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ACCESSION NBR: 8607230157 DOC. DATE: 86/07/14 NOTARIZED: NO DOCKET #
 FACIL: STN-50-028 Palo Verde Nuclear Station, Unit 1, Arizona Publi 05000528
 AUTH. NAME AUTHOR AFFILIATION
 MOORE, C. L. Kelehar & McLeod
 RECIP. NAME RECIPIENT AFFILIATION
 MIRAQLIA, F. J. Division of Pressurized Water Reactor Licensing - B (post 8

SUBJECT: Discusses sale & leaseback financing transaction by Public
 Svc Co of New Mexico, per 860714 telcon & License NPF-41 &
 Amends 3 & 6. Date for closing sale of public debt, which will
 replace interim debt, is 860717. Prospectus suppl encl.

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| RECIPIENT ID CODE/NAME | COPIES LTTR ENCL | RECIPIENT ID CODE/NAME | COPIES LTTR ENCL |
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| PWR-B EB | 1 1 | PWR-B PEICSB | 2 2 |
| PWR-B FOB | 1 1 | PWR-B PD7 LA | 1 0 |
| PWR-B PD7 PD 01 | 5 5 | LICITRA, E | 1 1 |
| PWR-B PEICSB | 1 1 | PWR-B RSB | 1 1 |
| INTERNAL: ACRS 09 | 6 6 | ADM/LFMB | 1 0 |
| ELD/HDS3 | 1 0 | NRR/ORAS | 1 0 |
| REG FILE 04 | 1 1 | RGN5 | 1 1 |
| EXTERNAL: EQ&G BRUSKE, S | 1 1 | LPDR 03 | 1 1 |
| NRC PDR 02 | 1 1 | NSIC 05 | 1 1 |

| EXTERNAL: LONG BRUSH, S | | EXTERNAL: WRS | | RECIPIENT | | ID CODE NAME | |
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KELEHER & McLEOD, P. A.

ATTORNEYS AND COUNSELORS AT LAW

PUBLIC SERVICE BUILDING

P. O. DRAWER AA

ALBUQUERQUE, NEW MEXICO 87103

July 14, 1986

VIA FEDERAL EXPRESS

W. A. KELEHER

1886-1972

A. H. McLEOD

1902-1976

JOHN B. TITTMANN

OF COUNSEL

TELEPHONE 842-6262

AREA CODE 505

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ARTHUR D. BEACH
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JUDITH L. GURZO
THOMAS J. ZIMBRICK

Director of Nuclear Reactor Regulation
Attention: Mr. Frank J. Miraglia, Director
Division of Pressurized Water Reactor Licensing - B
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Re: Sale and Leaseback Financing Transaction
by Public Service Company of New Mexico -
NRC Docket No. STN 50-528

Gentlemen:

Pursuant to the telephone conversation on this date between Mr. Ed Christenbury and the undersigned, this letter is being written in compliance with paragraph 2.B(6) of License No. NPF-41, which paragraph was added by Amendment No. 3 issued on December 26, 1985 and amended by Amendment No. 6 issued on June 2, 1986.

Pursuant to paragraph 2.B(6), the licensees are required to notify the NRC in writing prior to any change in "the terms or conditions of any lease agreements executed as part of this transaction". As was indicated in my telephone conversation with Ed Christenbury, lease transactions with three equity investors were closed on December 31, 1985, with the debt portion being funded with interim debt arranged with banks. It was contemplated at that time that permanent debt, through a public debt offering, would replace the interim debt at the appropriate time. The parties have now selected Thursday, July 17, 1986, as the date for closing the sale of public debt which will replace the interim debt; also, a small portion of the public debt will be used in connection with a refund to the equity investors of a portion of the equity investment previously made by them. Enclosed herewith for reference is a copy of the Prospectus (dated April 16, 1986), as supplemented by Prospectus Supplement (dated July 10, 1986), which describes the public debt offering.

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KELEHER & McLEOD, P. A.

Director of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
July 14, 1986
Page 2.

In connection with the July 17, 1986 closing, certain of the previously executed transaction documents need to be revised to reflect the details of the permanent debt. Also, it is convenient at this time to amend or supplement several of the documents in certain respects, including the correction of errors in the previous documents. None of the amendments is deemed to be material to the previous action taken by the NRC.

Copies of the transaction documents reflecting the December 31, 1985 closing were included with my letter dated January 29, 1986, to Mr. George W. Knighton. The transaction documents which are now being amended or supplemented, as mentioned above, are the Participation Agreements, the Facility Leases, the documents entitled "Trust Indenture, Mortgage, Security Agreement and Assignment of Rents" and the Collateral Trust Indenture. In addition to reflecting details of the permanent debt, the amendments or supplements would: (i) allow adjustment of the sinking funds for the Lease Obligation Bonds under certain circumstances; (ii) provide that Lease Obligation Bonds held by PNM or an affiliate of PNM will be used preferentially to satisfy sinking fund obligations; (iii) make certain changes in on-going compliance requirements with respect to legal opinions and documentation with respect to insurance; (iv) provide the mechanics for facilitating changes in certain definitions if those definitions are changed in the Facility Lease; and (v) make certain other minor changes.

As discussed with Ed Christenbury, we plan to file the executed documents after the closing, similar to the filing made with my January 29, 1986, letter with respect to the December 31, 1985 transactions.

If you have any questions, please do not hesitate to call.

Very truly yours,

KELEHER & McLEOD, P.A.

CLM/mu
Encl.

By Charles L. Moore
Charles L. Moore

cc: Edward S. Christenbury, Esq. (W/encl.) (Fed.Express)
Edwin J. Reis, Esq. "
Mr. George W. Knighton. "
Arthur C. Gehr, Esq. "
Timothy M. Toy, Esq.
Mr. A. J. Robison

PROSPECTUS SUPPLEMENT
(To Prospectus dated April 16, 1986)

\$253,677,000

**Lease Obligation Bonds, Series 1986A, Due 1991-2014
Interest Payable January 15 and July 15**

The Lease Obligation Bonds, Series 1986A, Due 1991-2014 (the "Offered Bonds") will initially be secured indirectly, as described in the accompanying Prospectus, by an assignment of rentals under Leases relating to up to a 10.2% undivided interest in Unit 1 and certain common facilities of the Palo Verde Nuclear Generating Station to be paid by

Public Service Company of New Mexico

Public Service Company of New Mexico ("PNM") is unconditionally obligated to make basic rental and certain other payments in amounts which will be at least sufficient to pay in full, when due, all payments of principal of, premium, if any, and interest on, the Offered Bonds, although the Offered Bonds are not direct obligations of or guaranteed by PNM.

The Offered Bonds are being issued by First PV Funding Corporation ("First PV"), a corporation created for the sole purpose of the financing described herein and other similar financings. The Offered Bonds will mature on July 15, 1991, July 15, 1996 and January 15, 2014, and will be in the aggregate principal amounts and will bear interest at the rates shown in the table below. For optional, sinking fund and special mandatory redemption provisions and other terms, see "CERTAIN TERMS OF THE OFFERED BONDS".

| Series of Bonds | Principal Amount | Price to Public(1) | Underwriting Discounts and Commissions(2) (3) | Proceeds (1) (3) |
|--|------------------|--------------------|---|------------------|
| 8.300% Lease Obligation Bonds, Series 1986A, Due 1991 | \$ 25,332,000 | 100% | 0.500% | \$ 25,332,000 |
| 9.125% Lease Obligation Bonds, Series 1986A, Due 1996 | 40,532,000 | 100 | 0.625 | 40,532,000 |
| 10.300% Lease Obligation Bonds, Series 1986A, Due 2014 | 187,813,000 | 100 | 0.875 | 187,813,000 |
| Total | \$253,677,000 | \$253,677,000 | \$2,023,349 | \$253,677,000 |

(1) Plus accrued interest, if any.

(2) PNM has agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

(3) The underwriting discounts and commissions will be paid by PNM and not from the proceeds of the Offered Bonds. Such amounts will be reimbursed to PNM from funds provided by the Lessors.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES
AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE
ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE
ACCOMPANYING PROSPECTUS. ANY REPRESENTATION TO
THE CONTRARY IS A CRIMINAL OFFENSE.**

The Offered Bonds are offered by the Underwriters when, as and if issued and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Offered Bonds will be ready for delivery on or about July 17, 1986, at the office of Kidder, Peabody & Co. Incorporated, 10 Hanover Square, New York, New York 10005 against payment therefor in New York funds.

Kidder, Peabody & Co.
Incorporated

Drexel Burnham Lambert
Incorporated

The date of this Prospectus Supplement is July 10, 1986.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY INFORMATION RELATING TO PNM

The following material, which is presented herein solely to furnish limited information regarding PNM, has been selected from the detailed information and financial statements appearing in the documents incorporated in the accompanying Prospectus by reference or elsewhere in the accompanying Prospectus and is qualified in its entirety by reference thereto.

CONSOLIDATED FINANCIAL INFORMATION (Dollars in Thousands)

| | Three Months Ended March 31, 1986 | | |
|---|-----------------------------------|--------------|-----------|
| Statement of Earnings Data: | | | |
| Operating Revenues | | | \$199,379 |
| Net Earnings | | | \$ 32,698 |
| Ratio of Earnings to Fixed Charges | | | 1.99 |
| | March 31, 1986 | | |
| | Actual | As Adjusted† | |
| | | Amount | Percent |
| Capitalization: | | | |
| Long-term Debt (including current maturities) | \$1,152,081 | \$ 917,081 | 43.9% |
| Cumulative Preferred Stock: | | | |
| With Mandatory Redemption Requirements | 115,780 | 69,780 | 3.4 |
| Without Mandatory Redemption Requirements | 106,000 | 59,000 | 2.8 |
| Common Stock Equity | 1,043,157 | 1,043,157 | 49.9 |
| Total | \$2,417,018 | \$2,089,018 | 100.0% |
| Short-term Borrowings | \$ 955 | | |

† Adjusted to reflect the purchase of \$138 million principal amount of PNM's first mortgage bonds since March 31, 1986, the expected redemption or purchase of an additional \$97 million principal amount of PNM's first mortgage bonds and the expected redemption or purchase of \$93 million aggregate stated value of PNM's cumulative preferred stock (see "RECENT DEVELOPMENTS" in this Prospectus Supplement). PNM entered into three Sale and Leaseback Transactions on December 31, 1985 with respect to approximately 72% of PNM's 10.2% undivided interest in Unit 1 and approximately 24% of PNM's 10.2% undivided interest in certain PVNGS common facilities. The leases in such transactions are operating leases (as defined under generally accepted accounting principles), and, accordingly, neither any lease obligations nor any lease obligation notes or bonds issued in connection therewith are reflected in PNM's capitalization. The foregoing adjustments do not take into account the proposed sale and leaseback transactions relating to the remainder of PNM's undivided interest in Unit 1 or PNM's undivided interest in Unit 2. See "RECENT DEVELOPMENTS" in this Prospectus Supplement.

CERTAIN TERMS OF THE OFFERED BONDS

The following information concerning the Offered Bonds supplements and should be read in conjunction with the statements under "DESCRIPTION OF THE BONDS" in the accompanying Prospectus. Capitalized terms used in this Prospectus Supplement have the same meanings as in the accompanying Prospectus.

Principal Amounts, Interest Rates, Maturities and Payment

The Offered Bonds are to be issued under a Collateral Trust Indenture dated as of December 16, 1985 (the "Indenture") among First PV, PNM and Chemical Bank, as indenture trustee (the "Trustee"), as supplemented by a Series 1986A Bond Supplemental Indenture thereto to be dated as of July 15, 1986 among such parties (the "Supplemental Indenture").

The Offered Bonds will be limited to an aggregate principal amount of \$253,677,000, consisting of \$25,332,000 aggregate principal amount of Offered Bonds Due July 15, 1991, \$40,532,000 aggregate principal amount of Offered Bonds Due July 15, 1996 and \$187,813,000 aggregate principal amount of Offered Bonds Due January 15, 2014 (the aggregate principal amount of Offered Bonds due on each maturity date being referred to as a "Maturity"). The Offered Bonds will bear interest from the date of their authentication and delivery at the rate per annum for each respective Maturity shown on the cover page hereof payable semi-annually on January 15 and July 15 in each year, commencing January 15, 1987, to the registered owners thereof at the close of business on the December 31 or June 30, as the case may be, next preceding such interest payment date, subject to certain exceptions. If the scheduled payment date for the Offered Bonds is not a business day, payment may be made on the next succeeding business day with the same effect as though made on the date due. Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law) any overdue interest on any Offered Bond shall be paid, on demand, from the due date thereof at the rate equal to 1% above the interest rate on such Offered Bond. (Indenture, Sections 1.13, 2.03 and 2.10, Supplemental Indenture and form of Offered Bond)

The principal of, premium, if any, and interest on, the Offered Bonds will be payable at the corporate trust office of Chemical Bank, Paying Agent. Payment of interest may, however, be made at the option of First PV by check mailed to the address of the person entitled thereto, as shown in the bond register. (Indenture, Sections 2.03 and 2.10, and form of Offered Bond)

Sinking Fund Redemption

The Indenture provides for the redemption of the Offered Bonds, on a pro rata basis for Offered Bonds of all Maturities, through operation of a sinking fund on each of the dates set forth below (other than maturity dates), at the principal amount thereof, together with interest accrued to the redemption date; provided, however, that the Trustee shall first select for redemption on any sinking fund date on which Offered Bonds Due July 15, 1996 or Offered Bonds Due January 15, 2014 are to be redeemed in accordance with the sinking fund relating thereto, such Offered Bonds, if any, of such Maturity as First PV shall specify are held by PNM or an affiliate of PNM in a request delivered to the Trustee at least 40 (but not more than 90) days prior to such sinking fund date. The principal amounts of Offered Bonds of the respective Maturities to be redeemed on such dates, as well as the principal amounts payable on the final maturity date of each Maturity, are set forth in the following table opposite such dates. (Indenture, Section 7.01, Supplemental Indenture and form of Offered Bond)

| | <u>Offered Bonds Due July 15, 1991</u> | <u>Offered Bonds Due July 15, 1996</u> | <u>Offered Bonds Due January 15, 2014</u> |
|-----------------------|--|--|---|
| January 15, 1987..... | \$1,515,000 | | |
| July 15, 1987..... | 1,809,000 | | |
| January 15, 1988..... | 2,375,000 | | |
| July 15, 1988..... | 2,475,000 | | |
| January 15, 1989..... | 2,577,000 | | |
| July 15, 1989..... | 2,684,000 | | |
| January 15, 1990..... | 2,795,000 | | |
| July 15, 1990..... | 2,912,000 | | |
| January 15, 1991..... | 3,032,000 | | |
| July 15, 1991..... | 3,158,000 | | |
| January 15, 1992..... | | \$3,289,000 | |
| July 15, 1992..... | | 3,439,000 | |
| January 15, 1993..... | | 3,596,000 | |
| July 15, 1993..... | | 3,759,000 | |
| January 15, 1994..... | | 3,931,000 | |
| July 15, 1994..... | | 4,111,000 | |
| January 15, 1995..... | | 4,298,000 | |
| July 15, 1995..... | | 4,495,000 | |
| January 15, 1996..... | | 4,700,000 | |
| July 15, 1996..... | | 4,914,000 | |
| January 15, 1997..... | | | \$ 5,138,000 |
| July 15, 1997..... | | | 5,403,000 |
| January 15, 1998..... | | | 5,680,000 |
| July 15, 1998..... | | | 4,078,000 |
| January 15, 1999..... | | | 4,193,000 |
| July 15, 1999..... | | | 2,584,000 |
| January 15, 2000..... | | | 4,417,000 |
| July 15, 2000..... | | | 2,726,000 |
| January 15, 2001..... | | | 4,664,000 |
| July 15, 2001..... | | | 2,877,000 |
| January 15, 2002..... | | | 4,924,000 |
| July 15, 2002..... | | | 3,035,000 |
| January 15, 2003..... | | | 5,199,000 |
| July 15, 2003..... | | | 3,203,000 |
| January 15, 2004..... | | | 5,866,000 |
| July 15, 2004..... | | | 3,886,000 |
| January 15, 2005..... | | | 5,287,000 |
| July 15, 2005..... | | | 4,666,000 |
| January 15, 2006..... | | | 5,251,000 |
| July 15, 2006..... | | | 4,666,000 |
| January 15, 2007..... | | | 5,542,000 |
| July 15, 2007..... | | | 4,924,000 |

| | <u>Offered Bonds Due July 15, 1991</u> | <u>Offered Bonds Due July 15, 1996</u> | <u>Offered Bonds Due January 15, 2014</u> |
|-----------------------|--|--|---|
| January 15, 2008..... | | | \$ 5,849,000 |
| July 15, 2008 | | | 5,196,000 |
| January 15, 2009..... | | | 6,468,000 |
| July 15, 2009 | | | 8,450,000 |
| January 15, 2010..... | | | 9,127,000 |
| July 15, 2010 | | | 9,233,000 |
| January 15, 2011..... | | | 11,495,000 |
| July 15, 2011 | | | 12,060,000 |
| January 15, 2012..... | | | 8,653,000 |
| July 15, 2012 | | | 5,827,000 |
| January 15, 2013..... | | | 3,646,000 |
| July 15, 2013 | | | 2,507,000 |
| January 15, 2014..... | | | 1,093,000 |

