ADDITIONAL FINANCIAL INFORMATION

PALO VERDE NUCLEAR GENERATING STATION

UNITS 1, 2 and 3

Dockets Number STN 50-528, 529 and 530

Public Service Company of New Mexico

1975

YELLOW SHEETS SEPARATE QUESTIONS

GREEN SHEETS SEPARATE ATTACHMENTS WITHIN QUESTIONS

QUESTION 6

Provide copies of the 1974 Annual Report to Stockholders and copies of the prospectus for each of the participants' most recent security issue. Provide copies of the preliminary prospectus for any pending security issue. Continue to submit copies of the Annual Report for each year thereafter as required by 10 CFR 50.71(b).

ANNUAL REPORT OF THE PUBLIC SERVICE COMPANY OF NEW MEXICO

TABLE OF CONTENTS

Page

1 Highlights

2 Message to the Stockholders

5 Financial Matters
- Operating Revenues
- Operating Expenses
- Plant and Property Additions
- Earnings Per Share and Dividends
- Financing
- Rates and Regulations

8 System Expansion
- Electric
- Water
- Five-Year Forecast
- Research and Development
- Fuel Supply

11 Marketing
- Area Served
- Consumer Services
- Home Economics
- Marketing Research
- Franchises

14 Environment
- Ecology

15 People
- Management Changes
- Employee Relations
- Union
- Education and Training

16 Index to Financial Data

36 Officers and Directors

Inside Back Cover System Map

HIGHLIGHTS

	1974	1973	% Increase or (Decrease)
CONDENSED EARNINGS STATEMENTS			
Total Operating Revenues	$ 67,367,044	$ 58,105,583	15.9
Operating Revenue Deductions:			
Operations and Maintenance	30,836,104	22,984,163	34.2
Depreciation	7,974,988	6,210,576	28.4
Income Taxes	6,638,499	7,734,730	(14.2)
Other Taxes	4,451,727	3,643,430	22.2
Total Operating Revenue Deductions	49,901,318	40,572,899	23.0
Operating Income	17,465,726	17,532,684	(.4)
Other Income and Deductions, Net	1,497,373	2,838,821	(47.3)
Income Before Interest Charges	18,963,099	20,371,505	(6.9)
Interest Charges	8,670,579	7,615,708	13.9
Net Earnings	10,292,520	12,755,797	(19.3)
Preferred Dividends	1,768,400	595,400	197.0
Earnings on Common Stock	$ 8,524,120	$ 12,160,397	(29.9)
Earnings per Common Share	$ 1.95	$ 2.81	(30.6)
Dividends per Common Share	$ 1.20	$ 1.14	5.3
Gross Investment in Property	$327,845,187	$282,934,098	15.9
Kilowatt-Hour Sales	2,895,185,185	2,763,486,506	4.8
Peak Load (Kilowatts)	583,400	533,000	9.5

The annual meeting of stockholders is scheduled to be held April 22, 1975. A proxy form and notice of the annual meeting will be mailed to all stockholders on March 25, 1975.

For further information and details pertaining to the information provided in this report contact D. E. Peckham, Secretary and Treasurer, Public Service Company of New Mexico, Post Office Box 2267, Albuquerque, New Mexico 87103.

The Common Stock of this Company is traded on the New York Stock Exchange under the symbol PNM.

MESSAGE TO THE STOCKHOLDERS

The year 1974 was unlike any previous one in your Company's twenty-eight-year history. Despite conservation, which was particularly apparent during the 12 months following the oil embargo, total kilowatt-hour sales for the year were up 4.8% over 1973. For the months of November and December, kilowatt-hour sales were up more than 10% over the same months a year ago. The peak demand upon the electric system increased 9.5% to 583 megawatts. Base electric revenues, excluding adjustment for increased fuel expense, amounted to $57,047,898, an increase of 10.6% over 1973. Total electric revenue, including adjustment for increased fuel expense, was $65,257,905 or 15.4% above 1973. Electric customers totaled 164,537, an increase of 2.9%.

Earnings for the year were $1.95 per common share compared to $2.81 for 1973. The decline in earnings is attributable primarily to the increased costs of capital, labor, materials, and supplies caused by inflation and the reduced amount of allowance for funds used during construction. Net earnings available for the common stockholder amounted to $8,524,120 for the year. Included in the net earnings was $1,042,977 reflecting the amount of allowance for funds used during construction for 1974.

Construction expenditures for the year totaled nearly $47,115,000. Approximately $11,271,000 was expended in the construction of the second unit at the San Juan Generating Station. Other construction, including transmission, distribution, and other facilities required for the operation of the electric system, amounted to $30,534,000. Approximately $5,310,000 was spent for new equipment and improvements to the water facilities in Santa Fe and Las Vegas. The major expenditure, amounting to $2,780,000, was for a filtration plant on the Santa Fe water system.

In last year's message to the stockholders, mention was made that your Company had filed revised electric rates with the New Mexico Public Service Commission on December 20, 1973, which would have increased revenues $5.4 million based upon the twelve month period ending October, 1973. During the public hearings that were concluded in June, 1974, your management amended the request to seek $8.4 million in increased electric revenues. On October 10, 1974, the Commission issued its order granting a $3.7 million increase. In its order, the Commission eliminated several major items from the rate base, the most important being construction work in progress, and as a result, the Commission's order was appealed to the Santa Fe District Court on November 1, 1974.

However, prior to the court hearing, conferences among your Company, the Commission, its staff, and the Intervenors resulted in an agreement to hold open hearings with regard to a new rate setting system. The appeal date was then deferred to allow Commission hearings on this agreement. The central issue of the settlement was a concept of rate scheduling designated as the cost of service index. Cost of service indexing is predicated upon the return on common equity and provides for increases or decreases in electric rates if this return varies above or below certain specified limits.

New Mexico is the first state to adopt this method which will largely eliminate the time lag and significant expense involved in utility rate cases. These two problems have been among the more serious facing utilities and their customers in this country.

During the past year, 170,000 shares of $100 par value 9.2% preferred stock were issued and the funds, approximately $16.8 million, were applied

G. A. Schreiber
Chairman of the Board/President

J. D. Geist
Executive Vice President

to the then outstanding short-term indebtedness. In addition, $55 million of 7.6% Pollution Control Revenue Bonds were issued by the city of Farmington, New Mexico, and guaranteed by your Company to provide funds for the pollution control devices and equipment on Units 1 and 2 at the San Juan Generating Station. The balance of funds required for the 1974 construction program was obtained by short-term bank loans and through the issuance of commercial paper.

To repay current short-term indebtedness, management plans the sale of $10 million of preferred stock and $25 million of first mortgage bonds during the first quarter of 1975. To provide the funds for the 1975 construction program, funds will be obtained by the use of bank loans and commercial paper. Your management is contemplating additional long-term financing in late 1975 or early 1976.

Load growth on the electric system indicates that the second unit at the San Juan Generating Station will be required in December, 1976, and the third unit in mid-1978. The fourth unit is now scheduled for mid-1980, pending further study of peak requirements during the coming summer.

Your Company is indeed fortunate, as through our fifty-percent owned company, Western Coal Co., we have provided for sufficient coal for the economic life of the additional generating units that will be constructed at San Juan and possibly other sites in the future.

The participants in the Arizona Nuclear Power Project (ANPP), including your Company, are currently reviewing the resource and load requirements for the early 1980's. Hopefully, this review will allow a new schedule for commercial operation with the first 1270 megawatt unit completed in 1982; the second unit in 1984, and the final unit in 1986.

1974 was a year of unusual activity in the water departments in Las Vegas and Santa Fe. Water sales in Santa Fe and Las Vegas surpassed all previous years.

During December, revised water rate schedules for both Santa Fe and Las Vegas were filed with the New Mexico Public Service Commission requesting a $200,000 annual increase in Santa Fe and a $54,000 annual increase in Las Vegas. Public hearings on these requests were concluded in January, 1975, and the Commission's decision is pending.

Your Company has embarked upon a vigorous public information effort to inform our consumers about Company operations and the need for a financially healthy company. Information regarding utility economics, operation, financing, etc. is the subject of a new public information program, as we believe our consumers, who can understand the rules of professional and college football and the statistics of baseball, basketball, etc., are capable of understanding our business. Only by having our consumers understand our Company and our industry will we be able to accomplish the tasks that lie before us.

The year 1975 and those to come will continue to emphasize the present challenge of securing additional revenues to maintain the financial health of your Company and to prepare for the coming electric-energy economy. Your Company is dedicated to seeking the necessary rate increases as required to maintain financial stability while we continue to supply our customer's requirements at the lowest possible cost. With the continued dedication of our employees and the support of the shareowners, your Board of Directors and officers are confident that the challenges of the future will be met and your Company will have adequate and reliable electric energy for the coming electric economy.

G. A. Schreiber

G. A. Schreiber
Chairman of the Board/President

FINANCIAL MATTERS

OPERATING REVENUES

Total operating revenues for the year 1974 amounted to $67,367,044, a 15.9% increase over 1973. Electric revenues for the year amounted to $65,257,905 or 96.9% of the total revenue. Water revenue accounted for $2,109,139 or 3.1% of the total. Net earnings for 1974 were $10,292,520, a decrease of 19.3% from the previous year.

OPERATING EXPENSES

Operating expenses for the year totaled $30,836,104, an increase of $7,851,941 over the previous year. The rising cost of fuel, labor, and environmental equipment were responsible for the major portions of the increase.

PLANT AND PROPERTY ADDITIONS

The Company's gross utility plant totaled $327,845,187 on December 31, 1974, an increase of $44,911,089 for the year, or 15.9%.

This increase in facilities is discussed in more detail under the heading of "System Expansion."

EARNINGS PER SHARE AND DIVIDENDS

Based upon the average number of common shares outstanding in 1974, earnings per share were $1.95. This compares to earnings per share of $2.81 in 1973. The decrease in earnings resulted primarily from a decrease in allowance for funds used during construction, increased financing costs, and inflation experienced in labor and material costs.

Four quarterly dividends of 30 cents per share were paid to common stockholders during 1974. A total of $5,244,726 was paid in common stock dividends during the year.

Quarterly dividends of $1.14½ and $2.30, respectively, were declared upon the outstanding shares of 4.58% and the 9.2% cumulative preferred stock resulting in a total payment of $1,768,400 to preferred stockholders in 1974.

