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 AUTH. NAME AUTHOR AFFILIATION
 MOORE, C. L. Kelehar & McLeod
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 Division of Pressurized Water Reactor Licensing - B (post 8

SUBJECT: Forwards two vols entitled "Transaction Documents," re sale
 & leaseback transactions by util.

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KELEHER & McLEOD, P. A.

ATTORNEYS AND COUNSELORS AT LAW

PUBLIC SERVICE BUILDING

P. O. DRAWER AA

ALBUQUERQUE, NEW MEXICO 87103

W. A. KELEHER

1886-1972

A. H. McLEOD

1902-1976

JOHN B. TITTMANN

OF COUNSEL

TELEPHONE 842-6262

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December 24, 1986

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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 Transactions by
Public Service Company of New Mexico -
NRC Docket Nos. STN 50-528 and STN 50-529

Gentlemen:

Pursuant to Amendment No. 11 to Facility Operating License No. NPF-41, issued on December 11, 1986, and Amendment No. 6 to Facility Operating License No. NPF-51, issued on December 11, 1986, additional sale and leaseback transactions of all or a portion of the remaining ownership share of Public Service Company of New Mexico ("PNM") in Palo Verde Unit 1 and Palo Verde Unit 2, respectively, were authorized until June 30, 1987. Pursuant to such authorizations, transactions with respect to PNM's remaining ownership in Palo Verde Unit 1 and Unit 2 were closed on December 17, 1986.

Consistent with our filing of transaction documents with respect to previous sale and leaseback transactions, enclosed herewith are two volumes entitled "Transaction Documents" (one relating to Unit 1 and one relating to Unit 2) reflecting the December 17, 1986 closings. An index is attached to each volume, indicating the documents contained therein.

In my letter dated December 11, 1986, addressed to you, I indicated that PNM planned to file two executed amendments (which were generally described in such letter) relating to two previously executed Facility Leases after such amendments were executed. Accordingly, enclosed herewith are copies of the two amendments (each is designated "Amendment No. 2") referred to in my December 11, 1986 letter.

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KELEHER & McLEOD, P. A.

Director of Nuclear Reactor Regulation
December 24, 1986
Page 2

Again, we sincerely appreciate the responsiveness
and cooperation of the NRC Staff.

Yours very truly,

KELEHER & McLEOD, P.A.

By Charles L. Moore
Charles L. Moore

CLM/mu
Encl.

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

When Recorded, Return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

CERTAIN RIGHTS OF THE LESSOR UNDER THE FACILITY LEASE AS HERETOFORE AMENDED AND AS FURTHER AMENDED BY THIS AMENDMENT NO. 2 THERETO HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, CHEMICAL BANK, AS INDENTURE TRUSTEE UNDER A TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS DATED AS OF AUGUST 12, 1986, AS HERETOFORE AMENDED. THIS AMENDMENT NO. 2 HAS BEEN EXECUTED IN SEVERAL COUNTERPARTS. SEE SECTION 3(e) OF THIS AMENDMENT NO. 2 FOR INFORMATION CONCERNING THE RIGHTS OF HOLDERS OF VARIOUS COUNTERPARTS HEREOF.

THIS COUNTERPART IS NOT THE ORIGINAL COUNTERPART.

AMENDMENT NO. 2

Dated as of November 25, 1986

to

FACILITY LEASE

Dated as of August 12, 1986,

as heretofore amended,

between

THE FIRST NATIONAL BANK OF BOSTON
not in its individual capacity,
but solely as Owner Trustee
under a Trust Agreement, dated as
of August 12, 1986, with Burnham
Leasing Corporation, as

Lessor

and

PUBLIC SERVICE COMPANY OF NEW MEXICO, as

Lessee

Original Facility Lease Recorded on August 18, 1986,
as Instrument No. 86-439392 and Amendment No. 1 to
the Facility Lease Recorded on November 25, 1986, as
Instrument No. 86-650751, all in Maricopa County
Recorder's Office.

一、二、三、四、五、六、七、八、九、十、十一、十二、十三、十四、十五、十六、十七、十八、十九、二十、二十一、二十二、二十三、二十四、二十五、二十六、二十七、二十八、二十九、三十、三十一、三十二、三十三、三十四、三十五、三十六、三十七、三十八、三十九、四十、四十一、四十二、四十三、四十四、四十五、四十六、四十七、四十八、四十九、五十、五十一、五十二、五十三、五十四、五十五、五十六、五十七、五十八、五十九、六十、六十一、六十二、六十三、六十四、六十五、六十六、六十七、六十八、六十九、七十、七十一、七十二、七十三、七十四、七十五、七十六、七十七、七十八、七十九、八十、八十一、八十二、八十三、八十四、八十五、八十六、八十七、八十八、八十九、九十、九十一、九十二、九十三、九十四、九十五、九十六、九十七、九十八、九十九、一百。

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AMENDMENT NO. 2, dated as of November 25, 1986 (Amendment No. 2), to the Facility Lease dated as of August 12, 1986, as heretofore amended, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of August 12, 1986, with Burnham Leasing Corporation, a New York corporation (the Lessor), and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Lessee and the Lessor have heretofore entered into a Facility Lease, dated as of August 12, 1986 (the Facility Lease), providing for the lease by the Lessor to the Lessee of the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee and the Lessor have heretofore entered into Amendment No.1 to the Facility Lease, dated as of November 18, 1986 (Amendment No. 1), providing for, among other things, certain amendments to Section 3(a) of the Facility Lease;

WHEREAS, the Lessee and the Lessor desire to make a correction to Amendment No. 1, to correct a mathematical mistake made in the calculation of Basic Rent in connection therewith; and

WHEREAS, the Indenture Trustee has consented to this Amendment No. 2 pursuant to the Request, Instruction and Consent effective on December 15, 1986;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For purposes hereof, capitalized terms used herein and not otherwise defined herein or in the recitals shall have the meanings assigned to such terms in Appendix A to the Facility Lease.



SECTION 2. Amendments.

(a) Section 3(a)(i) of the Facility Lease (as amended by Amendment No. 1) is deleted in its entirety.

(b)(1) Section 3(a)(ii) of the Facility Lease, as amended by Amendment No. 1, becomes "Section 3(a)(i)" and is further amended to read in its entirety as follows:

"(i) on January 15, 1987 and on each Basic Rent Payment Date thereafter to and including January 15, 2016, an amount equal to 4.4195613% of Facility Cost, plus or minus the Rent Differential, if any, referred to in Section 3(h) hereof; and".

(2) Section 3(a)(iii) of the Facility Lease becomes Section 3(a)(ii) and the phrase "clause (ii) of this Section 3(a)" immediately preceding the parenthetical is deleted and replaced by the phrase "clause (i) of this Section 3(a)".

SECTION 3. Miscellaneous.

(a) Effective Date of Amendments. The amendments set forth in Section 2 hereof shall be and become effective upon the execution hereof by the parties hereto.

(b) Counterpart Execution. This Amendment No. 2 may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

(c) Governing Law. This Amendment No. 2 has been negotiated and delivered in the State of New York and shall be governed by, and construed in accordance with, the laws of the State of New York, except to the extent that pursuant to the law of the State of Arizona such law is mandatorily applicable hereto.

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(d) Disclosure. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Burnham Leasing Corporation, a New York corporation. The address of the beneficiary is 60 Broad Street, New York, New York 10004, Attention: Assistant Treasurer. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

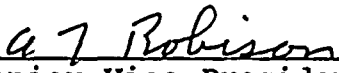
(e) Amendment No. 2. The single executed original of this Amendment No. 2 marked "THIS COUNTERPART IS THE ORIGINAL COUNTERPART" and containing the receipt of the Indenture Trustee thereon shall be the "Original" of this Amendment No. 2. To the extent that this Amendment No. 2 constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Amendment No. 2 may be created or continued through the transfer or possession of any counterpart other than the "Original".

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to Facility Lease to be duly executed in New York, New York by an officer thereunto duly authorized.

THE FIRST NATIONAL BANK OF
BOSTON,
not in its individual
capacity, but solely as
Owner Trustee under a Trust
Agreement, dated as of
August 12, 1986, with
Burnham Leasing Corporation

By 
Assistant Vice President


PUBLIC SERVICE COMPANY OF
NEW MEXICO,

By 
Senior Vice President and
Chief Financial Officer




State of New York)
) ss:
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A. J. ROBISON, Senior Vice President and Chief Financial Officer of PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation, on behalf of the corporation.


Notary Public
DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

State of New York)
) ss:
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of THE FIRST NATIONAL BANK OF BOSTON, a national banking association, on behalf of the banking association as Owner Trustee under the Trust Agreement dated as of August 12, 1986, with Burnham Leasing Corporation.


Notary Public
DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

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When Recorded, Return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

CERTAIN RIGHTS OF THE LESSOR UNDER THE FACILITY LEASE AS HERETOFORE AMENDED AND AS FURTHER AMENDED BY THIS AMENDMENT NO. 2 THERETO HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, CHEMICAL BANK, AS INDENTURE TRUSTEE UNDER A TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS DATED AS OF JULY 31, 1986, AS HERETOFORE AMENDED. THIS AMENDMENT NO. 2 HAS BEEN EXECUTED IN SEVERAL COUNTERPARTS. SEE SECTION 3(e) OF THIS AMENDMENT NO. 2 FOR INFORMATION CONCERNING THE RIGHTS OF HOLDERS OF VARIOUS COUNTERPARTS HEREOF.

THIS COUNTERPART IS NOT THE ORIGINAL COUNTERPART.

AMENDMENT NO. 2

Dated as of December 11, 1986

to

FACILITY LEASE

Dated as of July 31, 1986,
as heretofore amended,

between

THE FIRST NATIONAL BANK OF BOSTON
not in its individual capacity,
but solely as Owner Trustee
under a Trust Agreement, dated as
of July 31, 1986 with Chase
Manhattan Realty Leasing
Corporation

Lessor

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,

Lessee

Original Facility Lease Recorded on August 1, 1986,
as Instrument No. 86-404570 and Amendment No. 1 to
the Facility Lease Recorded on November 25, 1986, as
Instrument No. 86-650771, all in Maricopa County
Recorder's Office.



AMENDMENT NO. 2, dated as of December 11, 1986 (Amendment No. 2), to the Facility Lease dated as of July 31, 1986, as heretofore amended, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of July 31, 1986, with Chase Manhattan Realty Leasing Corporation, a New York corporation (the Lessor), and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Lessee and the Lessor have heretofore entered into a Facility Lease dated as of July 31, 1986, as heretofore amended (the Facility Lease), providing for the lease by the Lessor to the Lessee of the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee and the Lessor desire to execute this Amendment No. 2, to eliminate an overpayment of rent by the Lessee;

WHEREAS, the Indenture Trustee has consented to this Amendment No. 2 pursuant to the Request, Instruction and Consent effective on December 15, 1986;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For purposes hereof, capitalized terms used herein and not otherwise defined herein or in the recitals shall have the meanings assigned to such terms in Appendix A to the Facility Lease.



SECTION 2. Amendments.

(a) Section 3(a) of the Facility Lease is hereby amended by inserting the phrase "and the Real Property Interest" immediately following the term "Undivided Interest".

(b) Section 21 of the Facility Lease is hereby amended to read in its entirety as follows:

"Pursuant to the Deed and the Assignment of Beneficial Interest, the Lessee has sold to the Lessor the Real Property Interest. The Lessor hereby grants to the Lessee a leasehold interest in the Real Property Interest, such leasehold to be coterminous with the lease of the Undivided Interest hereunder and to be at a rent per annum equal to the respective percentages of the Real Estate Investment for the applicable period set forth or derived from the respective percentages of Facility Cost in clauses (i), (ii) and (iii) respectively, of Section 3(a) hereof (which rent is included as part of Basic Rent payable pursuant to Section 3(a) hereof)."

SECTION 3. Miscellaneous.

(a) Effective Date of Amendments. The amendments set forth in Section 2 hereof shall be and become effective upon the execution hereof by the parties hereto.

(b) Counterpart Execution. This Amendment No. 2 may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

(c) Governing Law. This Amendment No. 2 has been negotiated and delivered in the State of New York and shall be governed by, and be construed in accordance with, the laws of the State of New York, except to the extent that pursuant to the law of the State of Arizona such law is mandatorily applicable hereto.

(d) Disclosure. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation,



a New York corporation. The address of the beneficiary is One Chase Manhattan Plaza, New York, New York 10005. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.


(e) Amendment No. 2. The single executed original of this Amendment No. 2 marked "THIS COUNTERPART IS THE ORIGINAL COUNTERPART" and containing the receipt of the Indenture Trustee thereon shall be the "Original" of this Amendment No. 2. To the extent that this Amendment No. 2 constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Amendment No. 2 may be created or continued through the transfer or possession of any counterpart other than the "Original".

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to Facility Lease to be duly executed in New York, New York by an officer thereunto duly authorized.

THE FIRST NATIONAL BANK OF
BOSTON,
not in its individual
capacity, but solely as
Owner Trustee under a Trust
Agreement, dated as of
July 31, 1986, with Chase
Manhattan Realty Leasing
Corporation

By 
Assistant Vice President

PUBLIC SERVICE COMPANY OF
NEW MEXICO,

By 
Senior Vice President and
Chief Financial Officer

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State of New York)
)
County of New York) ss:

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. ROBINSON, Senior Vice President and Chief Financial Officer of PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation, on behalf of the corporation.

Delia T. Santiago
Notary Public
DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

State of New York)
)
County of New York) ss:

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of THE FIRST NATIONAL BANK OF BOSTON, a national banking association, on behalf of the banking association as Owner Trustee under the Trust Agreement dated as of July 31, 1986 with Chase Manhattan Realty Leasing Corporation.

David A. Spivak
Notary Public
DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693488
Qualified in New York County
Commission Expires March 30, 1987

PUBLIC SERVICE COMPANY OF NEW MEXICO

Sale and Leaseback of an Undivided Interest in
Palo Verde Nuclear Generating Station Unit 1
and Certain Common Facilities*

Chase Manhattan Realty Leasing Corporation

December 17, 1986

TRANSACTION DOCUMENTS

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Trust Agreement	3
Facility Lease	4
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Deed and Assignment of Beneficial Interest	9
Extension Letter	10
Tax Indemnification Agreement	11
Consent, Agreement and Instruction (Chrysler, Burnham and MFS)	12
Unit 1 Supplemental Indenture of Pledge	13

*Debt provided from proceeds of Lease
Obligation Bonds, Series 1986B.

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THE
FEDERAL
BUREAU OF
INVESTIGATION
OF THE
DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

PUBLIC SERVICE COMPANY OF NEW MEXICO

Sale and Leaseback of an Undivided Interest in
Palo Verde Nuclear Generating Station Unit 1
and Certain Common Facilities*

Chase Manhattan Realty Leasing Corporation

December 17, 1986

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Unit 1 Supplemental Indenture of Pledge	13

*Debt provided from proceeds of Lease
Obligation Bonds, Series 1986B.

6091.CHASEU1.LEASE.69:1



PARTICIPATION AGREEMENT

dated as of December 15, 1986

among

CHASE MANHATTAN REALTY LEASING CORPORATION
as Owner Participant

FIRST PV FUNDING CORPORATION,
as Loan Participant

THE FIRST NATIONAL BANK OF BOSTON,
in its individual capacity and as Owner Trustee
under a Trust Agreement,
dated as of December 15, 1986,
with the Owner Participant, as Owner Trustee

CHEMICAL BANK,
in its individual capacity and as Indenture Trustee
under a Trust Indenture, Mortgage, Security Agreement
and Assignment of Rents,
dated as of December 15, 1986,
with the Owner Trustee, as Indenture Trustee

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,
as Lessee

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1
and a .566667% Undivided Interest in Certain Common
Facilities

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PARTICIPATION AGREEMENT

PARTICIPATION AGREEMENT, dated as of December 15, 1986 among CHASE MANHATTAN REALTY LEASING CORPORATION, a New York corporation (the Owner Participant), FIRST PV FUNDING CORPORATION, a Delaware corporation (the Loan Participant), THE FIRST NATIONAL BANK OF BOSTON, a national banking association, in its individual capacity (FNB) and as Owner Trustee (the Owner Trustee) under a Trust Agreement, dated as of December 15, 1986, with the Owner Participant, CHEMICAL BANK, a New York banking corporation, in its individual capacity (Chemical Bank) and as Indenture Trustee (the Indenture Trustee) under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986, with the Owner Trustee, and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico Corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Owner Participant desires to cause the Trust to acquire the Undivided Interest and the Real Property Interest and to lease the Undivided Interest and the Real Property Interest to the Lessee under the Facility Lease;

WHEREAS, the Lessee desires to sell the Undivided Interest and the Real Property Interest to the Trust and lease the Undivided Interest and the Real Property Interest back from the Trust under the Facility Lease;

WHEREAS, the Owner Trustee and the Lessee will enter into the Purchase Documents with respect to the sale and purchase of the Undivided Interest and the Real Property Interest;

WHEREAS, pursuant to the terms and provisions of the Indenture, the Owner Trustee will authorize the creation, issuance, sale and delivery of the Fixed Rate Notes and the granting of the security therefor, and the Indenture Trustee will authenticate the Fixed Rate Notes; and

WHEREAS, the Loan Participant is willing to purchase the Fixed Rate Notes on the terms and conditions set forth herein;

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NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For the purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in Appendix A. References in this Participation Agreement to sections, paragraphs and clauses are to sections, paragraphs and clauses in this Participation Agreement unless otherwise indicated.

SECTION 2. Participation by the Loan Participant.

(a) Loan Participant's Commitment. Subject to the satisfaction of the conditions in Sections 5(a) and 11(a), on the Closing Date the Loan Participant agrees to lend to the Owner Trustee, on a non-recourse basis, an amount (the Loan) equal to 80% of the Purchase Price.

(b) Payment; Terms of the Fixed Rate Notes.

(1) Payment. Proceeds of the Loan shall be paid directly to the Indenture Trustee, for the account of the Owner Trustee, in immediately available funds, at the Indenture Trustee's Office.

(2) Terms of the Fixed Rate Notes. The Loan shall be evidenced by the Fixed Rate Notes. The Fixed Rate Notes shall be issued by the Owner Trustee under and pursuant to the Indenture, shall be, in the aggregate, in the principal amount of the Loan and shall bear interest at the rate or rates per annum and shall be payable as set forth in the Indenture.

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SECTION 3. Participation by the Owner Participant.

Subject to the satisfaction of the conditions in Sections 5(a) and 11(a), on the Closing Date the Owner Participant agrees to (i) make an equity investment with respect to the Undivided Interest in an amount (the Investment) equal to 20% of the Purchase Price, (ii) make an equity investment with respect to the Real Property Interest in the amount set forth in the Notice of Closing (the Real Estate Investment), and (iii) provide to the Owner Trustee an amount equal to the Estimated Transaction Expenses. Proceeds of the Investment and the Real Estate Investment shall be paid directly to the Indenture Trustee, in immediately available funds, at the Indenture Trustee's Office. The Estimated Transaction Expenses shall be paid to the Owner Trustee, in immediately available funds, at 100 Federal Street, Boston, Massachusetts 02110 Attention: Manager, Corporate Trust Department.

SECTION 4. Purchase, Sale, Financing and Lease of the Undivided Interest; Purchase, Sale and Lease of the Real Property Interest.

(a) The Undivided Interest. Subject to (x) the satisfaction of the conditions in Sections 5(a) and 11(a), (y) receipt from the Owner Participant of the Investment and an amount equal to Estimated Transaction Expenses and (z) receipt from the Loan Participant of the proceeds of the Loan, on the Closing Date the Owner Trustee shall (i) cause the Trust to purchase the Undivided Interest from the Lessee for \$75,000,000 (the Purchase Price) and (ii) disburse an amount equal to the Estimated Transaction Expenses as contemplated by Section 14. Subject to the satisfaction of the conditions in Section 11(b), on the Closing Date the Lessee shall sell the Undivided Interest to the Trust for the Purchase Price. Concurrently with such purchase and sale, the Trust shall lease the Undivided Interest to the Lessee, and the Lessee shall lease the Undivided Interest from the Trust, pursuant to the Facility Lease.

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(b) The Real Property Interest. Subject to (x) the satisfaction of the conditions in Sections 5(a) and 11(a) and (y) receipt from the Owner Participant of the Real Estate Investment, on the Closing Date the Owner Participant shall cause the Trust to purchase the Real Property Interest from the Lessee for a purchase price equal to the Real Estate Investment. Subject to the satisfaction of the conditions in Section 11(b), on the Closing Date the Lessee shall sell the Real Property Interest to the Trust for such purchase price. Concurrently with such purchase and sale, the Trust shall lease the Real Property Interest to the Lessee, and the Lessee shall lease the Real Property Interest from the Trust, pursuant to the Facility Lease.

SECTION 5. Notice of Closing; Closing.

(a) Notice of Closing. Not later than two Business Days prior to the Closing Date, the Lessee shall deliver to the Owner Participant, the Owner Trustee, the Loan Participant, the Collateral Trust Trustee and the Indenture Trustee a notice, substantially in the form of Schedule 1 (the Notice of Closing), which shall (i) state that the Closing Date shall occur on the date specified therein, (ii) set forth a list of the then known Transaction Expenses payable by the Owner Trustee pursuant to Section 14(a) (the Estimated Transaction Expenses) and (iii) provide payment instructions in respect of the disposition of the Purchase Price and the amount of the Real Estate Investment.

(b) Closing. Upon satisfaction of the conditions in Section 5(a) and Section 11(a) and upon receipt from the Owner Participant of the amount of the Investment, the Real Estate Investment and the Estimated Transaction Expenses and from the Loan Participant of the Loan, on the Closing Date the Owner Trustee shall (i) instruct the Indenture Trustee to pay to the Lessee an amount equal to the Purchase Price and the amount of the Real Estate Investment in immediately available funds and (ii) disburse the Estimated Transaction Expenses as contemplated by Section 14. Upon

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satisfaction of the conditions in Section 11(b), on the Closing Date, the Lessee shall deliver to the Owner Trustee the Bill of Sale, the Deed and the Assignment of Beneficial Interest.

SECTION 6. Representations, Warranties and Agreements of the Loan Participant; Direction to the Indenture Trustee.

(a) The Loan Participant represents and warrants that:

(1) Due Organization. The Loan Participant is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware and has the corporate power and authority to carry on its business as presently conducted, own its properties, and enter into and perform its obligations under this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become on or before the Closing Date, a party.

(2) Due Authorization; Enforceability. The execution, delivery and performance by the Loan Participant of this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become, a party on or before the Closing Date, have been duly authorized by all necessary corporate action on the part of the Loan Participant and do not require the consent or approval of the stockholder of the Loan Participant. This Participation Agreement and each other Transaction Document and each Financing Document to which the Loan Participant is, or is to become, a party, have been, or on or before the Closing Date will have been, duly executed and delivered by the Loan Participant and constitute, or upon execution and delivery thereof will constitute, legal, valid and binding agreements of the Loan Participant enforceable against it in accordance with their respective terms.

Figure 1 is a schematic representation of the experimental design. It shows a sequence of events: 1. A subject is presented with a stimulus (a face). 2. A response is recorded (a button press). 3. The subject is rewarded (a coin is placed in a slot). The sequence is labeled with numbers 1 through 5.

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(3) No Violation. Neither the execution, delivery or performance by the Loan Participant of this Participation Agreement, any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party, nor the consummation by the Loan Participant of the transactions contemplated hereby or thereby, nor compliance by the Loan Participant with the provisions hereof or thereof conflicts or will conflict with, or results or will result in the breach of any provision of, the Certificate of Incorporation or By-Laws of the Loan Participant or any Applicable Law or any indenture, mortgage or agreement to which the Loan Participant is a party or by which it or its property is bound or requires any Governmental Action, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished.

(4) No Other Business. Except as contemplated by this Participation Agreement, the other Transaction Documents and the Financing Documents and except as otherwise contemplated by the Section 6(c) Application, the Loan Participant has not engaged, and will not engage, in any business or activity of any type or kind whatever.

(5) ERISA. The Loan Participant is not acquiring any Note with the "plan assets" of any "employee benefit plan" within the meaning of section 3(3) of ERISA or any "plan" within the meaning of section 4975(e)(1) of the Code.

(6) Securities Act. The Loan Participant understands that (i) none of the Notes to be acquired by it has been registered under the Securities Act and (ii) each will bear the legend set forth in the form of such Notes. The Loan Participant will acquire each Note to be acquired by it hereunder and under the Indenture solely for purposes of pledging such Notes to the Collateral Trust Trustee to secure Bonds issued from time to time under the Collateral Trust Indenture.

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(b) Agreements of the Loan Participant. The Loan Participant agrees that:

(1) Transfers of the Notes. Any transfer or assignment of any Note or of all or any part of the Loan Participant's interest hereunder or under any other Transaction Document or any Financing Document shall be effected in a transaction constituting an exempted transaction under the Securities Act and on the express condition that the transferee, assignee or participant shall agree to be bound by the terms and provisions hereof and thereof. Neither the Loan Participant nor any subsequent Holder of a Note may sell, exchange or transfer any Note to any other Person (other than the Collateral Trust Trustee) unless such transferee delivers to the other parties hereto a representation and warranty (and an opinion of counsel satisfactory to each of the other parties hereto) to the effect that neither the transfer of such Note to, nor the ownership of such Note by, such transferee will cause such transferee, or any other party hereto, to be engaged in a "prohibited transaction", as defined in section 406 of ERISA or section 4975 of the Code, which is not at such time subject to an exemption contained in ERISA or in the rules, regulations, releases or bulletins adopted thereunder.

(2) Quiet Enjoyment. The Loan Participant acknowledges Section 6(a) of the Facility Lease.

(3) No Other Business. During such time as any Note is outstanding and held by the Loan Participant or the Collateral Trust Trustee, the Loan Participant will not (i) engage in any business or activity other than (1) in connection with the Transaction Documents or the Financing Documents or (2) as otherwise contemplated by the Section 6(c) Application or (ii) amend or engage in any activity or take any action not permitted by Article THIRD, FOURTH or SIXTH of its Certificate of Incorporation, as in effect on the date of execution and delivery

hereof, without, in each case, the consent of the other parties hereto.

(c) Direction to the Indenture Trustee. The Loan Participant, as purchaser of the Fixed Rate Notes, (i) hereby authorizes and directs the Indenture Trustee to execute, deliver and perform this Participation Agreement, (ii) hereby authorizes and directs the Indenture Trustee to register such Notes in the name of the Loan Participant and, upon authentication and delivery thereof pursuant to this Participation Agreement and the Indenture, to deliver such Notes (upon completion by the Loan Participant of the assignment attached to each of the Fixed Rate Notes) to the Collateral Trust Trustee pursuant to the Collateral Trust Indenture, (iii) acknowledges and agrees that, in connection with this Participation Agreement, the Indenture Trustee shall have the benefits and protections of Article VIII of the Indenture and (iv) agrees that, in the event of a conflict between the provisions of this Participation Agreement and the Indenture, the Indenture Trustee shall, as between the Indenture Trustee and the Loan Participant, be fully protected in relying on the express terms of the Indenture.

SECTION 7. Representations, Warranties and Agreements of the Owner Participant.

(a) Representations and Warranties. The Owner Participant represents and warrants that:

(1) Due Organization. The Owner Participant is a corporation duly organized and validly existing in good standing under the laws of the state of its incorporation and has the corporate power and authority to enter into and perform its obligations under this Participation Agreement and each other Transaction Document to which it is, or is to become, a party.

(2) Due Authorization. This Participation Agreement and each other Transaction Document to which the Owner Participant is, or is to become on

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or before the Closing Date; a party have been duly authorized by all necessary corporate action on the part of the Owner Participant and do not require the consent or approval of its stockholders or any trustee or holder of any of its indebtedness or other obligations, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished.

(3) Execution. This Participation Agreement and each other Transaction Document to which the Owner Participant is, or is to become on or before the Closing Date, a party have been, or on or before the Closing Date will have been, duly executed and delivered by the Owner Participant and constitute, or upon execution and delivery thereof will constitute, its legal, valid and binding agreements, enforceable against it in accordance with their respective terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally).

(4) No Violation. Neither the execution, delivery or performance by the Owner Participant of this Participation Agreement or any other Transaction Document to which it is, or is to become on or prior to the Closing Date, a party, nor the consummation by the Owner Participant of the transactions contemplated hereby or thereby, nor compliance by the Owner Participant with the provisions hereof or thereof, conflicts with, or results in the breach of any provision of, or is inconsistent with, its documents of incorporation or By-Laws or contravenes any Applicable Law applicable to it or any of its Affiliates, or any indenture, mortgage or agreement for borrowed money to which the Owner Participant is a party or any other agreement or instrument to which the Owner Participant is a party or by which it or its property is bound or requires any Governmental Action with respect to the Owner Participant under Federal or New York law on or before the Closing Date, except such as are contemplated by the Transaction Documents or the

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Financing Documents or such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that the Owner Participant makes no representation or warranty as to any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Nuclear Waste Act, ERISA (except to the extent set forth in paragraph (9) below), the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, energy or nuclear matters, public utilities, the environment, health and safety or Unit 1.

(5) No Owner Participant's Liens. Neither the execution and delivery by the Owner Participant of this Participation Agreement or any other Transaction Document to which the Owner Participant is, or is to become on or before the Closing Date, a party, nor the performance by the Owner Participant of its obligations hereunder or thereunder, will subject the Trust Estate or the Lease Indenture Estate, or any portion of either thereof, to any Owner Participant's Lien.

(6) Acquisition. The Owner Participant is acquiring the beneficial interest in the Trust Estate for its own account in the ordinary course of its business and the Owner Participant has no intention of making any sale or other distribution of the beneficial interest in the Trust Estate in violation of any legislation, rule or regulation relating to limitations upon the sale or other distribution of interests such as such beneficial interest.

(7) No Prior Security Interest. There exists no security interest in or other Lien on the Lease Indenture Estate in the state of the chief place of business of the Owner Participant, the State of New Mexico or the State of Arizona arising as a result of claims against the Owner Participant unrelated to the transactions contemplated by the Transaction

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Documents or the Financing Documents which is prior to the Indenture Trustee's security interest in the Lease Indenture Estate.

(8) No Sales or Solicitations. Except as contemplated by the Financing Documents and as described in a letter to the Lessee dated November 17, 1986, neither the Owner Participant nor anyone acting on its behalf has directly or indirectly offered or sold, or solicited any offer to acquire, any beneficial interest in the Trust Estate or any Note or any Bond.

(9) ERISA. The Owner Participant is not acquiring its interests in the Trust with the "plan assets" of any "employee benefit plan" within the meaning of section 3(3) of ERISA or any "plan" within the meaning of section 4975(e)(1) of the Code.

(b) Agreements of the Owner Participant. The Owner Participant agrees that:

(1) No Owner Participant's Liens. The Owner Participant will not create or permit to exist, and, at its own cost and expense, will promptly take such action as may be necessary duly to discharge, all Owner Participant's Liens.

(2) Quiet Enjoyment. The Owner Participant acknowledges the provisions of Section 6(a) of the Facility Lease and Section 8(c) of this Participation Agreement.

(3) No-Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Owner Participant agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of, or in respect of, the Loan Participant under the

Bankruptcy Code, or any other applicable Federal or state law or the law of the District of Columbia.

(4) Transfer of Interest in the Trust Estate. Unless the Lessee shall have assumed the Notes as contemplated by Section 3.9(b) of the Indenture, upon receipt by the Owner Participant under Section 5.2 of the Indenture of the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 of the Facility Lease and, if applicable, compliance in full by the Lessee with Section 9(f) of the Facility Lease, the Owner Participant shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time following the occurrence of an Event of Loss, Deemed Loss Event or a Default or Event of Default or event giving rise to the exercise of the Cure Option the Owner Participant may, assign, convey and transfer to the Lessee all of the Owner Participant's right, title and interest in, to and under the Trust Estate (except the right to receive Excepted Payments), such transfer (i) to be free and clear of Owner Participant's Liens but otherwise without recourse, representation or warranty and (ii) if the Owner Participant so elects, to be effected by the execution and delivery by the Owner Participant to the Lessee of a Bill of Sale and Assignment substantially in the form of Exhibit A hereto (and upon the execution and delivery thereof and the furnishing of executed counterparts thereof to the Owner Trustee such transfer shall be and become effective automatically and without further action by the Owner Trustee, the Owner Participant, the Lessee, the Lessor, the Indenture Trustee or any other Person). The Lessee hereby agrees to accept the transfer contemplated by this Section 7(b)(4) and the parties hereto acknowledge and agree that at the time of such transfer the Lessee shall be deemed to be a Transferee that has satisfied all conditions set forth in Section 15(a) of this Participation Agreement and Section 11.09 of the Trust Agreement.

If, in accordance with the preceding paragraph, the Owner Participant shall assign, convey and transfer to the Lessee all of the Owner Participant's right, title and interest in, to and under the Trust Estate (except the right to receive Excepted Payments) following the occurrence of an Event of Loss, Deemed Loss Event or a Default or Event of Default or event giving rise to the Cure Option, but the transferring Owner Participant shall not have received under Section 5.2 of the Indenture the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be, the obligation of the Lessee to make such payments (together with interest thereon in accordance with Section 3(b)(iii) of the Facility Lease) (or to make other payments in a like amount with respect to Basic Rent or Supplemental Rent paid by application of such payments (and in which the Owner Trustee has thereby acquired an interest) pursuant to Section 5.1 or 5.3 of the Indenture) shall not be deemed to be cancelled or discharged but shall continue until all such amounts are so received by the Lessee, as successor Owner Participant, or by the transferring Owner Participant pursuant to the following provisions of this Section 7(b)(4). The Lessee as successor Owner Participant hereby agrees to pay to the transferring Owner Participant on the date of transfer an amount equal to the amount of the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 together with interest thereon at the Penalty Rate (computed in accordance with the Facility Lease) from the date of transfer, such payments (the Secured Obligations) to be made only from amounts payable to the Owner Participant from the Trust Estate. The Secured Obligations shall be secured by (and the Lessee hereby grants to the transferring Owner Participant a security interest in and general lien upon) all of the right, title and interest of the Lessee as successor Owner Participant in, to and under the Trust Estate. In connection therewith, the Lessee as successor Owner Participant hereby agrees as follows:

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(i) The transferring Owner Participant shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as in effect in the State of New York (as such law may at any time be amended).

(ii) Upon the occurrence of such transfer, the Lessee as successor Owner Participant shall appoint, and hereby does appoint, the transferring Owner Participant its attorney-in-fact, irrevocably, with full power of substitution, to the exclusion of the Lessee as successor Owner Participant, to ask for, require, demand, receive and give acquittance for any and all moneys and claims for moneys due and to become due to the Lessee as successor Owner Participant under or arising out of the Trust Estate, to endorse any checks or other instruments or orders in connection therewith, and to take any action (including the filing of financing statements or other documents and the delivery of written instructions to the Owner Trustee and the Indenture Trustee specifying that all payments to be made to the Lessee as successor Owner Participant under the Trust Agreement and the Indenture shall be made directly to the transferring Owner Participant so long as any portion of the Secured Obligations remains outstanding) or institute any proceedings which the transferring Owner Participant may deem necessary or appropriate to protect and preserve the security interest of the transferring Owner Participant in the Trust Estate and the rights of the transferring Owner Participant to receive payments thereunder.

(iii) Upon the occurrence of such transfer, and until the Secured Obligations have been paid in full, the Lessee (in its capacity as such and as successor Owner Participant) shall not, without the prior written consent of the transferring Owner Participant (1) take any



action or deliver any instruction under any Transaction Document the effect of which would be to (A) relieve or otherwise affect the obligation of the Lessee to make such payments, (B) terminate the Trust Agreement, (C) terminate or rescind the Facility Lease, (D) sell, assign, transfer or deliver the Trust Estate to any Person (except, in the case of the Trust Estate, as contemplated by Section 9(j) of the Facility Lease) or (2) accept, or approve, any amendment to any Transaction Document.

- (iv) The Lessee (as such and as successor Owner Participant) covenants and agrees to do all such acts and execute all such instruments of further assurance as shall be reasonably requested from time to time by the transferring Owner Participant for the purpose of fully carrying out and effectuating the provisions of this Section 7(b)(4) and the intent thereof.

Upon the payment in full of the Secured Obligations, the security interest hereinabove provided shall terminate and the transferring Owner Participant, at the request of the Lessee as successor Owner Participant, shall execute and deliver to the Lessee as successor Owner Participant such termination statements, releases or other instruments presented to the transferring Owner Participant as shall be reasonably required to effect such termination.

SECTION 8. Representations, Warranties and Agreements of the Owner Trustee and FNB.

(a) Representations and Warranties. FNB as Owner Trustee and (except as otherwise provided in the last sentence of this Section 8(a)) in its individual capacity, represents and warrants that:

- (1) Due Organization. FNB is a national banking association duly organized and validly existing in good standing under the laws of the United States of America and has all requisite corporate power and

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authority to enter into and perform its obligations under (x) the Trust Agreement and, to the extent it is a party hereto in its individual capacity, this Participation Agreement and (y) acting as Owner Trustee, this Participation Agreement and each other Transaction Document to which FNB is, or is to become on or before the Closing Date, a party as Owner Trustee.

(2) Due Authorization; Enforceability; etc. This Participation Agreement and each other Transaction Document to which FNB is, or is to become on or before the Closing Date, a party have been duly authorized by all necessary corporate action of FNB (in its individual capacity or as Owner Trustee, as the case may be) and, upon execution and delivery hereof and thereof, this Participation Agreement and each such other Transaction Document will be duly executed and delivered and will be legal, valid and binding agreements of FNB (in its respective capacities), enforceable against it (in its respective capacities) in accordance with their respective terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally); it being understood that FNB is not making any representation or warranty as to the priorities of the Liens created or to be created under any Transaction Document, title to the Trust Estate or recordings or filings necessary in connection therewith.

(3) Notes. Upon execution of the Fixed Rate Notes, authentication thereof by the Indenture Trustee pursuant to the Indenture and delivery thereof against payment therefor in accordance with this Participation Agreement, each such Note will be a legal, valid and binding obligation of the Owner Trustee, enforceable against the Owner Trustee in accordance with its terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally).

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(4) No Violation. Neither the execution and delivery by (x) FNB of the Trust Agreement and, to the extent FNB is a party hereto in its individual capacity, this Participation Agreement and (y) the Owner Trustee of this Participation Agreement and each other Transaction Document (other than the Trust Agreement) to which the Owner Trustee is, or is to become on or before the Closing Date, a party, nor the performance by FNB, in its individual capacity or as Owner Trustee, as the case may be, of its obligations under each, conflicts with, or results in the breach of any provision of, its Articles of Association or By-Laws and does not contravene any Applicable Law of the United States of America or The Commonwealth of Massachusetts governing the banking or trust powers of FNB, and does not contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument to which FNB is a party or by which it is bound or require any Governmental Action with respect to the Owner Trustee under any Federal or Massachusetts law, except such as are contemplated by the Transaction Documents or the Financing Documents or such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that no representation or warranty is made with respect to the right, power or authority of FNB or the Owner Trustee to act under the ANPP Participation Agreement or the License in respect of the Undivided Interest or Unit 1, and the Owner Trustee makes no representation or warranty as to any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, the Nuclear Waste Act, ERISA, energy or nuclear matters, public utilities, the environment, health and safety or Unit 1.

(5) Defaults. To the best knowledge of the Owner Trustee, no Indenture Default or Indenture Event of Default has occurred and is continuing. The Owner Trustee is not in violation of any of the

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terms of this Participation Agreement or any other Transaction Document to which it is, or is to become on or before the Closing Date, a party.

(6) Litigation. There is no action, suit, investigation or proceeding pending or, to the knowledge of FNB, threatened against FNB (in any capacity) before any court, arbitrator or administrative or governmental body and which relates to its banking or trust powers which, individually or in the aggregate, if decided adversely to the interests of FNB in such capacity, would have a material adverse effect upon the ability of FNB (in any capacity) to perform its obligations under this Participation Agreement or any other Transaction Document to which it is, or is to become on or before the Closing Date, a party (in any capacity).

(7) Location of the Chief Place of Business and Chief Executive Office, etc. The chief place of business and chief executive office of the Owner Trustee and the office where its records concerning the accounts or contract rights relating to the transactions contemplated hereby are located in Boston, Massachusetts.

(8) No Prior Security Interest. There exists no security interest in the Lease Indenture Estate in the States of New Mexico, New York or Arizona or in The Commonwealth of Massachusetts arising as a result of any claim against FNB unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents which is prior to the Indenture Trustee's security interest in the Lease Indenture Estate.

(9) No Owner Trustee's Liens. Neither the execution by FNB (in any capacity) of this Participation Agreement or any other Transaction Document to which it (in any capacity) is, or is to become on or before the Closing Date, a party, nor the performance in such capacity by it of its obligations hereunder or thereunder, will subject the Trust Estate or the Lease Indenture Estate, or any portion thereof, to any Owner Trustee's Lien.

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The representations and warranties in Section 8(a)(2), Section 8(a)(3) and Section 8(a)(5) as to Transaction Documents and the Fixed Rate Notes being legal, valid and binding obligations enforceable in accordance with their respective terms, are given by FNB only in its capacity as Owner Trustee and not in its individual capacity, except that FNB does represent in its individual capacity that it is authorized under the laws of The Commonwealth of Massachusetts to execute and deliver the Transaction Documents to which it is, or is to become on or before the Closing Date, a party.

(b) Agreements. FNB agrees, in its individual capacity, that:

(1) Discharge of Liens. FNB will not create or permit to exist, and will, at its own cost and expense, promptly take such action as may be necessary duly to discharge, all Owner Trustee's Liens.

(2) Certain Amendments. FNB agrees that unless a Default or an Event of Default has occurred and is continuing or an Event of Loss or Deemed Loss Event has occurred, FNB will not amend any of the payment terms of any Note, or take any action to refund any Note after the date of issue thereof pursuant to the terms of this Participation Agreement and the Indenture without the prior written consent of the Lessee. FNB agrees that except for amendments or supplements, if any, made pursuant to Article X of the Trust Agreement or contemplated by Section 7(b)(4), FNB will not amend or supplement, or consent to any amendment of or supplement to, the Trust Agreement if such amendment would materially and adversely affect the rights of the Lessee under the Facility Lease and this Participation Agreement, without the prior written consent of the Lessee unless a Default or an Event of Default has occurred and is continuing or the Lease Termination Date has occurred.

(3) Change in Location of Chief Place of Business and Chief Executive Office, etc. FNB shall notify the Lessee, the Loan Participant and the Indenture Trustee promptly after any change in

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location of its chief executive office, principal and chief place of business or place where its records concerning the accounts or contract rights relating to the transactions contemplated hereby are kept.

(4) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, FNB (in all capacities) agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(5) Quiet Enjoyment. FNB acknowledges Section 6(a) of the Facility Lease.

(c) Agreements of the Owner Trustee. The Owner Trustee agrees that:

(1) Subject and Subordinate. The rights and remedies of the Owner Trustee and the Owner Participant in the Undivided Interest, the Real Property Interest and the related Generation Entitlement Share are subject and subordinate to the rights and remedies of the ANPP Participants (other than (i) the Lessee or (ii) any Person who shall become an ANPP Participant in respect of the Lessor's Interest (as defined in Section 8(c)(3)) under the ANPP Project Agreements.

(2) Lessee to be Participant. Except as provided in Sections 15.2.2, 15.6.4 and 15.10 (or any comparable successor provisions) of the ANPP Participation Agreement, the Lessee shall be and remain the sole "Participant" for all purposes of the ANPP Participation Agreement and the sole representative (with power to bind the Lessor and the Indenture Trustee) in all dealings with the other ANPP Participants in relation to the property, rights, titles and interests of the Lessee transferred to the Lessor pursuant to the

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Transaction Documents; provided, however, that the foregoing shall not limit in any way the effect of Section 15 or 16 of the Facility Lease or any liability or obligation that the Lessee may incur to the Owner Trustee or the Owner Participant under any Transaction Document as a result thereof (including, without limitation, any liability that PNM may incur under Section 16 of the Facility Lease as the result of an Event of Default).

(3) Cash Bids. Upon the expiration of the Facility Lease and upon the Lessee failing to purchase or otherwise reacquire all the right, title and interest in PVNGS and contractual rights related thereto necessary for the operation of the interest (the Lessor's Interest) acquired by the Lessor pursuant to the Transaction Documents, the Lessor shall entertain cash bids from each ANPP Participant for the Lessor's Interest.

(4) Survival. The provisions of this paragraph (4) and Sections 8(c)(1), (2) and (3) shall remain in full force and effect until such time as the ANPP Administrative Committee or the ANPP Participants shall otherwise consent.

(5) License Matters. The Owner Trustee acknowledges that before taking possession of the Undivided Interest or any part thereof or of any other interest in PVNGS, either of the following may be required: (i) the issuance of an appropriate license from the NRC, whether by amendment to the License or otherwise, or (ii) a partial transfer of the License authorizing the Lessor to possess its interest in PVNGS, to the extent of the Undivided Interest, upon application for partial transfer of such License to such extent filed pursuant to Applicable Law. Neither the Owner Trustee nor the Owner Participant shall have any responsibility whatsoever to take or initiate any action with respect to any NRC licensing matter.

(6) Acknowledgement and Agreement. The Owner Trustee hereby acknowledges and agrees to the provisions of Section 7(b)(4) of this Participation

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WASHINGTON, D. C.

Agreement. The Owner Trustee hereby agrees, upon the request of the Owner Participant, to execute and cause to be filed with the County Recorder, Maricopa County, Arizona a duly completed affidavit in substantially the form of Schedule 5 hereto.

SECTION 9. Representations, Warranties and Agreements of Chemical Bank.

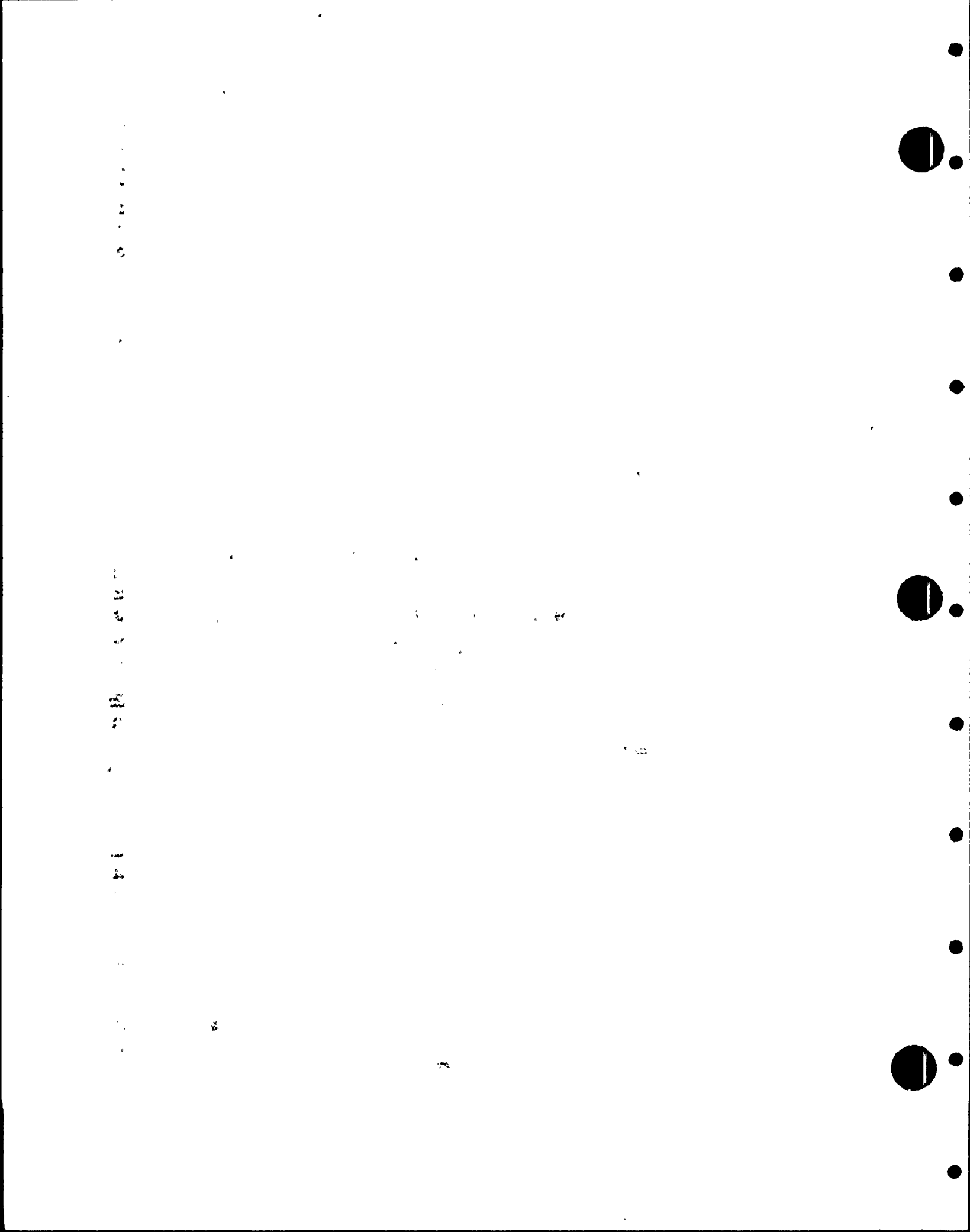
(a) Representations and Warranties. Chemical Bank represents and warrants that:

(1) Due Organization. Chemical Bank is a banking corporation duly organized and validly existing in good standing under the laws of the State of New York and has the corporate power and authority and legal right to enter into and perform its obligations under the Indenture, this Participation Agreement and each other Transaction Document to which it is, or is to become on or before the Closing Date, a party.

(2) Due Authorization. This Participation Agreement and each other Transaction Document to which Chemical Bank is, or is to become on or before the Closing Date, a party have been or will be duly authorized by all necessary corporate action of Chemical Bank and each has been or will have been duly executed and delivered by Chemical Bank.

(3) Authentication of the Fixed Rate Notes. The officer of Chemical Bank who shall authenticate the Fixed Rate Notes to be issued pursuant to the Indenture shall be, at the time of such authentication, an Authorized Officer.

(4) No Violation. Neither the execution and delivery by Chemical Bank of this Participation Agreement or the Indenture, nor the authentication by it of the Fixed Rate Notes, nor the consummation by it of the transactions contemplated hereby or thereby, nor the compliance by it with the provisions hereof or thereof will contravene any Applicable Law governing its banking or trust powers, or contravenes or results in a breach of, or



constitutes a default under, its Articles of Incorporation or By-laws, or requires any Governmental Action under any Federal or New York law, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that no representation or warranty is made as to (i) any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, the Nuclear Waste Act, ERISA, energy or nuclear matters, public utilities, the environment, health and safety or Unit 1 or (ii) the Lease Indenture Estate to the extent it may constitute real property under Applicable Law.

(b) Agreements. The Indenture Trustee agrees that:

(1) Agreement to Discharge Liens. The Indenture Trustee will not create or permit to exist, and will promptly take such action as may be necessary duly to discharge, all Indenture Trustee's Liens.

(2) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Indenture Trustee agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(3) Quiet Enjoyment. The Indenture Trustee agrees to be bound by Section 6(a) of the Facility Lease.

(4) Acknowledgement. The Indenture Trustee hereby acknowledges the provisions of Section 7(b)(4) of this Participation Agreement.

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SECTION 10. Representations, Warranties and Agreements of the Lessee.

(a) Representations and Warranties. The Lessee represents and warrants that:

(1) Due Organization. The Lessee is a corporation duly organized and validly existing in good standing under the laws of the State of New Mexico and has the corporate power and authority to carry on its business as presently conducted, to own or hold under lease its properties and to enter into and perform its obligations under this Participation Agreement and each other Transaction Document and Financing Document to which it is, or is to become, a party. The Lessee is duly qualified and in good standing to do business as a foreign corporation in the State of Arizona and has not failed to qualify to do business or to be in good standing in any other jurisdiction where failure so to qualify or be in good standing would materially and adversely affect the financial condition of the Lessee or its ability to perform any obligations under this Participation Agreement, any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party.

(2) Due Authorization. The execution, delivery and performance by the Lessee of this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become on or before the Closing Date, a party, have been duly authorized by all necessary corporate action on the part of the Lessee and do not, and will not, require the consent or approval of the stockholders of the Lessee or any trustee or holder of any indebtedness or other obligation of the Lessee, other than (i) the Mortgage Release, (ii) the finding of the ANPP Administrative Committee described in Section 15.6.2 of the ANPP Participation Agreement and (iii) such other consents and approvals as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof

delivered to the Owner Participant prior to the Closing Date.

(3) Execution. This Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee is, or is to become on or before the Closing Date, a party, will have been duly executed and delivered by the Lessee, and this Participation Agreement constitutes, and upon execution and delivery thereof, each such Transaction Document and each such Financing Document will constitute, the legal, valid and binding agreement of the Lessee, enforceable against the Lessee in accordance with their respective terms.

(4) No Violation, etc. Neither the execution, delivery or performance by the Lessee of this Participation Agreement or any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party, nor the consummation by the Lessee of the transactions contemplated hereby or thereby, nor compliance by the Lessee with the provisions hereof or thereof, conflicts or will conflict with, or results or will result in a breach or contravention of any of the provisions of, the Restated Articles of Incorporation or By-Laws of the Lessee or any Affiliate of the Lessee, or any Applicable Law, or any indenture, mortgage, lease or any other agreement or instrument to which the Lessee or any Affiliate of the Lessee is a party or by which the property of the Lessee or any Affiliate of the Lessee is bound, or results or will result in the creation or imposition of any Lien (other than Permitted Liens) upon any property of the Lessee or any Affiliate of the Lessee. There is no provision of the Restated Articles of Incorporation or By-Laws of the Lessee or any Affiliate of the Lessee, or any Applicable Law, or any such indenture, mortgage, lease or other agreement or instrument which materially adversely affects or in the future is likely (so far as the Lessee can now foresee) to materially adversely affect the business, operations, affairs, condition, properties or assets of the Lessee, or its ability to perform its obligations under this

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Participation Agreement or any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party.

(5) Governmental Actions. No Governmental Action is or will be required in connection with the execution, delivery or performance by the Lessee of, or the consummation by the Lessee of the transactions contemplated by, this Participation Agreement, any other Transaction Document or any Financing Document, except such Governmental Actions (i) as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof delivered to the Owner Participant and the Loan Participant, (ii) as may be required under existing Applicable Law to be obtained, given or accomplished from time to time after the Closing Date in connection with the maintenance, use, possession or operation of Unit 1 or otherwise with respect to Unit 1 and the Lessee's or the Operating Agent's involvement therewith and which are, for PVNGS, routine in nature and which the Lessee has no reason to believe will not be timely obtained and (iii) as may be required under Applicable Law not now in effect. No Governmental Action (except Governmental Action as may be required by any Governmental Authority of or in New York or Delaware) is or will be required (a) in connection with the participation by the Owner Trustee, the Indenture Trustee, the Owner Participant or the Loan Participant in the consummation of the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document or (b) to be obtained by any of such Persons during the term of the Facility Lease with respect to Unit 1 except such Governmental Actions (i) as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof delivered to the Owner Participant, the Owner Trustee and the Loan Participant prior to the Closing Date, (ii) as may be required by Applicable Law not now in effect, (iii) as may be required in consequence of any transfer of ownership of the Undivided Interest or

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the Real Property Interest by the Owner Trustee, (iv) as would be required by existing Applicable Law upon termination or expiration of the Facility Lease in connection with taking possession of an interest in Unit 1, (v) as may be required by existing Applicable Law if, after termination or expiration of the Facility Lease, the Lessee should provide transmission services for the Owner Trustee or cease to be agent for the Owner Trustee as provided under the Assignment and Assumption, or (vi) as may be required in consequence of any exercise of remedies or other rights by any such Person in connection with taking possession of an interest in Unit 1.

(6) Securities Act. Neither the Lessee nor anyone acting on its behalf has directly or indirectly offered or sold any Bond, any interest in any Note, any note issued with respect to any other undivided interest in Unit 1, the Undivided Interest or any other undivided interest in Unit 1, the Facility Lease or any other lease of an undivided interest in Unit 1, or any similar security or lease, or any interest in any security or lease the offering of which, for purposes of the Securities Act, would be deemed to be part of the same offering as the offering of the aforementioned securities or leases, in either case, or solicited any offer to acquire any of the aforementioned securities or leases in violation of Section 5 of the Securities Act, and except as contemplated by this Participation Agreement, neither the Lessee nor any one authorized to act on its behalf will take any action which would subject the issuance or sale of any Note or any interest in the Facility Lease or any other debt instrument issued or to be issued to finance the Undivided Interest to the registration requirements of such Section 5.

