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NMUSA hosted its second annual membership meeting on October 14 and it was an unqualified success, by all accounts. One hundred thirty members and guests attended the luncheon meeting at Albuquerque’s Sheraton Uptown Hotel. Among the honored guests were Commissioner Jason Marks, PRC District 1; Sherry Kunka, Manager, Policy Analyst for Xcel Energy; Sonia Phillips, Manager, Government Affairs in NM, Xcel Energy; and Yvonne Johnson, Manager, Shareholder Services, PNM Resources.

Carla Sonntag, NMUSA Executive Director, hosted the event and introduced NMUSA officers Ed Borchardt, President, and Bruce Barnaby, Treasurer, who made presentations. It was noted that the current membership is 2442, an increase this year of 202.

The featured speaker was Mr. Ned Farquhar, Senior Policy Advisor, Energy and Environment to Governor Bill Richardson. In his broad review of energy-related problems and prospects, he emphasized the Governor’s dedication to energy problem solutions. Clearly, he said, those solutions include a dramatic increase in the development of market-

**Market Based**

## CLEAN ENERGY

based clean energy to reduce the nation’s dependency on foreign oil.

On an average day, the nation imports about 25 million barrels and both the quantity and the price variability pose a critical problem. The national search for alternate sources of energy have been encouraged by the new National Energy Policy Law.

Meanwhile, he pointed out, the market for electric power is increasing , and it has been estimated that the state of California alone will require a yearly increase of 1000 Megawatts. So energy planners must include nuclear, wind and biomass in the mix of potential sources. Photovoltaic sources are not yet competitive, although experiments with solar energy-driven turbines show promise.

It was noted that some of the advances in photovoltaic power will be encouraged by individual tax credits allowed by the new law and the promotion of buy-back offers by utilities like PNM.

Next year, Mr Farquhar stated, the Governor will propose a revised Transmission Authority Bill which would allow the state to finance additional power transmission lines and provide subsequent lease by utility users.

Comments and questions from the membership expressed both interest and an increased understanding of these common problems.



Ed Borchardt

## From the President . . .

Another year, another challenge . . .

With the passing of another year, I find this to be a moment for reflections and projections. So, how was 2005? And what might 2006 have waiting for us in the wonderful world of Investments in the Energy Business?

Your Association had a year of expansion in 2005. We had several appearances before the Public Regulatory Commission in Santa Fe regarding some 11 different energy-related issues. We also enjoyed several visits with our own constituent members in a couple of different forums, such as the annual membership luncheon and other membership meetings around the state. This year, there were a surprising number of issues percolating again which impacted the energy business, and therefore our respective investments.

We hope to stay abreast of such matters in the New Year. For 2006 we will expand our activities and capabilities to collect, analyze, and report information of interest or benefit to you, our fellow shareholders. Hopefully, you'll find profitable ways to utilize this information. If you have materials to contribute in furthering these efforts, we would welcome input for review.

One particularly enjoyable highlight for me this past year was to get to meet many of you in person at our annual membership meeting. I'm looking forward to having more such opportunities in 2006. We will try to stay worthy of your support. We solicit suggestions and comments from you as to how we're doing and what we might do to improve services to you in the future. Please join us in making 2006 a more profitable and interesting year.

## Edison Electric Institute Creating Value for America's Electric Utility Companies

EEI is the national association of U.S. shareholder-owned electric companies, international affiliates, and industry associates worldwide. Our members serve 97 percent of the customers in the shareholder owned segment, and 71 percent of all electric utility customers in the nation. They also generate about 60 percent of the electricity produced by U.S. electric generators.

EEI is also a proud sponsor of AUSA, the Association of Utility Shareholder Alliances. In working with AUSA and its member organizations throughout the country, including NMUSA, EEI has been able to return significant value to its member companies, and, ultimately, greater value for their shareholders.

One example is the electric utility industries' grassroots campaign in 2003 to eliminate the double taxation on corporate dividends which resulted in a 15 percent tax rate. With this tax relief set to expire in 2008, we are mobilizing again to make the tax rate permanent.

More recently, EEI and the industry achieved a major victory with the passage of the Energy Policy Act of 2005. This comprehensive energy law will help to transform the U.S. energy landscape in ways that will benefit all Americans for many years to come. For the electric utility industry, the law contains new reliability provisions and investment incentives that will help reinforce our power grid. It includes programs that will promote energy efficiency and enhance fuel diversity as well as modernize outdated federal electricity laws. Taken together, the measures in the energy law herald a new era of opportunity for the electric power industry and its shareholders.