The principal amount of Offered Bonds of a particular Maturity to be redeemed through operation of the sinking fund for the Offered Bonds of such Maturity may be adjusted once (upward or downward) at the discretion of First PV (contemporaneously with similar adjustments for all Maturities) on or before July 15, 1988; provided, however, that such adjustment shall not increase or reduce the average life of the Offered Bonds of such Maturity (calculated in accordance with generally accepted financial practice from the date of initial issuance) by more than 6 months; provided further, however, that such adjustment may only be made in connection with an adjustment to basic rent. The Trustee shall, at the expense of PNM, send to each holder of Offered Bonds of the affected Maturity at least 20 days before the first sinking fund date to be affected thereby, by first class mail, a revised schedule of principal amounts of sinking fund payments applicable to such Offered Bonds.

In the event of any partial redemption of Offered Bonds of a particular Maturity (other than pursuant to the sinking fund), the principal amount of Offered Bonds of such Maturity thereafter to be redeemed pursuant to the sinking fund shall be adjusted proportionately as nearly as practicable. (Indenture, Section 7.01, and form of Offered Bond)

Optional Redemption

The Offered Bonds Due July 15, 1991 may not be redeemed at the option of First PV prior to their maturity. The Offered Bonds Due July 15, 1996 and the Offered Bonds Due January 15, 2014 may be redeemed at the option of First PV, exercisable at the direction of a Lessor whose Pledged Lessor Notes are then proposed to be prepaid, in whole or in part at any time with monies deposited with the Trustee, on not less than 20 nor more than 60 days' notice given by mail, as follows:

(a) The Offered Bonds Due July 15, 1996 may be redeemed at the following redemption prices (expressed as a percentage of principal amount), together with interest accrued to the redemption date:

| <u>Twelve Month Period Beginning</u> | <u>Redemption Price</u> |
|--|-----------------------------|
| July 15, 1986 | 109.125% |
| July 15, 1987 | 107.821 |
| July 15, 1988 | 106.518 |
| July 15, 1989 | 105.214 |
| July 15, 1990 | 103.911 |
| July 15, 1991 | 102.607 |
| July 15, 1992 | 101.304 |

and thereafter at the principal amount thereof, together with interest accrued to the redemption date; provided, however, that no such redemption shall be made prior to July 15, 1991, directly or indirectly,

as a part of, or in anticipation of, any refunding operation involving the incurrence of indebtedness by First PV, any Lessor, PNM or any affiliate of any thereof if such indebtedness has an effective interest cost to First PV, such Lessor, PNM or such affiliate, as the case may be (computed in accordance with generally accepted financial practice), of less than 9.125% per annum. (Indenture, Section 2.03, and form of Offered Bond)

(b) The Offered Bonds Due January 15, 2014 may be redeemed at the following redemption prices (expressed as a percentage of principal amount), together with interest accrued to the redemption date:

| <u>Twelve Month Period Beginning</u> | <u>Redemption Price</u> | <u>Twelve Month Period Beginning</u> | <u>Redemption Price</u> |
|--|-----------------------------|--|-----------------------------|
| July 15, 1986 | 110.300% | July 15, 1999 | 104.944% |
| July 15, 1987 | 109.888 | July 15, 2000 | 104.532 |
| July 15, 1988 | 109.476 | July 15, 2001 | 104.120 |
| July 15, 1989 | 109.064 | July 15, 2002 | 103.708 |
| July 15, 1990 | 108.652 | July 15, 2003 | 103.296 |
| July 15, 1991 | 108.240 | July 15, 2004 | 102.884 |
| July 15, 1992 | 107.828 | July 15, 2005 | 102.472 |
| July 15, 1993 | 107.416 | July 15, 2006 | 102.060 |
| July 15, 1994 | 107.004 | July 15, 2007 | 101.648 |
| July 15, 1995 | 106.592 | July 15, 2008 | 101.236 |
| July 15, 1996 | 106.180 | July 15, 2009 | 100.824 |
| July 15, 1997 | 105.768 | July 15, 2010 | 100.412 |
| July 15, 1998 | 105.356 | | |

and thereafter at the principal amount thereof, together with interest accrued to the redemption date; *provided, however*, that no such redemption shall be made prior to July 15, 1991, directly or indirectly, as part of, or in anticipation of, any refunding operation involving the incurrence of indebtedness by First PV, any Lessor, PNM or any affiliate of any thereof if such indebtedness has an effective interest cost to First PV, such Lessor, PNM or such affiliate, as the case may be (computed in accordance with generally accepted financial practice), of less than 10.300% per annum. (Indenture, Section 2.03, and form of Offered Bond)

Special Mandatory Redemption

If a Lease shall be terminated by reason of obsolescence, which may occur only after January 15, 1998 (see "DESCRIPTION OF THE LEASES — Termination for Obsolescence" in the accompanying Prospectus), Offered Bonds Due January 15, 2014 will be redeemed, in part, in an aggregate principal amount equal to the aggregate principal amount of all Pledged Lessor Notes related to such Lease to be prepaid, at a redemption price of 100% of the principal amount thereof, together with interest accrued to the redemption date. (Supplemental Indenture and form of Offered Bond)

Potential Amendments to Leases and Lease Indentures Without Bondholder Consent

The Leases and the Lease Indentures may be amended, without the consent of the holders of the Offered Bonds, to incorporate certain additional "events of loss" and "deemed loss events" (see "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM" in the accompanying Prospectus). Such additional events, if any, would not be related to the creditworthiness or financial position of PNM, but would involve specific occurrences relating to the following: (i) adverse changes in PVNGS public liability insurance; (ii) cessation of operations at any unit of PVNGS as a result of specified nuclear events at any PVNGS unit; (iii) governmental action preventing operation of Unit 1 above a stated capacity for a specified period or requiring significant modifications to the design or operation of PVNGS; and (iv) certain significant safety, maintenance or management deficiencies at PVNGS. In addition, the applicable time periods referred to in the discussions of Events of Loss and Deemed Loss

Events in the accompanying Prospectus may be shortened or eliminated. Upon the occurrence of any of the foregoing events, the related Pledged Lessor Notes would be assumed (if applicable conditions are met) by PNM.

USE OF PROCEEDS

Proceeds of the issuance of the Offered Bonds will be used as follows: (a) \$249,870,794 thereof will be used to retire bank indebtedness incurred by First PV in the original principal amount of \$250,250,000 in connection with the Initial Sale and Leaseback Transaction, which bank indebtedness matures on January 15, 2015 and initially bore interest at the prime rate of one of the lenders, which interest rate increased to 125% of such prime rate on July 1, 1986; and (b) the remaining \$3,806,206 thereof will be loaned by First PV to the Lessors in the Initial Sale and Leaseback Transaction and used to refund an equal amount of the approximately \$74.75 million previously provided by the Equity Investors in such transaction. See "INTRODUCTION" in the accompanying Prospectus.

RECENT DEVELOPMENTS

PNM's application to the New Mexico Public Service Commission (the "NMPSC") seeking authority to reorganize into a holding company structure (see "PNM'S PROPOSED CORPORATE RESTRUCTURING" in the accompanying Prospectus) was denied by the NMPSC on July 8, 1986. Notwithstanding such denial, PNM remains committed to the holding company concept and is considering what actions it may take as a result of the NMPSC's disapproval of the holding company proposal. Potential courses of action include, among other things, filing a motion for rehearing before the NMPSC and filing an appeal with the New Mexico Supreme Court. The NMPSC, also on July 8, 1986, approved PNM's proposal that Sunbelt Mining Company, Inc., a wholly-owned non-utility subsidiary of PNM, participate as an equity investor in the sale and leaseback of a portion of PNM's remaining undivided interest in Unit 1 (see the fifth paragraph under "INTRODUCTION" in the accompanying Prospectus). PNM is reassessing whether or not to proceed with such transaction.

In June 1986, as a result of tender offers by PNM, PNM purchased approximately \$33 million principal amount of its First Mortgage Bonds, 13½% Series due 1994, approximately \$34 million principal amount of its First Mortgage Bonds, 13½% Series due 2012 and approximately \$56 million principal amount of its First Mortgage Bonds, 12½% Series due 2013. PNM has also acquired approximately \$30 million principal amount of its First Mortgage Bonds through open market purchases in 1986, of which approximately \$15 million principal amount was acquired before March 31, and proposes to redeem or purchase an additional \$97 million principal amount of its outstanding First Mortgage Bonds. PNM also proposes to redeem or purchase a total of up to \$93 million aggregate stated value of its outstanding Cumulative Preferred Stock (including \$42,825,000 aggregate stated value of its Cumulative Preferred Stock, 14.75% Series, tendered in response to a tender offer concluded on July 10, 1986).

PNM is currently negotiating sale and leaseback transactions relating to its remaining interest in Unit 1 and its interest in Unit 2. However, there can be no assurance that any such transaction will be consummated. See "PNM'S CONSTRUCTION PROGRAM AND FINANCING REQUIREMENTS" in the accompanying Prospectus. Any lease obligation bonds issued in connection with such sale and leaseback transactions and the Offered Bonds would be secured by all lessor notes pledged by First PV to the Trustee, including the Pledged Lessor Notes. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the accompanying Prospectus. Under the terms of the Initial Sale and Leaseback Transaction, the prior written consent of the Equity Investors would be required for PNM to enter into any lease transaction as lessee with respect to any undivided interest in PVNGS providing for "events of loss" upon terms materially less favorable to PNM than those contained in the Initial Sale and Leaseback Transaction (see paragraph (a) under "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM" in the accompanying Prospectus).

The authority of the Nuclear Regulatory Commission under the Price-Anderson Act to enter into indemnity agreements covering new nuclear facilities not now in operation or under construction will expire on August 1, 1987. (See "DESCRIPTION OF THE PALO VERDE NUCLEAR GENERATING STATION — Liability and Insurance Matters" in the accompanying Prospectus.) This expiration date has served as a catalyst for proposals to amend the Price-Anderson Act in a variety of ways. Bills to extend the expiring provisions and to amend or eliminate other provisions of the Price-Anderson Act have been offered in both the United States Senate and House of Representatives. For example, the House Interior Committee has approved a bill that would increase the limit on liability to \$6.5 billion. The ultimate response of Congress to those proposals cannot be predicted, nor is it certain that Congress will act in the near future. However, if enacted by Congress, certain of the proposals might be construed to constitute a Deemed Loss Event, in which event PNM would be required to assume Pledged Lessor Notes as described under "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM" in the accompanying Prospectus.

The NMPSC and the utility regulatory bodies of Arizona, California and Texas are sponsoring an independent audit of PVNGS management and construction costs. In 1985, PNM agreed to participate in the audit and to fund a portion of the audit expenses based on PNM's understanding that the study would be balanced and objective. Principally as a result of PNM's belief that the orientation of the audit had changed and that the audit would not produce balanced and objective conclusions, PNM advised the NMPSC in April 1986 that it was withdrawing from participation in and further funding of the audit. Subsequently, the NMPSC issued an order to show cause why the certificate of convenience and necessity granted by the NMPSC in 1977, which permits PNM to participate in PVNGS, should not be amended to condition such certificate on PNM's continued participation in and funding of the audit. A hearing was held in late May 1986, at which time PNM argued that the NMPSC does not have the authority to require PNM to perform the audit. However, the NMPSC issued an order on July 7, 1986 amending and modifying the certificate so as to condition such certificate on the performance by PNM of such an audit. The NMPSC ordered PNM to pay its pro rata share of the costs of the current four-state audit in order to satisfy such condition. PNM intends to contest vigorously the authority of the NMPSC to issue such order.

UNDERWRITERS

Subject to the terms and conditions contained in the Underwriting Agreement, a copy of the form of which is filed as an exhibit to the Registration Statement, as supplemented by a Pricing Agreement dated July 10, 1986, Kidder, Peabody & Co. Incorporated and Drexel Burnham Lambert Incorporated have each agreed, severally, to purchase 50% of the Offered Bonds Due July 15, 1991 and the Offered Bonds Due July 15, 1996, and the Underwriters named below have severally agreed to purchase the respective principal amounts of the Offered Bonds Due January 15, 2014 set forth below.

| | Offered Bonds Due January 15, 2014 |
|--|--|
| Kidder, Peabody & Co. Incorporated | \$ 56,107,000 |
| Drexel Burnham Lambert Incorporated | 56,106,000 |
| The First Boston Corporation | 5,700,000 |
| Goldman, Sachs & Co. | 5,700,000 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 5,700,000 |
| Morgan Stanley & Co. Incorporated | 5,700,000 |
| Salomon Brothers Inc | 5,700,000 |
| Shearson Lehman Brothers Inc. | 5,700,000 |
| Bear, Stearns & Co. Inc. | 4,600,000 |
| Alex. Brown & Sons, Inc. | 4,600,000 |
| E. F. Hutton & Company Inc. | 4,600,000 |
| PaineWebber Incorporated | 4,600,000 |
| Prudential-Bache Securities Inc. | 4,600,000 |
| L. F. Rothschild, Unterberg, Towbin, Inc. | 4,600,000 |
| Smith Barney, Harris Upham & Co. Incorporated | 4,600,000 |
| Wertheim & Co., Inc. | 4,600,000 |
| Dean Witter Reynolds Inc. | 4,600,000 |
| Total | <u>\$187,813,000</u> |

PNM has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Kidder, Peabody & Co. Incorporated and Drexel Burnham Lambert Incorporated, as Representatives of the several Underwriters, have advised PNM as follows:

The several Underwriters are offering the Offered Bonds to the public at the public offering price set forth on the cover page of this Prospectus Supplement, and to dealers at a price which represents a concession of .5% of principal amount under the public offering price, of which not in excess of .25% of principal amount may be reallocated to certain other dealers. After the initial public offering, the public offering price and the concessions may be changed by the Representatives.