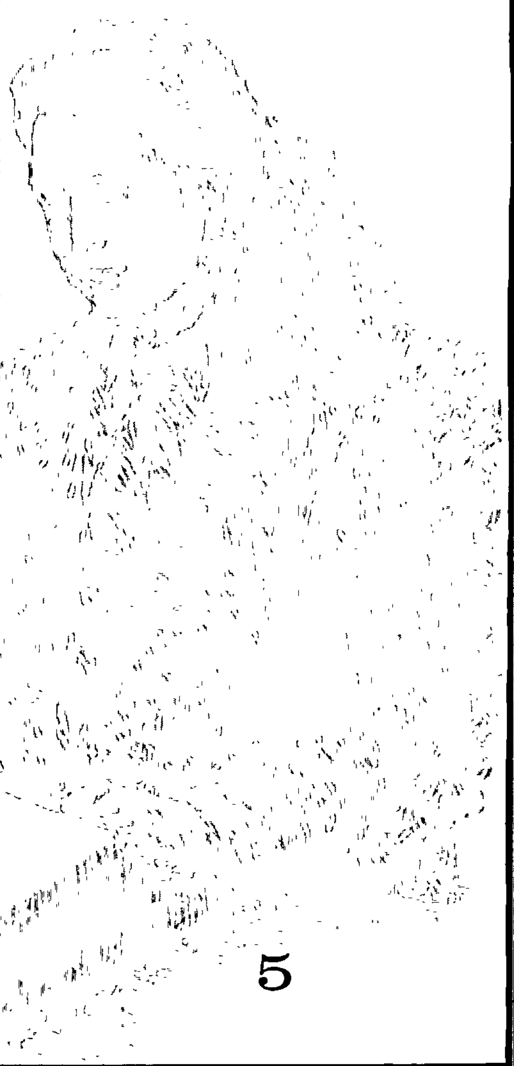
FINANCING

The continued heavy construction schedules required long-term financing throughout the year.

In April, 1974, 170,000 shares of 9.2% cumulative preferred stock, $100 par value, were sold to the public. The sale of this issue provided net receipts of approximately $16.8 million.

In September, 1974, $55 million of 7.6% Pollution Control Revenue Bonds were issued by the city of Farmington, New Mexico, and guaranteed by your Company to provide funds necessary for the installation of pollution abatement equipment at the San Juan Generating Station. Approximately $7 million of the funds have been applied to such equipment.

Present plans call for the sale of $10 million of preferred stock and $25 million of first mortgage bonds during the first quarter of 1975. The proceeds from these sales will be used to reduce outstanding short-term indebtedness. It is also anticipated that additional permanent financing



may be required in the latter part of 1975. However, no decision has been made as to the dollar amount, the type, or the timing of this permanent financing. Interim financing for necessary facility expansion throughout the year will be obtained from internal sources and from short-term borrowings.

During the past year, the owners of over 75% of outstanding first mortgage bonds consented to certain revisions in some of the provisions of the indenture which will modernize this document and, among other things, allow your Company to invest in and own generating and transmission facilities outside the borders of the state of New Mexico.

Your Company is presently investigating several new possible methods of financing the construction of new generating facilities. Investment counselors and attorneys are studying all consequences of these new methods, and a decision is expected on the feasibility of these new methods early in 1975.

RATES AND REGULATIONS

During December, 1973, Public Service Company filed an application with the New Mexico Public Service Commission, the regulating body for utilities in the state of New Mexico, for permission to increase rates to all classes of electric customers. Hearings were held in Santa Fe in March, 1974. Cross examination was held from May 20 until June 7. The Commission issued an order on October 10, 1974.

The Company's original petition requested an annual revenue increase of $5.4 million which was amended during the hearings to $8.4 million. The Commission's decision and order granted a $3.7 million increase in electric revenue to the Company.

Your management took immediate issue with this decision as it failed to allow sufficient revenues for financial stability; was contrary to the evidence presented during the hearings; and was inconsistent with state law governing the regulation of utilities. Consequently, an appeal was filed with State District Court on November 1, 1974.

While the appeal was pending, the Commission allowed the rates requested in December, 1973, to be implemented but with the excess subject to refund. In the meantime, an agreement, resulting from conferences among the Company, Commission, and Intervenors, was developed with the hope of avoiding a long and costly court settlement. The basic part of this agreement centered on a cost of service index method of rate adjustment. On March 7, following a two day public hearing, the settlement, including the indexing proposal, was approved by the Public Service Commission with a formal order to follow.

The cost of service indexing procedure provides for a quarterly review to determine return on common equity. Since the Commission in the appealed order set the rate of return on common equity at 14%, the indexing plan is based on a range of return from 13.5% to 14.5% per annum in order to maintain a stable return. Should the review find that earnings have fallen below the established band, an adjustment the following quarter to bring earnings to the allowed level will be made. Should earnings rise above the band, a decrease the following quarter will result.

Billings under the indexing plan will begin in August, 1975, following a review of income for April, May, and June. Until this method is put into effect, your Company will collect revenues based on the rates filed in the original rate case, as modified by the Commission's final order and in accordance with the stipulated settlement of the rate case appeal.

An increase in the rate charged for energy delivered to the Energy Research and Development Agency (formerly the Atomic Energy Commission) at Los Alamos, a Federal Power Commission jurisdictional customer, produced added revenues of approximately $299,000. A new wheeling contract filed with the Federal Power Commission will provide increased annual revenues of $74,000.

The wholesale power agreement reached with Community Public Service Company during the year will add over $1.4 million in revenues during the first year it is in effect. Additional increases are anticipated as load growth in the area continues. An agreement to provide wholesale power to Plains Electric Generation and Transmission Cooperative will take effect in 1976 and continue until 2006.

New contracts reflecting increased rates were negotiated with the U.S. Air Force and General Electric Company's plant in Albuquerque. These contracts will produce additional revenues in the large power category.

Negotiations for an increase in the rates charged by the Company to the city of Gallup have been unsuccessful and the Company is in the process of preparing an electric rate case with the Federal Power Commission, which has jurisdiction over the Gallup contract. The city of Gallup and two other contract customers accounted for 10% of the Company's 1974 energy sales.

Public Service Company filed two separate cases for increased rates for water service in Santa Fe and Las Vegas in November, 1974. Based on test year 1973, these rates would increase revenues by $200,000 in Santa Fe and $54,000 in Las Vegas. Public hearings on these requests were concluded in January, 1975, and the Commission decision is pending.

SYSTEM EXPANSION

ELECTRIC

Conservation by consumers had an apparent impact on the number of kilowatt hours sold in the months following the oil embargo of 1974. However, growth in the Company's service areas continued with kilowatt-hour sales for 1974 increased 4.8% over 1973. During the last two months of 1974, kilowatt-hour sales increased more than 10% over the previous year. A new system peak of 583 megawatts occurred on June 21, 1974. This was an increase of 9.5% over the previous peak set in June, 1973.

Construction began on the second unit at the San Juan Generating Station in June. This 326 megawatt unit is scheduled for completion in December, 1976. The first unit at San Juan produced 605,840 megawatt hours of energy for customers from coal during 1974. With the addition of San Juan to PNM's share in Units 4 and 5 at the Four Corners Plant, coal accounted for 51% of all power delivered to PNM customers in 1974.

Sulfur dioxide removal systems for both the first and second units at San Juan are estimated to require an investment by your Company of approximately $45 million. The construction and installation of the units, which use the Wellman-Lord process, will be completed by July 31, 1977. Average sulfur content of the coal in the area is 8/10 of one per cent, and the SO_2 removal system is designed to remove 90% of this amount.

Preliminary engineering and the application for necessary U.S. Nuclear Regulatory Commission approvals continued during 1974 on the Arizona Nuclear Power Project. Public Service Company is a participant in ANPP with five other southwestern utilities. PNM's 10.2% share in the development of three 1270 megawatt nuclear generating units near Phoenix will provide our customers with an additional 390 megawatts by 1986.

Construction proceeded during the year on the Company's transmission network. The 160 mile Ojo Transmission Line, set for completion in September, 1975, will link PNM's northernmost service areas directly with the coal-fired generating stations in northwestern New Mexico.

The combined cost of construction of generating and transmission facilities during 1974 reached $25,056,000.

A contract with Community Public Service Company, a supplier of electrical energy in several areas in the southern portion of New Mexico, was negotiated during the year. Wholesale power for distribution by CPS to its customers in Lordsburg, Silver City, and other southern New Mexico areas will be bought from Public Service Company.

WATER

Public Service Company's Water Division provides service to 16,158 customers in the cities of Santa Fe and Las Vegas.

Revenues from water operations accounted for 3.1% of total Company revenues.

Rainfall and snowpack runoff provide surface water which is collected in reservoirs. This supply is augmented by subsurface water from wells. The water supply during 1974 from the reservoirs was normal, but the expansion of well systems is continuing so that customers in these growing communities can be assured of adequate water in years of below average precipitation.

Many of the major construction projects underway in 1973 were completed this year. These projects include: the 8 million gallon per day treatment plant; the 6 million gallon storage tank; the 7 million gallon per day booster station and associated transmission facilities, all in Santa Fe. In Las Vegas a 2.5 million gallon treated water storage tank was finished and improved mains from the Gallinas Canyon Reservoir were put in service.

Applications for increased water rates in both communities were filed with the New Mexico Public Service Commission in November, 1974. For further information, see the section of Rates and Regulations.

FIVE-YEAR FORECAST

A record $742 million is forecast for construction programs for the years 1975 through 1979. The majority of these dollars, approximately 73%, will be spent on new generating facilities.

The Company's participation in the Arizona Nuclear Power Project will account for $114 million of the amount. Costs associated with additional coal-fired units at the San Juan Generating Station will be approximately $382 million during the period. The balance will be spent on related projects such as switching stations, transmission and distribution lines, and substations.

RESEARCH AND DEVELOPMENT

Expanded research and development activities are rapidly becoming one of the most important tasks of energy-related industries. Public Service Company is involved with energy research and development both internally and through outside cooperative efforts.

Within the Company, members of PNM's staff are engaged in projects ranging from solar collector/heat pump hybrid systems for homes to geothermal base load generating facility development. Evaluation of newly developed geothermal sources within New Mexico is underway and, if feasible, utilization of these resources for electrical generation could begin within a few years.

PNM is participating in cooperative research projects through Western Energy Supply and Transmission Associates and the Electric Power Research Institute. EPRI is the largest private energy research and development endeavor presently in existence. Public Service Company, along with 500 other utilities and industries, contributes annually to EPRI to finance the 265 research projects currently underway. These projects, costing an estimated $120 million in 1975, vary from efforts to improve existing energy supply sources to the development of new sources of generation including solar and geothermal.

FUEL SUPPLY

Over a decade ago, the Company decided to begin the transition to coal as the primary fuel for generation in order to lessen the dependence on natural gas. Even with the staggering costs of environmental control systems necessitated by regulations governing the operation of coal-fired plants, the lower fuel costs should provide Company customers adequate energy at reasonable costs in the future.