Going forward, EEI is focusing on a number of issues; a

major one being the environment. The current approach to regulating power plant air emissions is complex and can be contentious. We are advocating for a well-designed "multi-emission approach" that would harmonize current regulations, while guaranteeing additional major reductions of sulfur dioxide, nitrogen oxides and mercury. This could result in significant savings to electric companies and improved air quality for the nation.

We are currently addressing global climate change. As an industry, we have implemented - and are advocating - a flexible and cost-effective voluntary program to mitigate greenhouse gas emissions. The Power Partners<sup>SM</sup>, is a new, voluntary partnership between the electric power industry and the U.S. Department of Energy. The program's goal is to reduce the power sector's carbon intensity (the amount of carbon dioxide emissions per kilowatt-hour of electricity) by 3-5 percent by 2012. The industry has already cut its carbon intensity 10 percent since 1980.

EEI testified in October before the U.S. House and Senate hearings on a series of steps that policymakers, industry, and consumers should be taking to address the problems the expected high gas bills will bring this winter.

Since our beginning in 1933, EEI has remained focused on serving our members and creating value for their shareholders. We will continue to fulfill this mission at both the federal and state level. For more information about EEI, and to stay current on electric utility industry issues, I encourage you to visit EEI's [Web site \(www.eei.org\)](http://www.eei.org).

*Morry Markowitz is the Senior Director of External Affairs for the Edison Electric Institute.*

# Xcel Energy's Strategy

Xcel Energy is a fully regulated electric and natural gas utility, with four major operating companies, Northern States Power-Minnesota, Northern States Power Company-Wisconsin, Public Service of Colorado and Southwestern Public Service Company. It was formed in August 2000 by a merger of New Century Energies and Northern States Power.

Since 1921, residents of New Mexico have been served through Southwestern Public Service (SPS). The operating company serves a 52,000 square-mile service territory and about 395,000 customers in parts of New Mexico, Texas, Oklahoma and Kansas. In October 2005, Xcel Energy announced a definitive agreement, expected to be finalized in 2006, selling its delivery system operations in Oklahoma, Kansas and a small portion of Texas to Tri-County Electric Cooperative, affecting about 11,000 customers.

Xcel Energy's strategy focuses on customer and shareholder needs by investing in regulated utility operations and executing a program that earns fair returns. Over the next 5 years Xcel Energy anticipates \$6.9 billion of capital investments, almost \$575 million of which will be on the SPS system.

While the largest part of Xcel Energy's demand is met with coal-fired generation, an increasing portion has been provided from gas-fired sources. To insure balance, we are adding a new \$1 billion coal plant, Comanche 3 in Pueblo, Colorado, and beginning the process to re-license our nuclear plants. Xcel Energy is investing another \$1 billion to renovate aging plants and upgrade them to exceed environmental standards. We are also partnering with EPRI, an independent non-profit research center, to explore the application of high altitude coal-gasification.

The SPS generating plants in New Mexico and Texas are operated as an integrated system. Since all SPS customers are served and benefit from the integrated system, the generation and purchased power costs are apportioned system-wide to customers.

Xcel Energy employs many methods and strategies, including hedging to keep fuel and purchased power costs low. Our success is apparent in the rates charged to SPS customers, which are among the nation's lowest.

About 7% of the Company's energy comes from renewable sources. Xcel Energy has voluntarily surpassed legal environmental requirements. For example, following the completion of Comanche 3, emissions from the site will not exceed those from the two units currently operating. In Minnesota, we have implemented a \$1 billion Metro Emissions Reduction Plan (MERP), which converts and upgrades three metro coal plants adding 300 MW.

While most renewable energy is hydro generated, wind is playing a growing role. Xcel Energy is the second largest provider of wind energy and has the nation's largest voluntary wind energy program with more than 36,000 customers enrolled.

By the end of 2006, Xcel Energy plans to increase the amount of wind-generated electric power it provides SPS customers by more than four times, adding 360 MW of wind energy to the 85 it currently supplies the region. In March of 2005, the company signed the 'San Juan Mesa Wind Project' contract with Padoma Wind Power for a 120-MW wind-powered facility near Elida, New Mexico. It is scheduled to be on line by year-end and may be a model for future wind farm development. The project's final cost will exceed \$150 million, and is expected to decrease customer's bills. The low cost is a prime driver for integrating wind into our system and far exceeds the Renewable Energy Act's compliance requirements.

Xcel Energy is a community partner working to improve the region's quality of life, sponsoring a great variety of important educational, cultural and art events. The Company promotes energy conservation and helps families tackle high energy costs through donations to nonprofit and area relief agencies that assist low-income customers pay electric bills. This year the Xcel Energy Foundation matched employee contributions of more than \$2 million to United Way, providing communities company-wide with more than \$4.1 million.