(7) Title to the Undivided Interest and Real Property Interest; Security Interest. On the Closing Date, (A) good and marketable title to the Undivided Interest and the related Generation Entitlement Share will be duly, validly and effectively conveyed and transferred to the Owner Trustee, free and clear of all Liens, except Permitted Liens (other than

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those described in clause (ii) of the definition of such term and that portion of clause (iv) of such definition relating to Liens for taxes being contested), (B) good and marketable title to the Real Property Interest will be duly, validly and effectively conveyed and transferred to the Owner Trustee, as provided in the Deed and the Assignment of Beneficial Interest, (C) the Lessee will have good and marketable title to its ownership interest in the Retained Assets, free and clear of all Liens except Permitted Liens, the Lien of the Existing Mortgage and matters disclosed in the title report referred to in Section 11(a)(33), (D) the Lessee will have good and valid title to its ownership interest in the PVNGS Site, (E) Unit 1 will be wholly located on the PVNGS Site without any material encroachments by any portion thereof on any other property, (F) all filings and recordings necessary or advisable to perfect the Owner Trustee's right, title and interest in and to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, and to perfect for the benefit of the Indenture Trustee and the holders of the Notes the first priority security interest, mortgage and assignment of rents provided for in the Indenture, will have been duly made and (G) no other action, including any action under any fraudulent conveyance statute, will be required to protect the title and interests of the Owner Trustee in and to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest against the claims of all Persons other than the ANPP Participants under the ANPP Project Agreements (in accordance with the terms thereof), or to perfect such first priority security interest, mortgage and assignment of rents in favor of the Indenture Trustee.

(8) Non-Interference. None of the Permitted Liens will, on and after the Closing Date, materially interfere with the use or possession of the Undivided Interest, the related Generation Entitlement Share or the Real Property Interest or the use of or the exercise by the Owner Trustee of its rights under the Bill of Sale, the Deed, the

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Assignment of Beneficial Interest and the Assignment and Assumption with respect to, the interests in PVNGS granted or to be granted under the Bill of Sale, the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption.

(9) Personal Property. Unit 1, based on the agreements of the Lessee and the other ANPP Participants in the ANPP Participation Agreement and of the Lessee and the Owner Trustee herein and in the other Transaction Documents, is to the full extent permitted by Applicable Law personal property under the laws of the State of Arizona.

(10) Location of Chief Executive Office. The chief executive office and place of business of the Lessee and the office where it keeps its records concerning its accounts or contract rights is at Alvarado Square, Albuquerque, Bernalillo County, New Mexico 87158.

(11) Financial Statements. The consolidated balance sheets of the Lessee and subsidiaries (A) as of December 31, 1985 and 1984, respectively, and the related consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985, together with the notes accompanying such financial statements, all certified by Peat Marwick Mitchell & Co., and (B) as of September 30, 1986 and 1985, respectively, and the related consolidated statements of earnings, retained earnings and changes in financial position for the nine-month periods ended September 30, 1986 and September 30, 1985, respectively, all certified by the Controller or an Assistant Controller of the Lessee, as furnished to the Owner Participant, fairly present the financial position of the Lessee and its subsidiaries taken as a whole at each such date and the results of their operations for each of the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis and in conformity with applicable Accounting Practice.

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(12) Disclosure. None of the financial statements to which reference is made in paragraph 11 above nor the reports to which reference is made in this paragraph 12 nor any (other than publicly available documents of any Governmental Authority, (other than documents prepared by or on behalf of the Lessee), and any press reports, insurance reports, if delivered on or before the Closing Date, and appraisals) certificate, written statement or other document furnished to the Owner Participant or the Appraiser by the Lessee in connection with the transactions contemplated hereby (under the circumstances at the time and for the purposes for which any statement made therein was made) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. There is no fact known to the Lessee that materially and adversely affects or, so far as the Lessee can now reasonably foresee, is likely to materially and adversely affect, the business or financial condition of the Lessee or any material portion of its properties or its ability to perform its obligations under this Participation Agreement or any other Transaction Document or any Financing Document to which the Lessee is, or is to become, a party. The Lessee has heretofore delivered to the Owner Participant the Lessee's Annual Report on Form 10-K for the year ended December 31, 1985, the Lessee's Quarterly Report on Form 10-Q for the quarters ended March 31, June 30 and September 30, 1986 and the Current Reports on Form 8-K filed on February 12, 1985 (as amended by Form 8 filed April 12, 1985), January 14, March 3, June 30, July 16, July 31, September 2, September 9, and December 15, 1986.

(13) Litigation. Except as disclosed in the reports to which reference is made in paragraph 12 above, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Lessee, threatened against the Lessee before any court, arbitrator or administrative or governmental body which questions the validity or enforceability of this Participation Agreement or any other

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Transaction Document or any Financing Document to which the Lessee is, or is to become, a party, or which, individually or in the aggregate, if decided adversely to the interests of the Lessee, would have a material adverse effect on the business or financial condition of the Lessee or materially and adversely affect the ability of the Lessee to perform its obligations under this Participation Agreement or any other Transaction Document or any Financing Document to which it is or is to become a party.

(14) Tax Returns. The Lessee has filed all Federal, state, local and foreign, if any, tax returns which were required to be filed, and has paid all Taxes shown to be due and payable on such returns and has paid all other Taxes in respect of the Lessee's interest in Unit 1 and in the PVNGS Site which are payable by the Lessee to the extent the same have become due and payable and before they have become delinquent, except (i) any Taxes the amount, applicability or validity of which may be in dispute and which are currently being contested in good faith by appropriate proceedings and with respect to which the Lessee has set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed by it to be adequate and (ii) any Taxes relating to PVNGS in respect of which the Operating Agent has not given notice to the Lessee that the same are due and payable. The Federal income tax returns of the Lessee have been audited by the IRS for taxable years through 1980.

(15) ERISA. In reliance upon, and subject to the accuracy of, the representations made by the Loan Participant in Section 6(a)(5) and the Owner Participant in Section 7(a)(9), the execution and delivery of this Participation Agreement, the other Transaction Documents and the Financing Documents by the Lessee will not involve any prohibited transaction within the meaning of ERISA or section 4975 of the Code.

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(16) Regulation..So long as the Facility Lease is in effect, assuming the proper filing of Form U-7D with the SEC on or within 30 days after the Closing Date, under Applicable Law now in effect, neither the Loan Participant, the Owner Participant, FNB nor the Owner Trustee will be or become, solely by reason of either its entering into this Participation Agreement or any other Transaction Document to which any of them is, or is to become, a party, or the transactions contemplated hereby or thereby, subject to regulation (i) as an "electric utility", an "electric utility company", a "public utility", a "public utility company", a "holding company", or a "public utility holding company" by any Federal, state (other than, as to the Owner Participant, New York, as to which no representation or warranty is given) or local public utility commission or other regulatory body, authority or group (including, without limitation, the SEC, the FERC, the NMPSC or the Arizona Corporation Commission) or (ii) in any manner by the NRC. The Lessee is not, and covenants that (except in connection with a transaction permitted by Section 10(b)(3)(ii) hereof) it will not become, a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" within the meaning of the Holding Company Act. The Lessee is not subject to regulation by the Arizona Corporation Commission as a public utility or a public service corporation.

(17) Authorizations, etc. The Lessee has not failed to obtain any Governmental Action or other authorization, license, approval, permit, consent, right or interest, where a failure to obtain such would materially and adversely affect the ability of the Lessee to carry on its business as presently conducted or as described in the Registration Statement.

(18) No Default, etc. The Lessee is not in default, and no condition exists that, with the giving of notice or lapse of time or both, would constitute a default by the Lessee, under any material mortgage, deed of trust, indenture, lease,

[illegible]

contract or other instrument or agreement to which the Lessee is a party or by which it or any of its properties or assets may be bound.

(19) Certain Documents. True and correct copies of the ANPP Participation Agreement, the other Material Project Agreements and the Existing Mortgage have been delivered to the Owner Participant's Special Counsel for and on behalf of the Owner Participant prior to the date of execution hereof. No ANPP Project Agreement will, on and after the Closing Date, materially and adversely interfere with (i) (except for the ANPP Participation Agreement in the case of the Generation Entitlement Share only) the title of the Owner Trustee to the Undivided Interest, the related Generation Entitlement Share or the Real Property Interest or (ii) except for the ANPP Participation Agreement, the use of, or the exercise by the Owner Trustee of its rights under the Facility Lease, the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption with respect to, the Undivided Interest, the related Generation Entitlement Share, and the interests in the PVNGS Site (including the Real Property Interest) granted or to be granted under the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption. No payment default or other default of a material nature by the Lessee has occurred and is continuing under the Existing Mortgage or any ANPP Project Agreement. The ANPP Participation Agreement and each other ANPP Project Agreement are in full force and effect and no breach of any thereof, to the Lessee's knowledge, by any other party thereto has occurred and is continuing, except where the failure to be in force and effect or such breach would not have a material and adverse effect on the Undivided Interest, the related Generation Entitlement Share, the Real Property Interest, Unit 1 or the rights, interests and benefits of the Owner Trustee or the Owner Participant under any Transaction Document. Upon execution and delivery of the Mortgage Release and the recordation thereof or of UCC releases in respect thereof, (i) the mortgagee and secured party thereunder will have

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released the lien of the Existing Mortgage on the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and (ii) the rights of the Owner Trustee in the Undivided Interest and the Real Property Interest and the related Generation Entitlement Share will not be, and will not become, subject or subordinate to the rights of any Person, except the Indenture Trustee under the Indenture and the ANPP Participants to the extent expressly set forth in the ANPP Participation Agreement (as in effect on the Closing Date) and except as may otherwise expressly be permitted by the Facility Lease. The lien of the Existing Mortgage does not extend to rights of PNM under Transaction Documents (other than the Lessee's leasehold interest under the Facility Lease) or to the Generation Entitlement Share related to the Undivided Interest. Neither Section 15.6.3.5 of the ANPP Participation Agreement nor Section 8(c)(3) of this Participation Agreement (i) requires the Owner Trustee to accept any cash bid referred to therein or (ii) otherwise materially impedes the Owner Trustee's right, upon a failure by the Lessee to purchase or otherwise reacquire the Undivided Interest and the Real Property Interest, to conclude a sale or lease to a Person constituting a "Transferee" under Section 15.10 of the ANPP Participation Agreement.

(20) Unit 1. The description of Unit 1 set forth in Exhibit B to the Bill of Sale is correct and sufficiently complete to identify such property.

(21) Investment Company Act. The Lessee is not, and will not become, an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act.

(b) Agreements of Lessee.

(1) Delivery of Documents. The Lessee agrees that it will deliver to the Owner Participant and the Loan Participant (and, in the case of

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Sections 10(b)(1)(iii) and (v) hereof, the Owner Trustee):

(i) Financial Statements: (A) as soon as practicable, and in any event within 120 days, after the end of each fiscal year of the Lessee, a consolidated balance sheet of the Lessee and subsidiaries as of the end of such fiscal year and related consolidated statements of earnings, retained earnings and changes in financial position for such year, all in reasonable detail and certified in an opinion by a nationally recognized firm of independent public accountants, and the annual and interim reports of the Lessee to its stockholders as soon as the same have been mailed to such stockholders, (B) as soon as practicable, and in any event within 60 days, after the end of each fiscal quarter (other than the last fiscal quarter) of each fiscal year of the Lessee, a consolidated balance sheet of the Lessee and subsidiaries as of the end of said period and a related consolidated statement of earnings, retained earnings and changes in financial position for said period, all in reasonable detail, and certified by the Controller or an Assistant Controller or the Chief Financial Officer of the Lessee and (C) as soon as practicable after the same have been filed, a copy of all documents filed by the Lessee with the SEC pursuant to the reporting requirements of the Securities Exchange Act;

(ii) Other Reports: promptly upon their becoming available, any registration statement, offering statement, investment memorandum or prospectus prepared by the Lessee in connection with the public offering of securities (other than public offerings of securities under employee stock option, consumer stock or dividend reinvestment plans);

(iii) Notice of Default: promptly upon the Lessee becoming aware of the existence

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thereof, written notice specifying any condition which constitutes a Default or an Event of Default or a default by any ANPP Participant under the ANPP Participation Agreement and the nature and status thereof;

(iv) Annual Certificate: within 120 days after the end of each fiscal year of the Lessee, a certificate of the Lessee, signed by the Controller or an Assistant Controller or the Chief Financial Officer of the Lessee, to the effect that such officer has reviewed, or caused to be reviewed by individuals under his supervision, this Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee is a party and has made, or caused to be made under his supervision, a review of the transactions contemplated hereby and thereby and the condition of the Lessee during such preceding fiscal year, and such review has not disclosed the existence during such fiscal period, nor does such officer have knowledge of the existence as at the date of such certificate, of any condition or event that constitutes a Default or Event of Default or, if any such condition or event exists, specifying the nature and period of existence thereof and any action the Lessee has taken, is taking, or proposes to take with respect thereto;

(v) Opinion of Counsel: within 120 days after the end of each fiscal year of the Lessee, an opinion or opinions, satisfactory to the Owner Participant, the Owner Trustee, the Collateral Trust Trustee and the Indenture Trustee, of Keleher & McLeod, P.A., as general counsel for the Lessee, Snell & Wilmer, as special Arizona counsel for the Lessee, and/or other counsel acceptable to the Owner Participant (A) either to the effect that (1) all filings and recordations (or refilings and rerecordations) required to (i) convey to the Owner Trustee, and establish, preserve, protect and perfect the title of the Owner




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Trustee to, the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and establish, preserve and protect the Owner Trustee's rights under this Agreement and the other Transaction Documents, and, (ii) so long as any Note is Outstanding, grant, perfect and preserve the security interest of the Indenture Trustee in the Lease Indenture Estate have been duly made, or (2) no such additional filings, recordations, refilings or rerecordations are necessary, to (i) convey to the Owner Trustee, and establish, preserve, protect and perfect the title of the Owner Trustee to, the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and establish, preserve and protect the Owner Trustee's rights under this Agreement and the other Transaction Documents, and (ii) so long as any Note is Outstanding, grant, perfect and preserve the security interest of the Indenture Trustee in the Lease Indenture Estate and (B) specifying the particulars of all action required during the period from the date of such opinion through the last day of the next succeeding calendar year, including, in the case of each UCC continuation statement required to be filed during such period, the office in which each such continuation statement is to be filed and the filing date and filing number of the original financing statement or fixture filing to be continued, and the dates within which such continuation statement may be filed under Applicable Law; such opinion shall also address such additional matters relating to actions taken by the Lessee pursuant to Section 10(b)(2) as the Loan Participant or the Owner Participant may reasonably request;

(vi) ANPP Information: upon receipt by the Lessee, copies or advice of all Systematic Assessment of Licensee Performance Reports (or comparable successor report) and of all material notices, data, information and other

written communications received by the Lessee under or pursuant to any ANPP Project Agreement or otherwise with respect to Unit 1, PVNGS or the PVNGS Site, subject in each case to applicable confidentiality undertakings with respect thereto, unless prohibited by Applicable Law;

(vii) Other PVNGS Information: the Lessee having furnished a letter to the Owner Participant dated August 12, 1986, describing its internal procedures for monitoring PVNGS and reporting to the Owner Participant with respect thereto, prior written notice of any material change in such procedures; and, upon receipt by the Lessee, copies or advice of all notices of violation or other material communications from the NRC and all notices of nuclear incidents or other material occurrence at PVNGS given to the NRC;

(viii) Annual PVNGS Report: within 120 days after the end of each fiscal year of the Lessee, a certificate of the Lessee with respect to the status and operations of Unit 1 for such fiscal year and current information respecting the status of decommissioning funding arrangements for Unit 1; and

(ix) Requested Information: with reasonable promptness, such other data and information as to the business and properties of the Lessee or as to Unit 1, PVNGS or the PVNGS Site as from time to time may be reasonably requested by the Owner Participant, subject in each case to applicable confidentiality undertakings with respect thereto, unless prohibited by Applicable Law.

(2) Further Assurances. The Lessee will cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, documents and assurances as the Owner Participant may from time to time reasonably request in order to carry out more effectively the intent and purposes of this



Participation Agreement, the other Transaction Documents and the Financing Documents, and the transactions contemplated hereby and thereby. The Lessee will cause the financing statements (and continuation statements with respect thereto) and the documents enumerated and described in Schedule 4, and all other documents necessary or advisable in that connection, to be recorded or filed at such places and times, and in such manner, and will take all such other actions or cause such actions to be taken, as may be necessary or reasonably requested by the Owner Participant, the Collateral Trust Trustee, the Owner Trustee or the Indenture Trustee, in order to establish, preserve, protect and perfect the title of the Owner Trustee to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, and the Owner Trustee's rights and interests under this Participation Agreement and the other Transaction Documents and, so long as any Note is Outstanding, the first and prior security interest of the Indenture Trustee in the Lease Indenture Estate and the Indenture Trustee's rights under this Participation Agreement and the other Transaction Documents, all referred to and included under the granting clause of the Indenture.

(3) Covenants. The Lessee covenants and agrees as follows:

(i) Maintenance of Corporate Existence, etc. The Lessee shall at all times maintain its existence as a corporation under the laws of the State of New Mexico, except as permitted by paragraph (ii) below. The Lessee will do or cause to be done all things necessary to preserve and keep in full force and effect its rights (charter and statutory) and franchises; provided, however, that the Lessee may discontinue any right or franchise if its board of directors shall determine that such discontinuance is necessary or desirable in the conduct of its business and does not materially and adversely affect or diminish any right of



the Owner Participant or the Loan Participant.

(ii) Merger, Sale, etc.: Owner Participant. Without the consent of the Owner Participant, the Lessee shall not (1) consolidate with any Person, (2) merge with or into any Person, or (3) except in connection with normal dividend policy of the Lessee, convey, transfer, lease, or dividend (other than transfers and dividends described in the Lessee's proxy statement dated April 11, 1986 and transfers and conveyances constituting sale and leaseback transactions under the ANPP Participation Agreement) to any Person more than 5% of its assets, including cash, in any single transaction or series of related transactions; unless, immediately after giving effect to such transaction:

(A) the Person who is the Lessee immediately following such consolidation, merger, conveyance, transfer or lease (the Surviving Lessee) shall be a corporation or (with the prior consent of the Owner Participant, which consent shall not be unreasonably withheld) other legal entity which (i) is organized under the laws of the United States of America, a state thereof or the District of Columbia, (ii) is a "public utility" under applicable state and Federal laws, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 1 (including the Undivided Interest), (iv) if other than the Lessee immediately prior to such transaction, shall have assumed each covenant and condition of the Lessee under the ANPP Participation Agreement and each other ANPP Project Agreement and (v) holds a valid and subsisting license from the NRC to possess Unit 1 (including the Undivided Interest);



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(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Participation Agreement, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately preceding such transaction;

(C) no Default (other than a failure to deliver documents and other information specified in Section 10(b)(1)(vi), (vii) or (viii) hereof), Event of Default, Event of Loss or Deemed Loss Event shall have occurred and be continuing;

(D) the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee) after giving effect to such transaction, (1) shall be rated at least "investment grade" by Standard & Poor's Corporation and Moody's Investors Service, Inc. and (2) shall have an investment rating by Standard & Poor's Corporation and Moody's Investors Service, Inc. not less than one "smallest notch" below the rating assigned to the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee) immediately prior to such transaction (or, if neither of such rating organizations shall rate the Bonds (or, if applicable, the preferred stock of the Surviving Lessee) at the time, by any nationally recognized rating organization in the United States of America);

(E) the Surviving Lessee shall have a Minimum Net Worth;

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(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an Officers' Certificate and an opinion, reasonably satisfactory to the Owner Participant, of counsel to the Surviving Lessee, each stating that (1) such transaction complies with this subparagraph (ii) and (2) all conditions precedent to the consummation of such transaction have been satisfied and any Governmental Action required in connection with such transaction has been obtained, given or accomplished;

(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel (if other than Mudge Rose Guthrie Alexander & Ferdon, such counsel to be reasonably satisfactory to the Owner Participant) to the Surviving Lessee stating that such transaction does not and will not cause a Loss (as defined in the Tax Indemnification Agreement);

(H) such transaction is otherwise permitted by and in accordance with the ANPP Participation Agreement; and

(I) the Coverage Ratio of the Surviving Lessee shall be at least 1.6 to 1.

Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately preceding the date of such transaction, with

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the same effect as if the Surviving Lessee had been named herein and therein.

(iii) Merger, Sale, etc.: Bondholders.

The Lessee shall not enter into any transaction constituting a consolidation, merger, conveyance, transfer, lease or dividend not permitted by Section 10(b)(3)(ii), irrespective of any consent or waiver of the Owner Participant, unless immediately after giving effect to such transaction, the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee), after giving effect to such transaction, shall be rated at least "investment grade" by Standard & Poor's Corporation and Moody's Investors Service, Inc.

(iv) Prior Notice to Rating Agencies.

Prior to entering into any transaction as to which the conditions set forth in paragraphs (ii) and (iii) above shall be applicable, the Lessee shall give notice thereof to the rating agencies specified in such paragraphs, such notice to be sufficiently in advance of such transaction to enable the rating agencies to respond thereto prior to consummation thereof.

(v) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not issue or assume any secured or unsecured indebtedness maturing more than eighteen months after the date of issuance thereof, if, immediately after such issue or assumption, the total amount of all secured and unsecured indebtedness of the Lessee maturing more than one year after the date of such issue or assumption shall exceed 65% of the aggregate of (x) such total amount and (y) the total of the capital and surplus of the Lessee.

(vi) Change in Chief Executive Office.

The Lessee will notify the Owner Trustee, the Owner Participant, the Loan Participant and

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the Indenture Trustee promptly after any change of location of its chief executive office and place of business, principal place of business or place where the Lessee maintains its business records.

(vii) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Lessee will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(viii) ANPP Project Agreements. Except where the failure to do so would not have a material and adverse effect on the Undivided Interest, the Real Property Interest, Unit 1 or the rights, interests and benefits of the Owner Trustee or the Owner Participant under any Transaction Document, the Lessee (without limiting its obligations under the next sentence) at all times, unless the Owner Participant shall otherwise consent, (1) will perform its obligations under and comply with the terms of each ANPP Project Agreement to be complied with by it, (2) will exercise its rights under the ANPP Participation Agreement to maintain each ANPP Project Agreement in full force and effect, (3) will keep unimpaired all of the Lessee's rights, powers and remedies under each ANPP Project Agreement and prevent any forfeiture or impairment thereof, (4) will enforce the ANPP Participation Agreement in accordance with its terms and (5) will not take or fail to take or join in (i) any action with respect to, nor accept or approve any amendment to or any other change in, the ANPP Participation Agreement or any other ANPP Project Agreement, or (ii) any action or change the effect of which would be

to relieve the Lessee of any obligation under the ANPP Participation Agreement on or after the Closing Date. The Lessee will not, unless the Owner Participant otherwise consents, accept or approve any amendment to any ANPP Project Agreement the effect of which would be to (A) reduce the Generation Entitlement Share related to the Undivided Interest, (B) impose, directly or indirectly, at any time on the Owner Trustee or the Owner Participant any obligations (unless such Person is then an ANPP Participant), (C) discriminate against (x) the Owner Trustee or the Owner Participant in its capacity as lessor in a sale and lease-back transaction or (y) any present or future ANPP Participant because such ANPP Participant derived or will derive its status as "Participant" under the ANPP Participation Agreement from a lessor in a sale and lease-back transaction, (E) deprive the Owner Trustee or the Owner Participant, as the case may be, of the benefit of Sections 15.2.2, 15.10 and 32.1 of the ANPP Participation Agreement (or any comparable successor provisions), or (F) amend or otherwise change Section 15.10 of the ANPP Participation Agreement. The Lessee shall (A) provide copies of any proposed amendment to or modification of the ANPP Participation Agreement to the Owner Participant not less than 45 days prior to the execution thereof by the Lessee (except where the Lessee is unaware thereof 45 days prior to such execution, in which case the Lessee shall provide notice thereof as promptly as possible after becoming so aware) and (B) upon such execution furnish to the Owner Participant a copy of any such amendment or modification as executed. The Lessee will not, except as permitted by paragraph (ii) above or by the Assignment and Assumption, sell, transfer, assign or otherwise dispose of all or any of its rights or interests in and to PVNGS.

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(ix) Notes and Bonds. The Lessee will not, and will not permit any of its Affiliates to, acquire any of the Notes or, except in connection with the selection of Bonds for redemption pursuant to the Collateral Trust Indenture, the Bonds.

(x) Cooperation. The Lessee will cooperate with the Owner Participant and the Owner Trustee in obtaining the valid and effective issue, or, as the case may be, transfer or amendment of all Governmental Actions (including, but without limitation, the License) necessary or, in the opinion of the Owner Participant, desirable for the ownership, operation and possession of the Undivided Interest, the Real Property Interest or any portion of Unit 1 represented thereby by the Owner Trustee or any transferee, lessee or assignee thereof for the period from and after the Lease Termination Date. The Lessee agrees to accept and cooperate in receiving any transfer of the Owner Participant's right, title and interest in the Trust Estate made pursuant to Section 7(b)(4).

(xi) Decommissioning. (A) The Lessee will comply with its obligations under Applicable Law concerning the decommissioning and retirement from service of Unit 1 (which term shall include, for all purposes of this paragraph (xi), (i) the cost of removal, decontamination and disposition of equipment and fixtures, the cost of safe storage for later removal, decontamination and disposal and the cost of entombment of equipment and fixtures, and (ii) the cost of (x) razing Unit 1, (y) removal and disposition of debris from the PVNGS Site and (z) restoration of relevant portions of the PVNGS Site). If Applicable Law or Governmental Action shall not, on or before December 31, 1990, impose upon the Lessee the obligation to create, fund and maintain an external reserve fund dedicated to paying all the costs of decommissioning and removing from

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service the Undivided Interest, then the Lessee will create and maintain the Decommissioning Fund; if Applicable Law or Governmental Action shall thereafter impose upon the Lessee an obligation to create and maintain such a fund, any fund in compliance with Applicable Law or such Governmental Action shall be deemed satisfactory to the Owner Participant for purposes of the preceding sentence; provided, however, the Lessee shall in any and all events maintain and fund such an external reserve in accordance with prudent utility practice and thereafter review such fund, at least every five years after its creation, and modify the same as to amount or rate of accumulation to bring the same, if necessary, into conformity with prudent utility practice. (B) Except to the extent provided in clauses (C) and (D) below, as between the Lessee, the Owner Trustee, the Owner Participant and any transferee (including by way of lease) or assignee of any of the Lessor's or the Owner Participant's right, title or interest in Unit 1, the Lessee agrees to pay, be solely responsible for, and to indemnify such parties against, all costs and expenses relating or allocable to, or incurred in connection with, the decommissioning and retirement from service of Unit 1, notwithstanding (i) the occurrence of the Lease Termination Date, any Event of Default, Default, Event of Loss, Deemed Loss Event or any other event or occurrence, (ii) any provision of any Transaction Document, or other document, instrument or agreement, including the ANPP Participation Agreement, (iii) any provision of the License or any other license or permit, or (iv) any Applicable Law, charter or by-law provision, Governmental Action or other impediment, including, without limitation, the bankruptcy or insolvency of the Lessee, either now or hereafter in effect; it being understood that the obligations of the Lessee under this clause (B) are and shall be absolute and unconditional. (C) In the event

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that (i) the Facility Lease shall have expired upon expiration (or early termination pursuant to Section 14(e) of the Facility Lease) of the Lease Term (other than in connection with an Event of Loss, Deemed Loss Event or Event of Default) and (ii) thereafter the Lessor shall (1) re-lease the Undivided Interest to any Person; or (2) retain the Undivided Interest; and sell power and energy from its Generation Entitlement Share through PNM, as agent, then after the Lessor has received (x) in the case of clause (1) above, gross rents in an aggregate amount (when discounted back to such Lease Termination Date at a rate per annum equal to the Prime Rate) equal to 20% of Facility Cost, or (y) in the case of clause (2) above, net electric revenues in an aggregate amount (discounted as aforesaid) equal to 20% of Facility Cost, the Lessor shall thereafter reimburse the Lessee in respect of the decommissioning obligation of the Lessee hereunder in an amount equal to any further rent received or proceeds received from the sale of power and energy to the extent that such rent or proceeds are attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi) with respect to the period from and after such Lease Termination Date (payable on an annual basis with respect to each year or portion thereof during the term of such lease referred to in clause (1) above or such agency period referred to in clause (2) above); provided, however, that when such amount has been paid the Lessor shall be relieved of all obligations to make further reimbursement to the Lessee for such purpose. (D) In the event that (i) the Facility Lease shall have expired upon the expiration (or early termination pursuant to Section 14(e) of the Facility Lease) of the Lease Term (other than in connection with an Event of Loss, Deemed Loss Event or Event of Default, (ii) the Lessor shall sell (other than in connection with the termination by the Lessee of the Facility Lease for

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obsolescence pursuant to Section 14 of the Facility Lease) the Undivided Interest to any Person (including the Lessee in connection with the exercise by the Lessee of the purchase option provided by Section 13(b) of the Facility Lease), and (iii) the net sales proceeds (discounted back to such Lease Termination Date at a rate per annum equal to the Prime Rate) received by the Lessor in connection therewith shall exceed 20% of Facility Cost (reduced by the percentage of Facility Cost, if any, actually realized by the Lessor pursuant to clause (C) above), then the Lessor shall reimburse the Lessee in respect of the decommissioning obligation of the Lessee hereunder in an amount equal to any net proceeds of such sale to the extent that such proceeds are attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi) with respect to the period from and after the date of such sale through the remaining useful life of Unit 1 (whereupon the reimbursement obligations of the Lessor under this Section 10(b)(3)(xi) shall terminate); provided, however, that any such reimbursement shall not reduce the amount of such net sales proceeds retained by the Lessor to an amount (discounted as aforesaid) equal to less than 20% of Facility Cost (reduced by the percentage of Facility Cost, if any, actually realized by the Lessor pursuant to clause (C) above). The reimbursement obligations of the Lessor under clauses (C) and (D) above are for the sole benefit of the Lessee, and no other Person shall be a third party beneficiary with respect thereto. In the event that the Lessee and the Lessor shall not agree as to the amount of gross rents, net electric revenues or net sales proceeds attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi), such amount shall be determined by the Appraisal Procedure. For purposes of determining Facility Cost under clauses (C) and (D) of this Section 10(b)(3)(xi), Facility Cost



shall be adjusted to reflect any inflation or deflation from the Closing Date to the time of the determination.

(xii) Acknowledgment and Agreement.

The Lessee hereby acknowledges and agrees to the provisions of Section 7(b)(4) of this Participation Agreement.

SECTION 11. Conditions Precedent.

(a) Owner Participant and Loan Participant Conditions. The obligation of (x) the Loan Participant to make the Loan on the Closing Date, and (y) the Owner Participant to make the Investment and the Real Estate Investment on the Closing Date, shall be subject to the fulfillment on or prior to the Closing Date of the following conditions precedent (each instrument, document, certificate or opinion referred to below to be in form and substance satisfactory to the Loan Participant and the Owner Participant):

(1) Notice of Closing; Transaction Documents. Each shall have received executed copies, or sets of executed counterparts, of (x) the Notice of Closing, and (y) each Transaction Document (other than the Tax Indemnification Agreement), the Mortgage Release, each Financing Document being executed on the Closing Date and such other documents as are contemplated by this Participation Agreement.

(2) Tax Indemnification Agreement. The Owner Participant shall have received an executed copy of the Tax Indemnification Agreement.

(3) Authentication Request, etc. The Owner Trustee shall have delivered to the Indenture Trustee (x) a request, dated the Closing Date, authorizing the Indenture Trustee to authenticate and deliver the Fixed Rate Notes to the Loan Participant upon its payment to the Indenture Trustee, for the account of the Owner Trustee, of the proceeds of the Loan, and (y) the Original of the Facility Lease.

(4) Due Authorization, Execution and Delivery. All of the documents described in clauses (1) and (2) of this Section 11(a) shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect on the Closing Date, and the Loan Participant and the Owner Participant shall have received evidence as to such authorization, execution and delivery.

(5) Fixed Rate Notes and Bond Transactions; Investment. In the case of the Loan Participant, (A) the Loan Participant shall have received the proceeds from the sale of the Series B Bonds as a result of the consummation of the transactions contemplated by the Underwriting Agreement, (B) the Owner Trustee shall have executed, and the Indenture Trustee shall have authenticated and delivered to the Loan Participant, the Fixed Rate Notes evidencing the Loan made on the Closing Date, (C) the Collateral Trust Trustee shall have accepted the Series B Supplemental Indenture and the related Supplemental Indenture of Pledge (as defined in the Series B Supplemental Indenture) and shall have released the amount of the Loan from the lien of the Collateral Trust Indenture, and (D) the Owner Participant shall have made the Investment and the Real Estate Investment on the Closing Date.

(6) Loan. In the case of the Owner Participant, the Loan Participant shall have made the Loan.

(7) ANPP Administrative Committee. The ANPP Administrative Committee shall have made the finding required by Section 15.6.2 of the ANPP Participation Agreement, and the Lessee shall have delivered evidence of such finding having been made.

(8) No Violation. The making by the Owner Participant of the Investment and the Real Estate Investment and by the Loan Participant of the Loan shall not violate any Applicable Law.

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(9) No Default. No Default or Event of Default or, in the case of the Loan Participant, Indenture Default or Indenture Event of Default, shall have occurred and be continuing.

(10) Recording and Filing. The financing statements under the Uniform Commercial Code and certain Transaction Documents, in each case as enumerated and described in Schedule 4, shall have been duly filed or recorded in the respective places or offices set forth in such Schedule and all recording and filing fees with respect thereto shall have been paid.

(11) Representations and Warranties of the Loan Participant. In the case of the Owner Participant, the representations and warranties of the Loan Participant set forth in Section 6(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Owner Participant shall have received an Officers' Certificate of the Loan Participant, dated the Closing Date, to such effect.

(12) Opinion of the Loan Participant's Counsel. In the case of the Owner Participant, it shall have received a favorable opinion of the Loan Participant's Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(13) Representations and Warranties of the Owner Participant. In the case of the Loan Participant, the representations and warranties of the Owner Participant set forth in Section 7(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant shall have received a certificate of an officer of the Owner Participant, dated the Closing Date, to such effect.

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(14) Opinion of the Owner Participant's Special Counsel. In the case of the Loan Participant, it shall have received a favorable opinion of the Owner Participant's Special Counsel, dated the Closing Date and addressed to the Loan Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents, as the Loan Participant may reasonably request.

(15) Representations and Warranties of the Owner Trustee. The representations and warranties of FNB and the Owner Trustee set forth in Section 8(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant and the Owner Participant shall have received a certificate from an officer of FNB and a certificate of the Owner Trustee, dated the Closing Date, to such effect.

(16) Opinion of the Owner Trustee's Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Owner Trustee's Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant may reasonably request.

(17) Representations and Warranties of the Indenture Trustee. The representations and warranties of the Indenture Trustee set forth in Section 9(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant and the Owner Participant shall have received a certificate of the Indenture Trustee, dated the Closing Date, to such effect.

(18) Opinion of the Owner Participant's Special NRC Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special NRC Counsel, dated the Closing

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Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(19) Representations and Warranties of the Lessee. (A) The representations and warranties of the Lessee set forth in Section 10(a), in each other Transaction Document, in the Underwriting Agreement and in each certificate or other document to which the Lessee is a party executed or delivered in connection with the transactions contemplated hereby or thereby shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date and (B) no Default, Event of Default, Deemed Loss Event or Event of Loss shall have occurred and be continuing and the Loan Participant and the Owner Participant shall have received an Officers' Certificate of the Lessee, dated the Closing Date, to such effect. Such Officers' Certificate shall state that there has been no material adverse change in the properties, business, prospects or financial condition of the Lessee since September 30, 1986, and no event has occurred since that date which would materially adversely affect the ability of the Lessee to perform its obligations under this Participation Agreement or any other Transaction Document to which it is or is to become a party.

(20) Opinion of the Lessee's Special Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's Special Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(21) Opinion of Lessee's General Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's General Counsel, dated the Closing Date and

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addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(22) Opinion of Lessee's Arizona Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's Special Arizona Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(23) Opinion of Owner Participant's Special Arizona Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special Arizona Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant shall reasonably request.

(24) Opinion of Owner Participant's Special New Mexico Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special New Mexico Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(25) Opinion of the Owner Participant's Special Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special Counsel, dated the Closing Date and addressed to the Owner Participant, with respect to such Federal tax and other tax matters as the Owner Participant may reasonably request.

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(26) Opinion of the Loan Participant's Counsel. The Loan Participant shall have received a favorable opinion of the Loan Participant's Counsel, dated the Closing Date and addressed to it, with respect to such matters as the Loan Participant shall reasonably request.

(27) Taxes. All Taxes, if any, payable in connection with the execution, delivery, recording and filing of the Transaction Documents and all the documents and instruments enumerated and described in Schedule 4, or in connection with the issuance and sale of the Fixed Rate Notes and the Series B Bonds and the making by the Owner Participant of the Investment and the Real Estate Investment, and all Taxes payable in connection with the consummation of the transactions contemplated hereby and by the other Transaction Documents, shall have been duly paid in full by the Lessee.

(28) Form U-7D. A certificate on Form U-7D with respect to the Facility Lease shall have been duly executed and delivered by the Owner Trustee and the Owner Participant and shall be in due form for filing.

(29) Appraisal. The Owner Participant shall have received a letter, dated the Closing Date and addressed to the Owner Participant, from the Appraiser containing an appraisal of the Undivided Interest, which appraisal shall reflect the Appraiser's reasonable conclusion that (w) the fair market value in the hands of the Owner Trustee of the Undivided Interest on the Closing Date, taking into account the effect and existence of the Real Property Interest, the Assignment and Assumption and the ANPP Participation Agreement, is equal to the Purchase Price as set forth in the Notice of Closing, (x) the estimated remaining economic useful life of Unit 1 (including the Undivided Interest) is at least 38 years, (y) at the expiration of the first two years of the Renewal Term the Undivided Interest will have an estimated residual value taking into account the effect and the existence of this Participation Agreement, the Real Property

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Interest, the Assignment and Assumption and the ANPP Participation Agreement, in the hands of the Owner Trustee or a Person (unrelated to the Lessee) who could lease or purchase the Undivided Interest from the Owner Trustee for commercial use, equal, to at least 20% of the Purchase Price, determined without including in such value any increase or decrease for inflation or deflation during the period from the Closing Date through the expiration of the first two years of the Renewal Term, and (2) taking into account the effect and the existence of the Real Property Interest, the Assignment and Assumption and the ANPP Participation Agreement, the use of the Undivided Interest at the Lease Termination Date by any User is feasible from an engineering and economic point of view and is commercially reasonable.

(30) Offering and Sale of Interest. The Loan Participant, the Owner Trustee and the Owner Participant shall have received a letter from each of Kidder Peabody and Goldman Sachs & Co. with respect to the offering and sale of the interests in the transactions contemplated by this Participation Agreement and each other participation agreement relating to an undivided interest in Unit 1.

(31) Extension Letter. The Extension Letter shall have been duly executed by the respective parties thereto and delivered to the Collateral Trust Trustee.

(32) Governmental Action. The Lessee shall have obtained all Governmental Actions (including, without limitation, the New Mexico Order and the FERC Order, which orders shall be final and non-appealable, and the NRC Order, which order shall be final) required or, in the opinion of the Owner Participant, advisable for the consummation of all the transactions contemplated by this Participation Agreement and the other Transaction Documents and the Financing Documents in accordance with their terms.

(33) Title Report; Title Insurance. The Owner Participant shall have received (i), an updated title

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report, dated the Closing Date, with respect to the nuclear plant site, which report does not disclose any exceptions materially adverse to the possession or operation of Unit 1 or the performance by the Lessee of its obligations under this Participation Agreement and the other Transaction Documents to which the Lessee is, or is to become, a party; and (ii) such title insurance policies with respect to the nuclear plant site and improvements thereon (including the Owner Trustee's interests therein) as it shall have reasonably requested, such policies to be in form and substance satisfactory to the Owner Participant.

(34) No Change or Proposed Change in Tax Laws. No change shall have occurred or been proposed in the Code or any other tax statute, the regulations thereunder or any interpretation thereof that would adversely affect the tax consequences anticipated by the Owner Participant with respect to the transactions contemplated by the Transaction Documents, unless the Lessee shall have agreed in writing to protect the Owner Participant, in the Tax Indemnification Agreement or otherwise, in a manner reasonably satisfactory to it, against the effect of such change or proposed change.

(35) Insurance. The Owner Participant shall have received a written report from its independent insurance consultant in form and substance satisfactory to the Owner Participant.

(36) Site Arrangement Plan. The Owner Participant's Special Counsel shall have received a site arrangement plan of the nuclear plant site prepared subsequent to January 1, 1979.

(37) Special Certificate of the Lessee. The Owner Participant shall have received a certificate of the Lessee, dated the Closing Date, to the effect that, except as set forth on the Schedule thereto, (A) Unit 1 has been in all material respects completed in a good and workmanlike manner and in accordance with the plans and specifications relating thereto (as the same may have been modified

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from time to time to reflect Unit 1 as actually completed), Applicable Law (including, but without limitation, the regulations of the NRC), the License and the ANPP Participation Agreement, (B) all Governmental Action necessary for the commercial operation of Unit 1 (including the Undivided Interest) have been received, other than Governmental Action that is routine in nature for PVNGS or that cannot be obtained under Applicable Law, or is typically not applied for, prior to the time it is required, and that the Lessee reasonably expects to be obtained in due course, (C) the plans and specifications relating to Unit 1 are complete in all material respects (modified or to be modified as aforesaid) and consistent with prudent engineering practice, (D) the testing and startup procedures for Unit 1 were and the operation and maintenance programs for Unit 1 are consistent with such plans and specifications, Applicable Law and prudent engineering practice, (E) Unit 1 has been tested in accordance with all customary testing and startup procedures which would have been performed on or prior to the Closing Date, and such tests and procedures indicate that Unit 1 will have the capacity and functional ability to perform in commercial operation, on a continuing basis, the function for which it is designed in accordance with such plans and specifications and has a nominal capacity of 1,270 megawatts electric, (F) all material Governmental Actions relating to the construction, operation or maintenance of Unit 1 are listed in a schedule to such certificate, (G) there is no present event or condition which would materially adversely affect the capability of Unit 1 to operate in accordance with such plans and specifications and (H) based upon the Lessee's present reasonable expectations, and subject to Applicable Law, the rights and interests made available to the ANPP Participants (including the Lessee) pursuant to the ANPP Participation Agreement, as such rights and interests are made available to the Owner Trustee, any successor or assign of the Owner Trustee or any "Transferee" of the Owner Trustee under Section 15.10 of the ANPP Participation Agreement, under and pursuant to this Agreement, the Deed, the

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Assignment of Beneficial Interest or the Assignment and Assumption, together with the rights to be made available under and pursuant to the Assignment and Assumption, are adequate to permit, during the period following the Lease Termination Date or the taking of possession of the Undivided Interest and the Real Property Interest in the exercise of remedies under Section 16 of the Facility Lease, in accordance with the ANPP Project Agreements (i) the construction, location, occupation, connection, maintenance, replacement, renewal, repair or removal of Unit 1, (ii) the use, operation and possession of Unit 1, (iii) the construction, use, operation, possession, maintenance, replacement, renewal and repair of all alterations, modifications, additions, accessions, improvements, appurtenances, replacements and substitutions thereof and thereto, (iv) adequate ingress to and egress from Unit 1 for any reasonable purpose in connection with the exercise of rights under the Assignment and Assumption and the Owner Trustee's or any transferee's ownership and possession of the Undivided Interest and (v) the obtaining of nuclear fuel, of water and of transmission services to the ANPP Switchyard sufficient to enable delivery of the Generation Entitlement Share related to the Undivided Interest in a commercially efficient manner and on commercially reasonable terms. Nothing in the foregoing clause (H) shall be deemed to be or be construed as a warranty by the Lessee as to the performance by the Operating Agent of its obligations under the ANPP Participation Agreement. Such certificate shall also be attested to by J.L. Wilkins, Senior Vice President, Power Supply, PNM Electric, who shall state that (i) he has made such investigation, inspection and review as he deems necessary to make the statements in the certificate and (ii) to the best of his knowledge, the statements of the Lessee in such certificate are true and correct.

(38) Real Estate Appraisal. The Owner Participant shall have received an appraisal of the Real Property Interest, which appraisal shall reflect the appraiser's reasonable conclusion that the fair market value in the hands of the Owner

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Trustee of the Real Property Interest on the Closing Date is equal to the Real Estate Investment. Such appraisal shall cover such other matters as the Owner Participant shall have requested.

(39) Other Unit 1 Leases. The Lessee shall have obtained the consent required by Section 10 (b) (3) (xii) of each of the three Participation Agreements dated as of December 16, 1985, relating to separate sale and leaseback transactions involving undivided interests in Unit 1 in respect of which the Lessee is lessee.

(40) Opinion of Lessee's FERC Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of Lessee's FERC Counsel, dated the Closing Date and addressed to each such Person, addressing such FERC matters as the Loan Participant or the Owner Participant may reasonably request.

(41) Other Matters. The Loan Participant and the Owner Participant shall have received such other documents, certificates and opinions as the Loan Participant or the Owner Participant, or their respective counsel, shall reasonably request.

(b) Lessee Conditions. The obligation of the Lessee to sell and lease back the Undivided Interest and the Real Property Interest on the Closing Date pursuant to Section 4 shall be subject to the fulfillment on or prior to the Closing Date of the following conditions precedent, in each case in form and substance satisfactory to the Lessee:

(1) Paragraph (a) Documents. The Lessee, the Owner Trustee and the Indenture Trustee shall have received executed copies of the documents, certificates, opinions (other than the opinion referred to in Section 11(a)(25)), appraisals, letters and forms described in paragraph (a) of this Section 11. All such opinions shall be addressed to the Lessee, the Owner Trustee and the Indenture Trustee except the opinions or documents to which reference is made in

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clauses (18), (23), (24) and (25) of said paragraph (a).

(2) Payment of Purchase Price. The Owner Trustee shall have paid to the Lessee an amount, in immediately available funds, equal to the Purchase Price and the Real Estate Investment.

(3) Special Opinion of the Lessee's Special Counsel. The Lessee shall have received a favorable opinion of the Lessee's Special Counsel, dated the Closing Date and addressed to the Lessee, with respect to such Federal tax and other matters as the Lessee may reasonably request.

(4) Accountant's Letter. The Lessee shall have received a letter satisfactory to it from Peat, Marwick, Mitchell & Co., to the effect that, under generally accepted accounting principles and FASB No. 13, the Facility Lease is an "operating lease".

(5) Changes in Pricing Assumptions. If any change or changes in the Pricing Assumptions shall have occurred on or before the Closing Date, the effect of such change or changes will not require the payment of Basic Rent (as to be adjusted pursuant to Section 3(e)(iii) of the Facility Lease) on an annual basis to exceed 11.7% of Facility Cost.

SECTION 12. Consent to Assignment of the Facility Lease; Consent to Indenture; Consent to Assignment of Notes.

(a) Consent to Assignment of Facility Lease. The Lessee hereby acknowledges, and consents in all respects to, the partial assignment of the Facility Lease by the Owner Trustee to the Indenture Trustee under and pursuant to the Indenture and agrees:

(i) to make each payment of Basic Rent and Supplemental Rent due or to become due thereunder to the extent constituting Assigned Payments (excluding, in any event, all Excepted Payments) directly to the Indenture Trustee at the Indenture Trustee's Office, so

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long as any of the Notes shall be Outstanding and unpaid; and

(ii) not to seek to recover any payment (other than a payment that both the Owner Trustee and the Lessee agree was made in mistake) made to the Indenture Trustee in accordance with the Indenture once such payment is made.

(b) Consent to Indenture. The Lessee hereby consents in all respects to the execution and delivery of the Indenture, and to all of the terms thereof, and the Lessee acknowledges receipt of an executed counterpart of the Indenture; it being understood that such consent shall not be construed to require the Lessee's consent to any future supplement to, or amendment, waiver or modification of the terms of, the Indenture or any Note, except to the extent expressly provided for.

(c) Consent to Assignment by Loan Participant. Each of the parties hereto acknowledges that the Loan Participant is assigning its right, title and interest in and to the Notes to the Collateral Trust Trustee as security for the Bonds to the extent set forth in the Collateral Trust Indenture, and each of the parties hereto consents to such assignment.

SECTION 13. Lessee's Indemnities and Agreements.

(a) General Indemnity. The Lessee agrees, whether or not any of the transactions contemplated hereby shall be consummated and whether or not the Facility Lease, any other Transaction Document or any Financing Document shall have expired or have been terminated, to assume liability for, and the Lessee does hereby agree to indemnify, protect, defend, save and keep harmless each Indemnitee, on an After-Tax Basis, from and against, any and all Claims which may be imposed on, incurred by or asserted against any Indemnitee (whether because of act or omission by such Indemnitee or otherwise and whether or not such Indemnitee shall also be indemnified as to any such Claim by any other Person) in any way relating to or

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arising out of (i) Unit 1, the Undivided Interest, the Real Property Interest, PVNGS or the PVNGS Site, or any part of any thereof (or any beneficial interest therein), any ANPP Project Agreement, the issuance or payment of the Bonds or the Notes, this Participation Agreement or any other Transaction Document or any Financing Document (including, without limitation, the performance or enforcement of any of the obligations and terms hereunder or thereunder), (ii) a disposition of all or any part of the Undivided Interest, the Real Property Interest, Unit 1 or any other interest of the Owner Trustee or Owner Participant in connection with any termination of the Facility Lease, or (iii) the design, manufacture, financing, erection, purchase, acceptance, rejection, ownership, acquisition, delivery, nondelivery, lease, sublease, preparation, installation, repair, transfer of title, abandonment, possession, use, operation, maintenance, condition, sale, return, storage, disposition, or decommissioning (including, but without limitation, with respect to the Termination Obligation) of the Undivided Interest, Unit 1, the Real Property Interest, any Capital Improvement, the PVNGS Site, any other facilities on the PVNGS Site or any other interest of the Owner Trustee or Owner Participant in any thereof or any accident, nuclear incident or extraordinary nuclear occurrence in connection therewith (including, without limitation, (A) claims or penalties arising from any violation of law or liability in tort (strict or otherwise) or from the active or passive negligence of any Indemnitee, (B) loss of or damage to any property or the environment or death or injury to any Person, (C) latent and other defects, whether or not discoverable, (D) any claim for patent, trademark, service-mark or copyright infringement and (E) any claim of any Indemnitee incurred in the administration of this Participation Agreement, any other Transaction Document or any Financing Document and not paid as Transaction Expenses or included in Facility Cost and, if not included in Transaction Expenses, the reasonable fees and disbursements of counsel and other professionals incurred in connection therewith); provided, however, that the Lessee shall not be required to indemnify any Indemnitee pursuant to this Section 13(a), (1) for any Claim in respect of Unit 1, the Undivided Interest or the Real Property Interest arising from acts or events

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not attributable to the Lessee which occur after redelivery of the Undivided Interest to the Owner Trustee in accordance with Section 5 of the Facility Lease, except to the extent expressly provided in any Transaction Document, the ANPP Participation Agreement or any other agreement or undertaking of the Lessee, (2) for any Claim against such Indemnatee resulting solely from acts which would constitute the willful misconduct or gross negligence of such Indemnatee (unless imputed to such Indemnatee by reason of Unit 1, the Undivided Interest, the Real Property Interest, PVNGS, the PVNGS Site or any other facilities at the PVNGS Site or any occurrence in connection with any thereof), (3) for any Transaction Expense to be paid by the Owner Trustee pursuant to Section 14(a) or (4) for any Claim resulting solely from a transfer by the Owner Trustee or the Owner Participant of all or part of its interest in the Facility Lease, Unit 1, the Real Property Interest or the Undivided Interest other than in connection with any early termination of the Facility Lease or any exercise of remedies under Section 16 thereof or the transfer contemplated by Section 7(b)(4) or the first transfer by the Owner Participant to an Affiliate of the Owner Participant. To the extent that an Indemnatee in fact receives indemnification payments from the Lessee under the indemnification provisions of this Section 13(a), the Lessee shall be subrogated, to the extent of such indemnity paid, to such Indemnatee's rights with respect to the transaction or event requiring or giving rise to such indemnity, but only so long as such subrogation shall not materially adversely affect the rights of such Indemnatee or any other Indemnatee hereunder. Nothing herein contained shall be construed as constituting a guaranty by the Lessee of the principal of or premium, if any, or interest on the Notes or the Bonds or of the residual value or useful life of the Undivided Interest.

(b) General Tax Indemnity.

(1) Indemnity. All payments by the Lessee in connection with the transactions contemplated by the Transaction Documents shall be free of withholdings of any nature whatsoever (and at the time that the Lessee is required to make any payment upon which

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any withholding is required, the Lessee shall pay an additional amount such that the net amount actually received by the Person entitled to receive such payment will, after such withholding, equal the full amount of the payment then due) and shall be free of expense to each Indemnatee for collection or other charges. If, for any reason, the Lessee is required to make any payment to a taxing authority with respect to, or as a result of, any withholding tax imposed on any Indemnatee in respect of the transactions contemplated by the Transaction Documents by reason of the Indemnatee not being a United States person, then such Indemnatee shall pay to the Lessee on an After-Tax Basis an amount which equals the amount paid by the Lessee with respect to or as a result of such withholding tax. Whether or not any of the transactions contemplated hereby is consummated, except as provided in Section 13(b)(2), the Lessee shall pay, and shall indemnify, defend and hold each Indemnatee harmless, on an After-Tax Basis, from and against, any and all Taxes howsoever imposed (whether imposed on or with respect to the Indemnatee, the Lessee, Unit 1, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site or any part thereof or interest therein or otherwise) by any Federal, state or local government or subdivision thereof or taxing authority in the United States or by any foreign country or subdivision thereof or by any foreign or international taxing authority in connection with or relating to (A) the design, construction, financing, purchase, acquisition, acceptance, rejection, delivery, nondelivery, transport, ownership, assembly, possession, repossession, operation, use, condition, maintenance, repair, improvement, sale, return, abandonment, decommissioning, preparation, installation, storage, replacement, redelivery, manufacture, insuring, leasing, subleasing, modification, transfer of title, rebuilding, rental, importation, exportation or other application or disposition of, or the imposition of any Lien (or incurrence of any liability to refund or pay over any amount as a result of any Lien other than Owner Participant's Liens and Owner Trustee's Liens) other than Owner Participant's Liens and Owner Trustee's Liens on,

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Unit 1, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site, or any part thereof or interest therein, (B) the payment of Rent or the receipts or earnings arising from or received with respect to, and the indebtedness with respect to, Unit 1, the Undivided Interest, the Real Property Interest or any Capital Improvement, or any part thereof, interest therein or application or disposition thereof, (C) any amount paid or payable pursuant to, or contemplated by, this Participation Agreement, any other Transaction Document or any Financing Document or the transactions contemplated hereby or thereby (D) Unit 1, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site, or any part thereof, or interest therein, or the applicability of the Facility Lease to the Undivided Interest or any Capital Improvement, or any part thereof or interest therein, (E) this Participation Agreement, any other Transaction Document or any Financing Document or (F) otherwise with respect to or in connection with the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document.