In 1974, 51% of the power used by PNM customers was generated from coal. This will increase in the coming years as the development of the San Juan Generating Station continues. This energy is also supplied in

part from the Company's share in two large units at the Four Corners Power Plant. Coal for both generating plants is abundant in the area near Farmington, New Mexico. Over 60 million tons of surface mineable coal near the San Juan plant will provide fuel for electrical generation for many years. In addition to this lease, Western Coal Co. — a company jointly owned by PNM and Tucson Gas and Electric Company —which provides the coal to the San Juan Generating Station, holds extensive leases south of Farmington in the Bisti area. This further assures adequate fuel supplies as the coal-fired facilities are constructed.

Natural gas accounted for 46.2% of the kilowatt hours generated in 1974, with oil used to produce the remaining 2.8%. The intrastate natural gas contract with Southern Union Gas runs through September, 1989, allowing for smooth transition into a coal based generation system.

To supplement coal, nuclear energy will be utilized beginning in 1982 when the first unit of the Arizona Nuclear Power Project goes into commercial operation. PNM is a 10.2% participant in this joint project now developing three 1270 megawatt pressurized water reactor/generating units in southern Arizona. Increases in nuclear fuel prices are not anticipated to be as dramatic and, therefore, will not have the impact such cost increases in fossil fuels have on consumers. The amount of nuclear fuel needed to run a reactor is comparatively small, making the overall fuel cost a much smaller portion of total operating costs.

Public Service Company engineers ran tests during 1974 to determine the feasibility of using recycled waste oil in the oil/natural gas fired boilers located in Albuquerque. Results indicate that this is possible; however, no large scale system is presently in existence to collect such fuel. If an economic collection system is developed which can supply reasonable quantities for generation purposes, not only will PNM have another fuel source, but the environmental effects of dumping such wastes will be lessened.

AREA SERVED

New Mexico, the fifth largest state in the nation, is a vast land of mountains, deserts, and high plains. The majority of New Mexico's people live along the Rio Grande Valley. This fertile strip of land runs from Colorado southward to the Mexican border. Public Service Company, in providing electrical service to almost one half of the state's 1,122,000 people, operates through six divisions. Four of these divisions serve cities, pueblos, and towns near the Rio Grande: Santa Fe, Bernalillo, Albuquerque, and Belen. The Las Vegas Division serves the city of Las Vegas which is located on the high plains in the northeastern quadrant of the state, and the Deming Division provides service to customers in this southwest New Mexico agricultural hub city.

The Company also provides energy to the city of Gallup for distribution through a municipal system; to the Energy Research and Development Agency (formerly the Atomic Energy Commission) facilities in Los Alamos; to the U.S. Air Force installation and General Electric Company plant in Albuquerque; to the extensive uranium mining and milling operations in the Ambrosia Lake area near Grants, New Mexico; and to Community Public Service Company for resale to its customers in southern New Mexico.

Public Service Company provided electrical energy to 164,537 customers through its own system at the end of 1974. This is an increase of 2.9% over the number served at the close of 1973.

The Company also provides water service to customers in Santa Fe and Las Vegas through the Water Division.

Public Service Company's main office is located in Albuquerque, New Mexico's largest city. Albuquerque experienced a slowing in rate of growth during 1974 as the general economy nationwide began reacting to problems caused by continuing inflation and high interest rates.

Although tight money affected the construction activities in the home and apartment sector, commercial construction in the downtown area has continued to be strong. New buildings on the skyline in or near downtown Albuquerque include the Central Public Library; First Plaza, a multi-story, block square complex housing the First National Bank and numerous shops; the Albuquerque Inn, a new hotel adjacent to the recently completed Convention Center; a new American Bank of Commerce building; several high rise office complexes; and a new central plaza adjacent to the Convention Center with underground parking. A new Sheraton hotel is being built just north of Old Town. This facility will provide visitors with lodging within walking distance of the shops and galleries in this historic area.

New Mexico ranks seventh in total mineral production among the 50 states, leading in uranium, perlite, and potassium salts; ranking third in copper; fourth in natural gas; and sixth in oil. With the renewed interest nationally in developing the country's coal resources, New Mexico's estimated 5.9 billion tons of strippable coal and 277 billion tons of deep seam coal are potential for an increasingly energy oriented economic development. Since Albuquerque is the banking and trade center for the state, much of the activity relating to mining and energy development will be centered there. Energy related research, especially at Sandia Laboratories, will increase Federal Government appropriations in the Albuquerque area.

Several manufacturing operations created new jobs in 1974. Among them were Grandinetti and Colt Industries. Real estate transactions set a new record during the year, up 10% in total dollar volume over 1973.

The Santa Fe Division serves customers in and around the state's capital. Santa Fe is the second largest city in New Mexico with over 50,000 residents. State government operations and tourism continued to contribute significantly to Santa Fe's economy in 1974. The number of electric customers increased by 4.4%, and water customers were up 2.1%.

Just west of Santa Fe, in the Jemez Mountains, is the Los Alamos Scientific Laboratory where much of the nation's nuclear research has been performed since the Manhattan Project. Power for the LASL facilities, such as the half mile long meson accelerator, is furnished through the Santa Fe Division. The communities of White Rock and Pajarito Acres are also served directly by the Santa Fe Division.

The Belen Division serves customers in the Rio Grande Valley just south of Albuquerque. The rapid growth experienced by Belen slowed somewhat in 1974. Even with the slower growth, overall business increased during the year, and the gains are projected to continue in 1975 with the addition of shopping facilities and homes both planned and now under construction. The traditional business in the fertile valley surrounding Belen, agriculture, is expected to continue to be an economic mainstay as demand for food grows.

Las Vegas and the surrounding area continued to experience economic growth during 1974. Building permits for the city were up 8.7% in value. Just outside the city, work was begun on a $1.2 million vocational education school while work was being completed on a $1.4 million New Mexico Highway Department facility. Las Vegas is a historic ranching community located on high plains just east of the Sangre de Cristo mountains in northeastern New Mexico. Two large state hospitals and New Mexico Highlands University are located in Las Vegas.

Deming is located in southwestern New Mexico about an hour's drive from Arizona and just 30 miles north of the Mexican border. Irrigation has allowed land near Deming to be put to extensive use as farmland even though the climate is semi-arid, warm, and sunny. The volume of building permits declined from the record level set in 1973 but was still higher than in 1972. Electric customers increased in number 4.2%, and financial institution assets also went up during the year.

The Bernalillo Division put in its first full year of operation in 1974, serving customers along the Rio Grande Valley north of Albuquerque to the town of Cochiti. The service area includes Bernalillo, one of the oldest European settlements in the United States, and several small villages, as well as five Indian pueblos. Agriculture is the principal activity in the Bernalillo area. The proximity to Albuquerque accounts for continuing growth in the service area. Increased interest in Indian jewelry resulted in active trading and in the opening of many wholesale and retail jewelry operations in and around Bernalillo.

CONSUMER SERVICES

Revenue from residential consumers accounted for 35.6% of the Company's electric revenues. Commercial energy use accounted for 38.6% while industrial sales represented 12.8%.

Consumer Service Department representatives maintained a liaison with architects, home builders, appliance distributors and dealers to help

them keep abreast of the many innovations in electric heating, ventilation, air conditioning systems, and other electrical energy applications in preparation for the expected increased use of electricity. Future consumer messages will also relate to this increasing reliance on electricity as the known reserves of natural gas and oil continue to diminish. The Company is presently developing a selective marketing program which will attempt to build greater off-peak use of electricity. This will provide for a more profitable load structure while making better and more efficient use of the Company's generating facilities.

HOME ECONOMICS

The Home Economics Department continued to provide educational assistance to schools, appliance dealers, homemakers, students, builders, architects, and lighting dealers in the proper application of electricity, electrical products, and cooking. Approximately 10,000 adults attended lectures on Convenience Foods, Wise Shopping, Microwave Ovens, Kitchen Planning and Lighting, Building Know How, and miscellaneous cooking demonstrations. Over 9,000 young people from the various communities served attended youth oriented programs on cooking, consumerism, and the selection and care of an electrical appliance. The Department also handled over 7,000 telephone requests for information covering a variety of subjects relating to the home.

The Home Economics Department publishes and distributes several recipe booklets each year such as "Holiday Cooking" and "Cocinas de New Mexico," a popular cooking booklet which tells how to prepare many traditional southwestern dishes. The home economists are constantly handling requests from newly arrived homemakers on high altitude cooking and baking.

MARKETING RESEARCH

The Marketing Research Department continued to strengthen its ability to support effective marketing efforts with the addition of an economist to the staff. A long range market projection program was initiated to evaluate new patterns of electrical usage as opposed to the historical trends. For the first time at PNM a residential customer attitude and awareness survey was completed. The information obtained from this survey will be an important contributing factor in developing a more comprehensive public information program. A surplus energy forecasting program for economy sales has been implemented, and load models for distribution planning have been provided.

FRANCHISES

After lengthy negotiations, franchises to provide both electric and water service to the city of Santa Fe were renewed effective December 1, 1974. The electric franchise is for a 25 year period, terminating in 1999. The water franchise is for a period of five years.

The Company has long-term electric franchises in effect in its other operating divisions and 22 years remaining in the water franchise for the city of Las Vegas.

ENVIRONMENT

ECOLOGY

Public Service Company's transition to coal as the primary fuel for electrical generation will provide assured power in the face of dwindling reserves of natural gas and oil and the resulting rising costs associated with those fuels. However, the fuel saving realized in the utilization of coal will be somewhat offset by significant costs involved in construction and operation of environmental protection systems which coal burning necessitates.

In addition to the extremely efficient electrostatic precipitator in operation at the San Juan Generating Station, sulfur dioxide controls are being added to meet state and federal air quality standards.

During 1974, 50 delegates to the World Energy Conference, which was held in Detroit, visited the San Juan Generating Station. These representatives from 20 foreign countries were impressed by the effectiveness of the precipitator which is designed to remove 99.5% of the fly ash resulting from combustion of coal.