SPS is part of a strong company that delivers value to its customers and the communities it serves.

*Dick Kolkman has been with the Company for 33 years in various functions including head of corporate strategy and head of gas marketing. He is currently the Managing Director of Investor Relations.*

# Lynda M. Lovejoy, PRC District 4



**Commissioner Lynda M. Lovejoy**

As I come to my final year on the New Mexico Public Regulation Commission, I would like to say what an honor it has been to serve the diverse people of my district and to be a voice on their behalf.

During these seven years, because of New Mexico's prominence as an energy producer in the Southwest, my passion has grown to learn more about electric energy and to work with other elected and appointed officials in making sure policy matters related to generation and transmission provides for economic benefits in New Mexico.

I participate regularly on the Committee on Regional Electric Power Cooperation (CREPC). It is a forum that consists of state regulators and energy offices of eleven western States as well as a joint committee of the Western Interstate Energy Board and the Western Conference of Public Service Commissioners. I share the concerns of these groups about electric generation and transmission in the western region under the federal Energy Policy Act of 2005 (EPACT) signed into law in September.

The EPACT gives the Federal Energy Regulatory Commission (FERC) more authority over electrical energy, and that concerns the Western States. In my opinion, the EPACT is a "one size fits all" policy that was designed to address power generation and transmission mostly in the Mid-west and East coast. The EPACT does not reflect the needs and concerns of the western states, including New Mexico, because the way power moves in the western states is very different than in the east.

While the CREPC and Western Governors have supported the enactment of sections of the EPACT that give the Federal Energy Regulatory Commission (FERC) authority to set and enforce reliability standards, we believe that FERC's role should be a partnership with the states and provinces. We also believe FERC should defer to decisions made by the regional entities regarding interconnection.

Congress, who recognized that maintaining system reliability requires a regional effort that must include participation by the Canadian provinces and Mexico, provided that the major burden of creating and enforcing reliability rules should rest with organizations such as the Western Electricity Coordinating Council. Yet statements made recently by FERC commissioners suggest that FERC is moving toward a stronger role that CREPC believes could defeat the goal of maintaining a reliable North American power system.

This "go it alone" approach by the FERC will create unproductive friction with the states and provinces that will ultimately lead to failure in achieving cost-effective, reliable transmission grids. The power to order construction of new generation or transmission should remain with the states and provinces.

I also support investment and further research by our state into renewable energy, especially wind and solar. These alternate forms of energy would be invaluable to many on the Navajo Nation and other isolated areas of the state that are without any current forms of electrical power because of the vast distances to the local power grid. With renewable energy sources, these citizens could enjoy what those of us with electricity in our homes and offices take for granted.

Consumers should have a voice in the regulatory process. With the NMPRC, we have a consumers' complaint division to which our citizens can file formal complaints or obtain information. Please see contact information below.

I look forward to hearing from New Mexico utility shareholders and consumers.

## Public Regulation Commission

District 3	Ben R. Lujan, Chairman	(505) 827-4533		PO Box 1269 Santa Fe, NM 87504-1269  Toll Free 1-800-947-4722 <a href="http://www.nmprc.state">www.nmprc.state</a>
District 1	Jason Marks, Vice Chair	(505) 827-8015		
District 2	David King	(505) 827-4531		
District 4	Lynda M. Lovejoy	(505) 827-8019		
District 5	E. Shirley Baca	(505) 827-8020		

## Could We Lose the 2003 Tax Relief?

In 2003, Congress passed legislation which reduced the top individual tax rate on dividends to 15%. This was a good move for companies and investors.

As you might expect, more companies are offering larger dividends and this means more money in the hands of individual investors. Companies benefited because investors wanted to earn those dividends and were more likely to invest in companies paying them.

Recently the Treasury Department estimated that the lower rates saved 24 million investors an average of \$947 on their taxes. And for 7 million seniors the average savings exceeded \$1,200. On 11/17/05, Treasury Secretary Snow noted the "vital need to keep tax rates, on capital gains and dividends in particular, low to ensure continued economic growth in the future. Millions of Americans have benefited from these important tax policies either directly, through lower taxes or indirectly through new and better jobs and greater economic security for families."

This legislation will expire in 2008. The House of Representatives will consider H.R. 4297, the

Tax Reconciliation Bill, immediately upon returning from the Thanksgiving recess. As reported by the Committee on Ways and Means, the bill contains a two-year extension of the current tax treatment of dividends and long-term capital gains.

