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New Mexico's Utility Regulation

Work with the New Mexico Public Regulation Commission is never dull. NMUSA has attended many open meetings and participated in hearings. We've provided public comment on cases as well as proposed rule makings. Below is a summary of our work on your behalf:

PNM Case 05-00356-UT, Request For Proposal (RFP) for Nonwind Renewable Energy plant. As required by the legislature, utilities must not only meet 10% of their energy requirements through renewable sources by 2011, they must also diversify the type of production to include sources other than wind. PNM put out an RFP and hired Navigant, an independent qualified third party, to evaluate the bids. PNM rejected all responses to this bid, including their own self-build biomass project. The projects either did not meet the criteria or would produce energy at a cost higher than the reasonable cost

threshold. After an open PRC meeting to hear from responders, PNM has agreed to continue working with the top two companies.

SPS Case No. 04-00426-UT and 05-00341-UT relate to the Fuel and Purchased Power Cost Adjustment Clause (FPPCAC) used by SPS. Fuel used to produce power is a pass through cost to ratepayers and cannot be marked up by utility companies. Some companies are allowed to recapture the cost of this fuel through the use of the FPPCAC without waiting for a rate case. That's helpful to both the company and ratepayers, especially in light of the current high fuel rates. Companies don't have to 'absorb' these higher fuel costs until their next rate case and ratepayers don't get hit with potentially exorbitant increases following rate decisions.

Continued on page 6

Federal Initiatives

Tax Reduction Extension

Both the House and the Senate have signed a Conference Report that provides, among other things, for a two year extension of reduced rates on capital gains and dividends. Under current law, capital gains and dividend income are taxed at a maximum rate of 15 percent through 2008. For taxpayers in the 10 and 15 percent tax brackets, the tax rate is 5 percent through 2007 and zero in 2008. The Conference Report extends the rates effective in 2008 through 2010.

Alternative Minimum Tax (AMT)
This provision extends the AMT exemption levels though the end of 2006 at a higher level than in 2005. The new exemption levels for 2006

are \$62,550 for joint filers and \$42,500 for single filers.

The bill was signed into law at a White House ceremony on May 17, 2006.

LIHEAP Funding

On March 20, 2006 President Bush signed into law legislation that increases funding for the federal LIHEAP program by \$1 billion in FY06.

Of that \$1 billion, \$500 million is guaranteed funding and \$500 million is contingency funding to be allocated at the White House's discretion.

New Mexico received an increase of \$1,771,651 for a total funding amount of \$11,924,689 in FY06.

Grassroots efforts work!

From the President to our Fellow Good Citizens and Investors



Ed Borchardt

How high is your patriotic feeling level today? Is it high enough to drive you out to the polls to vote in the primary and general elections which are upon us again? Who among you will actually go out and vote? And exactly who should vote?

These questions bring to mind some classic differences in philosophy on this matter I've heard debated, often in a spirited manner, over the years. Is it better to have literally anyone who can vote really do so? Until recently at least, Greece used to fine voters who didn't fulfill their civic duty to vote. Is this a good idea, even if the voters aren't particularly well informed on the issues or candidates? Might it not be better to only allow those voters who can demonstrate that they're informed about the issues and candidates vote? And of course, how would such a standard be enforced?

I've heard and enjoyed listening to some lively debates on these issues. Of course, the ideal would have only citizens truly interested and informed on the issues and candidates voting. Uninformed voters often may vote against their own self-interests if they

just throw darts at the ballot. Or worse, they might unknowingly negate the well-thought-out votes you just cast. Alas, democracy has some holes in it that we just have to tolerate.

Another activity you should be informed and interested in is how you make your personal investments. Now here you get to cast your vote and you may be more motivated in paying attention to the issues at hand. For those of you who can give equal attention to your civic votes and monetary investments, good for you. NMUSA hopes to help you in your utility investments by providing you with important information. We follow events in the wonderful world of public utilities doing business in New Mexico and we'll pass along the information we gather. How you actually vote is up to you.