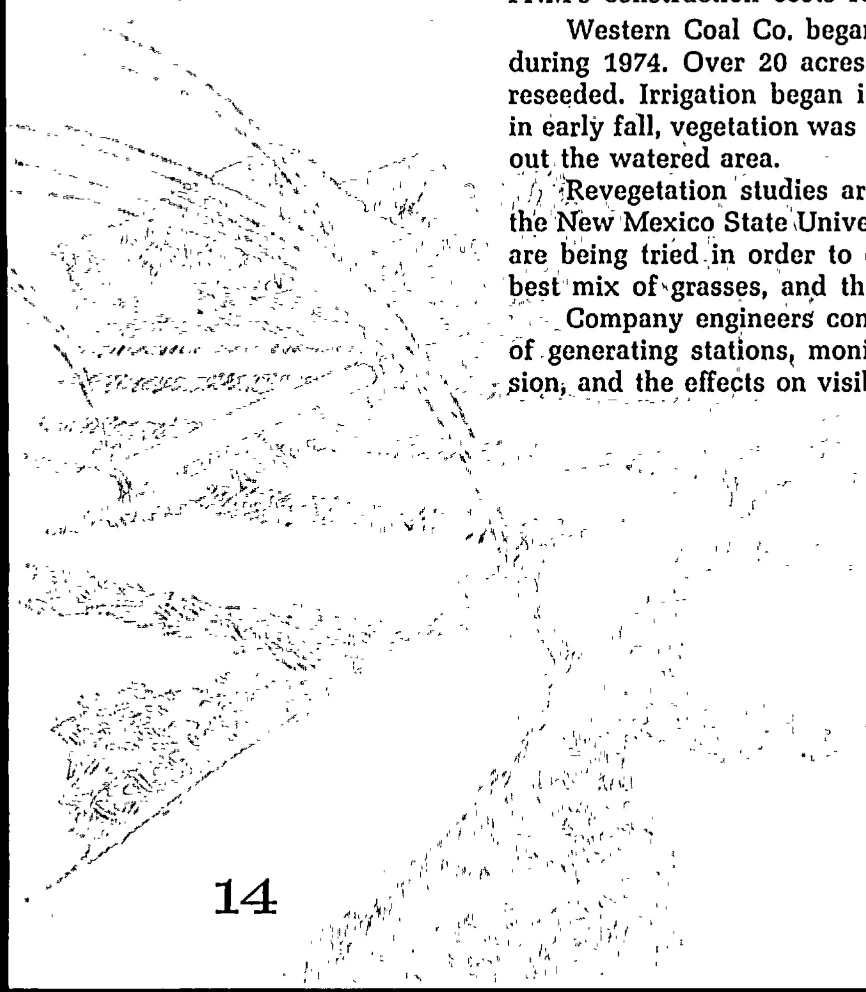
The selection was completed during the year for the sulfur dioxide removal systems for Units 1 and 2 at San Juan. These scrubbers will be the largest application of the Wellman-Lord process yet installed. Based on an average coal sulfur content of 8/10 of one percent, the design calls for 90% SO_2 removal.

Added to the $8 million already committed as PNM's share in precipitator assemblies for Units 1 and 2, the sulfur removal systems will increase your Company's share of the environmental control costs to $24.7 million for the first unit and $27.9 million for the second. This represents 38% of PNM's construction costs for both units.

Western Coal Co. began reclamation efforts at the San Juan mine site during 1974. Over 20 acres have been graded, covered with topsoil, and reseeded. Irrigation began in July, and by the end of the growing season in early fall, vegetation was quite evident in both the test areas and throughout the watered area.

Revegetation studies are being conducted at the site by experts from the New Mexico State University Experimental Station. Numerous variables are being tried in order to determine the optimum depth of topsoil cover, best mix of grasses, and the effect of mulching.

Company engineers conduct on-going studies of environmental effects of generating stations, monitoring emission levels, studying plume dispersion, and the effects on visibility, health, and vegetation, and other factors.



PEOPLE

MANAGEMENT CHANGES

Public Service Company, in keeping with the policy of maximum utilization of management talent and resources from within the Company, made the following changes in 1974: Ross Mullins, former Vice President of Engineering and Operations, was promoted to Vice President, Engineering and Construction. C. D. Bedford, Vice President of Corporate Planning, was promoted to Vice President, Administration. Philip Archibeck, Assistant Secretary, was promoted to Assistant Secretary and Assistant Treasurer. J. B. Mulcock, Jr., Executive Assistant, was promoted to Manager, Public Affairs. Mr. A. C. Underwood, previously responsible for operation and maintenance of various Company real estate, was promoted to General Manager of the Company's wholly-owned subsidiary, Public Service Land Company. A. E. Rhodes, former Vice President of Production Plant, moved to his new position as President of Western Coal Co., a company jointly owned by Public Service Company of New Mexico and Tucson Gas & Electric Company. George A. Schreiber, Public Service Company President, also assumed the position of Chairman of the Board of Directors.

Employees throughout the Company were saddened with the passing of Mr. Arthur Prager on November 4, 1974. Mr. Prager was the principal organizer of Public Service Company of New Mexico in 1946. He served as President from 1946 to 1955, and Chairman of the Board from 1955 to 1966 and was Director Emeritus at the time of his death.

Your management was shocked by the untimely death of Robert L. Tripp in December. He was elected to the Board of Directors in July, 1973. Mr. Tripp was one of the most progressive bankers in the Southwest, and his advice and counsel will be missed.

EMPLOYEE RELATIONS

Public Service Company's work force increased to 1216 employees during 1974. This was 49 people below the manpower budgeted for the year. The primary increase in personnel was necessitated by the expansion of the San Juan Generating Station.

Benefits available to regular PNM employees include health insurance, life insurance, long-term disability insurance, retirement plan, and a stock purchase plan. In addition, employees continue to take advantage of the Company's educational assistance program. Employees wishing to continue their education are reimbursed for their expenses upon satisfactory completion of the courses taken.

Improved employee communications was a primary goal during 1974. Programs designed to increase an awareness and understanding of PNM were presented to all employees. The programs included such timely subjects as the energy crisis and its effect on utilities, the rate case, and PNM in 1975.

UNION

The current contract between Local 611 of the International Brotherhood of Electrical Workers and your Company was opened for wage negotiations on May 1, 1974. An agreement reached in late June provided a 9% salary increase retroactive to May 1 and an additional 3.75% increase

on November 1, 1974. This contract with the IBEW expires on April 30, 1975, and negotiations on a new agreement have begun.

EDUCATION AND TRAINING

Education is an essential and vital element in the successful operation of any company. At Public Service Company of New Mexico, various training programs were conducted for employees throughout 1974. New apprenticeship programs for coal-fired plant operations were initiated at the San Juan Generating Station for plant operators, electricians, and maintenance personnel. A total of 22 new apprentices were indentured, and 10 were graduated from all apprenticeship programs.

Presentations of both technical and non-technical subjects were presented to universities, high schools, junior high schools, and civic and private groups by members of the Company's Speakers Bureau. Nearly 70 programs were presented during the year with audiences totaling over 3,000 people.

PNM has also been active in community-oriented educational assistance programs. Work-study students from the University of New Mexico's School of Engineering and the School of Business and Administrative Sciences were provided practical work experience commensurate with their academic standing. In addition, three programs designed for high school students received support from the Company.