(2) Exclusions from General Tax Indemnity. Section 13(b)(1) (except for the first sentence thereof) shall not apply to:

(i) Taxes based on, or measured by, net income imposed by the United States federal government (including, without limitation, any minimum Taxes, capital gains Taxes, any Taxes on, or measured by, items of tax preference, surcharges, additions to tax, penalties, fines or other charges in respect thereof);

(ii) Taxes (other than sales, use or rental Taxes) imposed by any state or local government or subdivision thereof or other taxing authority in the United States or by any foreign country or subdivision thereof or by any foreign or international taxing authority that are based on, or measured by, the net income,

items of tax preference, net worth or capital of an Indemnatee, or other taxes imposed in lieu of any such Taxes, except, with respect to the Owner Trustee, the Trust, the Trust Estate, the Owner Participant and any Affiliate of any thereof, any such Taxes imposed by a jurisdiction as a result of a relation or asserted relation of such jurisdiction to the transactions contemplated by the Transaction Documents or the Financing Documents or as a result of the activities of the Lessee, any ANPP Participant or any Affiliate of any thereof in such jurisdiction; provided, however, that the amount of any such excepted Taxes shall be calculated (i) on a pro forma basis assuming that such Indemnatee has no other taxable income or loss in the taxing jurisdiction imposing the Tax (provided that such calculation shall take into account any allocation or apportionment method used by such jurisdiction except to the extent that such method takes into account the income or activities of business entities organized outside the United States) and is able to use any net operating loss carryovers (generated solely by reason of and solely attributable to the transactions contemplated by the Transaction Documents or the Financing Documents, and for this purpose a similar pro forma calculation shall be made) to the fullest extent, reasonably determined, in good faith, by the Indemnatee, and (ii) by taking into account any actual reduction in Taxes in such jurisdiction or in any other jurisdiction in which such Indemnatee is subject to tax (whether such reduction results from the operation of allocation or apportionment formulas, from credits or otherwise, except that no account shall be taken of any actual reductions of tax benefits described in the Tax Indemnification Agreement or any tax liability generated by transactions other than those contemplated by the Transaction Documents or the Financing Documents) which reduction results from the transactions contemplated by

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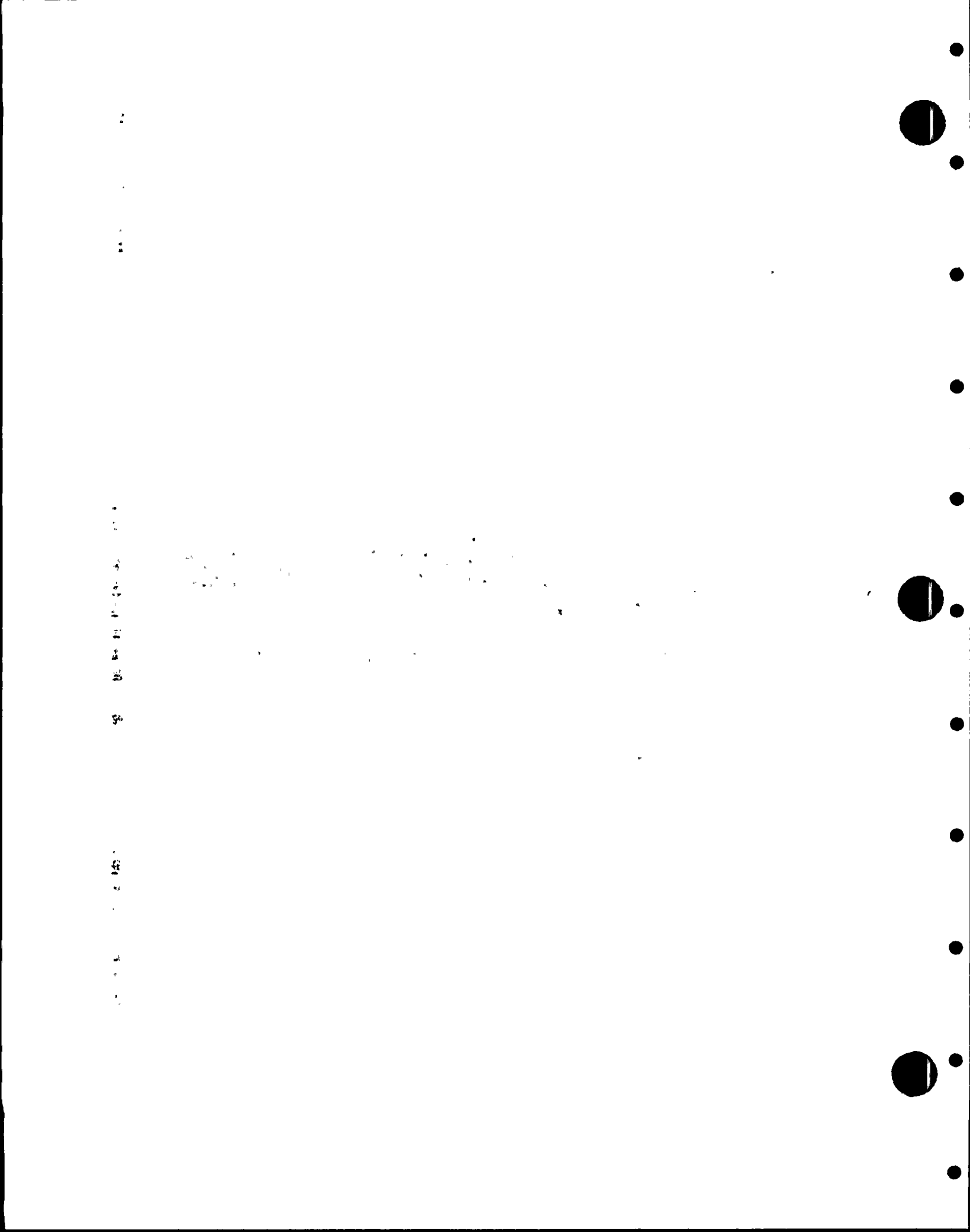
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the Transaction Documents or the Financing Documents; provided further, however, that, with respect to any Tax based on, or measured by, capital or net worth, the Lessee's indemnity obligation shall not exceed the incremental portion of such Tax attributable to the transactions contemplated by the Transaction Documents;

(iii) Taxes attributable to the Undivided Interest or the Real Property Interest to the extent that such Taxes are imposed with respect to any period after (a) the Lease Termination Date and (b) the date possession of the Undivided Interest and the Real Property Interest has been delivered to the Lessor as provided in Section 5(a) of the Facility Lease, unless such Taxes relate to events occurring or matters arising prior to or simultaneously with either of the aforementioned dates;

(iv) Taxes on or with respect to an Indemnatee arising from any voluntary transfer by such Indemnatee of any interest in the Undivided Interest, the Real Property Interest, the Trust Estate, the Indenture Estate, the Notes or any other right or interest arising under the Transaction Documents or the Financing Documents, unless an Event of Default has occurred and is continuing, or Taxes arising from an involuntary transfer by such Indemnatee of any such interest arising from a bankruptcy or similar proceeding in which such Indemnatee is the debtor unless such bankruptcy or other proceeding was caused, in whole or in part, by the Lessee or any Affiliate thereof;

(v) Taxes based on or measured by any fee, commission or compensation received by an Indemnatee for acting as trustee, or for other services rendered, in connection with any of the transactions contemplated by the



Transaction Documents or the Financing Documents;

(vi) Taxes on or with respect to an Indemnatee arising by reason of such Indemnatee's failure to file proper and timely reports or returns (unless the filing of such reports or returns is the obligation of the Lessee under the Transaction Documents or the Financing Documents) and any penalties or additions to tax imposed by reason of such Indemnatee's failure to comply with the laws imposing such Tax or its material failure to comply with its obligations under Section 13(b)(6), unless such failure results from any action of the Lessee or failure by the Lessee to comply with any provision of the Transaction Documents or the Financing Documents, including the failure to provide necessary information;

(vii) Taxes on or with respect to an Indemnatee arising as a result of a material failure of such Indemnatee to fulfill its obligations with respect to the contest of any claim in accordance with Section 13(b)(4) of this Participation Agreement;

(viii) Taxes imposed on or with respect to a transferee (or subsequent transferee) of an original Indemnatee (other than a transferee or subsequent transferee that is an Affiliate of its transferor) to the extent that the amount of such Taxes exceeds the amount of taxes that would have been imposed on or with respect to such original Indemnatee but for the transfer to such transferee or, if imposed, would not have been subject to indemnification under this Section 13(b); provided, however, that the exception in this clause shall not apply to any transferee where such transfer shall have occurred during the continuance of an Event of Default;

(ix) any Taxes imposed on the Lessor or the Owner Participant resulting from, or which would not have occurred but for, Lessor's Liens or Owner Participant's Liens and any Taxes imposed on the Indenture Trustee which would not have occurred but for Indenture Trustee's Liens;

(x) any Tax that results solely from the activities of an Indemnatee in any taxing jurisdiction which activities are unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents;

(xi) any Tax on or with respect to an Indemnatee resulting from any amendment or modification entered into by such Indemnatee to any Transaction Document or Financing Document if the Lessee is not a party to such amendment or modification or has not consented to such amendment or modification, in each case unless an Event of Default shall have occurred and be continuing; and

(xii) any Tax on or with respect to an Indemnatee resulting from the gross negligence or willful misconduct of such Indemnatee (it being understood that no Indemnatee is responsible for determining whether a Tax is payable if the Lessee is required to indemnify the Indemnatee for such Tax under this Section 13(b));

provided, however, that the foregoing subclauses (i) through (xii) shall not apply to any Tax imposed on the Loan Participant or the indenture estate under the Collateral Trust Indenture.

(3) Calculation of General Tax Indemnity Payments. If any Indemnatee realizes a net permanent tax benefit by reason of the payment of any indemnity under Section 13(b), such Indemnatee shall pay the Lessee, but not before the Lessee shall have made all payments theretofore due to such Indemnatee

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pursuant to this Section 13(b), an amount equal to the lesser of (x) the sum of such tax benefit plus any other net tax benefit realized by such Indemnatee as the result of any payment made by such Indemnatee pursuant to this sentence (determined in a manner consistent with the definition of After-Tax Basis set forth in Appendix A and with the last sentence of Section 13 (b)(6) hereof) or (y) the amount of such payment by the Lessee to such Indemnatee and any other payment by the Lessee to such Indemnatee theretofore made pursuant to this Section 13(b) less the aggregate amount of all prior payments by such Indemnatee to the Lessee pursuant to this clause (y) with respect to amounts paid pursuant to Section 13(b)(1), it being intended that no Indemnatee should realize a net tax benefit pursuant to this Section 13(b) unless the Lessee shall first have been made whole for any payments by it to such Indemnatee pursuant to this Section 13(b); provided, however, that in computing any permanent tax benefit, such Indemnatee shall be deemed first to have utilized all deductions and credits available to it otherwise than by reason of any payment by the Lessee pursuant to this Section 13(b); provided further, however, that notwithstanding the provisions of this clause (3), such Indemnatee shall not be obligated to make any payment to the Lessee pursuant to this clause (3) if at the time such payment shall be due an Event of Default shall have occurred and be continuing.

(4) General Tax Indemnity-Contests. If a written claim shall be made against any Indemnatee for any Tax for which the Lessee is obligated pursuant to this Section 13(b), such Indemnatee shall notify the Lessee promptly of such claim but the failure so to notify the Lessee shall not affect any obligation of the Lessee pursuant to this Section 13(b). If the Lessee shall reasonably request in writing within 30 days after receipt of such notice, such Indemnatee shall in good faith and at the Lessee's expense contest the imposition of such Taxes; provided, however, that such Indemnatee may in its sole discretion select the forum for such contest and determine whether any such contest shall be by

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(A) resisting payment of such Taxes, (B) paying such Taxes under protest or (C) paying such Taxes and seeking a refund thereof; provided further, however, that (W) such Indemnatee shall not be obligated to contest any claim in which the amount in question is less than \$250,000, (X) at such Indemnatee's option, such contest shall be conducted by the Lessee in the name of such Indemnatee (subject to the preceding proviso) and (Y) in no event shall such Indemnatee be required or the Lessee permitted to contest the imposition of any Taxes for which the Lessee is obligated pursuant to this Section 13(b) unless (u) the Lessee shall have acknowledged its liability to such Indemnatee for an indemnity payment pursuant to this Section 13(b) as a result of such claim if and to the extent such Indemnatee or the Lessee, as the case may be, shall not prevail in the contest of such claim; (v) such Indemnatee shall have received from the Lessee (i) satisfactory indemnity for any liability, expense or loss arising out of or relating to such contest including, but not limited to, (A) all reasonable legal, accountants' and investigatory fees and disbursements, (B) the amount of any interest, additions to tax or penalties that may be payable as a result of contesting such claim and (C) if such contest is to be initiated by the payment of, and the claiming of a refund for such Tax, sufficient funds to make such payment on an After-Tax Basis and (ii) an opinion of independent tax counsel selected by the Lessee and approved by such Indemnatee (which approval shall not be unreasonably withheld) and furnished at the Lessee's sole expense to the effect that a Reasonable Basis exists for contesting such claim or, in the event of an appeal, that there exists a substantial possibility that an appellate court or an administrative agency with appellate jurisdiction, as the case may be, will reverse or substantially modify the adverse determination that the Lessee desires to contest; (w) the Lessee shall have agreed to pay such Indemnatee on demand, and on an After-Tax Basis, all reasonable costs and expenses that such Indemnatee may incur in connection with contesting such claim (including, without limitation, all costs, expenses, losses, reasonable legal and accounting fees,

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disbursements, penalties, interest and additions to tax); (x) such Indemnitee shall have reasonably determined that the action to be taken will not result in any danger of sale, forfeiture or loss of, or the creation of any Lien (except if the Lessee shall have adequately bonded such Lien or otherwise made provision to protect the interests of such Indemnitee in a manner satisfactory to such Indemnitee) on, Unit 1, any part thereof, the Undivided Interest, the Real Property Interest, or any interest in any of the foregoing; and (y) if such contest shall be conducted in a manner requiring the payment of the claim, the Lessee shall have paid the amount required. The Lessee agrees to give such Indemnitee reasonable notice of any contest prior to the commencement thereof. If any Indemnitee shall obtain a refund of all or any part of any Taxes paid by the Lessee, or if any such refund would be payable to the Indemnitee in the absence of an offsetting liability for Taxes payable to the taxing authority in question, such Indemnitee shall pay the Lessee, but not before the Lessee shall have made all payments theretofore due to such Indemnitee pursuant to this Section 13(b), an amount equal to the lesser of (xx) the amount of such refund so received or receivable, including interest received or receivable and attributable thereto, plus any net permanent tax benefit realized by such Indemnitee (determined in a manner consistent with the definition of After-Tax Basis set forth in Appendix A and with the last sentence of Section 13(b)(6) hereof) as a result of any payment by such Indemnitee made pursuant to this sentence (but only to the extent that such net permanent tax benefit was not taken into account pursuant to Section 13(b)(3)), and after taking into account the tax consequences of the receipt of such refund and such interest) or (yy) such tax payment by the Lessee to such Indemnitee plus any other payment by the Lessee to such Indemnitee theretofore made pursuant to this Section 13(b), in either case, net of any expenses not already paid or incurred by the Lessee; provided, however, that in computing any net permanent tax benefit, such Indemnitee shall be deemed first to have utilized all deductions and

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disbursements, penalties, interest and additions to tax); (x) such Indemnitee shall have reasonably determined that the action to be taken will not result in any danger of sale, forfeiture or loss of, or the creation of any Lien (except if the Lessee shall have adequately bonded such Lien or otherwise made provision to protect the interests of such Indemnitee in a manner satisfactory to [such Indemnitee] on, Unit 1, any part thereof, the Undivided Interest, the Real Property Interest, or any interest in any of the foregoing; and (y) if such contest shall be conducted in a manner requiring the payment of the claim, the Lessee shall have paid the amount required. The Lessee agrees to give such Indemnitee reasonable notice of any contest prior to the commencement thereof. If any Indemnitee shall obtain a refund of all or any part of any Taxes paid by the Lessee, or if any such refund would be payable to the Indemnitee in the absence of an offsetting liability for Taxes payable to the taxing authority in question, such Indemnitee shall pay the Lessee, but not before the Lessee shall have made all payments theretofore due to such Indemnitee pursuant to this Section 13(b), an amount equal to the lesser of (xx) the amount of such refund so received or receivable, including interest received or receivable and attributable thereto, plus any net permanent tax benefit realized by such Indemnitee (determined in a manner consistent with the definition of After-Tax Basis set forth in Appendix A and with the last sentence of Section 13(b)(6) hereof) as a result of any payment by such Indemnitee made pursuant to this sentence (but only to the extent that such net permanent tax benefit was not taken into account pursuant to Section 13(b)(3)), and after taking into account the tax consequences of the receipt of such refund and such interest) or (yy) such tax payment by the Lessee to such Indemnitee plus any other payment by the Lessee to such Indemnitee theretofore made pursuant to this Section 13(b), in either case, net of any expenses not already paid or incurred by the Lessee; provided, however, that in computing any net permanent tax benefit, such Indemnitee shall be deemed first to have utilized all deductions and

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credits available to it otherwise than by reason of any payment by the Lessee pursuant to this Section 13(b); provided, further, however, that notwithstanding the provisions of this clause (4), such Indemnitee shall not be obligated to make any payment to the Lessee pursuant to this clause (4) if at the time such payment shall be due a Default or an Event of Default shall have occurred and be continuing under the Facility Lease. An Indemnitee shall not be required to make any payment pursuant to this clause (4) before such time as the Lessee shall have made all payments and indemnities then due under the Transaction Documents to such Indemnitee. Notwithstanding anything contained in this clause (4) to the contrary, no Indemnitee shall be required to contest any claim if the subject matter thereof shall be of a continuing nature and shall have previously been decided pursuant to the contest provisions of this clause (4) unless there shall have been a change in the law (including, without limitation, amendments to statutes or regulations, administrative rulings and court decisions) after such claim shall have been so previously decided, and such Indemnitee shall have received an opinion of independent tax counsel selected by the Lessee and approved by such Indemnitee (which approval shall not be unreasonably withheld) and furnished at the Lessee's sole expense to the effect that such change provides a Reasonable Basis for the position which such Indemnitee and the Lessee, as the case may be, had asserted in such previous contest or for an alternative position based upon such change that the Lessee now desires to assert. Nothing contained in this Section 13(b) shall require any Indemnitee to contest or permit the Lessee to contest a claim which it would otherwise be required to contest pursuant to this Section 13(b) if such Indemnitee shall waive payment by the Lessee of any amount that might otherwise be payable by the Lessee under this Section 13(b) by way of indemnity in respect of such claim. If the Lessee does not request that a Tax be contested pursuant to this paragraph (5), the Lessee shall pay the Indemnitee therefor unless such Tax

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was not included in the indemnification under Section 13(b)(1) or was excluded by Section 13(b)(2).

(5) General Tax Indemnity-Reports. If any report, return or statement is required to be filed with respect to any obligations of the Lessee under or arising out of this Section 13(b), the Lessee shall timely notify the Indemnatee and timely file the same, except for any such report, return or statement which such Indemnatee has notified the Lessee that it intends to file. The Lessee shall either file such report, return or statement so as to show the ownership of the Undivided Interest or the Real Property Interest, as the case may be, in the Owner Trustee and send a copy of such report, return or statement to the Owner Trustee and such Indemnatee or, where not so permitted, notify the Owner Trustee and such Indemnatee of such requirement and prepare and deliver such report, return or statement to the Owner Trustee and such Indemnatee in a manner satisfactory to the Owner Trustee and such Indemnatee within a reasonable time prior to the time such report, return or statement is to be filed or, where such return, statement or report shall be required to reflect items in addition to any obligations of the Lessee under or arising out of this Section 13(b), provide the Owner Trustee and such Indemnatee with information sufficient to permit such return, statement or report properly to be made with respect to any obligations of the Lessee under or arising out of this Section 13(b) (and the Lessee shall hold each Indemnatee harmless from and against any liabilities, obligations, losses, damages, penalties, claims, actions, suits and reasonable costs arising out of any insufficiency or inaccuracy in any such return, statement, report or information). The Lessee shall not have any right to examine the tax returns of any Indemnatee.

(6) General Tax Indemnity-Payment. All Taxes shall be paid when due and payable and, unless

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otherwise requested by the appropriate Indemnatee, the Lessee shall pay any Taxes for which it is liable pursuant to this Section 13(b) directly to the appropriate taxing authority and shall pay such appropriate Indemnatee promptly on demand in immediately available funds any amount due such Indemnatee pursuant to this Section 13(b) with respect to such Taxes. Any such demand shall specify in reasonable detail the payment and the facts upon which the right to payment is based. Each Indemnatee shall promptly forward to the Lessee any notice, bill or advice received by it concerning any Taxes. Within 30 days after the date of each payment by the Lessee of any Taxes, the Lessee shall furnish the appropriate Indemnatee the original or a certified copy of a receipt for the Lessee's payment of such Taxes or such other evidence of payment of such Taxes as is acceptable to such Indemnatee. The Lessee shall also furnish promptly upon request such data as any Indemnatee may require to enable such Indemnatee to comply with the requirements of any taxing jurisdiction. Whenever any payment is to be made by the Lessee under this Section 13(b) and it shall be necessary, in calculating the After-Tax Basis amount of such payment, to compute the amount of any liability for federal, state or local tax imposed on or measured by the net income of any Indemnatee, such computation shall be based on the assumption that such taxes shall be payable at the highest marginal statutory rate in effect for the relevant period.

(7) Definition of Indemnatee. For purposes of this Section 13(b), the term Indemnatee shall mean and include the successors and assigns of each respective Indemnatee, and for purposes of federal income taxes, the affiliated group of corporations and each member thereof (within the meaning of Section 1504 of the Code) of which such Indemnatee is a member, if such group shall file a consolidated United States federal income tax return, and, for purposes of income or franchise taxes imposed by a particular state or local taxing jurisdiction, shall

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mean and include any consolidated or combined group of which such Indemnatee is or shall be a member that is treated as such by such state or local taxing jurisdiction.

(c) Supporting Material. Upon receipt of any payment provided for by this Section 13, the Indemnatee receiving the same shall provide to the Lessee such supporting material (other than tax returns) as the Lessee shall reasonably request. The Lessee shall reimburse to any Indemnatee, on an After-Tax Basis, any expenses incurred in providing requested supporting material to the Lessee.

(d) Coordination with Tax Indemnification Agreement. Any amounts that the Lessee is liable to pay pursuant to this Section 13(b) shall be payable by the Lessee hereunder even if such Taxes are not the liability of the Lessee pursuant to the Tax Indemnification Agreement.

SECTION 14. Transaction Expenses.

(a) Transaction Expenses. Subject to the provisions of paragraph (c) below, with funds provided by the Owner Participant, the Owner Trustee hereby agrees that it will pay when due an appropriate portion (taking into account the other undivided interests in Unit 1 sold on December 31, 1985 and on August 1, 1986) of the following costs and expenses (Transaction Expenses):

(i) the reasonable legal fees and disbursements of the Loan Participant's Counsel, the Owner Participant's Special Arizona Counsel, the Owner Participant's Special New Mexico Counsel, the Owner Participant's Special Counsel, the Owner Participant's Special NRC Counsel, the Owner Trustee's Counsel and the Indenture Trustee's Counsel for their services rendered in connection with the execution and delivery of this Participation Agreement and the other Transaction Documents and all fees, expenses

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and disbursements incurred by them in connection with such transactions; and reasonable legal fees, expenses and disbursements in connection with NRC and ANPP Participant approvals in connection with such transactions;

(ii) the initial (but not the ongoing) fees and expenses of the Owner Trustee and the Indenture Trustee;

(iii) all stenographic, printing, reproduction, and other reasonable out-of-pocket expenses (other than investment banking or brokerage fees) incurred in connection with the execution and delivery of this Participation Agreement and the other Transaction Documents and all other agreements, documents or instruments prepared in connection therewith (including all computer analysis and travel related costs);

(iv) the fees of the Appraiser for services rendered as contemplated by Section 11(a)(29), the fees of the appraiser for services rendered as contemplated by Section 11(a)(38) and the fees of the insurance consultant for services rendered as contemplated by Section 11(a)(35);

(v) all costs of issue of the Series B Bonds including, without limitation, the costs of preparing the Financing Documents, filing fees relating to the Registration Statement and the fees, expenses and disbursements of Collateral Trust Trustee's Counsel, Loan Participant's special Arizona counsel and special New Mexico counsel, Underwriter's Counsel, the initial fees of the Collateral Trust Trustee and its out-of-pocket expenses, rating agency fees, the fees and commissions of the underwriters of the Series B Bonds and

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the fees, expenses and disbursements of the Loan Participant; and

(vi) the fees and out-of-pocket expenses of Kidder Peabody in connection with the placement of the beneficial interest in the Trust.

Subject to the provisions of paragraph (c) below, funds for the payment of Transaction Expenses will be provided by the Owner Participant to the Owner Trustee and the Owner Trustee will promptly disburse such funds.

(b) Post-Closing Expenses. The Lessee will pay, as Supplemental Rent, (i) the ongoing fees, expenses, disbursements and costs (including legal and other professional fees and expenses) of or incurred by the Owner Trustee, the Indenture Trustee and the Collateral Trust Trustee, including in connection with the issue, sale and purchase of Notes and Bonds after the Closing Date, and (ii) all fees, expenses, disbursements and costs (including legal and other professional fees and expenses) incurred by the Loan Participant, the Owner Participant, the Owner Trustee, the Indenture Trustee and the Collateral Trust Trustee in connection with (a) any Default, Event of Default, Indenture Default or Indenture Event of Default, (b) the entering into or giving or withholding of any amendment, modification, supplement, waiver or consent with respect to any Transaction Document or Financing Document, (c) any Event of Loss or Deemed Loss Event, (d) any transfer of all or any part of the right, title and interest of the Indenture Trustee in, to and under the Transaction Documents, (e) any transfer of all or any part of the right, title and interest of the Owner Trustee in the Undivided Interest, the Real Property Interest or in, to and under the Transaction Documents, and (f) any transfer contemplated by Section 7(b)(4).

(c) Lessee's Obligation. Notwithstanding Section 14(a) hereof, (i) in the event the transactions contemplated by this Participation Agreement shall not be consummated, the Lessee shall pay or cause to be paid, and shall indemnify and hold harmless the Loan



Participant, the Indenture Trustee, the Collateral Trust Trustee, the Owner Trustee and the Owner Participant in respect of all Transaction Expenses unless such failure to consummate shall result solely from the Owner Participant's default in making its Investment hereunder and (ii) the Lessee shall pay or cause to be paid that portion of Transaction Expenses which exceeds a percentage of the Purchase Price equal to 2.5%.

SECTION 15. Owner Participant's Transfers.

(a) Transfers. After the Closing Date, except as contemplated by Section 7(b)(4), the Owner Participant shall not assign, convey or otherwise transfer all or any part of (including without limitation an undivided interest in) its right, title or interest in and to this Participation Agreement, any of the other Transaction Documents or the Trust Estate (except its right to receive Excepted Payments) to any Person (a Transferee) except on the following conditions:

(i) the Transferee shall enter into an agreement or agreements whereby such Transferee confirms that (1) it shall be bound by the terms of this Participation Agreement and each other Transaction Document, to the extent of the interest transferred, as if it had been originally named as the Owner Participant hereunder and thereunder and (2) if such Transferee is a public utility company, it shall have waived its right to claim Special Casualty Value upon the occurrence of a Deemed Loss Event (of the type specified in clause (1) of the definition thereof) under the Facility Lease;

(ii) the Transferee shall be either (A) a financial institution, a corporation or a partnership with a net worth or capital and surplus of at least \$25,000,000 (or, in the case of a partnership, at least one of whose general partners has such a net worth or capital and surplus), or a direct or indirect

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wholly owned subsidiary of such a financial institution or corporation, (B) a direct or indirect wholly owned subsidiary of (1) the Owner Participant or (2) any parent of the Owner Participant, (C) the Lessee or such other Person as shall have been approved by the Lessee or (D) any Person; provided, however, that if the Transferee is a subsidiary referred to in clause (A) above or a Person referred to in clause (D) above, the transferring Owner Participant (and any parent thereof secondarily liable pursuant to this Section 15(a)(ii)) shall continue to be liable for (or the parent of such Transferee, which shall otherwise be a permitted Transferee, shall enter into an agreement whereby such parent confirms that it shall be secondarily liable for) the obligations of such Transferee under Section 7(b)(1) notwithstanding such transfer; and

(iii) such transfer shall not violate the Securities Act or any provision of, or create a relationship which would be in violation of, any Applicable Law or agreement to which the transferring Owner Participant or the Transferee is a party or by which its property is bound.

Upon any such transfer, the transferring Owner Participant shall, except as expressly provided in clause (ii) above, be released from its obligations under this Participation Agreement and the other Transaction Documents to the extent of the interest transferred. An agreement to transfer shall not in and of itself constitute a transfer for purposes of this Section 15.

(b) Procedure. If the Owner Participant transfers all or any part of its interest hereunder pursuant to this Section 15, it shall give written notice thereof to the Lessee, the Owner Trustee, the Indenture Trustee and the Loan Participant, specifying the name and

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address for notices to the Transferee, such other information and evidence as shall be necessary to establish compliance with this Section 15 and the extent of the interest transferred to such Transferee. If, as a result of any such transfer, the original Owner Participant is not to continue to receive all payments to be made by the Indenture Trustee to the "Owner Participant" under the Indenture, the original Owner Participant shall from time to time, by notice to the Indenture Trustee, with copies to the Lessee, the Owner Trustee and the Collateral Trust Trustee, designate the manner in which any such payments to the "Owner Participant" are to be allocated, and the Indenture Trustee shall be entitled to rely on such notice for all purposes. This Section 15 (other than the notice provisions contained in the first sentence of this Section 15(c)) is for the benefit of the Lessee, the Owner Trustee and the Owner Participant and may not be enforced by any other party hereto.

SECTION 16. Brokerage and Finders' Fees and Commissions.

Except to the extent of amounts payable by the Owner Participant pursuant to Section 14, the Lessee will indemnify and hold harmless the Loan Participant, the Indenture Trustee, the Owner Trustee and the Owner Participant in respect of any commissions, fees, judgments or other expenses of any nature and kind which any of them may become liable to pay by reason of any claims by or on behalf of brokers, finders, agents, advisors or investment bankers in connection with the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document, or any litigation or similar proceeding arising from any such claim, other than those claims arising out of written undertakings of the party claiming indemnification under this Section 16 or any Affiliate or shareholder (or Affiliate of such shareholder) of such Person with any such broker, finder, agent, advisor or investment banker.

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SECTION 17. Survival of Representations and Warranties; Binding Effect.

(a) Survival. All indemnities, representations and warranties contained in this Participation Agreement, in any other Transaction Document, in any Financing Document and in any agreement, document or certificate delivered pursuant hereto or thereto or in connection herewith or therewith, shall survive, and shall continue in effect following, the execution and delivery of this Participation Agreement, the making of the investments and the loans referred to herein, any disposition of any interest in the Undivided Interest, Unit 1 or any other property referred to in this Participation Agreement and the expiration or other termination of any of the Transaction Documents or Financing Documents and shall be and continue in effect notwithstanding (i) any investigation made by the Owner Participant or the Loan Participant or (ii) the fact that any of the Indenture Trustee, the Owner Trustee, the Loan Participant or the Owner Participant may waive compliance with any of the other terms, provisions or conditions of any of the Transaction Documents or Financing Documents. The obligations of the Lessee under Sections 10(b)(1)(ix), 10(b)(2), 10(b)(3)(vii), 10(b)(3)(x), 10(b)(3)(xi), 13, 14, 16 and 19(f) shall survive the expiration or other termination of this Participation Agreement or any other Transaction Document or Financing Document. The extension of any applicable statute of limitations by the Owner Trustee, the Indenture Trustee, the Lessee, the Owner Participant, the Loan Participant or any Indemnatee shall not affect such survival.

(b) Binding Effect. All agreements, representations and warranties in this Participation Agreement, the other Transaction Documents and the Financing Documents and in any agreement, document or certificate delivered concurrently with the execution of this Participation Agreement or from time to time thereafter, shall bind the party making the same and its successors and permitted assigns and shall inure to the benefit of each party for whom made and its successors and

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permitted assigns, and, to the extent provided in the next sentence, each Indemnatee and its successors and assigns. The obligations of the Lessee under Section 13 hereof and Section 20 of the Facility Lease are expressly made for the benefit of, and shall be enforceable by, any Indemnatee, separately or together, without declaring the Facility Lease to be in default and notwithstanding any assignment by the Lessor of the Facility Lease or any of its rights thereunder or any disposition of all or any part of any interest in the Undivided Interest, the Real Property Interest, Unit 1 or any other property referred to in this Participation Agreement, or in this Participation Agreement or any other Transaction Document or any Financing Document. All payments required to be made pursuant to Section 13 hereof shall be made directly to, or as otherwise requested by, the Indemnatee entitled thereto upon written demand by such Indemnatee. The Lessee shall not assign any of its rights or obligations hereunder without the prior written consent of the Owner Participant and the Owner Trustee. Except as otherwise indicated, all references herein to any party to this Participation Agreement and the other Transaction Documents shall include the permitted successors and assigns of such party.

SECTION 18. Notices.

All communications, notices and consents provided for herein shall be in writing, including telex, telecopy or other wire transmission containing a request for assurance of receipt in a manner typical with respect to communications of that type, or mailed by registered or certified mail, personally delivered (with signed receipt of an officer of the Owner Participant in the case of delivery to the Owner Participant) or delivered by express delivery service, and shall be addressed (i) if to the Owner Participant, at One Chase Manhattan Plaza (20th floor), New York, New York 10081, Attention of Leasing Administrator; (ii) if to First PV Funding Corporation at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, Attention of President; (iii) if to The First National Bank of

Boston, at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporation Trust Division; (iv) if to Chemical Bank, at 55 Water Street, New York, New York 10041, Attention of Corporate Trustee Administration; and (v) if to Public Service Company of New Mexico, at Alvarado Square, Albuquerque, New Mexico 87158, Attention: Secretary; or at such other address as any party hereto may from time to time designate by notice duly given in accordance with the provisions of this Section to the other parties hereto. All such communications, notices and consents given in the manner provided above shall be effective on the date of receipt of such communication or notice.

SECTION 19. Miscellaneous.

(a) Execution. This Participation Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. Although this Participation Agreement is dated as of the date first above written for convenience, the actual dates of execution hereof by the parties hereto are respectively the dates set forth under the signatures hereto, and this Participation Agreement shall be effective on the latest such date.

(b) Intention of the Owner Trustee and the Owner Participant. Each of the Owner Trustee and the Owner Participant intends to exercise its rights and carry out its obligations hereunder and under the other Transaction Documents solely with a view to furthering its own best interests and does not have, and does not expect to have, any form of joint profit motive with any other Person. The Owner Trustee and the Owner Participant shall not be required to share any Rent to which they are entitled under the Facility Lease, or the residual value of the Undivided Interest or the Real Property Interest, with any other Person. The Owner Trustee and the Owner Participant are not under the control of nor shall they be deemed to be under the

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control of any other Person having any interest in Unit 1, and shall not be the agent of or have a right or power to bind any such Person (other than the Owner Participant as regards the Owner Trustee) without its express written consent. The Owner Trustee and the Owner Participant accordingly do not intend to create any form of partnership or joint venture with any other Person by virtue of the transactions contemplated hereby or by any of the Transaction Documents. In the event that it is determined, contrary to the intent of the Owner Trustee and the Owner Participant, that, for purposes of the Code or any other income tax law, a form of partnership or joint venture exists between the Owner Trustee or the Owner Participant and any other Person, the Owner Trustee and the Owner Participant hereby elect to the extent permitted by law (i) not to have the partnership provisions of the Code or such other income tax law apply to any of the transactions contemplated hereby or by any of the Transaction Documents and (ii) to be treated solely as owning the Undivided Interest.

(c) Governing Law. This Participation Agreement has been negotiated and delivered in the State of New York and shall be governed by, and be construed in accordance with, the laws of the State of New York.

(d) Amendments, Supplements, etc. Neither this Participation Agreement nor any of the terms hereof may be amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against which enforcement of such change is sought.

(e) Headings. The headings of the sections and paragraphs of this Participation Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

(f) Bankruptcy of Owner Participant. If
(a) the Owner Participant or the Owner Trustee becomes a debtor subject to the reorganization provisions of the Bankruptcy Code, or any successor provision,
(b) pursuant to such reorganization provisions the Owner

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Participant or the Owner Trustee is required, by reason of the Owner Participant being held to have recourse liability directly or indirectly to the Holder of any Note or the Indenture Trustee, to make payment on account of any amount payable as principal or interest, and premium (if any), on such Note and (c) such Holder or the Indenture Trustee actually receives any Excess Amount (as hereinafter defined) which reflects any payment by the Owner Participant on account of clause (b) of this Section, then such Holder or the Indenture Trustee, as the case may be, shall promptly refund to the Owner Participant such Excess Amount. For purposes of this Section, "Excess Amount" means the amount by which such payment exceeds the amount which would have been received on or prior to the date of such payment by such Holder or the Indenture Trustee if the Owner Participant or the Owner Trustee had not become subject to the recourse liability referred to in clause (b) of this Section. Nothing contained in this Section shall prevent such Holder or the Indenture Trustee from enforcing any personal recourse obligation (and retaining the proceeds thereof) of the Owner Participant expressly provided for under this Participation Agreement.

(g) Entire Agreement. This Participation Agreement (including the Schedules hereto), the other Transaction Documents and the Financing Documents supersede all prior agreements, written or oral, between or among any of the parties hereto relating to the transactions contemplated hereby and thereby and each of the parties hereto represents and warrants to the others that this Participation Agreement and the other Transaction Documents and the Financing Documents constitute the entire agreement among the parties relating to the transactions contemplated hereby and thereby.

(h) Publicity. Each party hereto agrees that it will not issue or release for external publication any article or advertising or publicity matter relating to the transaction contemplated hereby or any similar transaction and mentioning or implying the identity of the Owner Participant without the prior written consent

of the Owner Participant; provided, however, that the Owner Participant agrees that such written consent shall not be withheld if such disclosure is required by Applicable Law.

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IN WITNESS WHEREOF, the parties hereto have each caused this Participation Agreement to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHASE MANHATTAN REALTY
LEASING CORPORATION

By M. Sprague, Jr.
Vice President

Date: December 17, 1986

FIRST PV FUNDING CORPORATION

By
Vice President

Date: December , 1986

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By Lee Reynolds
Vice President and Treasurer

Date: December 16, 1986

THE FIRST NATIONAL BANK OF
BOSTON, in its individual
capacity and as Owner
Trustee

By: 

Assistant Vice President

Date: December __, 1986

CHEMICAL BANK, in its indi-
vidual capacity and as
Indenture Trustee

By: 

Vice President

Date: December __, 1986

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Schedule 1

PUBLIC SERVICE COMPANY OF NEW MEXICO

PALO VERDE NUCLEAR GENERATING
STATION UNIT 1

NOTICE OF CLOSING

CHASE MANHATTAN REALTY LEASING CORPORATION

Pursuant to Section 5(a) of the Participation Agreement, dated as of December 15, 1986 (the Participation Agreement) among Chase Manhattan Realty Leasing Corporation, as Owner Participant (the Owner Participant), First PV Funding Corporation, as Loan Participant, The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, and Public Service Company of New Mexico (PNM), PNM hereby gives notice of a Closing to occur at 10:00 a.m. on December 17, 1986 (the Closing Date). The Closing will be held at the offices of Messrs. Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

(i) Based upon information supplied to PNM, the current estimate of Transaction Expenses is an aggregate of \$. A list of such transaction expenses is attached hereto.

(ii) Payment of the Purchase Price and the purchase price for the Real Property Interest shall be made pursuant to an Omnibus Transfer Instruction and Receipt to be executed by all parties to the Participation Agreement on the Closing Date.

(iii) The Real Estate Investment is \$_____.

Figure 1

[illegible]

Capitalized terms used herein and not otherwise specifically defined herein shall have the meanings set forth in Appendix A to the Participation Agreement.

IN WITNESS WHEREOF, Public Service Company of New Mexico has executed this Notice of Closing this 10th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By _____
Senior Vice President and
Chief Financial Officer

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Schedule 2

PRICING ASSUMPTIONS

Basic Rent and the schedules of Casualty Values, Special Casualty Values and Termination Values, as set forth in the Facility Lease as originally executed*, have been computed on the basis of the following pricing assumptions:

1. Investment Percentage: 20%
2. Loan Percentage: 80%
3. Interest Rate on:
 - (a) Fixed Rate Note due January 15, 1992 (\$3,300,000) 8.05%
 - (b) Fixed Rate Note due January 15, 1997 (\$8,060,000) 8.95%
 - (c) Fixed Rate Note due January 15, 2015 (\$48,640,000) 10.15%
4. Federal ACRS Deductions: 10-year public utility property deductions on the basis of 100% of Facility Cost.
5. State and City Deductions: 16 Year 150% declining balance switching to straight line at the optimal point, using the half year convention, on the basis of 100% of Lessor's Cost.

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|---|---|
| 6.Owner Participant's Tax
Year-End: | December 31, 1986. |
| 7.Closing Date: | December 17, 1986. |
| 8.Transaction Expenses: | 1.5% of Facility
Cost paid by the
Owner Participant in
addition to its
Investment
(amortized on a
straight-line basis
during the Basic
Lease Term). |
| 9.Real Estate Investment: | \$41,903. |
| 10.Basic Rent Payment Date: | January 15 and
July 15 of each year
(rent payable in
arrears). |
| 11.First Basic Rent Payment
Date: | July 15, 1987. |
| 12.Last Basic Rent Payment
Date: | January 15, 2015. |
| 13.Interim Rent Payment Date: | January 15, 1987. |
| 14.Marginal Federal Tax Rate: | 46% in 1986;
39.950685% in 1987;
and 34% in 1988. |
| 15.Marginal Combined New York
State and City Tax Rate: | 8.6% deductible for
Federal taxes. |
| 16.First Estimated Tax Payment
Date: | March 15, 1987. |
| 17.Tax Accounting Method: | Accrual. |

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18. Amortization of the Fixed
Rate Notes:

See Schedules
attached thereto.

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Schedule 3

BILL OF SALE AND ASSIGNMENT

BILL OF SALE AND ASSIGNMENT

dated as of _____, 19__

from

[CHASE MANHATTAN REALTY LEASING CORPORATION]

to

PUBLIC SERVICE COMPANY OF NEW MEXICO

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BILL OF SALE AND ASSIGNMENT, dated as of _____, 19__, from [CHASE MANHATTAN REALTY LEASING CORPORATION], a New York corporation (the Owner Participant), to PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM).

W I T N E S S E T H:

WHEREAS, pursuant to Section 7(b)(4) of the Participation Agreement dated as of December 15, 1986 (relating to Unit 1) among the Owner Participant, First PV Funding Corporation, as Loan Participant, The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee and PNM, as Lessee, (the Participation Agreement), the Owner Participant desires to sell and PNM desires to buy the Assigned Property (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. For purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in the Participation Agreement. References in this Agreement to articles, sections and clauses are to articles, sections and clauses in this Agreement unless otherwise indicated.

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ARTICLE II

ASSIGNMENT OF TRUST ESTATE

SECTION 2.01. Assignment. The Owner Participant does hereby grant, bargain, convey, sell, assign, transfer and set over to PNM, without recourse, representation or warranty, express and implied, of any nature whatsoever (except as set forth in the next succeeding sentence), all of the Owner Participant's right, title and interest in, to and under the Trust Estate except the Owner Participant's right to receive Excepted Payments (the Assigned Property) [subject to the Owner Participant's security interest in, and general lien upon all of the right, title, and interest of PNM, as successor Owner Participant in, to and under the Assigned Property*]. The Owner Participant hereby represents and warrants to PNM that the Owner Participant has good and valid title to Assigned Property free and clear of all Owner Participant's Liens.

[Insert the following provision if the Owner Participant has not received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16(e) of the Facility Lease, as the case may be:

SECTION 2.02. No Release of PNM. Notwithstanding the transfer of the Assigned Property to PNM pursuant to Section 2.01 hereof, the obligation of PNM to make the payments as provided in Section [insert applicable section: 9(c), 9(d) or 16] of the Facility Lease (together with interest thereon in accordance with Section 3(b)(iii) of the Facility Lease) (or to make other payments in a like amount with respect to Basic Rent or Supplemental Rent paid by application of such payments (and in which the Owner Trustee has thereby acquired an interest pursuant to Section 5.1 or 5.3 of

* To be inserted if on the date of the transfer the Owner Participant has not received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be.

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the Indenture) shall not be deemed to be cancelled or discharged but shall continue until all such amounts are so received by PNM, as successor Owner Participant, or by the transferring Owner Participant pursuant to the provisions of Section 7(b)(4) of the Participation Agreement.]

[Insert following if the Owner Participant has received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be:

SECTION 2.02. Acknowledgement. The Owner Participant hereby acknowledges receipt of \$_____ representing payment in full of all amounts due to the Owner Participant under Section [9(c), 9(d) or 16] of the Facility Lease.

ARTICLE III

EFFECTIVENESS OF TRANSFER

SECTION 3.01. Effectiveness of Transfer. The transfer of the Assigned Property shall become effective without further action upon the execution and delivery by the Owner Participant to the Lessee of this Bill of Sale and Assignment and the furnishing of a counterpart of this Bill of Sale and Assignment to the Owner Trustee.

ARTICLE IV

MISCELLANEOUS

SECTION 4.01. Successors and Assigns. This Bill of Sale and Assignment shall be binding upon the Owner Participant and its successors and shall inure to the benefit of PNM and its successors and assigns.

SECTION 4.02. Governing Law. This Bill of Sale and Assignment shall be governed by and construed and enforced in accordance with the law of the State of New York.

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SECTION 4.03. Headings. The division of this Bill of Sale and Assignment into sections, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Bill of Sale and Assignment.

IN WITNESS WHEREOF, the undersigned has caused this Bill of Sale and Assignment to be duly executed as of the day and year written above.

[CHASE MANHATTAN REALTY
LEASING CORPORATION]

By _____
Title:

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Schedule 4

Recordations and Filings

Part I. Recordations in Respect of the Sale of, and the Owner Trustee's Title to, the Undivided Interest and the Real Property Interest.

A. County Recorder, Maricopa County, Arizona:

- (i) Deed;
- (ii) Bill of Sale;
- (iii) Assignment and Assumption;
- (iv) Facility Lease;
- (v) Indenture;
- (vi) Indenture of Partial Release/
Facility; and
- (vii) Indenture of Partial Release/Real
Property.

Part II. UCC-1 Financing Statements.

A. County Recorder, Maricopa County, Arizona:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A financing statement amendment on form UCC-2 reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

B. Secretary of State, Arizona:

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(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease [Filed as a public utility filing];

(iii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iv) A financing statement amendment on form UCC-2 reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

C. Office of County Clerk, Bernalillo County, New Mexico:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A UCC financing statement amendment reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

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D. Secretary of State, New Mexico:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A UCC financing statement amendment reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

E. Secretary of State, Massachusetts:

(i) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate.

Part III. Other Filings:

Filing of the Indenture with the Secretary of State of the State of New Mexico pursuant to the New Mexico Public Utility Act.

Schedule 5

AFFIDAVIT OF TRUSTEE

THE FIRST NATIONAL BANK OF BOSTON,
as Owner Trustee under that certain
Trust Agreement dated as of
December 15, 1986 with Chase
Manhattan Realty Leasing Corporation

The undersigned, being a duly authorized representative of The First National Bank of Boston, a national banking association, as Trustee under the above-captioned Trust Agreement (the Trust Agreement), does hereby affirm and acknowledge that The First National Bank of Boston, as Trustee, holds legal title to certain real (and other) property on behalf of a certain beneficiary, such property and beneficiary being more particularly described in that certain Deed recorded December , 1986, as instrument No. 86-_____, records of Maricopa County, Arizona; being further described in that certain Deed and Bill of Sale recorded December , 1986, as instrument No. 86-_____, records of Maricopa County, Arizona; being further described in that certain Assignment, Assumption and Further Agreement recorded December , 1986, as instrument No. 86-_____, records of Maricopa County, Arizona; and being further described in that certain Deed and Assignment of Beneficial Interest dated December , 1986, and that certain related _____ Amended Affidavit of Trustee executed by Title USA Company of Arizona as Trustee of its Trust No. 530 and recorded December , 1986, as instrument No. 86-_____, records of Maricopa County, Arizona; the property descriptions and beneficiary disclosures contained in or incorporated into each of said instruments being incorporated herein by this reference as if fully set forth herein.

A certain change in ownership of the beneficial interest in the Trust Agreement has occurred since the recordation of the above-described instruments. As now reflected in the records of The First National Bank of Boston, the sole beneficiary of the Trust Agreement is:

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Appendix A

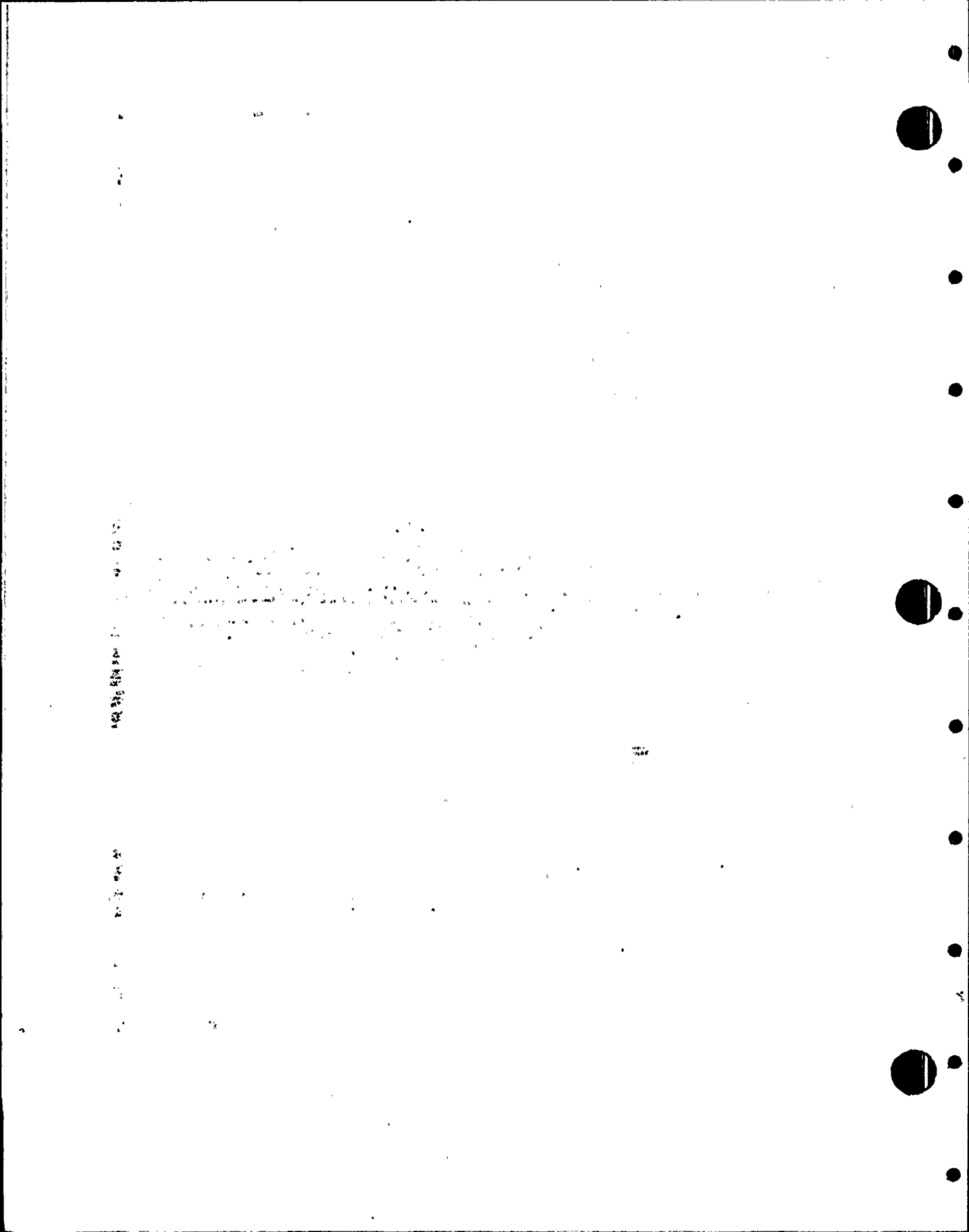
DEFINITION OF TERMS

The terms defined herein relate to the Participation Agreement (as defined below) and certain Transaction Documents executed, or to be executed, in connection with the Participation Agreement. Such terms include the plural as well as the singular. Any agreement defined or referred to below shall include each amendment, modification and supplement thereto and waiver thereof as may become effective from time to time, except where otherwise indicated. Any term defined below by reference to any agreement shall have such meaning whether or not such document is in effect. The terms "hereof", "herein", "hereunder" and comparable terms refer to the entire agreement with respect to which such terms are used and not to any particular article, section or other subdivision thereof.

If, and to the extent that, either the Participation Agreement or any other Transaction Document which incorporates this Appendix shall be amended from time to time pursuant to the respective terms thereof, this Appendix shall be, or be deemed to have been, amended concurrently with the execution and delivery of each such amendment in order to conform the definitions herein to the new or amended definitions set forth in or required by each such amendment.

Acceptable Change shall mean any change in or new interpretation by Governmental Authority having jurisdiction of the Price-Anderson Act or the Atomic Energy Act (or the regulations of the NRC relating thereto) if, after giving effect to such change or new interpretation:

(A) (a) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed \$6.563 billion (assuming 101 operating nuclear facilities participating in the deferred premium or similar plan referred to in clause (c) below and subject to adjustment in an amount not exceeding (X) \$63 million for each increase or decrease in said



number of operating nuclear facilities and (Y) the aggregate of all changes in such "aggregate liability" to reflect the effects of inflation contemplated pursuant to clause (c) below);

(b) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed the sum of, without duplication, (X) the amount of insurance coverage available from commercial insurance underwriters on terms substantially equivalent (in the reasonable opinion of the Owner Participant) to the terms in effect on the Closing Date under Applicable Law and required to be maintained by each licensee with respect to any single nuclear facility, and (Y) the maximum aggregate amount payable with respect to a single "nuclear incident" by all licensees of nuclear facilities participating in any deferred premium or similar plan required under Applicable Law, by more than \$40 million.

(c) the amount payable by all licensees of a single nuclear facility with respect to such facility under any deferred premium or similar plan required under Applicable Law shall not exceed \$63 million per "nuclear incident" (subject to an annual adjustment upward for each calendar year after the enactment of a change in the Price-Anderson Act (if such change increases the standard deferred premium) by an amount equal to, if specified by such change or otherwise by Applicable law, (X) the annual percentage change during the immediately prior calendar year in the implicit price deflator for the Gross National Product published by the United States Department of Commerce or (Y) the annual percentage change in the consumer price index since the immediately prior calendar year; provided, however, that (i) in the event that

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Applicable Law shall not specify an inflation adjustment, then the inflation adjustment permitted by this parenthetical shall be that specified in the preceding sub-clause (X) and (ii) in the event that Applicable Law shall specify a standard deferred premium below \$63 million, the inflation adjustment factor shall not be available to increase the standard deferred premium permissible under this clause (c) beyond \$63 million until such lower deferred premium (as so inflated) equals or exceeds \$63 million);

(d) the amount payable by all licensees of a single nuclear facility with respect to such facility in any one year with respect to any one "nuclear incident" under any deferred premium or similar plan required under Applicable Law shall not exceed \$12 million;

(e) insurance or other financial protection shall be in effect under which the providers of such insurance or other financial protection shall agree to pay any amount payable by any licensee under any deferred premium or similar plan upon a default in such payment by such licensee up to a maximum aggregate amount for all such defaults in payment of not less than \$30 million;

(f) a provision shall be included (X) which authorizes (whether or not subject to appropriation acts) the NRC or other Governmental Authority to borrow from the United States Treasury (1) to make payments on behalf of any licensees under any deferred premium or similar plan and (2) to make payments to claimants in the event that funds available to pay valid claims in any year are insufficient as a result of any limitation on the amount of deferred premiums that may be required of a licensee under Applicable Law (in both cases the reimbursement obligation of such licensees

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in any calendar year shall not exceed \$12 million, plus interest), or (Y) which makes the exclusive source of payments for public liability claims the funds provided by financial protection required by Applicable Law and, where appropriate, funds provided as a result of NRC or other Governmental Authority borrowings or (Z) which establishes another mechanism under which the maximum potential liability of all Persons during any calendar year as a result of a "nuclear incident" shall not exceed the amount of insurance or other financial protection required to be available during such calendar year to pay all amounts which may become payable by any such Person, when and as they become payable, in respect of such liability;

(g) there shall be no claim, liability or expense excluded (1) from the limitation of liability established by the Price-Anderson Act (as in effect on the Closing Date) (through modification of the definitions of "aggregate liability", "persons indemnified", "nuclear incident" or otherwise) or (2) under commercially available insurance or other financial protection required under Applicable Law (as in effect on the Closing Date) (other than an exclusion of the costs of investigating and settling claims and defending suits for damages); except, for purposes of subclauses (1) and (2) of this clause (g), to the extent excluded pursuant to Applicable Law as in effect on the Closing Date;

(h) subject only to clause (b) above, policies of insurance, including policies in respect of any deferred premium or similar plan, shall provide, or shall have been amended or modified to provide, in both timing and amount, and make available, or shall have been amended or modified to make available, financial protection required under Applicable Law; and

(i) neither the Owner Trustee nor the Owner Participant shall be (in the opinion of independent counsel to the Owner Participant) exposed to any other increase in its real or potential liability with respect to a "nuclear incident", either during or subsequent to the Lease Term; or

(B) at all times from the date of such change to, but not including, the Lease Termination Date,

(a) a provision shall be included, with language reasonably satisfactory to the Owner Participant, which exempts the Owner Trustee and the Owner Participant from all real or potential liability in respect of a "nuclear incident" so long as neither the Owner Trustee nor the Owner Participant is in actual possession and control of Unit 1 or the Undivided Interest, unless (in the opinion of independent counsel to the Owner Participant) (x) a court could reasonably hold that the statute incorporating such provision is unconstitutional or (y) there shall have occurred a subsequent change in, or new interpretation by Governmental Authority having jurisdiction of, the exemption from liability provided by such provision as to interests of the Owner Trustee and the Owner Participant in Unit 1 which change or new interpretation renders ineffective such exemption;

(b) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed \$13 billion (assuming 101 operating nuclear facilities participating in the deferred premium or similar plan referred to in clause (c) of paragraph (A) above and subject to adjustment in an amount not exceeding (X) \$126 million for each increase or decrease in said number of operating nuclear facilities and (Y) the aggregate of all

changes in such "aggregate liability" to reflect the effects of inflation contemplated pursuant to clause (c) of paragraph (A) above (but without giving effect to clause (ii) of the proviso set forth in such clause)); and

(c) the amount payable by all licensees of a single nuclear facility in respect of such facility and with respect to any one "nuclear incident" under any deferred premium or similar plan required by Applicable Law shall not exceed \$36 million (subject to adjustment as provided in subclause (Y) of the preceding clause (b)).

