	(14,088)
Asset gain deferred (amortized)	(13,930)	11,015	1,413
Other	(1,130)	(1,205)	(1,241)
Net periodic pension cost	2,162	806	1,056
Termination loss	—	—	9,036
Curtailment gain	—	—	(1,819)
Total pension cost	$ 2,162	$ 806	$ 8,273

The following sets forth the plan's funded status and amounts (in thousands) at December 31, 1990 and 1989:

	1990	1989
Vested benefits	$115,162	$111,633
Non-vested benefits	634	663
Accumulated benefit obligation	115,796	112,296
Effect of future compensation levels	48,324	38,598
Projected benefit obligation	164,120	150,894
Fair value of plan assets	167,389	166,002
Assets in excess of projected benefit obligation	$ 3,269	$ 15,108

The components of assets in excess of projected benefit obligation (in thousands) are as follows:

	1990	1989
Net unrecognized gain (loss) from past experience different from assumed	$(10,885)	$ 5,900
Unamortized asset at transition, being amortized through the year 2002	12,798	13,962
Accrued pension liability	1,788	(4,288)
Unrecognized prior service cost	(432)	(466)
	$ 3,269	$ 15,108

For both years, the weighted average discount rate used to measure the projected benefit obligation was 9% and the expected long-term rate of return on plan assets was 10%. The rate of increase in future compensation levels based on age-related scales was 7.0% for 1990 and 6.5% for 1989.

Other Post-employment Benefits

The Company provides medical and dental benefits to eligible retirees who retire either at normal retirement date or early retirement. Currently, retirees are offered the same benefits as active employees after reflecting Medicare coordination. The cost of providing these benefits for retirees is expensed when paid and was $1,323,000, $1,348,000 and $901,000 for 1990, 1989 and 1988, respectively.

In December 1990, the FASB issued SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions,* effective for fiscal years beginning after December 15, 1992. SFAS No. 106 will require accrual of postretirement benefits (such as medical and dental benefits) during the years employees provide services. The costs of these benefits are currently expensed on a pay-as-you-go basis. The impact of this new standard has not been fully determined, but the change likely will result in significantly greater expense being recognized for provision of these benefits. The Company expects that the increased benefits expense will either be recovered currently through rates or that a regulatory asset will be recorded to reflect amounts to be recovered through rates in the future as the costs are paid; therefore, SFAS No. 106 should not have a significant impact on the Company's financial condition or results of operations.

Employee Stock Ownership Plan

Effective January 1, 1989, the Company adopted an Employee Stock Ownership Plan covering substantially all of its employees. Under the plan, the Company makes cash contributions which are utilized to purchase the Company's common stock on the open market. Contributions to the plan were approximately $5.3 million in 1989. No contributions were made in 1990.

(6) Construction Program and Jointly-Owned Plants

It is estimated that the Company's construction expenditures (including AFUDC) for 1991 will approximate $119 million, including expenditures on jointly-owned projects. In connection therewith, substantial commitments have been made.

At December 31, 1990, the Company's ownership interest and investments in jointly-owned generating facilities are:

Station (Fuel Type)	Plant In Service	Accumulated Depreciation	Construction Work in Progress	Composite Ownership Interest
		(In thousands)		
San Juan Generating Station (Coal)	$815,827	$251,389	$ 2,420	51.6%
Palo Verde Nuclear Generating Station Unit 3 (Nuclear)*	$327,680	$ 28,610	$28,559	10.2%
Four Corners Generating Station Units 4 and 5 (Coal)	$ 97,000	$ 23,978	$19,135	13.0%

*Includes the Company's remaining interest in common facilities for all PVNGS units.

San Juan Generating Station

The Company operates and jointly owns the San Juan Generating Station ("SJGS"). At December 31, 1990, SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson Electric Power Company ("Tucson"), Unit 3 is owned on a 50% shared basis with Century Power Corporation ("Century") and Unit 4 is owned 55.525% by the Company, 8.475% by the City of Farmington, 28.8% by the M-S-R Public Power Agency ("M-S-R") and 7.2% by the County of Los Alamos.

On January 23, 1991, Tucson announced that, in a meeting with its bank group, it proposed a moratorium commencing February 1, 1991, during which it would suspend payment of interest and principal on certain collateralized debts, and asked the banks to refrain from legal action at least through March 15, 1991, on the discontinuance of payments. The Company understands that Tucson instituted a payment moratorium on February 1, 1991, including a payment moratorium with respect to other creditor groups and major suppliers such as Century. The Company understands that Tucson is discussing restructuring Tucson's obligations with its creditors and major suppliers. Tucson has reported that its failure to pay has resulted in a number of events of default under its various financing arrangements.

The Company understands that Tucson is the major customer of Century and that the financial difficulties of Tucson are having an adverse impact on Century.

The Company also understands that Tucson's senior executives had previously briefed the Arizona Corporation Commission (the "ACC") on the implications of a possible bankruptcy filing and that Tucson is attempting to negotiate a comprehensive rate settlement with the ACC.

Tucson has reported that, in the event that Tucson's creditors do not forbear from exercising remedies against Tucson during the period while the restructuring of obligations and rate plans are being negotiated or in the event that a comprehensive rate settlement cannot be negotiated with the ACC, Tucson anticipates that it may need to file for protection from its creditors under Chapter 11 of the United States Bankruptcy Code.

In view of Tucson's discussion of the possibility of bankruptcy, the Company is evaluating what impact Tucson's financial difficulties might have on the Company, including indirect impacts that might arise from the effect on Century of Tucson's financial difficulties. The Company currently believes it is unlikely that the financial difficulties of Tucson will have a material impact on the Company's future financial condition or results of operations. However, as a co-participant in and operating agent of SJGS, the Company has certain contingent obligations under the plant operating agreement and joint and several liability with Tucson under the coal supply agreement.

Palo Verde Nuclear Generating Station

The Company has a 10.2% undivided ownership interest in PVNGS. Commercial operation commenced in 1986 for Unit 1 and Unit 2 and 1988 for Unit 3. In 1985 and 1986, the Company completed sale and leaseback transactions for its undivided interests in Units 1 and 2 and certain related common facilities.

The NMPSC issued an order to investigate the prudence of the Company's investment in PVNGS. The Company had the burden of proving, and the Company believes, that PVNGS construction costs were reasonable and that its decisions to invest in and continue participation in PVNGS were prudent. In March 1989, the report on a PVNGS construction audit being performed for the Arizona Corporation Commission was released. The report concluded that certain PVNGS construction costs, AFUDC and ad valorem taxes were unreasonable. The Company's share of such costs is approximately $7.8 million (after income taxes), which was charged to expense in 1988. In May 1989, the NMPSC staff and the Company reached an agreement (the "stipulation") settling all issues of prudence existing at that date, as they relate to the Company's 10.2% interest in PVNGS Units 1 and 2. (The Company's interest in PVNGS Unit 3 has been excluded from New Mexico jurisdictional rates. See note 11.) The stipulation, which is opposed by the other parties to the PVNGS cost investigation case, was approved by the NMPSC on March 6, 1990. The New Mexico Attorney General has appealed the NMPSC's March 6, 1990 order to the New Mexico Supreme Court. The stipulation as approved by the NMPSC does not require write-offs in addition to the amounts written off by the Company in 1988.

The PVNGS participants have insurance for public liability payments resulting from nuclear energy hazards to the full $7.8 billion limit of liability under Federal law. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $200 million and the balance by an industry-wide retrospective assessment program. The maximum assessment per reactor under the retrospective rating program for each nuclear incident occurring at any nuclear power plant in the United States is approximately $66 million, subject to an annual limit of $10 million per incident. Based upon the Company's 10.2% ownership interest in the three PVNGS units, the Company's maximum potential assessment per incident is approximately $20 million, with an annual payment limitation of $3 million.

The PVNGS participants maintain "all-risk" (including nuclear hazards) insurance for nuclear property damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.325 billion as of January 1, 1991, a substantial portion of which must first be applied to decontamination. The Company has also secured insurance against a portion of the increased cost of generation or purchased power resulting from the accidental outage of any of the three PVNGS units.

The Company has a program for funding its share of decommissioning costs for PVNGS. Under this program, the Company will make a series of annual deposits to an external trust fund over the estimated useful life of each unit, and the trust funds will be invested under a plan which allows the accumulation of funds largely on a tax-deferred basis through the use of life insurance policies on employees. The annual trust deposit, currently set at $396,000 per unit, is based upon the Company's 10.2% share of total estimated PVNGS decommissioning costs and projected earnings on the trust funds over time. Based on current assessments, the use of life insurance policies will necessitate the Company prefunding certain annual trust deposits for the aggregate amount of approximately $4.8 million for the years 1991 through 1993. The annual funding amount is subject to periodic adjustment for changes in decommissioning cost estimates and earnings of the trust fund. The Company's share of PVNGS decommissioning costs is presently estimated, in 1990 dollars, at approximately $81.4 million.

Dineh Power Project

Since 1972, the Company had participated in a joint project, known as the Dineh Power Project, for the construction of a coal-fired generating station. The markets for such a project did not develop as had been anticipated and it could not be determined when or if the proposed station would be constructed. In 1988, the Company determined that the recovery of its investment in this project was remote. Accordingly, the Company wrote off its investment of $38.1 million (net of income taxes) in the proposed generating station in 1988.