INDEX TO FINANCIAL DATA

17 Growth Graphs

18 Comparative Operating Statistics

20 Summary of Operations
  Management's Discussion and Analysis
    of the Summary of Operations

22 Consolidated Balance Sheet
  Assets
  Stockholder's Equity and Liabilities

24 Statement of Consolidated Earnings

25 Statement of Consolidated Retained Earnings

26 Statement of Consolidated Changes in Financial Position

27 Notes to Consolidated Financial Statements

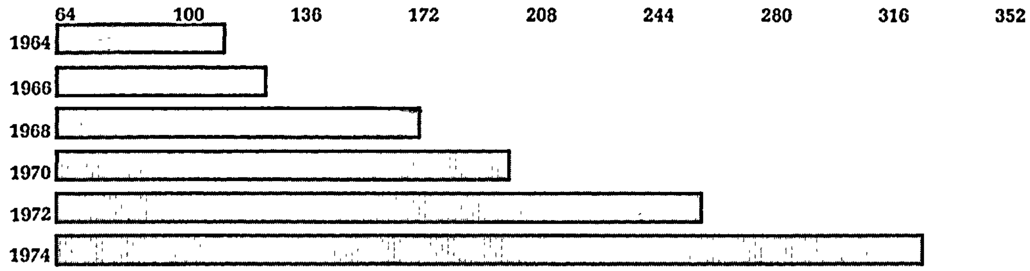
34 Stock/Dividend Data

35 Accountant's Report

GROWTH GRAPHS

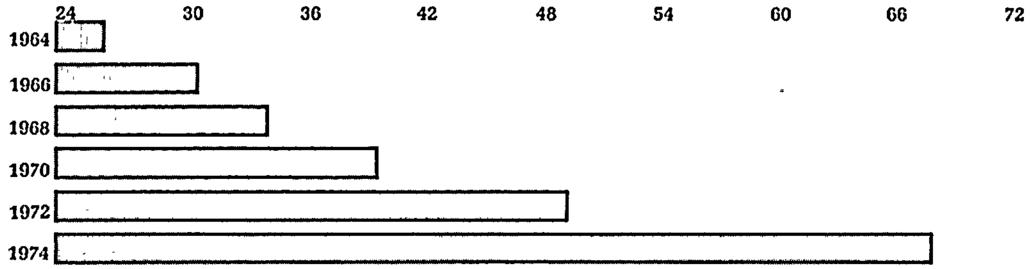
GROSS PLANT INVESTMENTS

FIGURES IN MILLIONS OF DOLLARS



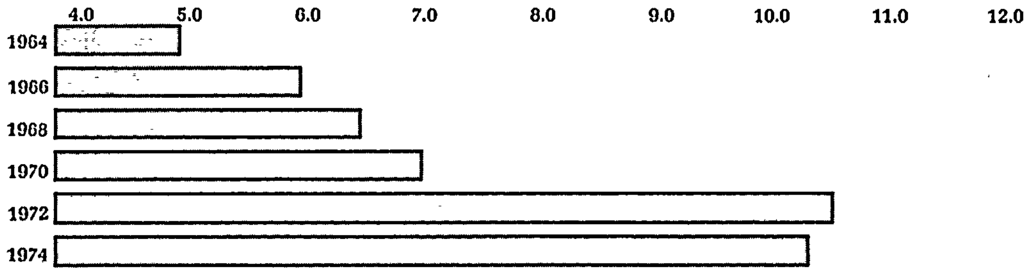
GROSS REVENUES

FIGURES IN MILLIONS OF DOLLARS



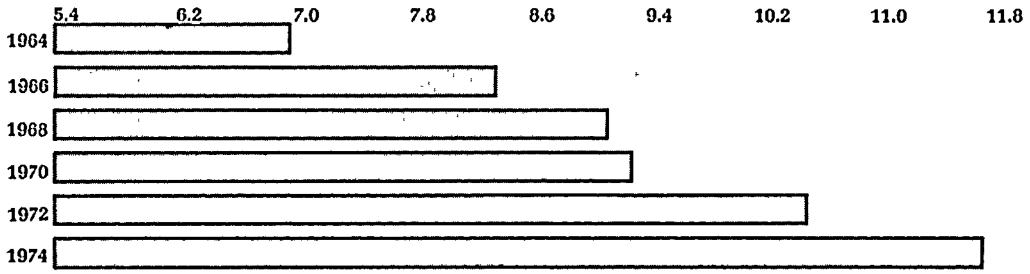
NET EARNINGS

FIGURES IN MILLIONS OF DOLLARS



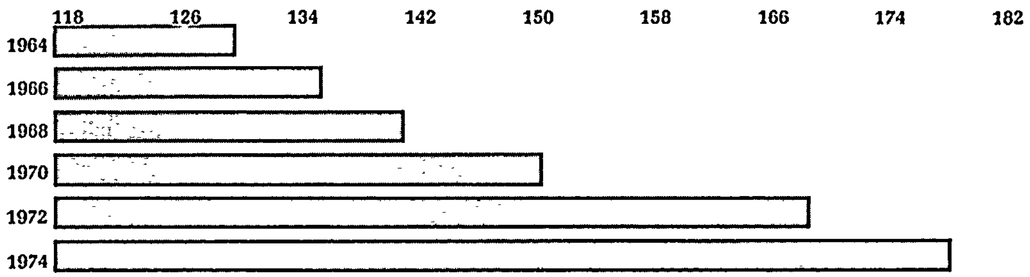
FEDERAL, STATE, LOCAL AND GENERAL TAXES

FIGURES IN MILLIONS OF DOLLARS



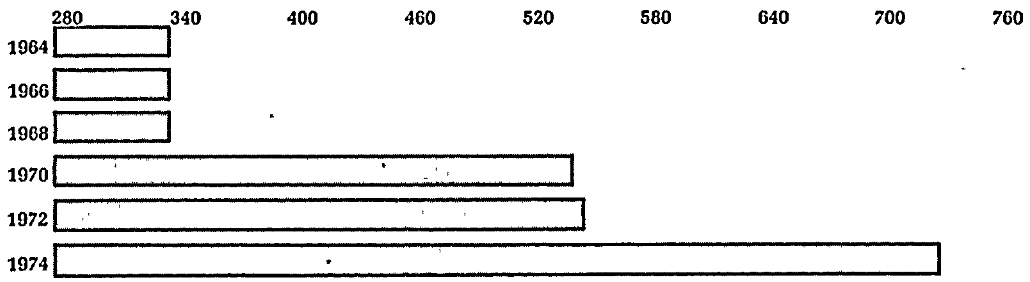
NUMBER OF CUSTOMERS ELECTRIC AND WATER

FIGURES IN THOUSANDS OF CUSTOMERS



NET GENERATING CAPABILITY

FIGURES IN THOUSANDS OF KILOWATTS



COMPARATIVE OPERATING STATISTICS

	1974	1973	1972	1971
ELECTRIC SERVICE				
SALES — KWH (Thousands) —				
Residential	825,279	783,284	703,945	645,155
Commercial	1,118,039	1,100,412	976,218	874,445
Industrial	549,622	502,939	653,761	618,694
Other electric utilities	250,901	236,123	114,333	106,000
Other	151,344	140,729	135,809	131,011
Total KWH sales	2,895,185	2,763,487	2,584,066	2,375,305
REVENUE — (Thousands) —				
Residential	$ 23,228	$ 20,343	$ 17,673	$ 15,210
Commercial	25,157	22,328	19,233	16,099
Industrial	8,349	6,307	7,229	6,550
Other electric utilities	2,782	1,977	937	857
Other	5,742	5,580	3,274	2,958
Total electric revenue	$ 65,258	$ 56,535	$ 48,346	$ 41,674
CUSTOMERS AT YEAR END —				
Residential	147,182	142,854	136,155	127,544
Commercial	16,254	16,022	15,531	14,547
Industrial	298	295	303	308
Other electric utilities	10	3	3	3
Other	793	594	599	62[illegible]
Total customers	164,537	159,768	152,591	143,024
Reliable net capability — KW	727,000	617,000	542,000	540,700
Coincidental peak demand — KW	583,400	533,000	491,700	458,700
Average fuel cost per million BTU	39.49¢	26.16¢	24.47¢	23.55¢
BTU per KWH of net generation	11,054	11,017	10,841	10,870
WATER SERVICE				
SALES — Gallons (Thousands) —				
Customer sales	3,013,508	2,855,673	2,781,854	2,563,745
Interdepartmental sales	12,568	10,710	3,638	1,707
Total water sales	3,026,076	2,866,383	2,785,492	2,565,452
REVENUE —				
Customer sales	$2,103,169	$1,566,730	$1,530,012	$1,434,685
Interdepartmental sales	5,970	3,585	(1)	813
Total water sales	$2,109,139	$1,570,315	$1,530,012	$1,435,498
Customers at year end	16,158	15,848	15,454	15,024

(1) Reclassified against operating expense

1970	1969	1968	1967	1966	1965	1964
579,910	529,108	483,324	440,897	417,992	385,340	359,323
781,548	722,312	650,996	606,504	555,142	485,151	430,788
552,118	524,180	479,883	444,907	416,594	393,916	381,792
98,026	91,890	86,765	80,322	78,864	109,506	92,288
121,652	111,349	101,819	100,514	99,041	93,204	94,280
2,133,254	1,978,839	1,802,787	1,673,144	1,567,633	1,467,117	1,358,471
$ 13,831	$ 12,786	$ 11,876	$ 11,061	$ 10,579	$ 9,898	$ 9,491
14,587	13,526	12,321	11,594	10,783	9,660	8,702
5,963	5,662	5,187	4,732	4,625	4,410	4,406
778	659	557	550	597	701	629
2,953	2,811	2,638	2,515	2,428	2,199	2,003
$ 38,112	$ 35,444	$ 32,579	$ 30,452	$ 29,012	$ 26,868	$ 25,231
120,504	115,238	112,401	110,132	108,483	106,648	103,906
13,669	13,150	12,831	12,520	12,326	12,370	12,044
300	290	296	303	319	332	408
3	2	2	2	3	3	4
627	624	639	647	646	658	674
135,103	129,304	126,169	123,604	121,777	120,011	117,036
540,700	437,400	334,000	334,000	334,000	334,000	334,000
400,600	372,300	347,800	328,500	316,300	302,600	277,700
23.04¢	24.48¢	24.26¢	24.03¢	24.00¢	23.65¢	23.01¢
11,058	11,552	11,550	11,263	11,199	11,195	11,087
2,564,580	2,397,078	2,356,690	2,253,347	2,145,483	1,952,755	2,154,425
1,782	1,609	1,132	1,261	1,630	1,259	1,397
2,566,362	2,398,687	2,357,822	2,254,608	2,147,113	1,954,014	2,155,822
$1,417,697	$1,209,617	$1,172,831	$1,144,096	$1,100,523	$1,008,162	$1,048,130
899	780	659	689	757	717	698
$1,418,596	$1,210,397	$1,173,490	$1,144,785	$1,101,280	$1,008,879	$1,048,828
14,495	14,216	14,092	13,811	13,679	13,388	13,105

SUMMARY OF OPERATIONS

	1974	1973	1972	1971	1970
Operating revenue	$67,367,044	58,105,583	49,875,643	43,109,355	39,530,502
Operating revenue deductions:					
Operations and maintenance	30,836,104	22,984,163	18,845,306	16,928,703	14,262,778
Depreciation and amortization	7,974,988	6,210,576	5,682,019	5,437,159	5,177,502
Taxes, other than income taxes	4,451,727	3,643,430	3,268,059	3,078,585	3,089,489
Income taxes	6,638,499	7,734,730	7,175,543	5,751,000	6,052,579
Total operating revenue deductions	49,901,318	40,572,899	34,970,927	31,195,447	28,582,348
Operating income	17,465,726	17,532,684	14,904,716	11,913,908	10,948,154
Allowance for funds used during construction	1,042,977	2,792,601	2,046,691	574,442	435,742
Other income and deductions, net	454,396	46,220	(14,622)	176,600	232,493
Income before interest charges	18,963,099	20,371,505	16,936,785	12,664,950	11,616,389
Interest charges	8,670,579	7,615,708	6,421,470	4,914,250	4,577,612
Net earnings	10,292,520	12,755,797	10,515,315	7,750,700	7,038,777
Preferred stock dividends	1,768,400	595,400	595,400	595,400	595,400
Net earnings applicable to common stock	$ 8,524,120	12,160,397	9,919,915	7,155,300	6,443,377
Average common shares outstanding	4,370,919	4,321,113	3,973,723	3,670,265	3,551,869
Per share amounts —					
Net earnings	$1.95	2.81	2.50	1.95	1.81
Dividends	$1.20	1.14	1.04	.97½	.90

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Operating revenue increased $8.2 million in 1973 and $9.3 million in 1974. The principal factors causing these increases were:

(a) Fuel cost adjustment — natural gas fuel costs have accelerated rapidly since November, 1973. Generally, such costs are passed on to customers and revenue from the fuel cost adjustment increased $1.1 million in 1973 and $3.6 million in 1974.

(b) Rate increases — the Company put into effect general rate increases for electric service under the jurisdiction of the New Mexico Public Service Commission of approximately 7% in April, 1972 and 10% in November, 1974. During the summer of 1974 the Company negotiated higher rates with certain electric customers whose rates are subject to the jurisdiction of the Federal Power Commission. Water revenues were increased by rate increases implemented in January, 1974 of approximately 25%.

(c) Sales volume — although the effect of conservation of electricity by the Company's customers has been experienced, both the number of customers and the average use per customer has increased in each of the last two years. KWH sales increased 6.9% in 1973 and 4.8% in 1974. The Company experienced a 5.6% increase in the volume of water sales in 1974.

(d) Miscellaneous electric revenue — the Company received revenue of $260,389 per month from June, 1973 through May, 1974 for

costs related to operation of two-thirds of Tucson Gas & Electric Company's fifty-percent share of San Juan Unit #2.

Operation and maintenance expenses increased by $4.1 million in 1973 and $7.9 million in 1974. Principal causes were:

(a) Rapidly accelerating fuel costs.

(b) Higher costs of labor due to escalating wage rates and an increase in the number of employees necessary to operate the expanded generating and water treatment facilities.

(c) General inflationary factors.

(d) Overhauls and inspections at both the San Juan and Four Corners coal-fired generating plants and at certain gas and oil fired generating plants accounting for increases of $.5 million in 1973 and $2.0 million in 1974.

