



A personal commitment
to New Mexico

February 7, 2012

Certified Mail – Return Receipt Requested

U.S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555-0001

Sale and Leaseback Transaction by
Public Service Company of New Mexico
NRC Docket No. STN 50-529
Palo Verde Nuclear Generating Station, Unit 2

Ladies and Gentlemen:

The purpose of this letter is to provide prior written notification to the Nuclear Regulatory Commission (the “Commission”) of the proposed transfer of an equity interest in a sale and leaseback transaction that was the subject of a license amendment in the above docket.

The proposed transfer of the equity interest would be from MFS Leasing Corp. (“MFS”) to Cypress Second PV Partnership, a California general partnership (the “Transferee”). The Transferee has represented that one of its general partners will have, on the date the proposed transfer is consummated, a net worth or capital and surplus of at least \$25,000,000. The Transferee is not affiliated with Public Service Company of New Mexico (“PNM”). Upon the transfer, the Transferee will own an equity interest, through an existing owner trust, of a portion of the interest in the Palo Verde Nuclear Generating Station (“PVNGS”) Unit 2, which was the subject of a sale and leaseback transaction in 1986 that was approved by the Commission.

Background. In 1986, PNM proposed to enter into the sale and leaseback transaction relating to PVNGS Unit 2. By letter dated August 12, 1986, the Commission issued Amendment No. 2 to Facility Operating License NPF-51 (Palo Verde Unit 2), approving the Unit 2 sale and leaseback transactions, subject to 10 C.F.R. § 50.81 and the conditions set forth in such Amendment. Currently, MFS holds (through the existing owner trust structure) a 1.1333333 percent undivided ownership interest in Unit 2.

Subject of this Notice. MFS' 1.1333333 percent undivided ownership interests in Unit 2 is the subject of this notice (the “Subject Interest”). With respect to another (unrelated) equity

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interest transfer in 2007, Mike Markley of the Commission Staff advised PNM by letter dated October 18, 2007 (TAC NOS. MD6791) that prior written notice to the Commission is required for the transfer of an equity interest in a PVNGS sale and leaseback transaction from one party to another, even if the terms of the sale and leaseback remain unchanged. Notably, this is a prior written notice requirement and not a Commission approval requirement. This point was clarified in an e-mail from Randy Hall in connection with the 2010 transfer from Cypress PV Partnership, an affiliate of the Transferee, to another party. Mr. Hall, in an e-mail dated November 17, 2010, explained that the operating license condition to provide prior written notice to the Commission is satisfied by the delivery to the Commission of the notice letter.

MFS has notified PNM that MFS proposes to transfer the Subject Interest to the Transferee and, in connection therewith, the Transferee will execute an assignment and assumption agreement for the Subject Interest, pursuant to which the Transferee will assume the rights and obligations of MFS under the existing applicable PVNGS sale and leaseback transaction documents and will otherwise comply with the transaction documents.

MFS has further notified PNM that the parties plan to close the proposed transfer on or prior to March 31, 2012, and it has therefore requested that PNM provide this advance written notice to the Commission with respect to the transfer. The proposed transfer will be made in a manner that is specifically permitted under the sale and leaseback transaction as it was originally approved by the Commission (*i.e.*, the Transferee has represented that it meets the net worth requirement of \$25,000,000). The current "owner trustee" for the sale and leaseback transaction, U.S. Bank National Association, will remain unchanged, and the terms of the lease will remain unchanged.

Please note that an affiliate of the proposed Transferee, Cypress PV Partnership, holds (through the existing owner trust structure) a 1.36 percent undivided ownership interest in Unit 2 (which interest in Unit 2 is not the subject of this notice).

We have attached for your reference the following materials relating to the Transferee, as forwarded to us by counsel to the Transferee:

- Pro forma balance sheet dated as of February 15, 2012 (attached as "Exhibit A")
- Summary about the Transferee and its ownership structure and management (attached as "Exhibit B")

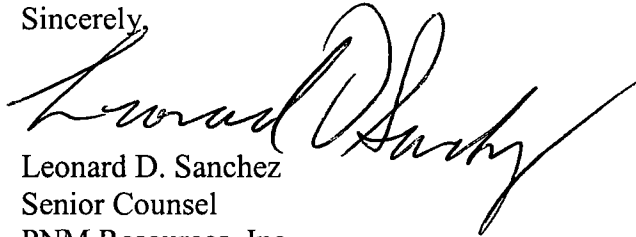
In addition, should you find it useful to reference, the Transferee also forwarded to us the company internet address of its management affiliates, which the Transferee indicated sets forth additional information regarding such management affiliates and their businesses. The website can be found at: <http://www.cypressleasing.com>

Request. Consistent with the explanation provided by Mr. Hall in 2010 noted above, we are not seeking any kind of review, approval or other action from the Commission. The license requirement with which we are complying simply requires prior notice in writing to the

Commission. Accordingly, the signed "Return Receipt" confirming the Certified Mail delivery of this notice to the Commission will be used by the parties as confirmation of compliance with the prior written notice requirement.