(7) Long-Term Power Contracts and Franchises

The Company has entered into contracts for the purchase of electric power. Under a contract with M-S-R, which contract 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 payments under this contract amounted to approximately $41 million for each of 1990, 1989 and 1988. The minimum payment for each of the next five years under this contract is $28.1 million annually.

The Company has a long-term contract with Southwestern Public Service Company ("SPS") requiring the Company to purchase capacity beginning in June 1991. Minimum payments under the contract for 1991, 1992 and 1993 will be $4.1 million, $7.0 million and $7.0 million, respectively. In addition, the Company will be required to pay for any energy purchased under the contract. The amount of minimum payments after 1993 will depend on whether the Company exercises certain options to reduce its purchase obligations.

The contract with SPS also required SPS to purchase power from the Company through the end of 1989. This portion of the contract expired on December 31, 1989. Revenues from such sales accounted for approximately 11.9% of total revenues in each of 1989 and 1988. Sales under the SPS contract contributed approximately $1.13 and $1.12 to earnings per share in 1989 and 1988, respectively.

The Company holds long-term, non-exclusive franchises of varying durations in all incorporated communities where it is necessary to do so in order to provide utility services within those communities. The Company's electric franchise in Albuquerque, covering an area which contributed 46.9% of the Company's total 1990 electric operating revenues, expires in early 1992. The City of Albuquerque is studying alternatives, including municipalization of the Company's distribution system. The Company has been actively pursuing the renewal of the franchise prior to its expiration. Absent a renewal of the franchise, the Company is likely to continue service to the City franchise area for an undetermined period of time without a franchise. Furthermore, the Company, as necessary, will take vigorous action to protect the value of the Company's distribution system in the City franchise area and related utility plant. While the Company cannot predict the ultimate outcome of the franchise renewal issues, it currently believes that such outcome will not have a material adverse effect on the Company's financial condition or results of operations.

(8) Lease Commitments

The Company classifies its leases in accordance with generally accepted accounting principles. The Company leases Units 1 and 2 of PVNGS, transmission facilities, office buildings and other equipment under operating leases. The aggregate lease payments for the PVNGS leases are $84.6 million per year over base lease terms expiring in 2015 and 2016. Each PVNGS lease contains renewal and fair market value purchase options at the end of the base lease term.

Future minimum operating lease payments (in thousands) at December 31, 1990 are:

1991	$ 96,648
1992	96,219
1993	95,291
1994	94,667
1995	94,569
Later years	1,844,664
Total minimum lease payments	$2,322,058

Operating lease expense was approximately $96.0 million in 1990, $95.8 million in 1989 and $101.4 million in 1988. The aggregate minimum payments to be received in future periods under noncancelable subleases are approximately $9.4 million.

(9) Natural Gas Proceedings, Contract Disputes and Supply Contracts

Gas Company of New Mexico ("GCNM"), a division of the Company, and Sunterra Gas Gathering Company ("Gathering Company"), a subsidiary of the Company, have been disputing claims by certain natural gas producers relating to contract pricing, take-or-pay obligations and other matters, some of which are, or have been, the subject of litigation. In addition, other claims and litigation may arise. GCNM and Gathering Company are vigorously defending against these claims. Certain matters have been settled and the Company intends to continue active pursuit of negotiations to resolve these matters. In addition, the Company has settled with third-parties who, the Company believes, have contributed to the Company's potential liabilities. The Company has evaluated, and will continue to evaluate, the impact of these matters on the Company.

On December 18, 1989, the NMPSC issued an order which provides for the partial recovery of certain gas costs incurred for take-or-pay obligations, contract pricing and other gas purchase contract litigation items. Under the order, the Company bears 25% of producer take-or-pay costs. The Company will be permitted to recover from its sales and transportation customers the remaining 75% of such costs over a period of years. The order allows the Company to recover all take-or-pay costs assessed by interstate pipelines. The order also provides that the Company may recover all costs prudently incurred (as defined by the NMPSC on a case-by-case basis) as the result of the settlement or litigation of claims arising from certain intrastate gas purchase contracts that were the subject of antitrust litigation that resulted in the Company's acquisition of GCNM from Southern Union Company in January 1985. On September 21, 1990, GCNM filed with the NMPSC seeking approval to recover $73 million of costs arising from settlement of these contract claims. This case is presently in the discovery phase, and hearings have been scheduled for October 1991. On June 16, 1990, GCNM filed with the NMPSC for approval of a rate rider that would be the mechanism to recover all the costs described above, plus interest.

A provision for losses arising from natural gas contract disputes was made in 1988. In 1989, the Company made an adjustment to the provision reflecting the Company's further evaluation of claims by natural gas producers. (See note 2.) Based on the amounts it believes are recoverable under the December 1989 NMPSC order, the amounts of the settlements achieved and the provisions made, the Company currently believes it is unlikely that remaining disputes with natural gas producers will have a material adverse impact on the Company's future financial condition or results of operations.

Approximately 50% of the Company's 1990 gas supplies from all sources came from contracts that allowed the Company, without penalty, to not purchase gas during its off-peak season or have no take-or-pay requirements. The remaining 50% of the gas supplies from all sources came from contracts which have some form of penalty associated with the failure to take the volume of gas set forth in the contract. The Company believes that the payment of any penalties not recovered from customers would not materially affect the financial condition or results of operations of the Company.

(10) Discontinuance of Non-Utility Operations

In 1988, the Company made the decision to discontinue the non-utility operations of its subsidiaries. Such operations consisted primarily of fiberboard manufacturing, real estate, coal mining, telecommunications manufacturing and financial services and were carried out by or through the Company's wholly-owned subsidiaries. Estimated losses on disposal of non-utility operations in 1988 were $137.8 million (net of income tax benefits of $64.1 million) which primarily reflected the decrease in the value of southwestern real estate holdings and the loss the Company expected to incur on the sale of a fiberboard manufacturing facility. Such losses also included a provision of $29.5 million for expected operating losses prior to their expected disposal of non-utility operations in 1989. Approximately $13.8 million of the expected operating loss was incurred in 1988.

Operating results of the discontinued operations prior to the date of discontinuation are shown separately in the accompanying Consolidated Statement of Earnings (Loss). Such amounts include income tax benefits related to the losses from discontinued operations of $13.6 million in 1988. Total sales from the discontinued operations were $128.0 million in 1988.

Substantial portions of the discontinued operations were disposed of in 1988 and 1989. In 1989, the Company reevaluated the cost of disposing of the discontinued operations including the related income tax effects, and recorded appropriate adjustments. (See note 2.) In 1990, additional non-utility properties were sold, and the remaining assets are expected to be sold in 1991.

On April 18 and July 20, 1990, the NMPSC issued orders docketing a formal investigation regarding the settlement agreement between the Company and secured creditors of one of the Company's subsidiaries and the Company's discontinuance of its non-utility subsidiary operations. The Company is required to show cause, if any, as to why the settlement agreement, the discontinuance of the Company's non-utility operations and the disposal of non-utility assets are not subject to prior NMPSC approval and why the resulting effect of the Company's actions has not materially and adversely affected the Company's ability to provide utility service at fair, just and reasonable rates. The formal investigation will also inquire into whether the Company's actions are in compliance with other applicable law and whether sanctions should be imposed. Hearings are set for May 6, 1991. However, the Company does not believe that the ultimate outcome of the current investigation will have a material impact on its financial condition or results of operations.

(11) Regulatory Issues — Electric Operations

The Company's investment in PVNGS has been the subject of regulatory inquiry in recent years. On April 5, 1989, the NMPSC issued an order addressing the Company's excess capacity situation which, among other things, provides for the inclusion in NMPSC jurisdictional electric rates of the Company's jurisdictional interests in PVNGS Units 1 and 2, 147 MW of SJGS Unit 4 and the power purchase contract with SPS. (See note 7.) However, the order provides for the exclusion from New Mexico jurisdictional rates of the Company's 130 MW interest in PVNGS Unit 3, 130 MW of SJGS Unit 4 and the power purchase contract with M-S-R. (See notes 6 and 7.) The order stated that as long as there is excess capacity in the Company's jurisdictional rates, then that excess capacity will share off-system sales equitably with the capacity excluded in the order. The NMPSC approved the Company's request for decertification and regulatory abandonment of PVNGS Unit 3 but denied such a request for the 130 MW of SJGS Unit 4. The Company has appealed the denial to the New Mexico Supreme Court.

Since the order did not provide for the recovery of carrying costs being deferred by the Company on uncommitted electric generating capacity as required by SFAS No. 92, *Regulated Enterprises — Accounting for Phase-in Plans*, the Company discontinued deferring such carrying costs and, in 1988, wrote-off $70.1 million of such cost previously deferred. Of such amount, $52.7 million, related to generating capacity to be included in New Mexico jurisdictional rates, was charged to other income and deductions and $17.4 million, related to excluded generating capacity, was reported as an extraordinary item.