Credits to operation and maintenance expenses from power transferred to other utilities under interchange agreements (net of power purchases) increased by $2.9 million in 1974, primarily because the Company's San Juan generating unit, placed in service on November 30, 1973, has operated with a high level of reliability which, together with improved reliability of the Four Corners plant, has allowed the Company to provide more interchange energy to other utilities.

The Company's gross utility plant increased by approximately 11% in 1973 and 16% in 1974 as a result of expanded operations, the need to maintain reliable service and increasing environmental protection requirements. This increase in utility plant and the Company's construction program have been the primary causes of increases experienced in the following areas of operations:

(a) Depreciation and amortization — in addition to increased plant, new depreciation rates approved by the New Mexico Public Service Commission increased depreciation expense in 1974 by approximately $380,000.

(b) Taxes, other than income taxes — increases in ad valorem taxes resulted from increased plant.

(c) Allowance for funds used during construction (AFDC) — the Company's construction program, which was at a peak late in 1973, caused AFDC to increase in 1973 and to decrease significantly in 1974.

(d) Interest charges and preferred stock dividends — during 1972-1974 the Company issued $20 million principal amount of First Mortgage Bonds, $17 million par value of preferred stock and $32 million principal amount of short-term debt, generally at higher interest and dividend rates than previous issues.

Other income increased in 1974 because the Company's equity in earnings of a fifty-percent owned company, which provides coal for the San Juan generating unit, increased when the first San Juan unit was placed in service late in 1973. Before the San Juan unit was placed in service, the fifty-percent owned company had no material revenue-producing operations.

As a result of the foregoing items, earnings before income taxes, income taxes, net earnings and earnings per share of common stock all increased in 1973 but decreased in 1974.

CONSOLIDATED BALANCE SHEET

December 31, 1974 and 1973

ASSETS

	1974	1973
Utility plant, at original cost:		
Electric plant in service	$258,607,327	238,881,356
Water plant in service	19,332,072	16,964,648
Common plant in service	7,571,124	6,651,509
	285,510,523	262,497,513
Less accumulated depreciation and amortization	59,781,406	53,444,638
	225,729,117	209,052,875
Construction work in progress	42,313,989	20,415,910
Electric plant held for future use	20,675	20,675
Net utility plant	268,063,781	229,489,460
Other property and investments:		
Non-utility property, at cost, net of accumulated depreciation of $145,876 in 1974 and $147,154 in 1973	3,627,191	3,328,851
Investment in fifty-percent owned company	845,009	322,877
Other, at cost	155,313	39,998
Total other property and investments	4,627,513	3,691,726
Current assets:		
Cash (note 5)	3,856,624	3,159,851
Receivables:		
Customers	5,540,263	3,877,683
Others	2,477,441	2,830,713
Allowance for doubtful receivables	(108,466)	(117,685)
Materials and supplies, at average cost	10,683,186	5,866,264
Prepaid expenses	700,130	568,568
Total current assets	23,149,178	16,185,394
Deferred charges:		
Unamortized debt expense	2,362,813	986,241
Other deferred charges	2,677,119	1,710,001
Total deferred charges	5,039,932	2,696,242
	$300,880,404	252,062,822

See accompanying notes to consolidated financial statements.

STOCKHOLDERS' EQUITY AND LIABILITIES

	1974	1973
Stockholders' equity (note 2):		
Cumulative preferred stock of $100 par value. Authorized 600,000 shares in 1974 and 300,000 shares in 1973; outstanding:		
130,000 shares 1965 Series, 4.58%	$ 13,000,000	13,000,000
170,000 shares 1974 Series, 9.2%	17,000,000	—
Common stock of $5 par value. Authorized 10,000,000 shares in 1974 and 6,000,000 shares in 1973; outstanding 4,412,145 shares in 1974 and 4,340,261 shares in 1973	22,060,725	21,701,305
Premium on capital stock	29,613,997	29,037,813
Capital stock expense	(1,338,902)	(1,071,173)
Retained earnings (note 3)	39,223,076	35,943,682
Total stockholders' equity	119,558,896	98,611,627
Long-term debt, less maturities and sinking fund payments due within one year (note 4)	115,529,484	108,815,575
Current liabilities:		
Short-term debt (note 5)	31,950,000	18,121,000
Accounts payable	6,731,757	4,037,240
Preferred dividends	539,850	148,850
Sinking fund requirements for long-term debt (note 4)	786,017	559,890
Customer deposits	100,539	83,118
Accrued interest	1,743,103	1,492,595
Accrued taxes	1,678,895	1,194,068
Other current liabilities	1,385,821	1,134,053
Total current liabilities	44,915,982	26,770,814
Deferred credits:		
Customer advances for construction	2,771,728	2,778,169
Accumulated deferred investment tax credits	5,173,095	4,465,052
Accumulated deferred income taxes (note 6)	12,659,779	10,395,016
Other deferred credits	271,440	226,569
Total deferred credits	20,876,042	17,864,806
Commitments and construction program (note 9)		
	$300,880,404	252,062,822

STATEMENT OF CONSOLIDATED EARNINGS

Years ended December 31, 1974 and 1973

	1974	1973
Operating revenues:		
Electric (note 7)	$ 65,257,905	56,535,268
Water	2,109,139	1,570,315
Total operating revenues	67,367,044	58,105,583
Operating revenue deductions:		
Power purchased and interchanged, net	(3,171,014)	(287,338)
Operating and general expenses	28,297,353	19,888,555
Maintenance	5,709,765	3,382,946
Provision for depreciation and amortization	7,974,988	6,210,576
Taxes, other than income taxes	4,451,727	3,643,430
Income taxes (note 6)	6,638,499	7,734,730
Total operating revenue deductions	49,901,318	40,572,899
Operating income	17,465,726	17,532,684
Other income and deductions:		
Allowance for funds used during construction	1,042,977	2,792,601
Equity in earnings of fifty-percent owned company, net of taxes (note 6)	482,601	86,733
Other, net of taxes (note 6)	(28,205)	(40,513)
Net other income and deductions	1,497,373	2,838,821
Income before interest charges	18,963,099	20,371,505
Interest charges:		
Interest on long-term debt	6,727,983	6,771,440
Amortization of debt discount, expense and premium	85,565	52,082
Other interest charges	1,857,031	792,186
Total interest charges	8,670,579	7,615,708
Net earnings	$ 10,292,520	12,755,797
Net earnings per common share, based on average shares outstanding	$ 1.95	2.81

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Years ended December 31, 1974 and 1973

	1974	1973
Balance at beginning of year	$ 35,943,682	28,708,932
Net earnings for the year	10,292,520	12,755,797
	46,236,202	41,464,729
Dividends declared:		
Cumulative preferred stock	1,768,400	595,400
Common stock — $1.20 per share in 1974 and $1.14 per share in 1973	5,244,726	4,925,647
	7,013,126	5,521,047
Balance at end of year	$ 39,223,076	35,943,682

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

Years ended December 31, 1974 and 1973

	1974	1973
Funds provided:		
Net earnings	$ 10,292,520	12,755,797
Charges (credits) to earnings not requiring funds:		
Depreciation and amortization	8,264,383	6,544,842
Provision for deferred income taxes, net	2,264,763	1,961,418
Investment tax credit, net	708,043	1,898,463
Allowance for funds used during construction	(1,042,977)	(2,792,601)
Undistributed earnings of fifty-percent owned company	(522,132)	(94,002)
Funds derived from operations	19,964,600	20,273,917
Sale of preferred stock	17,000,000	—
Proceeds from Pollution Control Revenue Bonds	7,145,278	—
Sale of common stock	935,604	647,906
Proceeds from other long-term debt	459,726	152,470
Proceeds from short-term debt	38,998,500	16,121,000
Utility plant retirements, net of removal costs	1,256,572	1,071,880
Customer advances for construction, net of refunds	—	570,387
Other	46,325	41,336
	$ 85,806,605	38,878,896
Funds used:		
Cash dividends	7,013,126	5,521,047
Utility plant additions	46,471,625	27,081,114
Payment of short-term debt	25,169,500	—
Reduction of long-term debt	886,016	790,864
Bond discount and expense	1,468,670	—
Capital stock expense	267,729	31,150
Additions to non-utility property	793,015	239,813
Increase in other deferred charges	967,118	913,220
Increase in working capital other than short-term debt	2,647,616	4,289,774
Other	122,190	11,914
	$ 85,806,605	38,878,896
Changes in working capital other than short-term debt:		
Increase (decrease) in current assets:		
Cash	696,773	(62,858)
Receivables	1,318,527	1,065,629
Materials and supplies	4,816,922	3,441,095
Prepaid expenses	131,562	90,838
	6,963,784	4,534,704
Increase (decrease) in current liabilities other than short-term debt:		
Accounts payable	2,694,517	1,410,186
Preferred dividends	391,000	—
Sinking fund requirements for long-term debt	226,127	349,890
Customer deposits	17,421	6,826
Accrued interest	250,508	145,814
Accrued taxes	484,827	(1,674,766)
Other current liabilities	251,768	6,980
	4,316,168	244,930
Increase in working capital other than short-term debt	$ 2,647,616	4,289,774

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974 and 1973

(1) Summary of Significant Accounting Policies

System of Accounts —

The Company maintains its accounting records in accordance with the uniform system of accounts prescribed by the Federal Power Commission and adopted by the New Mexico Public Service Commission. As a result, the application of generally accepted accounting principles by the Company differs in certain respects from the application by nonregulated 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 its wholly-owned subsidiary, Public Service Land Company. All significant intercompany transactions have been eliminated.

Utility Plant —

Utility plant is stated at original cost, which includes payroll related costs such as taxes, pensions and other fringe benefits, administrative costs and an allowance for funds used during construction. Such allowance was computed using a rate of 6½% in 1974 and 1973 as approved by the New Mexico Public Service Commission.

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

Depreciation —

Provision for depreciation of utility plant is made at annual straight-line rates prescribed by the New Mexico Public Service Commission. A study of remaining lives was conducted in 1973 and approved by the Commission resulting in an adjustment of depreciation rates effective January 1974. The change increased depreciation expense by approximately $380,000 for 1974. The average depreciation rates used were as follows:

	1974	*1973*
Electric plant	3.16%	3.12%
Water plant	1.81%	1.74%
Common plant	2.96%	2.03%

The provision for depreciation of transportation equipment is charged, along with other costs of operation, to a clearing account and subsequently apportioned to operating expenses and property accounts based on the use of the equipment. Depreciation of non-utility property is computed on the straight-line method.

Investment in Fifty-Percent Owned Company —

The Company's investment in a fifty-percent owned company is stated at equity. The co-owner, Tucson Gas & Electric Company, is participating with the Company in the construction and operation of a steam turbo-electric generating plant described in note (9). The generating plant utilizes coal from properties of the fifty-percent owned company as a source of fuel.