If your investments perform well, hopefully that will also fire up your patriotic fervor. You're involved in the wonderful Free Market Enterprise system. Go ahead. Fulfill your potential. What a great country where you can express yourself this way! Go forth and be richer and wiser. Furthermore, now go out and vote to keep it that way. Exercise your civic right to vote.

My job is done here. See you at the polls.

Ed

In Brief

UniSource Energy Corp. (UNS) in April sold Global Solar Energy to Solon AG, a German producer of photovoltaic modules, and a European financial investor.

UniSource Energy received approximately \$16 million for its debt and equity positions in Global Solar, a Tucson-based manufacturer of flexible, thin-film photovoltaic material as well as an option to repurchase between 5 and 10 percent of Global Solar in the future for a nominal fee.

Global Solar was established in 1996 as a joint venture overseen by Millennium Energy Holdings, a

UniSource Energy subsidiary that holds the company's unregulated energy-related investments. The sale of Global Solar is part of UniSource Energy's ongoing plan to scale back Millennium's involvement in actively managed investments.

Xcel Energy (XEL) promoted Mike McLeod to community Service Manger for SPS's service territory in New Mexico. He will be responsible for managing Xcel's business interests within the communities of Dexter, Hagerman, Roswell, Portales, Clovis, Tucumcarie, and two towns in Texas. McLeod has been with the company for 23 years.

NMUSA Loses A Founding Member and Dear Friend

Mr. Dale Johnson, a founding member of the New Mexico Utility Shareholders Alliance, passed away peacefully at his home on Sunday, March 19, 2006. Involved with NMUSA since its inception in 1997, Dale served as a Director and was active with the organization until the very end. As an avid investor, he enjoyed talking about his investment strategies and the importance of staying current on issues affecting a company's stock. It was this interest that motivated Dale to serve on the board and help keep our members informed on issues throughout the state affecting utility companies doing business here.

Dale was born in Logan, KS in 1908 and moved to New Mexico to accept a position with Western Union where he worked for 50 years. He was married to Opal Johnson, his grade school sweetheart, for 75 years. Opal, a charter member of NMUSA, passed away late in 2005.

We will miss Dale and will always be appreciative of his many years of service and dedication to NMUSA and the utility industry.

Nuclear Waste

NOTE: This is the fourth part of a multipart series on nuclear energy. If you are new to NMUSA or have missed past issues, you can find them on our website at www.nmusa.org.



Bruce Barnaby

"I think nuclear energy would be great if they could only solve the waste problem."

That often heard comment certainly sums up an issue facing the nation and the world in the universal desire to get the energy we all need at a cost we are willing to pay.

In the hope of adding some perspective, let's start by addressing just what the waste is.

What we call waste starts out as the nuclear fuel uranium dioxide compressed into pellets about 1/3 inch in diameter and about 1/2 inch long. These pellets are stacked in metal tubes called fuel rods about 12 feet long. Two to three hundred rods are assembled in a square array. Several hundred of these fuel assemblies, depending on the size of the reactor, form the reactor core. Thus, the core is a big heavy thing requiring special handling equipment. As inserted into the nuclear reactor, the core is not hazardous.

The fission reaction that heats water also converts some of the uranium to other elements such as strontium and cesium that are radioactive. At the end of useful energy generating life, the fission process is terminated by reinserting control rods. The radioactive elements are not only hazardous due to the radioactivity, but that radioactivity generates heat and the fuel assemblies must be cooled. These large fuel assemblies, that now include radioactive waste, must be carefully removed from the reactor and placed into a pool of water to keep them cool as the radioactivity decays. Fortunately, the decay is initially rapid and the waste cools so that the fuel assemblies may be removed from the water and stored in large casks. The assemblies are still radioactive and must be handled as hazardous waste, but they can be transported...

Now where should the fuel assemblies be taken and what should be done with them when they get there?

In the early days of nuclear reactors, reprocessing was used to recover the remaining uranium, which was still useful as fuel, and to separate radioactive waste from other material such as the metal tubes and support structure that were not hazardous. Thus the amount of hazardous material could be reduced to a much smaller and more easily handled volume. However, reprocessing was not simple. Reprocessing used strong chemicals that required careful handling.