In 1988, the Company discontinued the use of regulatory accounting principles for the resources excluded from regulation. Such discontinuance required the Company to adjust the carrying value of excluded resources by those items, other than AFUDC, which were recorded solely based on regulatory accounting principles. The Company recognized a loss, which was treated as an extraordinary item, of $46.6 million (including an income tax expense of $6.8 million and write-off of deferred carrying costs on uncommitted electric generating capacity).

On April 12, 1990, the NMPSC issued its final order in an electric rate case, which required the Company to reduce its existing base rates by approximately $2.9 million per year. Also, as a result of the order, the Company wrote off approximately $19.4 million, net of taxes, in March 1990, which resulted primarily from the NMPSC's treatment of prior years' tax benefits from debt retirement and losses on hedge transactions of $14.0 million as well as the NMPSC's treatment of amortization periods for gains resulting from sale and leaseback transactions of $4.5 million on PVNGS Units 1 and 2 consummated in previous years.

(12) Shareholder Litigation

The Company and certain individuals who currently serve, or formerly served, as officers or directors of the Company or its subsidiaries are defendants in three class action suits brought by shareholders of the Company. These suits allege misrepresentations and omissions of material facts in the various reports filed with the Securities and Exchange Commission and in other communications primarily related to the Company's excess electric generating capacity and diversified non-utility operations. In addition, there are three suits against present and former officers and directors that shareholders seek to bring derivatively on behalf of the Company. These suits allege, among other things, mismanagement and breach of fiduciary duty relating to excess electric generating capacity, diversified non-utility operations and securities fraud.

A special litigation committee was created by the Company's Board of Directors in July 1989 to conduct an independent investigation generally encompassing the matters alleged in the derivative suits. In January 1991, the special litigation committee filed its report with the respective courts, concluding, among other things, that it was not in the Company's best interests to pursue litigation against any of the defendants with respect to claims concerning excess electric generating capacity and securities fraud, and directing counsel to seek dismissal of such claims in the derivative suits. The special litigation committee also concluded that it was not in the Company's best interests to seek dismissal of pending claims regarding diversification against four individuals who formerly served as directors or officers of the Company or its subsidiaries.

In 1990, the Company made a provision for the estimated cost of defending the shareholder lawsuits. The Company currently believes that the disposition of these lawsuits will not have a material adverse effect on the Company's results of operations or its financial condition.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1990, 1989 and 1988

(13) Segment Information

The financial information pertaining to the Company's electric, gas (see note 1) and other operations for the years ended December 31, 1990, 1989 and 1988 are as follows:

	Electric	Gas	Other	Total
		(In thousands)		
1990:				
Operating revenues	$ 541,330	$302,104	$ 11,700	$ 855,134
Operating expenses excluding income taxes	479,259	269,556	6,388	755,203
Pre-tax operating income	62,071	32,548	5,312	99,931
Operating income tax	(973)	7,032	1,431	7,490
Operating income	$ 63,044	$ 25,516	$ 3,881	$ 92,441
Depreciation and amortization expense	$ 57,745	$ 14,416	$ 1,043	$ 73,204
Construction expenditures	$ 53,080	$ 24,499	$ 6,657	$ 84,236
Identifiable assets:				
Net utility plant	$1,574,670	$297,877	$ 41,914	$1,914,461
Other	219,135	152,459	27,654	399,248
Total assets	$1,793,805	$450,336	$ 69,568	$2,313,709
1989:				
Operating revenues	$ 620,381	$282,827	$ 12,102	$ 915,310
Operating expenses excluding income taxes	475,405	254,677	6,034	736,116
Pre-tax operating income	144,976	28,150	6,068	179,194
Operating income tax	20,411	3,759	1,788	25,958
Operating income	$ 124,565	$ 24,391	$ 4,280	$ 153,236
Depreciation and amortization expense	$ 58,129	$ 12,730	$ 1,122	$ 71,981
Construction expenditures	$ 55,334	$ 20,375	$ 2,580	$ 78,289
Identifiable assets:				
Net utility plant	$1,603,242	$287,779	$ 40,824	$1,931,845
Other	284,314	146,085	24,761	455,160
Total assets	$1,887,556	$433,864	$ 65,585	$2,387,005
1988:				
Operating revenues	$ 607,317	$223,791	$ 10,816	$ 841,924
Operating expenses excluding income taxes	470,162	208,540	5,888	684,590
Pre-tax operating income	137,155	15,251	4,928	157,334
Operating income tax	15,624	448	1,196	17,268
Operating income	$ 121,531	$ 14,803	$ 3,732	$ 140,066
Depreciation and amortization expense	$ 56,450	$ 9,548	$ 922	$ 66,920
Construction expenditures	$ 68,230	$ 19,524	$ 9,427	$ 97,181
Identifiable assets:				
Net utility plant	$1,601,556	$243,123	$ 40,264	$1,884,943
Other	323,006	93,616	91,184	507,806
Total assets	$1,924,562	$336,739	$131,448	$2,392,749

(14) Supplemental Income Statement Information

Taxes, other than income taxes, charged to operating expenses were as follows:

	1990	1989	1988
		(In thousands)	
Ad valorem	$18,345	$16,473	$14,950
City franchise	6,940	6,664	8,890
Payroll	7,749	7,052	7,112
Other	3,927	3,854	3,871
Total	$36,961	$34,043	$34,823

Amortization of intangibles, royalties, and advertising costs were less than 1% of revenues in each of the above periods.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Years Ended December 31, 1990, 1989 and 1988

Classification December 31, 1990	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes Add	Other Changes Deduct	Balance at End of Year
			(In thousands)			
Utility plant:						
Electric plant in service:						
Intangible	$ 30,876	$ 1,460	$ 357	$ 63	$ 1,018	$ 31,024
Production	1,235,981	8,262	2,429	15	6,614	1,235,215
Transmission	214,667	858	7	2	90	215,430
Distribution	375,872	17,741	1,611	151	1,683	390,470
General	63,149	2,960	317	836	524	66,104
	1,920,545	31,281	4,721	1,067	9,929	1,938,243
Gas plant in service:						
Intangible	7,136	2,357	—	—	14	9,479
Production and processing	107,454	3,161	563	137	—	110,189
Natural gas storage	4,897	—	—	—	136	4,761
Transmission	66,489	700	56	—	164	66,969
Distribution	203,951	13,140	2,373	—	1	214,717
General	36,739	3,856	1,316	475	55	39,699
	426,666	23,214	4,308	612	370	445,814
Water plant in service:						
Intangible	296	—	—	—	145	151
Source of supply plant	4,977	686	841	2,688	—	7,510
Pumping plant	2,130	248	3	—	—	2,375
Water treatment plant	3,963	—	—	75	—	4,038
Transmission and distribution	32,140	1,277	154	459	1	33,721
General	5,395	1	98	—	3,147	2,151
	48,901	2,212	1,096	3,222	3,293	49,946
Common plant in service:						
Intangible	18,536	881	1,135	145	63	18,364
General	28,043	367	6,692	5	2	21,721
	46,579	1,248	7,827	150	65	40,085
Construction work in progress	67,981	18,159	—	—	13	86,127
Electric plant held for future use	16,782	—	428	122	15,218	1,258
Nuclear fuel	88,670	7,955	18,384	—	766	77,475
Total utility plant	2,616,124	84,069	36,764	5,173	29,654	2,638,948
Non-utility property	15,370	167	1,590	15,544	18,804	10,687
Total property, plant and equipment	$2,631,494	$84,236	$38,354	$20,717	$48,458	$2,649,635

Description of other changes

	Add	Deduct
Transfers between accounts	$16,335	$16,335
Transfer of expired contract deposits to plant in service	—	1,515
Write-off of plant-in-service	—	6,245
Write-off of non-utility property	—	18,200
Miscellaneous corrections and adjustments	4,382	6,163
	$20,717	$48,458

(Continued)

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT (Continued)

Years Ended December 31, 1990, 1989 and 1988

Classification December 31, 1989	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes Add	Other Changes Deduct	Balance at End of Year
Utility plant:			(In thousands)			
Electric plant in service:						
Intangible	$ 12,169	$18,364	$ 35	$ 378	$ —	$ 30,876
Production	1,214,366	4,270	1,092	18,438	1	1,235,981
Transmission	210,984	3,092	32	669	46	214,667
Distribution	361,772	18,040	3,162	143	921	375,872
General	64,845	100	1,889	114	21	63,149
	1,864,136	43,866	6,210	19,742	989	1,920,545
Gas plant in service:						
Intangible	2,826	4,353	—	20	63	7,136
Production and processing	57,949	580	767	50,190	498	107,454
Natural gas storage	4,885	12	—	—	—	4,897
Transmission	64,992	805	27	719	—	66,489
Distribution	195,341	10,577	1,958	—	9	203,951
General	32,538	4,141	1,485	1,545	—	36,739
	358,531	20,468	4,237	52,474	570	426,666
Water plant in service:						
Intangible	259	111	74	—	—	296
Source of supply plant	4,964	13	—	—	—	4,977
Pumping plant	2,110	36	16	—	—	2,130
Water treatment plant	3,968	6	11	—	—	3,963
Transmission and distribution	30,164	1,988	47	50	15	32,140
General	2,221	3,209	35	—	—	5,395
	43,686	5,363	183	50	15	48,901
Common plant in service:						
Intangible	14,389	3,346	1,735	2,536	—	18,536
General	27,139	527	454	893	62	28,043
	41,528	3,873	2,189	3,429	62	46,579
Construction work in progress	72,401	(6,450)	—	2,030	—	67,981
Electric plant held for future use	21,975	—	5,193	—	—	16,782
Nuclear fuel	77,971	10,706	—	1,238	1,245	88,670
Total utility plant	2,480,228	77,826	18,012	78,963	2,881	2,616,124
Non-utility property	82,206	463	10,339	144	57,104	15,370
Total property, plant and equipment	$2,562,434	$78,289	$28,351	$79,107	$59,985	$2,631,494