The Underwriting Agreement provides that the several Underwriters do not have the right to purchase less than all of the Offered Bonds offered hereby and that a default by one or more Underwriters would not relieve the non-defaulting Underwriters from their several obligations. In the event of a default involving not more than 10% of the principal amount of the Offered Bonds, the non-defaulting Underwriters would be required to purchase the Offered Bonds agreed to be purchased by the defaulting Underwriters in proportion to their respective obligations. In the event of a default in excess of 10% of the principal amount of the Offered Bonds, PNM has the right to require the Underwriters to purchase less than all of the Offered Bonds.

Burnham Leasing Corporation, an affiliate of Drexel Burnham Lambert Incorporated, one of the Representatives of the several Underwriters, is one of the Equity Investors in the Initial Sale and

Leaseback Transaction. Burnham Leasing Corporation acquired a 2.266667% undivided interest in Unit 1 for an initial equity investment of approximately \$23 million. It will receive \$544,000 from the proceeds of the sale of the Offered Bonds as a partial refunding of such investment (see "USE OF PROCEEDS" in this Prospectus Supplement).

Lease Obligation Bonds

The Lease Obligation Bonds (the "Bonds") will initially be secured indirectly, as described herein, by an assignment of rentals under Leases relating to up to a 10.2% undivided interest in Unit 1 and certain common facilities of the Palo Verde Nuclear Generating Station to be paid by

Public Service Company of New Mexico

Public Service Company of New Mexico ("PNM") will be unconditionally obligated to make basic rental and certain other payments in amounts which will be at least sufficient to pay in full, when due, all payments of principal of, premium, if any, and interest on, the Bonds, although the Bonds will not be direct obligations of or guaranteed by PNM.

First PV Funding Corporation ("First PV"), a corporation created for the sole purpose of the financing described herein and other similar financings, intends from time to time to issue up to \$350,000,000 aggregate principal amount of the Bonds on terms to be determined at the time of sale. For each series of Bonds for which this Prospectus is being delivered (the "Offered Bonds"), there is an accompanying Prospectus Supplement (the "Prospectus Supplement") that sets forth the series designation, aggregate principal amount of the issue, interest rates, maturities, redemption terms and other special terms of the Offered Bonds.

The Bonds will be issued to provide funds which will be (a) loaned by First PV to owner trusts which will acquire and be the owners and lessors (the "Lessors") of undivided ownership interests aggregating up to 100% of PNM's 10.2% undivided interest in Unit 1 and certain common facilities of the Palo Verde Nuclear Generating Station, or (b) used by First PV to retire indebtedness to banks previously incurred by First PV in order to enable First PV to make initial purchase money loans to Lessors who have previously acquired undivided interests in Unit 1 and such common facilities, in which latter case new loans (as described in clause (a)) will be made to such Lessors and the notes from such Lessors to First PV evidencing the prior loans will be canceled. All such loans to be made to the Lessors will be evidenced by nonrecourse Lessor Notes (the "Pledged Lessor Notes") issued by the Lessors which will be pledged as security for the Bonds. Such Pledged Lessor Notes will be secured by separate assignments of the basic rentals and certain other amounts payable by PNM under the Leases. See "INTRODUCTION", "DESCRIPTION OF THE PALO VERDE NUCLEAR GENERATING STATION", "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS", "DESCRIPTION OF THE BONDS", "DESCRIPTION OF THE LEASE INDENTURES" and "DESCRIPTION OF THE LEASES".

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE
SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION
PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The Bonds will be sold through the underwriters named below or an underwriting syndicate including and represented by such firms. The net proceeds to First PV from the sale of any Offered Bonds, and any applicable commissions or discounts, are set forth in the Prospectus Supplement. See "PLAN OF DISTRIBUTION" for indemnification arrangements for underwriters.

Kidder, Peabody & Co.
Incorporated

Drexel Burnham Lambert
Incorporated

The date of this Prospectus is April 16, 1986.

AVAILABLE INFORMATION

PNM is subject to the information requirements of the Securities Exchange Act of 1934 (the "1934 Act") and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, as of particular dates, concerning directors and officers, their remuneration, and any material interest of such persons in transactions with PNM is discussed in proxy statements of PNM distributed to shareholders of PNM and filed with the SEC. Such reports, proxy statements and other information can be obtained at prescribed rates from the Public Reference Section of the SEC or may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549; Everett McKinley Dirksen Building, 219 South Dearborn Street, Room 1204, Chicago, Illinois 60604; and 26 Federal Plaza, Room 1028, New York, New York 10278. In addition, PNM's common stock is listed on the New York Stock Exchange. Reports, proxy statements and other information concerning PNM can be inspected and copied at the Library of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this Prospectus the following documents previously filed with the SEC pursuant to the 1934 Act:

1. PNM's Annual Report on Form 10-K for the year ended December 31, 1985 (the "1985 Form 10-K").
2. PNM's Proxy Statement/Prospectus dated April 11, 1986, in connection with its Annual Meeting of Stockholders on May 20, 1986.
3. PNM's Current Reports on Form 8-K filed on February 12, 1985 (as amended by Form 8 filed April 12, 1985), January 14, 1986 and March 3, 1986.

All documents filed by PNM pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act after the date of this Prospectus and prior to the termination of the offering of Bonds contemplated hereby shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

PNM hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Requests for such copies should be directed to Mr. A. J. Robison, Senior Vice President and Chief Financial Officer, Public Service Company of New Mexico, Alvarado Square, Albuquerque, New Mexico 87158 (telephone number (505) 848-2700).

SUMMARY INFORMATION RELATING TO THE BONDS

The material set forth in the following summaries is qualified in its entirety by the detailed information appearing elsewhere in this Prospectus and in the accompanying Prospectus Supplement.

| | |
|--|--|
| Securities Offered | Lease Obligation Bonds. See the accompanying Prospectus Supplement. |
| Interest Payment Dates | See the accompanying Prospectus Supplement. |
| Sinking Fund | See the accompanying Prospectus Supplement. |
| Optional Redemption | See the accompanying Prospectus Supplement. |
| Special Mandatory Redemption | See the accompanying Prospectus Supplement. |
| Use of Proceeds | The proceeds of the sale of the Bonds will be (a) loaned by First PV to the Lessors and will be used by the Lessors to pay a portion of the purchase price of an undivided interest in Unit 1 of the Palo Verde Nuclear Generating Station ("PVNGS"), or (b) used by First PV to retire indebtedness to banks previously incurred by First PV in order to enable First PV to make initial purchase money loans to Lessors who have previously acquired undivided interests in Unit 1. See "USE OF PROCEEDS" herein and in the accompanying Prospectus Supplement. |
| Security and Source of Payments ... | <p>The Bonds will initially be secured by the Pledged Lessor Notes. The payments due on the Pledged Lessor Notes will equal all payments due on the Bonds. The Pledged Lessor Notes will be secured by separate assignments of the right to receive basic rentals and certain other amounts payable by PNM under the Leases. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS".</p> <p>Although neither the Bonds nor the Pledged Lessor Notes will be direct obligations of or guaranteed by PNM, PNM will be unconditionally obligated to pay basic rentals and make certain other payments under the Leases in amounts which will be at least sufficient to provide for the payment in full when due of principal of, premium, if any, and interest on, the Pledged Lessor Notes and, in turn, the Bonds. Each Lease will be a "net lease" with all such payments being required to be made without counterclaim, setoff, deduction or defense. The holders of the Bonds will have no recourse against the general credit of the Lessors in their individual capacities. See "DESCRIPTION OF THE LEASES".</p> <p>Under certain circumstances, PNM will be required to assume all or a portion of the Pledged Lessor Notes and all obligations of the Lessors thereunder and under the related Lease Indentures. See "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM".</p> |
| Description of the Palo Verde Nuclear Generating Station | PVNGS consists of three 1,270 MW units, each containing a pressurized water reactor, located 55 miles west of Phoenix, Arizona. See "DESCRIPTION OF THE PALO VERDE NUCLEAR GENERATING STATION". |

First PV Funding Corporation

First PV was incorporated in Delaware in September 1985 for the sole purpose of facilitating the long-term financing of PNM's interest in PVNGS. The assets of First PV will consist primarily of the Pledged Lessor Notes, which are payable from basic rentals and certain other payments which PNM will be unconditionally obligated to make under the Leases, and similar lessor notes which may be received in connection with future similar financings.

Trustee

The Trustee for the Bonds will be Chemical Bank. Chemical Bank will also act as trustee in respect of the Pledged Lessor Notes under each of the Lease Indentures.

SUMMARY INFORMATION RELATING TO PNM

The following material, which is presented herein solely to furnish limited information regarding PNM, has been selected from the detailed information and financial statements appearing in the documents incorporated herein by reference or elsewhere in this Prospectus and is qualified in its entirety by reference thereto.

| PNM | |
|---|---|
| Principal Business | Electric and gas utility serving portions of New Mexico |
| Estimated Generating Fuel for 1986 (on the basis of kWh) | Coal — 85.2%; Nuclear — 12.9%; Gas and Oil — 1.9% |
| Estimated 1986 and 1987 Electric, Gas and Water Utility Construction Expenditures | \$224 million and \$151 million, respectively. (See "PNM's CONSTRUCTION PROGRAM AND FINANCING REQUIREMENTS".) |

CONSOLIDATED FINANCIAL INFORMATION (Dollars in Thousands)

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|---------------|
| | 1985 | 1984 | 1983 |
| Statement of Earnings Data: | | | |
| Operating Revenues | \$748,984 | \$445,328 | \$397,474 |
| Net Earnings | \$146,310 | \$132,840 | \$140,519 |
| Ratio of Earnings to Fixed Charges | 2.63 | 2.32 | 2.81 |
| December 31, 1985 | | | |
| | Actual | As Adjusted† | |
| | | Amount | Percent |
| Capitalization: | | | |
| Long-term Debt (including current maturities) | \$1,221,078 | \$1,067,328 | 46.8% |
| Cumulative Preferred Stock: | | | |
| With Mandatory Redemption Requirements | 119,080 | 69,080 | 3.0 |
| Without Mandatory Redemption Requirements | 106,000 | 106,000 | 4.7 |
| Common Stock Equity | 976,947 | 1,037,135 | 45.5 |
| Total | <u>\$2,423,105</u> | <u>\$2,279,543</u> | <u>100.0%</u> |
| Short-term Borrowings | <u>\$ 49,435</u> | | |

† Adjusted to reflect (i) the sale on February 4, 1986 of 1,800,000 shares of common stock of PNM with net proceeds to PNM of \$29.56 per share (net of underwriters' fees and other expenses of issuance and distribution), and assuming the sale of an additional 200,000 shares of common stock of PNM with net proceeds to PNM of \$34.90 per share (based on the closing price of PNM common stock on the New York Stock Exchange — Composite Transactions Tape on April 4, 1986, less estimated expenses of issuance and distribution), (ii) a proposed sale and leaseback transaction with an affiliate with respect to all of the remainder of PNM's undivided interest in Unit 1 and certain PVNGS common facilities, which transaction would result in a capital lease (as defined under generally accepted accounting principles), (iii) the expected redemption or purchase of \$250 million principal amount of PNM's first mortgage bonds, and (iv) the expected redemption or purchase of \$50 million aggregate stated value of PNM's preferred stock. PNM entered into three sale and leaseback transactions with unaffiliated entities on December 31, 1985 with respect to approximately 72% of PNM's 10.2% undivided interest in Unit 1 and approximately 24% of PNM's 10.2% undivided interest in certain PVNGS common facilities. The leases in such transactions are operating leases (as defined under generally accepted accounting principles), and, accordingly, neither any lease obligations nor any lease obligation notes or bonds issued in connection therewith are reflected in PNM's capitalization. If a sale and leaseback transaction with respect to any portion of the remainder of PNM's Unit 1 interest is consummated with an unaffiliated entity on terms substantially similar to the December 31, 1985 transactions, the lease would be an operating lease, and PNM's long-term debt, as adjusted, would be decreased by approximately 77% of the amount of the sale price.

INTRODUCTION

PNM was incorporated in the State of New Mexico in 1917 and has its principal executive offices at Alvarado Square, Albuquerque, New Mexico 87158 (telephone number (505) 848-2700). PNM is a public utility engaged principally in the generation, transmission, distribution and sale of electricity and, since January 28, 1985, in the gathering, transmission, distribution and sale of natural gas within the State of New Mexico. PNM also owns facilities for the pumping, storage, transmission, distribution and sale of water. In addition, PNM, through its subsidiaries, is engaged in a program of diversification into non-utility areas.

PNM is a participant in PVNGS, the construction of Units 1 and 2 of which has been completed. For a description of PVNGS, see "DESCRIPTION OF THE PALO VERDE NUCLEAR GENERATING STATION".

On December 31, 1985, PNM entered into three agreements (the "Participation Agreements") pursuant to which PNM sold undivided interests in PVNGS Unit 1 ("Unit 1") and certain common facilities aggregating approximately 72% of PNM's 10.2% interest in Unit 1 and approximately 24% of PNM's 10.2% interest in such common facilities (PNM's entire 10.2% interest in Unit 1 and such related common facilities being hereinafter referred to as the "Entire Unit 1 Interest" and the portion sold pursuant to the Participation Agreements being hereinafter referred to as the "Committed Unit 1 Interest") to The First National Bank of Boston, as owner trustee under separate owner trust agreements with three institutional equity investors (the "Equity Investors"), and then leased the Committed Unit 1 Interest back from such owner trusts (the "Lessors") on a long-term net lease basis (the "Initial Sale and Leaseback Transaction"). The total consideration to PNM from the Initial Sale and Leaseback Transaction was approximately \$325 million. Of the total consideration, approximately \$74.75 million was provided by the Equity Investors and \$250.25 million was loaned by First PV to the Lessors.

In order to obtain the \$250.25 million loaned by First PV to the Lessors, First PV borrowed an equal amount from banks and issued its notes, secured by Pledged Lessor Notes in an aggregate principal amount of \$250.25 million, therefor. See "USE OF PROCEEDS".

The aggregate principal amount of the Bonds is sufficient to provide the debt portion of the purchase price for the Entire Unit 1 Interest. In order to utilize the entire principal amount of the Bonds, additional equity investors will be needed to provide the equity portion of the purchase price for the remainder of the Entire Unit 1 Interest. Accordingly, PNM may retain an undivided interest in Unit 1 and may engage in one or more additional sale and leaseback transactions with additional unaffiliated equity investors or with an affiliate (any such future sale and leaseback transaction being referred to herein collectively with the Initial Sale and Leaseback Transaction as "Sale and Leaseback Transactions"). PNM has now determined that it is unlikely that unrelated parties will purchase and lease back to PNM all of the remainder of the Entire Unit 1 Interest. In order to sell such remainder, PNM has proposed that Sunbelt Mining Company, Inc. ("Sunbelt"), a wholly-owned non-utility subsidiary of PNM, participate as an equity investor in the sale and leaseback of up to all of the remainder. First PV may issue Bonds in advance of a Sale and Leaseback Transaction, in which case any such Bonds, the proceeds of the issuance of which are not utilized in a Sale and Leaseback Transaction on or before the date two months after the date of issuance thereof, must be redeemed on or before the date five months after the date of issuance thereof. See "DESCRIPTION OF THE BONDS — Special Mandatory Redemption".