In 1982, The US Congress enacted the Nuclear Waste Policy Act establishing permanent storage of the entire fuel assemblies as the preferred choice. What seemed a straightforward technical decision has since become a highly contested issue because it seems no one wants the waste stored in their backyard. The history of the Nuclear Waste Program is chronicled on the web site www.ocrwm.doe.gov.

For many years, permanent storage has been the favored solution. Store the waste safely forever. But, forever is a long time. Studies tried to show just how safe it would be forever, but that was difficult. And moving all those large fuel assemblies from the reactor to the storage site is also challenging.

Yucca Mountain, a long low ridge in Nevada, has been chosen as the permanent site for "Civilian Radioactive Waste". It has been the location of choice for most everyone except people living in Nevada. Incidentally if you are in Las Vegas,

Yucca Mountain Aerial View



The ridge is approximately 3000 feet above the valley floor and 6000 feet above sea level.

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PNM Welcomes New CFO

Charles "Chuck" Eldred is Senior Vice President and Chief Financial Officer of PNM Resources, the parent company of PNM, Texas-New Mexico Power, First Choice Power and Avistar.

With more than 30 years of experience in the utility industry, Eldred oversees Treasury, Investor Relations and Corporate Planning, the Controller's Group and Risk Management.

Before joining PNM Resources in 2005, Eldred served for several years as Vice President and Chief Financial Officer for Omaha Public Power District, where he oversaw Corporate Auditing,

Finance, Corporate Accounting, Planning and Budgeting Services, Corporate Communications and Governmental Affairs. Prior to that, he worked for Southern Company and its subsidiary, Georgia Power.

Eldred's community volunteer activities include serving on the Boards of Trustees and Executive Committees for the Boy Scouts of America Mid-America Council and the United Way of the Midlands.



Charles Eldred

First Quarter Company Results

El Paso Electric (EE) For the first quarter 2006, EE reported net income of \$9.4 million, or 19 cents basic and diluted earnings per share. In the first quarter of 2005, EE had net income of \$4.8 million or 10 cents basic and diluted earnings per share.

Earnings for the quarter were positively affected by: 1) Decreased depreciation expense; 2) Decreased interest on long-term debt; 3) Higher retail base revenues; and 4) Approval by the NMPRC of a FPPCAC in NM that allows recovery of purchased power capacity costs.

Earnings for the quarter ended were negatively affected by: 1) Increased maintenance costs at the gas-fired generating plants; 2) Increased taxes; 3) Increased Palo Verde non-fuel operations and maintenance expenses and 4) Decreased retained margins from off-system sales.

PNM Resources (PNM) PNMR reported first quarter 2006 net income of \$26.3 million, or 39 cents ongoing earnings per share compared with 50 cents in 2005. Ongoing earnings exclude acquisition-related charges; earnings per diluted share were 38 cents compared with 50 cents in 2005.

Earnings were positively affected by the strong performance of the company's coal-fired facilities and two of Palo Verde Nuclear Generating Station units. They were negatively affected by Customers reduced natural gas consumption of nearly 10.0 percent and the extended outage of Unit 1 at Palo Verde.

Pinnacle West Capital Corporation (PNW) the holding company for **Arizona Public Service Company (APS)** reported earnings of \$12.45 million or 13 cents per diluted share for the quarter, in comparison with \$24.45 million or 27 cents per diluted share in the same quarter last year.

PNW's total operating revenues rose to \$670.21 million from \$585.36 million and total operating expenses increased to \$613.04 million from \$493.5 million in the same quarter of 2005.

APS posted a net loss of \$5.5 million for the first quarter, compared with net income of \$27.0 million for

the same period in 2005. The decline in earnings was due to high natural gas and purchased power prices.

UniSource Energy Corp (UNS) the holding company for **Tucson Electric Power Company (TEP)** reported a net profit of \$16.8 million or 45 cents per share compared to a net loss of \$3.8 million or 11 cents per share for the same quarter last year.