Description of other changes

	Add	Deduct
Transfers between accounts	$57,143	$57,143
Transfer of expired contract deposits to plant in service	—	847
Adoption of SFAS No. 96	20,798	—
Miscellaneous corrections and adjustments	1,166	1,995
	$79,107	$59,985

(Continued)

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT (Continued)

Years Ended December 31, 1990, 1989 and 1988

Classification December 31, 1988	Balance at Beginning of Year	Additions at Cost	Retirements	Other Changes Add	Other Changes Deduct	Balance at End of Year
			(In thousands)			
Utility plant:						
Electric plant in service:						
Intangible	$ 3,181	$ 8,988	$ —	$ —	$ —	$ 12,169
Production	905,110	311,538	1,171	859	1,970	1,214,366
Transmission	208,296	2,956	222	—	46	210,984
Distribution	340,067	25,713	3,338	14	684	361,772
General	61,956	4,774	2,366	1,227	746	64,845
	1,518,610	353,969	7,097	2,100	3,446	1,864,136
Gas plant in service:						
Intangible	2,376	269	—	181	—	2,826
Production	57,816	1,428	969	—	326	57,949
Natural gas storage	4,885	—	—	—	—	4,885
Transmission	62,507	1,105	195	1,731	156	64,992
Distribution	182,200	14,837	1,690	—	6	195,341
General	29,058	4,098	1,130	512	—	32,538
	338,842	21,737	3,984	2,424	488	358,531
Water plant in service:						
Intangible	259	—	—	—	—	259
Source of supply plant	4,964	—	—	—	—	4,964
Pumping plant	2,052	71	13	—	—	2,110
Water treatment plant	3,968	—	—	—	—	3,968
Transmission and distribution	28,537	1,738	73	19	57	30,164
General	2,165	345	188	—	101	2,221
	41,945	2,154	274	19	158	43,686
Common plant in service:						
Intangible	13,613	776	—	—	—	14,389
General	28,613	1,138	2,552	83	143	27,139
	42,226	1,914	2,552	83	143	41,528
Construction work in progress	369,092	(296,867)	—	176	—	72,401
Electric plant held for future use	33,103	277	—	—	11,405	21,975
Nuclear fuel	76,826	9,808	8,663	—	—	77,971
Total utility plant	2,420,644	92,992	22,570	4,802	15,640	2,480,228
Non-utility property*	139,884	4,189	12,931	1,200	50,136	82,206
Total property, plant and equipment	$2,560,528	$ 97,181	$35,501	$ 6,002	$65,776	$2,562,434

Description of other changes

	Add	Deduct
Transfers between accounts	$ 2,530	$ 2,530
Transfer of expired contract deposits to plant in service	—	449
Write-off of electric plant held for future use	—	11,405
Write-off of non-utility property	—	48,451
Original cost of property acquired	1,742	156
Miscellaneous corrections and adjustments	1,730	2,785
	$ 6,002	$65,776

*Excludes properties of discontinued operations.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Years Ended December 31, 1990, 1989 and 1988

Description December 31, 1990	Balance at Beginning of Year	Additions: Charged to Operating Expenses	Additions: Charged to Other Accounts	Retirements	Other Changes: Add	Other Changes: Deduct	Balance at End of Year
	(In thousands)						
Utility plant:							
Accumulated provision for depreciation of utility plant:							
Electric plant in service	$469,266	$53,453	$ 593	$ 4,737	$ 2,275	$14,360	$506,490
Gas plant in service	139,893	12,391	827	4,160	219	38	149,132
Water plant in service	9,578	981	53	1,110	223	3	9,722
Common plant in service	15,005	1,912	707	6,695	1	—	10,930
	633,742	68,737	2,180	16,702	2,718	14,401	676,274
Accumulated provision for amortization of intangible assets — franchises and computer software	17,570	5,000	221	1,493	3	1,105	20,196
Accumulated provision for amortization of nuclear fuel	31,389	—	13,899	18,384	—	161	26,743
Retirement work in progress	1,578	—	—	304	—	—	1,274
Total utility plant	684,279	73,737	16,300	36,883	2,721	15,667	724,487
Non-utility property	2,769	—	41	—	14,152	16,144	818
	$687,048	73,737	$16,341	$36,883	$16,873	$31,811	$725,305
Other		(533)					
		$73,204					

Description of other additions and changes

Description	Charged to Other Accounts	Other Changes: Add	Other Changes: Deduct
Depreciation and amortization of equipment charged to clearing accounts for distribution in accordance with use	$ 2,401	$ —	$ —
Amortization of nuclear fuel charged to fuel and purchased power	13,899	—	—
Depreciation of non-utility property charged to other income and deductions	41	—	—
Transfers between accounts	—	14,515	14,515
Write-off of non-utility property	—	—	15,945
Miscellaneous corrections and adjustments	—	2,358	1,351
	$16,341	$16,873	$31,811

(Continued)

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT (Continued)

Years Ended December 31, 1990, 1989 and 1988

Description December 31, 1989	Balance at Beginning of Year	Additions: Charged to Operating Expenses	Additions: Charged to Other Accounts	Retirements	Other Changes: Add	Other Changes: Deduct	Balance at End of Year
			(In thousands)				
Utility plant:							
Accumulated provision for depreciation of utility plant:							
Electric plant in service	$419,827	$53,065	$ 598	$5,642	$ 1,470	$ 52	$469,266
Gas plant in service	116,689	11,457	706	2,216	14,231	974	139,893
Water plant in service	8,490	1,160	50	122	—	—	9,578
Common plant in service	10,395	1,680	1,440	426	1,943	27	15,005
	555,401	67,362	2,794	8,406	17,644	1,053	633,742
Accumulated provision for amortization of intangible assets — franchises and computer software	13,984	5,217	231	1,843	—	19	17,570
Accumulated provision for amortization of nuclear fuel	26,624	—	6,220	—	—	1,455	31,389
Retirement work in progress	(724)	—	—	(2,310)	(8)	—	1,578
Total utility plant	595,285	72,579	9,245	7,939	17,636	2,527	684,279
Non-utility property	19,209	—	98	385	—	16,153	2,769
	$614,494	72,579	$9,343	$8,324	$17,636	$18,680	$687,048
Other		(598)					
		$71,981					

Description of other additions and changes

	Charged to Other Accounts	Other Changes: Add	Other Changes: Deduct
Depreciation and amortization of equipment charged to clearing accounts for distribution in accordance with use	$3,025	$ —	$ —
Amortization of nuclear fuel charged to fuel and purchased power	6,220	—	—
Depreciation of non-utility property charged to other income and deductions	98	—	—
Transfers between accounts	—	16,180	16,180
Miscellaneous corrections and adjustments	—	1,456	2,500
	$9,343	$17,636	$18,680

(Continued)

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE VI — ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT (Continued)

Years Ended December 31, 1990, 1989 and 1988

Description December 31, 1988	Balance at Beginning of Year	Additions: Charged to Operating Expenses	Additions: Charged to Other Accounts	Retirements	Other Changes: Add	Other Changes: Deduct	Balance at End of Year
			(In thousands)				
Utility plant:							
Accumulated provision for depreciation of utility plant:							
Electric plant in service	$373,936	$52,627	$ 876	$ 7,482	$ 1,037	$ 1,167	$419,827
Gas plant in service	110,201	8,876	842	4,925	1,695	—	116,689
Water plant in service	7,846	882	46	279	—	5	8,490
Common plant in service	8,741	873	1,552	765	99	105	10,395
	500,724	63,258	3,316	13,451	2,831	1,277	555,401
Accumulated provision for amortization of intangible assets — franchises and computer software	10,190	3,626	226	—	—	58	13,984
Accumulated provision for amortization of nuclear fuel	18,088	—	19,106	8,663	—	1,907	26,624
Retirement work in progress	(912)	—	—	(188)	—	—	(724)
Total utility plant	528,090	66,884	22,648	21,926	2,831	3,242	595,285
Non-utility property*	16,326	—	2,988	277	179	7	19,209
	$544,416	66,884	$25,636	$22,203	$ 3,010	$ 3,249	$614,494
Other		36					
		$66,920					

