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## Socialized Utility Rates

The New Mexico State Legislature considered three Senate bills that would allow or require a utility company to provide lower gas and electric utility rates for low-income electric and gas customers, the cost of which would be paid by other rate payers. As this issue of Shareholder News goes to press, we think these bills have been stopped. But, the discussion is not over. The Public Regulation Commission (PRC) will hold workshops on the subject this summer.

Some of the proposed legislation was written to allow anyone within 185% of the poverty level to qualify for lower utility rates. (For a family of four, this would be an annual income of about \$38,000.) That would leave all other rate payers, who did not qualify for reduced rates, to pay higher rates creating a socialized utility rate system. This rides most heavily on the backs of the lower middle class rate payers who work hard to provide for their needs without government assistance.

And at the same time, you have gas and electric utility companies regulated by the PRC that have not had rate increases for several years. Because of increased costs of operations, labor and material, they must apply for rate increases in a filed case to be heard and ruled on by the PRC.

It should not be the responsibility of rate payers to cover the utility needs of some. In fact, in 1984, the New Mexico Supreme Court determined in *Mountain States Legal Foundation v. New Mexico SCC* that "Establishing a telephone discount rate program which differentiates between economically needy individuals who receive the same service is unjustly discriminatory." The same holds true for utility rates.

New Mexico has a home heating program in place to handle the needs of the poor: the Low Income Home Energy Assistance Program (LIHEAP). NMUSA has been a proponent at both the state and federal

levels for several years and worked diligently in support of it during New Mexico's 2007 Legislative session.

So why are New Mexico legislators looking for another source of revenue if we have an established program? Because the federal LIHEAP funds cover only a portion of the needs and the state has failed to properly fund their portion of this program.

Helping New Mexico's poor requires a broad reaching program that should be managed with state dollars in existing social agencies. Gas and electric utility companies are not qualified to administer social programs, nor would we want them in that business.

*" . . . the discussion is not over. The Public Regulation Commission (PRC) will hold workshops on the subject over the summer."*

## From the President . . .



**Bob Reed**

Now that New Mexico's 60-day legislative session is complete, we can look back with satisfaction at the total product of NMUSA's effort. Your Executive Director, Carla J. Sonntag, worked constantly in Santa Fe, identifying over forty energy-related bills and zeroing in on more than ten which prompted action through the sometimes convoluted state legislative process. Because this edition of Shareholder News went to press before the final outcome, we will give you the full breakdown in the next quarterly newsletter.

Shareholder interests were represented with the Public Regulatory Commission (PRC) in hearings and open meetings on individual utility matters as well as discussion of proposed legislation. It was interesting to see how actively involved this Commission was in the Legislative process.

Ms. Sonntag spoke before a nationwide audience of utility company CEOs and other executives at the Edison Electric Institute (EEI) convention in Scottsdale, AZ in January. Teamed with the Executive of the Minnesota Utility Investors, the presentation emphasized the value of state shareholder organizations. With seven other similar organizations nationwide, we anticipate many more forming in the next 18 months.

The success of our efforts, I believe, is reflected in a growing NMUSA membership. Currently representing the interests of over 2600 New Mexican households, we recognize our strength as stated in our motto, "Together, we have the power!" With adequate funds, the Alliance will continue to support a healthy utility industry. If you haven't paid your dues for 2007, we hope you will give this your immediate consideration.

*Bob*

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## In Brief

**Arizona Public Service (APS)** was recognized by J.D. Power and Associates in its 2006 survey results for superior customer satisfaction. APS was rated the top investor-owned electric utility in the West by business customers and number two by residential customers.

**El Paso Electric Co. (EE)** Robert Clay Doyle was appointed Vice President of New Mexico Affairs, replacing Robert McNiel. He will oversee all functions of El Paso Electric's business within New Mexico.

His previous positions include Manager of the Corporate Projects Office, Project Manager of Corporate Transition to Competition, Supervisor of Distribution Dispatch and Distribution Monitoring Engineer.

El Paso Electric Co. has also filed a rate case requesting a 1.1 percent rate increase for its customers in the state. The increase, if approved, would cost the average electrical customer 67 cents more a month beginning July 1. The utility has about 80,000 New Mexico customers, most of them in the Las Cruces area.

**PNM** has filed two rate cases: The gas rate case, heard in December, included "decoupling", a process that allows a utility company to recover fixed costs independent of a customer's natural gas usage. The gas rate case could raise residential rates an average of \$3.08 per month.