Revenue for the quarter increased 17% to \$304.95 million from \$260.67 million in the previous-year quarter. This was based on an increase in revenue from electric retail sales of 6.5% to \$182.67 million, electric wholesale sales rose 44.6% to \$56.67 million and gas revenue improved 34.9% to \$62.82 million. Other revenues dropped 16.3% to \$2.80 million from \$3.35 million. The strong performance of its subsidiary Tucson Electric Power Co. and higher wholesale power prices contributed to the company's revenue growth.

Xcel Energy, Inc. (XEL) the parent company of **Southwestern Public Service (SPS)** reported income from continuing operations of \$150 million, or 36 cents per share on a diluted basis, for the first quarter of 2006 compared with \$124 million, or 30 cents per share, in the first quarter of 2005. Total earnings for the quarter, which include the impact of discontinued operations, were \$151 million, or 36 cents per share, in 2006, compared with \$121 million, or 29 cents per share, in 2005.

Xcel Energy's total earnings for the first quarter of 2006 included Regulated utility earnings from continuing operations of \$162 million, or 38 cents per share, compared to \$135 million, or 32 cents per share, in 2005.

Earnings for the first quarter increased primarily due to stronger utility margins, partially offset by higher operating and maintenance expenses. The stronger utility margins reflect a natural gas rate increase in Colorado, an electric and natural gas rate increase in Wisconsin and an interim electric rate increase in Minnesota. Warmer than normal weather during the first quarter partially offset these positive developments.

Bright Prospects for Solar Energy



Ben Luce

The only renewable energy source truly capable of addressing the world's growing demand, and the only true competitor of nuclear power and "carbon sequestered" coal, is solar. The solar energy falling on our planet is roughly equivalent to 120,000 trillion watts - roughly 4000 times larger than expected total world energy demand in 2050. In more down to

earth terms, with all conversions accounted for, it takes about five acres to produce one megawatt continuously (1 MWe). From this, it follows that supplying New Mexico's load of about 2000 MWe would require about 10,000 acres, or about 16 square miles. This is smaller than the once-proposed Fence Lake Coal Mine!

Utility-scale solar generation is already well developed: Nine plants totaling 354 megawatts, enough for 300,000 homes, has been performing in California at or above expectations for over a decade (see photo). These plants utilize large "parabolic trough" mirrors to focus light into a cylindrical receiver tube creating heat. This heat is used to generate steam, which in turn is used to generate electricity. When the sun doesn't shine, the plant uses natural gas. In this way, a completely reliable (dispatchable) power plant is created that utilizes only about 10% of the fossil fuel normally required. Note the new paradigm suggested here: Fossil resources are being used only as backup, and a separate fossil plant to back up the solar is not required.

A new 65 megawatt trough plant is being constructed in Nevada by a company called Solargenix and a number of companies in the US and abroad are seeking additional projects.

Solar technologies that utilize mirrors are broadly called "Concentrating Solar Power" or "CSP". There are other versions of CSP besides the solar troughs. These include the "power tower" approach, which focuses light onto a central tower and "solar dishes", which use circular parabolic mirrors to focus light in the creation of hot air to run a "stirling engine". California utilities have recently contracted for 800 megawatts of solar dishes.

So what is the cost? A 2003 study commissioned by the Department of Energy, often referred to as

the "Sargent and Lundy CSP report", estimated that the cost of CSP generation can be reduced from its current 12-14 cents/kWh to a competitive level of 4-6 cents/kWh, if some economies of scale are achieved (3000 MW or so) along with some known and expected technology refinements. There is little reason to doubt this - similar reductions occurred for wind power in the 1990's, and it is arguable that wind power is significantly more challenging than CSP (we're just boiling water here folks).

These projections may prove conservative. New approaches, such as the "Concentrating Linear Fresnel Reflector" (CLFR) approach, may accelerate this cost reduction significantly. CLFR is fundamentally more attractive because it does not require strongly curved mirrors or

evacuated receiver tubes. There are also concentrating photovoltaic approaches, which utilize mirrors to concentrate light onto receivers employing high temperature photovoltaic cells. Emcore, in Albuquerque, has developed such an approach with a magnification factor of 500, which dramatically lessens the amount of silicon needed in the receiver.