Description of other additions and changes

	Charged to Other Accounts	Other Changes: Add	Other Changes: Deduct
Depreciation and amortization of equipment charged to clearing accounts for distribution in accordance with use	$ 3,542	$ —	$ —
Amortization of nuclear fuel charged to fuel and purchased power	19,106	—	—
Depreciation of non-utility property charged to other income and deductions	2,988	—	—
Transfers between accounts	—	548	548
Accumulated depreciation on property acquired	—	1,397	—
Miscellaneous corrections and adjustments	—	1,065	2,701
	$25,636	$ 3,010	$ 3,249

*Excludes accumulated depreciation and amortization on properties of discontinued operations.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

SCHEDULE IX — SHORT-TERM BORROWINGS

Years Ended December 31, 1990, 1989 and 1988

Category of Aggregate Short-Term Borrowings	Balance at End of Year	Weighted Average Interest Rate at End of Year	Maximum Amount Outstanding During Year	Average Amount Outstanding During the Year	Average Interest Rate During the Year
			(Dollars in thousands)		
December 31, 1990:					
Notes payable to banks	$15,000	8.90%	$ 86,750	$40,943	9.81%
Commercial paper	$ —	— %	$ 71,230	$13,401	9.11%
December 31, 1989:(1)					
Notes payable to banks	$19,100	9.50%	$ 19,100	$ 1,492	9.52%
Commercial paper	$14,780	8.91%	$ 62,250	$18,203	9.61%
December 31, 1988:(2)					
Notes payable to banks	$ —	— %	$ 8,528	$ 2,910	8.35%
Commercial paper	$ —	— %	$160,550	$12,898	7.06%

(1) Effective June 30, 1989, certain bank loans and commercial paper were reclassified as short-term debt consistent with management's current intent not to refinance by long-term credit arrangements.

(2) Effective February 1, 1988, certain bank loans and commercial paper were classified as long-term debt consistent with underlying credit agreements and management's intention to maintain this debt for more than twelve months.

The average amount outstanding during the year is calculated using month-end balances. The average interest rate during the year is calculated by dividing interest expense by the average amount outstanding during the year.

The above table excludes short-term borrowings of discontinued operations.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

QUARTERLY OPERATING RESULTS

The unaudited operating results by quarters for 1990 and 1989 are as follows:

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands except per share amounts)			
1990:				
Operating Revenues	$254,431	$195,700	$193,225	$211,778
Operating Income	$ 31,539	$ 16,277	$ 25,903	$ 18,722
Net Earnings (Loss)	$ (4,718)	$ (769)	$ 8,099	$ (2,170)
Net Earnings (Loss) per Share	$ (.17)	$ (.08)	$ .13	$ (.11)
1989:				
Operating Revenues	$266,181	$210,617	$218,506	$220,006
Operating Income	$ 48,237	$ 29,144	$ 42,920	$ 32,935
Net Earnings	$ 29,907	$ 14,265	$ 25,765	$ 12,656
Net Earnings per Share	$ .65	$ .28	$ .55	$ .25

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.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

COMPARATIVE OPERATING STATISTICS

	1990	1989	1988	1987	1986
Electric Service					
Energy Sales—KWh (in thousands):					
Residential	1,575,622	1,527,108	1,493,009	1,448,989	1,353,933
Commercial	2,270,380	2,203,037	2,097,277	2,003,735	1,872,902
Industrial	999,823	961,251	899,508	787,901	797,927
Other ultimate customers	203,005	218,196	194,794	207,173	208,534
Total sales to ultimate customers	5,048,830	4,909,592	4,684,588	4,447,798	4,233,296
Sales for resale	2,119,236	3,096,458	3,508,596	2,490,926	2,494,234
Total KWh sales	7,168,066	8,006,050	8,193,184	6,938,724	6,727,530
Electric Revenues (in thousands):					
Residential	$ 147,059	$ 141,465	$ 140,731	$ 136,194	$ 126,053
Commercial	200,041	192,273	187,800	179,653	166,424
Industrial	66,351	64,519	62,401	56,534	56,649
Other ultimate customers	14,054	15,387	13,931	15,161	14,622
Total revenues from ultimate customers	427,505	413,644	404,863	387,542	363,748
Sales for resale	96,379	190,256	190,085	167,727	149,225
Total revenues from energy sales	523,884	603,900	594,948	555,269	512,973
Miscellaneous electric revenues	17,446	16,481	12,369	8,348	7,923
Total electric revenues	$ 541,330	$ 620,381	$ 607,317	$ 563,617	$ 520,896
Customers at Year End:					
Residential	259,546	254,864	250,076	244,427	237,759
Commercial	31,295	31,402	31,024	29,882	28,736
Industrial	392	393	390	399	414
Other ultimate customers	454	415	376	332	213
Total ultimate customers	291,687	287,074	281,866	275,040	267,122
Sales for resale	8	9	11	8	7
Total customers	291,695	287,083	281,877	275,048	267,129
Reliable Net Capability—KW	1,591,000	1,591,000	1,591,000	1,461,000	1,566,000
Coincidental Peak Demand—KW	1,051,000	1,006,000	956,000	916,000	916,000
Average Fuel Cost per Million BTU	$ 1.3384	$ 1.3445	$ 1.2460	$ 1.2894	$ 1.1710
BTU per KWh of Net Generation	11,181	11,034	11,146	11,526	11,608
Water Service					
Water Sales-Gallons (in thousands)	3,001,391	3,179,711	2,726,666	2,683,961	2,535,656
Revenues (in thousands)	$ 11,700	$ 12,102	$ 10,816	$ 10,973	$ 10,245
Customers at Year End	21,134	20,565	19,713	19,448	18,820

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES

COMPARATIVE OPERATING STATISTICS

	1990	1989	1988	1987	1986
Gas Service					
Gas Throughput—Decatherms (in thousands)					
GCNM:					
Residential	25,190	23,253	24,692	24,510	22,076
Commercial	11,344	10,730	11,460	11,359	10,745
Industrial	1,278	1,478	1,726	2,196	5,909
Public authorities	5,300	5,492	6,206	6,811	8,323
Irrigation	1,780	2,010	1,440	1,402	1,853
Sales for resale	3,539	4,557	2,667	1,211	1,535
Brokerage	—	776	879	2,796	2,079
GCNM sales	48,431	48,296	49,070	50,285	52,520
Transportation throughput	31,717	16,041	9,133	5,149	2,245
GCNM throughput	80,148	64,337	58,203	55,434	54,765
Gathering Company:					
Spot market sales	8,112	11,081	—	—	—
Transportation throughput	10,785	3,597	—	—	—
Total gas throughput	99,045	79,015	58,203	55,434	54,765
Gas Revenues (in thousands)					
GCNM:					
Residential	$ 137,633	$ 130,130	$ 122,592	$ 114,164	$ 117,011
Commercial	49,575	47,876	45,235	42,120	45,812
Industrial	4,993	5,693	6,063	8,102	23,139
Public authorities	20,392	21,757	22,289	22,729	30,213
Irrigation	5,934	7,001	4,546	3,781	6,142
Sales for resale	7,253	9,874	6,969	3,819	5,675
Brokerage	—	1,378	1,514	5,213	3,759
Revenues from gas sales	225,780	223,709	209,208	199,928	231,751
Transportation	10,246	6,788	4,841	4,315	2,207
Other	8,292	5,948	9,742	6,391	10,708
GCNM gas revenues	244,318	236,445	223,791	210,634	244,666
Gathering Company:					
Spot market sales	13,880	19,810	—	—	—
Transportation	1,693	830	—	—	—
Processing Company:					
Sales of liquids	39,086	25,294	—	—	—
Processing fees	3,127	448	—	—	—
Total gas revenues	$ 302,104	$ 282,827	$ 223,791	$ 210,634	$ 244,666
Customers at Year End					
GCNM:					
Residential	312,899	306,604	303,173	297,204	290,175
Commercial	29,305	28,949	28,858	28,661	28,218
Industrial	81	103	105	118	145
Public authorities	2,125	2,242	2,469	2,425	2,444
Irrigation	1,224	1,252	1,261	1,257	1,328
Sales for resale	4	7	6	5	11
Transportation	40	28	20	16	16
Brokerage	—	1	2	2	14
GCNM customers	345,678	339,186	335,894	329,688	322,351
Gathering Company:					
Off-system sales	12	13	—	—	—
Transportation	9	5	—	—	—
Processing Company	20	23	—	—	—
Total customers	345,719	339,227	335,894	329,688	322,351

Starting in 1989, Gas Throughput includes Gathering Company's gas throughput and Gas Revenues include revenues of Gathering Company and Processing Company. (See note 1 of the notes to consolidated financial statements.)

ITEM 9. *CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY*

Reference is hereby made to "Election of Directors" in the Company's Proxy Statement relating to the annual meeting of stockholders to be held on May 23, 1991 (the "1991 Proxy Statement") and to PART I, SUPPLEMENTAL ITEM — "EXECUTIVE OFFICERS OF THE COMPANY".

ITEM 11. *EXECUTIVE COMPENSATION*

Reference is hereby made to "Executive Compensation" in the 1991 Proxy Statement.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

Reference is hereby made to "Voting Information" and "Election of Directors" in the 1991 Proxy Statement.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

Reference is hereby made to the 1991 Proxy Statement for such disclosure, if any, as may be required by this item.