Amortization of Debt Discount, Expense and Premium —

Discount, expense and premium incurred in the issuance of the presently outstanding debt are being amortized by charges to income over the lives of the respective issues on the debt outstanding method.

Contributions in Aid of Construction —

Prior to January 1, 1974 amounts received from customers specifically for the construction of Company-owned facilities were recorded as contributions in aid of construction. Effective January 1, 1974, by order of the Federal Power Commission, the accumulated amount thereof related to utility plant still in service is reflected as a reduction in the original cost of utility plant. The amount related to utility plant which has been retired is reflected as an increase in the accumulated depreciation. The resultant effect on net earnings is not significant. The accumulated balance at December 31, 1973 has been reclassified on the accompanying balance sheet in the manner prescribed by the order of the Federal Power Commission.

Investment Tax Credits —

The Company follows the practice of deferring investment tax credits and amortizes them over a thirty-year period.

Income Taxes—

For income tax purposes, the Company has availed itself of accelerated amortization of emergency facilities and liberalized depreciation methods allowed by the Internal Revenue Code. Amounts equal to the resulting tax reductions are charged to income and accumulated in the deferred income tax accounts to offset the increase in taxes which occurs when deductions are less than they are under the method used for accounting purposes (normalization method).

Generally, the Company uses guideline depreciation provisions for assets acquired prior to 1972 and the class life asset depreciation range system for assets acquired in 1972 and thereafter to compute depreciation for income tax purposes. The tax reductions related to guideline depreciation are recorded as a reduction in income tax expense in the current year (flow-through method). The reduction in income taxes attributable to asset class lives shorter than guideline lives is normalized by the method previously described.

For income tax purposes, the Company deducts the allowance for funds used during construction and certain employee benefits and taxes related to construction projects which are capitalized for accounting purposes. The income tax effects are recorded as a reduction of income taxes as incurred.

The Company deducted, for tax purposes, costs incurred in training employees in the operation of a new generating station. Such costs

are capitalized for accounting purposes. The Company has adopted the normalization method of accounting for the related tax benefit.

Revenues —

Revenues are recognized based on cycle billings rendered to customers monthly. The Company does not accrue revenues in respect of energy sold but not billed at the end of a fiscal period.

The Company has a fuel adjustment clause which generally passes increased fuel costs on to customers in a subsequent month. The Company does not defer the unrecovered fuel costs.

Pension Plan —

The Company's policy is to fund pension costs which are composed of normal costs and amortization of prior service costs over a remaining period of approximately seventeen years.

(2) Capital Stock

The 1965 Series, 4.58% cumulative preferred stock may be redeemed by the Company at any time, in whole or in part, upon thirty days notice thereof, at redemption prices per share (plus accrued and unpaid dividends) as follows:

To January 14, 1976	$103.548
January 15, 1976 to January 14, 1979	103.032
January 15, 1979 to January 14, 1982	102.516
January 15, 1982 and thereafter	102.000

Except that redemption may not be made through certain refunding operations prior to April 15, 1979, the 1974 Series, 9.2% cumulative preferred stock may be redeemed by the Company at any time, in whole or in part, upon thirty days notice thereof, at redemption prices per share (plus accrued and unpaid dividends) as follows:

To April 14, 1979	$109.20
April 15, 1979 to April 14, 1984	107.00
April 15, 1984 to April 14, 1989	104.00
April 15, 1989 and thereafter	101.00

Under its stock purchase plan for employees, the Company issued 33,205 shares of common stock in 1973 and 71,884 shares of common stock in 1974 from 150,000 shares reserved for issuance under the plan. Compensation accounts of the Company are charged for one-half of the market value of stock issued under the plan and the employee pays the balance. In 1974 the Company sold 170,000 shares of its 1974 Series, 9.2% cumulative preferred stock at $100 per share. The changes in stockholders' equity accounts were as follows:

	Preferred stock	*Common stock*	*Premium on capital stock*	*Capital stock expense*
Balance at December 31, 1972	$13,000,000	21,535,280	28,555,932	(1,040,023)
Sale of 33,205 shares common stock	—	166,025	481,881	(31,150)
Balance at December 31, 1973	13,000,000	21,701,305	29,037,813	(1,071,173)

	Preferred stock	Common stock	Premium on capital stock	Capital stock expense
Sale of 71,884 shares common stock	—	359,420	576,184	—
Sale of 170,000 shares preferred stock	17,000,000	—	—	(267,729)
Balance at December 31, 1974	$30,000,000	22,060,725	29,613,997	(1,338,902)

(3) Restrictions

Charter provisions relating to the preferred stock and the indenture securing the first mortgage bonds impose certain restrictions upon the payment of cash dividends on common stock of the Company. At December 31, 1974, there were no retained earnings restricted under such provisions.

(4) Long-Term Debt

The detail of the Company's outstanding long-term debt including unamortized discount and premium, less sinking fund payments and maturities due within one year, is as follows:

	1974	*1973*
First Mortgage Bonds:		
2⅞% Series, due 1977	$ 4,899,671	4,968,713
3 % Series, due 1980	3,900,000	3,950,000
3¾% Series, due 1982	3,160,000	3,200,000
3⅝% Series, due 1984	2,433,346	2,463,736
4⅜% Series, due 1988	9,130,000	9,240,000
4⅞% Series, due 1991	10,460,000	10,560,000
5⅞% Series, due 1997	19,402,028	19,613,780
7¼% Series, due 1999	14,631,851	14,778,007
8⅛% Series, due 2001	19,957,789	19,955,045
7½% Series, due 2002	19,957,232	19,955,714
Pollution Control Revenue Bonds — 7.6% Series due 1984 ($55,000,000 principal amount less $47,854,722 held by trustee)	7,145,278	—
Other	452,289	130,580
	$115,529,484	108,815,575

Effective January 1, 1974 unamortized discount and premium are combined with long-term debt in compliance with an order of the Federal Power Commission. The December 31, 1973 balance sheet has been reclassified to give effect to this revision.

Approximately 25 percent of the original principal amount of each series of first mortgage bonds will be redeemed through sinking fund requirements prior to the aforementioned due dates. The aggregate amounts of maturities and sinking fund requirements on long-term debt outstanding at December 31, 1974 are as follows:

1975	$ 786,017
1976	1,048,758

1977	6,012,760
1978	1,156,529
1979	1,104,402

(5) Short-Term Debt and Compensating Balance Arrangements

The Company's notes payable to banks aggregated $25,450,000 at December 31, 1974 and $18,121,000 at December 31, 1973 with average interest rates of approximately 10½% and 9½%, respectively. Commercial paper aggregating $6,500,000 at December 31, 1974 had an average interest rate of approximately 9¾%. In each case, such amount was the maximum amount outstanding during the year.

The average short-term debt outstanding and the weighted average interest rate thereon, computed using daily debt outstanding balances, were approximately $17,350,000 and 10½% (11½% effective rate after considering the effect of compensating balance arrangements), respectively, for 1974 and $9,875,000 and 8% (9% effective rate after considering the effect of compensating balance arrangements), respectively, for 1973. The Company has agreed to maintain compensating balances with certain lending banks equal to 20% of the outstanding indebtedness or 10% of the lines of credit at such banks, whichever is greater. Such compensating balances totaled $2,440,000 at December 31, 1974 and $1,240,468 at December 31, 1973.

The Company had unused lines of credit for short-term borrowings aggregating approximately $900,000 at December 31, 1974 subject to cancellation at the banks' option and $6,300,000 at December 31, 1973.

(6) Income Taxes

Income taxes consist of the following components:

	1974	*1973*
Charged to operating revenue deductions:		
Federal income tax	$3,217,600	3,339,323
State income tax	410,027	542,795
Deferred Federal income tax	2,002,339	1,760,114
Deferred State income tax	222,892	194,035
Amount equivalent to current investment credit	876,130	1,999,889
Amortization of accumulated investment credit	(90,489)	(101,426)
	6,638,499	7,734,730
Charged to other income and deductions:		
Federal income tax	(55,842)	(72,373)
State income tax	(5,801)	(7,530)
Deferred Federal income tax	35,805	6,583
Deferred State income tax	3,727	686
Amortization of accumulated investment credit	(77,598)	—
	(99,709)	(72,634)
Total income taxes	$6,538,790	7,662,096

Deferred income taxes deducted currently result from timing differences in the recognition of income and expenses for tax and accounting purposes. The sources of these differences and the tax effects of each were as follows:

	1974	1973
Accelerated amortization of emergency facilities, liberalized depreciation methods and asset class lives shorter than guideline lives	$2,235,272	1,672,322
Training costs	(10,041)	281,827
Undistributed earnings of fifty-percent owned company (included in other deductions)	39,532	7,269
	$2,264,763	1,961,418

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

	1974	1973
Federal income tax statutory rate	48.0%	48.0%
Tax depreciation in excess of book depreciation caused by use of guideline depreciation provisions	(3.3%)	(3.8%)
Allowance for funds used during construction, net of depreciation adjustments	(2.1%)	(6.1%)
Certain employee benefits and taxes capitalized for financial statements, net of depreciation adjustments	(2.5%)	(1.1%)
State income taxes, net of Federal tax effect	1.9%	1.9%
Undistributed earnings of fifty-percent owned company	(1.3%)	(.2%)
Amortization of investment tax credits	(1.0%)	(.5%)
Other miscellaneous items	(.9%)	(.5%)
Company's effective income tax rate	38.8%	37.7%

(7) Revenues

In November, 1974 the Company was granted permission by the New Mexico Public Service Commission to implement new rate schedules for electric service with a portion of the increased revenues being subject to refund, depending on the final determination of the Company's rate case. As of December 31, 1974 the Company had recorded electric revenues of approximately $570,000 which are subject to refund.

(8) Pension Plan

The Company has a pension plan covering substantially all of its employees, including officers. The plan provides for monthly pension payments to participating employees upon their attaining the age of 65 or the age of 62 with 30 years service, the amount of such payments being dependent upon length of service and the average wages of the five highest consecutive years of employment. Retirement benefits are 2% per year of service but not to exceed 65% of the employee's salary less a social security offset. The Company made contributions to the employees' pension plan of $945,000 in 1974 and $944,000 in 1973, including normal costs and amortization of prior service costs. The actuarially computed value of vested benefits as of

December 31, 1973, the most recent valuation date, did not exceed the total of the pension fund assets.

In addition, the employees contribute $3 for the first $400 of monthly base salary, plus 3% of that part of base salary in excess of $400 during each month.

The estimated amount of the unfunded prior service liability at December 31, 1973, was approximately $3,850,000.