Regulatory approvals have been received from the Federal Energy Regulatory Commission (the "FERC") with respect to all Sale and Leaseback Transactions, from the New Mexico Public Service Commission (the "NMPSC") with respect to Sale and Leaseback Transactions with non-affiliates of PNM, and from the Nuclear Regulatory Commission (the "NRC") with respect to the Initial Sale and Leaseback Transaction. Any future Sale and Leaseback Transaction will require further NRC action. The proposed transaction with Sunbelt requires specific approval by the NMPSC in addition to the approval already received. In its order, the NMPSC deferred matters relating to ratemaking treatment for payments by PNM under the Leases, and PNM has filed a separate case covering such treatment.

On December 31, 1985, after consummation of the Initial Sale and Leaseback Transaction, PNM had cash and temporary cash investments totaling \$384 million, a portion of which PNM intends to utilize for the redemption or purchase of approximately \$250 million principal amount of its first mortgage bonds, including \$60 million principal amount of First Mortgage Bonds, 17½% Series due 2011, which will become refundable (with a premium) on and after October 1, 1986. The remaining temporary cash investments and the proceeds to PNM of the proposed sale and leaseback of PNM's remaining interest in Unit 1 are expected to be used to offset future funding requirements. PNM is also planning the redemption or purchase of up to \$50 million stated value of its outstanding preferred stock. PNM's utility construction program and operations are described generally under "PNM's CONSTRUCTION PROGRAM AND FINANCING REQUIREMENTS" herein and in the documents incorporated herein by reference.

DESCRIPTION OF THE PALO VERDE NUCLEAR GENERATING STATION

General

PVNGS, also known as the Arizona Nuclear Power Project ("ANPP"), consists of three 1,270 MW units. PNM is participating in PVNGS with Arizona Public Service Company ("APS") (the project manager and operating agent) and two other utilities and three public power agencies. The NRC issued construction permits for PVNGS in May 1976. APS has reported that, as of December 31, 1985, construction of Units 1 and 2 was 100% complete and construction of Unit 3 was 99.2% complete, based on construction man-hours expended and materials installed. Testing phases follow the completion of construction. As project manager, APS is responsible for maintaining schedules.

PNM's 10.2% interest as a participant in PVNGS will amount to approximately 130 MW per unit or a total of 390 MW. Through December 31, 1985, PNM had expended approximately \$830 million (without giving effect to the Initial Sale and Leaseback Transaction) for construction of its share of PVNGS, including allowance for funds used during construction ("AFUDC"), and approximately \$55 million for nuclear fuel. Based on PNM's current construction budget estimates, the total estimated aggregate cost, excluding costs of related transmission facilities and nuclear fuel prior to commercial operation, but including AFUDC and costs of related pollution control facilities, is expected to be approximately \$938 million (without giving effect to sale and leaseback transactions), resulting in an estimated cost for 390 MW of approximately \$2,405 per kW. However, APS has advised that actual completion dates, unexpected inflationary pressures and compliance with any additional governmental procedures and regulations could cause final costs to vary substantially from these and any later estimates, as could changes in the plans of the PVNGS participants.

In January 1985, nuclear fuel loading was completed at Unit 1, which was declared in commercial service by PNM on January 28, 1986. Fuel loading at Unit 2 was completed in December 1985, and Unit 2 is scheduled for firm power operation in the third quarter of 1986. Unit 3 is scheduled for fuel loading in the first quarter of 1987 and for firm power operation in the third quarter of 1987. Between fuel loading and firm power operation, Units 2 and 3 must undergo extensive testing. Firm power operation represents the time when power from the units can be reliably scheduled for service to customers, although electricity would be produced prior to the firm power operation dates.

NRC Jurisdiction

PVNGS is subject to the jurisdiction of the NRC, which has authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radiation hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. Before any nuclear power plant can become operational, an operating license from the NRC is required.

The NRC has granted a facility operating license for Unit 1 (the "Unit 1 License") for a term of 40 years beginning December 31, 1984. Under the Unit 1 License, APS is licensed to use and operate Unit 1, while PNM and the other non-operator participants are licensed to possess Unit 1. In accordance with the Unit 1 License, the power output of Unit 1 was gradually increased to 100% of its capability.

The SEC has issued an order exempting First PV from the provisions of the Investment Company Act of 1940.

PNM'S PROPOSED CORPORATE RESTRUCTURING

PNM is proposing to reorganize into a holding company structure. Pursuant to a proposed plan of reorganization, PNM would be merged with a wholly-owned subsidiary of a newly-formed, New Mexico corporation ("Holding Company"), with PNM being the surviving corporation in the merger.

Immediately following the effective time of the reorganization (the "effective time"), all of the outstanding shares of PNM's common stock would be held by Holding Company and all of the outstanding shares of Holding Company's common stock would be owned by the holders of the shares of PNM's common stock that were outstanding immediately prior to the effective time. The outstanding preferred stock and debt obligations of PNM would not be converted into securities of or be assumed by Holding Company in the reorganization and would remain outstanding securities and obligations of PNM after the effective time. PNM would remain the lessee under its existing leases with respect to the Initial Sale and Leaseback Transaction and the Eastern Interconnection Project transmission facilities. PNM would be the lessee in the proposed PVNGS sale and leaseback transactions referred to below. PNM contemplates that shortly after the effective time, PNM would transfer to Holding Company ownership of Sunbelt and Meadows Resources, Inc. ("Meadows"), another wholly-owned, non-utility subsidiary of PNM and of certain other non-utility assets of PNM.

Consummation of the proposed corporate restructuring is subject to a number of conditions, including approval by the NMPSC, issuance by the SEC of an order granting an application claiming an exemption for Holding Company from registration and regulation as a registered public utility holding company under the Public Utility Holding Company Act of 1935 and approval by PNM's stockholders at the annual meeting of stockholders scheduled to be held on May 20, 1986.

On February 24, 1986, PNM filed an application with the NMPSC seeking authority to reorganize into a holding company structure as discussed above. In its application, PNM also sought authority to enter into one or more sale and leaseback transactions with respect to its interest in PVNGS Unit 2 similar to the Initial Sale and Leaseback Transaction and to enter into a sale and leaseback transaction with Sunbelt with respect to up to all of PNM's remaining undivided ownership interest in Unit 1.

USE OF PROCEEDS

Proceeds of the issuance of Bonds in the amount of \$250.25 million will be used to retire bank indebtedness incurred by First PV in that amount in connection with the Initial Sale and Leaseback Transaction. Such bank indebtedness matures on January 15, 2015 and initially bears interest at the prime rate of one of the lenders, increasing to 125% of such rate on July 1, 1986. Additional proceeds from the issuance of Bonds will be utilized in connection with future Sale and Leaseback Transactions. See the accompanying Prospectus Supplement. To the extent the Bond proceeds are to be used to retire the bank indebtedness, simultaneously with such retirement, the Pledged Lessor Notes pledged as security for such bank indebtedness will be canceled and new Pledged Lessor Notes will be issued and pledged as security for the Bonds. If the Bond proceeds are to be utilized in connection with future Sale and Leaseback Transactions, pending the closing thereof, such proceeds will be invested by the Trustee (Chemical Bank) and held as security for the Bonds until used in connection with such Sale and Leaseback Transactions. If proceeds from the issuance of Bonds are not utilized either to retire bank indebtedness or in connection with future Sale and Leaseback Transactions on or before the date two months after the date of issuance thereof, such proceeds will be used to redeem Bonds on or before the date five months after the date of issuance thereof.

In connection with the Initial Sale and Leaseback Transaction, the indebtedness incurred by the Lessors for the purchase of the Committed Unit 1 Interest represented approximately 77% of the cost thereof. The remaining 23% represented funds furnished by the Equity Investors.

DESCRIPTION OF THE ANPP PARTICIPATION AGREEMENT

The construction, operation and maintenance of PVNGS and the rights and duties of the joint owners of or participants in PVNGS are governed by the ANPP Participation Agreement. The ANPP Participation Agreement appoints APS, as the agent for all of the participants, to act as the project manager responsible for the construction of PVNGS and as the operating agent responsible for the operation and maintenance of PVNGS. Such agreement provides the requisite delegations of authority to APS necessary to permit APS to carry out such functions in a manner so as to comply with all laws, regulations, permits and licenses.

The ANPP Participation Agreement also establishes the rights and obligations of the participants. One of the primary obligations assumed by the participants under the agreement is the obligation to share the costs of construction, operation, maintenance, decommissioning and capital improvements of PVNGS in accordance with their respective generation entitlement shares. So long as a participant is not in default of its obligations under the agreement, such participant is entitled to schedule power based on its generation entitlement share of the generating capability available at the time of such scheduling.

Sales of power and energy generated by each unit through the utilization by each participant of its generation entitlement share in such unit can be made only by such participant. PVNGS, as a project, can make no sales of power or energy, and, except under certain circumstances relating to default, no participant can utilize the generation entitlement share of any other participant.

In the event of a default by any participant in its obligations under the ANPP Participation Agreement, the non-defaulting participants are obligated to contribute pro rata an amount equal to that due from the defaulting participant. After a default continues for six months, and subject to certain conditions, the non-defaulting participants may suspend the right of the defaulting participant to be represented on and participate in the actions of all PVNGS committees and to receive all or any part of its share of power and energy from PVNGS.

The agreement provides the participants with oversight of PVNGS and the actions of APS as project manager and operating agent through participation in three standing committees: the Administrative Committee, the Engineering and Operating Committee and the Auditing Committee. Generally, all actions which each of the committees is authorized to take must be approved by the unanimous vote of all members entitled to vote on such committee. In the event any committee is unable or fails to agree on any matter (with certain limited exceptions) which the committee is authorized to determine, the project manager/operating agent is authorized and obligated to take such action and expend such funds as in its discretion is necessary for the proper construction, operation and maintenance of PVNGS, pending the resolution of such inability or failure to agree. Additionally, in the event of an operating emergency, the operating agent is authorized and obligated to take such action as it, in its sole discretion, may deem prudent or necessary.

The ANPP Participation Agreement has been amended to permit sale and leaseback financing transactions by any participant which meet specified criteria. The Initial Sale and Leaseback Transaction was structured to meet such criteria, and future sale and leaseback transactions will be structured to meet such criteria.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

The Bonds will be payable from, and secured by a pledge of, the Pledged Lessor Notes issued by the Lessors pursuant to their respective Lease Indentures. The aggregate principal amount of the Pledged Lessor Notes will equal the aggregate amount of the proceeds of the Bonds loaned to the Lessors, including Bond proceeds loaned to the Lessors in connection with the retirement of the bank indebtedness incurred by First PV in connection with the Initial Sale and Leaseback Transaction. The Pledged Lessor Notes will be payable on such dates and in such amounts as are required to pay in full

The NRC has also granted a facility operating license for Unit 2 (the "Unit 2 License") for a term of 40 years beginning December 9, 1985. Certain preoperational and start-up tests and other items are required to be completed for Unit 2 to the satisfaction of the NRC. The Unit 2 License initially allows operation at up to 5% of full power, which may not be exceeded without specific NRC approval. With NRC approval, the power output of Unit 2 may be gradually increased to 100% of its capability.

Liability and Insurance Matters

The PVNGS participants have insured against public liability claims resulting from nuclear energy hazards to the full limit (\$660 million as of April 8, 1986) on liability under federal law (such law being commonly referred to as the "Price-Anderson Act"). The maximum available private insurance of \$160 million has been purchased, and the remaining coverage (\$500 million as of April 8, 1986) has been provided through a mandatory industry-wide retrospective rating program, under which the PVNGS participants could be assessed deferred premium charges of up to \$5 million (PNM's share of which would be 10.2%) for each PVNGS reactor which has been licensed for operation by the NRC in the event the total liability arising from any nuclear incident involving any licensed facility in the nation participating in such rating program exceeds \$160 million. In the event of more than one incident, the potential \$5 million assessment would apply to each incident, subject to a maximum annual assessment of \$10 million (PNM's share of which would be 10.2%) for each such licensed PVNGS reactor for all incidents. The insureds under the liability insurance include PVNGS participants and "any other person or organization with respect to his legal responsibility for damage caused by the nuclear energy hazard". Such nuclear liability insurance coverage does not apply to damage to the plant facilities.

To cover possible damage to the PVNGS facilities, the PVNGS participants maintain nuclear property damage and decontamination insurance in the aggregate amount of \$1.135 billion. PNM has also secured insurance against the increased cost of generation or purchased power resulting from an accidental outage of Unit 1, which, after a 26-week deductible period, will pay up to \$373,901 per week for 52 weeks and up to 50% of such amount for an additional 52 weeks.

In addition to the above-described policies of insurance, the PVNGS participants are parties to an indemnity agreement with the NRC containing an undertaking by the NRC to indemnify the PVNGS participants from public liability arising from nuclear incidents which is in excess of the level of financial protection required of the PVNGS participants but not in excess of \$560 million. The indemnity agreement is not currently operative and will remain inoperative unless or until the level of financial protection (*i.e.*, the aggregate amount of primary and secondary levels of liability protection) required of the PVNGS participants falls below \$560 million.

The authority of the NRC under the Price-Anderson Act to enter into indemnity agreements covering new nuclear facilities not now in operation or under construction will expire on August 1, 1987. This limited expiration of authority, if not modified by Congress, would have no effect upon the financial protection and indemnity agreements in effect for plants now in operation or under construction, such as PVNGS. Nonetheless, this expiration date has served as a catalyst for proposals to amend the Price-Anderson Act in a variety of ways. Some would simply extend the indemnity authority for an additional ten years in order to preserve the viability of the nuclear option for future expansion of the nation's generating capacity. However, other proposals, if adopted, could apply to existing plants now licensed for operation, such as Units 1 and 2, by eliminating or altering the limitation of liability or by increasing the maximum amount of retrospective annual premiums which could be assessed. Several bills to extend the expiring provisions and to amend or eliminate other provisions of the Price-Anderson Act have been offered in both the United States Senate and House of Representatives. The response of Congress to those proposals cannot be predicted, nor is it certain that Congress will act in the near future. See "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM".

the principal of, premium, if any, and interest on, the Bonds when due except in the case of an Indenture Event of Default under one or more, but not all, Lease Indentures.