PART IV

ITEM 14. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K*

(a) — 1. See Index to Financial Statements under Item 8.

(a) — 2. The following consolidated financial information for the years 1990, 1989, and 1988 is submitted under Item 8.

Schedule V	—Property, plant and equipment.
Schedule VI	—Accumulated depreciation and amortization of property, plant and equipment.
Schedule IX	—Short-term borrowings.

All other schedules are omitted for the reason that they are not applicable, not required or the information is otherwise supplied.

(a) — 3-A. Exhibits Filed:

Exhibit No.	Description
3.2	Bylaws of Public Service Company of New Mexico With All Amendments to and Including August 21, 1990.
10.8.10	Amendment No. 13 to the Arizona Nuclear Power Project Participation Agreement dated April 4, 1990, and effective thirty days after filing with the Nuclear Regulatory Commission.
10.42.2	Executive Retention Agreements.
10.50	U.S. $225,000,000 Credit Agreement dated as of March 8, 1991 among the Company and the banks and co-agents named therein.
22	Certain Subsidiaries of the Registrant.

(a) — 3-B. Exhibits Incorporated By Reference:

In addition to those Exhibits shown above, the Company hereby incorporates the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation 201.24 by reference to the filings set forth below:

Exhibit No.	Description	Filed as Exhibit:	File No.
Articles of Incorporation and By-laws			
3.1	Restated Articles of Incorporation of the Company, as amended through May 10, 1985.	4-(b) to Registration Statement No. 2-99990 of the Company.	2-99990
Instruments Defining the Rights of Security Holders, Including Indentures			
4.1	Indenture of Mortgage and Deed of Trust dated as of June 1, 1947, between the Company and the Bank of New York (formerly Irving Trust Company), as Trustee, together with the Ninth Supplemental Indenture dated as of January 1, 1967, the Twelfth Supplemental Indenture dated as of September 15, 1971, the Fourteenth Supplemental Indenture dated as of December 1, 1974 and the Twenty-second Supplemental Indenture dated as of October 1, 1979 thereto relating to First Mortgage Bonds of the Company.	4-(d) to Registration Statement No. 2-99990 of the Company.	2-99990
4.2	Portions of sixteen supplemental indentures to the Indenture of Mortgage and Deed of Trust dated as of June 1, 1947, between the Company and the Bank of New York (formerly Irving Trust Company), as Trustee, relevant to the declaration or payment of dividends or the making of other distributions on or the purchase by the Company of shares of the Company's Common Stock.	4-(e) to Registration Statement No. 2-99990 of the Company.	2-99990
4.3	Agreement of the Company pursuant to Item 601(b)(4)(iii) of Regulation S-K.	4-C to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1983.	1-6986
Material Contracts			
10.1	Supplemental Indenture of Lease dated as of July 19, 1966 between the Company and other participants in the Four Corners Project and the Navajo Indian Tribal Council.	4-D to Registration Statement No. 2-26116 of the Company.	2-26116

Exhibit No.	Description	Filed as Exhibit:	File No.
10.1.1	Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease dated April 25, 1985 between the Navajo Tribe of Indians and Arizona Public Service Company, El Paso Electric Company, Public Service Company of New Mexico, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, and Tucson Electric Power Company.	10.1.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.2	Fuel Agreement, as supplemented, dated as of September 1, 1966 between Utah Construction & Mining Co. and the participants in the Four Corners Project including the Company.	4-H to Registration Statement No. 2-35042 of the Company.	2-35042
10.3	Fourth Supplement to Four Corners Fuel Agreement No. 2 effective as of January 1, 1981, between Utah International Inc. and the participants in the Four Corners Project including the Company.	(10)-BB to Annual Report of the Registrant on Form 10-K for the fiscal year ending December 31, 1980.	1-6986
10.4	Contract between the United States and the Company dated April 11, 1968, for furnishing water.	5-L to Registration Statement No. 2-41010 of the Company.	2-41010
10.4.1	Amendatory Contract between the United States and the Company dated September 29, 1977 for furnishing water.	5-R to Registration Statement No. 2-60021 of the Company.	2-60021
10.5	Co-Tenancy Agreement between the Company and Tucson Gas & Electric Company dated February 15, 1972 pertaining to the San Juan generating plant.	5-O to Registration Statement No. 2-44425 of the Company.	2-44425
10.5.1	Modification No. 4 to Co-Tenancy Agreement between the Company and Tucson Electric Power Company dated October 25, 1984.	10.5.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.5.2	Modification No. 5 to Co-Tenancy Agreement between the Company and Tucson Electric Power Company dated July 1, 1985.	10.5.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.6	San Juan Project Construction Agreement between the Company and Tucson Gas & Electric Company, executed December 21, 1973.	5-R to Registration Statement No. 2-50338 of the Company.	2-50338