The first electric rate case in more than 20 years was filed in February. PNM's proposal included:

1. A fuel and purchased power cost adjustment clause;
2. A bill surcharge for timely recovery of environmental improvements; and
3. summer and consumption-based rates designed to encourage energy efficiency. This could result in an average increase of \$5.82 per month for residential customers.

**Tucson Electric Company (TEP)** added approximately 7,500 new customers in 2006, a 2 percent increase over the previous year. Sister company UniSource Energy Services (UES) added 10,000 customers in 2006, bringing UniSource Energy's customer growth rate to 3 percent for the combined companies. This year-over-year increase is double the utility industry's average growth rate of 1.5 percent.

**Xcel Energy (XEL)** Paul Johnson became Managing Director of Investor Relations at Xcel Energy in January 2007 replacing Dick Kolkmann. His previous positions include Director of Investor Relations (November 2001 – December 2006) and Director of External Reporting, along with a variety of financial positions over 20 years.

Southwestern Public Service (SPS) has entered into a long term purchased power agreement with Lea Power Partners to supply power to their service territory in Southeastern New Mexico. Power will be supplied by a newly constructed natural gas-fired, combined cycle generating facility which is dry cooled. The plant will be a low emission and water use facility, as compared to other options.

## Global Warming

Two recent announcements are vital to our interests as utility company shareholders. First, the scientific community confirmed in a summary report that human activity is contributing to global warming. No question. The problem is complex, but the nation's industry is judged a major contributor.

Second, a partnership of major industries and environmental groups announced an agreement which outlines a common goal to "encourage federal legislation to achieve significant reduction of greenhouse gas emissions". The alliance is called the U S Climate Partnership (USCAP) and includes Alcoa, BP America, Caterpillar, Duke Energy, DuPont, FPL Group, GE, Lehman Brothers, PG & E and PNM Resources (PNMR), together with Environmental Defense, Natural Resources Defense Council, the Pew Center on Global Climate Change and World Resources Institute.

The agreement proposes recommendations based on the following six principles:

1. Account for the global dimensions of climate change;
2. Create incentives for technology innovation;
3. Be environmentally effective;
4. Create economic opportunity and advantage;
5. Be fair to sectors disproportionately impacted; and
6. Reward early action.

The collaboration is historic, bringing environmental groups into agreement with major industry goals, one of which is to avoid arbitrary, but well-meaning legislation which could cripple industrial growth. Because the problem is national in scope, the partnership would encourage legislators to create national

standards to replace rules and/or guidelines established by the individual states.

"The unique challenge of climate change is that it requires action now on a problem that will affect our grandchildren far more than it will affect us," said Jeff Sterba, President and CEO of PNMR. "With the right framework, we can address this problem and even create unique opportunities within our society".

"The time has come for constructive action that draws strength equally from business, government and non-governmental stakeholders" said Jeff Immelt, Chairman and CEO of General Electric. "These recommendations should catalyze legislative action that encourages innovation and fosters economic growth while enhancing energy security and balance of trade, ensuring U. S. leadership on an issue of significance to our country and the world."

The partnership agreement is contained within a solutions-based report, titled "A Call for Action," which lays out a blueprint for a mandatory, economy-wide, market-driven approach to climate protection. The report is available on the USCAP website, [www.us-cap.org](http://www.us-cap.org).

Coincidentally, it was reported in the February 12, 2007 issue of the New Yorker magazine that the U S Congress is moving forward on carbon emission control with proposed legislation in both the House and Senate.

But some states are not waiting for federal action. In early March, a four state alliance was formed to set a regional target for cutting greenhouse gasses. The states are Arizona, Oregon, Washington and New Mexico. And on March 5, Governor Richardson signed legislation which encourages utilities to derive 20 percent of electricity from renewable sources by the year 2020.

Stay tuned.

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### Continued from page 1, "Socialized Utility Rates"

If the state fails to adequately fund LIHEAP and then raises most rate payers' rates to assist low income households with their heating needs, wouldn't this be considered just another tax? The state has the revenue to cover the LIHEAP needs of New Mexico through its current tax base and abundant oil and gas industry revenues. It is time for New Mexico to step up to the plate and take care of its own using existing resources. Legislation should not mandate socialized rates in any industry nor should the government use utilities as tax-collectors. Utility rates should cover utility costs, expenses and a decent rate of return - period.

## Nuclear Waste Storage

In October 2006, Centre Daily Times of Pennsylvania published an editorial on New Mexico's Waste Isolation Pilot Plant (WIPP) representing it as a "true success story". The article stated, "Despite fears of the unknown, a deep underground repository in southeastern New Mexico being used for the disposal of plutonium-contaminated nuclear waste from the defense program has been up and running for almost a decade and is demonstrating great benefits -- short-term and possibly long-term -- to the public.