The Pledged Lessor Notes will be issued under separate Lease Indentures. Each Pledged Lessor Note will be without recourse to the general credit of any Lessor in its individual capacity and, except as set forth below, will not have the benefit of a security interest in the property of the Lessor subject to the applicable Lease, but may nonetheless have recourse to such property in the event of certain payment defaults by PNM under the Lease and failure to cure such default (by making such payment) by the Lessor. Each Pledged Lessor Note will be secured under such Lease Indenture on a parity basis with other Lessor Notes which may be issued in the future thereunder. Such security will consist of an assignment of the rights of the Lessor to receive all basic rentals and certain other payments under a Lease with PNM. Each Lease requires that basic rentals and certain other payments be made by PNM in such amounts and at such times as will always provide for the payment of the principal of, premium, if any, and interest on, all of the Pledged Lessor Notes issued under such Lessor's Lease Indenture when due. As such, the expected source of payment for the Pledged Lessor Notes, and thus for the Bonds, is the basic rentals and certain other payments to be made by PNM under the Leases. Because each Sale and Leaseback Transaction is a separate transaction, events resulting in an Indenture Event of Default under one Lease Indenture will not necessarily lead to an Indenture Event of Default under any other Lease Indenture. Each Lease is a net lease pursuant to which PNM is unconditionally obligated to make all payments thereunder without any right of counterclaim, setoff, deduction or defense. Although the Lease Indenture Trustee under each Lease Indenture does not have a lien on or security interest in the property which is the subject of the related Lease, each Lessor has covenanted that, so long as its Lessor Notes are outstanding, it will not create or permit the creation of a lien on or otherwise encumber its interest in such property (except for certain permitted encumbrances) and will not incur any indebtedness for money borrowed except Lessor Notes. However, in certain situations relating to the payment by PNM of amounts in respect of Events of Loss or Deemed Loss Events or exercise of the Cure Option (as such terms are hereinafter defined), the Lease Indenture Trustee under the related Lease Indenture may acquire a lien on and security interest in the property subject to the related Lease.

At the closing of the Initial Sale and Leaseback Transaction, each of the Equity Investors received an opinion from independent engineers that the fair market value of its share of the Committed Unit 1 Interest on that date was at least equal to the consideration paid therefor. It is expected that receipt of a similar opinion from independent engineers would be a condition precedent for any future Sale and Leaseback Transaction.

Additional Lessor Notes may be issued under each Lease Indenture, subject to certain conditions as provided in the Lease Indentures, (i) for the purpose of refinancing any previously issued series of Lessor Notes, (ii) to provide funds for all or any portion of any capital improvement to Unit 1 or related common facilities and (iii) in the event of certain changes in federal income tax law, for the purpose of refunding to the Lessor a portion of its initial investment in the Committed Unit 1 Interest. See "DESCRIPTION OF THE LEASE INDENTURES — Additional Notes".

The Indenture under which the Bonds are to be issued provides that securities in addition to the Bonds may be issued thereunder without limitation as to aggregate principal amount. Such additional securities, if issued, could be issued in connection with future sale and leaseback transactions involving PNM's undivided interests in PVNGS Units 2 and 3. Payments due on lessor notes issued in connection with such future sale and leaseback transactions would equal the payments due on each series of such additional securities. However, all additional securities and the Bonds would be secured by all lessor notes pledged by First PV to the Trustee, including the Pledged Lessor Notes. See "DESCRIPTION OF THE BONDS — General" and "— Security and Source of Payment for the Bonds".

For further information with respect to the source of payment for the Bonds and the provisions of the Indenture and the Lease Indentures relating thereto, see "DESCRIPTION OF THE BONDS" and "DESCRIPTION OF THE LEASE INDENTURES".

FIRST PV FUNDING CORPORATION

First PV Funding Corporation was incorporated under the laws of Delaware in September 1985 for the sole purpose of facilitating the long-term financing of PNM's interest in PVNGS. The only business of First PV will be the issuance and sale of the Bonds and other debt securities and the lending of the proceeds therefrom to the Lessors and other lessors to provide a portion of the purchase price of the undivided interests in Unit 1 and certain common facilities ("purchase loans") in connection with Sale and Leaseback Transactions and similar activities in connection with possible future sale and leaseback transactions involving PNM's undivided interests in PVNGS Units 2 and 3. In connection with the consummation of the Initial Sale and Leaseback Transaction, First PV borrowed \$250.25 million from banks which it in turn loaned to the Lessors. A portion of the proceeds of the Bonds will be used to retire such bank indebtedness. See "USE OF PROCEEDS". In addition, First PV will be available to make purchase loans in connection with sale and leaseback transactions relating to the significant capital improvements which will be required to be installed at PVNGS from time to time. The total of PNM's share of the cost of capital improvements for Unit 1 and for PNM's share of one-third of all PVNGS common facilities through 1995 is estimated at approximately \$18 million. Individual series of securities (other than the Bonds) which may in the future be issued under the Indenture may be supported by bank letters of credit, bank lines of credit, bonds of insurance or other credit or liquidity support facilities. First PV may also engage in interest rate swaps with respect to any particular series of securities. The certificate of incorporation of First PV does not permit it to engage in any other business. The assets of First PV will consist primarily of pledged lessor notes issued to evidence purchase loans.

PNM'S CONSTRUCTION PROGRAM AND FINANCING REQUIREMENTS

Utility Construction Program

PNM's five-year utility construction program for the period 1986-1990 provides for the expenditure of approximately \$751 million, including AFUDC of \$117 million. Included in such total amount are proposed expenditures during the five-year period of approximately \$82 million for PNM's share of nuclear fuel for PVNGS. Utility construction expenditures including AFUDC for the years 1986 and 1987 are forecasted to be \$224 million and \$151 million, respectively, and were \$263 million in 1985. PNM's utility construction expenditures are expected to level off at approximately \$129 million in 1988, \$122 million in 1989 and \$125 million in 1990.

PNM conducts a continuing review of its construction program. This program and the above estimates are subject to periodic revisions based upon changes in assumptions as to system load growth, rates of inflation (including costs of labor), the availability and timing of environmental and other regulatory approvals, the availability and costs of outside sources of capital and changes in project construction schedules. PNM has in the past revised its construction budget in light of such factors and will effect further revisions in the future.

Financing Considerations

The construction program which will be necessary to meet prospective customer service requirements will require substantial external capital. The costs and availability of such additional capital may be adversely affected unless revenues and net earnings can be maintained at levels which will attract capital on a favorable basis, and may be dependent upon conditions prevailing in the financial markets.

PNM has recently revised its forecast of external funding requirements and its general financing plan to recognize the effects of the proposed sale and leaseback of PVNGS Unit 2 and the remaining portion of Unit 1 and other changes resulting from its ongoing planning process. PNM now expects its 1986 external capital requirements to be approximately \$155 million. To meet these requirements, PNM sold 1,800,000 shares of common stock on February 4, 1986. Net of underwriters' fees and other expenses of issuance and distribution, the proceeds to PNM were approximately \$53.2 million, or \$29.56 per share. Additionally, PNM proposes to utilize short-term borrowings of approximately \$50

million and approximately \$5 million of proceeds from various pollution control financings. PNM also expects to generate approximately \$47 million from its stock plans. PNM's interim financing requirements are met through issuance of notes payable to banks and commercial paper.

PNM estimates its total external funding requirements to be approximately \$363 million for the period 1986-1990, including \$151 million required for long-term debt repayments, mandatory preferred stock redemptions and repayment of a note issued in connection with the acquisition of gas utility assets in New Mexico. The foregoing funding requirements do not include the planned redemption or purchase of approximately \$250 million principal amount of PNM's first mortgage bonds referred to under "USE OF PROCEEDS" above. PNM intends to continue its existing stock plans, which are projected to generate an average of approximately \$46 million per year during this five-year period. PNM will make use of its temporary cash investments to defer other funding requirements. Estimates of external funding requirements give effect to the implementation of the inventoried capacity ratemaking methodology under which PNM will defer carrying charges associated with specifically identified uncommitted generating capacity as allowed by the NMPSC.

PNM's projection of internal cash generation in the 1986-1990 time period assumes that PNM receives timely and adequate rate relief with respect to both retail and wholesale customers and assumes that PNM will sell significant amounts of additional uncommitted capacity or energy not currently contracted for, and that revenues from such sales will be sufficient to offset significant amounts of depreciation and property taxes for which PNM is at risk under the inventoried capacity ratemaking methodology. The internal cash projection also assumes that PNM's non-utility subsidiaries will provide their capital requirements from internally generated funds and from independent borrowings which would be nonrecourse to PNM.

PNM also proposes to enter into one or more sale and leaseback transactions with respect to its 10.2% undivided interest in Unit 2 in 1986. PNM expects such transactions to be similar to the Initial Sale and Leaseback Transaction. Such proposed transactions would also include a public offering of lease obligation bonds which would be indirectly secured by an assignment of rents payable by PNM under the proposed leases. The Unit 2 interest would be sold at a price which would be confirmed by appraisal as fair market value. PNM estimates that the price of the Unit 2 interest, if sold in its entirety, would be approximately \$450 million. PNM would record the book gain as a deferred credit which would be amortized over the life of the leases as a reduction of lease expense. Consummation of the proposed sale and leaseback transactions is subject to a number of conditions, including regulatory approvals from the NMPSC and the NRC.

The indenture under which PNM's first mortgage bonds may be issued and PNM's Restated Articles of Incorporation under which shares of its preferred stock may be issued restrict the ability of PNM to issue additional first mortgage bonds and additional preferred stock, respectively, unless certain earnings tests provided therein are met.

Under such indenture, PNM's earnings, as defined therein, during 12 consecutive months within the preceding 15 months must be at least equivalent to two times its annual interest requirements on all outstanding first mortgage bonds plus any bonds proposed to be issued. In calculating such ratio, interest is imputed on the outstanding first mortgage bonds issued and pledged to secure PNM's guaranty of pollution control revenue bond issues at rates equal to those of the guaranteed bonds. Subject to meeting the interest coverage requirements, PNM may issue first mortgage bonds based on the availability of unfunded property additions of 166% of the principal amount of the first mortgage bonds. With certain exceptions, first mortgage bonds may also be issued on the basis of first mortgage bonds previously retired. PNM presently has no plans to issue additional first mortgage bonds.

The Restated Articles of Incorporation provide that additional shares of preferred stock may not be issued without the consent of the holders of a majority of the shares of preferred stock then outstanding unless (a) the net income of PNM (as defined) available for the payment of dividends for 12 consecutive months within the preceding 15 months has been at least two times the annual dividend requirements for all shares of preferred stock to be outstanding upon completion of the contemplated sale, and (b) gross income after Federal income taxes available for the payment of interest charges

during the same period has been equal to at least one and one-half times the annual preferred stock dividend requirements and the annual interest requirements on all outstanding indebtedness of PNM maturing more than 12 months after the issuance of such additional preferred stock. For the year ended December 31, 1985, such coverage ratios were 6.18 to 1 and 2.12 to 1, respectively. Such computations include interest charges attributed only to that portion of pollution control revenue bond funds theretofore utilized by PNM, but do not take into account any interest on the pledged bonds securing such debt. As of December 31, 1985, PNM could have issued \$471 million of additional preferred stock with an assumed dividend rate of 10.5 %.

The Restated Articles of Incorporation also provide that unsecured indebtedness maturing more than 18 months after the issuance thereof may not be issued or assumed without the consent of the holders of a majority of the shares of preferred stock then outstanding if (a) immediately after such issue or assumption the total amount of all secured and unsecured indebtedness of PNM due more than one year after the issuance thereof shall exceed 65% of the aggregate of (i) all such indebtedness and (ii) the total of the capital and surplus of PNM, as then recorded on its books; and (b) the gross income after federal income taxes of PNM available for the payment of interest charges shall not, for a period of 12 consecutive calendar months within the 15 calendar months next preceding the issuance of such unsecured indebtedness, have been at least 1 $\frac{1}{4}$ times the aggregate dividend requirements for one year on all shares of preferred stock outstanding and the annual interest charges on all indebtedness of PNM maturing more than 12 months after the date of the issue of such unsecured indebtedness. See "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM".

The ratio of earnings to fixed charges was 2.63 for 1985, 2.32 for 1984, 2.81 for 1983, 2.70 for 1982 and 3.00 for 1981. For the purpose of computing this ratio, earnings have been calculated by adding back the provision for income taxes and fixed charges. Fixed charges include total interest charges (without reduction for the allowance for borrowed funds used during construction) and the interest portion of all rents.

Non-utility Subsidiary Operations

The utility construction program described above does not include the proposed expenditures and financing needs of PNM's non-utility subsidiaries, Sunbelt and Meadows. The non-utility investment program for the 1986-1990 period is projected to be \$175 million. At December 31, 1985, Meadows had assets of approximately \$189 million and equity of approximately \$143 million, and Sunbelt had assets of approximately \$96 million and equity of approximately \$32 million. Although it is projected that the non-utility subsidiaries will provide a substantial portion of their capital requirements from internally generated sources, to the extent that external financing may be required, such borrowings will be made independently by the subsidiaries from third party sources and will be nonrecourse to PNM. See "PNM'S PROPOSED CORPORATE RESTRUCTURING".

DESCRIPTION OF THE BONDS

The statements under this caption are summaries and do not purport to be complete. The summaries are qualified in their entirety by reference to the Indenture, a copy of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

General

The Bonds are to be issued under a Collateral Trust Indenture dated as of December 16, 1985 (the "Indenture") among First PV, PNM and Chemical Bank, as indenture trustee (the "Trustee"), as heretofore supplemented by a Term Note Supplemental Indenture thereto dated as of December 31, 1985, and as to be supplemented by one or more additional supplemental indentures (each a "Supplemental Indenture").

The Bonds are to be issued in fully registered form without coupons in denominations of \$1,000 or any integral multiple thereof. Bonds may be surrendered for registration of transfer or exchange for Bonds of the same maturity at the corporate trust office of Chemical Bank, Bond Registrar. No service charge will be required of any Bondholder participating in any transfer or exchange of Bonds in respect of such transfer or exchange, but payment may be required of any tax or other governmental charges that may be imposed in connection therewith. (Indenture, Sections 2.05 and 2.08)

The Indenture provides that the aggregate principal amount of debentures, notes or other evidences of indebtedness ("Securities") which may be issued thereunder is unlimited. In connection with the issuance of any series of Securities in connection with future sale and leaseback transactions involving PNM's undivided interests in PVNGS Unit 2 or 3, an equal aggregate principal amount of lessor notes (similar to the Pledged Lessor Notes) must be pledged as security under the Indenture. A separate Supplemental Indenture will be entered into among First PV, PNM and the Trustee establishing the title, interest rate, sinking fund and redemption provisions, if any, and other specific terms of any particular series of Securities. Any additional series of Securities will be secured *pari passu* with the Bonds by the Pledged Lessor Notes and the similar lessor notes issued in respect of such Securities and may be additionally secured as described under "FIRST PV FUNDING CORPORATION".

Principal Amounts, Interest Rates, Maturities and Payment

See the accompanying Prospectus Supplement.

Sinking Fund Redemption

See the accompanying Prospectus Supplement.

Optional Redemption

See the accompanying Prospectus Supplement.

Special Mandatory Redemption

Each Supplemental Indenture to be entered into with respect to any series of Offered Bonds will provide that in the event that closings of Sale and Leaseback Transactions sufficient to utilize the entire proceeds of the issuance of such Bonds do not take place by the date which is two months from issuance of such Bonds, First PV may at any time (but must by the date which is three months after the expiration of such two-month period) cause the redemption of such Bonds in an amount equal to the amount of proceeds not used in a Sale and Leaseback Transaction, together with interest thereon to the date of redemption. In connection with the issuance and sale of any such Bonds, PNM will agree to pay First PV a commitment fee equal to \$5,000 plus the amount of funds, if any, necessary for First PV to effect any such redemption.

