WHOLESALE

The table below sets forth the operating results for Wholesale (In thousands).

	YEAR ENDED DECEMBER 31,		
	2002	2001	VARIANCE
OPERATING REVENUES	$ 343,780	$ 1,411,500	$ (1,067,720)
Less: Cost of energy	262,517	1,127,970	(865,453)
Energy Transfer	29,155	21,999	7,156
GROSS MARGIN	52,108	261,531	(209,423)
Energy production costs	32,507	29,232	3,275
Transmission and distribution O&M	45	77	(32)
Customer related expense	754	821	(67)
Administrative and general	3,199	4,748	(1,549)
TOTAL NON-FUEL O&M	36,505	34,878	1,627
Corporate allocation	4,023	4,042	(19)
Depreciation and amortization	8,808	5,774	3,034
Taxes other than income taxes	2,619	2,498	121
Income taxes	(3,245)	78,102	(81,347)
TOTAL NON-FUEL OPERATING EXPENSES	48,710	125,294	(76,584)
OPERATING INCOME	$ 3,398	$ 136,237	$ (132,839)

The following table shows revenues by customer class (In thousands):

WHOLESALE REVENUES	YEAR ENDED DECEMBER 31,		
	2002	2001	VARIANCE
Long-term contracts	$ 58,546	$ 77,250	$ (18,704)
Forward sales	77,560	86,779	(9,219)
Short-term sales	207,674	1,247,471	(1,039,797)
	$ 343,780	$ 1,411,500	$ (1,067,720)

The following table shows sales by customer class (Megawatt hours):

WHOLESALE SALES	YEAR ENDED DECEMBER 31,		
	2002	2001	VARIANCE
Long-term contracts	844,169	1,463,031	(618,862)
Forward sales	1,336,745	537,665	799,080
Other merchant sales	7,269,240	10,596,004	(3,326,764)
	9,450,154	12,596,700	(3,146,546)

Operating revenues declined $1.1 billion or 75.6% for the year to $343.8 million. This decrease in wholesale electricity sales primarily reflects the slowdown in the wholesale electric market, which resulted from steep declines in wholesale prices and market liquidity as compared to the prior year period.

The significantly higher wholesale pricing in 2001 was driven by increased demand in California, a lack of generating assets to serve the market and the impact of warm weather. By contrast, 2002 saw relatively mild weather in the West, an abundance of low cost hydropower and weak economic conditions in the region. As a result, the average price realized by the Company fell to approximately $31 per MWh in 2002 versus $108 per MWh in 2001.

The decline in merchant sales volumes reflect the reduction in market participants in the wholesale market caused by bankruptcy, reduced credit quality of firms in the market and firms exiting the wholesale market. There are also significant unresolved legal, political and regulatory issues that had a dampening effect on activity in the marketplace. As a result, the Company's spot market and short-term sales declined significantly in 2002. The Company delivered wholesale (bulk) power of 9.5 million MWh of electricity for the year ended December 31, 2002, compared to 12.6 million MWh for the same period in 2001.

The gross margin, or operating revenues minus cost of energy sold, decreased $209.4 million or 80.1%. Lower margins were created primarily by weak pricing, less price volatility and lower market liquidity. In addition, unexpected outages at Four Corners reduced availability of power for wholesale sales. These lower margins were partially offset by a favorable change in the mark-to-market position of the marketing portfolio of $55.3 million year-over-year ($29.5 million gain in 2002 versus $25.8 million loss in 2001). A majority of the gain in 2002 represents the reversal of previously recognized mark-to-market losses.

Total non-fuel O&M increased $1.6 million or 4.7%. Energy production costs increased $3.3 million or 11.2% for the period due to costs of $4.0 million related to the future expansion of Afton. This cost increase was partially offset by decreased costs of $0.5 million for planned outages at SJGS. Depreciation and amortization expense increased $3.0 million or 52.5% for the period due to a higher depreciable plant base.

CORPORATE AND OTHER

Corporate administrative and general costs, which represent costs that are driven primarily by corporate-level activities, decreased $3.7 million or 4.0% for the period to $88.2 million. This decrease was due to lower bonus expense of $11.9 million in 2002 resulting from lower earnings projections. This decrease was partially offset by higher labor costs of $8.2 million resulting from a transfer of employees from operations to corporate.

CONSOLIDATED

Other Income and Deductions

Other income decreased by $3.8 million or 7.3% reflecting lower year-over-year returns on investments reflecting market conditions.

Other deductions decreased $55.0 million or 81.7% primarily due to charges in 2001 that did not recur in 2002. In 2001, the Company recognized charges for the write-off of an Avistar investment of $13.1 million, the write-off of non-recoverable coal mine decommissioning costs of $13.0 million, non-recoverable regulatory costs of $11.1 million, a contribution to the PNM Foundation of $5.0 million, and certain costs related to the Company's now terminated acquisition of Western Resources' electric utility operations of $18.0 million. In 2002, the Company recognized a gain from the reversal of a reserve of $2.4 million to reflect the early, successful resolution of the litigation stemming from the terminated Western Resources transaction and a charge of $4.8 million for the cancellation of a transmission line project.

Income Taxes

The Company's consolidated income tax expense was $33.0 million for the year ended December 31, 2002, compared to $81.1 million for the year ended December 31, 2001. The decrease was due to the impact of lower earnings and a decline in the effective tax rate. The Company's effective income tax rates for the years ended December 31, 2002 and 2001 were 33.95% and 35.02%, respectively. The decrease in the effective rate year over year was due to the reduction in earnings in 2002 without a corresponding reduction in permanent tax benefits and the recognition of certain affordable housing and research and development credits in 2002.