Completed seven years ago, the Waste Isolation Pilot Plant (WIPP) is the world's first underground repository for the permanent disposal of nuclear waste. So far, more than 81,000 containers of long-lived transuranic waste have been placed in the facility.

Some of the waste has been shipped more than 1,000 miles by truck from government defense installations in South Carolina, Idaho and Washington state, demonstrating that highly radioactive materials can be transported long distances safely and placed in an underground facility without harm to the public.

The U.S. Department of Energy (DOE) manages WIPP, and its successful operation after years of litigation by anti-nuclear groups and efforts by the state government of New Mexico to halt construction of the repository, show that DOE is perfectly capable of handling another controversial project -- the storage of spent fuel from nuclear power plants at the Yucca Mountain geologic repository in Nevada. DOE's experience

with WIPP is not unlike the one it is having with the Yucca Mountain project."

And, in December 2006, the UPI quoted then incoming Senate Majority Leader Harry Reid, D-Nev., on the Yucca Mountain federal nuclear waste repository concept stating it "is dead. It'll never happen." Reid, who has long been an opponent of the centralized nuclear waste facility in his home state, said he would continue to work to block completion of the project.

Reid also stated, "That's a tremendous waste of money. Just forget about that. It's not going to happen." Reid indicated that he "favors using money from the Nuclear Waste Fund - money ratepayers contribute to solving the nuclear waste storage issue (\$27 billion since 1982) - for keeping the waste at the nuclear plants. The federal government was supposed to take possession of the waste by 1998, the original opening date for Yucca."

Reid had pledged to block legislation to provide additional funding to complete the project. True to his word, the AP reported on 3/7/07 that Reid, now in charge of Senate floor scheduling, vowed to block legislation recently introduced in Congress to provide additional funding and expand the current capacity of Yucca Mountain.

Edward F. "Ward" Sproat, director of the Energy Department's Office of Civilian Radioactive Waste Management, said, "if we don't have that we are certainly not going to be able to maintain the 2017 date" for opening the facility.

### **Diane Munns, Former NARUC President, to Direct EEI'S Efficiency Programs**

Diane Munns, an Iowa utility regulator and immediate past president of the National Association of Regulatory Utility Commissioners (NARUC), became executive director of the Edison Electric Institute's retail energy services group in February 2007.

"We are delighted to have someone of Diane's caliber join our staff to lead an important enterprise at EEI, focusing on energy efficiency and customer issues," Tom Kuhn, President of EEI, said. "With her wealth of regulatory expertise and leadership background at NARUC, Diane will be a valuable addition as our industry continues to escalate efforts to improve efficiency across the board."

## An Interview with Commissioner Carol K. Sloan

**NMUSA: Please tell us about yourself.**

**Commissioner Sloan:** "I have always called the Gallup area home. My family and I live in the community of Twin Lakes, on the Navajo Nation, just outside of Gallup. My husband, Jamison, and I have four adult daughters. Previously I served as McKinley County Clerk for 12 years and was on the Board of Directors for the National Association of Counties. I was the first Native American to serve as a County Clerk in New Mexico; my daughter is the second Native American County Clerk in the state's history."

**NMUSA: What are your goals and objectives while serving in the NMPRC?**

**Commissioner Sloan:** "As a Commissioner, I look forward to increasing the use of renewable energy and promoting green technology use--as a way to assist with economic development in rural New Mexico. Additionally, I hope to assist in increasing basic services to the people in my District, which has the highest rate of people without basic utility service."

**NMUSA: What do you feel is the most important function of the NMPRC?**

**Commissioner Sloan:** "The most important function of the NMPRC is customer service and consumer advocacy while creating a fair and equitable process for industry. When we keep the consumer at the center of our deliberations, everyone wins. Business is happy because people trust them and the NMPRC is happy because the consumer is treated properly."

**NMUSA: What, if anything, do you feel within the NMPRC could be improved upon?**

**Commissioner Sloan:** "The NMPRC can improve on several things. I think the merger between the SCC and PUC, though theoretically complete, needs to promote stronger unity within the agency. I think the Commission has come a long way under the direction of Chairman Lujan. Together with this new Commission and our excellent staff, you will see more unity within the NMPRC, which allows us to better serve the citizens of New Mexico."