For purposes of this definition, "nuclear facility" shall mean and refer to a facility designed for producing substantial amounts of electricity and having a rated capacity of 100,000 electrical kilowatts or more.

Additional Bonds shall mean Bonds in addition to the Series B Bonds.

Additional Equity Investment shall have the meaning specified in Section 8(f) of the Facility Lease.

Additional Notes shall have the meaning set forth in the recitations in the Indenture, which Additional Notes shall be issued, if at all, pursuant to Section 3.5 of the Indenture.

Affiliate, with respect to any Person, shall mean any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the

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ownership of voting securities or by contract or otherwise.

After-Tax Basis shall mean, with respect to any payment received or accrued or deemed to have been received or accrued by any Person, the amount of such payment supplemented by a further payment to that Person so that the sum of the two payments shall, after deduction of all taxes and other charges (taking into account any credits or deductions arising therefrom and the timing thereof and computed at the highest marginal statutory tax rate) resulting from the receipt (actual or constructive) of such two payments imposed under any Applicable Law or by any Governmental Authority, be equal to such payment received or accrued or deemed to have been received or accrued.

Agent and Agency Period shall have the meanings specified in Section 7.01 of the Assignment and Assumption.

ANPP Administrative Committee shall mean the committee established pursuant to Section 6.1.1 of the ANPP Participation Agreement (or any comparable successor provision).

ANPP Operating Committee shall mean the committee established pursuant to Section 6.1.2 of the ANPP Participation Agreement (or any comparable successor provision).

ANPP Participants shall have the meaning assigned to the word "Participant" under the ANPP Participation Agreement.

ANPP Participation Agreement shall mean the Arizona Nuclear Power Project Participation Agreement, dated as of August 23, 1973, among APS, Salt River, Southern California, PNM, El Paso, LADWP and SCPPA, as heretofore and hereafter amended pursuant to the terms thereof.

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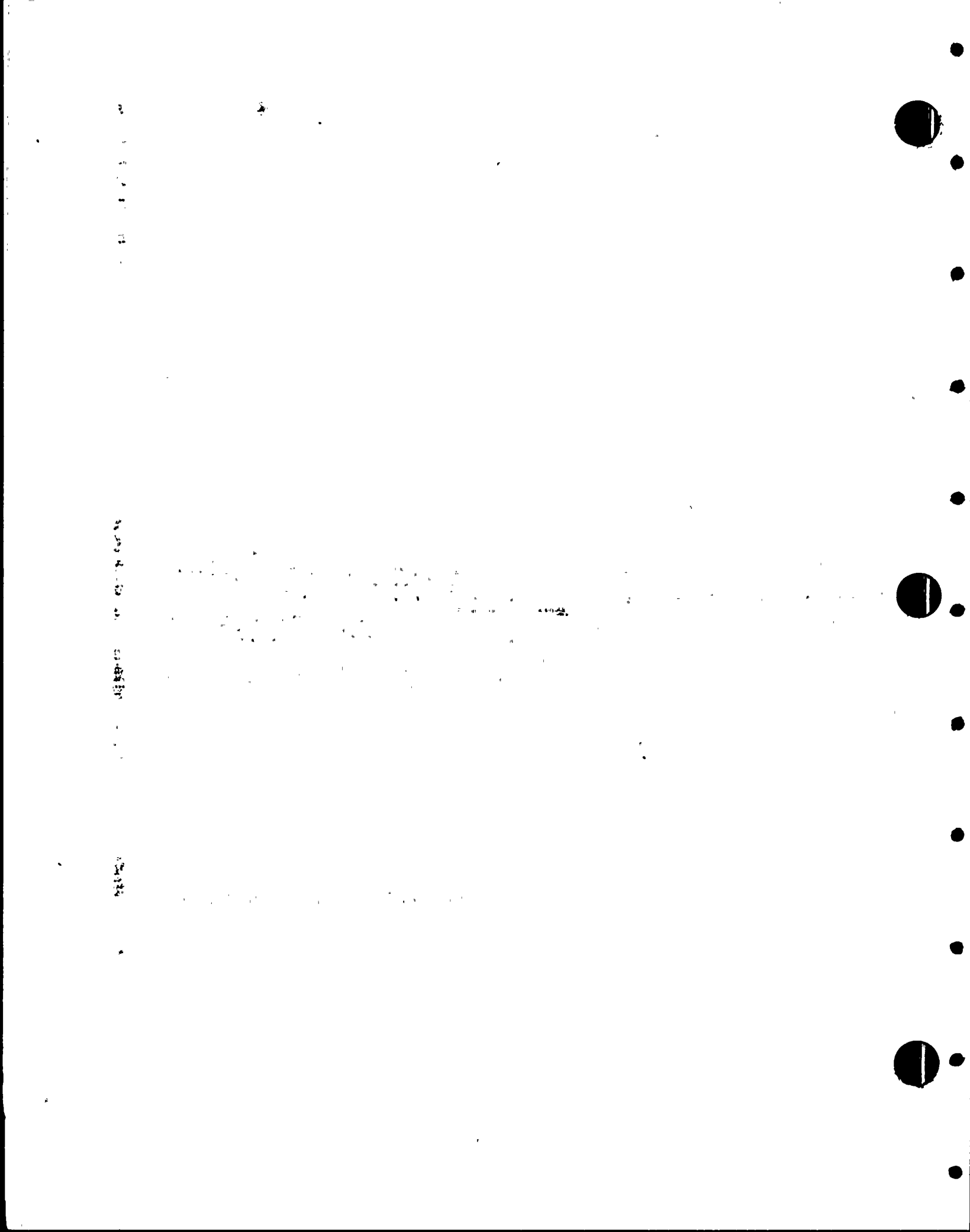
ANPP Project Agreements shall mean the ANPP Participation Agreement and the other Project Agreements (as such term is defined in the ANPP Participation Agreement).

ANPP Switchyard shall mean the ANPP High Voltage Switchyard located at the PVNGS Site, the ownership, construction, operation and maintenance of which are governed by the ANPP High Voltage Switchyard Participation Agreement executed as of August 20, 1981 (APS Contract No. 2252-419,00), the parties to which are APS, PNM, Salt River, El Paso, Southern California and LADWP.

ANPP Transferee shall have the meaning specified in Section 4.01 of the Assignment and Assumption.

Applicable Law shall mean all applicable laws, statutes, treaties, rules, codes, ordinances, regulations, permits, certificates, orders, interpretations, licenses and permits of any Governmental Authority and judgments, decrees, injunctions, writs, orders or like action of any court, arbitrator or other judicial or quasi judicial tribunal (including those pertaining to health, safety, the environment or otherwise).

Appraisal Procedure shall mean a procedure whereby two independent appraisers, one chosen by the Lessee and one by the Lessor, shall mutually agree upon the value, period or amount then the subject of an appraisal. If either the Lessor or the Lessee, as the case may be, shall determine that a value, period or amount to be determined under the Facility Lease or any other Transaction Document cannot promptly be established by mutual agreement, such party shall appoint its appraiser and deliver a written notice thereof to the other party. Such other party shall appoint its appraiser within 15 days after receipt from the other party of the foregoing written notice. If within 20 days after appointment of the two appraisers, as described above, the two appraisers are unable to agree upon the value, period or amount in question, a third independent appraiser shall be chosen within ten days.



thereafter by the mutual consent of such first two appraisers or, if such first two appraisers fail to agree upon the appointment of a third appraiser within such period, such appointment shall be made by the American Arbitration Association, or any organization successor thereto, from a panel of arbitrators having experience in the business of operating a nuclear electric generating plant and a familiarity with equipment used or operated in such business. The decision of the third appraiser so appointed and chosen shall be given within ten days after the selection of such third appraiser. If three appraisers shall be so appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount, period or value by which the third determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive on the Lessor and the Lessee; otherwise the average of all three determinations shall be binding and conclusive on the Lessor and the Lessee. The fees and expenses of appraisers incurred in connection with any Appraisal Procedure relating to any transaction contemplated by any provision of any Transaction Document shall be divided equally between the Lessor and the Lessee (except pursuant to Section 16 of the Facility Lease, which shall be paid solely by the Lessee).

APS shall mean Arizona Public Service Company, an Arizona corporation.

Appraiser shall mean Ebasco Business Consulting Company.

Arizona Public Utility Act shall mean Chapter 2, Title 40, Arizona Revised Statutes.

Assigned Payments shall have the meaning specified in Section 2.1(1) of the Indenture.

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Assignment and Assumption shall mean the Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between PNM and the Owner Trustee.

Assignment of Beneficial Interest shall mean the Deed and Assignment of Beneficial Interest under Title USA Company of Arizona Trust No. 530, dated as of December 15, 1986, from PNM to the Owner Trustee.

Assumption Agreement shall mean the Assumption Agreement of PNM substantially in the form of Exhibit B to the Indenture.

Assumptions shall mean the Pricing Assumptions and the Tax Assumptions.

Atomic Energy Act shall mean the Atomic Energy Act of 1954, as amended, and regulations from time to time issued, published or promulgated pursuant thereto.

Authorized Officer shall mean, with respect to the Indenture Trustee, any officer of the Indenture Trustee who shall be duly authorized by appropriate corporate action to authenticate a Note and shall mean, with respect to the Owner Trustee, any officer of the Owner Trustee who shall be duly authorized by appropriate corporate action to execute any Transaction Document.

Bankruptcy Code shall mean the Bankruptcy Reform Act of 1978, as amended, and any law with respect to bankruptcy, insolvency or reorganization successor thereto.

Basic Lease Term shall mean the initial term of the Facility Lease, which shall begin on the Closing Date and end on January 15, 2015, unless earlier terminated as provided in the Facility Lease.

Basic Rent shall have the meaning set forth in Section 3(a) of the Facility Lease.

Basic Rent Payment Dates shall mean and include July 15, 1987, and January 15 and July 15 of each year thereafter, commencing January 15, 1988, and ending January 15, 2015, and, if the Lessee shall elect the Renewal Term, each January 15 and July 15 of each year during the Renewal Term, commencing July 15, 2015 and ending on the last day of the Renewal Term.

Bill of Sale shall mean the Deed and Bill of Sale, dated as of December 15, 1986, between PNM and the Owner Trustee.

Bonds shall mean all bonds, notes and other evidences of indebtedness from time to time issued and outstanding under the Collateral Trust Indenture, including, but without limitation, the Series B Bonds and any Additional Bonds.

Business Day shall mean any day other than a Saturday or Sunday or other day on which banks in Albuquerque, New Mexico, New York, New York or Boston, Massachusetts are authorized or obligated to be closed.

Capital Improvement shall mean (a) the addition, betterment or enlargement of any property constituting part of Unit 1 or the Common Facilities or the replacement of any such property with other property, irrespective of whether (i) such replacement property constitutes an enlargement or betterment of the property which it replaces, (ii) the cost of which addition, betterment, enlargement or replacement is or may be capitalized or charged to maintenance or repairs, in accordance with the Uniform System of Accounts or, (iii) in the case of any addition, betterment or enlargement, is not included or reflected in the plans and specifications for Unit 1 or the Common Facilities, as built, and (b) any alteration, modification, addition or improvement to Unit 1 or the Common Facilities, other than original, substitute or replacement parts incorporated into Unit 1 or the Common Facilities; provided, however, that any Capital Improvement with respect to a Common

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Facility shall mean only an undivided .566667% interest in and to such Capital Improvement.

Casualty Value, as of any Basic Rent Payment Date during the Basic Lease Term, shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 1 to the Facility Lease. Anything contained in the Participation Agreement or the Facility Lease to the contrary notwithstanding, Casualty Value shall be, when added to all other amounts which the Lessee is required to pay under Section 9(c) of the Facility Lease (taking into account any assumption of the Notes by the Lessee), under any circumstances and in any event, in an amount at least sufficient to pay in full, as of any Basic Rent Payment Date, the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes. Casualty Value as of any Basic Rent Payment Date during the Renewal Term shall mean the unamortized portion as of such Basic Rent Payment Date of the Fair Market Sales Value of the Undivided Interest, determined by the straight-line amortization of such Fair Market Sales Value at the commencement of such Renewal Term over the period from such commencement date through the remaining term of the License determined pursuant to the Appraisal Procedure undertaken in accordance with the last sentence of Section 13(a) of the Facility Lease.

Change in Tax Law shall mean any change in the State Tax Law (as such term is defined in Section 1(a) of the Tax Indemnification Agreement), Code or successor legislation enacted by the appropriate legislative bodies of New York State or New York City no later than the date of adjournment of the One Hundredth Congress, or enacted by either the Ninety-ninth or the One Hundredth Congress (without regard to the date of presidential signature), or if prior to January 15, 1997 (i) there is enacted any technical correction to such enactment or (ii) there are promulgated, issued or published any proposed, temporary, or final Regulations resulting from such enactment (regardless of the effective date of such technical corrections or Regulations,

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but only if such technical corrections or Regulations would affect Net Economic Return).

Chemical Bank shall mean Chemical Bank, a New York banking corporation.

Chief Financial Officer shall mean the person designated by the Board of Directors of PNM as the chief financial officer of PNM.

Claims shall mean liabilities, obligations, losses, damages, penalties, claims (including, without limitation, claims involving liability in tort, strict or otherwise), actions, suits, judgments, costs, interest, expenses and disbursements, whether or not any of the foregoing shall be founded or unfounded (including, without limitation, legal fees and expenses and costs of investigation) of any kind and nature whatsoever without any limitation as to amount.

Closing shall mean the proceedings which occur on the Closing Date, as contemplated by the Participation Agreement.

Closing Date shall mean December 17, 1986.

Code shall mean the Internal Revenue Code of 1986, as amended, or any comparable successor law.

Collateral Trust Indenture shall mean the Collateral Trust Indenture, dated as of December 16, 1985, among PNM, Funding Corp and the Collateral Trust Trustee.

Collateral Trust Indenture Supplement shall mean a supplement to the Collateral Trust Indenture.

Collateral Trust Trustee shall mean Chemical Bank, not in its individual capacity, but solely as Collateral Trust Trustee under the Collateral Trust Indenture, and the successors or assigns of such Trustee.

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Common Facilities shall mean all PVNGS common facilities as set forth in Item B of Exhibit B to the Bill of Sale other than excluded common facilities as set forth in said Item B to such Exhibit B or common facilities constituting Unit 1 Retained Assets.

Coverage Ratio shall mean the fraction (i) the denominator of which shall be the sum (calculated as of a date no earlier than 135 days prior to the date of calculation) of (x) the interest that will be payable during the twelve-month period following the date of the transaction with respect to which a calculation is required to be made on the debt (both long-term and short-term) of the Surviving Lessee, and (y) the interest portion of payments due during the twelve-month period following the date of such transaction on lease obligations of the Surviving Lessee with a term in excess of one year, and (ii) the numerator of which shall be the sum of (x) the pro forma net earnings (before taxes and excluding the allowance for funds used during construction) of the Surviving Lessee for a twelve-month period ending no earlier than 135 days prior to the date of such transaction, and (y) such denominator.

Cure Option shall have the meaning set forth in Section 16(e) of the Facility Lease.

Decommissioning Fund shall mean, with respect to Unit 1 Decommissioning Costs, an external reserve fund which fund shall be segregated from the Lessee's assets, but may be within the Lessee's administrative control, into which deposits are made at least annually in an amount equal to the quotient of (i) Unit 1 Decommissioning Costs (less the balance of the Decommissioning Fund and reasonably projected earnings thereon through the date of expiry of the License) divided by (ii) the number of years remaining until date of expiry of the License, provided that the amount in the Decommissioning Fund, on the date of expiry of the License, shall be at least equal to Unit 1 Decommissioning Costs.

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Deed shall mean the Deed, dated as of December 15, 1986, from PNM to the Owner Trustee.

Deemed Loss Event shall mean any of the following events (unless waived by the Owner Participant, which waiver shall be in writing and may be either indefinite or for a specific period): (1) if at any time after the Closing Date and before the Lease Termination Date, the Owner Trustee or the Owner Participant, by reason of the ownership of the Undivided Interest or the Real Property Interest or any part thereof by the Lessor (or any beneficial interest therein by the Owner Participant) or the lease of the Undivided Interest or the Real Property Interest to the Lessee or any of the other transactions contemplated by the Transaction Documents (the term Owner Participant, as used in this definition, not including any Transferee who at the time of transfer to such Transferee is a non-exempt entity of the type referred to in this definition, whether by reason of such ownership, lease, transactions or otherwise), shall be deemed by any Governmental Authority having jurisdiction to be, or shall become subject to regulation (other than Non-Burdensome Regulation) as, an "electric utility", an "electric utility company", a "public utility", a "public utility company", a "holding company" or a "public utility holding company" under any Applicable Law or by reason of any Governmental Action, and the effect thereof on the Lessor or the Owner Participant would be, in the sole judgment of either such Person, acting on advice of counsel, adverse, and the Owner Trustee and the Owner Participant have not waived application of this definition; except that if the Lessee, at its sole cost and expense, is contesting diligently and in good faith any action by any Governmental Authority which would otherwise constitute a Deemed Loss Event under this clause (1), such Deemed Loss Event shall be deemed not to have occurred so long as (i) such contest does not involve any danger of the foreclosure, sale, forfeiture or loss of, or the creation of any Lien on, the Undivided Interest, the Real Property Interest or any part thereof or any interest therein, (ii) such contest does not adversely affect the Undivided Interest, the Real Property Interest or any part thereof or any

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other property, assets or rights of the Lessor or the Owner Participant or the lien of the Indenture thereon, (iii) the Lessee shall have furnished the Owner Trustee, the Owner Participant, and the Indenture Trustee with an opinion of independent counsel satisfactory to each such Person to the effect that there exists a reasonable basis for contesting such determination, (iv) such determination and the effects thereof shall be effectively stayed or withdrawn during such contest (and shall not be subject to retroactive application at the conclusion of such contest) in a manner satisfactory to the Owner Trustee and the Owner Participant, and the Owner Participant shall have determined that the Lessor's continued ownership of the Undivided Interest and the Real Property Interest during the pendency of such contest or such contest will not adversely affect its or its Affiliate's business, and (v) the Lessee shall have indemnified the Owner Trustee and the Owner Participant in a manner satisfactory to each such Person for any liability or loss which either such Person may incur as a result of the Lessee's contest; (2) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law, including without limitation, the Price-Anderson Act, the Atomic Energy Act or the regulations of the NRC, in each case as in effect on the Closing Date, as a result of which (in the opinion of independent counsel to the Owner Participant) (i) the aggregate liability for a single "nuclear incident" of "persons indemnified" (as each such term is defined in the Price-Anderson Act as in effect on the Closing Date) is increased, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident", (ii) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" (as each term is defined in the Price-Anderson Act as in effect on the Closing Date) exceeds the amount of financial protection established by the NRC as a condition to the License, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear

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incident", (iii) the amount of financial protection required, including but not limited to the limitation on the amount of deferred premiums for such financial protection, is increased, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident", or (iv) either the Owner Trustee or the Owner Participant may be exposed to any other increase in its real or potential liability in respect of a "nuclear incident", either during or subsequent to the Lease Term; provided, however, that no such change or new interpretation shall constitute a Deemed Loss Event if such change or new interpretation constitutes an Acceptable Change; (3) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law as a result of which the Owner Trustee (but not the Trust Estate), or the Owner Participant shall become liable in any capacity, in respect of any portion of the Termination Obligation or, during the Lease Term, any other liability or obligation imposed as of the date hereof on licensees of the NRC; (4) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law or any Governmental Action the effect of which is to make the transactions contemplated by the Transaction Documents unauthorized, illegal or otherwise contrary to Applicable Law; (5) any change in, or new interpretation by Governmental Authority having jurisdiction of, the License and the NRC Order (each as in effect on the Closing Date) constituting an assertion to the effect that the exercise by the Owner Trustee or the Owner Participant of any right (irrespective of the event giving rise to such right) under any Transaction Document would constitute impermissible control over Unit 1 or the licensees of Unit 1, other than an assertion that affects such rights in a manner consistent with both Section 184 of the Atomic Energy Act and the NRC's regulations thereunder (including, without limitation, 10 CFR §50.81, as now and hereafter in effect); (6) any expiration, revocation, suspension, amendment or interpretation by any Governmental Authority of the NRC Order, the License or the licensing of the Lessee by the NRC or any other Governmental Action or change in, or

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new interpretation by Governmental Authority having jurisdiction of, Applicable Law as a result of which either the Owner Trustee or the Owner Participant shall be required to become a licensee of the NRC prior to the Lease Termination Date; (7) any policy of public liability insurance with respect to PVNGS or Unit 1 shall be suspended or terminated for any reason whatsoever or shall be amended or supplemented in a manner which may expose the Owner Trustee or the Owner Participant, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident" (as defined in the Price-Anderson Act) and such policy of insurance shall not be immediately replaced by insurance effective immediately upon such suspension, termination, amendment or supplementation which, in the reasonable opinion of the Owner Participant, is at least as protective of it (in all respects reasonably deemed by it to be material) as the policy of insurance so terminated, suspended, amended or supplemented; unless the "aggregate liability" for a "nuclear incident" of "persons indemnified" (as each term is defined in the Atomic Energy Act of 1954, as amended) is reduced by an amount equal to the amount of liability insurance so terminated, suspended, amended or supplemented and, in the reasonable opinion of the Owner Participant, it may not otherwise be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident" as a consequence of such suspension, termination, amendment or supplementation; (8) with respect to PVNGS, the NRC shall have issued within a five year period three or more Modification Orders provided that such Modification Orders are issued (x) in connection with violations constituting "Severity Level I" or "Severity Level II" violations within the activity area of "Reactor Operations", as such terms are used in Supplement I to Appendix C to 10 C.F.R., Part 2 as in effect on the date hereof (or, if such Supplement is amended or superseded to change such categories of violations or areas, violations or areas falling within comparable categories) or (y) in connection with wilful or flagrant violations in any "activity area", repeated poor performance in a particular "activity area" or serious breakdowns in management control; and (9) the

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cessation of operation of Unit 1 or as a result of either (x) the occurrence of an Extraordinary Nuclear Occurrence or an Incipient Extraordinary Nuclear Occurrence at PVNGS Unit 2 or PVNGS Unit 3 or (y) a Nuclear Incident at PVNGS Unit 2 or PVNGS Unit 3 and the continuation, in the case of this clause (y), of such cessation for the Minimum Period.

Default shall mean an event or condition which, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

Directive shall mean an instrument in writing executed in accordance with the terms and provisions of the Indenture by the Holders, or their duly authorized agents or attorneys-in-fact, representing a Majority in Interest of Holders of Notes, directing the Indenture Trustee to take or refrain from taking the action specified in such instrument.

Early Termination Date shall have the meaning specified in Section 14(d) of the Facility Lease.

Early Termination Notice shall have the meaning specified in Section 14(d) of the Facility Lease.

El Paso shall mean El Paso Electric Company, a Texas corporation.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

Estimated Transaction Expenses shall have the meaning set forth in Section 5(a) of the Participation Agreement.

Event of Default shall have the meaning set forth in Section 15 of the Facility Lease.

Event of Loss shall mean any of the following events: (a) a Final Shutdown, (b) a Requisition of Title, (c) a Requisition of Use which can reasonably be expected to exceed, or for a stated period which ends on or after, the penultimate day of the Lease Term, (d) any

degradation of the rated capacity of Unit 1 to below, or the inability of Unit 1 to produce electricity at a level above, 630 megawatts electric for the Minimum Period (for any reason other than as a result of damage to or destruction of Unit 1, Governmental Action or an event referred to in clause (iii)(x) or (iii)(y) of the definition of "Final Shutdown").

Excepted Payments shall mean (i) all payments of Supplemental Rent, other than payments by the Lessee (x) of Casualty Value, Termination Value or Special Casualty Value or in connection with the exercise of the Cure Option or (y) of indemnity payments to which either the Loan Participant or any Indemnitee other than the Owner Trustee or the Owner Participant, or any of their respective Affiliates, (or the respective successors, assigns, agents, officers, directors or employees of the Owner Trustee or the Owner Participant) is entitled, (ii) any amounts payable under any Transaction Document to reimburse the Lessor or the Owner Participant, or any of their respective Affiliates, (including the reasonable expenses of the Lessor or the Owner Participant incurred in connection with any such payment) for performing or complying with any of the obligations of the Lessee under and as permitted by any Transaction Document, (iii) any amount payable to the Owner Participant by any Transferee as the purchase price of the Owner Participant's interest in the Trust Estate, (iv) so long as no Indenture Default or Indenture Event of Default shall have occurred and be continuing, all payments of Basic Rent in excess of amounts then due and owing in respect of the principal of and premium, if any, and interest on all Notes Outstanding, (v) any insurance proceeds with respect to an Event of Loss in excess of amounts then due and owing in respect of the principal of and premium, if any, and interest on all Notes Outstanding, (vi) any insurance proceeds (or payments with respect to risks self-insured) under liability policies and (vii) any payments in respect of interest to the extent attributable to payments referred to in clauses (i) through (vi) above.

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Existing Mortgage shall mean the Indenture of Mortgage and Deed of Trust dated as of June 1, 1947, between PNM and Irving Trust Company, as heretofore supplemented by all supplemental indentures thereto.

Expenses shall mean liabilities, obligations, losses, damages, taxes (other than taxes on income), claims, actions, suits, costs, interest, expenses and disbursements (including legal fees and expenses) of any kind and nature whatsoever.

Extension Letter shall mean the Extension Letter, to be dated the Closing Date and addressed to the Collateral Trust Trustee by the parties to the Participation Agreement.

Extraordinary Nuclear Occurrence shall have its meaning as defined in Section 11 of the Atomic Energy Act of 1954, as amended to the Closing Date.

Facility Cost shall mean the Purchase Price plus the sum of (x) all Supplemental Financing Amounts, and (y) all Additional Equity Investment amounts.

Facility Lease shall mean the Facility Lease, dated as of December 15, 1986, between PNM, as Lessee, and the Owner Trustee, as Lessor.

Fair Market Rental Value or Fair Market Sales Value of any property or service shall mean the value of such property or service for lease or sale determined on the basis of an arm's-length transaction for cash between an informed and willing lessee or purchaser (under no compulsion to lease or purchase) and an informed and willing lessor or seller (under no compulsion to lease or sell), and shall take into account the Lessor's rights and obligations under the Assignment and Assumption and the Assignment of Beneficial Interest and rights under the Deed and the Bill of Sale, but shall be without regard to any rights of the Lessee (including any renewal options) under the Lease. Except pursuant to Section 16 of the Facility Lease (other than Section 16(a)(v)(D) thereof) and Section 6.01 of the Assignment and Assumption, Fair Market Rental Value and Fair Market

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Sales Value of the Undivided Interest and the Real Property Interest shall be determined on the assumption that (i) Unit 1 has been maintained in accordance with, and the Lessee has complied with, the requirements of the Facility Lease, the other Transaction Documents and the ANPP Participation Agreement, (ii) the Lessee shall not bear the obligation imposed by Section 10(b)(3)(xi) of the Participation Agreement in respect of Transferees, (as defined in the ANPP Participation Agreement) of the Lessor, and (iii) the Lessee or PNM, as possessor of the Undivided Interest and the Real Property Interest, is otherwise in compliance with the requirements of all Transaction Documents. Fair Market Rental Value shall be determined on the assumption that rent will be payable in equal semi-annual installments in arrears.

Federal Power Act shall mean the Federal Power Act, as amended.

Federal Securities shall have the meaning set forth in Section 2.3(c) of the Indenture.

FERC shall mean the Federal Energy Regulatory Commission of the United States of America or any successor agency.

FERC Order shall mean the Order Disclaiming Jurisdiction issued by FERC on December 5, 1985 (Docket No. EL86-5-000).

Final Prospectus shall mean the Prospectus included in the Registration Statement relating to the Series B Bonds, including documents incorporated into said Prospectus by reference and any applicable Prospectus Supplement.

Final Shutdown shall mean the earlier to occur of (i) the expiration or revocation of the License, or any portion thereof such that the operation of Unit 1 or the possession by the Lessee of the Undivided Interest and the Real Property Interest are no longer permitted, (ii) the taking of any Governmental Action or the adoption or making of any interpretations, directives or requests by any Governmental Authority

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(including, without limitation, the staff thereof) or the concurrence by any Governmental Authority in the voluntary action of the operator thereof, in each such case whether formal or informal, by reason of which Unit 1 shall cease to operate, or shall be unable under Applicable Law to resume operation, at a capacity level of at least 630 megawatts electric for the Minimum Period, (iii) the cessation of operation of Unit 1 as a result of either (x) the occurrence of an Extraordinary Nuclear Occurrence or an Incipient Extraordinary Nuclear Occurrence relating to Unit 1 or (y) a Nuclear Incident relating to Unit 1 and, in the case of this clause (y), the continuation of such cessation for the Minimum Period, (iv) damage to Unit 1 and the failure of the Lessee, or of the Lessee and one or more other ANPP Participants, to agree within three years of the occurrence of such damage to restore and reconstruct Unit 1, (v) damage to Unit 1, without restoration or reconstruction having been completed by the expiration of the Minimum Period, such that Unit 1 has a rated capacity of at least 630 megawatts electric, or (vi) destruction of Unit 1. For purposes of this definition, Final Shutdown pursuant to the foregoing clause (iv) will be deemed to have occurred upon the earlier of (x) the written declaration of the Lessee of its intent not to agree and (y) the expiration of the 3-year period referred to in said clause (iv) without written agreement. Final Shutdown pursuant to the foregoing clause (ii), (iii) (y) or (v) will be deemed to have occurred on the last day of the Minimum Period.

Financing Documents shall mean the Collateral Trust Indenture, the Underwriting Agreement, the Series B Supplemental Indenture and the Supplemental Indenture of Pledge.

Fixed Rate Notes shall mean the non-recourse promissory notes, substantially in the forms of Exhibits A-1, A-2 and A-3 to the Indenture, to be issued by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price.



FNB shall mean the Owner Trustee in its individual capacity, and its successors and assigns.

Form U-7D shall mean the certificate to be filed pursuant to Rule 7(d) of the Holding Company Act for the purpose of exempting the Owner Participant and the Owner Trustee from registration under the Holding Company Act.

Funding Corp shall mean First PV Funding Corporation, a Delaware corporation.

Generating Unit shall mean Unit 1 or any of the other Generating Units (as such term is defined in the ANPP Participation Agreement) constituting PVNGS.

Generation Entitlement Share shall have the meaning assigned thereto in the ANPP Participation Agreement and (i) when used in reference to Unit 1, shall mean the Generation Entitlement Share of PNM as the ANPP Participant with respect to its interest in Unit 1, (ii) when used in reference to the Undivided Interest, shall mean that portion of the Generation Entitlement Share attributable to the Undivided Interest and (iii) when used in Section 19 of the Facility Lease, shall refer to the Generation Entitlement Share of the Lessee in all Generating Units at PVNGS.

Governmental Action shall mean all authorizations, consents, approvals, waivers, exceptions, variances, orders, licenses, exemptions, publications, filings, notices to and declarations of or with any Governmental Authority (other than routine reporting requirements the failure to comply with which will not affect the validity or enforceability of any of the Transaction Documents or have a material adverse effect on the transactions contemplated by any Transaction Document or any Financing Document) or any other action in respect of any Governmental Authority and shall include, without limitation, all siting, environmental and operating permits and licenses which are required for the use and operation of Unit 1, including the Undivided Interest and the Real Property Interest.

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Governmental Authority shall mean any Federal, state, county, municipal, foreign, international, regional or other governmental authority, agency, board, body, instrumentality or court.

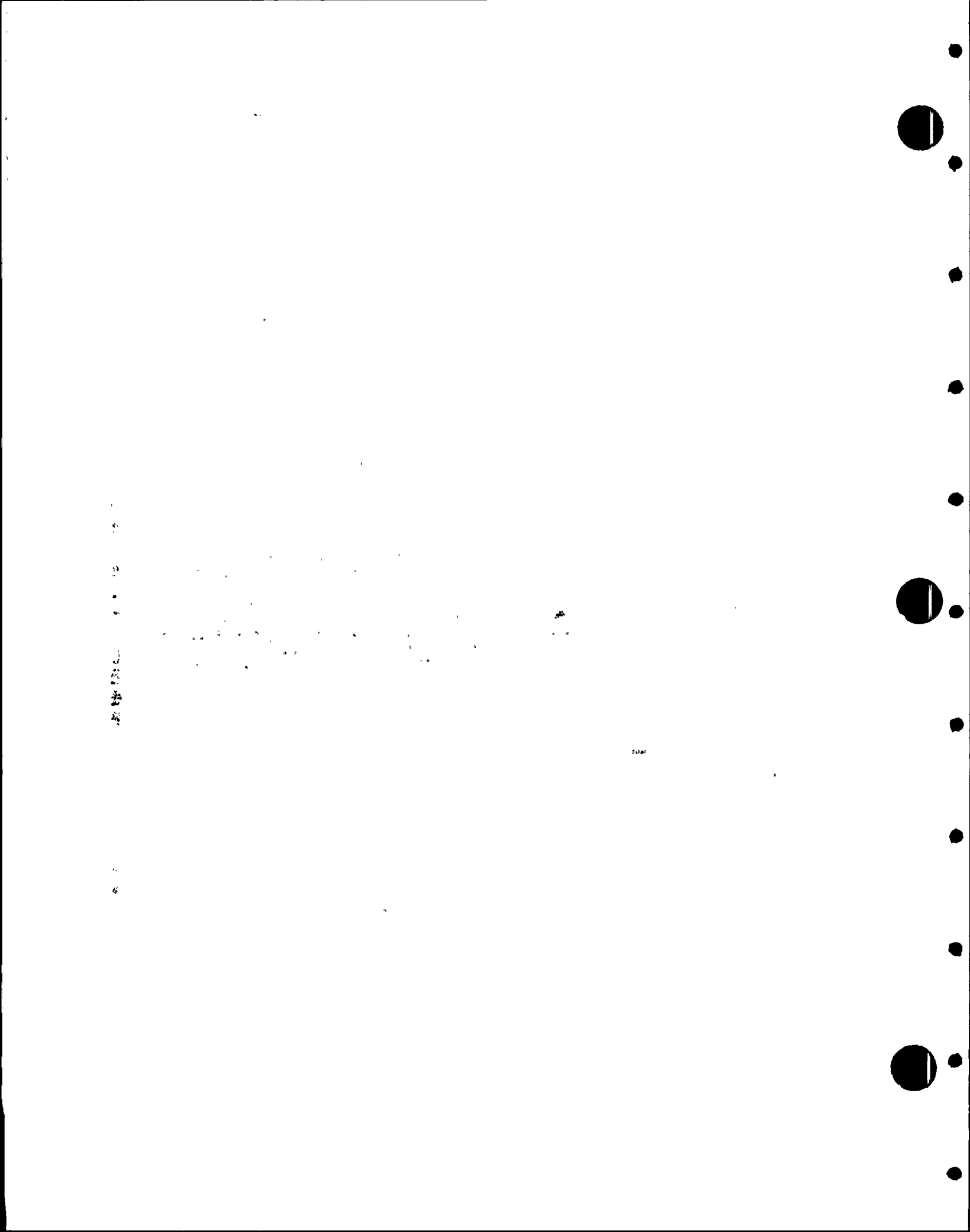
Holders shall mean the holders of the Notes.

Holding Company Act shall mean the Public Utility Holding Company Act of 1935, as amended.

Incipient Extraordinary Nuclear Occurrence shall mean an event causing a discharge or dispersal of nuclear source, special nuclear or nuclear by-product material from its intended place of confinement in amounts off site or on site or causing a radiation level off site or on site which an independent nuclear consultant agreed to by the Lessee and the Owner Participant (or, failing prompt agreement, appointed by the American Arbitration Society) determines to be substantial and which such consultant determines has resulted in substantial injury to persons on or off the PVNGS Site or substantial damage to property off the PVNGS Site.

Indemnatee shall mean the Owner Participant, the Owner Trustee, FNB, the Loan Participant, the stockholder of Funding Corp and its officers and directors, Chemical Bank, the Indenture Trustee, each Holder of a Note from time to time Outstanding, the Collateral Trust Trustee, the Trust, the Trust Estate, the Lease Indenture Estate, the indenture estate under the Collateral Trust Indenture, any Affiliate of any of the foregoing and the respective successors, assigns, agents, officers, directors or employees of the foregoing, excluding, however, any ANPP Participant other than the Owner Trustee or the Owner Participant.

Indenture shall mean the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986; between the Owner Trustee and the Indenture Trustee.



Indenture Default shall mean an event or condition which, after giving of notice or lapse of time, or both, would become an Indenture Event of Default.

Indenture Event of Default shall mean any of the events specified in Section 6.2 of the Indenture.

Indenture Trustee shall mean Chemical Bank, a New York banking corporation, not in its individual capacity, but solely as Indenture Trustee under the Indenture and each successor trustee and co-trustee thereunder.

Indenture Trustee's Counsel shall mean Willkie Farr & Gallagher, One Citicorp Center, 153 East 53rd Street, New York, New York 10022.

Indenture Trustee's Liens shall mean Liens against the Lease Indenture Estate which result from acts of, or any failure to act by, or as a result of claims against, the Indenture Trustee, in its individual capacity, unrelated to the transactions contemplated by the Transaction Documents.

Indenture Trustee's Office shall mean the office of the Indenture Trustee located at 55 Water Street, New York, New York 10041, or such other office as may be designated by the Indenture Trustee to the Owner Trustee and each Holder of a Note Outstanding under the Indenture.

Investment shall have the meaning set forth in Section 3 of the Participation Agreement.

Investment Company Act shall mean the Investment Company Act of 1940, as amended.

IRS shall mean the Internal Revenue Service of the United States Department of the Treasury or any successor agency.

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Kidder Peabody shall mean Kidder, Peabody & Co. Incorporated.

LADWP shall mean the Department of Water and Power of The City of Los Angeles, a department organized and existing under the charter of the City of Los Angeles, a municipal corporation of the State of California.

Lease Indenture Estate shall have the meaning set forth in Section 2.1 of the Indenture.

Lease Term shall mean the aggregate of the Basic Lease Term and the Renewal Term, if any.

Lease Termination Date shall mean the last day of the Lease Term (whether occurring by reason of a termination or expiration of the Lease Term).

Lessee shall mean Public Service Company of New Mexico, a New Mexico corporation, and its successors and assigns, as lessee under the Facility Lease and as party to the other Transaction Documents and Financing Documents to which it is a signatory.

Lessee's FERC Counsel shall mean Newman & Holtzinger, P.C., 1615 L Street, Washington, D.C. 20036.

Lessee's General Counsel shall mean Keleher & McLeod, P.A., P.O. Drawer AA, Albuquerque, New Mexico 87103.

Lessee's Special Arizona Counsel shall mean Snell & Wilmer, 3100 Valley Bank Center, Phoenix, Arizona 85073.

Lessee's Special Counsel shall mean Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

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Lessor shall mean the Owner Trustee, as lessor under the Facility Lease, and its successors and assigns.

Lessor's Interest shall have the meaning set forth in Section 8(c)(3) of the Participation Agreement.

Lessor's Liens or Owner Trustee's Liens shall mean Liens against the Trust Estate or the Lease Indenture Estate (other than Permitted Liens) for which the Lessee is not responsible and which result from acts of, or any failure to act by, or as a result of claims against, FNB or the Lessor, unrelated to the ownership of the Undivided Interest or the Real Property Interest, the administration of the Trust Estate or the transactions contemplated by the Transaction Documents or the Financing Documents.

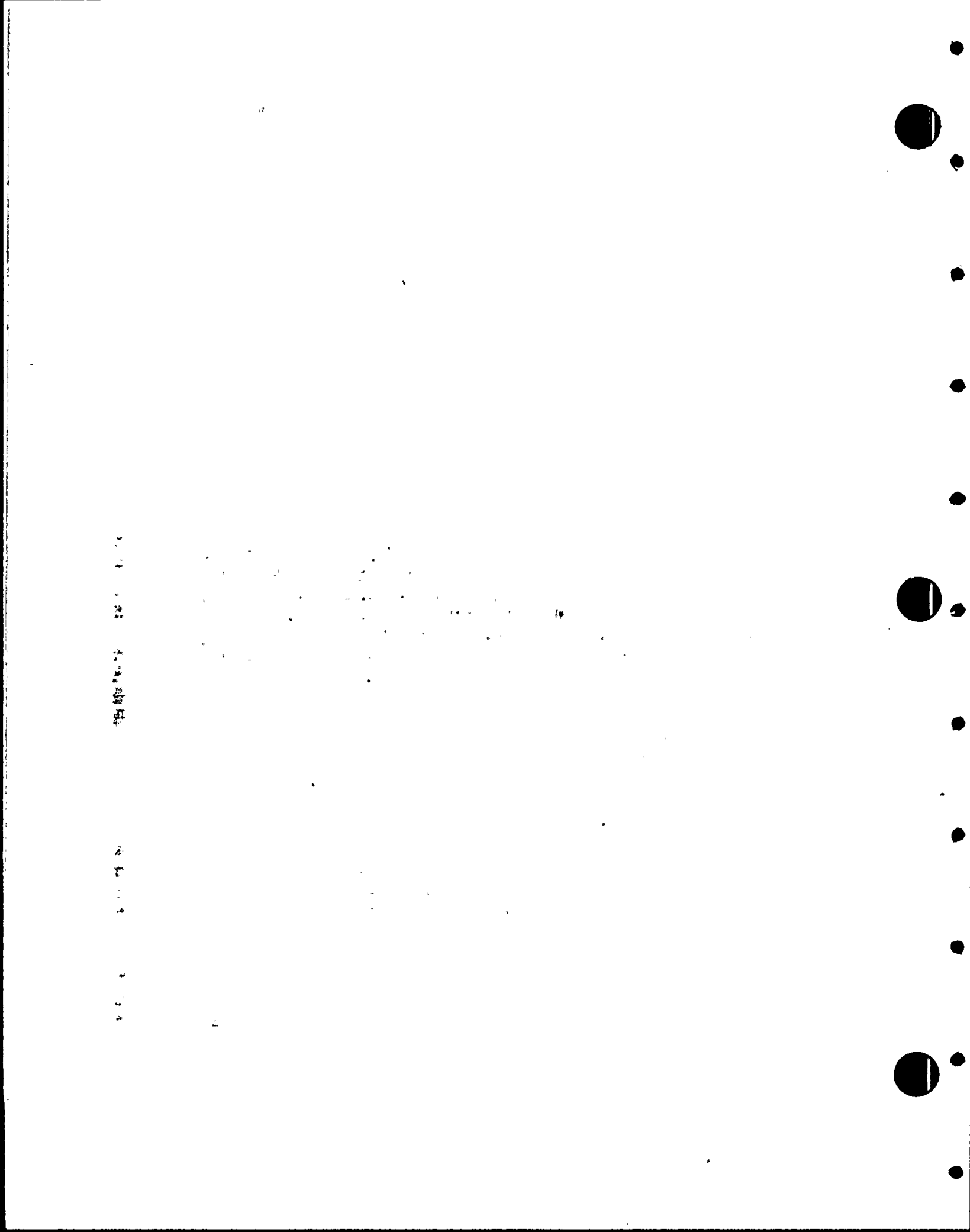
License shall mean NRC Facility Operating License No. NPF-41, as the same may be amended, modified, extended, renewed or superseded from time to time.

License Expiration Date shall mean the date of expiration of the License.

Lien shall mean any mortgage, pledge, security interest, encumbrance, lien, easement, servitude or charge of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof or the filing of, or agreement to give, any financing statement under the Uniform Commercial Code of any jurisdiction.

Loan shall have the meaning set forth in Section 2(a) of the Participation Agreement.

Loan Participant shall mean Funding Corp.



Loan Participant's Counsel shall mean Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

Majority in Interest of Holders of Notes shall mean Holders of a majority in principal amount of all Notes Outstanding under the Indenture at the time of any such determination.

Material Project Agreements shall mean (i) Nuclear Fuel Contract between APS and Combustion Engineering, Inc. (CE), dated as of August 20, 1973, (ii) Nuclear Steam Supply Contract between APS and CE, dated as of August 20, 1973, (iii) Turbine Generator Contract between APS and General Electric Company, dated as of March 21, 1974, (iv) Uranium Enrichment Services Contract between the United States of America (USA) and APS, dated November 15, 1984, and the Associated Supplemental Agreement of Settlement between USA and APS, dated November 15, 1984, (v) Reload Nuclear Fuel Contract between APS and Combustion Engineering, Inc., dated November 5, 1986, (vi) Agreement for the Sale and Purchase of Waste Water Effluent between the City of Tolleson, APS and Salt River, dated June 12, 1981, (vii) Agreement for Construction of Arizona Nuclear Power Project between Bechtel Power Corporation (Bechtel) and APS, dated January 15, 1973, (viii) Agreement for Engineering and Procurement Services between APS and Bechtel, dated January 15, 1973, (ix) Option and Purchase of Effluent dated April 23, 1973, among the Cities of Phoenix, Glendale, Mesa, Tempe and Scottsdale, the Town of Youngtown, APS and Salt River, (x) Agreement for Conversion Services between Allied Chemical Corporation and APS, dated November 17, 1975, as amended, (xi) Uranium Concentrate Sales Agreement between Energy Fuels Exploration Company and APS, dated as of December 1, 1983, (xii) Uranium Concentrate Sales Agreement between Energy Fuels Exploration and APS, dated as of October 23, 1981, as amended, (xiii) Agreement for Sale of Uranium Concentrates between Pathfinder Mines Corporation and APS, dated December 1, 1983, (xiv) Contract for Disposal of Spent Nuclear Fuel and/or High Level Radioactive

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Waste between USA and APS, dated July 21, 1984, and (xv) the ANPP Participation Agreement.

Maximum Option Period shall mean the period, in no event ending after January 15, 2023, determined as provided in Section 13(a) of the Facility Lease as of the date of expiration of the Basic Lease Term, (i) at the end of which the residual value of the Undivided Interest (without regard to inflation or deflation from the Closing Date and without regard to the obligation of the Lessee to pay decommissioning costs pursuant to Section 10(b)(3)(xi) of the Participation Agreement, but taking into consideration the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License) shall be equal to at least 20% of Facility Cost, (ii) which, when added to the Basic Lease Term, does not exceed 80% of the economic useful life of the Undivided Interest from the Closing Date and (iii) at the end of which, taking into consideration the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License, the use of the Undivided Interest by any User (in a transaction pursuant to which the Owner Participant could realize the amount referred to in clause (i) above) is feasible from an engineering and economic point of view and is commercially reasonable. Unless the period, as computed in accordance with the preceding sentence, shall end on a January 15 or July 15, the final date of the Maximum Option Period shall be the final January 15 or July 15 in the period, as so computed. In no event shall the Maximum Option Period end after the License Expiration Date.

Minimum Net Worth means a Net Worth equal to the greater of (x) \$700,000,000 and (y) (1) \$950,000,000 less (2) with respect to each Generating Unit as to which PNM shall have entered into one or more transactions constituting sale and leaseback transactions under the ANPP Participation Agreement (including, but without limitation, the transaction contemplated by the Participation Agreement), (A) \$50,000,000 (in the case of Unit 1) and \$100,000,000 (in the case of each other Generating Unit) times (B) the aggregate

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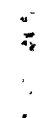
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percentage of the Lessee's undivided interest in such PVNGS unit subject to such transactions.

Minimum Period shall mean the shorter of (a) the shorter of (1) an indefinite period unless such period can reasonably be expected to be shorter than the applicable Benchmark Period and (2) an actual period in excess of the applicable Benchmark Period and (b) a period beginning on the date of determination through and including the penultimate day of the Lease Term. The Benchmark Period shall be a period equal to any 60 consecutive calendar months except that a period of 36 consecutive calendar months shall be applicable with respect to events specified in clause (iii)(y) of the definition of "Final Shutdown" or clause (9)(y) of the definition of "Deemed Loss Event". The period specified in the foregoing clause (a)(1) shall be determined by an independent nuclear consultant agreed to by the Lessee and the Owner Participant, or, failing prompt agreement upon such consultant, appointed by the American Arbitration Society (or comparable or successor organization).

Modification Order shall mean: (i) an order modifying the License or the NRC license for either PVNGS Unit 2 or PVNGS Unit 3 effective immediately upon issuance thereof; (ii) an order modifying the License or the NRC license for either PVNGS Unit 2 or PVNGS Unit 3 effective upon the expiration of the time period for a demand for a hearing if such hearing is not demanded within such period or if the penultimate day of the Lease Term occurs prior to such demand; or (iii) an order modifying the License or the NRC license for either PVNGS Unit 2 or PVNGS Unit 3 effective following a hearing (and not subject to further appeal) or subject to a hearing (or to further appeal) on the penultimate day of the Lease Term.

Mortgage Release shall mean the Indentures of Partial Release, to be dated the Closing Date, under and with respect to the Existing Mortgage.



Net Economic Return shall mean the after-tax yield and after-tax cash flows (after all Federal, state and local taxes) and the return on investment originally expected by the Owner Participant with respect to the Undivided Interest, utilizing the Pricing Assumptions and the initial computation of Basic Rent, Casualty Values, Special Casualty Values and Termination Values derived from such Pricing Assumptions.

Net Worth means the excess of assets over liabilities determined by the Lessee's auditors on the basis of generally accepted accounting principles.

New Mexico Order shall mean the order issued by the NMPSC on November 27, 1985, as amended by Order Adopting Errata Notice issued on November 30, 1985, in Case No. 1995, approving, among other things, the terms of the Facility Lease and the execution and delivery of the Facility Lease by PNM.

New Mexico Public Utility Act shall mean the New Mexico Public Utility Act, as amended.

NMPSC shall mean the New Mexico Public Service Commission established pursuant to Section 62-5-1 of New Mexico Statutes Annotated, 1978.

Non-Burdensome Regulation shall mean

- (i) regulation to which the Owner Participant or the Owner Trustee is otherwise subject by reason of its lease financing or other activities unrelated to the transactions contemplated by the Transaction Documents,
- (ii) ministerial regulatory requirements which do not impose limitations or regulatory requirements on the business or activities of the Owner Participant and which are deemed, in the reasonable discretion of the Owner Participant, not to be burdensome,
- (iii) regulation resulting from any possession of the Undivided Interest on or after the Lease Termination Date or (iv) regulation of the Owner Trustee which would be terminated by the appointment of a successor Owner Trustee or a co-Owner Trustee pursuant to the terms of the Trust Agreement.

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Nonseverable, when used with respect to any Capital Improvement, shall mean any Capital Improvement which is not a Severable Capital Improvement.

Noteholder shall mean any Holder from time to time of a Note Outstanding under the Indenture.

Notes shall mean the Fixed Rate Notes and any Additional Notes.

Notice of Closing shall have the meaning set forth in Section 5(a) of the Participation Agreement.

NRC shall mean the Nuclear Regulatory Commission of the United States of America or any successor agency.

NRC Order shall mean the Order of the NRC in the matter of Arizona Public Service Company, et al. (Palo Verde Nuclear Generating Station, Unit 1); Application In Respect Of A Sale And Leaseback Financing Transaction By Public Service Company Of New Mexico (Docket No. STN 50-528), December 12, 1985.

Nuclear Incident shall mean any occurrence causing bodily injury, sickness, disease, or death, or loss of or damage to, property, or the loss of use of property, arising out of or resulting from the radioactive, toxic, explosive or other hazardous properties of nuclear source, special nuclear or nuclear by-product material.

Officers' Certificate shall mean a certificate signed by the President or any Vice President and by the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Person with respect to which such term is used.

Operating Agent shall have the meaning assigned thereto in the ANPP Participation Agreement.

Original of the Facility Lease shall mean the fully executed counterpart of the Facility Lease, marked "This Counterpart is the Original Counterpart", pursuant to Section 22(e) of the Facility Lease and containing the receipt of the Indenture Trustee.

Outstanding, when used with respect to Notes, shall mean, as of the date of determination, all such Notes theretofore issued, authenticated and delivered under the Indenture, except (a) Notes theretofore cancelled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation, (b) Notes or portions thereof for the payment of which the Indenture Trustee holds (and has notified the holders thereof that it holds) in trust for that purpose an amount sufficient to make full payment thereof when due, (c) Notes or portions thereof which have been pledged as collateral for any obligations of the obligor thereof to the extent that an amount sufficient to make full payment of such obligations when due has been deposited with the pledgee of such Notes for the purpose of holding such amount in trust for the payment of such obligations in accordance with the indenture or agreement under which such obligations are secured and (d) Notes in exchange for, or in lieu of, which other Notes have been issued, authenticated and delivered pursuant to the Indenture; provided, however, that any Note owned by the Lessee or the Owner Trustee or any Affiliate of either thereof shall be disregarded and deemed not to be Outstanding for the purpose of any Directive.

Overdue Interest Rate shall mean the weighted average rate per annum of interest payable with respect to overdue payments of principal on the Notes Outstanding, computed as set forth in such Notes.

Owner Participant shall mean Chase Manhattan Realty Leasing Corporation, a New York corporation, and the successors and assigns of such Person in accordance with the Trust Agreement and the Participation Agreement.

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Owner Participant's Liens shall mean Liens against the Trust Estate or the Lease Indenture Estate (other than Permitted Liens) for which the Lessee is not responsible and which result from acts of, or any failure to act by, or as a result of claims against, the Owner Participant unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents.

Owner Participant's Special Arizona Counsel shall mean Meyer, Hendricks, Victor, Osborne & Maledon, 2700 North Third Street, Suite 4000, Phoenix, Arizona 85004.

Owner Participant's Special NRC Counsel shall mean Shaw, Pittman, Potts & Trowbridge, 1800 M Street, N.W., Washington, D.C. 20036.

Owner Participant's Special New Mexico Counsel shall mean Rodey, Dickason, Sloan, Akin & Robb, P.A., 20 First Plaza, Suite 700, Albuquerque, New Mexico 87103.

Owner Participant's Special Counsel shall mean Milbank, Tweed, Hadley & McCloy, One Chase Manhattan Plaza, New York, New York, 10005.

Owner Trustee shall mean The First National Bank of Boston, a national banking association, not in its individual capacity, but solely as Owner Trustee under the Trust Agreement, and each successor as trustee, separate trustee and co-trustee thereunder.