The amount of fossil fuels needed for backup (and hence the emissions from their usage), can be greatly reduced with the addition of some thermal energy storage (such as a molten salt approach developed by Sandia Labs and tested at the Solar II power tower in CA). With storage, it even becomes feasible to utilize

biomass sources, such as forest thinnings, as the back up source of heat. This would make CSP completely renewable and yet completely reliable. The water usage of such plants can also be lowered to negligible levels using "dry cooling" technology.

These technologies are not pie-in-the-sky; some of them have already been bid to New Mexico utilities in response to their Renewable Energy diversification requirements. And, our state has already invested significant funds and efforts in identifying CSP sites and evaluating potential costs. Governor Richardson convened a CSP Task Force, which studied the issue in detail. Much CSP development around the world (and maybe New Mexico) can be expected in coming years.

A number of recent studies on CSP can be found at http://www.solarpaces.org/csp_docs.htm.



Solar Energy Generating Station (SEG) near Barstow, CA

Dr. Ben Luce is a PhD Physicist and renewable energy policy advocate. He is currently the Policy Director/Chair of the Coalition for Clean Affordable Energy.

Nuclear Waste Continued from page 3

Cutaway of Yucca Mountain



The repository is approximately 1000 feet below the crest and about 1000 feet above the water table. The entry and exit are on the same level and accessed through a tunnel at the side of the ridge.

you can visit a museum with a good display of the technology and even take a guided tour of Yucca Mountain about 90 miles northwest.

Given the resistance to "storage in my backyard", reprocessing is being reconsidered. Perhaps a more technically friendly process can be developed.

Presently waste is stored at the reactor sites or nearby temporary sites in water pools or in dry casks. These are safe and adequate but temporary. A permanent solution will require progress on both technical and political issues.

Bruce Barnaby is a PhD Physicist, a member of the American Nuclear Society and dedicated to following nuclear energy. He is currently serving as the Treasurer of NMUSA.

Regulation

Continued from page 1

SPS was given authority to use the FPPCAC on 10/1/01 with the final order given almost two years later on 8/03. The company has complied with requirements to: 1) file monthly reports concerning their use of the FPPCAC; and 2) file a request for continuation two years from the final approval. It was during this process that issues were raised by interveners mainly centered around two points:

1) The definition of 'native load'; and that 2) SPS should not use system average fuel cost.

Through our research, we concluded there is no definition of 'native load' in New Mexico. *Why is this significant?* The interveners incorrectly claim that 'native load' relates to a utility company's retail rate payers only. But, this is not possible if that term is not so defined.

Regarding the second point, SPS' rates have historically been among the lowest in the state and have been based on a system average fuel cost. This means that SPS averages the rates it charges to all of its customers - retail and wholesale. Intervenors claim that SPS should charge retail ratepayers the lowest fuel costs and not average those costs.

Are the interveners correct about how the costs should be charged? Not according to historic practices. SPS has charged rates in this manner since the 1950's and never received any complaints from interveners or staff - even though they have had multiple opportunities to do so in other cases.

Rates have recently increased due to hurricanes

and other supply issues. However, a review of the SPS website shows that fuel cost factors are actually lower in March, April and May of 2006 than they were in the corresponding months of 2005.

The PRC staff was strictly aligned with the interveners - even though, at times, they were unfamiliar with specific facts in the cases, such as the lack of definition for native load and the historic billing practices of SPS.

The commissioners certainly have the right to define terms and specify how utility companies operate in New Mexico. It is our sincere hope that any such decisions will not be retroactive or punitive in nature towards the company. Decisions in this case can have far reaching effects on the utility industry in our state.

The next step? With the week long hearing on these cases complete, the parties will now produce briefs and wait for a commission decision.

Case No. 06-00065-UT In the Matter of a Rulemaking Relating to Energy Efficiency: NMUSA supports cost-effective energy efficiency and load management investments in the energy resource portfolios of both public utilities and distribution cooperative utilities. We feel that investment in cost-effective energy efficiency and load management is an acceptable use of ratepayer money.