We are sending informational copies of this notice by e-mail to Balwant Singal, who we understand is the current Project Manager, as well as Randy Hall and Lauren Gibson, both of whom were copied on prior notices relating to the transfers of equity interests. If you have any questions, please do not hesitate to contact the undersigned at (505) 241-4941. Again, as noted above, MFS and the Transferee plan to close the transaction on or prior to March 31, 2012.

Sincerely,



Leonard D. Sanchez
Senior Counsel
PNM Resources, Inc.

Attachments

cc: E-Mail

Office of Nuclear Reactor Regulation
Division of Operating Reactor Licensing
Plant Licensing Branch IV
U.S. Nuclear Regulatory Commission
Attention: James R. Hall, Senior Project Manager (Randy.Hall@nrc.gov)
Balwant Singal, Project Manager (Balwant.Singal@nrc.gov)
Lauren Gibson (Lauren.Gibson@nrc.gov)

Arizona Public Service Company
Attention: Russell Stroud (Russell.Stroud@aps.com)
David Falck, Esq. (david.falk@pinnaclewest.com)
Michael Green, Esq. (michael.green@pinnaclewest.com)

Exhibit A

**CYPRESS SECOND PV PARTNERSHIP
188 THE EMBARCADERO, SUITE 420
SAN FRANCISCO, CALIFORNIA 94105**

**PRO FORMA BALANCE SHEET
AS OF FEBRUARY 15, 2012**

ASSETS

Cash	\$ 28,275,000
Prepaid	<u>3,025,000</u>
TOTAL ASSETS	<u><u>\$ 31,300,000</u></u>

PARTNERS' CAPITAL

Cypress Second PV-A, LLC, Capital	\$ 25,040,000
Cypress Second PV-B, LLC, Capital	<u>6,260,000</u>
TOTAL PARTNERS' CAPITAL	<u><u>\$ 31,300,000</u></u>

Exhibit B

About the Purchaser – Cypress Second PV Partnership

The Purchaser of the owner participation interest will be Cypress Second PV Partnership, a California general partnership. The purchaser has two general partners, Cypress Second PV-A LLC and Cypress Second PV-B LLC, each a California limited liability company managed by Cypress Equipment Management Corporation V, a California corporation. The members of Cypress Second PV-A LLC and Cypress Second PV-B LLC are various Cypress Funds, which are themselves California limited liability companies. The membership of each of Cypress Second PV-A LLC and Cypress Second PV-B LLC is listed below, together with each expected member's capital contribution and the name of each member's manager:

Members of Cypress Second PV-A LLC		
Member Name	Capital Contribution	Manager of Member
Cypress Equipment Fund 17, LLC	\$5,634,000.00	Cypress Equipment Management Corporation V
Cypress Equipment Fund 18, LLC	\$4,382,000.00	Cypress Equipment Management Corporation V
Cypress Leasing Fund A, LLC	\$4,695,000.00	Cypress Equipment Management Corporation V
Cypress Acquisition Fund 9, LLC	\$2,191,000.00	Cypress Equipment Management Corporation V
Cypress Acquisition Fund 10, LLC	\$4,069,000.00	Cypress Equipment Management Corporation V
Cypress Acquisition Fund 11, LLC	\$4,069,000.00	Cypress Equipment Management Corporation V
Total Capital Contributions	\$25,040,000.00	

Members of Cypress Second PV-B LLC		
Member Name	Capital Contribution	Manager of Member
Cypress Equipment Fund 16, LLC	\$1,252,000.00	Cypress Equipment Management Corporation IV
Cypress Acquisition Fund 8, LLC	\$2,504,000.00	Cypress Equipment Management Corporation V
Cypress Acquisition Fund 12, LLC	\$2,504,000.00	Cypress Equipment Management Corporation VII
Total Capital Contributions	\$6,260,000.00	

Each of the Cypress Funds is made up of fewer than 500 individual investors. Non-US ownership interests in any of the Cypress Funds are *de minimus*. All of the Cypress Funds are managed by affiliates of Cypress Financial Corporation and the manager of each Cypress Fund has sole and absolute authority with respect to the investment and other decisions made by each Cypress Fund, subject only to certain limitations spelled out in the Private Placement Memorandum for each Cypress Fund. Investors in the Cypress Funds have no participation in the management of the Cypress Funds.

Ultimate management authority for Cypress Financial Corporation and each of the managers of the Cypress Funds rests with Mr. Stephen R. Harwood, the controlling direct or indirect shareholder and the President of each of those corporations. Mr. Harwood received a bachelor's degree from Princeton University in 1966 and an MBA from University of Chicago in 1968. From 1968 to 1973, he was employed by Exxon Corporation. He began his equipment leasing career with ITEL Leasing Corporation in 1973. In 1978, he became president of CIS Equipment Leasing Corporation, which grew to be a major lessor of computer and capital equipment. Mr. Harwood founded the Cypress Financial Companies in 1985. Cypress specializes in purchasing secondary market equipment leasing transactions from institutional lessors. Acquisitions are made on behalf of Cypress managed investment programs and for Cypress' own account.