Owner Trustee's Counsel shall mean Csaplar & Bok, 1 Winthrop Square, Boston, Massachusetts 02110.

Participation Agreement shall mean the Participation Agreement, dated as of December 15, 1986, among the Owner Trustee, the Indenture Trustee, Funding Corp, the Owner Participant and PNM.

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Penalty Rate shall mean the greater of 2% per annum in excess of the Prime Rate and 2% per annum in excess of the weighted average rate of interest on the Bonds.

Permitted Liens shall mean (i) the respective rights and interests of the Lessee, the Owner Participant, the Lessor, the Loan Participant and the Indenture Trustee, as provided in the Transaction Documents; (ii) the rights of any sublessee or assignee under a sublease or an assignment permitted by the terms of the Facility Lease; (iii) the Lien of the Existing Mortgage on the leasehold estate under the Facility Lease; (iv) Liens for taxes either not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, so long as such proceedings shall not (x) involve any danger of the sale, forfeiture or loss of the Undivided Interest or the Real Property Interest or any part thereof or interest therein of the Lessor or the Owner Participant, (y) interfere with the use, possession or disposition of the Undivided Interest or the Real Property Interest, or any part thereof or interest therein, or (z) impair payment of Rent; (v) inchoate materialmen's, mechanics', workmen's, repairmen's, employees', carriers', warehousemen's, or other like Liens arising in the ordinary course of business for PVNGS, and not delinquent; (vi) Lessor's Liens, Owner Participant's Liens and Indenture Trustee's Liens; (vii) choate Liens that have been bonded for the full amount in dispute or as to which other satisfactory security arrangements shall have been made and which are being contested diligently by the appropriate party in good faith and by appropriate proceedings so long as such proceedings shall not violate clause (x), (y) or (z) of clause (iv) above; (viii) choate Liens of any of the types described in clause (v) above that have been bonded for the full amount in dispute or as to which other satisfactory security arrangements shall have been made and which arise out of judgments or awards and with respect to which (A) an appeal or proceeding for review is being prosecuted in good faith and for the payment of which adequate reserves shall have been provided as required by generally accepted accounting principles and

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(B) there shall have been secured a stay of execution pending such appeal or proceeding for review, so long as such proceedings shall not violate clause (x), (y) or (z) of clause (iv) above; (ix) the rights and interests of the Lessee under the Assignment and Assumption; (x) the rights of the NRC under the License; (xi) the rights of the ANPP Participants (other than (i) the Lessee and (ii) any Person who shall become an ANPP Participant in respect of the Undivided Interest and the Real Property Interest) under the ANPP Participation Agreement or any other ANPP Project Agreement; and (xii) Liens on the undivided ownership interests in Unit 1 of the ANPP Participants and other Persons (other than the Lessee).

Person shall mean any individual, partnership, corporation, trust, unincorporated association or joint venture, a government or any department or agency thereof, or any other entity.

PNM shall mean Public Service Company of New Mexico, a New Mexico corporation.

Price-Anderson Act shall mean the Price-Anderson Act, Pub. L. No. 85-256, 71 Stat. 576 (1957), as amended to the Closing Date.

Pricing Assumptions shall mean the pricing assumptions set forth in Schedule 2 to the Participation Agreement.

Prime Rate shall mean the rate of interest per annum equal to the prime commercial rate of The Chase Manhattan Bank (National Association), as announced from time to time at its principal office in New York, New York, in effect from time to time.

Project Insurance shall have the meaning assigned thereto in the ANPP Participation Agreement.

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Project Manager shall have the meaning assigned thereto in the ANPP Participation Agreement.

Purchase Documents shall mean the Bill of Sale, the Deed and the Assignment of Beneficial Interest and such other documents as the Owner Participant, the Owner Trustee, the Indenture Trustee, the Loan Participant or their respective counsel shall deem desirable to convey good and marketable title to the Undivided Interest and the Real Property Interest to the Trust.

Purchase Price shall have the meaning set forth in Section 4(a) of the Participation Agreement.

PVNGS shall mean the Arizona Nuclear Power Project, as that term is defined in the ANPP Participation Agreement.

PVNGS Site shall mean the interest in the Arizona land trust and the real property described in Exhibit A to the Bill of Sale.

Real Estate Investment shall have the meaning set forth in Section 3 of the Participation Agreement.

Real Property Interest shall mean the right, title and interest of the Owner Trustee acquired pursuant to the Deed and the Assignment of Beneficial Interest.

Reasonable Basis for a position shall exist if tax counsel may properly advise reporting such position on a tax return in accordance with Formal Opinion 85-352 issued by the Standing Committee on Ethics and Professional Responsibility of the American Bar Association.

Registration Statement shall mean the registration statements on Form S-3 (File Nos. 33-2031 and 33-8650), as amended, and any other similar registration statement, including all exhibits and all documents incorporated in any such registration statement by reference, filed with the SEC under the Securities Act

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in connection with the offer, issue and sale of the Series B Bonds.

Regulations shall mean the income tax regulations issued, published or promulgated under the Code.

Renewal Term shall have the meaning set forth in Section 12 of the Facility Lease.

Rent shall mean Basic Rent and Supplemental Rent.

Requisition of Title shall mean any circumstance or event in consequence of which Unit 1 or the Undivided Interest shall be condemned or seized or title thereto shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise and all administrative or judicial appeals opposing such condemnation, seizure or taking shall have been exhausted or the period for such appeal shall have expired.

Requisition of Use shall mean any circumstance or event in consequence of which the use of Unit 1 or the Undivided Interest shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise, other than a Requisition of Title.

Responsible Officer shall mean, with respect to the subject matter of any covenant, agreement or obligation of any party contained in any Transaction Document, the President, or any Vice President, Assistant Vice President, Treasurer, Assistant Treasurer or other officer who in the normal performance of his operational responsibility would have knowledge of such matter and the requirements with respect thereto.

Retained Assets shall mean (i) the Lessee's ownership interest in PVNGS other than the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, (ii) Severable Capital Improvements title to the undivided interest in which is retained by the Lessee in accordance with Section 8(e)

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of the Facility Lease, and (iii) any additional interest in and to PVNGS (other than the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest) to which the Lessee becomes entitled in consequence of Sections 16.2 or 23.5 of the ANPP Participation Agreement (except as otherwise provided in Section 5(a) or 19 of the Facility Lease).

Sale Proceeds shall mean, with respect to any sale of the Undivided Interest and the Real Property Interest by the Lessor to any Person other than the Lessee, the gross proceeds of such sale payable in cash, less all costs and expenses whatsoever incurred by the Lessor and the Owner Participant in connection therewith.

Salt River shall mean Salt River Project Agricultural Improvement and Power District, an Arizona agricultural improvement district.

SCPPA shall mean Southern California Public Power Authority, a California joint powers agency (doing business in Arizona as Southern California Public Power Authority Association).

SEC shall mean the Securities and Exchange Commission of the United States of America or any successor agency.

Section 6(c) Application shall mean Funding Corp's Application for an Order under Section 6(c) of the Investment Company Act of 1940 Exempting First PV Funding Corporation from All Provisions of such Act, as filed with the SEC on September 20, 1985, as amended by an Amendment No. 1 thereto dated November 8, 1985 and Amendment No. 2 thereto dated November 25, 1985.

Securities Act shall mean the Securities Act of 1933, as amended.



Securities Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Series B Bonds shall mean the Lease Obligation Bonds, Series 1986B of Funding Corp, issued, authenticated and delivered pursuant to the Underwriting Agreement and the Collateral Trust Indenture, as supplemented and amended by the Series B Supplemental Indenture.

Series B Supplemental Indenture shall mean the Collateral Trust Indenture Supplement dated as of November 18, 1986, providing, among other things, for the issuance, authentication and delivery of Funding Corp's Lease Obligation Bonds, Series 1986B.

Severable, when used with respect to any Capital Improvement, shall mean any Capital Improvement which can be removed from Unit 1 or the Common Facilities without materially damaging Unit 1 or the Common Facilities or materially diminishing or impairing the value, utility or condition which Unit 1 or the Common Facilities would have had if the applicable Capital Improvement had not been made.

Share shall mean a percentage equal to the percentage of Undivided Interest in Unit 1 or the Common Facilities, as the context so requires.

Southern California shall mean Southern California Edison Company, a California corporation.

Special Casualty Value shall mean (i) during the Basic Lease Term, the percentage of Facility Cost set forth opposite such date in Schedule 2 to the Facility Lease and (ii) during the Renewal Term, the amount determined by amortizing ratably the Fair Market Sales Value of the Undivided Interest as of the day following the last day of the Basic Term in monthly steps over the remaining term of the License determined pursuant to Section 13(a) of the Facility Lease. Anything contained in the Facility Lease to the contrary notwithstanding, Special Casualty Value shall be, when added to all other amounts which the Lessee is required to pay

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under Section 9(d) of the Facility Lease (taking into account any assumption of the Notes by the Lessee), under any circumstances and in any event, in an amount at least sufficient to pay in full, as of any date of payment, the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes.

Substituted Lessee shall have the meaning specified in Section 6.8(c) of the Indenture.

Supplemental Indenture of Pledge shall mean the Supplemented Indenture of Pledge, dated as of December 15, 1986, between the Loan Participant, the Lessee and the Collateral Trust Trustee, substantially in the form attached as Exhibit A to the Series B Supplemental Indenture.

Supplemental Financing shall mean a financing of the Supplemental Financing Amount of Capital Improvements made pursuant to Section 8(f) of the Facility Lease.

Supplemental Financing Amount shall mean that portion of 1.700000% of the cost of a Capital Improvement to Unit 1 and .566667% of the cost of a Capital Improvement to the Common Facilities that shall not exceed (i) the amount of the increase, if any, in the Owner Participant's basis in the Undivided Interest for purposes of section 1012 of the Code as a result of such Capital Improvement less (ii) the amount of the related Additional Equity Investment of the Lessor, if any.

Supplemental Rent shall have the meaning set forth in Section 3(b) of the Facility Lease.

Surviving Lessee shall have the meaning specified in Section 10(b)(3)(ii) of the Participation Agreement.

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Page 14 of 14

Tax shall mean any and all fees (including, without limitation, documentation, recording, filing, license and registration fees), taxes (including, without limitation, net income, franchise, value added, ad valorem, gross income, gross receipts, sales, use, property, personal and real, tangible and intangible, excise, and stamp taxes), levies, imposts, duties, charges, assessments, or withholdings of any nature whatsoever, general or specific, ordinary or extraordinary, together with any and all penalties, fines, additions to tax and interest thereon.

Tax Assumptions shall mean the assumptions set forth in Section 1(a) of the Tax Indemnification Agreement, with respect to the Federal income tax consequences of the transactions included or reflected in the Pricing Assumptions.

Tax Indemnification Agreement shall mean the Tax Indemnification Agreement, dated as of December 15, 1986, between PNM and the Owner Participant.

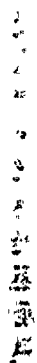
Termination Date shall have the meaning set forth in Section 14(a) of the Facility Lease.

Termination Event shall mean any early termination of the Facility Lease in accordance with Section 14 thereof.

Termination Notice shall have the meaning set forth in Section 14(a) of the Facility Lease.

Termination Obligation shall have the meaning set forth in Section 15.10.2 of the ANPP Participation Agreement (or any comparable successor provision).

Termination Value, as of any Basic Rent Payment Date during the Basic Lease Term; shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 3 to the Facility Lease. Anything contained in the Facility Lease to the contrary notwithstanding, Termination Value shall be, when added to all other amounts which the Lessee is required to pay under Section 14 of the Facility Lease,



under any circumstances and in any event, in an amount at least sufficient to pay in full as of any Basic Rent Payment Date the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes.

|| Transaction Documents shall mean | the | Participation Agreement, the Facility Lease, the Trust Agreement, the Indenture, the Extension Letter, the Tax Indemnification Agreement, the Mortgage Release, the Assignment and Assumption, each Purchase Document and the Notes.

Transaction Expenses shall have the meaning set forth in Section 14(a) of the Participation Agreement.

Transfer shall mean the transfer, by bill of sale or otherwise, by the Lessor of all the Lessor's right, title and interest in and to the Undivided Interest and the Real Property Interest and under the Assignment and Assumption on an "as is, where is" basis, free and clear of all Lessor's Liens and Owner Participant's Liens but otherwise without recourse, representation or warranty (including an express disclaimer of representations and warranties in a manner comparable to that set forth in the second sentence of Section 6(b) of the Facility Lease), together with the due assumption by the transferee of, and the due release of the Lessor from, all the Lessor's obligations under the Assignment and Assumption and the Assignment of Beneficial Interest by an instrument or instruments satisfactory in form and substance to the Lessor and the Owner Participant.

Transferee shall have the meaning assigned thereto in Section 15 of the Participation Agreement.

Trust shall mean the trust created by the Trust Agreement.

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Trust Agreement shall mean the Trust Agreement, dated as of December 15, 1986, between the Owner Participant and FNB.

Trust Estate shall have the meaning set forth in Section 2.03 of the Trust Agreement.

Trust Indenture Act shall mean the Trust Indenture Act of 1939, as amended.

Trustee's Expenses shall mean any and all liabilities, obligations, costs, compensation, fees, expenses and disbursements (including, without limitation, legal fees and expenses) of any kind and nature whatsoever (other than such amounts as are included in Transaction Expenses) which may be imposed on, incurred by or asserted against the Indenture Trustee or any of its agents, servants or personal representatives, in any way relating to or arising out of the Indenture, the Lease Indenture Estate, the Participation Agreement or the Facility Lease, or any document contemplated thereby, or the performance or enforcement of any of the terms thereof, or in any way relating to or arising out of the administration of such Lease Indenture Estate or the action or inaction of the Indenture Trustee under the Indenture; provided, however, that such amounts shall not include any Taxes or any amount expressly excluded from the Lessee's indemnity obligations pursuant to Section 13(a) or 13(b) of the Participation Agreement.

UCC or Uniform Commercial Code shall mean the Uniform Commercial Code as in effect in any applicable jurisdiction.

Underwriting Agreement shall mean the agreement among Funding Corp, PNM, Kidder Peabody, Goldman, Sachs & Co. and Drexel Burnham Lambert Incorporated (all acting either as underwriters or representatives of the underwriters named therein) relating to the purchase, sale and delivery of the Series B Bonds and any applicable pricing agreements.

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Underwriters' Counsel shall mean Willkie Farr & Gallagher, One Citicorp Center, 153 East 53rd Street, New York, New York 10022.

Undivided Interest shall mean a 1.700000% undivided interest in Unit 1 and a .566667% undivided interest in Common Facilities; the owner of the Undivided Interest shall be a tenant-in-common with the owners (including PNM, if it should be such an owner) of all other undivided interests in Unit 1 and the Common Facilities. Unless the context otherwise requires, Undivided Interest includes an appropriate portion of Generation Entitlement Share.

Undivided Interest Indenture Supplement shall mean the supplement to the Indenture substantially in the form of Exhibit C thereto pursuant to which the Owner Trustee causes the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture.

Undivided Interest Percentage shall mean 1.700000%; provided, however, that with respect to the portion of the Undivided Interest constituting Common Facilities, the Undivided Interest Percentage shall be a percentage equal to .566667%.

Uniform System of Accounts shall mean the Uniform System of Accounts prescribed for Public Utilities and Licensees subject to the provisions of the Federal Power Act (Class A and Class B), 18 CFR 101, as in effect on the date of execution of the Participation Agreement, as amended or modified from time to time after such date.

Unit 1 shall mean the 1,270 megawatt unit commonly known as Unit 1 at the Palo Verde Nuclear Generating Station, all as more fully described in Item A of Exhibit B to the Bill of Sale, together with all Capital Improvements thereto, but excluding all common facilities.

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Unit 1 Decommissioning Costs shall mean approximately \$23,000,000 (1986 dollars) (or such other amount as shall be determined by the Lessee, in good faith, in accordance with prudent utility practice) adjusted annually on the last day of each calendar year, for inflation using an inflation rate twice that indicated by the change in the Consumer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics for such calendar year, such adjustment to take effect on the first day of the succeeding calendar year.

Unit 1 Retained Assets shall mean (i) all resident fuel assemblies, equipment and personal property constituting part of the Generating Unit (as defined in the ANPP Participation Agreement) designated as Palo Verde Nuclear Generating Station Unit 1 (other than common facilities) owned by the Lessee but excluded from Unit 1 as set forth in Item A of Exhibit B to the Bill of Sale and (ii) a one-third interest in all equipment and personal and real property constituting PVNGS common facilities under the ANPP Participation Agreement owned by the Lessee but excluded from the Common Facilities as set forth in Item B of Exhibit B to the Bill of Sale.

User shall mean a Person unrelated to PNM (within the meaning of Section 318 of the Code) possessing the Undivided Interest after the Lease Termination Date.

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DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

11

TRUST AGREEMENT

Dated as of December 15, 1986

between

CHASE MANHATTAN REALTY LEASING CORPORATION,
as Owner Participant

and

THE FIRST NATIONAL BANK OF BOSTON,
as Owner Trustee

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1
and a .566667% Undivided Interest in Certain Common
Facilities

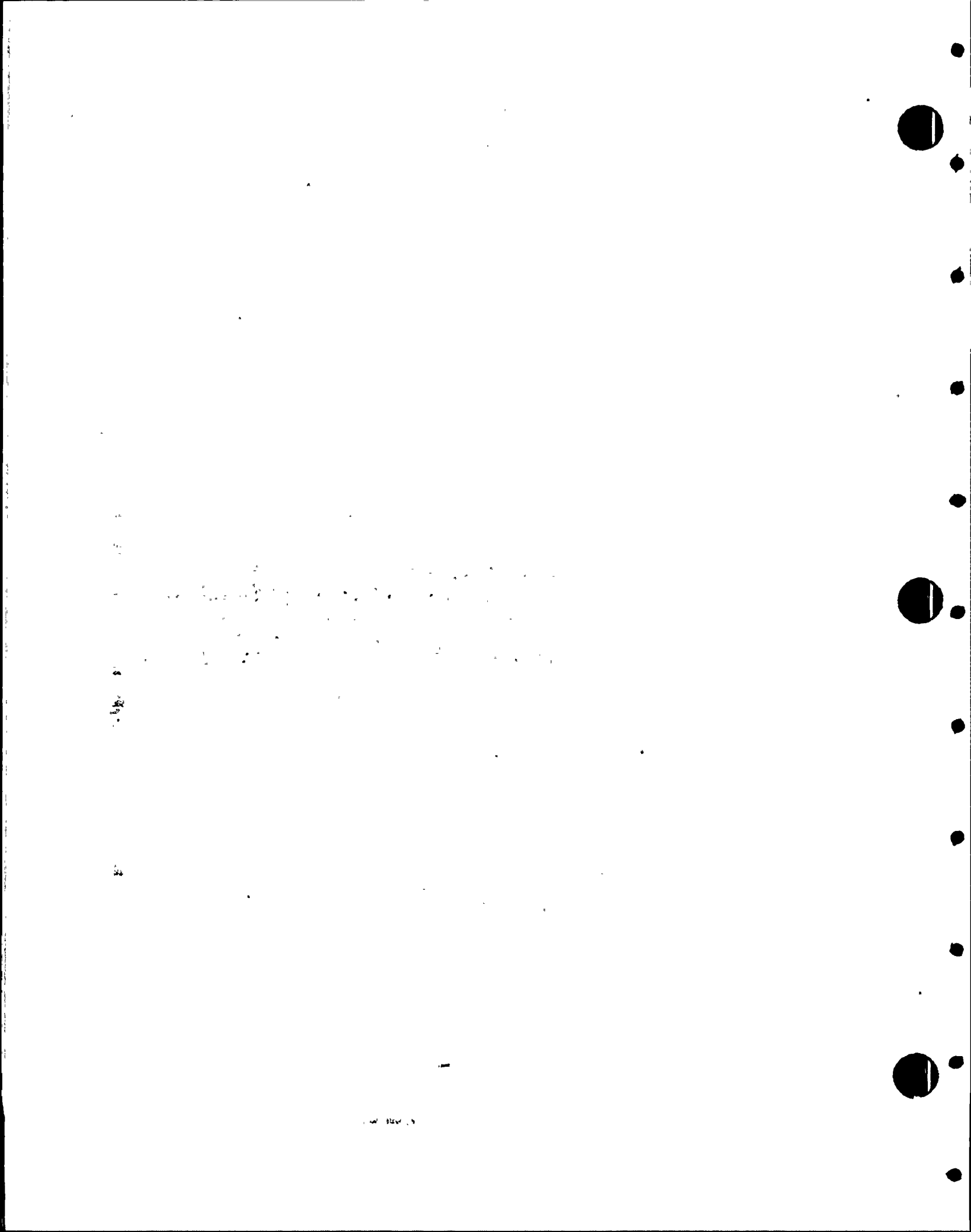


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TRUST AGREEMENT

TRUST AGREEMENT, dated as of December 15, 1986, between CHASE MANHATTAN REALTY LEASING CORPORATION, a New York corporation, as Owner Participant (the Owner Participant) and THE FIRST NATIONAL BANK OF BOSTON, a national banking association (the Owner Trustee).

W I T N E S S E T H:

WHEREAS, the Owner Participant desires to acquire the Undivided Interest and the Real Property Interest through the Trust created hereby; and

WHEREAS, The First National Bank of Boston is willing to act as Owner Trustee and to accept the Trust created hereby;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Appendix A to the Participation Agreement dated as of December 15, 1986 among the Owner Participant, First PV Funding Corporation, the Owner Trustee, Chemical Bank and Public Service Company of New Mexico. References in this Agreement to articles, sections, paragraphs and clauses are to articles, sections, paragraphs and clauses of this Agreement unless otherwise indicated.

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Figure 1

ARTICLE II

AUTHORITY TO EXECUTE AND PERFORM VARIOUS DOCUMENTS; RATIFICATION AND CONFIRMATION; DECLARATION OF TRUST BY THE OWNER TRUSTEE

SECTION 2.01. Authority To Execute and Perform Various Documents. The Owner Participant hereby authorizes and directs the Owner Trustee (i) to execute and deliver each Transaction Document to which the Owner Trustee is a party and to execute and request the Indenture Trustee to issue, authenticate and deliver the Fixed Rate Notes (each such Transaction Document, including the Fixed Rate Notes, to be in the form approved by the Owner Participant), (ii) to execute and deliver all other agreements, instruments and certificates contemplated by the documents referred to in clause (i), (iii) to take whatever action shall be required to be taken by the Owner Trustee by the terms of, and exercise its rights and perform its duties under, each of the documents, agreements, instruments and certificates referred to in clauses (i) and (ii) above as set forth in such documents, agreements, instruments and certificates and (iv) subject to the terms of this Agreement, to take such other action in connection with the foregoing as the Owner Participant may from time to time direct.

SECTION 2.02. Ratification and Confirmation. By certificate dated November 24, 1986 (the Section 15.6.1 Certificate), the Owner Trustee confirmed the matters required to be confirmed on the part of a lessor in a sale and leaseback transaction under Section 15.6.1 of the ANPP Participation Agreement, a copy of which certificate is attached hereto as Schedule 1. The Owner Participant, by its execution and delivery of this Agreement, ratifies and confirms the execution and delivery by the Owner Trustee of the Section 15.6.1 Certificate.

SECTION 2.03. Declaration of Trust by the Owner Trustee. The Owner Trustee hereby declares that it will hold all estate, right, title and interest of the Owner Trustee in and to the Undivided Interest, the Real Property Interest, the Transaction Documents and any other property contributed by the Owner Participant, including without limitation all amounts of Rent, insurance proceeds and requisition, indemnity or other

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payments of any kind, but specifically excluding any Excepted Payments (collectively, the Trust Estate), upon the trusts set forth herein and for the use and benefit of the Owner Participant.

ARTICLE III

PAYMENTS

SECTION 3.01. Payments from Trust Estate Only. All payments to be made by the Owner Trustee under this Agreement shall be made only from the income and proceeds from the Trust Estate and only to the extent that the Owner Trustee shall have received income or proceeds from the Trust Estate to make such payments in accordance with the terms hereof, except as specifically provided in Section 6.01. The Owner Participant agrees that it will look solely to the income and proceeds from the Trust Estate to the extent available for payment as herein provided and that, except as specifically provided herein, the Owner Trustee shall not be liable to the Owner Participant for any amounts payable under this Agreement and shall not be subject to any liability under this Agreement.

SECTION 3.02. Method of Payment. All amounts payable to the Owner Participant pursuant to this Agreement shall be paid or cause to be paid by the Owner Trustee to the Owner Participant, or its nominee, by crediting the amount to be distributed to the Owner Participant to an account maintained by the Owner Participant with the Owner Trustee in immediately available funds or by transferring such amount in immediately available funds to a banking institution with bank wire transfer facilities for the account of the Owner Participant, as instructed from time to time by the Owner Participant.

ARTICLE IV

DISTRIBUTIONS

SECTION 4.01. Distributions. Subject to the terms and requirements of the Transaction Documents, all payments and amounts received by or on behalf of the Owner Trustee shall be distributed forthwith upon receipt in the following order of priority: first, so

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much of such payment or amount as shall be required to pay or reimburse the Owner Trustee for any fees or expenses (including reasonable attorneys' fees and expenses) not otherwise paid or reimbursed to the Owner Trustee as to which the Owner Trustee is entitled to be paid or reimbursed hereunder shall be retained by the Owner Trustee; and, second, the balance, if any, of such payment or amount remaining thereafter shall be distributed to the Owner Participant. |

ARTICLE V

DUTIES OF THE OWNER TRUSTEE

SECTION 5.01. Notice of Certain Events. In the event the Owner Trustee shall have knowledge of any Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event, the Owner Trustee shall give prompt written notice thereof to the Owner Participant, the Lessee, the Loan Participant and the Indenture Trustee unless such Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event no longer exists before the giving of such notice. Subject to the provisions of Section 5.03, the Owner Trustee shall take or refrain from taking such action, not inconsistent with the provisions of the Transaction Documents, with respect thereto as the Owner Participant shall direct by written instruction to the Owner Trustee. If the Owner Trustee shall have given the Owner Participant written notice of any event and shall not have received written instructions as above provided within 30 days after mailing notice of such event to the Owner Participant, the Owner Trustee may, subject to the provisions of the Transaction Documents, take or refrain from taking such action, but shall be under no duty to, and shall have no liability for its failure or refusal to, take or refrain from taking any action with respect thereto as the Owner Trustee shall deem advisable and in the best interests of the Owner Participant. For all purposes of this Agreement, in the absence of actual knowledge of an officer in the corporate trust division of the Owner Trustee, the Owner Trustee shall not be deemed to have knowledge of any Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event unless the Owner Trustee receives written notice thereof given by or on behalf of the Owner Participant, the Lessee, the Loan

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Participant, the Indenture Trustee or any Holder of a Note.

SECTION 5.02. Action upon Instructions.

Subject to the terms of Sections 5.01 and 5.03, upon the written instructions of the Owner Participant, the Owner Trustee will take or refrain from taking such action or actions, not inconsistent with the provisions of the Transaction Documents, as may be specified in such instructions.

SECTION 5.03. Indemnification. The Owner Trustee shall not be required to take or refrain from taking any action under this Agreement or any other Transaction Document (other than the actions specified in the first sentence of Section 5.01) unless the Owner Trustee shall have been indemnified by the Lessee or, if the Owner Trustee reasonably believes such indemnity to be inadequate, by the Owner Participant, in manner and form reasonably satisfactory to the Owner Trustee, against any liability, fee, cost or expense (including reasonable attorneys' fees and expenses) which may be incurred or charged in connection therewith, other than such as may result from the willful misconduct or gross negligence of the Owner Trustee; and, if the Owner Participant shall have directed the Owner Trustee to take or refrain from taking any action under any Transaction Document, the Owner Participant agrees to furnish such indemnity by a written undertaking of indemnification and, in addition, to pay the reasonable compensation of the Owner Trustee for the services performed or to be performed by it pursuant to such direction. The Owner Trustee shall not be required to take any action under any Transaction Document if the Owner Trustee shall reasonably determine, or shall have been advised by counsel, that such action is likely to result in personal liability for which the Owner Trustee has not been and will not be adequately indemnified or is contrary to the terms hereof or of any document contemplated hereby to which the Owner Trustee is a party or is otherwise contrary to law.

SECTION 5.04. No Duties Except as Specified in Trust Agreement or Instructions. The Owner Trustee shall not have any duty or obligation to manage, control, use, make any payment in respect of, register, record, insure, inspect, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or any other part of the Trust Estate, or to

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otherwise take or refrain from taking any action under or in connection with any document contemplated hereby to which the Owner Trustee is a party, except as expressly provided by the terms of this Agreement or in written instructions from the Owner Participant received pursuant to Section 5.01 or 5.02; and no implied duties or obligations shall be read into this Agreement against the Owner Trustee. The Owner Trustee nevertheless agrees that it will, in its individual capacity and at its own cost and expense, promptly take all action as may be necessary to discharge any Lessor's Liens arising by, through or under it on any part of the Trust Estate.

SECTION 5.05. No Action Except Under Specified Documents or Instructions. The Owner Trustee agrees that it will not manage, control, use, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or any other part of the Trust Estate except (i) as required by the terms of the Transaction Documents, (ii) in accordance with the powers granted to, or the authority conferred upon, such Owner Trustee pursuant to this Agreement or (iii) in accordance with the express terms hereof or with written instructions from the Owner Participant pursuant to Section 5.01 or 5.02.

SECTION 5.06. Absence of Duties. Except in accordance with written instructions furnished pursuant to Section 5.01 and 5.02, and without limitation of the generality of Section 5.04, the Owner Trustee shall not have any duty to (i) file, record or deposit any Transaction Document or any other document, or to maintain any such filing, recording or deposit or to refile, rerecord or redeposit any such document, (ii) obtain insurance on the Undivided Interest or the Real Property Interest or effect or maintain any such insurance, other than to receive and forward to the Owner Participant any notices, policies, certificates or binders furnished to the Owner Trustee pursuant to the Facility Lease, (iii) maintain Unit 1, the Undivided Interest or the Real Property Interest, (iv) pay or discharge any Tax or any Lien owing with respect to or assessed or levied against any part of the Trust Estate, except as provided in the last sentence of Section 5.04, other than to receive and forward notice of such Tax or Lien to the Owner Participant, (v) confirm, verify, investigate or inquire into the failure to receive any reports or financial statements of the Lessee, (vi) inspect Unit 1 at any

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Figure 1

time or ascertain or inquire as to the performance or observance of any of the covenants of the Lessee or any other Person under any Transaction Document with respect to the Undivided Interest, the Real Property Interest or Unit 1 or (vii) manage, control, use, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or Unit 1 or any part thereof or any other part of the Trust Estate, except as provided in Section 5.05.

ARTICLE VI

THE OWNER TRUSTEE

SECTION 6.01. Acceptance of Trust and Duties. The Owner Trustee accepts the trusts hereby created and agrees to perform the same, but only upon the terms of this Agreement. The Owner Trustee also agrees to disburse all moneys actually received by it constituting part of the Trust Estate upon the terms of this Agreement. The Owner Trustee shall not be answerable or accountable under any circumstances, except for (i) its own wilful misconduct or gross negligence, (ii) the inaccuracy of any of its representations or warranties contained in Section 6.03 or under Section 8(a) of the Participation Agreement given expressly in its individual capacity, (iii) its failure to perform obligations expressly undertaken by it in the last sentence of Section 5.04 of this Agreement or in Section 8(b) of the Participation Agreement or (iv) Taxes based on or measured by any fees, commissions or compensation received by it for acting as trustee in connection with any of the transactions contemplated by the Transaction Documents.

SECTION 6.02. Furnishing of Documents. The Owner Trustee will furnish to the Owner Participant, promptly upon receipt thereof, duplicates or copies of all reports, notices, requests, demands, opinions, certificates, financial statements and any other instruments furnished to the Owner Trustee hereunder or under the Transaction Documents, unless by the express terms of any Transaction Document a copy of the same is required to be furnished by some other Person directly to the Owner Participant, or the Owner Trustee shall have determined that the same has already been furnished to the Owner Participant.

SECTION 6.03. No Representations or Warranties as to the Undivided Interest, the Real Property Interest, Unit 1 or Documents. The Owner Trustee makes (i) NO REPRESENTATION OR WARRANTY AS TO THE TITLE, VALUE, CONDITION, DESIGN, OPERATION, MERCHANTABILITY OR FITNESS FOR USE OF THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST, UNIT 1 OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST OR UNIT 1 WHATSOEVER, except that the Owner Trustee hereby represents, warrants and covenants to the Owner Participant that it will comply with the last sentence of Section 5.04, and (ii) no representation or warranty as to the validity or enforceability of any Transaction Document or as to the correctness of any statement made by any Person other than the Owner Trustee, contained in any thereof, and except that the Owner Trustee represents, warrants and covenants to the Owner Participant that this Agreement has been and each of such other documents which contemplates execution thereof by the Owner Trustee has been or will be executed and delivered by its officers who are, or will be, duly authorized to execute and deliver such documents on its behalf.

SECTION 6.04. No Segregation of Moneys; No Interest. Except as otherwise provided herein or in any of the Transaction Documents, moneys received by the Owner Trustee hereunder need not be segregated in any manner, except to the extent required by law, and may be deposited under such general conditions as may be prescribed by law, and the Owner Trustee shall not be liable for any interest thereon, except as may be agreed to by the Owner Trustee.

SECTION 6.05. Reliance; Advice of Counsel. The Owner Trustee shall not incur any liability to any Person in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper believed by it to be genuine and believed by it in good faith to be signed by the proper party or parties. The Owner Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the manner of ascertainment of which is not specifically prescribed herein, the Owner Trustee may for all purposes hereof rely on an Officers' Certificate

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of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to the Owner Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon. In the administration of the trusts hereunder, the Owner Trustee may execute any of the trusts or powers hereof and perform its powers and duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled Persons to be selected and employed by it, and the Owner Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion within the scope of such Person's competence of any such counsel, accountants or other skilled Persons and not contrary to this Agreement.

SECTION 6.06. Not Acting in Individual Capacity. Except as provided in this Article VI, in accepting the trusts hereby created the Owner Trustee acts solely as trustee hereunder and not in its individual capacity; and all Persons having any claim against the Owner Trustee by reason of the transactions contemplated by the Transaction Documents shall look only to the Trust Estate (or a part thereof, as the case may be) for payment or satisfaction thereof, except as specifically provided in this Article VI and except to the extent the Owner Trustee shall otherwise agree in any Transaction Document to which it is a party.

ARTICLE VII

INDEMNIFICATION OF THE OWNER TRUSTEE BY THE OWNER PARTICIPANT

SECTION 7.01. The Owner Participant To Indemnify the Owner Trustee. The Owner Participant agrees to assume liability for, and to indemnify and hold harmless the Owner Trustee and FNB against and from, any and all Expenses which may be imposed on, incurred by or asserted at any time against the Owner Trustee (and not indemnified by the Lessee within a reasonable time after demand therefor) in any way relating to or arising out of the Trust Estate, any of the properties included therein, the administration of the Trust Estate or any action or inaction of the Owner Trustee hereunder or under the Transaction Documents, except only that the Owner Participant shall not be required to indemnify the Owner Trustee for Expenses arising or

resulting from any of the matters described in the last sentences of Sections 5.04 and 6.01. The indemnities contained in this Section 7.01 shall survive the termination of this Agreement.

SECTION 7.02. Compensation and Expenses. The Owner Trustee shall receive as compensation for its services hereunder such ordinary fees as are fair, reasonable, and customary for the performance of such services and as may heretofore and from time to time hereafter be agreed upon between the Owner Participant and the Owner Trustee. The Owner Trustee shall be entitled to be reimbursed for its reasonable expenses hereunder and to be compensated reasonably for any extraordinary services rendered hereunder.

ARTICLE VIII

TERMINATION OF TRUST AGREEMENT

SECTION 8.01. Termination of Trust Agreement. This Agreement and the trusts created hereby shall terminate and the Trust Estate shall, subject to the Participation Agreement, the Indenture and Article IV of this Agreement, be distributed to the Owner Participant, and this Agreement shall be of no further force or effect, upon the earlier of (i) the sale or other final disposition by the Owner Trustee of all property constituting part of the Trust Estate and the final distribution by the Owner Trustee of all moneys or other property or proceeds constituting part of the Trust Estate in accordance with the terms of Article IV and (ii) 21 years less one day after the death of the last survivor of all of the descendants living on the date of this Agreement of the present members of the Boards of Directors of the Owner Trustee and The Chase Manhattan Corporation, but if any such rights, privileges or options shall be or become valid under Applicable Law for a period subsequent to the 21st anniversary of the death of such last survivor (or, without limiting the generality of the foregoing, if legislation shall become effective providing for the validity or permitting the effective grant of such rights, privileges and options for a period in gross exceeding the period for which such rights, privileges and options are hereinabove stated to extend and be valid), then such rights, privileges or options shall not terminate as aforesaid but shall extend to and continue in effect, but only if

such nontermination and extension shall then be valid under Applicable Law, until such time as the same shall, under Applicable Law, cease to be valid.

SECTION 8.02. Termination at Option of the Owner Participant. Notwithstanding Section 8.01, this Agreement and the trusts created hereby shall terminate and the Trust Estate shall be distributed to the Owner Participant, and this Agreement shall be of no further force and effect, upon the election of the Owner Participant by notice to the Owner Trustee, if such notice shall be accompanied by the written agreement of the Owner Participant assuming all the obligations of the Owner Trustee under or contemplated by the Transaction Documents and all other obligations of the Owner Trustee incurred by it as trustee hereunder; provided, however, that no such election shall be effective until the lien of the Indenture on the Lease Indenture Estate has been released and until full payment of the principal of and premium, if any, and interest on the Notes has been made and the lien contemplated by Section 7(b)(4) of the Participation Agreement has been released. Such written agreement shall be reasonably satisfactory in form and substance to the Owner Trustee and shall release the Owner Trustee from all further obligations of the Owner Trustee hereunder and under the agreements and other instruments mentioned in the preceding sentence.

ARTICLE IX

SUCCESSOR OWNER TRUSTEES, CO-OWNER TRUSTEES AND SEPARATE OWNER TRUSTEES

SECTION 9.01. Resignation of the Owner Trustee; Appointment of Successor. (a) The Owner Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Owner Participant, the Indenture Trustee, the Holders of the then Outstanding Notes and the Lessee, such resignation to be effective on the acceptance of appointment by a successor Owner Trustee under Section 9.01(b). In addition, the Owner Participant may at any time remove the Owner Trustee with or without cause by an instrument in writing delivered to the Owner Trustee, such removal to be effective upon the acceptance of appointment by a successor owner trustee under Section 9.01(b). In case

Figure 1. The effect of the concentration of the *Agrobacterium* suspension on the transformation efficiency of *Agrobacterium* strains.

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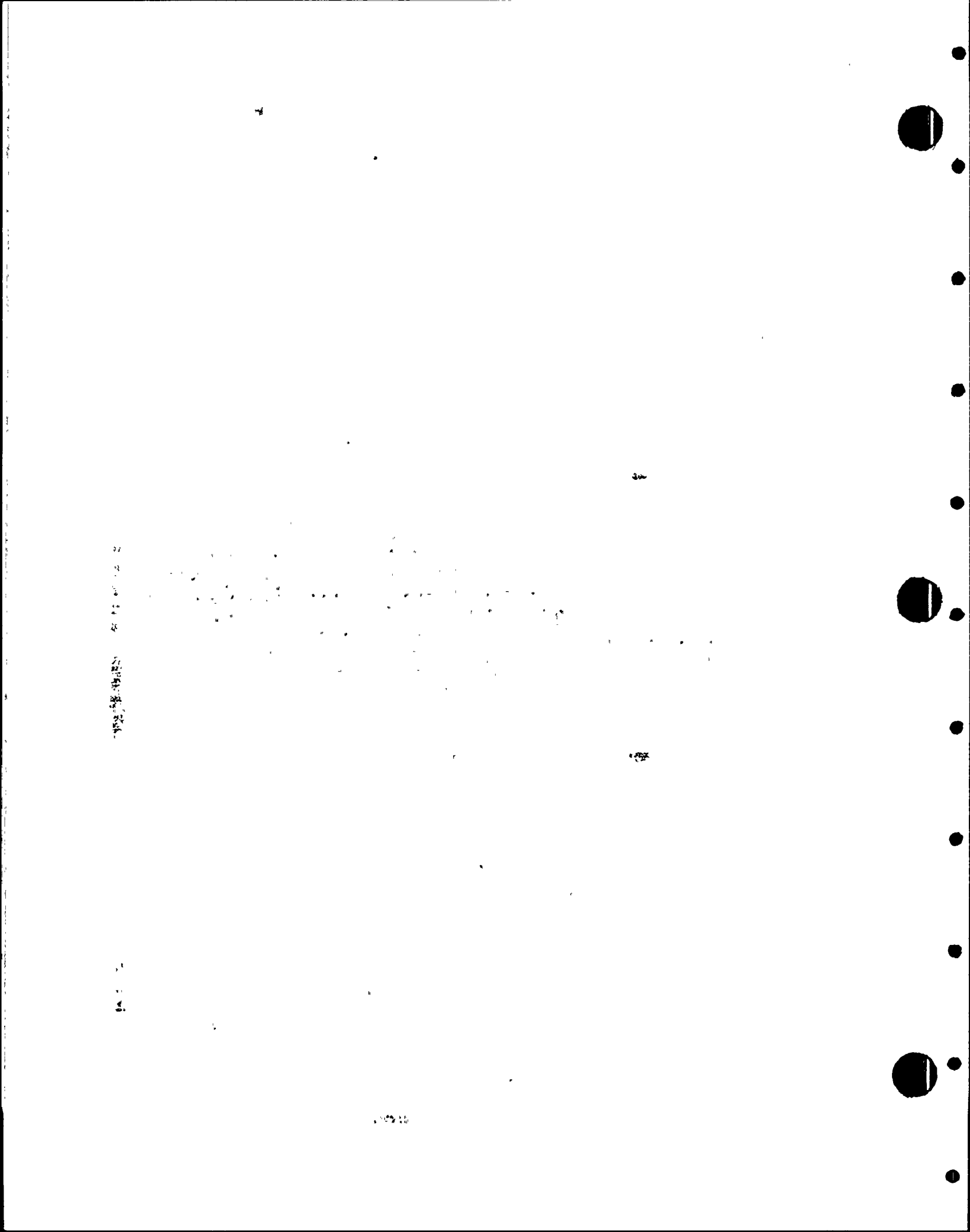
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of the resignation or removal of the Owner Trustee, the Owner Participant may appoint a successor Owner Trustee by an instrument signed by the Owner Participant. If a successor Owner Trustee shall not have been appointed within 30 days after the giving of written notice of such resignation or the delivery of the written instrument with respect to such removal, the Owner Trustee or the Owner Participant may apply to any court of competent jurisdiction to appoint a successor Owner Trustee to act until such time, if any, as a successor shall have been appointed and shall have accepted its appointment as above provided. Any successor Owner Trustee so appointed by such court shall immediately and without further act be superseded by any successor Owner Trustee appointed as above provided within one year from the date of the appointment by such court.

(b) Any successor Owner Trustee, however appointed, shall execute and deliver to the predecessor Owner Trustee an instrument accepting such appointment, and thereupon such successor Owner Trustee, without further act, shall become vested with all the estates, properties, rights, powers, duties and trusts of the predecessor Owner Trustee in the trusts hereunder with like effect as if originally named an Owner Trustee herein; but nevertheless, upon the written request of such successor Owner Trustee, such predecessor Owner Trustee shall execute and deliver an instrument transferring to such successor Owner Trustee, upon the trusts herein expressed, all the estates, properties, rights, powers, duties and trusts of such predecessor Owner Trustee, and such predecessor Owner Trustee shall duly assign, transfer, deliver and pay over to such successor Owner Trustee all moneys or other property then held by such predecessor Owner Trustee upon the trusts herein expressed.

(c) Any successor Owner Trustee, however appointed, shall be a bank or trust company incorporated and doing business within the United States of America and having a combined capital and surplus of at least \$50,000,000, if there be such an institution willing, able and legally qualified to perform the duties of Owner Trustee hereunder upon reasonable or customary terms.

(d) Any corporation into which the Owner Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any



merger, conversion or consolidation to which the Owner Trustee shall be a party, or any corporation to which substantially all the corporate trust business of the Owner Trustee may be transferred, shall, subject to the terms of Section 9.01(c), be the Owner Trustee under this Agreement without further act.

SECTION 9.02. Co-Trustees and Separate Trustees. Whenever the Owner Trustee or the Owner Participant shall deem it necessary or prudent in order either to conform to any law of any jurisdiction in which all or any part of the Trust Estate shall be situated or to make any claim or bring any suit with respect to the Trust Estate, the Notes or any Transaction Document, or the Owner Trustee or the Owner Participant shall be advised by counsel satisfactory to it that it is so necessary or prudent, the Owner Trustee and the Owner Participant shall execute and deliver an agreement supplemental hereto and all other instruments and agreements, and shall take all other action, necessary or proper to constitute one or more Persons (and the Owner Trustee may appoint one or more of its officers) either as co-trustee or co-trustees jointly with the Owner Trustee of all or any part of the Trust Estate, or as separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Persons, in such capacity, such title to the Trust Estate or any part thereof and such rights or duties as may be necessary or desirable, all for such period and under such terms and conditions as are satisfactory to the Owner Trustee and the Owner Participant. In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the Trust Estate and all rights and duties of such co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Owner Trustee, without the appointment of a successor to such co-trustee or separate trustee.

ARTICLE X

SUPPLEMENTS AND AMENDMENTS

SECTION 10.01. Supplements and Amendments. At the written request of the Owner Participant, this Agreement shall be amended by a written instrument signed by the Owner Trustee and the Owner Participant, but if in the opinion of the Owner Trustee any

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instrument required to be so executed adversely affects any right, duty or liability of, or immunity or indemnity in favor of, it under this Agreement or any of the documents contemplated hereby to which it is a party, or would cause or result in any conflict with or breach of any terms, conditions or provisions of, or default under, its charter documents or by-laws or any document contemplated hereby to which it is a party, the Owner Trustee may [in its sole] discretion decline to execute such instrument, unless it shall have been provided an indemnity satisfactory to the Owner Trustee by the Owner Participant.

SECTION 10.02. Limitation on Amendments.

Notwithstanding Section 10.01, the Owner Trustee shall not, without the consent of the Indenture Trustee, execute any amendment which might result in the trusts created hereunder being terminated prior to the release of the lien of the Indenture on the Lease Indenture Estate or prior to the payment in full of the principal of and premium, if any, and interest on the Notes.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. No Legal Title to Trust Estate in the Owner Participant. The Owner Participant shall not have legal title to any part of the Trust Estate. No transfer, by operation of law or otherwise, of any right, title or interest of the Owner Participant in and to the Trust Estate or hereunder shall operate to terminate this Agreement or the trusts hereunder or entitle any successor or transferee to an accounting or to the transfer to it of legal title to any part of the Trust Estate.

SECTION 11.02. Sale of Undivided Interest and/or Real Property Interest by the Owner Trustee is Binding. Any sale or other conveyance of the Undivided Interest, the Real Property Interest or any part thereof or any assignment of rights under the Assignment and Assumption by the Owner Trustee made pursuant to the terms of this Agreement or any other Transaction Document shall bind the Owner Participant and shall be effective to transfer and convey all right, title and interest of the Owner Trustee and the Owner Participant in and to the Undivided Interest, the Real Property

1. The first part of the report is a summary of the work done during the year.

2. The second part is a detailed account of the work done during the year.

3. The third part is a summary of the work done during the year.

Interest or any part thereof, or such rights under the Assignment and Assumption, as the case may be. No purchaser or other grantee shall be required to inquire as to the authorization, necessity, expediency or regularity of such sale or conveyance or as to the application of any sale or other proceeds with respect thereto by the Owner Trustee.

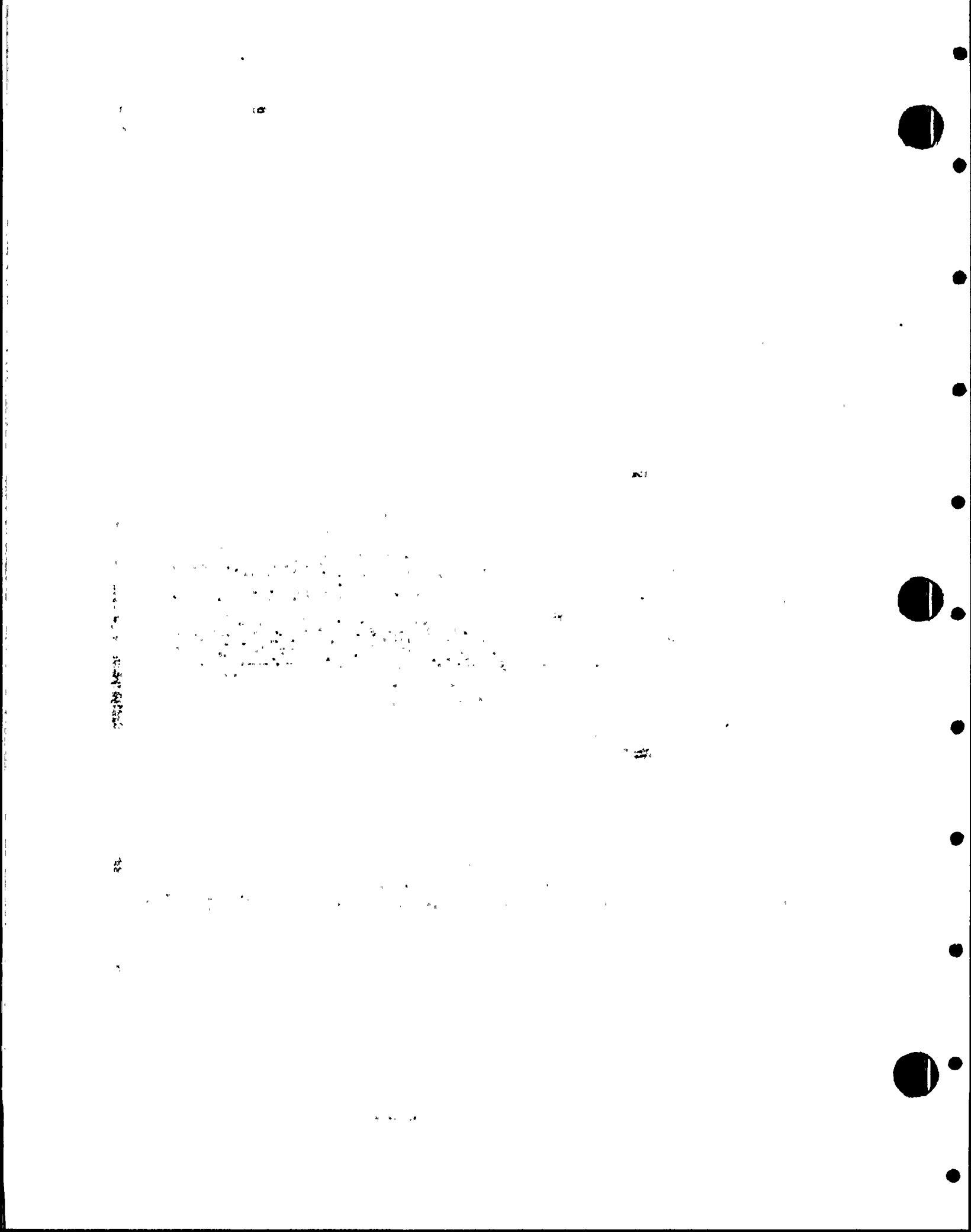
SECTION 11.03. Limitations on Rights of Others. Nothing in this Agreement, whether express or implied, shall be construed to give to any Person other than the Owner Trustee and the Owner Participant any legal or equitable right, remedy or claim under or in respect of this Agreement, any covenants, conditions or provisions contained herein or the Trust Estate, all of which are and shall be construed to be for the sole and exclusive benefit of the Owner Trustee and the Owner Participant.

SECTION 11.04. Notices. Unless otherwise expressly specified or permitted by the terms hereof, all notices hereunder shall be given as provided in the Participation Agreement.

SECTION 11.05. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.06. Limitation on the Owner Participant's Liability. The Owner Participant shall not have any liability for the performance of this Agreement except as expressly set forth herein.

SECTION 11.07. Separate Counterparts; Dating. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. Although this Trust Agreement is dated as of the date first above written for convenience, the actual dates of execution hereof by the parties hereto are respectively the dates set forth under the signatures hereto, and this Trust Agreement shall be effective on the latest of such dates.



SECTION 11.08: Successors and Assigns. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the Owner Trustee and its successors and assigns and the Owner Participant and its successors and assigns, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by the Owner Participant shall bind the successors and assigns of the Owner Participant.

SECTION 11.09. Transfer of Interests.

Subject to the provisions of Section 15 of the Participation Agreement, the Owner Participant may assign, convey or otherwise transfer all or any part of its right, title and interest in and to this Agreement and the Trust Estate. In case of any such assignment, conveyance or transfer of less than all of the interest of the Owner Participant, (i) the transferor and transferee or transferees shall be severally obligated with respect to the indemnification obligations imposed under Section 7.01 in accordance with the interest held by each of them and (ii) if necessary, appropriate amendments shall be made to this Agreement to provide for the situation in which there is more than one Owner Participant as may be agreed to by the transferor and transferee or transferees and consented to by the Owner Trustee. Upon any assignment, conveyance or transfer of all of the interest of the Owner Participant to the Lessee or an Affiliate of the Lessee, the transferor Owner Participant shall, upon such assignment, conveyance or transfer, be released and discharged without further act or formality whatsoever from the indemnification obligations imposed under Section 7.01. No such assignment, conveyance or transfer shall violate any provision of Applicable Law or create a relationship which would be in violation thereof. The interest of any Owner Participant in this Trust may not be transferred without the consent of the other Owner Participants, if any. The Owner Trustee shall not be on notice of or otherwise be bound by any such assignment, conveyance or transfer until it shall have received an executed counterpart of the instrument of such assignment, conveyance or transfer.

SECTION 11.10. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 11.11. Governing Law. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, including all matters of construction, validity, and performance.

SECTION 11.12. Administration of Trust. The principal place of administration of the Trust shall be in Boston, Massachusetts.

SECTION 11.13. Performance by the Owner Participant. Any obligation of the Owner Trustee hereunder or under any Transaction Document or other document contemplated herein may be performed by the Owner Participant and any such performance shall not be construed as a revocation of the trusts created hereby.

SECTION 11.14. Conflict with Transaction Documents. If this Agreement (or any instructions given by the Owner Participant pursuant hereto) shall require that any action be taken with respect to any matter and any other Transaction Document (or any instructions duly given in accordance with the terms thereof) shall require that a different action be taken with respect to such matter, and such actions shall be mutually exclusive, the provisions of such other Transaction Document, in respect thereof, shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed by their respective officers hereunto duly authorized, as of the dates set forth below.

Owner Participant:

CHASE MANHATTAN REALTY
LEASING CORPORATION

By: M. Spingarn, Jr.
Title: Vice President

Date: December 14, 1986

Owner Trustee:

THE FIRST NATIONAL BANK OF
BOSTON

By: [Signature]
Assistant Vice President

Date: December 15, 1986

When Recorded, Return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

CERTAIN RIGHTS OF THE LESSOR UNDER THIS FACILITY LEASE HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, CHEMICAL BANK, AS INDENTURE TRUSTEE UNDER A TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS DATED AS OF DECEMBER 15, 1986. THIS FACILITY LEASE HAS BEEN EXECUTED IN SEVERAL COUNTERPARTS. SEE SECTION 22(e) OF THIS FACILITY LEASE FOR INFORMATION CONCERNING THE RIGHTS OF HOLDERS OF VARIOUS COUNTERPARTS HEREOF.

THIS COUNTERPART IS NOT THE ORIGINAL COUNTERPART.