Security and Source of Payment for the Bonds

First PV has been formed for the exclusive purpose of facilitating the financing of PNM's interest in PVNGS and thus has only nominal equity capital. As such, the source of payments of principal of, premium, if any, and interest on, the Bonds will be derived from payments made on the Pledged Lessor Notes issued by the Lessors pursuant to their respective Lease Indentures. The aggregate principal amount of the Pledged Lessor Notes will equal the aggregate principal amount of the Bonds outstanding at any time except as set forth under "Special Mandatory Redemption". The payment schedules for the Pledged Lessor Notes will be structured to coincide as to dates and amounts with the payment schedules for the Bonds. Accordingly, the timely payment of the principal of, premium, if any, and interest on, the Pledged Lessor Notes will provide for the payment of the principal of, premium, if any, and interest on, the Bonds when due.

The Pledged Lessor Notes will be issued under separate Lease Indentures by the Lessors without recourse to the general credit of any Lessor in its individual capacity. The Pledged Lessor Notes will

be secured under separate Lease Indentures on a parity basis with other Lessor Notes which may be issued in the future thereunder. Such security will consist of an assignment of each Lessor's rights under its Lease to receive all rents payable thereunder other than certain amounts payable to the Lessors which are not assigned as security for the Pledged Lessor Notes. Although the Lease Indenture Trustee under each Lease Indenture will not have a lien on or security interest in the property which is the subject of the related Lease, each Lessor has covenanted, or will covenant, that, so long as any of its Lessor Notes is outstanding, it will not create or permit the creation of a lien on or otherwise encumber its interest in such property (except for certain permitted encumbrances) and will not incur any indebtedness for money borrowed except Lessor Notes. However, in certain events relating to the payment by PNM of amounts in respect of Events of Loss or Deemed Loss Events or exercise of the Cure Option, the Lease Indenture Trustee under the related Lease Indenture may acquire a lien on and security interest in the property subject to the related Lease (see "DESCRIPTION OF THE LEASE INDENTURES — Assumption by PNM").

Each Lease is or will be a net lease under which PNM will be unconditionally obligated to make basic rental and certain other payments at least sufficient to provide for the payment of the Lessor Notes of the Lessor which is a party to such Lease, without any right of counterclaim, setoff, deduction or defense on the part of PNM. Each Lease, by its terms, requires or will require that rent be paid by PNM in such amounts and at such times as will always provide for the payment of the principal of, premium, if any, and interest on all such Lessor Notes, including the Pledged Lessor Notes, when due. As such, the expected sources of payment for the Pledged Lessor Notes, and thus for the Bonds, are the payments to be made by PNM under the Leases.

Each Pledged Lessor Note is a separate obligation. In the event of an Indenture Event of Default under a Lease Indenture (see "DESCRIPTION OF THE LEASE INDENTURES — Events of Default"), the Lease Indenture Trustee could accelerate the maturity of the Pledged Lessor Notes issued thereunder. Events resulting in an Indenture Event of Default under one Lease Indenture will not necessarily lead to an Indenture Event of Default under any other Lease Indenture; therefore, fewer than all Pledged Lessor Notes may be accelerated as a result of such events. However, the Trustee may not accelerate fewer than all of the Bonds in the event of an Event of Default under the Indenture. If all Bonds but fewer than all Pledged Lessor Notes are accelerated, the aggregate of the amounts then due and owing on the Bonds would be greater than the aggregate of the amounts then due and owing on all Pledged Lessor Notes. The Trustee would be entitled, however, to receive payments under unaccelerated Pledged Lessor Notes in accordance with their original terms, and PNM would continue to be obligated to pay rent under the related Leases.

Additional Lessor Notes are permitted to be issued under the Lease Indentures for the purposes described under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS". Because the Lease Indentures of the respective Lessors permit additional Lessor Notes to be issued and secured thereunder under certain conditions, it is possible that at some future time the Pledged Lessor Notes would not constitute a majority of the Lessor Notes issued and outstanding under the Lease Indentures.

In the event of the bankruptcy of PNM, the Leases might be rejected, thereby stopping payments thereunder needed to pay the Bonds. Under Section 502(b)(6) of the Bankruptcy Code, a claim by a lessor for damages resulting from the rejection of a lease of real property in connection with bankruptcy proceedings affecting the lessee may be limited to an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15 percent (but not more than three years) of the remaining term of the lease, plus rent already due but unpaid. Although the Leases cover property purported to be almost exclusively personal property, there can be no assurance that a bankruptcy court could not find such Leases to be subject to these limitations. In any event, there can be no assurance that the damages for rejection of the Leases would be sufficient to repay the Bonds.

In the event of the bankruptcy of a Lessor or an Equity Investor, the payments under the respective Lease, or payments on the respective Pledged Lessor Note, might be retained as part of the bankrupt estate thereby stopping a portion of the flow of funds needed to pay the Bonds.

Merger, Consolidation and Transfer of Assets

The certificate of incorporation of First PV provides, among other things, that First PV shall not (i) dissolve or liquidate, in whole or in part, or (ii) merge or consolidate with, or sell all or any part of its assets to, any person, firm, corporation, partnership or other entity unless, in the case of a merger or consolidation, the surviving corporation in such merger or the corporation resulting from such consolidation shall have a certificate of incorporation containing provisions identical to those of First PV's certificate of incorporation restricting the nature of its business and purposes and its ability to take certain action, and, in the case of a sale of assets, the acquiring corporation shall have assumed all the liabilities and obligations of First PV and shall have such identical provisions in its certificate of incorporation. In addition, First PV has agreed in the Indenture that it will not amend those provisions of its certificate of incorporation which restrict the nature of its business and its purposes or restrict its activities or which provide for its capitalization without the consent of the holders of not less than 66⅔% in aggregate principal amount of the Securities then outstanding. (Indenture, Section 5.08)

Events of Default, Notice and Waiver

Events of Default under the Indenture include: (a) default in the payment of any principal of, premium, if any, or interest on, any Security, including any sinking fund payment, when it becomes due and payable, and continuance of such default for a period of ten days; (b) default in the performance, or breach, of any covenant of PNM or First PV contained in the Indenture and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to PNM and First PV by the Trustee, or to PNM, First PV and the Trustee by the holders of at least 25% in principal amount of outstanding Securities, a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture; (c) the occurrence of an Indenture Event of Default under any Lease Indenture and the declaration as a result thereof that any Pledged Lessor Note is due and payable; (d) the entry of a decree or order by a court having jurisdiction in the premises adjudging First PV a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of First PV under the Federal Bankruptcy Code or any other applicable federal or state law or law of the District of Columbia, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of First PV or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days; or (e) the institution by First PV of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other applicable federal or state law or law of the District of Columbia, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of First PV or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by First PV in furtherance of any such action. (Indenture, Section 8.01) First PV has agreed in the Indenture that it will not take any corporate action which would result in its being declared a bankrupt or insolvent. (Indenture, Section 5.08)

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, and (i) upon the direction of the holders of not less than 25% in principal amount of the Securities outstanding, or (ii) if such Event of Default is of the type specified in clause (c) above (including an Event of Default under a Lease which has resulted in a default in payment of the Bonds), the Trustee shall, declare all the Securities to be immediately due and payable, but no such declaration shall be made in the case of a payment default which results directly from a failure by PNM to make a payment of rent under a Lease until such time as the Lessor under such Lease has been given an opportunity to exercise its rights, if any, to cure such default under the related Lease Indenture. See "DESCRIPTION OF THE LEASE INDENTURES — Rights of Lessors to Cure and Purchase Lessor Notes; Substitute Lessee". In addition,

upon the occurrence of an Indenture Event of Default or Indenture Default under any Lease Indenture, if the Trustee is deemed to have notice thereof, the Trustee is required to give notice to Securityholders of such fact in accordance with the provisions of the Indenture and, thereafter, each Securityholder shall have the right to direct the Trustee, as the holder of the Pledged Lessor Notes issued under such Lease Indenture, to vote the principal amount of such Pledged Lessor Notes in favor of directing the Lease Indenture Trustee to take specific action or refrain from taking action, all as permitted under the terms of such Lease Indenture. (Indenture, Sections 3.03 and 8.02) Under each Lease Indenture, the Lease Indenture Trustee will be required to act with respect to such matters upon direction of the holders of a majority in principal amount of all Lessor Notes outstanding thereunder.

No owner of any Security shall have any right to institute any suit, action or proceeding in equity or at law for the foreclosure of the Indenture, for the appointment of a receiver or for the enforcement of any remedy unless the Trustee shall have been notified by such Securityholder of a continuing Event of Default, the holders of not less than 25% in aggregate principal amount of Securities then outstanding shall have made written request to the Trustee and shall have offered indemnity to the Trustee as provided in the Indenture, the Trustee shall have failed to act for 60 days thereafter and no inconsistent direction shall have been received from the holders of a majority in aggregate principal amount of the Securities outstanding during such 60-day period. Nothing contained in the Indenture, however, affects or impairs the right of any Securityholder to enforce the payment of the principal of, premium, if any, and interest on, any Security on or after the due dates thereof. (Indenture, Sections 8.09 and 8.11)

PNM and First PV are each required to deliver annually to the Trustee a written statement of their respective officers to the effect that all of their respective obligations under the Indenture during the preceding fiscal year have been fulfilled, or if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. (Indenture, Section 5.10)

Rescission of Acceleration

If, after the principal of the Securities has been declared to be due and payable, all arrears of interest on and the principal of, and premium, if any, on, all Securities then outstanding which shall have become due and payable otherwise than by acceleration and all other sums payable under the Indenture, except the principal of, and interest on, the Securities which by such declaration shall have become due and payable, are paid, and payment shall have been made of the reasonable charges of the Trustee, including the Trustee's reasonable attorney's fees, and all other Events of Default shall be cured or waived, then, and in every such case, the holders of a majority in principal amount of the Securities outstanding, by written notice to First PV and the Trustee, may rescind and annul such declaration and its consequences; but no such rescission shall affect any subsequent default or impair any right consequent thereon. (Indenture, Section 8.02)

Voting of Lessor Notes

The Trustee, as holder of the Pledged Lessor Notes, has the right to vote and give consents and waivers in respect of such Pledged Lessor Notes and the Lease Indentures. The Indenture provides that the Trustee shall not direct any action or cast any vote as the holder of the Pledged Lessor Notes except as directed by Securityholders and, upon receiving such directions, all such directions shall be given to the Lease Indenture Trustees, as permitted by the Lease Indentures. The principal amount of the Pledged Lessor Notes directing any action or being voted for or against any proposal or not being voted shall be in proportion to the principal amounts of Securities taking the corresponding position. (Indenture, Section 3.03)

Supplemental Indentures

First PV, PNM and the Trustee may enter into indentures supplemental to the Indenture without the consent of the holders of the Securities for any one or more of the following purposes: (i) to provide for the issuance of additional Securities for the purposes and subject to the conditions specified in the Indenture; (ii) to evidence the succession of another corporation to PNM and the assumption by any such successor of the covenants of PNM contained in the Indenture, or to evidence the succession of another corporation to First PV and the assumption by any such successor of the covenants of First PV contained in the Indenture and the Securities; (iii) to add to the covenants of PNM or First PV, for the benefit of the holders of the Securities, or to surrender any right or power conferred in the Indenture upon PNM or First PV; (iv) to convey, transfer and assign to the Trustee, and to subject to the lien of the Indenture, additional Pledged Lessor Notes or additional properties or assets, and to correct or amplify the description of any property at any time subject to the lien of the Indenture or to assure, convey and confirm to the Trustee any property subject or required to be subject to the lien of the Indenture; (v) to modify, eliminate or add to the provisions of the Indenture to the extent necessary to continue qualification of the Indenture under the Trust Indenture Act of 1939; or (vi) to cure any ambiguity in, to correct or supplement any provision of, or to make any other provisions with respect to matters or questions arising under, the Indenture, in each case so long as such action does not adversely affect the interests of Securityholders. (Indenture, Section 11.01)

With the consent of the holders of not less than a majority in aggregate principal amount of the Securities then outstanding, First PV, PNM and the Trustee may enter into additional supplemental indentures, except that without the consent of the holders of all the Securities then outstanding affected thereby, no such supplemental indenture shall (i) change the time of payment of the principal of or any installment of interest on, or the dates or circumstances of payment of premium, if any, on, any Security or reduce the principal amount of or the interest on or any premium payable upon any redemption of any Security or change the place of payment where, or the coin or currency in which, any Security or the premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment after the time for payment thereof (or, in the case of redemption, on or after the redemption date), or change the dates or amounts of payments to be made through the operation of the sinking fund, (ii) permit the creation of any lien prior or equal to the lien of the Indenture with respect to any of the Pledged Lessor Notes pledged thereunder, or terminate the lien of the Indenture on such Pledged Lessor Notes (except as permitted by the Indenture) or deprive any Securityholder of the security afforded by the Indenture, (iii) reduce the percentage in principal amount of the Securities required for consent to such supplemental indenture, or the consent of whose holders is required for any waiver provided for in the Indenture, or (iv) modify any of the above provisions or the provisions of the Indenture dealing with waivers of past defaults or providing that certain other provisions of the Indenture cannot be modified or waived without the consent of the Securityholders affected thereby. (Indenture, Section 11.02)

Discharge of Lien

The Indenture shall cease to be of further effect when among other things: (i) either all Securities theretofore authenticated and delivered have been delivered to the Trustee for cancellation or all such Securities not theretofore delivered to the Trustee for cancellation have become due and payable, will become due and payable at their stated maturity within one year or are to be called for redemption within one year, and First PV has deposited or caused to be deposited with the Trustee in trust for the purpose of paying and discharging the entire indebtedness on such Securities not theretofore canceled by the Trustee, an amount sufficient to discharge such indebtedness, including principal, premium, if any, and interest to the date of such deposit (in the case of Securities which have become due and payable), or to the stated maturity, or redemption date, as the case may be; and (ii) all other sums then due and payable thereunder have been paid. (Indenture, Section 12.01)

The Trustee

The Indenture provides that in the case of any Event of Default under the Indenture, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and shall use the same degree of care and skill, as a prudent man would exercise under the circumstances in the conduct of his own affairs. The Trustee shall not be liable for any error of judgment made in good faith, unless the Trustee was negligent in ascertaining the pertinent facts, or for any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of a majority in principal amount of outstanding Securities. Subject to such provision, the Trustee shall be under no obligation to exercise any of its rights and powers under the Indenture at the request of any holder of Securities unless such holder shall have offered to the Trustee reasonable security or indemnity. The Indenture provides that the Trustee may acquire and hold Securities and, subject to certain conditions, may otherwise deal with PNM and First PV with the same rights it would have if it were not the Trustee. (Indenture, Sections 9.01, 9.03 and 9.05)

PNM maintains normal banking relationships with Chemical Bank. In addition, Chemical Bank provided a portion of the bank financing to First PV in connection with the Initial Sale and Leaseback Transaction.

DESCRIPTION OF THE LEASE INDENTURES

The statements under this caption are summaries and do not purport to be complete. The summaries describe the provisions of, and are qualified in their entirety by reference to, the Lease Indentures executed and delivered in connection with the Initial Sale and Leaseback Transaction, a copy of the form of which has been filed as an exhibit to the Registration Statement. If a Lease Indenture executed and delivered in connection with a future Sale and Leaseback Transaction differs in any material respect from the Lease Indentures executed and delivered in connection with the Initial Sale and Leaseback Transaction, such material differences will be set forth in the Prospectus Supplement with respect to the Offered Bonds the proceeds of the issuance of which are to be utilized in connection with such Sale and Leaseback Transaction.