The Employee Retirement Income Security Act of 1974 will require amendments to the plan's participation and vesting provisions. The effect of the amendments on the provision for pension expense and vested benefits cannot be estimated pending completion of further studies.

(9) Commitments and Construction Program

The Company is participating with Tucson Gas & Electric Company in the construction of a steam turbo-electric generating station located in San Juan County, New Mexico. The Company will own an undivided 50% interest therein. The first unit of the station was completed and placed in service in 1973. Construction of the second unit, with the Company's share of the cost estimated to be approximately $75,000,000, commenced in 1974.

The Company is also participating with several other utilities in the construction of a nuclear generating station with the first unit scheduled for completion in 1982.

It is estimated that the Company's construction expenditures for 1975 will approximate $91,000,000 including expenditures on the San Juan and nuclear projects. In connection therewith, substantial commitments have been made.

The Company has noncancelable leases for data processing and office equipment, utility poles (joint use), water processing apparatus, other equipment and real estate. Certain leases provide purchase options in the approximate amount of $1,700,000 for data processing equipment and $800,000 for construction equipment and a purchase obligation in the approximate amount of $1,400,000 for water processing apparatus provided it meets certain performance requirements. Renewal options and contingent rental provisions were not significant. The effect on net earnings of not capitalizing financing leases was not significant. At December 31, 1974, lease commitments for subsequent years were approximately:

1975	$1,218,000
1976	862,000
1977	830,000
1978	703,000
1979	491,000
1980-1984	1,619,000
1985-1989	101,000
1990-1994	83,000
1995 and thereafter	241,000

Rents, charged to operating expense except for insignificant amounts charged to utility plant, were $1,172,676 in 1974 and $629,778 in 1973.

STOCK/DIVIDEND DATA

Range of sales prices of the Company's common stock, on the New York Stock Exchange (symbol: PNM), and dividends paid on both common and preferred stock for fiscal 1974 and 1973, by quarters. (Unaudited)

COMMON STOCK

	Range of Sales Prices		*Dividends Per Share*
	High	*Low*	
Fourth Quarter, 1974	13¾	10¾	$ 0.30
Third Quarter, 1974	13¾	10⅜	0.30
Second Quarter, 1974	17¼	13	0.30
First Quarter, 1974	19⅜	16⅝	0.30
Fiscal Year	19⅜	10⅜	$ 1.20
Fourth Quarter, 1973	21⅝	15¾	$ 0.30
Third Quarter, 1973	21½	18¼	0.30
Second Quarter, 1973	22	19⅝	0.27
First Quarter, 1973	25⅞	21¼	0.27
Fiscal Year	25⅞	15¾	$ 1.14

PREFERRED STOCK

	1965 Series, 4.58% *Dividends Per Share*	*1974 Series, 9.2%* *Dividends Per Share*
Fourth Quarter, 1974	$ 1.145	$ 2.30
Third Quarter, 1974	1.145	2.30
Second Quarter, 1974	1.145	2.30
First Quarter, 1974	1.145	—
Fiscal Year	$ 4.58	$ 6.90
Fourth Quarter, 1973	$ 1.145	$ —
Third Quarter, 1973	1.145	—
Second Quarter, 1973	1.145	—
First Quarter, 1973	1.145	—
Fiscal Year	$ 4.58	$ —

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

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
P. O. BOX 1027
ALBUQUERQUE, NEW MEXICO 87103

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

We have examined the consolidated balance sheet of Public Service Company of New Mexico and subsidiary as of December 31, 1974 and 1973 and the related statements of consolidated earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Public Service Company of New Mexico and subsidiary at December 31, 1974 and 1973 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 12, 1975

BOARD OF DIRECTORS

H. L. GALLES, JR.* — *President, Galles Chevrolet Company — Albuquerque, New Mexico*
J. D. GEIST* — *Executive Vice President, Public Service Company of New Mexico*
C. E. LEYENDECKER — *President, Mimbres Valley Bank — Deming, New Mexico*
R. F. MATHER — *President, Creamland Dairies, Inc. — Albuquerque, New Mexico*
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G. A. SCHREIBER* — *Chairman of the Board/President, Public Service Company of New Mexico*
R. H. STEPHENS — *President, Stephens-Irish Agency — Las Vegas, New Mexico*
R. L. TRIPP† — *Chairman and Chief Executive of Albuquerque National Bank — Albuquerque, New Mexico*
E. R. WOOD — *President, Santa Fe Motor Company — Santa Fe, New Mexico*

**Members of the Executive Committee*
†Deceased December 11, 1974

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J. D. GEIST — *Executive Vice President*
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B. D. LACKEY — *Controller*
P. J. ARCHIBECK — *Assistant Secretary and Assistant Treasurer*
B. P. LOPEZ — *Assistant Secretary*
H. L. HITCHINS, JR. — *Assistant Secretary and Assistant Treasurer*
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W. A. BADSGARD — *Santa Fe Division Vice President*
F. E. GRAY — *Vice President, Water Operations*
E. W. CARR — *Belen Division Manager*
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R. A. LAKE — *Deming Division Manager*
T. P. WARNKE — *San Juan Operations Manager*
L. EDWARDS — *Bernalillo Division Manager*

EXECUTIVE OFFICES

414 Silver Avenue SW, Albuquerque, New Mexico

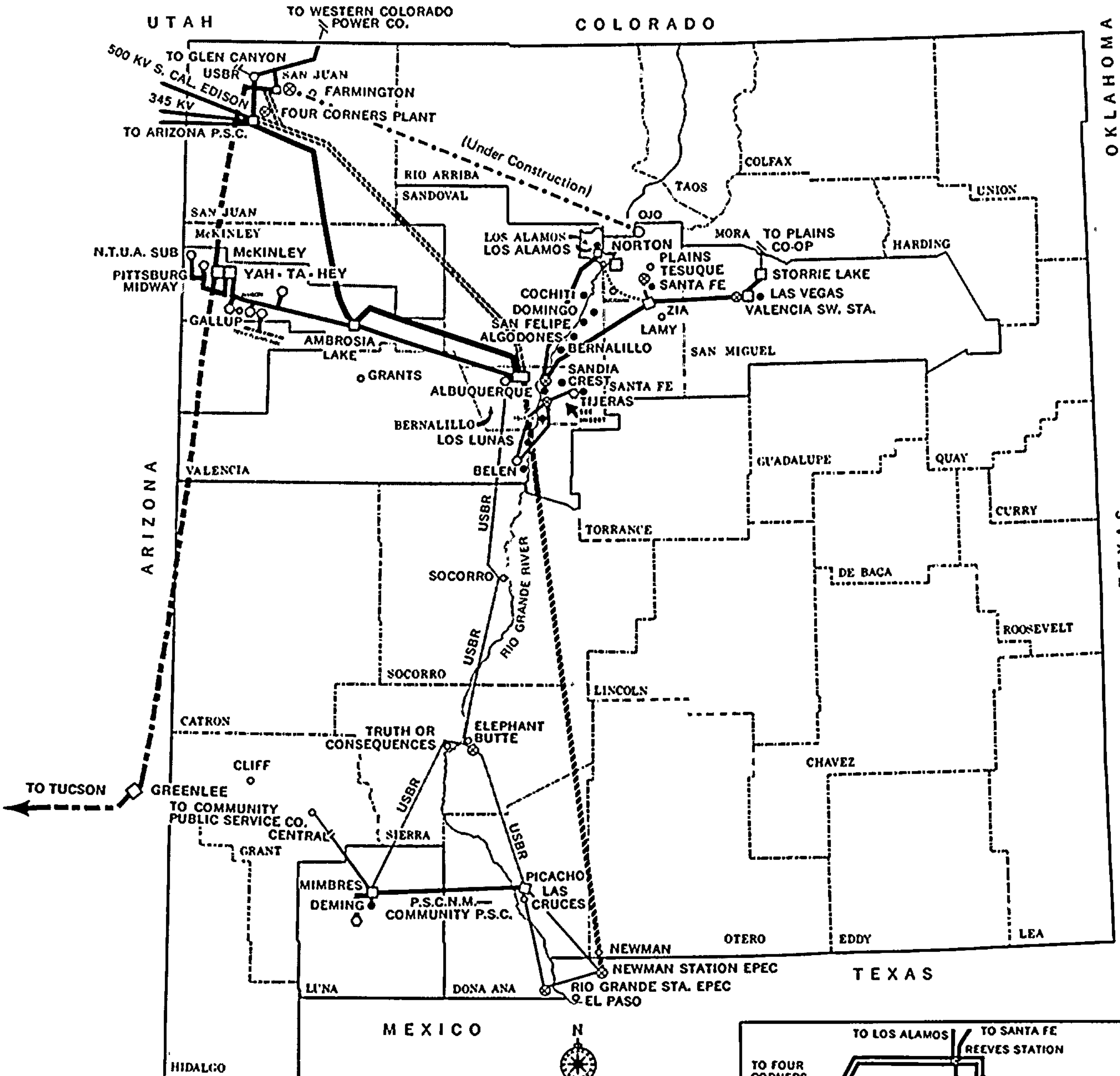
TRANSFER AGENT

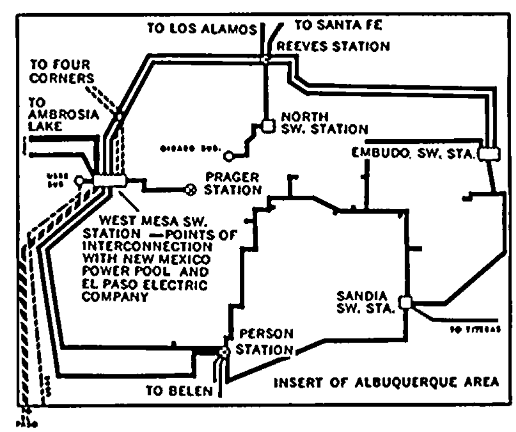
Albuquerque National Bank, Albuquerque, New Mexico
Chemical Bank, New York, New York

REGISTRARS

Irving Trust Company, New York, New York
First National Bank in Albuquerque, Albuquerque, New Mexico

system map





legend

- 230 KV Public Service Co. of New Mexico
- 345 KV Public Service Co. of New Mexico
- 115 KV Public Service Co. of New Mexico
- 46 KV Public Service Co. of New Mexico
- 345 KV P.N.M. (Under Construction)
- 230 KV USBR
- 115 KV U.S. Atomic Energy
- 345 KV El Paso Electric Co.
- 115 KV El Paso Electric Co.
- 115 KV USBR
- 345 KV Tucson Gas and Electric Co. / P.N.M.

- City or Town and Adjacent Area Served by P.N.M.
- City or Town and Adjacent Area Served by Others
- Interconnection
- Generation Facilities
- Switching Stations
- Substations