FACILITY LEASE

Dated as of December 15, 1986

between

THE FIRST NATIONAL BANK OF BOSTON,
not in its individual capacity, but solely as Owner
Trustee under a Trust Agreement, dated as of
December 15, 1986 with Chase Manhattan Realty Leasing
Corporation,

Lessor

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,

Lessee

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1 and
a .566667% Undivided Interest in Certain Common
Facilities

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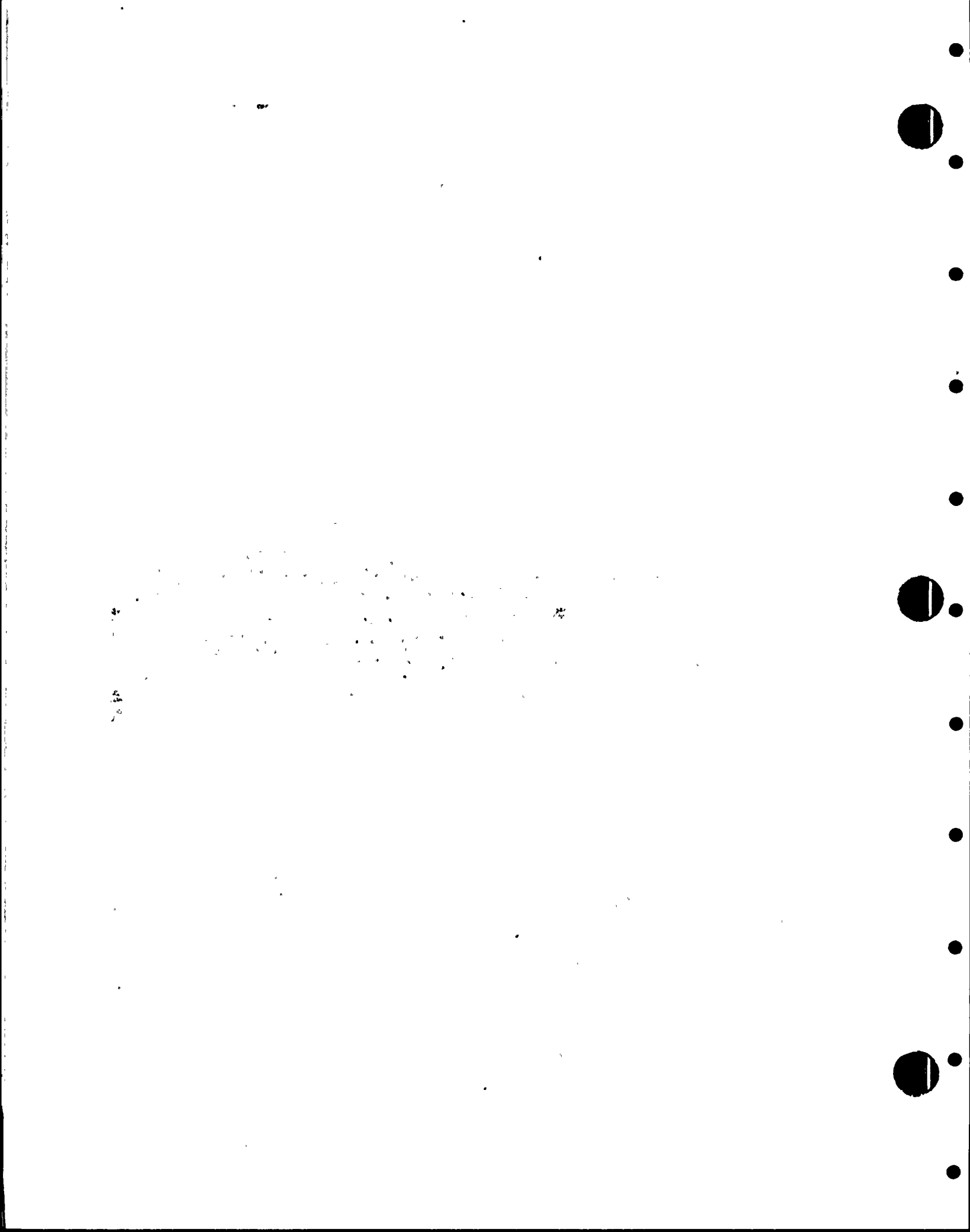


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1. The first group of people who are interested in the study of the history of the world are the historians. They are the people who study the past and write about it. They are the people who tell us what happened and why it happened. They are the people who help us to understand the world and ourselves.

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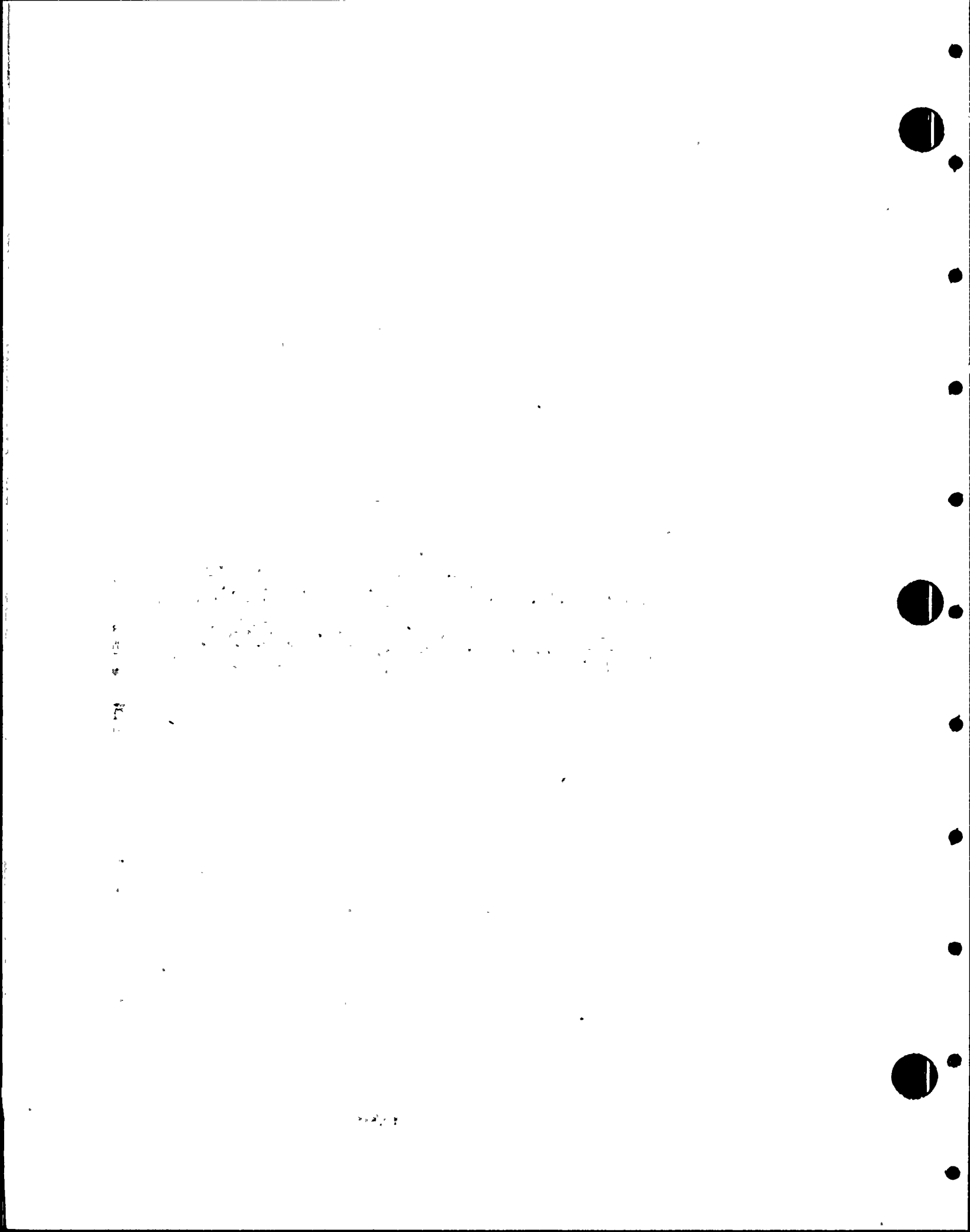


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The figure consists of eight small, vertically aligned line drawings. From top to bottom, they show: 1) A small, oval-shaped egg. 2) A slightly larger, oval stage with a small protrusion at one end. 3) A stage with a more pronounced, rounded protrusion. 4) A stage with a long, thin, curved appendage extending from the side. 5) A stage with a more complex, segmented body and multiple appendages. 6) A stage with a more defined head and several long, thin appendages. 7) A stage with a more complex body structure and several long, thin appendages. 8) A stage with a more complex body structure and several long, thin appendages, appearing more like a mature larva.

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FACILITY LEASE, dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation (the Lessor), and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Lessor owns the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee desires to lease the Undivided Interest and the Real Property Interest from the Lessor on the terms and conditions set forth herein; and

WHEREAS, the Lessor is willing to lease the Undivided Interest and the Real Property Interest to the Lessee on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in Appendix A hereto. References in this Facility Lease to sections, paragraphs and clauses are to sections, paragraphs and clauses in this Facility Lease unless otherwise indicated.

SECTION 2. Lease of Undivided Interest; Term; Personal Property.

(a) Lease of Undivided Interest. Upon the terms and subject to the conditions of this Facility Lease, the Lessor hereby leases to the Lessee, and the Lessee hereby leases from the Lessor, the Undivided Interest.

(b) Term. The term of this Facility Lease shall begin on December 17, 1986, and shall end on the last day of the Lease Term.

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(c) Personal Property. It is the express intention of the Lessor and the Lessee that title to the Undivided Interest and every portion thereof be, and hereby is, severed, and shall be and remain severed, from title to the real estate constituting the Real Property Interest and the PVNGS Site. The Lessor and the Lessee intend that the Undivided Interest shall constitute personal property to the maximum extent permitted by Applicable Law.

(d) Description. The Real Property Interest is described on Schedule 4 hereto. The Undivided Interest is described on Schedule 5 hereto.

SECTION 3. Rent; Adjustments to Rent.

(a) Basic Rent. The Lessee shall pay to the Lessor, as basic rent (herein referred to as Basic Rent) for the Undivided Interest and the Real Property Interest, the following amounts:

(i) on January 15, 1987, an amount equal to .02583079% of the Facility Cost for each day from, and including, December 17, 1986 to, but excluding, January 15, 1987;

(ii) on July 15, 1987 and on each Basic Rent Payment Date thereafter to and including January 15, 2015, an amount equal to 4.649542% of Facility Cost; and

(iii) if the Lessee shall elect the Renewal Term, on July 15, 2015 and on each Basic Rent Payment Date thereafter during the Renewal Term, an amount equal to one-half of an amount determined by dividing the aggregate amount of all payments of Basic Rent payable with respect to the Basic Lease Term pursuant to clause (ii) of this Section 3(a) (taking into account any adjustments pursuant to Sections 3(d) and 3(e)), by 56.

If an interest payment on any Note shall be due on a date other than a Basic Rent Payment Date, the Lessee shall pay additional Basic Rent on such date equal to such interest payment and such payment of additional Basic Rent shall be credited against the Basic Rent due on the Basic Rent Payment Date next succeeding the date that such additional Basic Rent shall have been paid.

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(b) Supplemental Rent. The Lessee shall pay the following amounts (herein referred to as Supplemental Rent):

(i) when due or, where no due date is specified, on demand, any amount (other than Basic Rent, Casualty Value, Termination Value and Special Casualty Value), which the Lessee assumes the obligation to pay or agrees to pay to the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee or any Indemnatee under this Facility Lease, any other Transaction Document or the Collateral Trust Indenture, any amount which is to be paid under Section 6.9, 7.6 or 8.7 of the Indenture and any amount that the Lessee is required to pay, or provide for the payment of, under Section 8.5 of the Indenture;

(ii) when due, any amount payable hereunder as Casualty Value, Termination Value or Special Casualty Value, and an amount equal to any premium or prepayment penalty with respect to the Notes;

(iii) on demand and in any event on the Basic Rent Payment Date next succeeding the date such amounts shall be due and payable hereunder, to the extent permitted by Applicable Law, interest (computed on the same basis as interest on the Notes is computed) at a rate per annum equal to (A) the Overdue Interest Rate, on that portion of the payment of Basic Rent or Supplemental Rent distributable pursuant to clause "first" of Section 5.1 or clause "second" of Section 5.3 of the Indenture (determined prior to the computation of interest on overdue payments referred to in such clauses), and (B) the Penalty Rate, on the balance of any such payment of Basic Rent or Supplemental Rent (including, in the case of both clause (i) and clause (ii) above, but without limitation, to the extent permitted by Applicable Law, interest payable pursuant to this clause (iii)) not paid when due (without regard to any period of grace) for any period for which the same shall be overdue.

Figure 7

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The Lessor shall have all rights, powers and remedies provided for in this Facility Lease, at law, in equity or otherwise, in the case of non-payment of Basic Rent or Supplemental Rent.

(c) Form of Payment. Subject to Section 11(b), each payment of Rent under this Facility Lease shall be made in immediately available funds no later than 11:00 a.m., local time at the place of receipt, on the date each such payment shall be due and payable hereunder and shall be paid either (A) in the case of payments other than Excepted Payments, to the Lessor at its address determined in accordance with Section 17, or at such other address as the Lessor may direct by notice in writing to the Lessee, or (B) in the case of Excepted Payments, to such Person as shall be entitled to receive such payment at such address as such Person may direct by notice in writing to the Lessee. If the date on which any payment of Rent is due hereunder shall not be a Business Day, the payment otherwise due thereon shall be due and payable on the preceding Business Day, with the same force and effect as if paid on the nominal date provided in this Facility Lease.

(d) Adjustments to Rent. Basic Rent and the schedules of Casualty Values, Termination Values and Special Casualty Values attached hereto shall be adjusted (upward or downward) to preserve Net Economic Return if there is any Change in Tax Law other than a Change in respect of a minimum tax; provided, however, that the aggregate amount of such downward adjustments shall not exceed the aggregate amount of such upward adjustments. Adjustments under this paragraph (d) shall be (1) made not more than once a year and (2) limited in the aggregate to the extent necessary such that the aggregate amount of Basic Rent theretofore and thereafter payable throughout the Basic Lease Term (computed for such purposes only without regard to any adjustments theretofore made pursuant to Section 3(e)) shall not exceed by more than 4% the aggregate amount of Basic Rent which would have been payable throughout the Basic Lease Term (calculated as aforesaid) had no such adjustments been made.

The provisions of this Section 3(d) to the contrary notwithstanding, if any Change in Tax Law is, or becomes, applicable to the transaction contemplated by this Facility Lease in consequence of the transfer of the Owner Participant's beneficial interest in the Trust

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(whether or not permitted by Section 15 of the Participation Agreement) or if such Change in Tax Law would not have been applicable to such transaction had no such transfer occurred, then no adjustment shall be, or be required to be, made pursuant to this Section 3(d); provided, however, that this sentence shall not apply to the initial transfer of the Owner Participant's beneficial interest in the Trust to one of its Affiliates. | | |

(e) Further Adjustments. Basic Rent and the schedules of Casualty Values, Special Casualty Values and Termination Values attached hereto shall be appropriately adjusted (upward or downward) to preserve Net Economic Return if there is (i) any Supplemental Financing, (ii) the payment of Transaction Expenses in an amount which is other than 1.5% of the Purchase Price or (iii) any other change (other than a change in items 4, 5, 8 (as to the basis for amortization of Transaction Expenses), 14, 15 and 17, but without limiting the effect of Section 3(d) hereof) in the Pricing Assumptions.

(f) Computation of Adjustments. Upon the occurrence of an event requiring an adjustment to Basic Rent payable pursuant to clause (ii) of Section 3(a), and the schedules of Casualty Values, Special Casualty Values and Termination Values attached hereto, pursuant to paragraph (d) or (e) of this Section 3, the Owner Participant shall make the necessary computations and furnish to the Lessee, the Loan Participant, the Lessor and the Indenture Trustee the revised amounts and percentages, which amounts and percentages shall be implemented upon delivery thereof and effective as of the date of occurrence of the event requiring such adjustment (taking into account any payment of Basic Rent already made) and shall remain effective until changed in consequence of any verification procedure set forth below. Such revised amounts and percentages shall be subject to verification (at the Lessee's request within 90 days after the Owner Participant furnishes the revised amounts to the Lessee, the Loan Participant, the Lessor and the Indenture Trustee) by the Owner Participant's nationally recognized independent public accountants, in which case such accountants shall either (i) confirm to the Lessee in writing that such revised amounts were computed on a basis consistent with the original calculations, or (ii) compute and provide to the Lessee, the Lessor, the Owner Participant, the Loan

Participant and the Indenture Trustee revised amounts and percentages which are on such a basis. The revised amounts and percentages, as so confirmed or computed if applicable, shall be conclusive and binding upon the Lessee, the Lessor, the Owner Participant, the Loan Participant and the Indenture Trustee. The cost of any such verification shall be borne by the Lessee unless such accountants shall require an adjustment to the revised amounts and percentages originally provided by the Owner Participant which differs by more than 10% from the adjustment so provided, in which case such cost shall be divided and paid by the Lessee and the Owner Participant in equal amounts. Each adjustment pursuant to paragraph (d) or (e) of this Section 3 may, but need not, be evidenced by the execution and delivery of a supplement to this Facility Lease in form and substance satisfactory to the Lessee and the Owner Participant, but shall be effective as provided herein without regard to the date on which such supplement to this Facility Lease is so executed and delivered. Any adjustment referred to in this Section 3 shall satisfy the provisions of Revenue Procedure 75-21, Revenue Procedure 75-28 and any other applicable statute, regulation, revenue procedure, revenue ruling or technical information release relating to the subject matter of Revenue Procedure 75-21 or Revenue Procedure 75-28, but, in the case of any upward adjustment, shall be no less than the adjustment otherwise required pursuant to this Section 3.

(g) Sufficiency of Basic Rent and Supplemental Rent. Notwithstanding any other provision of this Facility Lease, any other Transaction Document or any Financing Document, (i) the amount of Basic Rent payable on each Basic Rent Payment Date shall be at least equal to the aggregate amount of principal, premium, if any, and accrued interest payable on all Notes then Outstanding and (ii) each payment of Casualty Value, Special Casualty Value and Termination Value shall in no event be less (when added to all other amounts, other than Excepted Payments, required to be paid by the Lessee under this Facility Lease in respect of any Event of Loss or Deemed Loss Event or termination of this Facility Lease) than an amount sufficient, as of the date of payment, to pay in full all principal of, and premium, if any, and interest then due on all Notes Outstanding on and as of such date of payment (taking into account any assumption of the Notes by the Lessee).



SECTION 4. Net Lease.

This Facility Lease (as originally executed and as modified, supplemented and amended from time to time) is a net lease, and the Lessee hereby acknowledges and agrees that the Lessee's obligation to pay all Rent hereunder, and the rights of the Lessor in and to such Rent, shall be absolute, unconditional and irrevocable and shall not be affected by any circumstances of any character, including, without limitation, (i) any set-off, abatement, counterclaim, suspension, recoupment, reduction, rescission, defense or other right or claim which the Lessee may have against the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant, the Operating Agent, any ANPP Participant, any vendor or manufacturer of any equipment or assets included in the Undivided Interest, Unit 1, any Capital Improvement, the Real Property Interest, the PVNGS Site, PVNGS, or any part of any thereof, or any other Person for any reason whatsoever, (ii) any defect in or failure of the title, merchantability, condition, design, compliance with specifications, operation or fitness for use of all or any part of the Undivided Interest, Unit 1, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS, (iii) any damage to, or removal, abandonment, decommissioning, shutdown, salvage, scrapping, requisition, taking, loss, theft or destruction of all or any part of the Undivided Interest, Unit 1, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS; or any interference, interruption or cessation in the use or possession thereof or of the Undivided Interest by the Lessee or by any other Person (including, but without limitation, the Operating Agent or any other ANPP Participant) for any reason whatsoever or of whatever duration, (iv) any restriction, prevention or curtailment of or interference with any use of all or any part of the Undivided Interest, Unit 1, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS, (v) any insolvency, bankruptcy, reorganization or similar proceeding by or against the Lessee, the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant, the Operating Agent, any other ANPP Participant or any other Person, (vi) the invalidity, illegality or unenforceability of this Facility Lease, any other Transaction Document, any Financing Document, the ANPP Participation Agreement or any other instrument referred to herein or therein or any other infirmity

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Figure 6

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herein or therein or any lack of right, power or authority of the Lessor, the Lessee, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant or any other Person to enter into this Facility Lease, any other Transaction Document or any Financing Document, or any doctrine of force majeure, impossibility, frustration, failure of consideration, or any similar legal or equitable doctrine that the Lessee's obligation to pay Rent is excused because the Lessee has not received or will not receive the benefit for which the Lessee bargained, it being the intent of the Lessee to assume all risks from all causes whatsoever that the Lessee does not receive such benefit, (vii) the breach or failure of any warranty or representation made in this Facility Lease or any other Transaction Document or any Financing Document by the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant or any other Person, (viii) any amendment or other change of, or any assignment of rights under, this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, or any waiver, action or inaction under or in respect of this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, or any exercise or non-exercise of any right or remedy under this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, including, without limitation, the exercise of any foreclosure or other remedy under the Indenture, the Collateral Trust Indenture or this Facility Lease, or the sale of Unit 1, any Capital Improvement, the Undivided Interest, the Real Property Interest, the PVNGS Site or PVNGS, or any part thereof or any interest therein, or (ix) any other circumstance or happening whatsoever whether or not similar to any of the foregoing. The Lessee acknowledges that by conveying the leasehold estate created by this Facility Lease to the Lessee and by putting the Lessee in possession of the Undivided Interest and the Real Property Interest, the Lessor has performed all of the Lessor's obligations under and in respect of this Facility Lease, except the covenant under Section 6(a) hereof that the Lessor and Persons acting for the Lessor will not interfere with the Lessee's quiet enjoyment of the Undivided Interest and the Real Property Interest. The Lessee hereby waives, to the extent permitted by Applicable Law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or

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otherwise, to terminate, cancel, quit or surrender this Facility Lease or to effect or claim any diminution or reduction of Rent payable by the Lessee hereunder, including without limitation the provisions of Arizona Revised Statutes Section 33-343, except in accordance with the express terms hereof. If for any reason whatsoever this Facility Lease shall be terminated in whole or in part by operation of law or otherwise, except as specifically provided herein, the Lessee nonetheless agrees to pay to the Lessor or other Person entitled thereto an amount equal to each installment of Basic Rent and all Supplemental Rent at the time such payment would have become due and payable in accordance with the terms hereof had this Facility Lease not been terminated in whole or in part. Each payment of Rent made by the Lessee hereunder shall be final and the Lessee shall not seek or have any right to recover all or any part of such payment from the Lessor or any other Person for any reason whatsoever. All covenants, agreements and undertakings of the Lessee herein shall be performed at its cost, expense and risk unless expressly otherwise stated. Nothing in this Section 4 shall be construed as a guaranty by the Lessee of any residual value in the Undivided Interest or as a guaranty of the Notes. Any provisions of Section 7(b)(2) or 8(c) of the Participation Agreement to the contrary notwithstanding, if the Lessee shall fail to make any payment of Rent to any Person when and as due (taking into account applicable grace periods), such Person shall have the right at all times, to the exclusion of the ANPP Participants, to demand, collect, sue for, enforce obligations relating to and otherwise obtain all amounts due in respect of such Rent.

SECTION 5. Return of the Undivided Interest.

(a) Return of the Undivided Interest. On the Lease Termination Date, the Lessee will (1) surrender possession of the Undivided Interest and the Real Property Interest to the Lessor (or to a Person specified by the Lessor to the Lessee in writing not less than 6 months prior to the Lease Termination Date) (i) with full rights as a "Transferee" and the sole "Participant" with respect to the Undivided Interest and the Real Property Interest within the meaning of Section 15.10 of the ANPP Participation Agreement and (ii) without a Price-Anderson Event (as hereinafter defined) having arisen prior to, or arising upon, or immediately following, such surrender and (2) furnish to the

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Lessor: (i) copies certified by a senior officer of the Lessee of all Governmental Action necessary to effect such surrender (including, but without limitation, appropriate amendments to the License permitting the Lessor (without the Lessor being required to change its business) or such Person to possess the Undivided Interest and the Real Property Interest with or without the continued involvement of the Lessee as Agent), which Governmental Action shall be in full force and effect; and (ii) an opinion of counsel (which may be Mudge Rose Guthrie Alexander & Ferdon, Snell & Wilmer or another counsel experienced with NRC and other nuclear matters reasonably satisfactory to the Owner Participant) to the effect that (A) the Lessee has obtained all Governmental Action and action under the ANPP Participation Agreement necessary to effect such surrender by the Lessee and receipt of possession by the Lessor (or by the Person so specified by the Lessor) and (B) such Governmental Action is in full force and effect. At the time of such return the Lessee shall pay or have paid all amounts due and payable, or to become due and payable, by it as an ANPP Participant under each and every ANPP Project Agreement allocable or chargeable (whether or not payable during or after the Lease Term) to the Undivided Interest or the Real Property Interest in respect of any period or periods ending on or prior to the Lease Termination Date (including, but without limitation, all amounts payable with respect to any and all discretionary Capital Improvements to Unit 1 or the PVNGS Site approved or authorized (without the concurrence of the Owner Participant) within the 3-year period preceding the end of the Lease Term, whether or not implementation thereof has been completed on or prior to the Lease Termination Date), and the Undivided Interest and the Real Property Interest shall be free and clear of all Liens (other than Permitted Liens described in clauses (i), (v) (other than those arising by, through or under the Lessee alone), (vi), (vii) (other than as aforesaid), (viii) (other than as aforesaid), (ix) and (x) of the definition of such term) and in the condition and state of repair required by Section 8. In the event that on or prior to the Lease Termination Date there shall have occurred a default by any ANPP Participant (other than the Lessee) under the ANPP Participation Agreement and such default shall not have been cured by the defaulting ANPP Participant, then (i) the Lessee agrees to indemnify and hold the Lessor (and each successor, assign and transferee thereof) harmless against any and all obligations under the ANPP

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Participation Agreement with respect to contributions or payments required to be made thereby as a result of such default and (ii) the Lessor (and each successor, assign and transferee thereof) agrees to reimburse the Lessee for all amounts paid by the Lessee pursuant to the foregoing clause (i) to the extent, but only to the extent, that the Lessor (or such successor, assign or transferee) shall have actually received proceeds from the sale of the Generation Entitlement Share of the defaulting ANPP Participant as a result of the payment made by the Lessee pursuant to the foregoing clause (i), and, to the extent the Lessor (or such successor, assign or transferee) shall have received such proceeds, the amount to be reimbursed to the Lessee pursuant to this clause (ii) shall include interest at the Prime Rate from the date of any payment by the Lessee pursuant to the foregoing clause (i) through the date of reimbursement of such amount pursuant to this clause (ii). For purposes of this Section 5(a) a "Price-Anderson Event" shall mean any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law, including without limitation the Price-Anderson Act, the Atomic Energy Act and the regulations of the NRC, in each case as in effect on the Closing Date, but only if such change is specified in clauses (2)(i) through (iv) of the definition of "Deemed Loss Event" (other than a change which is specified in clause (A) of the definition of "Acceptable Change").

(b) **Disposition Services.** The Lessee agrees that if it does not exercise its option to renew or purchase as provided in Sections 12 and 13, respectively, then during the last thirty-six months of the Lease Term, the Lessee will fully cooperate with the Lessor in connection with the Lessor's efforts to lease or dispose of the Undivided Interest and the Real Property Interest, including using the Lessee's reasonable efforts to lease or dispose of the Undivided Interest and the Real Property Interest. The Lessor agrees to reimburse the Lessee for reasonable out-of-pocket costs and expenses of the Lessee incurred at the request of the Lessor or the Owner Participant in connection with such cooperation and such efforts.

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SECTION 6. Warranty of the Lessor.

(a) Quiet Enjoyment. The Lessor warrants that until the Lease Termination Date, so long as no Event of Default shall have occurred and be continuing, the Lessee's use and possession of Unit 1, including the Undivided Interest, shall not be interrupted by the Lessor or any Person claiming by, through or under the Lessor, and their respective successors and assigns.

(b) Disclaimer of Other Warranties. The warranty set forth in Section 6(a) is in lieu of all other warranties of the Lessor or the Owner Participant, whether written, oral or implied, with respect to this Facility Lease, Unit 1, any Capital Improvement, the Undivided Interest, PVNGS, the Real Property Interest or the PVNGS Site. As among the Owner Participant, the Loan Participant, the Indenture Trustee, the Collateral Trust Trustee, the Lessor and the Lessee, execution by the Lessee of this Facility Lease shall be conclusive proof of the compliance of Unit 1 (including any Capital Improvement), the Undivided Interest and the Real Property Interest with all requirements of this Facility Lease, and the Lessee acknowledges and agrees that (i) NEITHER THE LESSOR NOR THE OWNER PARTICIPANT IS A MANUFACTURER OR A DEALER IN PROPERTY OF SUCH KIND AND (ii) THE LESSOR LEASES AND THE LESSEE TAKES THE UNDIVIDED INTEREST AND THE REAL PROPERTY INTEREST, AND SHALL TAKE EACH CAPITAL IMPROVEMENT, AND ANY PART THEREOF, AS IS AND WHERE IS, and neither the Lessor nor the Owner Participant shall be deemed to have made, and THE LESSOR AND THE OWNER PARTICIPANT EACH HEREBY DISCLAIMS, ANY OTHER REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE DESIGN OR CONDITION OF UNIT 1, ANY CAPITAL IMPROVEMENT, THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST, THE PVNGS SITE OR PVNGS, OR ANY PART THEREOF, THE MERCHANTABILITY THEREOF OR THE FITNESS THEREOF FOR ANY PARTICULAR PURPOSE, TITLE TO UNIT 1, ANY CAPITAL IMPROVEMENT, THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST, THE PVNGS SITE OR PVNGS, OR ANY PART THEREOF, THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREOF OR CONFORMITY THEREOF TO SPECIFICATIONS, FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT OR THE ABSENCE OF ANY LATENT OR OTHER DEFECTS, WHETHER OR NOT DISCOVERABLE, NOR SHALL THE LESSOR OR THE OWNER PARTICIPANT BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING LIABILITY IN TORT, STRICT OR OTHERWISE), it being agreed that all such risks, as

among the Owner Participant, the Loan Participant, the Collateral Trust Trustee, the Indenture Trustee, the Lessor and the Lessee, are to be borne by the Lessee. The provisions of this Section 6(b) have been negotiated, and, except to the extent otherwise expressly provided in Section 6(a), the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties by the Lessor, the Owner Participant, the Loan Participant, the Collateral Trust Trustee or the Indenture Trustee, express or implied, with respect to Unit 1 (including any Capital Improvement), the Undivided Interest, PVNGS, the Real Property Interest or the PVNGS Site that may arise pursuant to any law now or hereafter in effect, or otherwise.

(c) Enforcement of Certain Warranties. The Lessor authorizes the Lessee (directly or through agents, including the Operating Agent), at the Lessee's expense, to assert for the Lessor's account, during the Lease Term, all of the Lessor's rights (if any) under any applicable warranty and any other claims (under this Facility Lease or any Purchase Document) that the Lessee or the Lessor may have against any vendor or manufacturer with respect to Unit 1 (including any Capital Improvement) or the Undivided Interest, and the Lessor agrees to cooperate, at the Lessee's expense, with the Lessee and the Operating Agent in asserting such rights. Any amount received (without regard to any right of setoff or other similar right of any Person against the Lessee) by the Lessee as payment under any such warranty or other claim against any vendor or manufacturer (or, if such warranty or claim relates to the Undivided Interest and the Retained Assets, the portion of such received amount appropriately allocable to the Undivided Interest) shall be applied in accordance with Sections 9(g), (h) and (i).

SECTION 7. Liens.

The Lessee will not directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to the Undivided Interest, the Real Property Interest, the Lessor's title thereto or any interest of the Lessor or Lessee therein (and the Lessee will promptly, at its own expense, take such action as may be necessary duly to discharge any such Lien), except Permitted Liens.

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SECTION 8. Operation and Maintenance; Capital Improvements.

(a) Operation and Maintenance. The Lessee agrees that it will exercise its rights, powers, elections and options as an ANPP Participant under the ANPP Project Agreements to cause the Operating Agent to (A) maintain Unit 1 in such condition that Unit 1 will have the capacity and functional ability to perform, on a continuing basis (ordinary wear and tear excepted), in normal commercial operation, the functions and substantially at the ratings at which it is, from time to time, rated, (B) operate, service, maintain and repair Unit 1 and replace all necessary or useful parts and components thereof so that its condition and operating efficiency will be maintained and preserved, ordinary wear and tear excepted, in all material respects in accordance with (1) prudent utility practice for items of similar size and nature, (2) such operating standards as shall be required to take advantage of and enforce all available warranties and (3) the terms and conditions of all insurance policies maintained in effect at any time with respect thereto, (C) use, possess, operate and maintain Unit 1 in compliance with all material applicable Governmental Actions (including the License) affecting PVNGS or Unit 1 or the use, possession, operation and maintenance thereof and (D) otherwise act in accordance with the standards set forth in the ANPP Participation Agreement. The Lessee will comply with all its obligations under Applicable Law affecting Unit 1, the Undivided Interest, PVNGS, the Real Property Interest and the PVNGS Site, and the use, operation and maintenance thereof. The Lessee agrees to (i) exercise its rights under the ANPP Participation Agreement so that there will always be an Operating Agent under the ANPP Participation Agreement and (ii) maintain in full force and effect a license from the NRC adequate to possess the Undivided Interest and the Real Property Interest under the circumstances contemplated by the ANPP Participation Agreement. The Lessee will keep and maintain proper books and records (i) relating to all Operating Funds (as defined in the ANPP Participation Agreement) provided by it to the Operating Agent under the ANPP Participation Agreement and (ii) upon receipt of the requisite information from the Operating Agent, relating to the application of such Operating Funds to the operation and maintenance of Unit 1 and the acquisition, construction and installation of Capital Improvements, all in accordance with the Uniform System



of Accounts. The Lessor shall not be obliged in any way to maintain, alter, repair, rebuild or replace Unit 1, any Capital Improvement, the Undivided Interest or the Real Property Interest, or any part thereof, or, except as provided in Section 8(f), to pay the cost of alteration, rebuilding, replacement, repair or maintenance of Unit 1, any Capital Improvement, the Undivided Interest or the Real Property Interest, or any part thereof, and the Lessee expressly waives the right to perform any such action at the expense of the Lessor pursuant to any law at any time in effect.

(b) Inspection. The Lessor and the Owner Participant and their respective authorized representatives shall have the right to inspect PVNGS (subject, in each event, to the ANPP Participation Agreement, Applicable Law, applicable confidentiality undertakings and procedures established by the Operating Agent) at their expense. The Lessor and the Owner Participant and their respective authorized representatives shall have the right to inspect, at their expense, the books and records of the Lessee relating to PVNGS, and make copies of and extracts therefrom (subject as aforesaid) and may, at their expense, discuss the Lessee's affairs, finances and accounts with its executive officers and its independent public accountants (and by this provision, the Lessee authorizes such accountants, in the presence of the Lessee, to discuss with the Lessor and the Owner Participant and their respective authorized representatives the affairs, finances and accounts of the Lessee), all at such times and as often as may be reasonably requested. None of the Lessor, the Owner Participant, the Indenture Trustee and the Collateral Trust Trustee shall have any duty whatsoever to make any inspection or inquiry referred to in this Section 8(b) and shall not incur any liability or obligation by reason of not making any such inspection or inquiry.

(c) Capital Improvements. If and to the extent required by the ANPP Participation Agreement, the Lessee shall, at its sole expense, promptly participate in the making of any Capital Improvement to Unit 1 or the Common Facilities. Of the net proceeds of (i) any sale or other disposition of property removed from Unit 1 or the Common Facilities receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) by, or credited to the account of the Lessee in accordance with the ANPP Participation Agreement and (ii) any insurance proceeds receivable

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(without regard to any right of setoff or other similar right of any Person against the Lessee) for the account of the Lessor or the Lessee in respect of the loss or destruction of, or damage or casualty to, any such property, 16.666666% in the case of Unit 1, or 5.555555% in the case of Common Facilities, of either such amount shall be applied as provided in Section 9(g), (h) or (i), as the case may be. A 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, undivided interest in property at any time removed from Unit 1 or the Common Facilities shall remain the property of the Lessor, no matter where located, until such time as a Capital Improvement constituting a replacement of such property shall have been installed in Unit 1 or the Common Facilities or such removed property has been disposed of by the Operating Agent in accordance with the ANPP Participation Agreement. Simultaneously with such disposition by the Operating Agent, title to a 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, undivided interest in the removed property shall vest in the Person designated by the Operating Agent, free and clear of any and all claims or rights of the Lessor. Unless subparagraph (3) of Section 8(e) shall be applicable, upon the incorporation of a Capital Improvement in Unit 1 or the Common Facilities, without further act, (i) title to a 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, undivided interest in such Capital Improvement shall vest in the Lessor and (ii) such applicable undivided interest in such Capital Improvement shall become subject to this Facility Lease and be deemed to be part of the Undivided Interest for all purposes hereof to the same extent that the Lessor had a like undivided interest in the property originally incorporated or installed in Unit 1 or the Common Facilities. The Lessee warrants and agrees that the Lessor's 1.700000% or .566667%, as the case may be, undivided interest in all Capital Improvements shall be free and clear of all Liens, except Permitted Liens other than the type specified in clauses (ii), (iii) and (xii) of the definition thereof.

(d) Reports. To the extent permissible, the Lessee shall prepare and file in timely fashion, or, where the Lessor shall be required to file, the Lessee shall prepare and deliver to the Lessor within a reasonable time prior to the date for filing, any reports with respect to Unit 1, the Undivided Interest or the Real Property Interest or the condition or operation thereof

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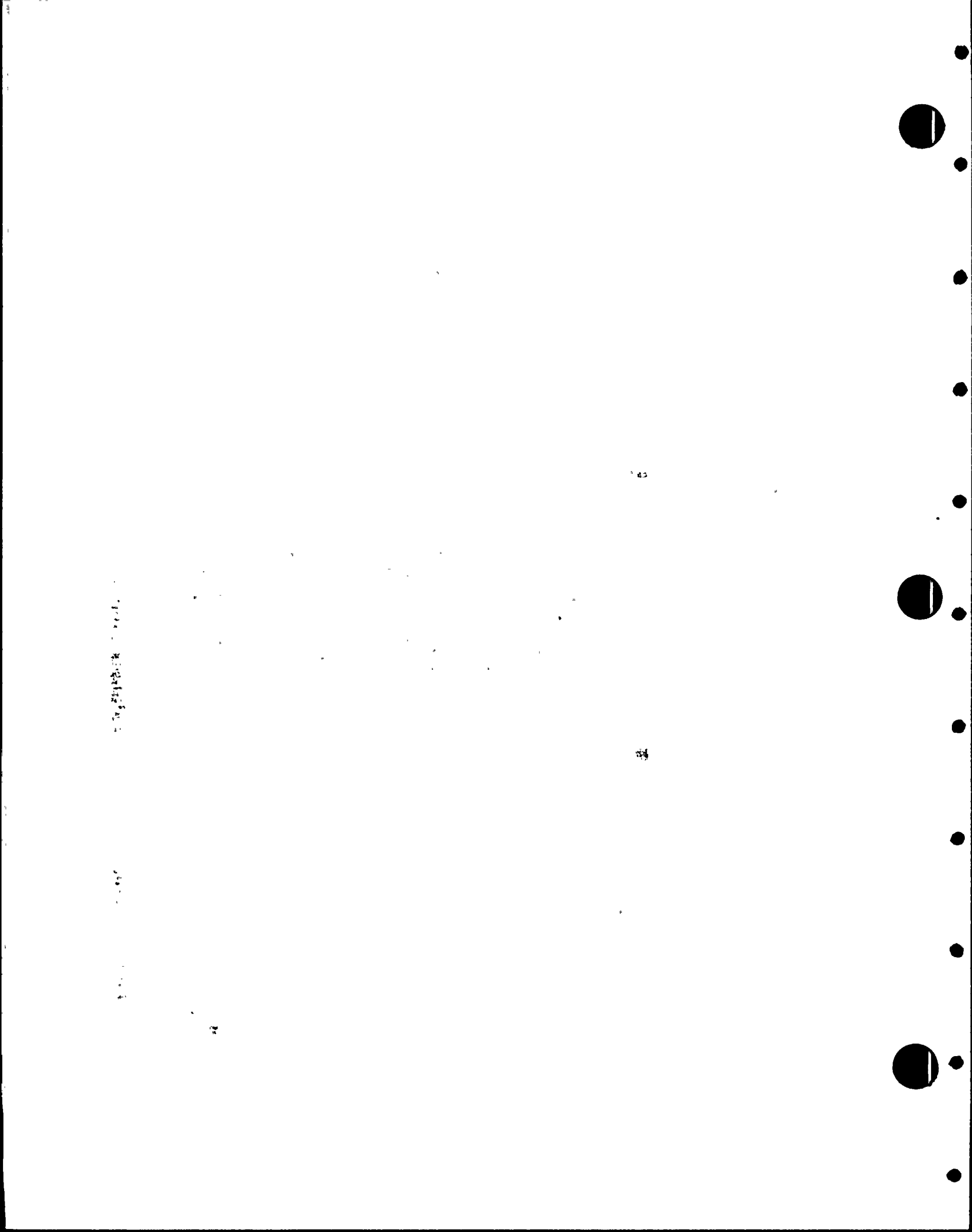
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that shall be required to be filed with any governmental or regulatory authority. On or before March 1 of each year (commencing on March 1, 1988) and on the Lease Termination Date, the Lessee shall furnish the Lessor and the Owner Participant with a report stating the total cost of all Capital Improvements and describing separately and in reasonable detail each Capital Improvement (or related group of Capital Improvements) made during the period from the date hereof to December 31, 1987 in the case of the first such report or during the period from the end of the period covered by the last previous report to the December 31 prior to such report in the case of subsequent reports. On or before March 1 in each year (commencing March 1, 1987) and at such other times as the Lessor or the Owner Participant shall reasonably request in writing (which request shall provide a reasonable period for response), the Lessee will report in writing to the Lessor with respect to (i) the most recent annual capital expenditure budget submitted by the Operating Agent to the Lessee in accordance with the ANPP Participation Agreement and (ii) the then plans (if any) which the Lessee may have for the financing of the same under Section 8(f).

(e) Title to Capital Improvements. Title to a 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, undivided interest in each Capital Improvement to Unit 1 or the Common Facilities, as the case may be, shall vest as follows:

(1) in the case of each Nonseverable Capital Improvement, whether or not the Lessor shall have financed or provided financing (in whole or in part) for such undivided interest in such Capital Improvement by an Additional Equity Investment or a Supplemental Financing, or both, effective on the date such Capital Improvement shall have been incorporated or installed in Unit 1 or the Common Facilities, as the case may be, the Lessor shall, without further act, acquire title to such undivided interest in such Capital Improvement;

(2) in the case of each Severable Capital Improvement, if the Lessor shall have financed (by an Additional Equity Investment or a Supplemental Financing, or both) 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, of the cost of such



Capital Improvement, the Lessor shall, without further act, acquire title to such undivided interest in such Capital Improvement; and

(3) in the case of each Severable Capital Improvement, if the Lessor shall not have financed (by an Additional Equity Investment or a Supplemental Financing, or both) 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, of the cost of such Capital Improvement, the Lessee shall retain title to such undivided interest in such Capital Improvement.

Immediately upon title to such 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, undivided interest in any Capital Improvement vesting in the Lessor pursuant to subparagraph (1) or subparagraph (2) of this Section 8(e), such undivided interest in such Capital Improvement shall, without further act, become subject to this Facility Lease and be deemed part of the Undivided Interest for all purposes hereof.

(f) Funding of the Cost of Capital Improvements. Before placing in service any Capital Improvement to Unit 1 or the Common Facilities the cost of which exceeds \$100,000,000 in respect of the interests of all ANPP Participants, the Lessee shall give the Lessor and the Owner Participant reasonable advance notice thereof. The Owner Participant shall have the option, in its sole discretion, of financing through the Lessor 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, of the cost of any such Capital Improvement, or any other Capital Improvement presented to the Owner Participant for financing, including or not including the making of an investment by the Owner Participant (an Additional Equity Investment) and the issuance of one or more Additional Notes, all on terms acceptable to the Lessee and the Owner Participant. If the Owner Participant does not finance, or arrange the financing of, 1.700000%, in the case of Unit 1, or .566667%, in the case of Common Facilities, of the cost of such Capital Improvement, the Lessee may cause the Lessor to issue, if and to the extent permitted by the Indenture, to one or more Persons (other than any Person affiliated with the Lessee within the meaning of Section 318 of the Code) one or more Additional Notes and to use the proceeds



thereof to pay the applicable percentage of the cost of such Capital Improvement, subject to satisfaction of the following conditions:

(i) there shall be no more than one Supplemental Financing in any calendar year;

(ii) the sum of the Supplemental Financing Amounts in any calendar year shall equal or exceed 1.700000% of \$5,000,000;

(iii) the Lessee may include in any request for a Supplemental Financing only Capital Improvements not previously financed in any Supplemental Financing and which have been installed or affixed no earlier than three calendar years before the beginning of the calendar year in which such Supplemental Financing occurs;

(iv) the total amount of all Supplemental Financings during the Basic Lease Term shall not exceed 16.666666% of \$100,000,000;

(v) unless waived by the Owner Participant, the Bonds issued and outstanding under the Collateral Trust Indenture shall be rated no less than "investment grade", as determined by Standard & Poor's Corporation and Moody's Investors Service, Inc.;

(vi) the Supplemental Financing Amount shall not exceed that portion of the cost of Capital Improvements which, when financed, will constitute an addition to the Owner Participant's basis under section 1012 of the Code;

(vii) in the opinion of independent tax counsel to the Owner Participant, such Supplemental Financing shall not result in adverse tax consequences to the Owner Participant or adversely affect the status of this Facility Lease as a "true lease" for Federal, New York State or New York City tax purposes, and the Owner Participant and the Lessee shall have agreed upon the amount and manner of payment of the indemnity (if any)

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payable by the Lessee as a consequence of such Supplemental Financing;

(viii) the Additional Notes shall have a final maturity date no later than January 15, 2015;

(ix) the Lessee shall have made such representations, warranties and covenants regarding the tax characteristics of the Lessor's undivided interest in each Capital Improvement as the Owner Participant reasonably requests, and the Tax Indemnification Agreement shall have been appropriately modified;

(x) appropriate adjustments to Basic Rent and the schedules of Casualty Values, Special Casualty Values and Termination Values shall have been agreed to by the Owner Participant to support the amortization of the Additional Notes issued in respect of such Supplemental Financing and to preserve Net Economic Return;

(xi) the Lessee shall pay to the Lessor an amount equal to all out-of-pocket costs and expenses reasonably incurred by the Lessor or the Owner Participant and not financed as a part of such Supplemental Financing or reflected in adjustments to Basic Rent;

(xii) no Default or Event of Default shall have occurred and be continuing; and

(xiii) the Lessee shall enter into such agreements and shall have provided such tax indemnities, representations, warranties, covenants, opinions, certificates and other documents as the Owner Participant shall reasonably request.

SECTION 9. Event of Loss; Deemed Loss Event.

(a) Damage or Loss. In the event that Section 16.2 of the ANPP Participation Agreement (as in effect on the date hereof) shall become applicable, or an Event of Loss, a Requisition of Use or a Requisition of Title shall occur, or Unit 1 or any substantial part thereof shall suffer destruction, damage, loss, condemnation, confiscation, theft or seizure for any

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reason whatsoever, such fact shall promptly, and in any case within five Business Days following such event, be reported by the Lessee to the Lessor and the Owner Participant.

(b) Repair. The Lessee shall promptly make any and all payments required of the Lessee under the provisions of the ANPP Participation Agreement relating to damage or destruction or the like to Unit 1 or any portion thereof; provided, however, that the Lessee shall in no event be obligated to make or join in any agreement under Section 16.2 of the ANPP Participation Agreement (as in effect on the date hereof) concerning repairs to or reconstruction of Unit 1.

(c) Payment of Casualty Value. On the Basic Rent Payment Date next following receipt by the Lessee of a written notice from the Lessor that an Event of Loss has occurred, the Lessee shall pay to the Lessor all Basic Rent due on such Basic Rent Payment Date, plus an amount equal to the excess of (i) Casualty Value determined as of such Basic Rent Payment Date over (ii) the unpaid principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such date. An Event of Loss shall not be deemed to have occurred unless and until the Lessor delivers the notice specified in the preceding sentence. Upon compliance in full by the Lessee with the foregoing provisions of this Section 9(c) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time after the occurrence of an Event of Loss, the Lessor may:

(1) in the case of an Event of Loss arising from a Final Shutdown, if the Lessee shall have declined, but one or more of the other ANPP Participants shall have elected, to reconstruct or restore Unit 1, as permitted by the ANPP Participation Agreement, Transfer the Undivided Interest and the Real Property Interest to such electing ANPP Participants, as required by and in the proportions set forth in the ANPP Participation Agreement, in which case the Lessee shall be entitled to receive the portion of the "salvage

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value" purchase price allocable to the Undivided Interest; or

(2) if clause (1) shall not be applicable, Transfer the Undivided Interest and the Real Property Interest to the Lessee.

If the Lessee shall not have assumed all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this Section 9(c) (including interest, if any, thereon pursuant to Section 3(b)(iii) hereof), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that (i) the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes then Outstanding and (ii) this Facility Lease shall become a security agreement for all purposes of Applicable Law.

(d) Payment of Special Casualty Value. If a Deemed Loss Event occurs, the party hereto having knowledge thereof shall promptly notify the other thereof (provided that the failure by the Lessor to furnish to the Lessee the foregoing notification shall not impair the right of the Lessor to exercise the option referred to below) and, at the Lessor's option, exercisable by delivery of written notice to the Lessee, on the day (specified in Schedule 2) of the month next following the month during which such notice is delivered to the Lessee, the Lessee shall pay to the Lessor an amount equal to the excess of (i) Special Casualty Value determined as of the date such payment is due over (ii) the principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such day. Upon compliance in full by the Lessee with the foregoing provisions of this Section 9(d) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time after the occurrence of a Deemed Loss Event, the Lessor may,

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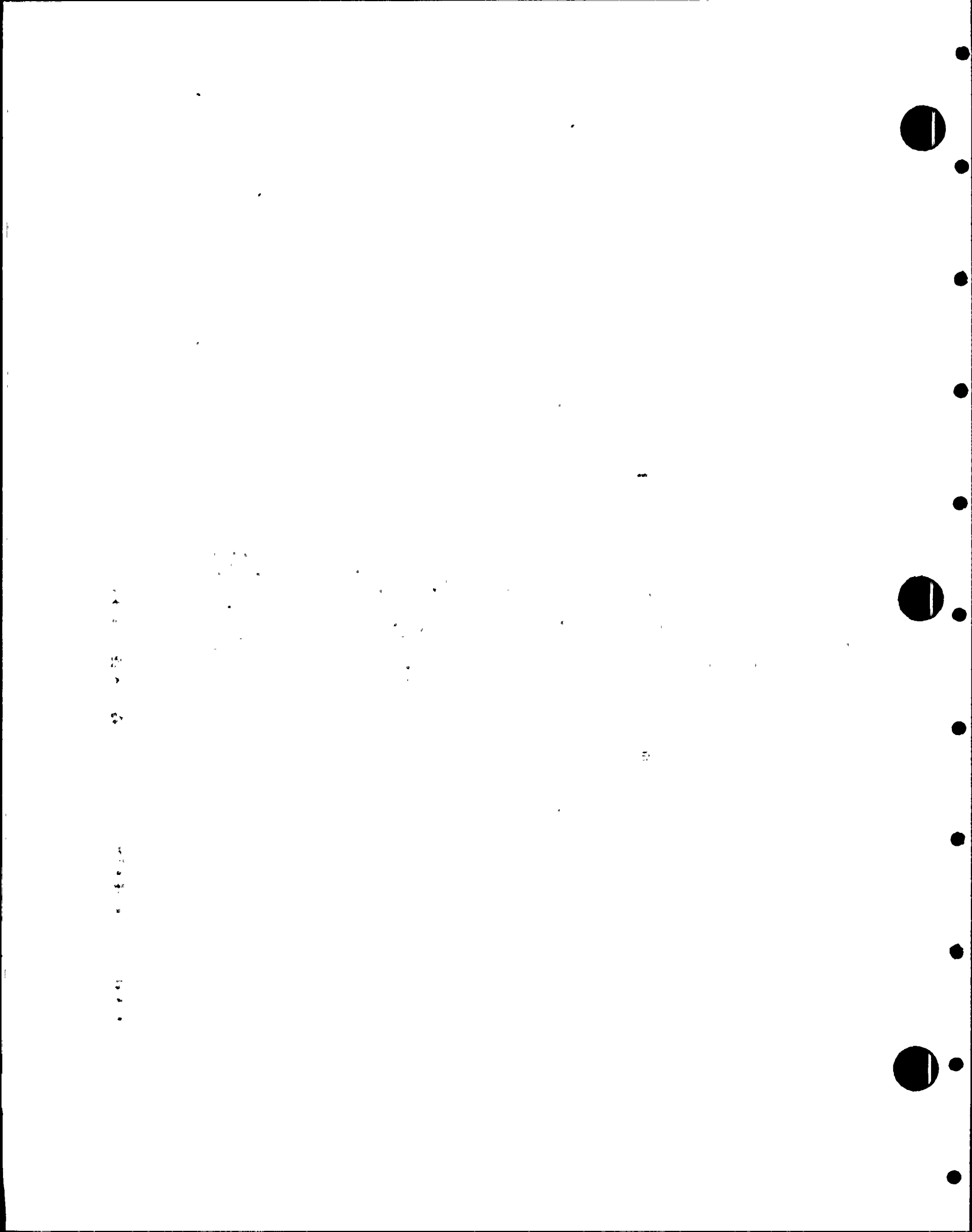
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Transfer the Undivided Interest and the Real Property Interest to the Lessee. If the Lessee shall not have assumed all the liabilities and obligations of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this Section 9(d) (including interest, if any, thereon pursuant to Section 3(b)(iii)), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that (i) the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes Outstanding and (ii) this Facility Lease shall become a security agreement for all purposes of Applicable Law.

(e) Requisition of Use. In the case of a Requisition of Use not constituting an Event of Loss, this Facility Lease shall continue, and each and every obligation of the Lessee hereunder and under each Transaction Document shall remain in full force and effect. So long as no Default or Event of Default shall have occurred and be continuing, the Lessee shall be entitled to all sums received by reason of any such Requisition of Use for the period ending on the Lease Termination Date, and the Lessor shall be entitled to all sums received by reason of any such Requisition of Use for the period after the Lease Termination Date.

(f) Termination of Obligation. Until the Lessee shall have made the payments specified in Section 9(c) or 9(d), the Lessee shall make all payments of Rent when due; and the Lessee shall thereafter be required to make all payments of Supplemental Rent as and when due. In the event that the Lessee shall assume all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, upon receipt by the Owner Participant under Section 5.2 of the Indenture of the payments specified in Section 9(c) or 9(d) and payment by the Lessee of all other Rent due and owing through and including the date of payment (including Basic Rent due on or accrued through such date, as the case may be), the Lease Term shall end and the Lessee's obligation to pay further Basic Rent shall cease.



(g) Application of Payments on an Event of Loss. Any payments receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) at any time by the Lessor or the Lessee (other than insurance placed by the Owner Trustee or the Owner Participant pursuant to Section 10(b)) from any Governmental Authority, insurer or other Person (except the Lessee, the Owner Trustee or the Owner Participant) as a result of the occurrence of an Event of Loss shall be applied as follows:

(i) all such payments received at any time by the Lessee shall be promptly paid to the Lessor for application pursuant to the following provisions of this Section 9(g), except that the Lessee may retain any amounts that would at the time be payable to the Lessee as reimbursement under the provisions of clause (ii) below;

(ii) so much of such payments as shall not exceed the amount required to be paid by the Lessee pursuant to Section 9(c) (ignoring, for this purpose, clause (ii) of the first sentence thereof) shall be applied in reduction of the Lessee's obligation to pay such amount if not already paid by the Lessee or, if already paid by the Lessee, shall be applied to reimburse the Lessee for its payment of such amount; and

(iii) the balance, if any, of such payments remaining thereafter shall be divided between the Lessor and the Lessee as their interests may appear.