General

The Pledged Lessor Notes will be issued under separate documents entitled "Trust Indenture, Mortgage, Security Agreement and Assignment of Rents" between the respective Lessors and Chemical Bank, as Lease Indenture Trustee (the "Lease Indentures"). The Pledged Lessor Notes will be issued to First PV, but will be pledged and assigned to the Trustee for the benefit of the holders of Bonds.

The aggregate principal amount of the Pledged Lessor Notes will equal the aggregate principal amount of the Bonds the proceeds of which are loaned to the Lessors. The Pledged Lessor Notes will bear interest at rates with respect to portions of the principal amounts thereof which are equal to the interest rates on the Bonds of corresponding principal amounts. Payments of the principal of, premium, if any, and interest on, the Pledged Lessor Notes will be due in such amounts and at such times as match the required payment dates, including sinking fund payment dates, for the principal of, premium, if any, and interest on, such Bonds.

Events of Default

Indenture Events of Default under each Lease Indenture include: (a) any Event of Default under the related Lease arising from PNM's failure to make a payment of basic rent under such Lease within five business days after the same shall become due (other than the failure of PNM to pay certain amounts to the Lessors which are not assigned as security for the Lessor Notes and subject to the rights of each Lessor to cure defaults in the payment of basic rent and to purchase Lessor Notes upon the occurrence of an Event of Default by PNM under its Lease with such Lessor as described below);

(b) an Event of Default under the related Lease arising from PNM's failure to make payments of Casualty Value, Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option when and as required by such Lease (see "Assumption by PNM"), except where the Lessor shall not have rescinded or terminated the Lease; (c) breach by PNM of the provisions of the Participation Agreement relating to the Bond ratings discussed under "DESCRIPTION OF THE LEASES — Merger; Consolidation; Maintenance of Corporate Existence"; (d) occurrence of certain bankruptcy and insolvency events with respect to PNM; (e) rescission or termination of the Lease by the Lessor; or (f) certain defaults by the Lessor or its related Equity Investor. (Lease Indenture, Section 6.2)

Rights of Lessors to Cure and Purchase Lessor Notes; Substitute Lessee

Each Lease Indenture provides that an Indenture Event of Default thereunder is to be deemed cured if such Indenture Event of Default results from a non-payment of basic rent or supplemental rent under the related Lease, and the Lessor or its related Equity Investor shall have paid all principal of and interest on the Lessor Notes due (other than by acceleration) on the date such rent was payable, plus interest on such amount, within 15 days after receipt by the Lessor of notice of such non-payment. (Lease Indenture, Section 6.8)

If an Indenture Event of Default has occurred under any Lease Indenture and (i) the Lessor Notes have been accelerated and (ii) the Lessor, within 30 days after receiving notice from the Lease Indenture Trustee of such Indenture Event of Default, shall have given written notice to the Lease Indenture Trustee of its intention to purchase all of the Lessor Notes, then, upon receipt within 10 business days after such notice from the Lessor of an amount equal to all of the principal of, premium, if any, and interest on, all of the unpaid Lessor Notes issued by such Lessor (together with any interest on overdue principal and, to the extent permitted by law, interest), each holder of a Lessor Note issued by such Lessor, including the Trustee, as the holder of the Pledged Lessor Notes, will be required to sell such Lessor Notes and its right, title and interest in and to the Lease Indenture and the estate created thereunder to the Lessor. (Lease Indenture, Section 6.8)

In addition to the foregoing, if an Event of Default has occurred under any Lease, the Lessor may terminate the Lease and arrange for a substitute lessee under a new lease substantially similar to the Lease. In connection with any such substitution, the Lessor must have cured any Indenture Event of Default under the Lease Indenture described in clause (f) under "Events of Default" above and such substitute lessee must assume PNM's obligations under the Lease and must have a credit rating with respect to at least one series of its debt obligations or preferred stock equal to or better than that of comparable securities of PNM immediately prior to the substitution but in no event less than "investment grade". (Lease Indenture, Section 6.8)

Notice of Events of Default; Action by Trustee; Waiver

Each Lease Indenture requires the Lessor to give the Lease Indenture Trustee prompt written notice of an Indenture Event of Default, Event of Default under the Lease, Deemed Loss Event or Event of Loss, to the extent it has actual knowledge thereof. In the event the Lease Indenture Trustee has actual knowledge of an Indenture Event of Default, Event of Default under the Lease, Deemed Loss Event or Event of Loss, the Lease Indenture Trustee is required to give prompt written notice thereof to, among others, each holder of a Lessor Note, including the Trustee as the holder of the Pledged Lessor Notes. Subject to the terms of each Lease Indenture dealing with the enforcement of remedies and the rights of the Lease Indenture Trustee to indemnification in the taking of any action, and further subject to the right of the Lessor to cure defaults and to purchase Lessor Notes as described above and certain retained rights of the Lessor with respect to the Lease, the Lease Indenture Trustee is required to take such action (including the waiver of past defaults), or refrain from taking such action, with respect to any such Indenture Event of Default, Event of Default under the Lease, Deemed Loss Event or Event of Loss, as it shall be directed by the holders of a majority in principal amount of all Lessor Notes (a "Directive"). If the Lease Indenture Trustee has not received a

Directive within 20 days after the mailing by the Lease Indenture Trustee of notice of such Indenture Event of Default, Event of Default under the Lease, Deemed Loss Event or Event of Loss, the Lease Indenture Trustee may, but is not required to, take such action, or refrain from taking such action, as it deems advisable in the best interests of holders of Lessor Notes of all series, subject to the subsequent receipt of a Directive. (Lease Indenture, Sections 6.11 and 7.1)

The Lease Indenture Trustee under any Lease Indenture may waive any past Indenture Default or Indenture Event of Default under such Lease Indenture except an Indenture Default or an Indenture Event of Default (i) in the payment of the principal of or interest on any Lessor Note or (ii) in respect of a covenant or provision of such Lease Indenture which under the Lease Indenture cannot be modified or amended without the consent of each holder of a Lessor Note then outstanding. (Lease Indenture, Section 6.7)

Acceleration and Remedies

If an Indenture Event of Default shall have occurred and be continuing under any Lease Indenture, the Lease Indenture Trustee may, and upon receipt of a Directive shall, declare the unpaid principal amount of all Lessor Notes issued and outstanding under such Lease Indenture, with accrued interest thereon, to be due and payable, subject to the right of the Lessor to cure such default as described above. (Lease Indenture, Section 7.1)

Each Lease Indenture provides that if an Indenture Event of Default under such Lease Indenture has occurred and is continuing, the Lease Indenture Trustee may exercise certain rights or remedies available to it under applicable law. (Lease Indenture, Section 6.4)

Under the terms of each Lease Indenture, however, the Lessor controls the exercise of remedies against PNM under the related Lease. Accordingly, in the event of a default by PNM in the payment of basic rent and a resulting default on the related Pledged Lessor Note, and thus the Bonds, the Lease Indenture Trustee would not be entitled unilaterally to exercise remedies against PNM under the related Lease. To the extent the Lessor exercises remedies available under its Lease, the Trustee as holder of the related Pledged Lessor Note would be entitled to the proceeds of such exercise up to the unpaid amount of such Pledged Lessor Note before the Lessor would be entitled to retain any such proceeds. (Lease Indenture, Sections 6.3 and 6.11)

If an Indenture Event of Default under any Lease Indenture occurs and is continuing, and the maturity of the Lessor Notes has been accelerated, any sums held or received by the Lease Indenture Trustee may be applied to reimburse the Lease Indenture Trustee for any expense or other loss incurred by it and to pay its fees and any other amounts due to the Lease Indenture Trustee prior to any payments to holders of Lessor Notes. (Lease Indenture, Section 5.3)

Assumption by PNM

The Pledged Lessor Notes issued under any particular Lease Indenture must be assumed by PNM (any such assumption being subject to the following conditions, as certified to the Lease Indenture Trustee by PNM: (i) such assumption is valid under all then applicable laws; (ii) any necessary governmental approvals are obtained; (iii) no Indenture Event of Default shall have occurred and be continuing; and (iv) PNM is not insolvent at the time of such assumption) under certain circumstances, including the following:

(a) *Event of Loss Relating to PVNGS.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) upon the occurrence of any of the following (herein, an "Event of Loss"):

(i) the loss of authority from the NRC permitting the operation, or possession by PNM, of Unit 1, which loss can reasonably be expected to exceed a specified period of time;

(ii) the cessation of operation of Unit 1 as a result of a nuclear incident relating to PVNGS, which cessation can reasonably be expected to exceed a specified period of time;

(iii) damage to or destruction of Unit 1 and the failure of PNM to agree within five years after such damage or destruction to restore and reconstruct Unit 1;

(iv) Unit 1 shall be condemned or seized or title thereto or use thereof for a specified period shall be requisitioned or taken by any governmental authority under power of eminent domain or otherwise; or

(v) certain events constituting a degradation of the rated capacity of Unit 1.

(b) *Deemed Loss Event — Public Utility Regulation.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) if the Lessor which issued such Lessor Notes or its related Equity Investor, by reason of its ownership of an undivided interest in Unit 1 or the lease of such undivided interest, shall be deemed by any governmental authority to be, or become subject to regulation as, an "electric utility" or a "public utility" or a "public utility holding company", under any applicable governmental rule or by reason of any governmental action, and such Lessor or Equity Investor shall have determined that the effect thereof would be adverse to it. PNM has certain rights to contest such Deemed Loss Event if, among other things, it satisfactorily indemnifies such Lessor or Equity Investor. Orders have been obtained from the FERC and the NMPSC that the Lessors and related Equity Investors in the Initial Sale and Leaseback Transaction are not "public utilities". The Lessors and Equity Investors in the Initial Sale and Leaseback Transaction have also made appropriate filings with the SEC to achieve exemption from regulation under the Public Utility Holding Company Act.

(c) *Deemed Loss Event — Material Change in Price-Anderson Act.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) as a result of the occurrence of any change in the Price-Anderson Act of 1957, as amended, the Atomic Energy Act of 1954, as amended, the regulations of the NRC or any other applicable law, as a result of which the Lessor which issued such Lessor Notes or its related Equity Investor may be exposed to certain increased potential liabilities.

(d) *Deemed Loss Event — Decommissioning and Other Obligations.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) as a result of the occurrence of any change in applicable law as a result of which the Lessor which issued such Lessor Notes or its related Equity Investor shall become liable in respect of (i) any portion of obligations for the decommissioning and removing from service of Unit 1, or (ii) during the Lease term, any other obligations imposed upon licensees of the NRC.

(e) *Deemed Loss Event — Change in Law Making Transaction Illegal.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) as the result of any change in applicable law as a result of which the Initial Sale and Leaseback Transaction becomes unauthorized, illegal or otherwise contrary to applicable law.

(f) *Deemed Loss Event — Change in Law Requiring License.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) if, as the result of any change in applicable law or governmental action, the Lessor which issued such Lessor Notes or its related Equity Investor shall be required to become a licensee of the NRC.

(g) *Exercise of the Cure Option.* Such Pledged Lessor Notes shall be assumed (if such conditions are met) if an Event of Default under the related Lease occurs as a result of PNM's breach of certain covenants concerning its activities as a PVNGS participant and PNM shall elect to exercise its option to cure such Event of Default (the "Cure Option") by, among other things, paying a specified amount to the Lessor and assuming such Pledged Lessor Notes.

Each of the events described in the foregoing paragraphs (b), (c), (d), (e) and (f) is herein referred to as a "Deemed Loss Event".

Upon any assumption of the Pledged Lessor Notes, PNM will pay to the Lessor and the related Equity Investor cash in the amount provided in the Lease and the Lessor will transfer title to the

Lessor's undivided ownership interest to PNM free of any lien for the benefit of the Pledged Lessor Notes. If, however, PNM is unable to assume the Pledged Lessor Notes because of its inability to satisfy the foregoing conditions, prior to any payment to the Lessor of any amounts payable to the Lessor and the related Equity Investor, the Lessor will grant to the Lease Indenture Trustee a security interest in the Lessor's undivided ownership interest. Thereafter, the Equity Investor will assign its beneficial interest in the Lessor trust to PNM or its assignee. In such case, the Lease will be amended to reduce the amount of basic rent payable thereafter to an amount equal to the principal of, premium, if any, and interest payable from time to time on the related Pledged Lessor Notes. (Lease Indenture, Section 3.9)

Amendments and Supplements

Each Lease Indenture Trustee may amend or supplement its Lease Indenture with the consent of the Lessor, but without the consent of the holders of any Lessor Notes (including the Trustee, as the holder of the Pledged Lessor Notes), in order to (i) cure any defect, omission or ambiguity in the Lease Indenture or for any other purpose if such action does not adversely affect the interests of the holders of Lessor Notes, (ii) grant or confer upon the Lease Indenture Trustee any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred and which are not contrary to or inconsistent with the Lease Indenture, (iii) add to the covenants or agreements to be observed by the Lessor, (iv) confirm or amplify, as further assurance, any pledge created or to be created by the Lease Indenture of the properties covered thereby, or subject to the lien or pledge of the Lease Indenture additional revenues, properties or other collateral, (v) qualify the Lease Indenture under the Trust Indenture Act of 1939, (vi) evidence the appointment of any successor Lease Indenture Trustee, (vii) evidence the assumption of the Lessor Notes by PNM as described under "Assumption by PNM" above, or (viii) evidence the issuance of additional Lessor Notes in accordance with the terms of the Lease Indenture. (Lease Indenture, Section 10.1)

Except as described in the preceding paragraph, no amendment or supplement to a Lease Indenture may be made except upon receipt of a Directive; provided that, without the consent of the holders of all of the Lessor Notes, those provisions of the Lease or the Lease Indenture which are related to the terms of the Lessor Notes or the security for the payment thereof may not be waived or modified. (Lease Indenture, Section 10.2)

Limitation of Liability

The Pledged Lessor Notes which will secure the Bonds are not direct obligations of, or guaranteed by, PNM, any Equity Investor or The First National Bank of Boston. None of the Equity Investors, The First National Bank of Boston or the Lease Indenture Trustees shall be liable to any holder of a Pledged Lessor Note or a Bond or, in the case of the Equity Investors and The First National Bank of Boston, to the Lease Indenture Trustees for any amounts payable under the Pledged Lessor Notes or, except as provided in the Lease Indentures in the case of the Lease Indenture Trustees, for any obligation under the Lease Indentures. (Lease Indenture, Section 3.7)

Additional Notes

Additional Lessor Notes may be issued under and secured by each Lease Indenture, at any time or from time to time, for cash at par for the purposes described under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS". Before any additional Lessor Notes shall be issued thereunder, the Lessor shall have delivered to the Lease Indenture Trustee a request and authorization to issue such additional Lessor Notes, which request and authorization shall include the amount of such additional Lessor Notes and details with respect thereto. (Lease Indenture, Section 3.5) All Lessor Notes issued and outstanding under a Lease Indenture shall rank on a parity with each other and shall as to each other be secured equally and ratably thereunder, without preference, priority or distinction of any thereof over any other by reason of difference in time of issuance or otherwise. (Lease Indenture, Section 3.6)

Lease Indenture Trustees

Each Lease Indenture provides that the Lease Indenture Trustee shall not be liable under any circumstances, except for its own willful misconduct or gross negligence. Each Lease Indenture further provides that, in the case of any Indenture Event of Default under such Lease Indenture, the Lease Indenture Trustee shall exercise such of the rights and remedies vested in it by such Lease Indenture and shall use the same degree of care in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs, provided that if in the opinion of the Lease Indenture Trustee such action may tend to involve expense or liability, it shall not be obligated to take such action unless it is furnished with indemnity satisfactory to it. The Lease Indenture Trustee may engage in or be interested in any financial or other transaction with PNM and the other parties to the Initial Sale and Leaseback Transaction, provided that if the Lease Indenture Trustee determines that any such relation is in conflict with its duties under such Lease Indenture, it shall eliminate the conflict or resign as Lease Indenture Trustee. (Lease Indenture, Sections 8.1 and 8.10)

DESCRIPTION OF THE LEASES

The statements under this caption are summaries and do not purport to be complete. The summaries describe the provisions of, and are qualified in their entirety by reference to, the Leases executed and delivered in connection with the Initial Sale and Leaseback Transaction, a copy of the form of which has been filed as an exhibit to the Registration Statement. If a Lease executed and delivered in connection with a future Sale and Leaseback Transaction differs in any material respect from the Leases executed and delivered in connection with the Initial Sale and Leaseback Transaction, such material differences will be set forth in the Prospectus Supplement with respect to the Offered Bonds the proceeds of the issuance of which are to be utilized in connection with such Sale and Leaseback Transaction.