**NMUSA: Regarding New Mexico's gas and electric utility industry, what do you think is its strengths and weaknesses?**

**Commissioner Sloan:** "I think the biggest strength of the New Mexico gas and electric utility industry is its ability to provide basic services to New Mexicans in most parts of the state. However as previously discussed, there remain people in my District who don't have basic utility services; I hope to change that during my tenure as a Commissioner."

**NMUSA: What would you do to improve the gas and electric utility industry?**

**Commissioner Sloan:** "I would invest more in technology to reduce our reliability on fossil fuels and non-renewable energy sources, in order to reduce emissions. Whether its clean coal, wind, biomass or solar, there are opportunities to tap into clean energy sources; the industry should start doing it now, so that it can be ahead of the curve. Why wait? Be proactive and forward thinking."

**NMUSA: Overall, do you feel the industry is concerned about ratepayers and are the rates being charged fair to both the company and the ratepayer for this service?**

**Commissioner Sloan:** "Overall, I believe the industry is concerned with ratepayers--business and the markets mandate, that you deliver quality and fairness in order to retain your customers. Simply put, if you don't treat people right they will go elsewhere, or look at alternatives to meet their needs. I believe the rates currently being charged are fair to both the industry and the consumer. If this wasn't the case, both industry and consumers would be knocking at our doors in frustration and anger."

**NMUSA: What do you feel is a fair rate of return for a regulated gas or electric company operating in New Mexico?**

**Commissioner Sloan:** "I believe a rate of return is dependent on several variables, including the type of case, the utility and the prevailing interest rates."

## Company Year End Results

**El Paso Electric (EE)** For the twelve months ended December 31, 2006, EE reported net income of \$67.5 million, or \$1.42 and \$1.40 basic and diluted earnings per share, respectively, which includes an extraordinary gain of \$6.1 million, net of tax, or \$0.13 basic and diluted earnings per share. Net income for the twelve months ended December 31, 2005 was \$35.5 million, or \$0.75 and \$0.74 basic and diluted earnings per share, respectively.

"We realized a 30% improvement in earnings, excluding extraordinary items, in the fourth quarter of 2006 compared to the fourth quarter of 2005 in large part due to increased margins from off-system sales," said Gary Hedrick, President and CEO. "This earnings increase resulted from increased revenues from customer growth, off-system sales, and transmission wheeling."

**PNM Resources (PNM)** 2006 earnings increased to \$122.1 million, or \$1.73 per diluted share. Ongoing earnings per diluted share (excluding non-recurring charges) increased 15.4 percent to \$1.80 from \$1.56 in 2005.

"2006 marked the fourth year in a row that we surpassed our earnings growth target of 5 percent to 6 percent annually," said Jeff Sterba, PNM Resources chairman, president and CEO. "Our 2006 results reflect the addition of Twin Oaks, strong growth from First Choice Power and increased wholesale marketing activity."

Sterba said 2006 results also reflect the under-earning performance of the PNM gas and electric utility. In 2006, PNM's gas operations earned a 2.8 percent return on equity and the electric business earned an estimated 6.4 percent return on equity.

**Pinnacle West Capital Corporation (PNW)** the holding company for **Arizona Public Service Company (APS)** For 2006, Pinnacle West's consolidated on-going earnings decreased 3.5 percent to \$313.3 million, or \$3.13 per diluted share. This is compared with 2005 on-going earnings of \$324.5 million, or \$3.35 per share. Pinnacle West reported 2006 consolidated net income of \$327.3 million, or \$3.27 per share, compared with 2005 net income of \$176.3 million, or \$1.82 per diluted share.

"Arizona is now the fastest-growing state in the nation, and our business reflects that fact," said Chairman Bill Post, citing a record 44,000 new APS customers in 2006, the equivalent of a small city. "Looking ahead, growth will continue to dominate our operating environment, thus requiring innovation and investments in infrastructure to ensure we continue providing reliable, affordable energy."

**UniSource Energy Corp (UNS)** the holding company for **Tucson Electric Power Company (TEP)** reported earnings for 2006 of \$67 million. This amounts to \$1.91 per basic share of common stock or \$1.80 per share on a diluted basis. This is compared to 2005 earnings of \$46 million (\$1.33 per basic share or \$1.28 per share on a diluted basis).

"Our improved financial results can be credited in part to the steady operations of TEP's cost-effective generation assets," said James S. Pignatelli, Chairman, President and CEO of UniSource Energy. "In 2005, we experienced an extended summer shutdown of SGS Unit 2. This year, our plant availability was better than 90 percent for the year and exceeded 95 percent from June through September when customer demand is at its highest."