Exhibit No.	Description	Filed as Exhibit:	File No.
10.6.1	Modification No. 4 to San Juan Project Construction Agreement between the Company and Tucson Electric Power Company dated October 25, 1984.	10.6.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.6.2	Modification No. 5 to San Juan Project Construction Agreement between the Company and Tucson Electric Power Company dated July 1, 1985.	10.6.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.7	San Juan Project Operating Agreement between the Company and Tucson Gas & Electric Company, executed December 21, 1973.	5-S to Registration Statement No. 2-50338 of the Company.	2-50338
10.7.1	Modification No. 4 to San Juan Project Operating Agreement between the Company and Tucson Electric Power Company dated October 25, 1984.	10.7.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.7.2	Modification No. 5 to San Juan Project Operating Agreement between the Company and Tucson Electric Power Company dated July 1, 1985.	10.7.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.8	Arizona Nuclear Power Project Participation Agreement among the Company and Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Tucson Gas & Electric Company and El Paso Electric Company, dated August 23, 1973.	5-T to Registration Statement No. 2-50338 of the Company.	2-50338
10.8.1	Amendments One through Four to Arizona Nuclear Power Project Participation Agreement.	(c) to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1979.	1-6986
10.8.2	Amendment No. 5 to the Arizona Nuclear Power Project Participation Agreement dated as of December 5, 1979.	10-Z to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.8.3	Amendment No. 6 to the Arizona Nuclear Power Project Participation Agreement effective October 16, 1981.	10-AA to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.8.4	Amendment No. 7, effective April 1, 1982, to the Arizona Nuclear Power Project Participation Agreement.	10-BB to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1982.	1-6986
10.8.5	Amendment No. 8 effective September 12, 1983, to the Arizona Nuclear Power Project Participation Agreement.	10-JJ to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1983.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.8.6	Amendment No. 9 to Arizona Nuclear Power Project Participation Agreement dated as of June 12, 1984.	10-JJ to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	1-6986
10.8.7	Amendment No. 10 to Arizona Nuclear Power Project Participation Agreement dated as of November 21, 1985.	10.8.7 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.8.8	Amendment No. 11 to Arizona Nuclear Power Project Participation Agreement dated June 13, 1986 and effective January 10, 1987.	10.8.8 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986
10.8.9	Amendment No. 12 to Arizona Nuclear Power Project Participation Agreement dated June 14, 1988, and effective August 5, 1988.	19.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990.	1-6986
10.9	Coal Sales Agreement executed August 18, 1989 between San Juan Coal Company, the Company and Tucson Electric Power Company.	(10)-EE to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1980.	1-6986
10.9.1	Amendment Number 1 to Coal Sales Agreement dated September 30, 1981 among San Juan Coal Company, the Company and Tucson Electric Power Company.	10-V to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.9.2	Amendment No. Three to Coal Sales Agreement dated April 30, 1984 among San Juan Coal Company, the Company and Tucson Electric Power Company (confidentiality treatment has been requested and exhibit is not filed herewith).	10-NN to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	1-6968
10.10	Modifications No. 1 to San Juan Project Agreements.	A part of 10-T to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.11	San Juan Unit 4 Early Purchase and Participation Agreement dated as of September 26, 1983, between the Company and M-S-R Public Power Agency, and Modifications No. 2 to the San Juan Project Agreements dated December 31, 1983.	10-KK to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1983.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.11.1	Amendment No. 1 to the Early Purchase and Participation Agreement between Public Service Company of New Mexico and M-S-R Public Power Agency, executed as of December 16, 1987, for San Juan Unit 4.	10.11.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.12	Amended and Restated San Juan Unit 4 Purchase and Participation Agreement dated as of December 28, 1984 between the Company and the Incorporated County of Los Alamos.	10-OO to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	1-6986
10.13	Modifications No. 3 to San Juan Project Agreements dated July 17, 1984.	10-KK to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	1-6986
10.14	Participation Agreement among the Company, Tucson Electric Power Company and certain financial institutions relating to the San Juan Coal trust dated as of December 31, 1981.	10-W to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.15	Participation Agreement dated as of June 30, 1983 among Security Trust Company, as Trustee, the Company, Tucson Electric Power Company and certain financial institutions relating to San Juan Coal Trust.	10-II to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1983.	1-6986
10.16	Participation Agreement between the Company, the Owner Trustee and the Equity Participants with respect to the leveraged preferred stock of the Company dated as of December 1, 1981.	10-CC to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1981.	1-6986
10.17	Interconnection Agreement dated November 24, 1982, between the Company and Southwestern Public Service Company.	10-II to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1982.	1-6986
10.18*	Lease dated February 5, 1985 between The First National Bank of Boston, Lessor, and the Company, Lessee.	10.28 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.18.1*	Supplement No. 1 dated September 30, 1985, to Lease dated February 5, 1985 between The First National Bank of Boston, Lessor, and the Company, Lessee.	10.28.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.19	New Mexico Public Service Commission Order dated December 12, 1984, and Exhibit A thereto, in NMPSC Case No. 1804, regarding inventoried capacity.	10-PP to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	10-6986
10.20	New Mexico Public Service Commission Order dated August 12, 1986, and Attachment A thereto, in NMPSC Case No. 2011, regarding the application of the inventorying methodology to certain sale and leaseback transactions.	10.20 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986
10.21*	Facility Lease dated as of December 16, 1985, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico.	28(a) to the Company's Current Report on Form 8-K dated December 31, 1985.	1-6986
10.21.1*	Amendment No. 1 dated as of July 15, 1986, to Facility Lease dated as of December 16, 1985.	28.1 to the Company's Current Report on Form 8-K dated July 17, 1986.	1-6986
10.21.2*	Amendment No. 2 dated as of November 18, 1986, to Facility Lease dated as of December 16, 1985.	28.1 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
10.21.3*	Amendment No. 3 dated as of March 30, 1987, to Facility Lease dated as of December 16, 1985.	10.21.3 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.22	Facility Lease dated as of July 31, 1986, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico.	28.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1986.	1-6986
10.22.1	Amendment No. 1 dated as of November 18, 1986, Facility Lease dated as of July 31, 1986.	28.5 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
10.22.2	Amendment No. 2 dated as of December 11, 1986, to Facility Lease dated as of July 31, 1986.	10.22.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986
10.22.3	Amendment No. 3 dated as of April 8, 1987, to Facility Lease dated as of July 31, 1986.	10.22.3 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.23*	Facility Lease dated as of August 12, 1986, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico.	28.1 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986
10.23.1*	Amendment No. 1 dated as of November 18, 1986, to Facility Lease dated as of August 12, 1986.	28.9 to the Company Current Report on Form 8-K dated November 25, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.23.2	Amendment No. 2 dated as of November 25, 1986, to Facility Lease dated as of August 12, 1986.	10.23.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986
10.24	Facility Lease dated as of December 15, 1986, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico (Unit 1 Transaction).	28.1 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
10.24.1	Amendment No. 1 dated as of April 8, 1987, to Facility Lease dated as of December 15, 1986.	10.24.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.25	Facility Lease dated as of December 15, 1986, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico (Unit 2 Transaction).	28.9 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
10.25.1	Amendment No. 1 dated as of April 8, 1987, to Facility Lease dated as of December 15, 1986.	10.25.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.26	Restated and Amended Public Service Company of New Mexico Accelerated Management Performance Plan (1988).(August 16, 1988.)	19.5 to the Company's Report on Form 10-Q for the quarter ended September 30, 1988.	1-6986
10.26.1	First Amendment to Restated and Amended Public Service Company of New Mexico Accelerated Management Performance Plan (1988). (August 30, 1988.)	19.6 to the Company's Report on Form 10-Q for the quarter ended September 30, 1988.	1-6986
10.26.2	Second Amendment to Restated and Amended Public Service Company of New Mexico Accelerated Management Performance Plan (1988)(December 29, 1989).	10.26.2 to Annual Report of the Registrant on Form 10-K for the fiscal year ending December 31, 1989.	1-6986
10.27	Public Service Company of New Mexico Service Bonus Plan, October 23, 1984.	19.4 to the Company's Report on Form 10-Q for the quarter ended September 30, 1988.	1-6986
10.27.1	First Amendment to Public Service Company of New Mexico Service Bonus Plan dated November 20, 1985.	10.11.1 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.27.2	Second Amendment to Public Service Company of New Mexico Service Bonus Plan dated December 29, 1989.	10.27.2 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.28	Management Life Insurance Plan (July 1985) of the Company.	10.39 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.29	Supplemental Executive Retirement Plan of the Company dated July 23, 1985.	10.41 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1985.	1-6986
10.29.1	First Amendment to Public Service Company of New Mexico Supplemental Executive Retirement Plan dated December 29, 1989.	10.29.1 to the Company's Annual Report on Form 10-K for fiscal year ending December 31, 1989.	1-6986
10.30	Compensatory Agreement with Mr. James F. Jennings, Jr.	10-MM to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1984.	1-6986
10.31	Public Service Company of New Mexico Exec-U-Care Group Medical Reimbursement Insurance Trust Participation Agreement.	19.5 to the Company's Quarterly Report on Form 10-Q for Quarter ended March 31, 1987.	1-6986
10.32	Amended and Restated Medical Reimbursement Plan of Public Service Company of New Mexico.	19.6 to the Company's Quarterly Report on Form 10-Q for Quarter ended March 31, 1987.	1-6986
10.33	Republic Holding Company Series M Preferred Stock Program.	19.4 to the Company's Quarterly Report on Form 10-Q for Quarter ended June 30, 1987.	1-6986
10.34	Meadows Resources, Inc., Second Restated and Amended Executive Deferred Compensation Plan, Alliance Telecommunications Investment. (August 24, 1988.)	19.3 to the Company's Quarterly Report on Form 10-Q for Quarter ended September 30, 1988.	1-6986
10.35	Amendment No. 2 dated as of April 10, 1987, to the Facility Lease dated as of August 12, 1986, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico. (Unit 2 Transaction.) (This is an amendment to a Facility Lease which is substantially similar to the Facility Lease filed as Exhibit 28.1 to the Company's Current Report on Form 8-K dated August 18, 1986.)	10.53 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.36	Amendment No. 3 dated as of March 30, 1987, to the Facility Lease dated as of December 16, 1985, between The First National Bank of Boston, as Owner Trustee, and Public Service Company of New Mexico. (Unit 1 Transaction.) (This is an amendment to a Facility Lease which is substantially similar to the Facility Lease filed as Exhibit 28(a) to the Company's Current Report on Form 8-K dated December 31, 1985.)	10.54 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.37	Decommissioning Trust Agreement between Public Service Company of New Mexico and First Interstate Bank of Albuquerque dated as of July 31, 1987.	10.55 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.38	New Mexico Public Service Commission Order dated July 30, 1987, and Exhibit 1 thereto, in NMPSC Case No. 2004, regarding the PVNGS decommissioning trust fund.	10.56 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.39	MCB/RSB Management Incentive Programs. (December 1, 1985.)	10.57 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1987.	1-6986
10.40	Form of Executive Retention Plan, CMC Group and January 24, 1989 Resolution Authorizing Plan.	10.61 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1988.	1-6986
10.41	Public Service Company of New Mexico and Paragon Resources, Inc. Deferred Compensation Trust Agreement dated December 30, 1988.	10.62 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1988.	1-6986
10.42	Executive Retention Agreements (1989).	19.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989.	1-6986
10.42.1	Termination Agreement. June 19, 1990.	19.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990.	1-6986
10.43	Agreement to Continue Medical Benefits dated August 4, 1989.	19.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
10.44	Supplemental Employee Retirement Agreements dated August 4, 1989.	19.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989.	1-6986
10.45	Supplemental Employee Retirement Agreement dated December 1, 1989.	10.45 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986
10.46	Supplemental Retirement Agreement dated January 23, 1990.	10.46 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986
10.47	Supplemental Employee Retirement Agreement dated March 6, 1990.	10.47 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986
10.48	Settlement Agreement between Public Service Company of New Mexico and Creditors of Meadows Resources, Inc. dated November 2, 1989.	10.48 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986
10.49	Consulting Agreement between Public Service Company of New Mexico and North Sandia Partners, Inc. dated January 1, 1990.	10.49 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1989.	1-6986
Additional Exhibits			
28.1	Collateral Trust Indenture dated as of December 16, 1985, among First PV Funding Corporation, Public Service Company of New Mexico and Chemical Bank, as Trustee.	28(i) to the Company's Current Report on Form 8-K dated December 31, 1985.	1-6986
28.1.1	Series 1986A Bond Supplemental Indenture dated as of July 15, 1986, to Collateral Trust Indenture dated as of December 16, 1985.	28.4 to the Company's Current Report on Form 8-K dated July 17, 1986.	1-6986
28.1.2	Series 1986B Bond Supplemental Indenture dated as of November 18, 1986, to Collateral Trust Indenture dated as of December 16, 1985.	28.1.2 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.1.3	Unit 1 Supplemental Indenture of Pledge (Lease Obligation Bonds, Series 1986B) dated as of December 15, 1986, to the Collateral Trust Indenture dated as of December 16, 1985.	28.8 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
28.1.4	Unit 2 Supplemental Indenture of Pledge (Lease Obligation Bonds, Series 1986B) dated as of December 15, 1986, to the Collateral Trust Indenture dated as of December 16, 1985.	28.16 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.2*	Participation Agreement dated as of December 16, 1985, among the Owner Participant named therein, First PV Funding Corporation. The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 16, 1985 with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 16, 1985 with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions.	2 to the Company's Current Report on Form 8-K dated December 31, 1985.	1-6986
28.2.1*	Amendment No. 1 dated as of July 15, 1986, to Participation Agreement dated as of December 16, 1985.	2.1 to the Company's Current Report on Form 8-K dated July 17, 1986.	1-6986
28.2.2*	Amendment No. 2 dated as of November 18, 1986, to Participation Agreement dated as of December 16, 1985.	2.1 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.3*	Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 16, 1985, between The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee.	28(b) to the Company's Current Report on Form 8-K dated December 31, 1985.	1-6986
28.3.1*	Supplemental Indenture No. 1 dated as of July 15, 1986, to the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 16, 1985.	28.2 to the Company's Current Report on Form 8-K dated July 17, 1986.	1-6968
28.3.2*	Supplemental Indenture No. 2 dated as of November 18, 1986, to the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 16, 1985.	28.2 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
28.4*	Assignment, Assumption and Further Agreement dated as of December 16, 1985, between Public Service Company of New Mexico and The First National Bank of Boston, as Owner Trustee.	28(e) to the Company's Current Report on Form 8-K dated December 31, 1985.	1-6986
28.5	Participation Agreement dated as of July 31, 1986, among the Owner Participant named therein, First PV Funding Corporation. The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of July 31, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of July 31, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions.	2.1 to the Company's Quarterly Report on Form 10-Q for Quarter ended June 30, 1986.	1-6986
28.5.1	Amendment No. 1 dated as of November 18, 1986, to Participation Agreement dated as of July 31, 1986.	28.4 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.6	Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of July 31, 1986, between The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee.	28.2 to the Company's Quarterly Report on Form 10-Q for Quarter ended June 30, 1986.	1-6986
28.6.1	Supplemental Indenture No. 1 dated as of November 18, 1986, to the Trust Indenture, Mortgage, Security Agreement and Assignments of Rents dated as of July 31, 1986.	28.6 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.7	Assignment, Assumption, and Further Agreement dated as of July 31, 1986, between Public Service Company of New Mexico and The First National Bank of Boston, as Owner Trustee.	28.3 to the Company's Quarterly Report on Form 10-Q for quarter ended June 30, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
28.8*	Participation Agreement dated as of August 12, 1986, among the Owner Participant named therein, First PV Funding Corporation. The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of August 12, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of August 12, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions.	2.1 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986
28.8.1*	Amendment No. 1 dated as of November 18, 1986, to Participation Agreement dated as of August 12, 1986.	28.8 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.9*	Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of August 12, 1986, between The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee.	28.2 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986
28.9.1*	Supplemental Indenture No. 1 dated as of November 18, 1986, to the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of August 12, 1986.	28.10 to the Company's Current Report on Form 8-K dated November 25, 1986.	1-6986
28.10*	Assignment, Assumption, and Further Agreement dated as of August 12, 1986, between Public Service Company of New Mexico and The First National Bank of Boston, as Owner Trustee.	28.3 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
28.11	Participation Agreement dated as of December 15, 1986, among the Owner Participant named therein, First PV Funding Corporation. The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 15, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions (Unit 1 Transaction).	2.1 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.12	Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, between The First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee (Unit 1 Transaction).	28.2 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.13	Assignment, Assumption and Further Agreement dated as of December 15, 1986, between Public Service Company of New Mexico and The First National Bank of Boston, as Owner Trustee (Unit 1 Transaction).	28.3 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.14	Participation Agreement dated as of December 15, 1986, among the Owner Participant named therein, First PV Funding Corporation. The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 15, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions (Unit 2 Transaction).	2.2 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986