**What can you do?** Let your New Mexico representative know how this legislation impacts you and what you would like them to do about the extension. Send letters or call to:

**Representative Heather Wilson (District 1)**

318 Cannon House Office Building  
Washington, DC 20515  
(202) 225-6316

**Representative Steve Pearce (District 2)**

1607 Longworth House Office Building  
Washington, DC 20515  
(202) 225-2365

**Representative Tom Udall (District 3)**

1414 Longworth House Office Building  
Washington, DC 20515  
(202) 225-6190

## The 2006 Board of Directors

### Officers:

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Bruce Barnaby, Treasurer  
Lenton Malry, Secretary

### Directors:

Al Adamsko	Nelly Borchardt
Marie Eaves	Dale Johnson
Leo Pollak	Bill Pope
Alan Schwartz	Martha Sturm
Joe Sury	

Congratulations to Nelly Borchardt, the newest addition to the Board of Directors and to Dale Johnson who celebrated his 97th birthday on 11/21/05 .

## In Brief

**Public Service Co. of New Mexico (PNM)**, has signed a 10-year contract to sell 150 megawatts of power to Arizona's largest utility, **Arizona Public Service (APS)**. The wholesale power agreement, which will start sending juice to the Grand Canyon State in 2007, came in response to a request for proposal issued by APS in May of this year for up to 1,000 megawatts of power

for Arizona's growing summer energy demand. The electricity supplied by PNM - enough to power between 30,000 and 34,000 homes - will come from the utility's own generating system, including the new Luna Energy facility in Deming, scheduled to come online by mid-2006. PNM owns one-third of the power generated by that facility, equal to about 190MW.

## Nuclear Safety



**Bruce Barnaby**

*Note: This is the second in a series of nuclear articles.*

There are 104 nuclear powered plants generating electricity in the United States. Most of them are owned and operated by investor owned electric utilities and the rest are owned by federal entities such as the Tennessee Valley Authority (TVA). Together they generate about 20% of the electricity used in the United States. How safe are they? And what should we as consumers and investors know about nuclear safety?

Answers to these questions are more complex than can be provided in this brief series, but here are some thoughts to begin with.

Since September 11, 2004 it is not surprising that some people have visions of a jetliner crashing into a nuclear reactor. But that would be like trying to break a rock by throwing an egg at it. The reactor is contained in a steel reinforced concrete structure three to four feet thick with much of it below ground. There is no way that a jetliner would penetrate.

That does not mean that an incident of this type would leave the power plant undamaged. The nuclear power plant, just like any power plant, consists of several other buildings as well: the turbine that generates the electricity, the switch yard that connects to the electrical transmission lines, the control room and all the maintenance facilities. These buildings could be damaged by a crashing jetliner and the fuel could burn and cause serious secondary fires. Careful safety analysis, such as NUREG-1150, concludes that the nuclear reactor itself would be unaffected. The inherent and designed-in safety features are capable of keeping the nuclear reactor intact.

As to inherent safety, it is absolutely impossible for a reactor to explode like a nuclear weapon. The source of energy in a reactor is nuclear fission. This results from a reaction between a neutron

and the nucleus of fissionable material, usually uranium 235. The reaction splits the nucleus into two smaller nuclei and two or more neutrons, all of which come away with enormous energy. The neutrons go on to cause more fission, making the reaction self sustaining.

Fission that results in an explosion is "uncontrolled fission" whereas fission that is used to produce energy is "controlled fission". The difference is not only the amount of fissionable material. Controlled fission also contains nonfissionable material, particularly uranium 238, that acts as an absorber of neutrons, thereby maintaining control. Simply put, a nuclear weapon cannot function if there is extraneous material mixed with the fissionable material. A reactor has all manner of material: steel, metal oxides, water, and other stuff that would get in the way. Thus, there is no weapon in a nuclear reactor.

Designed-in features, which incidentally were not in the Chernobyl reactor, include the emergency core cooling system. This is perhaps the most important feature because a nuclear reactor converts the energy into heat. The big hot device called a core, in which fission occurs, heats water to about 620 degrees Fahrenheit. The hot water (and steam) powers the turbine. If something happens, like a pump failure, to suspend the normal transfer of that heat from the core to the turbine, the temperature of the core would increase significantly. So there is an independent system, the emergency core cooling system, to remove the excess heat while the nuclear reaction is shutting down. Once the nuclear reaction stops, no more heat is generated by fission and gradually the entire reactor cools.

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In the next newsletter, we will look at specific nuclear sites such as Three Mile Island and Palo Verde, which provides power to New Mexico.