(h) Application of Payments Not Relating to an Event of Loss. Payments receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) at any time by the Lessor (other than insurance placed by the Owner Trustee or the Owner Participant pursuant to Section 10(b)) or the Lessee from any Governmental Authority, insurer or other Person with respect to any destruction, damage, loss, condemnation, confiscation, theft or seizure of or Requisition of Title to or Requisition of Use of the Undivided Interest or any part thereof not constituting an Event of Loss shall be applied first to reimburse the Lessee for all amounts expended in respect of the repair,

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replacement or reconstruction of the Undivided Interest or any part thereof as provided in Section 9(b), and second the balance, if any, of such payments shall be divided between the Lessor and the Lessee as their interests may appear.

(i) Other Dispositions. Notwithstanding the foregoing provisions of this Section 9, so long as a Default or Event of Default shall have occurred and be continuing, any amount that would otherwise be payable to or for the account of, or that would otherwise be retained by, the Lessee pursuant to Section 10 or this Section 9 shall be paid to the Lessor as security for the obligations of the Lessee under this Facility Lease and, at such time thereafter as no Default or Event of Default shall be continuing, such amount shall be paid promptly to the Lessee unless this Facility Lease shall have theretofore been declared to be in default, in which event such amount shall be disposed of in accordance with the provisions hereof, of the Indenture and of the Trust Agreement.

(j) Assumption of Notes; Creation of Lien on Undivided Interest. In connection with an Event of Loss, a Deemed Loss Event or the exercise of the Cure Option, (i) the Lessee agrees to use its best efforts to comply with the conditions respecting its assumption of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes set forth in Section 3.9(b) of the Indenture, and (ii) the Lessor agrees that, if the Lessee fails to assume all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, not later than two Business Days prior to the date on which the Lessee is required to make the payments specified in Section 9(c) or 9(d), the Lessor will cause the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture by executing and delivering to the Indenture Trustee the Undivided Interest Indenture Supplement.

SECTION 10. Insurance.

(a) Required Insurance. The Lessee will use its best efforts to cause the Operating Agent to carry and maintain insurance required under the ANPP Participation Agreement and will make all payments required of the Lessee under the ANPP Participation Agreement in respect of such insurance. The Lessee will

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at all times maintain, directly or through the Operating Agent, policies of casualty and liability insurance with respect to the Undivided Interest and the Real Property Interest in such amounts and with such coverage as shall be adequate in accordance with prudent utility practice. Any policies of insurance in respect of destruction, damage, loss, theft or other casualty to the Undivided Interest, the Real Property Interest, Unit 1 or any part thereof shall name the Lessor (and, to the extent practicable, the Owner Participant) as an additional insured, as its interest (or their interests) may appear, and any policies with respect to nuclear liability insurance with respect to the Undivided Interest, the Real Property Interest, Unit 1, or any part thereof, shall include all Indemnitees as insureds through an omnibus definition of "insured" or through endorsement; provided, however, that if the Operating Agent, as trustee, shall become the loss payee under any policy of insurance constituting Project Insurance, then the Lessor and the Owner Participant shall be and be made beneficiaries of the trust arrangement under which the Operating Agent acts as trustee. The Lessee shall, on or before March 1 of each year, commencing March 1, 1987, furnish to the Lessor and the Owner Participant (A) a report signed by the broker or brokers for the PVNGS insurance (or if insurance is placed directly by the Operating Agent, a certificate signed by the Operating Agent) (i) showing the insurance then maintained by the ANPP Participants with respect to PVNGS, (ii) stating that no premiums are then delinquent, and (iii) stating that the insurance maintained by the ANPP Participants with respect to PVNGS is in accordance with the terms of (1) the ANPP Participation Agreement and (2) this Section 10, (B) a report signed by the broker or brokers for the Lessee's insurance (or if insurance is placed directly by the Lessee, a certificate signed by the Lessee) showing the separate insurance, if any, then maintained by the Lessee with respect to its interest in PVNGS and stating that no premiums under such insurance are delinquent; (C) a certificate signed by the Lessee stating that the insurance maintained by the ANPP Participants and by the Lessee, identified on the reports to be delivered pursuant to clauses (A) and (B), is in accordance with prudent utility practice within the nuclear industry, the ANPP Participation Agreement and this Section 10; and (D) upon the request of the Lessor or the Owner Participant, copies (to the extent permitted by the issuers of such policies) of policies so maintained. Any report by an insurance broker with



respect to clause (A)(iii)(1) may be made in reliance upon a schedule provided by the Lessee (a copy of which shall be attached) identifying the insurance (by coverage, limits, insureds and other pertinent details) required to be maintained under the ANPP Participation Agreement. Any report with respect to clause (A)(iii)(2) may be made in reliance upon a similar schedule provided by the Lessee (a copy of which shall be attached) identifying the insurance required to be maintained under this Section 10. All insurance proceeds paid in respect of damage, destruction, loss, theft or other casualty to the Undivided Interest or the Real Property Interest shall be applied as provided in Section 9(g), (h) or (i), as the case may be, subject, however, to any priority allocations of such proceeds to decontamination and debris removal set forth in the insurance policies or required under Applicable Law. In the event that either the Operating Agent or the Lessee delivers a certificate pursuant to clause (A) or (B) of the foregoing, the Owner Participant shall be entitled to receive (if it so requests and if the insurer will issue the same) a report from any insurer listed in such certificate.

(b) Permitted Insurance. Nothing in this Section 10 shall prohibit the Lessee from placing, at its expense, insurance on or with respect to the cost of purchasing replacement power, naming the Lessee as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the availability of insurance to be provided or maintained in accordance with Section 10(a). Nothing in this Section 10 shall prohibit the Lessor or the Owner Participant from placing at its expense other insurance on or with respect to Unit 1, the Undivided Interest or the Real Property Interest or the operation of Unit 1, naming the Lessor or the Owner Participant as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the insurance to be provided or maintained in accordance with Section 10(a).

SECTION 11. Rights to Assign or Sublease.

(a) Assignment or Sublease by the Lessee. Without the prior written consent of the Lessor, the Lessee shall not assign, sublease, transfer or encumber (except for Permitted Liens) its leasehold interest in the Undivided Interest or the Real Property Interest under this Facility Lease. The Lessee shall not,

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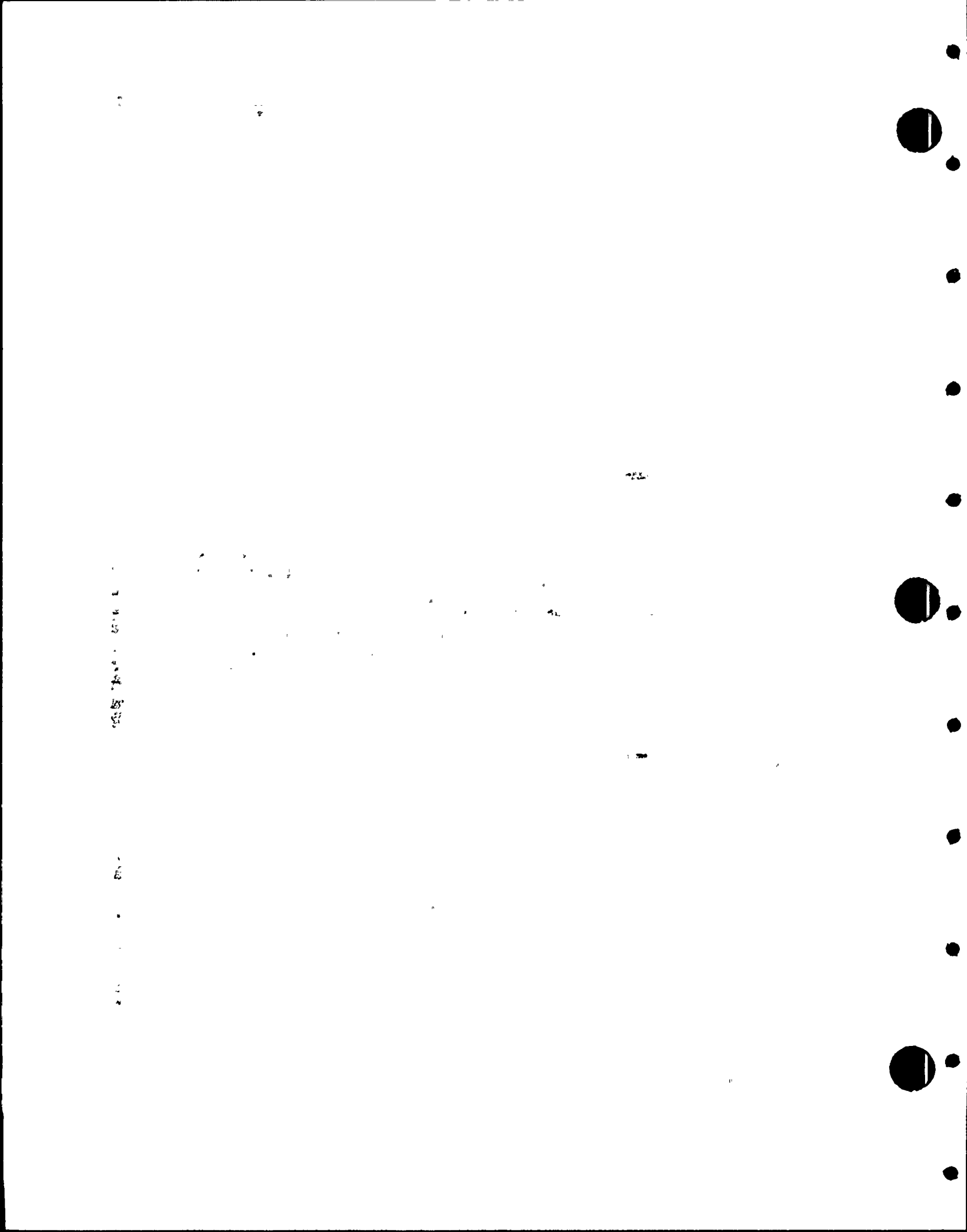
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without the prior written consent of the Lessor and the Owner Participant, part with the possession of, or suffer or allow to pass out of its possession, the Undivided Interest, the Real Property Interest or any interest therein, except to the extent required pursuant to the ANPP Participation Agreement or expressly permitted by the provisions of this Facility Lease or any other Transaction Document.

(b) Assignment by Lessor as Security for Lessor's Obligations. To secure the indebtedness evidenced by the Notes, the Lessor will assign to the Indenture Trustee its right, title and interest to receive certain payments of Rent (not including, in any event, Excepted Payments), to the extent provided in the Indenture and may assign to the Indenture Trustee its right, title and interest in the Undivided Interest and the Real Property Interest as contemplated by Section 9(j). The Lessee hereby (a) consents to such assignment pursuant to the terms of the Indenture, (b) agrees to pay directly to the Indenture Trustee at the Indenture Trustee's Office (so long as the lien of the Indenture has not been satisfied and discharged and the Lessor is obligated thereunder) all amounts of Rent (other than Excepted Payments) due or to become due to the Lessor that shall be required to be paid to the Indenture Trustee pursuant to the Indenture, (c) agrees that the right of the Indenture Trustee to any such payments shall be absolute and unconditional and shall not be affected by any circumstances whatsoever, including, without limitation, those circumstances set forth in Section 4 and (d) agrees that, to the extent provided in the Indenture and until the Indenture is discharged in accordance with its terms, the Indenture Trustee shall have all the rights of the Lessor hereunder with respect to Assigned Payments as if the Indenture Trustee had originally been named herein as the Lessor.

SECTION 12. Lease Renewal.

Subject to the notice requirements set forth in Section 13(a), at the end of the Basic Lease Term, provided that no Default, Event of Default, Event of Loss or Deemed Loss Event shall have occurred and be continuing and the Notes shall have been paid in full, the Lessee shall have the right to renew the term of this Facility Lease for a period commencing January 15, 2015, and ending on the later of January 15, 2017 and the end of the Maximum Option Period (the Renewal Term),



during which the Basic Rent payable shall be the rental provided in Section 3(a)(iii) and one-half of the rental provided in Section 21.

SECTION 13. Notices for Renewal or Purchase; Purchase Options.

(a) Notice; Determination of Values; Appraisal Procedure. Not later than three years nor earlier than five years prior to the expiration date of the Basic Lease Term, and not later than three years nor earlier than five years prior to the expiration date of the Renewal Term, as the case may be, the Lessee shall give to the Lessor written notice of its election either to (A) return the Undivided Interest and the Real Property Interest to the Lessor pursuant to Section 5, or (B) exercise the renewal option permitted by Section 12 (in the case of the notice delivered in respect of the expiration date of the Basic Lease Term) or the purchase option permitted by Section 13(b). If the notice specified in clause (B) of the preceding sentence is given three years prior to the expiration of the Basic Lease Term, then not later than two years prior to the expiration date of the Basic Lease Term, the Lessee will give the Lessor written notice of its election either to exercise the renewal option permitted by Section 12 or the purchase option permitted by Section 13(b). Any such election shall be irrevocable as to the Lessee, but no such election shall be binding on the Lessor if, on the effective date thereof, an Event of Default shall have occurred and be continuing or an Event of Loss or a Deemed Loss Event shall have occurred. Promptly after giving notice, (i) in case the renewal option has been elected, the Maximum Option Period shall be determined by the Appraisal Procedure, or (ii) in case the purchase option permitted by Section 13(b) has been elected, the Lessee and the Owner Participant shall agree upon the Fair Market Sales Value of the Undivided Interest and the Real Property Interest, or, if within three months after the date of the Lessee's notice the Lessee and the Owner Participant shall be unable so to agree, such value shall be determined by the Appraisal Procedure.

(b) Purchase Option at Expiration of the Lease Term. Subject to the notice requirements set forth in Section 13(a), unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred, on the date of the expiration of the Basic Lease Term or the

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Renewal Term (if elected), the Lessee shall have the right to purchase the Undivided Interest and the Real Property Interest for a purchase price equal to the Fair Market Sales Value thereof.

(c) Purchase of the Undivided Interest; Payment, Etc. If the Lessee shall have elected or be required to purchase the Undivided Interest and the Real Property Interest pursuant to Section 13(b), payment by the Lessee of the purchase price for the Undivided Interest and the Real Property Interest shall be made in immediately available funds, whereupon the Lessor shall Transfer the Undivided Interest and the Real Property Interest to the Lessee.

SECTION 14. Termination for Obsolescence.

(a) Termination Notice. Notwithstanding any provision herein contained to the contrary, unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or a Deemed Loss Event shall have occurred, the Lessee shall have the option (provided that the Lessee shall have delivered to the Lessor an Officers' Certificate to the effect that the Lessee's Board of Directors has adopted and there is in effect a resolution determining that Unit 1 is (A) uneconomic to the Lessee or (B) economically obsolete for any reason; and provided that the Lessee shall be disposing of all its other leased interests in Unit 1), on at least 360 days' prior written notice (a Termination Notice) to the Lessor, the Owner Participant and the Indenture Trustee (which notice shall be irrevocable)) to terminate this Facility Lease on any Basic Rent Payment Date after January 15, 1998, and prior to January 15, 2012 (the Termination Date). If the Lessee shall give the Lessor a Termination Notice, the Lessee shall, as agent for the Lessor, use its best efforts to obtain cash bids for the purchase of the Undivided Interest and the Real Property Interest, together with the interest of the Lessor under the Assignment and Assumption. The Lessor shall also have the right to obtain such cash bids, either directly or through agents other than the Lessee. The Lessee shall certify to the Lessor within ten days after the Lessee's receipt of each bid (and, in any event, prior to the Termination Date) the amount and terms thereof and the name and address of the party (which shall not be the Lessee or an Affiliate of the Lessee) submitting such bid.



(b) Right of Lessor to Retain Undivided Interest upon Termination. If a Termination Notice has been delivered pursuant to Section 14(a), the Lessor may elect to retain, rather than sell, the Undivided Interest and the Real Property Interest by giving notice to the Lessee and the Indenture Trustee prior to the Termination Date. It shall be a condition precedent to the Lessor's right to retain the Undivided Interest and the Real Property Interest that on or prior to the Termination Date the Lessor shall have paid (or made provision for payment) to the Indenture Trustee, the unpaid principal amount of all Notes Outstanding on such date and all premium, if any, and interest accrued and unpaid on the date of payment. If the Lessor elects to retain the Undivided Interest and the Real Property Interest pursuant to this Section 14(b), the Lessee shall pay to the Lessor on the Termination Date the Basic Rent and any other Rent due or accrued, as the case may be, to and including the Termination Date, together with an amount equal to the excess, if any, of the Termination Value as of the Termination Date over the highest bona fide offer received pursuant to Section 14(a).

(c) Events on the Termination Date. If the Lessor has not elected to retain the Undivided Interest and the Real Property Interest as provided in Section 14(b), on the Termination Date the Lessor shall (upon receipt of the sale price and all additional payments specified in the next sentence) Transfer the Undivided Interest and the Real Property Interest for cash to the bidder (which shall not be the Lessee or an Affiliate of the Lessee) that shall have submitted the highest bid on or before the Termination Date. The total sale price realized at such sale shall be retained by the Lessor (subject, however, to the terms of the Indenture and the requirement that there shall have been paid, or provision for payment made, to the Indenture Trustee the unpaid principal amount of all Notes Outstanding on the Termination Date and all premium, if any, and interest accrued and unpaid on the date of payment) and, in addition, on the Termination Date the Lessee shall pay to the Lessor (A) the excess, if any, of the Termination Value as of the Termination Date over the net sale price of the Undivided Interest and the Real Property Interest and (B) any Basic Rent due or accrued, as the case may be, to and including the Termination Date and shall pay to the Person or Persons entitled thereto all Supplemental Rent (other than

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Termination Value). Upon compliance by the Lessee with the applicable provisions of this Section 14, the obligation of the Lessee to pay Basic Rent due hereunder for any period after the Termination Date shall cease and the Basic Lease Term shall end on the Termination Date; provided, however, that, in the event of termination of this Facility Lease pursuant to this Section 14, the obligations of the Lessee under the ANPP Participation Agreement (except as therein expressly provided) and the Assignment and Assumption shall continue in full force and effect and shall not be impaired by reason of any such termination. If, other than as a result of the Lessor's election to retain the Undivided Interest and the Real Property Interest as provided in Section 14(b), on or as of the Termination Date no such sale shall occur or the Lessee shall not have complied in full with this Section 14, this Facility Lease shall continue in full force and effect in accordance with its terms without prejudice to the Lessee's right to exercise its rights under this Section 14 thereafter, except that the Lessee shall not be entitled to deliver another Termination Notice during the 3-year period following such Termination Date. The Lessor shall be under no duty to solicit bids, to inquire into the efforts of the Lessee to obtain bids or otherwise take any action in connection with any such sale other than, if the Lessor has not elected to retain the Undivided Interest and the Real Property Interest, to Transfer the Undivided Interest and the Real Property Interest to the purchaser named in the highest bid certified by the Lessee to the Lessor or obtained by the Lessor, against receipt of the payments provided for herein (but only if such purchaser has obtained all Governmental Action by the NRC necessary in connection therewith).

(d) Early Termination Notice. In the event that the Lessee shall fail to exercise its renewal option or purchase option within the time limit provided by Section 13(a), the Lessor shall have the option, on any Basic Rent Payment Date thereafter, on at least 120 days prior written notice (an Early Termination Notice) to the Lessee and the Indenture Trustee, to terminate this Facility Lease on the Basic Rent Payment Date specified in such notice (the Early Termination Date). Any Early Termination Notice may be revoked by the Lessor at any time on or prior to the Early Termination Date.

(e) Events on the Early Termination Date. On the Early Termination Date the Lessor shall, at its

option, (i) Transfer the Undivided Interest and the Real Property Interest to the bidder (other than the Lessee or an Affiliate of the Lessee) selected by the Lessor or (ii) retain the Undivided Interest and the Real Property Interest. It shall be a condition precedent to the Lessor's right to sell or retain the Undivided Interest and the Real Property Interest that on or prior to the Early Termination Date the Lessor shall have paid (or made provision for payment) to the Indenture Trustee the unpaid principal amount of all Notes Outstanding on such date and all premium, if any, and interest accrued and unpaid on the date of payment. The total sale price realized at any such sale shall be retained by the Lessor and, in addition, on the Early Termination Date the Lessee shall pay to the Lessor any Basic Rent due or accrued, as the case may be, to and including the Early Termination Date, and shall pay to the Person or Persons entitled thereto all Supplemental Rent (other than Termination Value). Upon compliance by the Lessee with the applicable provisions of this Section 14, the obligation of the Lessee to pay Basic Rent due hereunder for any period after the Early Termination Date shall cease and the Lease Term shall end on the Early Termination Date; provided, however, that in the event of the termination of this Facility Lease pursuant to this Section 14, the obligations of the Lessee under the ANPP Participation Agreement (except as therein expressly provided) and the Assignment and Assumption shall continue in full force and effect and shall not be impaired by reason of any such termination.

SECTION 15. Events of Default.

The term Event of Default, wherever used herein, shall mean any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary, or come about or be effected by operation of law, or be pursuant to or in compliance with any Applicable Law or Governmental Action):

(i) the Lessee shall fail to make, or cause to be made, (x) payment of Casualty Value, Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option when due, (y) any payment of Basic Rent within 5 Business Days after the same shall become due or (z) any payment of Supplemental Rent (other than Casualty Value,

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Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option) within 20 days after the same shall become due or demanded, as the case may be; or

(ii) the Lessee shall fail to perform or observe any covenant, condition or agreement to be performed or observed by it under Section 10(b)(3)(i), 10(b)(3)(ii), 10(b)(3)(iii) or 10(b)(3)(v) of the Participation Agreement or Section 7, 10 (other than failure of the Lessee to cause to be delivered the insurance certificates (other than a certificate of the Lessee) described therein) or 11 of this Facility Lease; or

(iii) the Lessee shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 10(b)(3)(viii) of the Participation Agreement and such failure shall continue for a period of 30 days after there shall have been given to the Lessee by the Lessor or the Owner Participant a notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(iv) the Lessee shall fail to perform its agreements set forth in Section 5(a) hereof; or

(v) the Lessee shall fail to perform or observe any covenant, condition or agreement (other than covenants, conditions or agreements referred to in clauses (i) through (iv) above) to be performed or observed by it under this Facility Lease or any other Transaction Document, and such failure shall continue for a period of 30 days after there shall have been given to the Lessee by the Lessor or the Owner Participant a notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(vi) any representation or warranty made by the Lessee in this Facility Lease, any other Transaction Document (other than the Tax

Indemnification Agreement) or any agreement, document or certificate delivered by the Lessee in connection herewith or therewith shall prove to have been incorrect in any material respect when any such representation or warranty was made or given and shall remain material and materially incorrect at the time in question; or

(vii) the Lessee shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against the Lessee seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of 60 consecutive days; or

(viii) final judgment for the payment of money in excess of \$1,000,000 shall be rendered against the Lessee and the Lessee shall not have discharged the same or provided for its discharge in accordance with its terms or bonded the same or procured a stay of execution thereof within 60 days from the entry thereof; or

(ix) (1) a default by the Lessee under the ANPP Participation Agreement in consequence of

which the Lessee's right to receive its Generation Entitlement Share in PVNGS is suspended by the other ANPP Participants, or (2) the giving by any ANPP Participant of a notice under Section 23.2 (or any comparable successor provision) of the ANPP Participation Agreement respecting a default thereunder by the Lessee and the lapse of 20 Business Days from the giving of such notice without the Lessee having cured such default; provided, however, that for purposes of this clause (2) if the Lessee shall have, in good faith, disputed the existence or nature of a default and such dispute shall have become the subject of an arbitration under Section 24 (or any comparable successor provision) of the ANPP Participation Agreement, such 20 Business Day period shall commence on the date of the final determination of the board of arbitrators under such Section 24; or

(x) (1) the Lessee shall fail to pay when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Debt (which term shall mean (A) indebtedness for borrowed money, (B) obligations as lessee under leases and (C) obligations under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (A) or (B) above, in each case if the principal amount (or equivalent) thereof (or in the case of any operating lease, an equivalent on the assumption such lease were a lease required to be capitalized in accordance with generally accepted accounting principles) is greater than \$20,000,000 (\$5,000,000 in the case of any PVNGS operating lease)) of the Lessee, and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt, but only if the Lessee shall have received notice of such failure or a Responsible Officer of the Lessee shall have actual knowledge of such failure; or (2) any other default under any agreement or instrument

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relating to any such Debt, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt, but only if the Lessee shall have received notice of such default or event or a Responsible Officer of the Lessee shall have actual knowledge of such default or event.

SECTION 16. Remedies.

(a) Remedies. Upon the occurrence of any Event of Default and so long as the same shall be continuing, the Lessor may, at its option, declare this Facility Lease to be in default by written notice to such effect given to the Lessee, and may exercise one or more of the following remedies as the Lessor in its sole discretion shall elect:

(i) the Lessor may, by notice to the Lessee, rescind or terminate this Facility Lease;

(ii) the Lessor may (x) demand that the Lessee, and thereupon the Lessee shall, return possession of the Undivided Interest and the Real Property Interest promptly to the Lessor in the manner and condition required by, and otherwise in accordance with the provisions of, this Facility Lease as if the Undivided Interest and the Real Property Interest were being returned at the end of the Lease Term and the Lessor shall not be liable for the reimbursement of the Lessee for any costs and expenses incurred by the Lessee in connection therewith and (y) subject to Applicable Law, enter upon the PVNGS Site and take immediate possession of (to the exclusion of the Lessee) the Undivided Interest and the Real Property Interest, by summary proceedings or otherwise, all without liability to the Lessee for or by reason of such entry or taking of possession, whether for the restoration of damage to property caused by such taking or otherwise;

(iii) the Lessor may sell the Undivided Interest and the Real Property Interest, or

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any part thereof, together with any interest of the Lessor under the Assignment and Assumption, at public or private sale in a commercially reasonable manner, as the Lessor may determine, free and clear of any rights of the Lessee in the Undivided Interest and the Real Property Interest and without any duty to account to the Lessee with respect to such action or inaction or any proceeds with respect thereto (except to the extent required by clause (v) or (vi) below if the Lessor shall elect to exercise its rights thereunder), in which event the Lessee's obligation to pay Basic Rent hereunder for periods commencing after the date of such sale shall be terminated or proportionately reduced, as the case may be (except to the extent that Basic Rent is to be included in computations under clause (v) or (vi) below if the Lessor shall elect to exercise its rights thereunder);

(iv) the Lessor may hold, keep idle or lease to others all or any part of the Undivided Interest and the Real Property Interest, as the Lessor in its sole discretion may determine, free and clear of any rights of the Lessee and without any duty to account to the Lessee with respect to such action or inaction or for any proceeds with respect to such action or inaction, except that the Lessee's obligation to pay Basic Rent for periods commencing after the Lessee shall have been deprived of use of the Undivided Interest and the Real Property Interest pursuant to this clause (iv) shall be reduced by an amount equal to the net proceeds, if any, received by the Lessor from leasing the Undivided Interest and the Real Property Interest to any Person other than the Lessee for the same periods or any portion thereof;

(v) except in the case of an Event of Default specified in clause (iv) of Section 15 (subject, however, to the provisos to the first sentence of Section 16(c) hereof), the Lessor may, whether or not the Lessor shall have exercised or shall thereafter at any time exercise its rights under clause (i), (ii),

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(iii) or (iv) above, demand, by written notice to the Lessee specifying a payment date which shall be a Basic Rent Payment Date not earlier than 10 days after the date of such notice, that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on the Basic Rent Payment Date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Rent due after the Basic Rent Payment Date specified in such notice), any unpaid Rent due through the Basic Rent Payment Date specified in such notice plus whichever of the following amounts the Lessor, in its sole discretion, shall specify in such notice (together with interest on such amount at the interest rate specified in Section 3(b)(iii) from the Basic Rent Payment Date specified in such notice to the date of actual payment) (and, in the case of (D) below, upon receipt of such payment the Lessor shall (or may prior to the receipt of such payment) Transfer to the Lessee the Undivided Interest and the Real Property Interest):

(A) an amount equal to the excess, if any, of (1) Casualty Value, computed as of the Basic Rent Payment Date specified in such notice, over (2) the Fair Market Rental Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 1) until the end of the remaining useful life of Unit 1, after discounting such Fair Market Rental Value semi-annually to present value as of the Basic Rent Payment Date specified in such notice at a rate of 10% per annum;

(B) an amount equal to the excess, if any, of (1) such Casualty Value over (2) the Fair Market Sales Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 1) as of the Basic Rent Payment Date specified in such notice;

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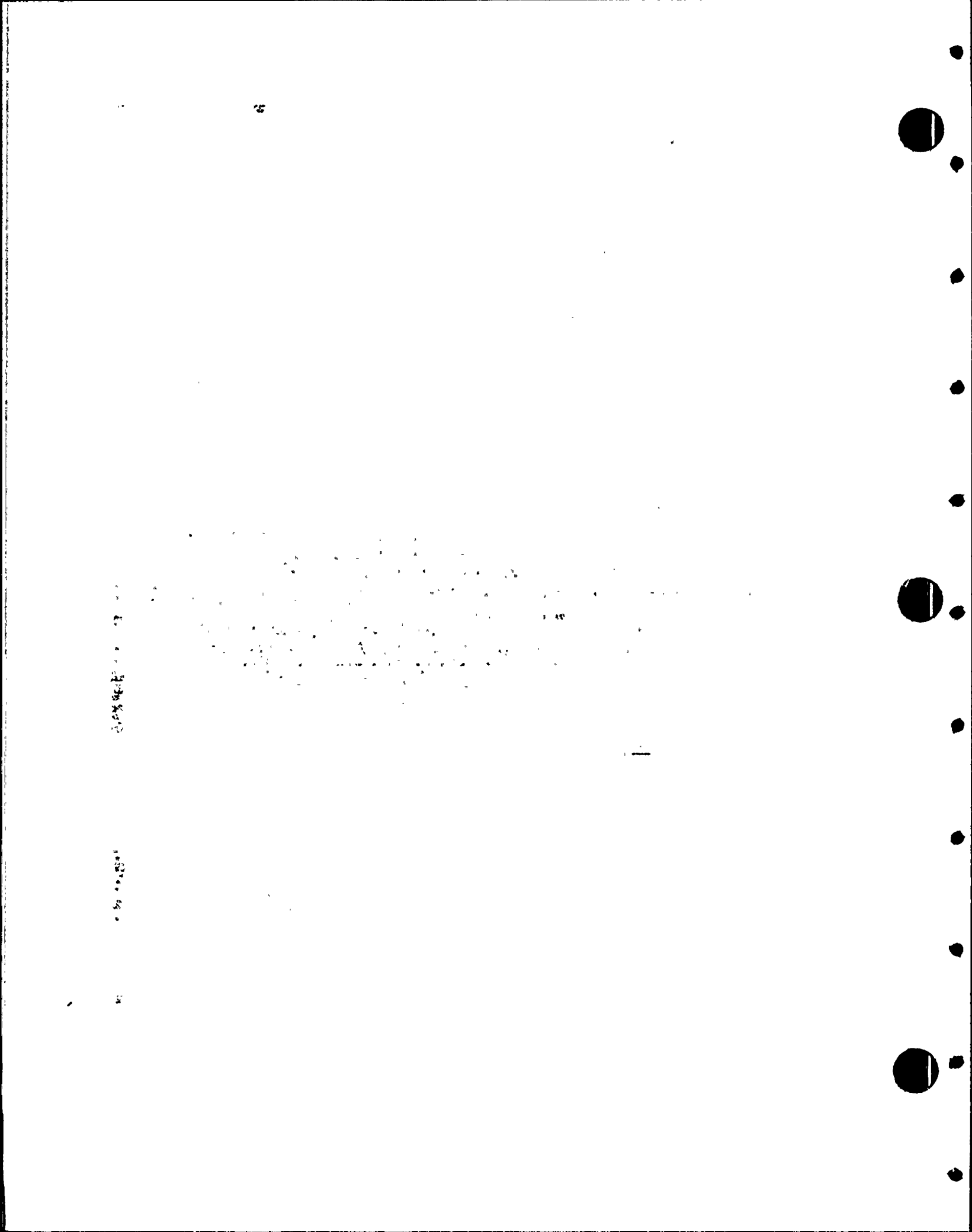
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(C) an amount equal to the excess, if any, of (1) the present value as of the Basic Rent Payment Date specified in such notice of all installments of Basic Rent until the end of the Basic Lease Term or the Renewal Term, as the case may be, discounted semi-annually at a rate of 10% per annum, over (2) the present value as of such Basic Rent Payment Date of the Fair Market Rental Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 1) until the end of the Basic Lease Term or the Renewal Term, as the case may be, discounted semi-annually at a rate of 10% per annum; or

(D) an amount equal to the higher of (1) the Casualty Value (Special Casualty Value if the Event of Default is an event specified in clause (v), (viii) or (x) (2) of Section 15 hereof), computed as of the Basic Rent Payment Date specified in such notice or (2) the Fair Market Sales Value of the Undivided Interest and the Real Property Interest;

(vi) if the Lessor shall have sold all the Undivided Interest and the Real Property Interest pursuant to clause (iii) above, the Lessor, in lieu of exercising its rights under clause (v) above with respect to the Undivided Interest and the Real Property Interest may, if it shall so elect, demand that the Lessee pay to the Lessor and the Lessee shall pay to the Lessor on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty (in lieu of Basic Rent due for periods commencing after the next Basic Rent Payment Date following the date of such sale), any unpaid Basic Rent due through such Basic Rent Payment Date, plus the amount of any deficiency of the Sale Proceeds under the Casualty Value, computed as of such Basic Rent Payment Date, together with interest at the interest rate specified in Section 3(b)(iii) on the amount of such Rent and such deficiency



from the date of such sale until the date of actual payment; or

(vii) in the case of an Event of Default specified in clause (iv) of Section 15, the Lessor may demand, by written notice to the Lessee specifying a payment date which shall be not earlier than the date 30 days after the last Basic Rent Payment Date of the Lease Term, that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on such last payment date, as liquidated damages for loss of a bargain and not as a penalty, any unpaid Rent due through such last Basic Rent Payment Date plus an amount (not less than zero) equal to the Fair Market Sales Value (determined without regard to the obligation of the Lessee under Section 10(b)(3)(xi) of the Participation Agreement) of the Undivided Interest and the Real Property Interest (determined on the basis of the actual condition of Unit 1) determined as of such last Basic Rent Payment Date (together with interest on such amount at the interest rate specified in Section 3(b)(iii) from such last Basic Rent Payment Date to the date of actual payment) and upon receipt of such payment the Lessor shall (or may prior to the receipt of such payment) Transfer to the Lessee the Undivided Interest and the Real Property Interest); provided, however, that the Lessor may not exercise the foregoing remedy if the Lessor shall have failed to Transfer the Undivided Interest and the Real Property Interest to the bidder (which shall not be the Lessee or an Affiliate of the Lessee) that shall have submitted the highest cash bid on or before the date on which such Event of Default arose excluding, however, any such cash bid which the Lessor or the Owner Participant determines was not submitted in good faith, or as to which the bidder fails to certify to the Lessor such information as the Lessor or Owner Participant may reasonably request in order to determine whether or not such bid was submitted in good faith (and the Lessor agrees that it will, if and to the extent so requested by the Lessee on or after the date 90 days preceding such last Basic

Rent Payment Date, use reasonable efforts (at the expense of the Lessee) for a period ending on the day 90 days after such last Basic Rent Payment Date, to find a Person willing to submit such cash bid; provided, however, that the failure of the Lessor to do so shall not relieve the Lessee of its obligations under this clause (vii)).

(b) No Release. No rescission or termination of this Facility Lease, in whole or in part, or repossession of the Undivided Interest or the Real Property Interest or exercise of any remedy under paragraph (a) of this Section 16 shall, except as specifically provided therein, relieve the Lessee of any of its liabilities and obligations hereunder. In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid Rent due hereunder before, after or during the exercise of any of the foregoing remedies, including all reasonable legal fees and other costs and expenses incurred by the Lessor or the Owner Participant by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto. At any sale of the Undivided Interest, the Real Property Interest or any part thereof pursuant to this Section 16, the Owner Participant, the Lessor or the Indenture Trustee may bid for and purchase such property.

(c) Remedies Cumulative. No remedy under paragraph (a) of this Section 16 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy provided under such paragraph (a) or otherwise available to the Lessor at law or in equity; provided, however, that notwithstanding anything to the contrary set forth in this Facility Lease, the remedy set forth in Section 16(a)(vii) shall be the sole and exclusive remedy under this Section 16 in the case of an Event of Default specified in clause (iv) of Section 15, unless the Lessee is in default of its payment obligations under Section 16(a)(vii), in which case the Lessor may exercise its other remedies under Section 16(a); (except that the maximum amount payable by the Lessee in the event of the exercise by the Lessor of any of the remedies provided for in Section 16(a)(v) or (vi) shall not exceed the total amount payable by the Lessee under Section 16(a)(vii) minus the amount provided in subclause (2) of clause (A), (B) or (C) of such Section 16(a)(v), if the Lessor elects a remedy



specified in said clause (A), (B) or (C), or the deficiency referred to in Section 16(a)(vi), if the Lessor elects the remedy specified in Section 16(a)(vi) hereof). No express or implied waiver by the Lessor of any Default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default. The failure or delay of the Lessor in exercising any right granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies and any single or partial exercise of any particular right by the Lessor shall not exhaust the same or constitute a waiver of any other right provided herein. To the extent permitted by Applicable Law, the Lessee hereby waives any rights now or hereafter conferred by statute or otherwise which may require the Lessor to sell, lease or otherwise use the Undivided Interest or Unit 1 in mitigation of the Lessor's damages as set forth in paragraph (a) of this Section 16 or which may otherwise limit or modify any of the Lessor's rights and remedies provided in this Section 16.

(d) Exercise of Other Rights or Remedies. In addition to all other rights and remedies provided in this Section 16, the Lessor may, except to the extent expressly limited by provisions of this Section 16, exercise any other right or remedy that may be available to it under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

(e) Special Cure Right of Lessee. In the event a "Notice of Default" is given under Section 15(iii), the Lessee may, on or prior to the occurrence of an Event of Default resulting therefrom, give written notice to the Lessor stating that the Lessee has elected to exercise the option (the Cure Option) provided in this Section 16(e), which election shall be irrevocable as to the Lessee. Promptly after the giving of such notice, the Lessee and the Owner Participant shall agree upon the Fair Market Sales Value of the Undivided Interest and the Real Property Interest or, if they shall be unable so to agree within one month after the date of the Lessee's notice, such value shall be determined by the Appraisal Procedure. On the Basic Rent Payment Date next following the date that such Fair Market Sales Value shall have been determined, the

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Lessee shall pay to the Lessor all Rent due on such Basic Rent Payment Date, plus an amount equal to the excess of (i) the greater of such Fair Market Sales Value and the Casualty Value determined as of such Basic Rent Payment Date over (ii) the unpaid principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such date. Upon compliance in full by the Lessee with the foregoing provisions of this paragraph (e) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing) Transfer the Undivided Interest and the Real Property Interest to the Lessee. If the Lessee shall not have assumed all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this paragraph (e) (including interest, if any, thereon pursuant to Section 3(b)(iii)), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes then Outstanding and this Facility Lease shall become a security agreement for all purposes of Applicable Law. The Lessee agrees to use its best efforts to comply with the conditions respecting its assumption set forth in Section 3.9(b) of the Indenture and, failing such assumption, agrees to accept a transfer of the Owner Participant's right, title and interest in the Trust Estate pursuant to Section 7(b)(4) of the Participation Agreement.

SECTION 17. Notices.

All communications and notices provided for in this Facility Lease shall be in writing and shall be given in person (with signed receipt of an officer of the Owner Participant in the case of a delivery to the Owner Participant) or by means of telex, telecopy, or other wire transmission, or mailed by registered or

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certified mail, or delivered by express delivery service, addressed as provided in the Participation Agreement. All such communications and notices given in such manner shall be effective on the date of receipt of such communication or notice.

SECTION 18. Successors and Assigns.

This Facility Lease, including all agreements, covenants, indemnities, representations and warranties, shall be binding upon and inure to the benefit of the Lessor and its successors and permitted assigns; and the Lessee and its successors and, to the extent permitted hereby, assigns.

SECTION 19. Right to Perform for Lessee.

If the Lessee shall fail to make any payment of Rent to be made by it, or shall fail to perform or comply with any of its other agreements contained herein, or fail to make any payment to be made by it under any ANPP Project Agreement, or shall fail to perform or comply with any of its other agreements contained in any ANPP Project Agreement, either the Lessor or the Owner Participant may, but shall not be obligated to, tender such payment, or effect such performance or compliance, and the amount of such payment and the amount of all costs and expenses (including, without limitation, attorneys' and other professionals' fees and expenses) of the Lessor or the Owner Participant, as the case may be, incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest thereon at the Penalty Rate, shall be deemed Supplemental Rent, payable by the Lessee upon demand. In the event that the Lessor or the Owner Participant shall cure any default by the Lessee under the ANPP Participation Agreement, then (so long as an Event of Default has occurred and is continuing) the Lessor, together with each other Person contributing to such cure, shall be entitled (to the full extent enforceable in accordance with Applicable Law) to receive the Generation Entitlement Share of the Lessee under the ANPP Participation Agreement (not limited to Unit 1), with each contributor to receive a percentage of such Generation Entitlement Share equal to the percentage of the cure contributed thereby.

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SECTION 20. Additional Covenants.

The Lessee agrees to comply with and to pay, as Supplemental Rent, all amounts payable by it under the provisions of Section 13 of the Participation Agreement and under the provisions of the Tax Indemnification Agreement, which provisions are incorporated herein by this reference as fully as if set forth in full at this place. The Lessee agrees to comply with its covenants and agreements set forth in Sections 10(b), 14 and 16 of the Participation Agreement and Articles III, IV, V and VI of the Assignment and Assumption, which covenants and agreements are incorporated herein by this reference as fully as if set forth in full at this place.

SECTION 21. Lease of Real Property Interest.

Pursuant to the Deed and the Assignment of Beneficial Interest, the Lessee has sold to the Lessor the Real Property Interest. The Lessor hereby grants to the Lessee a leasehold interest in the Real Property Interest, such leasehold to be coterminous with the lease of the Undivided Interest hereunder and to be at a rent per annum equal to the respective percentages of the Real Estate Investment for the applicable period set forth or derived from the respective percentages of Facility Cost in clauses (i), (ii) and (iii), respectively, of Section 3(a) hereof (which rent is incorporated as part of Basic Rent payable pursuant to Section 3(a) hereof).

SECTION 22. Amendments and Miscellaneous.

(a) Amendments in Writing. The terms of this Facility Lease may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by the Lessor and the Lessee.

(b) Survival. (1) All indemnities, representations and warranties contained in this Facility Lease and the other Transaction Documents and the Financing Documents and in any agreement, document or certificate delivered pursuant hereto or thereto or in connection herewith or therewith shall survive, and continue in effect following, the execution and delivery of this Facility Lease and the expiration or other termination of this Facility Lease.

(2) The obligations of the Lessee to pay Supplemental Rent and the obligations of the Lessee under Sections 5, 16, 19 and 20 hereof shall survive the expiration or termination of this Facility Lease. The extension of any applicable statute of limitations by the Owner, Trustee, the Indenture Trustee, the Lessee, the Owner Participant, the Loan Participant or any Indemnatee shall not affect such survival. The obligations of the Lessee under Section 20 are expressly made for the benefit of, and shall be enforceable by, any Indemnatee, separately or together, without declaring this Facility Lease to be in default and notwithstanding any assignment by the Lessor of this Facility Lease or any of its rights thereunder or any disposition of all or any part of any interest in the Undivided Interest, the Real Property Interest, Unit 1 or any other property referred to in this Facility Lease or in this Facility Lease or any other Transaction Document or Financing Document. All payments required to be made pursuant to Section 20 shall be made directly to, or as otherwise requested by, the Indemnatee entitled thereto upon written demand by such Indemnatee.

(c) Severability of Provisions. Any provision of this Facility Lease which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by Applicable Law, the Lessee hereby waives any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

(d) True Lease. This Facility Lease shall constitute an agreement of lease and nothing herein or elsewhere shall be construed as conveying to the Lessee any right, title or interest in or to the Undivided Interest or the Real Property Interest, except as lessee only.

(e) Original Lease. The single executed original of this Facility Lease marked "THIS COUNTERPART IS THE ORIGINAL COUNTERPART" and containing the receipt of the Indenture Trustee thereon shall be the "Original" of this Facility Lease. To the extent that this Facility

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Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Facility Lease may be created through the transfer or possession of any counterpart other than the "Original".

(f) Governing Law. This Facility Lease shall be governed by and construed in accordance with the law of the State of New York, except to the extent that pursuant to the law of the State of Arizona the law of the State of Arizona is mandatorily applicable hereto.

(g) Headings. The division of this Facility Lease into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Facility Lease.

(h) Concerning the Owner Trustee. FNB is entering into this Facility Lease solely as Owner Trustee under the Trust Agreement and not in its individual capacity. Anything herein to the contrary notwithstanding, all and each of the representations, warranties, undertakings and agreements herein made on the part of the Owner Trustee are made and intended not as personal representations, warranties, undertakings and agreements by or for the purpose or with the intention of binding FNB personally but are made and intended for the purpose of binding only the Trust Estate, and this Facility Lease is executed and delivered by the Owner Trustee solely in the exercise of the powers expressly conferred upon it as trustee under the Trust Agreement; and no personal liability or responsibility is assumed hereunder by or shall at any time be enforceable against FNB or any successor in trust or the Owner Participant on account of any representation, warranty, undertaking or agreement hereunder of the Owner Trustee, either expressed or implied, all such personal liability, if any, being expressly waived by the Lessee, except that the Lessee or any Person claiming by, through or under it, making claim hereunder, may look to the Trust Estate for satisfaction of the same and the Owner Trustee or its successor in trust, as applicable, shall be personally liable for its own gross negligence or willful misconduct. If a successor owner trustee is appointed in accordance with the terms of the Trust Agreement, such successor owner trustee shall, without any further act, succeed to all the rights, duties, immunities and



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obligations of the Owner Trustee hereunder and the predecessor owner trustee shall be released from all further duties and obligations hereunder.

(i) Disclosure. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. The address of the beneficiary is also therein described. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.


(j) Counterpart Execution. This Facility Lease may be executed in any number of counterparts and by each of the parties hereto or thereto on separate counterparts, all such counterparts together constituting but one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has caused this Facility Lease to be duly executed in New York, New York by an officer thereunto duly authorized.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation

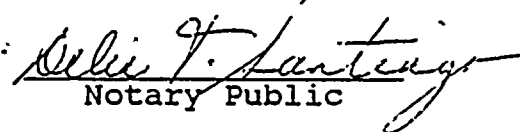
By 
Assistant Vice President

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By 
Senior Vice President and
Chief Financial Officer

State of New York)
) ss.
County of New York)

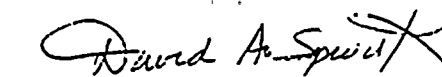
The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.

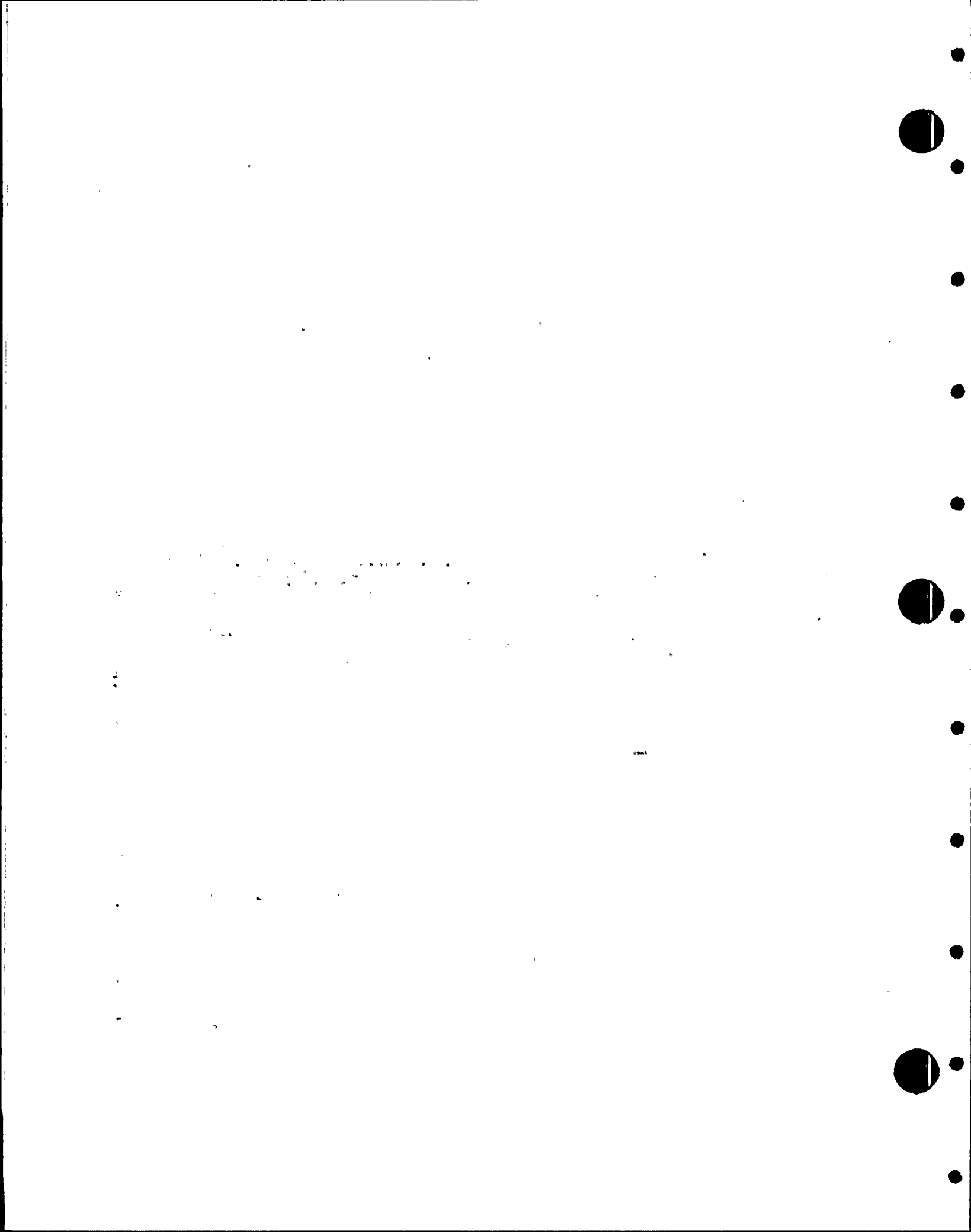

Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public
DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987



SCHEDULE OF CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|
| 15JAN87 | 105.94334 |
| 15JUL87 | 104.82779 |
| 15JAN88 | 106.20642 |
| 15JUL88 | 105.17772 |
| 15JAN89 | 108.21549 |
| 15JUL89 | 107.07107 |
| 15JAN90 | 109.47569 |
| 15JUL90 | 108.31785 |
| 15JAN91 | 110.15808 |
| 15JUL91 | 108.97072 |
| 15JAN92 | 110.21149 |
| 15JUL92 | 108.95844 |
| 15JAN93 | 109.62035 |
| 15JUL93 | 108.26330 |
| 15JAN94 | 108.30191 |
| 15JUL94 | 106.80048 |
| 15JAN95 | 106.29835 |
| 15JUL95 | 104.89817 |
| 15JAN96 | 104.18824 |
| 15JUL96 | 102.85333 |
| 15JAN97 | 102.10833 |
| 15JUL97 | 100.70463 |
| 15JAN98 | 99.83623 |
| 15JUL98 | 98.33687 |
| 15JAN99 | 97.32303 |
| 15JUL99 | 95.71397 |
| 15JAN100 | 94.53854 |
| 15JUL100 | 92.80428 |
| 15JAN101 | 91.45971 |
| 15JUL101 | 89.62720 |

SCHEDULE OF CASUALTY VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

| | |
|----------|----------|
| 15JAN102 | 88.14857 |
| 15JUL102 | 86.22766 |
| 15JAN103 | 84.62272 |
| 15JUL103 | 82.60677 |
| 15JAN104 | 80.88149 |
| 15JUL104 | 78.76212 |
| 15JAN105 | 76.90592 |
| 15JUL105 | 74.67525 |
| 15JAN106 | 72.67859 |
| 15JUL106 | 70.32818 |
| 15JAN107 | 68.18158 |
| 15JUL107 | 65.70404 |
| 15JAN108 | 63.39779 |
| 15JUL108 | 60.78382 |
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| 15JUL109 | 55.54644 |
| 15JAN110 | 52.88659 |
| 15JUL110 | 49.96951 |
| 15JAN111 | 47.11428 |
| 15JUL111 | 44.02926 |
| 15JAN112 | 40.96522 |
| 15JUL112 | 37.70042 |
| 15JAN113 | 34.41334 |
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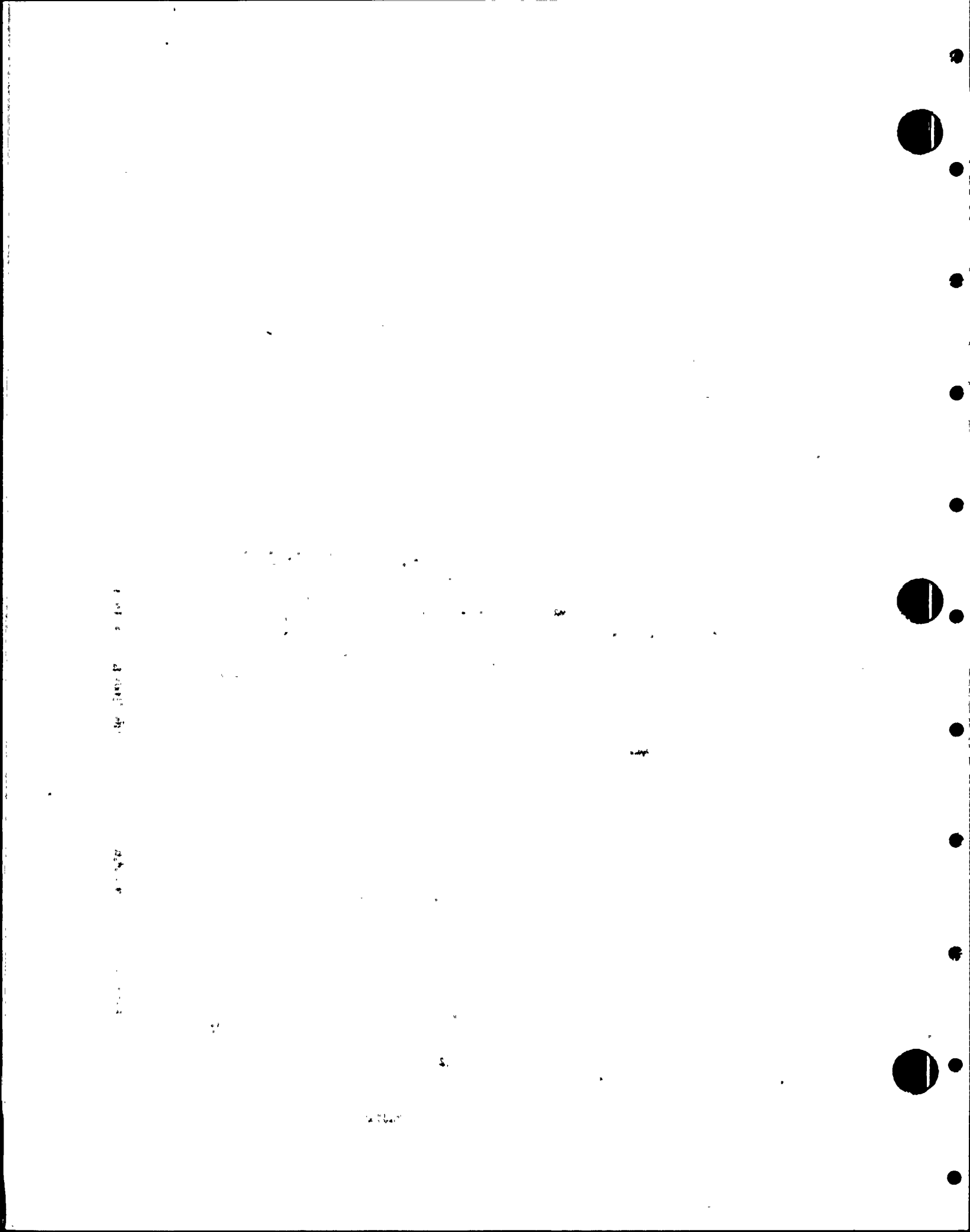
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SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15JAN87 | 105.93953 | 15JUN90 | 107.84240 |
| 15FEB87 | 106.39611 | 15JUL90 | 107.91093 |
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| 15APR87 | 105.85050 | 15SEP90 | 107.46000 |
| 15MAY87 | 106.19610 | 15OCT90 | 107.51432 |
| 15JUN87 | 104.47466 | 15NOV90 | 107.57126 |
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| 15AUG87 | 105.11218 | | |
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| 15OCT87 | 104.60756 | 15FEB91 | 109.69166 |
| 15NOV87 | 104.90548 | 15MAR91 | 109.73644 |
| 15DEC87 | 104.94556 | 15APR91 | 109.28655 |
| | | 15MAY91 | 109.31183 |
| 15JAN88 | 106.14985 | 15JUN91 | 108.32723 |
| 15FEB88 | 106.38006 | 15JUL91 | 108.33966 |
| 15MAR88 | 106.61522 | 15AUG91 | 108.34874 |
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| 15MAY88 | 106.12748 | 15OCT91 | 107.85663 |
| 15JUN88 | 104.87501 | 15NOV91 | 107.85491 |
| 15JUL88 | 105.07218 | 15DEC91 | 107.76886 |
| 15AUG88 | 105.25702 | | |
| 15SEP88 | 104.66908 | 15JAN92 | 109.45422 |
| 15OCT88 | 104.84050 | 15FEB92 | 109.43576 |
| 15NOV88 | 105.01603 | 15MAR92 | 109.41913 |
| 15DEC88 | 105.02104 | 15APR92 | 109.03902 |
| | | 15MAY92 | 109.00388 |
| 15JAN89 | 108.05718 | 15JUN92 | 108.10129 |
| 15FEB89 | 108.20650 | 15JUL92 | 108.05429 |
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| 15MAY89 | 107.87894 | 15OCT92 | 107.47373 |
| 15JUN89 | 106.71734 | 15NOV92 | 107.41103 |
| 15JUL89 | 106.83931 | 15DEC92 | 107.28985 |
| 15AUG89 | 106.95663 | | |
| 15SEP89 | 106.40377 | 15JAN93 | 108.56550 |
| 15OCT89 | 106.50984 | 15FEB93 | 108.48510 |
| 15NOV89 | 106.61914 | 15MAR93 | 108.40583 |
| 15DEC89 | 106.59029 | 15APR93 | 108.08086 |
| | | 15MAY93 | 107.98296 |
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| 15APR90 | 108.83335 | 15SEP93 | 106.46755 |
| 15MAY90 | 108.91403 | 15OCT93 | 106.33746 |