Exhibit No.	Description	Filed as Exhibit:	File No.
28.15	Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, between the First National Bank of Boston, as Owner Trustee, and Chemical Bank, as Indenture Trustee (Unit 2 Transaction).	28.10 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.16	Assignment, Assumption, and Further Agreement dated as of December 15, 1986, between Public Service Company of New Mexico and The First National Bank of Boston, as Owner Trustee (Unit 2 Transaction).	28.11 to the Company's Current Report on Form 8-K dated December 17, 1986.	1-6986
28.17*	Waiver letter with respect to "Deemed Loss Event" dated as of August 18, 1986, between the Owner Participant named therein, and Public Service Company of New Mexico.	28.12 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986
28.18*	Waiver letter with respect to "Deemed Loss Event" dated as of August 18, 1986, between the Owner Participant named therein, and Public Service Company of New Mexico.	28.13 to the Company's Current Report on Form 8-K dated August 18, 1986.	1-6986
28.19	Agreement No. 13904 (Option and Purchase of Effluent), dated April 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, the Cities of Phoenix, Glendale, Mesa, Scottsdale, and Tempe, and the Town of Youngtown.	28.19 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986
28.20	Agreement for the Sale and Purchase of Wastewater Effluent, dated June 12, 1981, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District and the City of Tolleson, as amended.	28.20 to Annual Report of the Registrant on Form 10-K for fiscal year ending December 31, 1986.	1-6986

*One or more additional documents, substantially identical in all material respects to this exhibit, have been entered into, relating to one or more additional sale and leaseback transactions. Although such additional documents may differ in other respects (such as dollar amounts and percentages), there are no material details in which such additional documents differ from this exhibit.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1990, and during the period beginning January 1, 1991 and ending March 11, 1991, the Company filed, on the dates indicated, the following reports on Form 8-K:

Dated:	Filed:	Relating to:
October 15, 1990	October 16, 1990	Strategic Business Plan, Discussions Terminated with Wheeler Peak Capital Corporation Group, and Shareholder Litigation.
January 25, 1991	January 28, 1991	1990 Financing Case, Palo Verde Nuclear Generating Station, M-S-R Ad Valorem Tax, Shareholder Litigation, Other Litigation against former directors or officers of the Company or its subsidiaries, and Tucson Electric Power Company's Financial Matters.
February 13, 1991	February 14, 1991	Special Litigation Committee Actions.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PUBLIC SERVICE COMPANY OF NEW MEXICO
(Registrant)

Date: March 11, 1991

By: /s/ J. T. ACKERMAN
J. T. Ackerman
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ J. T. ACKERMAN J. T. Ackerman *President and Chief Executive Officer*	Principal Executive Officer and Director	March 11, 1991
/s/ M. H. MAERKI M. H. Maerki *Senior Vice President and Chief Financial Officer*	Principal Financial Officer	March 11, 1991
/s/ B. D. LACKEY B. D. Lackey *Vice President and Corporate Controller*	Principal Accounting Officer	March 11, 1991
/s/ J. P. BUNDRANT J. P. Bundrant	Director	March 11, 1991
/s/ A. B. COLLINS, JR. A. B. Collins, Jr. *Chairman of the Board*	Director	March 11, 1991
/s/ V. L. FISHER V. L. Fisher	Director	March 11, 1991
/s/ J. A. GODWIN J. A. Godwin	Director	March 11, 1991
/s/ C. E. LEYENDECKER C. E. Leyendecker	Director	March 11, 1991
/s/ A. G. ORTEGA A. G. Ortega	Director	March 11, 1991
/s/ R. R. REHDER R. R. Rehder	Director	March 11, 1991

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Transmittals to NRC With Respect to Transaction Documents Relating to Palo Verde Sale and Leaseback Transactions Consummated by Public Service Company of New Mexico

Transaction	Transaction Date	Date of Letter Notifying NRC of Pending Amendments to Facility Leases	Date of Letter Transmitting Transaction Documents	NRC Addressee
Unit 1 Sale and Leasebacks (3)*	12/31/85	Not applicable	1/29/86	Mr. George W. Knighton
Debt Refunding	7/17/86	7/14/86	8/4/86	Mr. Frank J. Miraglia
Additional Unit 1 Sale and Leaseback (1)	8/1/86	Not applicable	8/8/86	Mr. Frank J. Miraglia
Unit 2 Sale and Leasebacks (5)	8/1/86	Not applicable	9/4/86	Mr. Frank J. Miraglia
Debt Refunding	11/25/86	11/20/86	12/11/86	Mr. Frank J. Miraglia
Amendments to Leases (2)	12/15/86	12/11/86	12/24/86	Mr. Frank J. Miraglia
Additional Unit 1 (1)* and Unit 2 (1) Sale and Leasebacks	12/17/86	Not applicable	12/24/86	Mr. Frank J. Miraglia
Transfer of Beneficial Interest in Lessor (1)	1/30/87	1/27/87	3/16/87	Mr. Frank J. Miraglia

* The number in parentheses refers to the number of separate sale and leaseback transactions involved in the matter reported.

Amendments to Leases (3)	3/31/87	3/30/87	7/14/88	Mr. Frank J. Miraglia
Amendments to Leases (4)	4/8/87 4/10/87	4/3/87	7/14/88	Mr. Frank J. Miraglia
Transfer of Beneficial Interest in Lessor (1)	8/14/87	8/12/87	7/14/88	Mr. Frank J. Miraglia
Transfer of Beneficial Interest in Lessors (3)	1/6/88	12/31/87	7/14/88	Mr. Frank J. Miraglia

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