Term and Rentals

The Lessors will have acquired separate undivided ownership interests in Unit 1 aggregating up to 100% of PNM's 10.2% undivided interest therein and in certain related common facilities and will have leased such interests to PNM pursuant to separate Leases, each having a lease term expiring on January 15, 2015, unless earlier terminated or extended as described below. Basic rent is required to be paid by PNM under the Leases in immediately available funds on each January 15 and July 15, commencing January 15, 1986, unless the scheduled due date is not a business day, in which case such basic rent is required to be paid in immediately available funds on the preceding business day with the same effect as though made on the due date. (Lease, Sections 3(a) and 3(c)) The basic rent payable under each Lease on each payment date is required to be at least equal to all principal of, premium, if any, and interest on the Lessor Notes of such Lessor then due and payable on such date. (Lease, Section 3(g)) Except in the case of an Indenture Event of Default under the related Lease Indenture, each payment of basic rent by PNM during such time as such Lease Indenture is in effect will be made and applied first to the payment of principal and interest due from a Lessor on its Lessor Notes on each January 15 and July 15. The balance of any payments of basic rent under the Leases, after payment of the scheduled principal and interest on the Lessor Notes, will be paid over to the respective Equity Investors, as beneficial owners of the undivided ownership interests in Unit 1. (Lease Indenture, Sections 2.2 and 5.1)

Net Lease

The obligations of PNM under each Lease will be those of a lessee under a "net lease". Payments of rent under the Leases by PNM are to be made without counterclaim, setoff, defense, abatement, suspension or reduction. (Lease, Section 4)

Capital Improvements

PNM will incur additional costs from time to time in connection with capital improvements to Unit 1. Such costs may be financed through the issuance of additional Lessor Notes (a "Supplemental Financing"), subject to certain conditions, including the following: (i) no more than one Supplemental Financing under a Lease may be made in any calendar year and the aggregate cost of the improvements covered by such Supplemental Financing must be at least \$5,000,000, (ii) the total amount of all Supplemental Financings with respect to the Entire Unit 1 Interest shall not exceed \$100,000,000, (iii) the Bonds then outstanding shall not be rated less than "investment grade", (iv) such Supplemental Financing will not result in adverse tax consequences to the related Equity Investor, (v) the additional Lessor Notes shall not have a final maturity later than January 15, 2015, and (vi) no Default or Event of Default under the Lease shall have occurred and be continuing. In the event of such a Supplemental Financing, the rent under the Lease shall be increased to cover the additional debt service. (Lease, Section 8(f))

Possession, Sublease and Transfer

Except in connection with a merger, consolidation or sale, transfer, conveyance or lease of assets permitted by the Participation Agreements or a transaction required by the ANPP Participation Agreement, PNM is not permitted to assign, sublease, transfer or encumber (except for certain permitted encumbrances) any of its rights or interests under any Lease or part with the possession of Unit 1 without the prior consent of the Lessor. (Lease, Section 11)

Insurance

PNM is required under the Leases to use its best efforts to cause the operating agent to carry and maintain insurance required under the ANPP Participation Agreement and is required to make all payments required of it under the ANPP Participation Agreement in respect of such insurance. PNM is also required to maintain, directly or through the operating agent, policies of casualty and liability insurance with respect to the interests in Unit 1 covered by the Leases in such amounts and with such coverage as shall be adequate in accordance with prudent utility practice. (Lease, Section 10)

Purchase and Renewal Options

PNM has the option under each of the Leases to purchase the Lessor's undivided ownership interest in Unit 1 at the end of the term of the Lease or to renew the Lease for a specified period. (Lease, Sections 12 and 13) The initial term of each of the Leases ends on January 15, 2015, the final maturity date of the Bonds. If PNM does not exercise its option to purchase or renew a Lease, the Lessor may terminate such Lease at any time during the last two and one-half years of its term and elect to retain or sell its undivided ownership interest in Unit 1, in which case the Lessor must pay in full the Pledged Lessor Notes of such Lessor, together with all accrued interest and any applicable premium. (Lease, Sections 14(d) and 14(e))

Events of Loss, Deemed Loss Events or Cure Option

If an Event of Loss or a Deemed Loss Event occurs with respect to Unit 1 or if PNM exercises the Cure Option, PNM will pay to the Lessor and the related Equity Investor cash in the amount provided in the Lease and the Lessor will transfer title to the Lessor's undivided ownership interest to PNM free of any lien for the benefit of the Pledged Lessor Notes. If, however, PNM is unable to assume the Pledged Lessor Notes because of its inability to satisfy the conditions to such assumption, prior to any payment to the Lessor of any amounts payable to the Lessor and the related Equity Investor, the Lessor will grant to the Lease Indenture Trustee a security interest in the Lessor's undivided ownership interest. Thereafter, the Equity Investor will assign its beneficial interest in the Lessor trust to PNM or its assignee. In such case, the Lease will be amended to reduce the amount of basic rent

payable thereafter to an amount equal to the principal of, premium, if any, and interest payable from time to time on the related Pledged Lessor Notes. (Lease Indenture, Section 3.9(b); Lease, Sections 9(c), 9(d) and 16(e))

Termination for Obsolescence

If no Default or Event of Default under a Lease shall have occurred and be continuing and no Event of Loss or Deemed Loss Event shall have occurred, PNM has the option on any January 15 or July 15 after January 15, 1998 and prior to January 15, 2012 to terminate the Lease, on at least 360 days' prior written notice, if PNM's Board of Directors determines that Unit 1 is uneconomic to PNM or is economically obsolete, provided that PNM shall be disposing of all its other leased interests in Unit 1. In such event, the Lessor may elect to retain or to sell its undivided interest in Unit 1. If the Lessor elects to retain such interest, as a condition to such retention, the Lessor must pay in full the Pledged Lessor Notes of such Lessor, together with all accrued interest and any applicable premium. If the Lessor elects to sell such interest, it will be sold to the highest bidder (which may not be PNM or an affiliate of PNM), and PNM must pay to the Lessor (a) the excess, if any, of the Termination Value (being a predetermined amount at least sufficient to prepay the Pledged Lessor Notes of such Lessor) as of the Termination Date over the net sale price and (b) all accrued and unpaid rent, including any prepayment premium payable on the Lessor Notes then due. (Lease, Sections 14(a), 14(b) and 14(c))

Events of Default

Events of Default under each Lease include, among other things: (i) failure by PNM to pay Casualty Value, Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option when due or basic rent within five days after the same becomes due or any other rent within 20 days after the same becomes due; (ii) breach by PNM of certain provisions of the Participation Agreement including those discussed under "Merger; Consolidation; Maintenance of Corporate Existence" below or breach by PNM of certain other provisions of the Lease dealing with PNM liens, insurance and subletting and assignment; (iii) failure by PNM to perform other covenants in the Lease and related documents for 30 days after notice by the Lessor or the related Equity Investor requiring that the same be remedied; (iv) material misrepresentations by PNM in connection with the Initial Sale and Leaseback Transaction; (v) occurrence of certain bankruptcy and insolvency events with respect to PNM; (vi) a final judgment for the payment of money in excess of \$1,000,000 shall not be paid or appropriately stayed by PNM within 60 days after entry of such judgment; (vii) certain defaults with respect to other obligations of PNM which are in excess of \$20 million; (viii) the expiration of 20 days following receipt by PNM of a notice of default under the ANPP Participation Agreement, provided that no Event of Default shall be deemed to have occurred if PNM is pursuing its rights under the ANPP Participation Agreement to contest the existence of such purported default; (ix) a default by PNM under the ANPP Participation Agreement in consequence of which PNM's right to receive its generation entitlement share in PVNGS is suspended; and (x) a determination six months prior to the end of the basic Lease term that Unit 1 does not have a remaining economic useful life of at least five and one-half years. (Lease, Section 15)

If an Event of Default under any Lease has occurred and is continuing, the Lessor may declare the Lease to be in default and may exercise one or more of the remedies provided in the Lease with respect to its undivided ownership interest in Unit 1. These remedies include the right to repossess and use such interest, to sell or relet such interest free and clear of the rights of PNM and to retain the proceeds of such sale or lease and (unless such Event of Default is that described in (x) above) to require PNM to pay as liquidated damages any unpaid rent due under the Lease through the payment date specified in a written notice to PNM given not earlier than ten days before such date plus one of the following, as specified by the Lessor:

- (i) an amount equal to the excess, if any, of (A) the Casualty Value as of such payment date over (B) the fair market rental value of the Lessor's undivided ownership interest in Unit 1 until

the end of the remaining useful life of Unit 1, after discounting such rental value to present value at a rate of 12% per annum;

(ii) an amount equal to the excess, if any, of (A) the Casualty Value as of such payment date, over (B) the fair market sales value of the Lessor's undivided ownership interest in Unit 1; or

(iii) an amount equal to the excess of (A) the present value of all installments of basic rent from the date of such notice to the end of the basic term or the applicable renewal term, discounted semi-annually at a rate of 10% per annum, over (B) the present value of the fair market rental value of the Lessor's undivided ownership interest in Unit 1 for the remainder of such basic term or renewal term, so discounted. (Lease, Section 16)

Merger; Consolidation; Maintenance of Corporate Existence

Pursuant to the Participation Agreements, PNM has agreed that it will at all times maintain its existence as a corporation and will not, without the consent of the Equity Investors, consolidate with or merge with or into, or, except in connection with normal dividend policy of PNM, convey, transfer, lease or dividend more than 5% of its assets to, any person, unless immediately after giving effect to such transaction, a number of conditions are met, including the requirement that the Bonds (or, if the Bonds are not then rated, PNM's preferred stock) shall be rated at least "investment grade" by two specified rating agencies. Such requirement cannot be waived by the Equity Investors without the consent of the holders of a majority in principal amount of the outstanding Securities.

Upon the consummation of such transaction, such corporation, if other than PNM, shall succeed to, and be substituted for, and may exercise every right and power of, PNM under the Leases, the Participation Agreements and other related documents, with the same effect as if such corporation had been named therein.

EXPERTS AND LEGAL OPINIONS

Legal matters in connection with the issuance of the Bonds are being passed on for PNM by Keleher & McLeod, P.A. of Albuquerque, New Mexico and for the Underwriters by Willkie Farr & Gallagher of New York, New York. Certain legal matters in connection with the consummation of the Sale and Leaseback Transactions will be passed on for First PV by Mudge Rose Guthrie Alexander & Ferdon of New York, New York and for PNM by Mudge Rose Guthrie Alexander & Ferdon and Snell & Wilmer of Phoenix, Arizona.

The statements as to matters of law and legal conclusions under "Rates and Regulation" and under "Environmental Factors" under Item 1 — "Business" and under Item 3 — "Legal Proceedings" in the 1985 Form 10-K and under "Financing Considerations" under the heading "PNM's CONSTRUCTION PROGRAM AND FINANCING REQUIREMENTS" in this Prospectus have been reviewed by Keleher & McLeod, P.A. All such statements are set forth in reliance upon the opinion of said firm, and in reliance upon its authority as an expert.

PNM is advised that as of March 31, 1986, the members of the firm of Keleher & McLeod, P.A. acting in connection with the offering owned approximately 2,351 shares of common stock of PNM.

ACCOUNTANTS

The consolidated financial statements and schedules of PNM as of December 31, 1985 and 1984 and for each of the years in the three-year period ended December 31, 1985 in the 1985 Form 10-K have been incorporated by reference in this Prospectus in reliance upon the reports of Peat, Marwick, Mitchell & Co., independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

PLAN OF DISTRIBUTION

First PV will sell the Bonds to Kidder, Peabody & Co. Incorporated and Drexel Burnham Lambert Incorporated or to an underwriting syndicate including and represented by such firms to be named in the Prospectus Supplement by which each series of Offered Bonds is to be offered.

The Prospectus Supplement with respect to the Offered Bonds will set forth the terms of the offering of the Offered Bonds and the proceeds to First PV from such sale, any underwriting discounts and other items constituting underwriters' compensation, any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers. Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

The Bonds will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. PNM has agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933. The underwriting agreement will provide that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters will be obligated to purchase all of the Offered Bonds if any are purchased. It will, in addition, provide that in the event of a default involving not more than 10% of the principal amount of the Offered Bonds, the non-defaulting underwriters would be required to purchase the Offered Bonds agreed to be purchased by the defaulting underwriters in proportion to their respective obligations. In the event of a default in excess of 10% of the principal amount of the Offered Bonds, First PV will have the right to sell less than all of the Offered Bonds to the underwriters.

Burnham Leasing Corporation, an affiliate of Drexel Burnham Lambert Incorporated, one of the underwriters, was one of the Equity Investors in the Initial Sale and Leaseback Transaction and acquired a 2.266667% undivided interest in Unit 1 for an equity investment of approximately \$23 million.

No person has been authorized to give any information or to make any representations not contained in the accompanying Prospectus or this Prospectus Supplement in connection with the offering of the Lease Obligation Bonds, and if given or made such information or representation must not be relied upon as having been authorized by Public Service Company of New Mexico or any underwriter.

The accompanying Prospectus and this Prospectus Supplement do not constitute an offer to sell, or a solicitation of an offer to buy, the securities offered hereby in any state to any person to whom it is unlawful to make such an offer or solicitation. Neither the delivery of the accompanying Prospectus and this Prospectus Supplement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of Public Service Company of New Mexico since the date hereof.

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\$253,677,000

Lease Obligation Bonds,

Series 1986A

Due 1991-2014

The Offered Bonds will initially be secured indirectly, as described herein, by an assignment of rentals under Leases relating to up to a 10.2% undivided interest in Unit 1 and certain common facilities of the Palo Verde Nuclear Generating Station to be paid by

Public Service Company of New Mexico

PROSPECTUS SUPPLEMENT

July 10, 1986

**Kidder, Peabody & Co.
Incorporated**

**Drexel Burnham Lambert
Incorporated**