Our comments also stated that the costs for energy efficiency programs and load management investments should have caps and should be fully recoverable from all customers.

Membership News

The response to our annual membership drive has been tremendous. We've added over 200 new members bringing us to a total membership of 2600! And, our goal is to add many more.

We encourage you to get involved in NMUSA and help us get the word out about what we're doing. You can see by the news we are making a difference. If you know of someone who owns stock in a utility company doing business in New Mexico, please encourage them to join.

Our motto is: **"Together, we have the power."** We see the truth of this statement every day. With our current membership and activity levels, you can count on us being recognized when we testify or give public comment on issues affecting our investments.

But, you know what sets us apart from any other interested party in these cases? We're not just the investors that own the assets of these utility companies, we're ratepayers as well. We have a dual interest that adds balance in our work. We look objectively at both sides of the issues being considered.

We hope you'll agree that \$15. is a small investment to help move NMUSA forward. **And to those of you who have given so generously beyond the requested dues amount, we sincerely thank you!**

NMUSA's Energy Forum Work Continues

Carla Sonntag, Executive Director of NMUSA represented our interests in the Power Plant work group of the Four Corners Air Quality Task Force on 5/9/06 in Farmington, NM. She also participated in conference calls on 3/8/06 and 4/12/06. This group will meet quarterly as well as conduct monthly conference calls through the end of 2007. At the conclusion of this work, it is anticipated that recommended legislation and/or regulation will have been produced.

We also plan to work on the Transmission Authority Bill on an interim basis and expect that work to resume in June 2006.

ATTENTION: Dues paying members -
We hope to see you and a guest at the Annual Membership Luncheon on October 4, 2006!

Don't miss out on the opportunities - - join NMUSA today!

Haven't paid your dues yet and want to attend the Membership Luncheon free of charge? You still have time. Just fill out the form below and return with your check to NMUSA.

Join the Alliance NOW!

If you aren't a member or haven't paid dues for 2006, 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) and membership meetings.

Name

Spouse's Name (if applicable)

Address

City State Zip

Telephone Email Address

I own shares of stock in: (Stock ownership required)
(Check all that apply)

- | | |
|---|--|
| <input type="checkbox"/> El Paso Electric | <input type="checkbox"/> UniSource Energy |
| <input type="checkbox"/> Pinnacle West | <input type="checkbox"/> (Tucson Electric Power) |
| <input type="checkbox"/> (Arizona Public Service) | <input type="checkbox"/> Xcel Energy |
| <input type="checkbox"/> PNM Resources | <input type="checkbox"/> (Southwestern Public Service) |
| <input type="checkbox"/> Other _____ | |

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

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From the Executive Director . . .

This quarter was filled with successes - *and they're all thanks to you!* Our membership continues to grow as utility shareholders join in to make a difference in New Mexico. We've seen the difference a grassroots effort can make - even at the federal level.

You've done a terrific job in answering the call to action. As we continue to work on your behalf, we hope to initiate quicker notifications through e-mail. That's why we've asked for your e-mail addresses. We promise never to spam you or provide our membership lists to any other party. But when time is of the essence and we need your help, we'd like to be able to contact you quickly.

If you have not provided your e-mail address, please use the membership form inside; your address is printed on the back. If you've already paid dues, you don't have to pay them again. But, if you haven't paid, please include a check.

Dues paying members and their guests are invited - free of charge - to the Annual Membership Meeting. Nondues paying members

will be charged the cost of the meal.

We've got some great speakers lined up for this event as well as an opportunity for you to meet your officers and directors.

And, speaking of officers and directors, if you're interested in serving on the Board of Directors, please contact me as soon as possible. Nominations are currently underway and we have a couple of openings. We meet quarterly in Albuquerque and are particularly interested in having board members from Farmington and the Silver City/Deming areas to further cover our representation throughout the state.

**We look forward to seeing you
October 4, 2006.**



Carla J. Sonntag

Carla

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