**Xcel Energy, Inc. (XEL)** the parent company of **Southwestern Public Service (SPS)** 2006 income from continuing operations was \$569 million, or \$1.35 per share on a diluted basis, compared with \$499 million, or \$1.20 per share in 2005. Total earnings were \$572 million or \$1.36 per share, compared with \$513 million or \$1.23 per share in 2005.

"On many fronts, 2006 was an outstanding year," said Richard C. Kelly, chairman, president and chief executive officer. "We realized earnings at the top of our guidance range. Constructive conclusions were reached in our electric rate cases in both Minnesota and Colorado. Customer service reliability has improved compared to the previous year. Construction of our major projects is running smoothly and both the Metropolitan Emissions Reduction Project and the Comanche 3 coal-fired power plant in Colorado remain on track."

## NMUSA Celebrates 10 Years

This year marks the 10 year anniversary of the New Mexico Utility Shareholders Alliance (NMUSA). Our goal is to make this the biggest recruitment year to date for new members as we celebrate our motto, "Together, we have the power!" You can help by recruiting friends, family, neighbors or acquaintances that own stock in gas or electric utility companies doing business in New Mexico. See the application below for a list of those companies.

We have a special package of gifts for all first-time dues paying members. And, for any member of NMUSA that recruits three (3) new dues-paying members in 2007, we have a special gift for you as well.

There are over 12,000 gas and electric utility shareholders in New Mexico and we'd like every one of them to be a member of this fine organization. It truly makes a difference when we represent thousands of the legislators' and regulators' constituents.

## Communications through E-Mail

We launched our first member e-mail communication during the legislative session and the response was strong. Many of our members wrote or called their legislators in support or opposition of bills identified by NMUSA and some even sent letters to their local newspapers. That's the value of a grassroots' effort and we applaud your diligence.

To those members who live outside of New Mexico, we understand that you may not get personally involved in our state's politics. But we want to keep you informed of the issues facing the utility companies doing business here and our work on your behalf. Your involvement will be critical in federal issues.

If you did not hear from us during the session, it's because we do not have your e-mail address. Please contact us so that you don't miss out on future communications. And please make sure that your system will accept e-mail from nmusa@rt66.com. We will never sell or trade your e-mail information and will limit our communications to those considered most important.

## Join the Alliance NOW!

If you aren't a member or haven't paid dues for 2007, we strongly urge you to do so now. Dues are voluntary but help us attend regulatory and legislative meetings to advocate the interests of utility shareholders. Your contribution also helps fund this newsletter, our web site ([www.nmusa.org](http://www.nmusa.org)) and membership meetings.

Name _____			<b>I own shares of stock in:</b> (Stock ownership required) (Check all that apply)	
Spouse's Name (if applicable) _____			<input type="checkbox"/> El Paso Electric	<input type="checkbox"/> UniSource Energy
Address _____			<input type="checkbox"/> Pinnacle West	(Tucson Electric Power)
City _____ State _____ Zip _____			(Arizona Public Service)	<input type="checkbox"/> Xcel Energy
Telephone _____			<input type="checkbox"/> PNM Resources	(Southwestern Public Service)
Email Address _____			<input type="checkbox"/> Other _____	_____
			Referred by _____	

Please complete this form and mail with your annual dues of \$15. Please make checks payable to NMUSA.

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Telephone: (505) 836-4223

## From the Executive Director . . .

What an exciting quarter it has been; the activity at the legislature was nonstop. We were fortunate to have some very dedicated members helping us because it's important that legislators hear from their constituents and others who have an interest in bills being introduced.

We have completed the first phase of our annual membership drive. Thank you to those dedicated members who paid their dues so promptly - and those that contributed above the requested \$15. You are terrific!

Don't forget our special gift for those of you that recruit three new dues paying members in 2007. You'll receive a NMUSA monogrammed insulated bag large enough to hold six canned beverages. Just have your referral list your name on the membership form they complete.

We have several cases pending before the New Mexico Public Regulation Commission (NMPRC). Many of the companies that our members own stock in have filed rate cases. We are reviewing the submittals and weighing in by providing public comment at the hearings.

It's sometimes tough when prices are high, but as a regulated company, they cannot simply raise prices to cover their increased costs. They must file a case and request rates that cover these costs as well as provide a fair rate of return. And NMUSA is there to support them.

We will be planning our community meetings around the state and hope to meet many of you in your hometowns. Watch for additional information about dates in the mail, future newsletters and your local papers.

Until next time, we wish you every success in your endeavors and thank you for your dedication to NMUSA.



Carla J. Sonntag

A handwritten signature in black ink, appearing to read 'Carla J. Sonntag', located below the typed name.