*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.*

## Company Third Quarter Results

Results for the publicly traded utilities operating in New Mexico were mixed for the third quarter.

**El Paso Electric (EE)** Net income for the nine months ended September 30, 2005 decreased by \$5.7 million, from \$34.5 million in 2004 to \$28.8 million in 2005. Basic earnings per share for the same period was \$0.60 in 2005 compared to \$0.73 in 2004.

**Pinnacle West (PNW)**, the holding company for **Arizona Public Service**, reported net income for the first nine months of the year at \$155 million down from \$209 million for the same period in 2004. This was primarily due to a loss from discontinued operations of \$55 million related to the pending sale and operations of Silverhawk.

**PNM Resources (PNM)** PNMR's net earnings for the three months ended September 30, 2005 were \$28.5 million or \$0.41 per diluted share of common stock, compared to \$27.4 million or \$0.45 per diluted share of common stock in the three months ended September 30, 2004. The decrease in earnings per share was driven primarily by acquisition related costs and other non-recurring charges of \$3.4 million, net of income taxes, which consisted of acquisition integration costs of \$2.6 million and TNP debt refinancing costs of \$0.8 million.

**Unisource Energy (UNS)**, recorded net income of \$24 million, or 69 cents per average basic share of Common Stock, in the nine months ended September 30, 2005, compared with net income of \$43 million, or \$1.25 per average basic share of Common Stock, in the same period of 2004. Some of the contributing factors include: a \$45 million decrease in TEP's gross margin; a \$48 million increase in purchased power expense; a \$13 million decline in wholesale revenues; and a \$20 million increase in retail revenues due to warm weather and a 3% increase in TEP's customer base.

**Xcel Energy (XEL)**, the parent company of **Southwestern Public Service**, reported total GAAP income from continuing operations of \$198 million, or 47 cents per share on a diluted basis for the third quarter of 2005, compared with \$166 million, or 40 cents per share, in the third quarter of 2004. Some of the significant effects were from: regulated utility earnings from continuing operations of \$194 million compared with \$174 million in 2004; results from discontinued operations were a loss of \$2 million compared with losses of \$119 million last year.

## Membership News

Membership grows with the benefits. NMUSA continues to represent your interests before the PRC, the state legislature and Congress. You won't want to miss next year's dues paying membership package. As a paid member, we'll continue to keep you informed through this newsletter, and you'll receive invitations to events as well as great gifts from some of the companies we represent. Make sure you reply quickly to the membership letter that will be mailed in January 2006.

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

### Join the Alliance NOW!

Membership continues to grow and strengthen NMUSA. If you aren't a member or haven't joined for 2005, we strongly urge you to do so now. Dues are voluntary but help fund this newsletter, our website ([www.nmusa.org](http://www.nmusa.org)) and membership meetings. Your contribution also helps us to attend regulatory and legislative meetings to advocate the interests of utility shareholders.

Name \_\_\_\_\_

Spouse's Name (if applicable) \_\_\_\_\_

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City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

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| (Arizona Public Service)                  | <input type="checkbox"/> Other _____       |

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

Mail to: **New Mexico Utility Shareholders Alliance, PO Box 728, Albuquerque, NM 87103**

E-mail: [nmusa@rt66.com](mailto:nmusa@rt66.com) Telephone: (505) 836-4223

Your membership contribution or payment of dues is not deductible as a charitable contribution, but may be as a miscellaneous itemized deduction for federal income tax purposes.

## From the Executive Director . . .

We are currently watching 11 cases before the PRC. These cases involve all three publicly traded utilities providing gas or electric service in the state. Many of the cases involve compliance with the Renewable Energy Act and required the utilities to file their plans for compliance in 2006 by September 1, 2005. The specifics are outlined in their plans with written testimony on its implementation.

While we do not intervene in cases, we do provide public comment when appropriate. This occurs when the Regulatory Committee determines our involvement is warranted and what position we will take. We

also express our views to the commissioners who will rule in the cases.

We are also working on interim legislative issues. Bruce Barnaby, Treasurer, will serve on the Transmission Authority Task Force. This is legislation we fought last session and hope to make workable for a future session. I will serve on the Four Corners Air Quality Task Force which will be looking at emissions from power plants and oil and gas operations in the area. There is no doubt that legislation will result from this task force and we can help most by being involved in its drafting.

We will keep you informed



Carla J. Sonntag

through this newsletter. We also hope to see you in the very near future in or near your home town. It is our goal to come into your community to meet with you personally and update you on the work we are doing on your behalf. Until that time, we hope you will contact us with your thoughts and feedback.

*Happy Holidays!*