SCHEDULE OF SPECIAL CASUALTY VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

15NOV93 106.20789
15DEC93 106.04267

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15DEC95 101.70963

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15DEC96 99.18455

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15MAY97 98.46857
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15JUL97 97.70056
15AUG97 97.46285
15SEP97 97.13509
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15DEC97 96.42196

15JAN98 96.55907
15FEB98 96.30932
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15APR98 95.80980
15MAY98 95.56004
15JUN98 95.01569
15JUL98 94.76594
15AUG98 94.50352
15SEP98 94.16087
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15NOV98 93.63604
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15MAY99 92.35165
15JUN99 91.80293
15JUL99 91.52721
15AUG99 91.23752
15SEP99 90.87752
15OCT99 90.58782
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15FEB100 89.72534
15MAR100 89.42096
15APR100 89.11658
15MAY100 88.81220
15JUN100 88.25712
15JUL100 87.95274

SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
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| 15SEP100 | 87.25627 | 15FEB104 | 72.92437 |
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| 15DEC100 | 86.30198 | 15MAY104 | 71.73202 |
| | | 15JUN104 | 71.15925 |
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| 15FEB101 | 85.93294 | 15AUG104 | 70.35147 |
| 15MAR101 | 85.60426 | 15SEP104 | 69.90958 |
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| 15DEC101 | 82.30904 | 15MAY105 | 66.77296 |
| | | 15JUN105 | 66.18738 |
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| 15NOV103 | 73.88776 | 15APR107 | 56.39205 |
| 15DEC103 | 73.50135 | 15MAY107 | 55.91618 |



SCHEDULE OF SPECIAL CASUALTY VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

15JUN107 55.30241
15JUL107 54.82804
15AUG107 54.33674
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15MAY110 37.00305
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15AUG110 35.18906
15SEP110 34.58439
15OCT110 33.99626

15NOV110 33.40813
15DEC110 32.82000

15JAN111 32.33061
15FEB111 31.72573
15MAR111 31.12085
15APR111 30.51597
15MAY111 29.91109
15JUN111 29.22912
15JUL111 28.63357
15AUG111 28.00911
15SEP111 27.37107
15OCT111 26.74661
15NOV111 26.12215
15DEC111 25.49770

15JAN112 24.95370
15FEB112 24.31147
15MAR112 23.66923
15APR112 23.02700
15MAY112 22.38477
15JUN112 21.68291
15JUL112 21.05240
15AUG112 20.38938
15SEP112 19.71588
15OCT112 19.05287
15NOV112 18.38985
15DEC112 17.72684

15JAN113 17.12501
15FEB113 16.44313
15MAR113 15.76124
15APR113 15.07936
15MAY113 14.39748
15JUN113 13.67445
15JUL113 13.00689
15AUG113 12.30295
15SEP113 11.59179
15OCT113 10.88784
15NOV113 10.18390
15DEC113 9.47996

15JAN114 8.81689
15FEB114 8.09292

1. The first part of the document is a list of names and addresses of the persons who have been in contact with the subject of the investigation. The names are listed in alphabetical order, and the addresses are given in full. The list is as follows:

| Name | Address |
|------------------|-------------------------------------|
| Mr. J. A. Smith | 123 Main Street, New York, N.Y. |
| Mr. J. B. Jones | 456 Broadway, New York, N.Y. |
| Mr. C. D. Brown | 789 Fifth Avenue, New York, N.Y. |
| Mr. E. F. Green | 1010 Third Avenue, New York, N.Y. |
| Mr. G. H. White | 1111 Second Avenue, New York, N.Y. |
| Mr. I. K. Black | 1212 First Avenue, New York, N.Y. |
| Mr. L. M. Gray | 1313 West Street, New York, N.Y. |
| Mr. N. O. Blue | 1414 East Street, New York, N.Y. |
| Mr. P. Q. Red | 1515 North Street, New York, N.Y. |
| Mr. R. S. Yellow | 1616 South Street, New York, N.Y. |
| Mr. T. U. Purple | 1717 Central Avenue, New York, N.Y. |
| Mr. V. W. Pink | 1818 Union Avenue, New York, N.Y. |
| Mr. X. Y. Green | 1919 Madison Avenue, New York, N.Y. |
| Mr. Z. A. Blue | 2020 Park Avenue, New York, N.Y. |

2. The second part of the document is a list of the names and addresses of the persons who have been in contact with the subject of the investigation. The names are listed in alphabetical order, and the addresses are given in full. The list is as follows:

| Name | Address |
|------------------|-------------------------------------|
| Mr. J. A. Smith | 123 Main Street, New York, N.Y. |
| Mr. J. B. Jones | 456 Broadway, New York, N.Y. |
| Mr. C. D. Brown | 789 Fifth Avenue, New York, N.Y. |
| Mr. E. F. Green | 1010 Third Avenue, New York, N.Y. |
| Mr. G. H. White | 1111 Second Avenue, New York, N.Y. |
| Mr. I. K. Black | 1212 First Avenue, New York, N.Y. |
| Mr. L. M. Gray | 1313 West Street, New York, N.Y. |
| Mr. N. O. Blue | 1414 East Street, New York, N.Y. |
| Mr. P. Q. Red | 1515 North Street, New York, N.Y. |
| Mr. R. S. Yellow | 1616 South Street, New York, N.Y. |
| Mr. T. U. Purple | 1717 Central Avenue, New York, N.Y. |
| Mr. V. W. Pink | 1818 Union Avenue, New York, N.Y. |
| Mr. X. Y. Green | 1919 Madison Avenue, New York, N.Y. |
| Mr. Z. A. Blue | 2020 Park Avenue, New York, N.Y. |

SCHEDULE OF SPECIAL CASUALTY VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

| | |
|----------|---------|
| 15MAR114 | 7.36895 |
| 15APR114 | 6.64498 |
| 15MAY114 | 5.92101 |
| 15JUN114 | 5.17546 |
| 15JUL114 | 4.46863 |
| 15AUG114 | 3.72125 |
| 15SEP114 | 2.97008 |
| 15OCT114 | 2.22270 |
| 15NOV114 | 1.47531 |
| 15DEC114 | 0.72793 |
| 15JAN115 | .00000 |

SCHEDULE 3
to
FACILITY LEASE

SCHEDULE OF TERMINATION VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|
| 15JAN87 | 105.94334 |
| 15JUL87 | 104.82779 |
| 15JAN88 | 106.20642 |
| 15JUL88 | 105.17772 |
| 15JAN89 | 108.21549 |
| 15JUL89 | 107.07107 |
| 15JAN90 | 109.47569 |
| 15JUL90 | 108.31785 |
| 15JAN91 | 110.15808 |
| 15JUL91 | 108.97072 |
| 15JAN92 | 110.21149 |
| 15JUL92 | 108.95844 |
| 15JAN93 | 109.62035 |
| 15JUL93 | 108.26330 |
| 15JAN94 | 108.30191 |
| 15JUL94 | 106.80048 |
| 15JAN95 | 106.29835 |
| 15JUL95 | 104.89817 |
| 15JAN96 | 104.18824 |
| 15JUL96 | 102.85333 |
| 15JAN97 | 102.10833 |
| 15JUL97 | 100.70463 |
| 15JAN98 | 99.83623 |
| 15JUL98 | 98.33687 |
| 15JAN99 | 97.32303 |
| 15JUL99 | 95.71397 |
| 15JAN100 | 94.53854 |
| 15JUL100 | 92.80428 |
| 15JAN101 | 91.45971 |
| 15JUL101 | 89.62720 |

SCHEDULE OF TERMINATION VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

15JAN102
15JUL102

88.14857
86.22766

15JAN103
15JUL103

84.62272
82.60677

15JAN104
15JUL104

80.88149
78.76212

15JAN105
15JUL105

76.90592
74.67525

15JAN106
15JUL106

72.67859
70.32818

15JAN107
15JUL107

68.18158
65.70404

15JAN108
15JUL108

63.39779
60.78382

15JAN109
15JUL109

58.30671
55.54644

15JAN110
15JUL110

52.88659
49.96951

15JAN111
15JUL111

47.11428
44.02926

15JAN112
15JUL112

40.96522
37.70042

15JAN113
15JUL113

34.41334
30.95620

15JAN114
15JUL114

27.43099
23.76819

15JAN115

20.00000

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SCHEDULE 4
to
FACILITY LEASE

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) 0.5% undivided interest in the land described in I below, a (ii) .566667% undivided interest in the rights and interests described in II below, and (iii) a .566667% undivided interest in the rights and interests described in III below.

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100. 101. 102. 103. 104. 105. 106. 107. 108. 109. 110. 111. 112. 113. 114. 115. 116. 117. 118. 119. 120. 121. 122. 123. 124. 125. 126. 127. 128. 129. 130. 131. 132. 133. 134. 135. 136. 137. 138. 139. 140. 141. 142. 143. 144. 145. 146. 147. 148. 149. 150. 151. 152. 153. 154. 155. 156. 157. 158. 159. 160. 161. 162. 163. 164. 165. 166. 167. 168. 169. 170. 171. 172. 173. 174. 175. 176. 177. 178. 179. 180. 181. 182. 183. 184. 185. 186. 187. 188. 189. 190. 191. 192. 193. 194. 195. 196. 197. 198. 199. 200. 201. 202. 203. 204. 205. 206. 207. 208. 209. 210. 211. 212. 213. 214. 215. 216. 217. 218. 219. 220. 221. 222. 223. 224. 225. 226. 227. 228. 229. 230. 231. 232. 233. 234. 235. 236. 237. 238. 239. 240. 241. 242. 243. 244. 245. 246. 247. 248. 249. 250. 251. 252. 253. 254. 255. 256. 257. 258. 259. 260. 261. 262. 263. 264. 265. 266. 267. 268. 269. 270. 271. 272. 273. 274. 275. 276. 277. 278. 279. 280. 281. 282. 283. 284. 285. 286. 287. 288. 289. 290. 291. 292. 293. 294. 295. 296. 297. 298. 299. 300. 301. 302. 303. 304. 305. 306. 307. 308. 309. 310. 311. 312. 313. 314. 315. 316. 317. 318. 319. 320. 321. 322. 323. 324. 325. 326. 327. 328. 329. 330. 331. 332. 333. 334. 335. 336. 337. 338. 339. 340. 341. 342. 343. 344. 345. 346. 347. 348. 349. 350. 351. 352. 353. 354. 355. 356. 357. 358. 359. 360. 361. 362. 363. 364. 365. 366. 367. 368. 369. 370. 371. 372. 373. 374. 375. 376. 377. 378. 379. 380. 381. 382. 383. 384. 385. 386. 387. 388. 389. 390. 391. 392. 393. 394. 395. 396. 397. 398. 399. 400. 401. 402. 403. 404. 405. 406. 407. 408. 409. 410. 411. 412. 413. 414. 415. 416. 417. 418. 419. 420. 421. 422. 423. 424. 425. 426. 427. 428. 429. 430. 431. 432. 433. 434. 435. 436. 437. 438. 439. 440. 441. 442. 443. 444. 445. 446. 447. 448. 449. 450. 451. 452. 453. 454. 455. 456. 457. 458. 459. 460. 461. 462. 463. 464. 465. 466. 467. 468. 469. 470. 471. 472. 473. 474. 475. 476. 477. 478. 479. 480. 481. 482. 483. 484. 485. 486. 487. 488. 489. 490. 491. 492. 493. 494. 495. 496. 497. 498. 499. 500. 501. 502. 503. 504. 505. 506. 507. 508. 509. 510. 511. 512. 513. 514. 515. 516. 517. 518. 519. 520. 521. 522. 523. 524. 525. 526. 527. 528. 529. 530. 531. 532. 533. 534. 535. 536. 537. 538. 539. 540. 541. 542. 543. 544. 545. 546. 547. 548. 549. 550. 551. 552. 553. 554. 555. 556. 557. 558. 559. 560. 561. 562. 563. 564. 565. 566. 567. 568. 569. 570. 571. 572. 573. 574. 575. 576. 577. 578. 579. 580. 581. 582. 583. 584. 585. 586. 587. 588. 589. 590. 591. 592. 593. 594. 595. 596. 597. 598. 599. 600. 601. 602. 603. 604. 605. 606. 607. 608. 609. 610. 611. 612. 613. 614. 615. 616. 617. 618. 619. 620. 621. 622. 623. 624. 625. 626. 627. 628. 629. 630. 631. 632. 633. 634. 635. 636. 637. 638. 639. 640. 641. 642. 643. 644. 645. 646. 647. 648. 649. 650. 651. 652. 653. 654. 655. 656. 657. 658. 659. 660. 661. 662. 663. 664. 665. 666. 667. 668. 669. 670. 671. 672. 673. 674. 675. 676. 677. 678. 679. 680. 681. 682. 683. 684. 685. 686. 687. 688. 689. 690. 691. 692. 693. 694. 695. 696. 697. 698. 699. 700. 701. 702. 703. 704. 705. 706. 707. 708. 709. 710. 711. 712. 713. 714. 715. 716. 717. 718. 719. 720. 721. 722. 723. 724. 725. 726. 727. 728. 729. 730. 731. 732. 733. 734. 735. 736. 737. 738. 739. 740. 741. 742. 743. 744. 745. 746. 747. 748. 749. 750. 751. 752. 753. 754. 755. 756. 757. 758. 759. 760. 761. 762. 763. 764. 765. 766. 767. 768. 769. 770. 771. 772. 773. 774. 775. 776. 777. 778. 779. 780. 781. 782. 783. 784. 785. 786. 787. 788. 789. 790. 791. 792. 793. 794. 795. 796. 797. 798. 799. 800. 801. 802. 803. 804. 805. 806. 807. 808. 809. 810. 811. 812. 813. 814. 815. 816. 817. 818. 819. 820. 821. 822. 823. 824. 825. 826. 827. 828. 829. 830. 831. 832. 833. 834. 835. 836. 837. 838. 839. 840. 84

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East,

along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

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SCHEDULE 5
to
FACILITY LEASE

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) 1.700000% undivided interest in and to the property described under A below and (ii) a .566667% undivided interest in and to the property described in B below.

A. Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 1 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 1 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 1 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 1 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60

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psig. The containment building houses the reactor system.

- IV. Unit 1 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 1 start-up transformer.
- V. Unit 1 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 1 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 1 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 1 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 1, including spare fuel assemblies.
- II. Spare Parts (Unit 1).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 1 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).

100

100

100

100

100



| | | |
|--|--|---------------------------|
| <u>IV.</u> | Oil and diesel fuel inventories (Unit 1). | =2219
=(2219) |
| B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO: | | #2221
=(2221) |
| <u>I.</u> | Surveillance systems, including associated radioactive monitoring systems and equipment. | =2225
=2226
=(2226) |
| <u>II.</u> | Water treatment facilities and transport systems for supply of waste water effluent. | =2228
=2229
=(2229) |
| <u>III.</u> | Warehouse and related storage facilities and equipment. | =2231
=(2231) |
| <u>BUT EXCLUDING:</u> | | =2234 |
| <u>I.</u> | Nuclear fuel, including spare fuel assemblies. | =2236
=(2236) |
| <u>II.</u> | All transmission and ANPP High Voltage Switchyard facilities. | =2238
=(2238) |
| <u>III.</u> | Administration Building. | =2240 |
| <u>IV.</u> | Administration Annex Building. | =2242 |
| <u>V.</u> | Technical Support Center. | =2244 |
| <u>VI.</u> | Visitor Center. | =2246 |
| <u>VII.</u> | External communication systems and equipment, including associated interconnections and computer data links. | =2248
=2249
=(2249) |
| <u>VIII.</u> | Parking lot improvements, road improvements, fencing and dikes. | =2251
=2252 |
| <u>IX.</u> | Spare parts (common facilities). | =2254 |
| <u>X.</u> | Simulator. | =2256 |
| <u>XI.</u> | Oil and diesel fuel inventories. | =2258 |
| <u>XII.</u> | Real property, beneficial interest in Title USA Company of Arizona Trust | =2260
=2261 |

No. 530, and Project Agreement
interests described in Schedule 4.

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND
ASSIGNMENT OF RENTS

Dated as of December 15, 1986

between

THE FIRST NATIONAL BANK OF BOSTON, not
in its individual capacity, but solely
as Owner Trustee under a Trust
Agreement dated as of December 15,
1986, with Chase Manhattan
Realty Leasing Corporation

and

CHEMICAL BANK,
as Indenture Trustee

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1 and a
.566667% Undivided Interest in Certain Common
Facilities

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2 10 25

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TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association (FNB), not in its individual capacity, but solely as trustee (the Owner Trustee) under a Trust Agreement dated as of December 15, 1986 between FNB, whose address is 100 Federal Street, Boston, Massachusetts 02110, with Chase Manhattan Realty Leasing Corporation, and CHEMICAL BANK, a New York banking corporation (the Indenture Trustee), whose address is 55 Water Street, New York, New York 10041.

W I T N E S S E T H:

WHEREAS, the Owner Trustee has entered into a Participation Agreement, dated as of December 15, 1986 among the Owner Participant, First PV Funding Corporation, a Delaware corporation, Public Service Company of New Mexico, a New Mexico corporation, and the Indenture Trustee;

WHEREAS, the Owner Trustee, acting on behalf of the Owner Participant, pursuant to the Trust Agreement and the Participation Agreement, intends to purchase the Undivided Interest and the Real Property Interest from Public Service Company of New Mexico and lease the Undivided Interest and the Real Property Interest to Public Service Company of New Mexico pursuant to the Facility Lease;

WHEREAS, in order to finance a portion of the Purchase Price of the Undivided Interest, the Owner Trustee desires to issue its promissory notes hereunder with such promissory notes to be substantially in the form of Exhibits A-1, A-2 and A-3 hereto;

WHEREAS, in order to finance all or a portion of the Supplemental Financing Amount of Capital Improvements and to refund Notes of any series previously issued, the Owner Trustee may desire to issue additional promissory notes hereunder (the Additional Notes) secured on a pari passu basis with other Notes Outstanding from time to time;

WHEREAS, in order to secure the obligations referred to herein, the Owner Trustee desires to grant to the Indenture Trustee the security interest herein provided and the parties hereto desire that this Indenture be regarded as a "security agreement" and as a

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"financing statement" for such security agreement under the Uniform Commercial Code;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Indenture Trustee of the trusts hereby created and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

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ARTICLE I

CONSTRUCTION, GOVERNING LAW, INTERPRETATION AND DEFINITIONS

SECTION 1.1. Governing Law.

This Indenture (i) is being executed and delivered in the State of New York, (ii) shall be deemed to be a contract made in such State and (iii) for all purposes shall be construed in accordance with and governed by the laws of the State of New York, except to the extent that the laws of the State of Arizona are mandatorily applicable hereto.

SECTION 1.2. Headings and Table of Contents.

The division of this Indenture into articles and sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Indenture.

SECTION 1.3. Definitions; Construction of References; Schedules.

In this Indenture, unless the context otherwise requires:

(a) the term this Indenture means this instrument, together with all exhibits, appendices and schedules hereto, as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto pursuant to the provisions hereof;

(b) all references in this instrument to designated Articles, Sections and other subdivisions are



to designated Articles, Sections and other subdivisions of this instrument unless otherwise indicated;

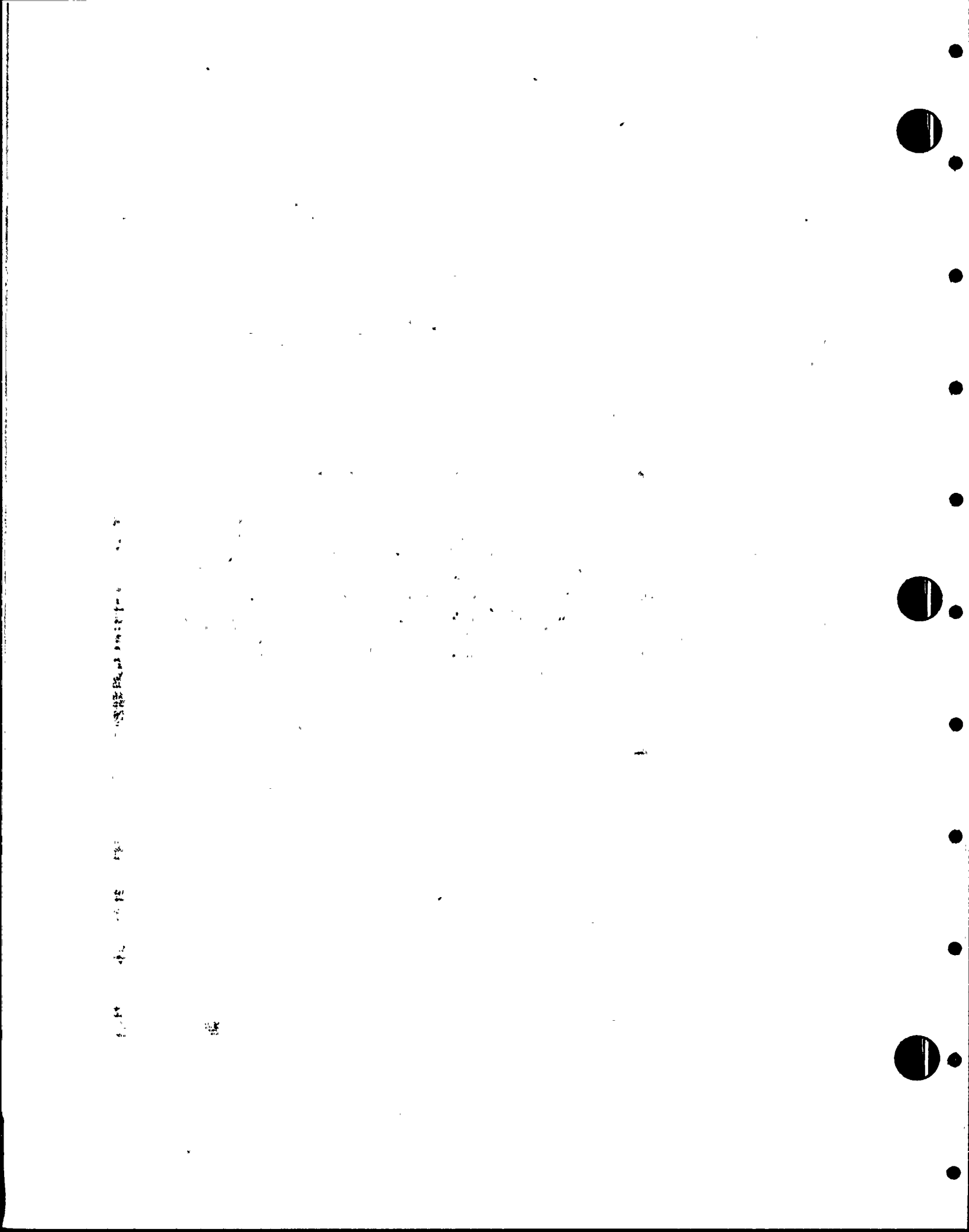
(c) all accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with generally accepted accounting principles; and

(d) capitalized terms used herein which are not otherwise defined herein shall have the meanings set forth in Appendix A hereto, and the rules of construction set forth in Appendix A hereto shall be applicable hereto.

(e) Attached as Schedule 1 hereto is a description of the Undivided Interest and attached as Schedule 2 hereto is a description of the Real Property Interest.

SECTION 1.4. Disclosure of Beneficiaries.

Pursuant to Arizona Revised Statutes Section 33-401, (i) the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator and (ii) the beneficiary of this Indenture is the Holder of the Notes, First PV Funding Corporation, whose address is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 and, by pledge and assignment, Chemical Bank, as trustee under the Collateral Trust Indenture, whose address is 55 Water Street, New York, New York 10041: Attention of Corporate Trustee Administration. Copies of the Trust Agreement and this Indenture are available for inspection at the Indenture Trustee's office.



ARTICLE II

SECURITY

SECTION 2.1. Grant of Security Interest; Mortgage.

As security for the due and punctual payment of the principal of and premium, if any, and interest on the Notes according to their respective terms and effect and the performance and observance by the Owner Trustee of all the covenants and agreements made by it or on its behalf in the Notes, the Participation Agreement and this Indenture, the Owner Trustee does by its execution and delivery hereof hereby grant a security interest in and grant, bargain, convey, warrant, assign, transfer, mortgage, pledge and set over unto the Indenture Trustee, and to its successors and assigns in trust, the following (the Lease Indenture Estate):

(1) all right, title and interest of the Owner Trustee in, to and under the Facility Lease recorded concurrently herewith in the records of Maricopa County, Arizona, to the extent, and only to the extent, constituting Rent (including, but without limitation, Basic Rent, payments of Casualty Value, Termination Value and Special Casualty Value, and payments under and pursuant to Section 16 of the Facility Lease, excluding all Excepted Payments) (the Assigned Payments), together with all rights, powers and remedies on the part of the Owner Trustee arising under the Facility Lease to demand, collect or receive the Assigned Payments;

(2) all moneys and securities deposited or required to be deposited with the Indenture Trustee pursuant to any term of this Indenture and held or required to be held by the Indenture Trustee hereunder;

(3) all profits, revenues and other income of all property from time to time subjected to

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the lien of this Indenture, and all right, title and interest of every nature whatsoever of the Owner Trustee in and to the same and every part thereof;

(4) all right, title and interest of the Owner Trustee in and to any right to restitution from the Lessee in respect of any determination of invalidity of the Facility Lease; and

(5) all proceeds of the foregoing;

but excluding, however, from the Lease Indenture Estate any and all Excepted Payments; and subject, however, to (i) the terms and provisions of this Indenture and (ii) the rights of the Lessee under the Facility Lease.

To the extent that any portion of the Lease Indenture Estate constitutes fixtures or real property, this Indenture constitutes a realty mortgage and an assignment of rents with respect to all such items of real property and in addition to all other rights or remedies set forth in this Indenture, or otherwise available under Applicable Law, the Indenture Trustee shall have all of the rights, remedies and benefits of a mortgagee of real property under Applicable Law, including, without limitation, the rights and remedies pursuant to Arizona Revised Statutes § 33-702.B, and the Owner Trustee shall be deemed a mortgagor with respect to such items.

TO HAVE AND TO HOLD all the aforesaid properties, rights and interests unto the Indenture Trustee, its successors and assigns forever, but in trust, nevertheless, for the use and purposes and with the power and authority and subject to the terms and conditions mentioned and set forth in this Indenture.

UPON CONDITION that, unless and until an Indenture Event of Default shall have occurred and be continuing, the Owner Trustee shall be permitted, to the exclusion of the Indenture Trustee, to possess and use the Lease Indenture Estate and exercise all rights with respect thereto and, without limitation of the foregoing, the Owner Trustee may exercise all of its rights under the Facility Lease to the same extent as if its right, title and interest therein had not been assigned to the Indenture Trustee to the extent set forth above, except that the Indenture Trustee shall receive all payments of Assigned Payments and all moneys and securities required to be held by or deposited with the Indenture Trustee hereunder.

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It is expressly agreed that, anything herein contained to the contrary notwithstanding, the Owner Trustee shall remain obligated to the Lessee under the Facility Lease to perform all of the Owner Trustee's obligations thereunder in accordance with and pursuant to the terms and provisions thereof, and the Indenture Trustee shall not be required or obligated in any manner, except as expressly provided herein, to perform or fulfill any obligations of the Owner Trustee under the Facility Lease or to make any payment, or to make any inquiry as to the nature or sufficiency of any payment received by it, or to present or file any claim, or to take any action to collect or enforce the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

The Owner Trustee hereby warrants and represents that it has not assigned or pledged any of its right, title or interest in and to the Lease Indenture Estate to anyone other than the Indenture Trustee.

SECTION 2.2. Payments Under the Facility Lease.

The Facility Lease provides that (i) all payments constituting Assigned Payments shall be made to the Indenture Trustee at the Indenture Trustee's Office, (ii) all other payments other than Excepted Payments shall be made to the Lessor at such address as the Lessor may direct by notice in writing to the Lessee, and (iii) all Excepted Payments shall be made to the Person entitled to receive such payments. The Owner Trustee agrees that, so long as any Notes shall be Outstanding hereunder, all payments described in clause (i) above shall be directed to be made to the Indenture Trustee or in accordance with the Indenture Trustee's instruction and that if it should receive any such payments or any proceeds for or with respect to the Lease Indenture Estate or otherwise constituting part of the Lease Indenture Estate, it will promptly forward such payments to the Indenture Trustee or in accordance with the Indenture Trustee's instructions. The Indenture Trustee agrees to apply payments from time to time received by it (from the Lessee, the Owner Trustee or otherwise) with respect to the Lease Indenture Estate in the manner provided in Section 3.11 and Article V hereof.

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SECTION 2.3. Release of Lien on Lease Indenture Estate.

(a) Upon receiving evidence satisfactory to the Indenture Trustee that (i) it has received, or provision has been made in accordance with paragraph (c) hereof for, full payment of all principal of and premium, if any, and interest on the Notes and any other sums payable to the Indenture Trustee and the Holders of the Notes under this Indenture or the Facility Lease, and (ii) all Trustee's Expenses shall have been paid in full or provision satisfactory to the Indenture Trustee shall have been made for such payment,

(A) the security interest and all other estate and rights granted by this Indenture shall cease and become null and void and all of the property, rights and interests included in the Lease Indenture Estate shall revert to and revest in the Owner Trustee without any other act or formality whatsoever, and

(B) the Indenture Trustee shall, at the request of the Owner Trustee, execute and deliver to the Owner Trustee such termination statements, releases or other instruments presented to the Indenture Trustee by or at the direction of the Owner Trustee as shall be requisite to evidence the satisfaction and discharge of this Indenture and the lien hereby created with respect to the Lease Indenture Estate, to release or reconvey to the Owner Trustee or as directed by the Owner Trustee all the Lease Indenture Estate, freed and discharged from the provisions herein contained with respect thereto, and to release the Owner Trustee from its covenants herein contained.

(b) Upon receipt by the Indenture Trustee of the Assumption Agreement and other documents and opinions described in Section 3.9(b) hereof, (i) the security interest and all other estate and rights granted by this Indenture by or on behalf of the Owner Trustee shall cease and become null and void and all of the property, rights and interests included in the Lease Indenture Estate shall revert to and revest in the Owner Trustee without any other act or formality whatsoever and (ii) the Indenture Trustee shall, at the request of the Owner Trustee, execute and deliver to the Owner Trustee such termination statements, releases or other instruments presented to the Indenture Trustee by or at the direction of the Owner Trustee as shall be requisite

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to evidence the satisfaction and discharge of this Indenture as to the Owner Trustee and the lien hereby created with respect to the Lease Indenture Estate, to release or reconvey to the Owner Trustee or as directed by the Owner Trustee all the Lease Indenture Estate, freed and discharged from the provisions herein contained with respect thereto, and to release the Owner Trustee from its covenants herein contained.

(c) Any Note shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in this Section 2.3 if (i) there shall have been deposited with the Indenture Trustee either moneys in an amount which shall be sufficient, or direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America or certificates of an ownership interest in the principal of or interest on obligations of or guaranteed as to principal and interest by the United States of America (Federal Securities), in each case which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys in an amount which shall be sufficient, together with the moneys, if any, deposited with or held by the Indenture Trustee at the same time (such sufficiency to be established by the delivery to the Indenture Trustee of a certificate of an independent public accountant), to pay when due the principal of and premium, if any, and interest due and to become due on said Note on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) in the event said Note does not mature or is not to be redeemed within the next 45 days, the Indenture Trustee shall have been given irrevocable instructions to give, as soon as practicable, a notice to the registered Holder of such Note that the deposit required by subclause (i) above has been made with the Indenture Trustee and that said Note is deemed to have been paid in accordance with this Section 2.3 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Note. Neither the Federal Securities nor moneys deposited with the Indenture Trustee pursuant to this Section 2.3 or principal or interest payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on

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said Note; provided, however, that any cash received from such principal or interest payments on such Federal Securities deposited with the Indenture Trustee, shall be reinvested pursuant to Section 8.8 hereof in Federal Securities. At such time as any Note shall be deemed paid as aforesaid, it shall no longer be secured by or entitled to the benefits of the Lease Indenture Estate or this Indenture, except that such Note shall be entitled to the benefits of the portions of the Lease Indenture Estate described in Granting Clauses (2), (3) and (5), to the extent such portions relate to such moneys or Federal Securities deposited with the Indenture Trustee.

(d) So long as any Note as to which this Indenture has been discharged remains unpaid, this Indenture shall continue in effect with respect to such Note solely with respect to rights of registration of transfer, exchange or replacement of such Note, rights to receive payment of the principal thereof and premium, if any, and interest thereon in accordance with the terms of this Indenture from such deposited funds or the proceeds of or interest on such Federal Securities and the correlative rights and responsibilities of the Indenture Trustee; provided, however, that, following such discharge, no claim for payment of principal of or premium, if any, or interest on such Note shall be made against the Owner Trustee or the Lease Indenture Estate other than as provided in this Section; provided, further, that the Owner Trustee, following such discharge, shall be released from any further duties or obligations under this Indenture and, except as expressly provided therein, any other Transaction Document.

SECTION 2.4. Power of Attorney.

Subject to the other terms of this Indenture, the Owner Trustee hereby appoints the Indenture Trustee the Owner Trustee's attorney-in-fact, irrevocably, with full power of substitution, to collect, ask, require, demand, receive and give acquittance for any and all moneys and claims for moneys due and to become due to the Owner Trustee under or arising out of the Lease Indenture Estate, to endorse any checks or other instruments or orders in connection therewith, and to take any action (including the filing of financing statements or other documents) or institute any proceedings which the Indenture Trustee may deem to be necessary or appropriate to protect and preserve the interest of the

Indenture Trustee in the Lease Indenture Estate. Prior to any exercise by it (acting as attorney-in-fact for the Owner Trustee) of the powers, authority or rights granted by this Section 2.4, the Indenture Trustee will give three Business Day's prior written notice to the Owner Trustee and the Owner Participant.

ARTICLE III

ISSUE, EXECUTION, AUTHENTICATION, FORM AND REGISTRATION OF NOTES

SECTION 3.1. Limitation on Notes.

No Notes may be issued under the provisions of, or become secured by, this Indenture except in accordance with the provisions of this Article III. No Note shall be issued in an original principal amount of less than \$5,000.

SECTION 3.2. Execution of Notes.

All Notes shall be manually executed on behalf of the Owner Trustee by one of its Responsible Officers. In case any Responsible Officer of the Owner Trustee who shall have executed any of the Notes shall cease to be such a Responsible Officer before such Notes so executed shall have been authenticated by the Indenture Trustee and delivered or disposed of by the Owner Trustee, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who executed such Notes had not ceased to be such a Responsible Officer of the Owner Trustee; and any Note may be executed on behalf of the Owner Trustee by such person as, at the actual time of execution of such Note, shall be a Responsible Officer of the Owner Trustee, although at the date of such Note any such person was not such a Responsible Officer.

SECTION 3.3. Effect of Certificate of Authentication.

Only such Notes as shall bear thereon a certificate of authentication substantially in the following form manually executed by the Indenture Trustee shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such

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certificate of authentication of the Indenture Trustee upon any Note executed by the Owner Trustee shall be conclusive evidence that the Note so authenticated was duly issued, authenticated and delivered under this Indenture:

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

SECTION 3.4. Creation of the Fixed Rate Notes; Aggregate Principal Amount, Dating and Terms; Prerequisites to Authentication and Delivery of the Fixed Rate Notes; Application of Proceeds.

(a) There is hereby created and established a separate series of Notes of the Owner Trustee designated "Nonrecourse Promissory Notes, Fixed Rate Series" herein referred to as the Fixed Rate Notes. The Fixed Rate Notes shall be payable in the principal amounts and bear interest as follows:

| <u>Fixed Rate Note
Due</u> | <u>Interest
Rate</u> | <u>Principal
Amount</u> |
|--------------------------------|--------------------------|-----------------------------|
| January 15, 1992 | 8.05% | \$3,300,000 |
| January 15, 1997 | 8.95% | \$8,060,000 |
| January 15, 2015 | 10.15% | \$48,640,000 |
| | | <u>\$60,000,000</u> |

Each Fixed Rate Note shall bear interest on the principal amount thereof from time to time Outstanding from the date thereof until paid at the rate of interest set forth therein. The principal amount of each Fixed Rate Note shall be payable as set forth in Schedule 1 attached thereto, as such Schedule 1 may be adjusted, in the case of the Fixed Rate Note due January 15, 2015, in accordance with the terms of such Fixed Rate Note and this Indenture. Installments of interest on and principal of (and premium, if any, on) each Fixed Rate Note shall be due and payable on the dates and at the rates

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Ex. 1. *Exposition*

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of interest specified in such Fixed Rate Note. The Fixed Rate Note due January 15, 1992 shall be substantially in the form of Exhibit A-1 to this Indenture. The Fixed Rate Note due January 15, 1997 shall be substantially in the form of Exhibit A-2 to this Indenture. The Fixed Rate Note due January 15, 2015 shall be substantially in the form of Exhibit A-3 to this Indenture.

(b) Subject to the provisions of Section 3.10 hereof, the aggregate principal amount of the Fixed Rate Notes issued by the Owner Trustee and authenticated and delivered by the Indenture Trustee hereunder shall not exceed \$60,000,000.

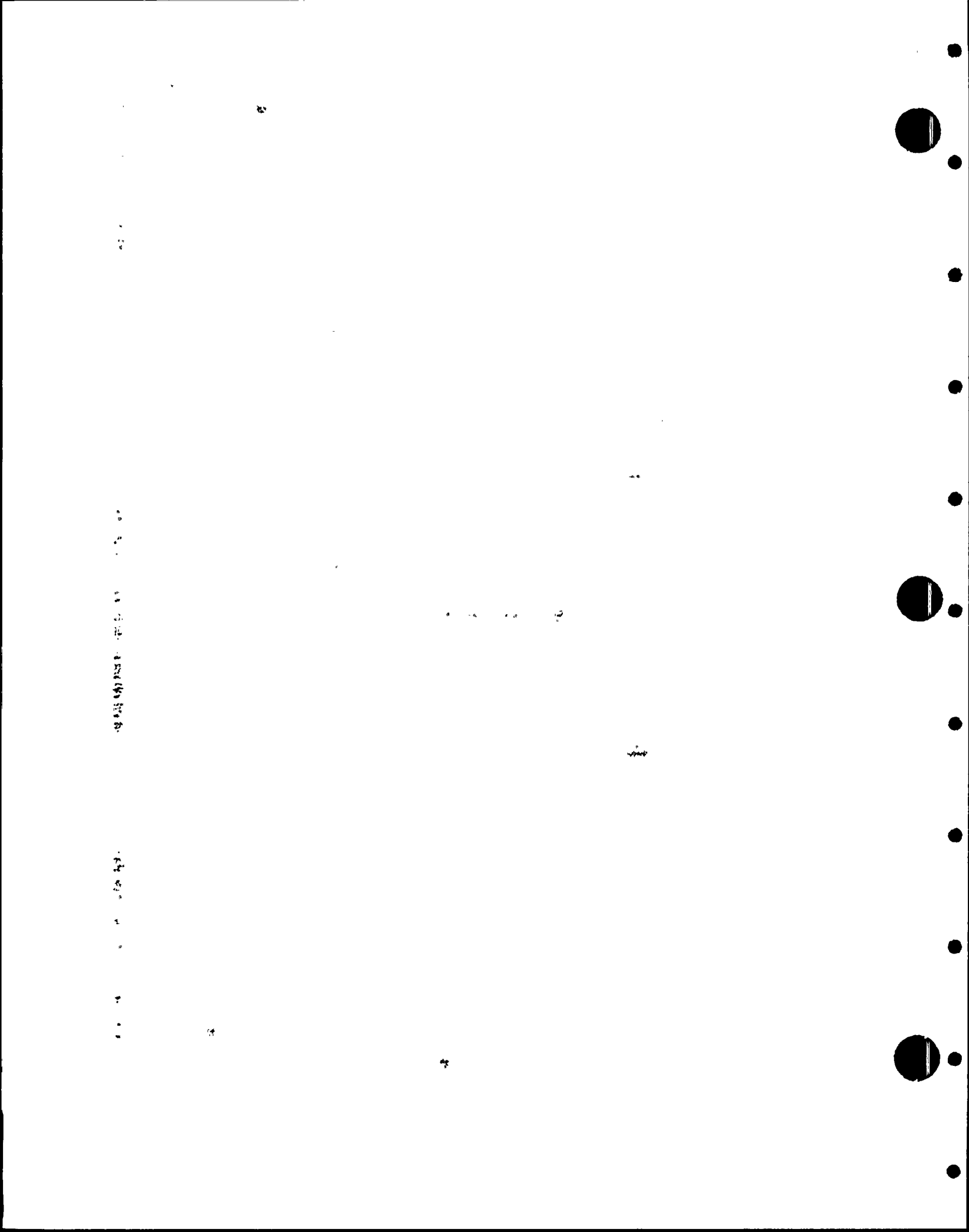
(c) The Fixed Rate Notes, subject to paragraph (d) of this Section 3.4, shall be executed and issued by the Owner Trustee and authenticated and delivered by the Indenture Trustee on the date and to the Person specified by the Owner Trustee in its request and authorization for issuance, shall be dated the date specified by the Owner Trustee in its request and authorization for issuance, and shall be in the form of a registered Note payable to the Person designated in the Owner Trustee's request and authorization for issuance or its registered assigns.

(d) The Indenture Trustee shall authenticate the Fixed Rate Notes and deliver the Fixed Rate Notes to the Person designated by the Owner Trustee in the request and authorization for issuance in respect of the Fixed Rate Notes in accordance with the provisions of this Section 3.4.

(e) Upon receipt of the proceeds of the Fixed Rate Notes, the Indenture Trustee shall immediately transfer the same to, or pursuant to the direction of, the Owner Trustee, all as set forth in the request and authorization for issuance submitted by the Owner Trustee to the Indenture Trustee.

SECTION 3.5. Additional Notes.

(1) Subject to Section 3.6 hereof, Additional Notes of the Owner Trustee may be issued under and secured by this Indenture, at any time or from time to time, in addition to the Fixed Rate Notes and subject to the conditions hereinafter provided in this Section, for cash in the amount of the original principal amount of such Additional Notes, for the purpose of (i) refunding

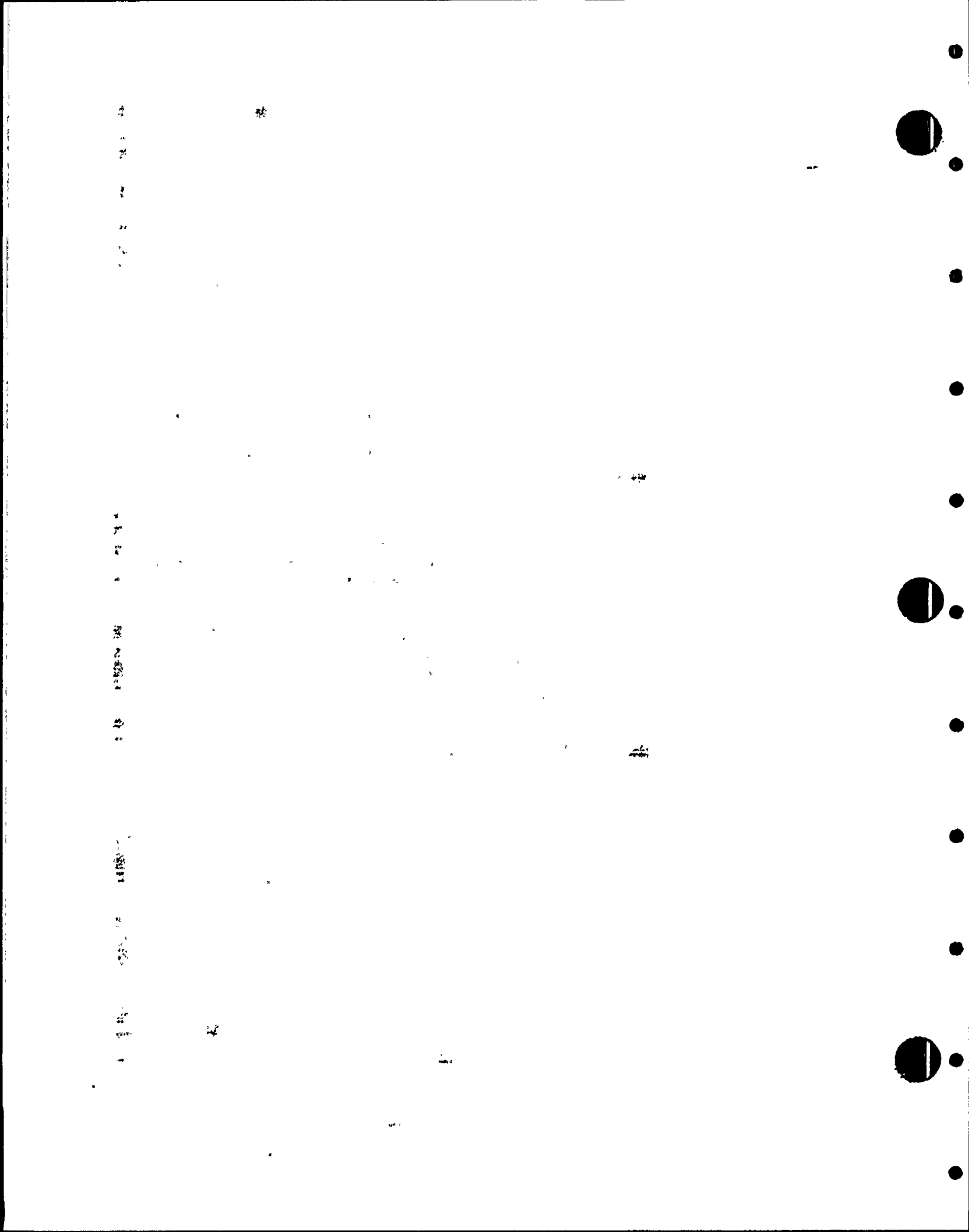


any previously issued series of Notes, in whole or in part and/or (ii) providing funds for the payment of all or any portion of the Supplemental Financing Amount relating to Capital Improvements made or installed from time to time pursuant to the Facility Lease; provided, however, that in the case of Notes issued for the purposes set forth in clause (ii) of this Section 3.5, no Note shall be issued by the Owner Trustee pursuant to this Section 3.5 unless such Notes may be pledged in accordance with Section 2.15(b) of the Collateral Trust Indenture and serve as the basis for Additional Bonds.

(2) Before any Additional Notes shall be issued under the provisions of this Section 3.5, the Owner Trustee shall have received from the Owner Participant, and delivered to the Indenture Trustee not less than 2 Business Days nor more than 30 Business Days prior to the proposed date of issuance of such Additional Notes as set forth in the below mentioned request and authorization, a request and authorization to issue Additional Notes, which request and authorization shall include the amount of such Additional Notes, the date of issuance of such Additional Notes and details with respect thereto which are not inconsistent with this Section. Additional Notes shall have a designation so as to distinguish such Additional Notes from the Fixed Rate Notes but otherwise shall be substantially similar in terms to the Fixed Rate Notes, shall specify maturity dates, rank pari passu with all Notes then Outstanding, be dated their respective dates of authentication, bear interest at such rates (which may be fixed or floating) as shall be indicated in the aforementioned request and authorization, and shall be stated to be payable by their terms not later than the last day of the Basic Lease Term.

(3) Except as to any differences in the maturity dates and amortization schedules of the Additional Notes or the rate or rates of interest thereon and the date or dates such interest is payable or the provisions for redemption with respect thereto, if any, such Additional Notes shall be on a parity with, and shall be entitled to the same benefits and security of this Indenture as, other Notes issued pursuant to the terms hereof.

(4) The terms, conditions and designations of such Additional Notes (which shall be consistent with this Indenture) shall be set forth in an indenture supplemental to this Indenture executed by the Owner



Trustee and the Indenture Trustee. Such Additional Notes shall be executed as provided in Section 3.2 and deposited with the Indenture Trustee for authentication, but before such Additional Notes shall be authenticated and delivered by the Indenture Trustee there shall be filed with the Indenture Trustee, in addition to the other documents and certificates required by this Section 3.5, the following, all of which shall be dated as of the date of the supplemental indenture:

(a) a copy of such supplemental indenture (which shall include the form of such series of Notes in respect thereof);

(b) a certificate of a Responsible Officer of the Owner Trustee (i) stating that to the best of his knowledge, no Default or Event of Default or Indenture Event of Default has occurred and is continuing and (ii) stating, in reliance upon a certificate of a Responsible Officer of the Lessee as to such matters, that payments pursuant to the Facility Lease of Basic Rent, Casualty Value, Special Casualty Value and Termination Value and of amounts in respect of the exercise of the Cure Option are sufficient to pay all the Outstanding Notes, after taking into account the issuance of such Additional Notes and any related redemption;

(c) such additional documents, certificates and opinions as shall be reasonably requested by, and acceptable to, the Owner Trustee and the Indenture Trustee;

(d) a request and authorization to the Indenture Trustee by or on behalf of the Owner Trustee to authenticate and deliver such Additional Notes to or upon the order of the Person or Persons noted in such request at the address set forth therein, and in such principal amounts as are stated therein, upon payment to the Indenture Trustee, but for the account of the Owner Trustee, of the sum or sums specified in such request and authorization; and

(e) an opinion of counsel to the effect that the conditions precedent required under this Indenture for the issuance of such Additional Notes have been complied with.

When the documents referred to in the foregoing clauses (a) through (e) above shall have been filed with the Indenture Trustee and when the Additional



Notes described in the above-mentioned order and authorization shall have been executed and authenticated as required by this Indenture, the Indenture Trustee shall deliver such Additional Notes in the manner described in clause (d) above, but only upon payment to the Indenture Trustee of the sum or sums specified in such request and authorization.

SECTION 3.6. Security for and Parity of Notes.

All Notes issued and Outstanding hereunder shall rank on a parity with each other and shall as to each other be secured equally and ratably by this Indenture, without preference, priority or distinction of any thereof over any other by reason of difference in time of issuance or otherwise. The maximum principal amount of Notes Outstanding and secured by this Indenture shall be \$120,000,000.

SECTION 3.7. Source of Payments Limited.

All payments to be made by the Owner Trustee under this Indenture or on the Notes shall be made only from the Lease Indenture Estate and the Trust Estate. Each Holder of a Note, by its acceptance of such Note, and the Indenture Trustee agree that they will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to such Holder or the Indenture Trustee as herein provided and that neither the Owner Participant nor, except as expressly provided in this Indenture, the Owner Trustee nor the Indenture Trustee, shall be personally liable to such Holder of a Note or the Indenture Trustee, as the case may be, for any amounts payable hereunder or under such Note; provided, however, that in the event that the Lessee shall assume all the obligations and liabilities of the Owner Trustee hereunder and under the Notes pursuant to Section 3.9(b), then all payments to be made under this Indenture and the Notes shall be made only from payments made by the Lessee under the Notes in accordance with the Assumption Agreement referred to in Section 3.9(b) and each Holder of a Note and the Indenture Trustee agree that in such event they will look solely to the Lessee for such payment. Nothing herein contained shall be interpreted as affecting the duties and obligations of the Indenture Trustee set forth in Section 7.4 hereof.

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In furtherance of the foregoing, to the fullest extent permitted by law, each Holder of a Note (and each assignee of such Person), by its acceptance thereof, and the Indenture Trustee agree, as a condition to the Notes being secured under this Indenture, that neither such Holder nor the Indenture Trustee will exercise any statutory right to negate the agreements set forth in this Section 3.7.

SECTION 3.8. Place and Medium of Payment.

The principal of and premium, if any, and interest on each Note shall be payable at the Indenture Trustee's Office in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Notwithstanding the foregoing or any provision in any Note to the contrary, if so requested by the Holder of any Note, by written notice to the Indenture Trustee, all amounts (other than the final payment) payable with respect to such obligation shall be paid by crediting the amount to be distributed to such Holder to an account maintained by such Holder with the Indenture Trustee or by the Indenture Trustee's transferring such amount by wire, with such wire transfer to be initiated by such time as to permit, to the extent practicable, oral confirmation thereof (specifying the wire number) to be given no later than 12:00 noon New York City time on the date scheduled for payment, but only to the extent of funds available for such wire transfer, to such other bank in the United States having wire transfer facilities, including a Federal Reserve Bank, as shall have been specified in such notice, for credit to the account of such Holder maintained at such bank, any such credit or transfer pursuant to this Section 3.8 to be in immediately available funds, without any presentment or surrender of such Note. Final payment of any such Note shall be made only against surrender of such Note at the Indenture Trustee's Office.

SECTION 3.9. Prepayment of Notes; Assumption by Lessee; Notice of Assumption or Prepayment.

(a) Notes shall be subject to prepayment (other than through application of the installment payments on such Notes) from time to time only as provided in this Indenture and as otherwise specifically provided, with respect to Notes of a particular series, in such Notes.

(b) In the event of the occurrence of a Deemed Loss Event or Event of Loss or exercise of the Cure Option, and upon receipt by the Indenture Trustee of the documents listed below, all the obligations and liabilities of the Owner Trustee hereunder and under the Notes shall be assumed by the Lessee and the Owner Trustee shall be released and discharged without further act or formality whatsoever from all obligations and liabilities hereunder and under the Notes;

(1) a duly executed Assumption Agreement substantially in the form of Exhibit B to this Indenture;

(2) an opinion of counsel to the Lessee, addressed to the Indenture Trustee and the Holders of the Outstanding Notes, to the effect that the conditions precedent required by this Indenture for such assumption have been complied with, that the Assumption Agreement has been duly authorized, executed and delivered on behalf of the Lessee, that no Governmental Action is necessary or required in connection therewith (or if any such Governmental Action is necessary or required, that the same has been duly obtained and is in full force and effect), and that the Assumption Agreement is a legal, valid and binding agreement and obligation of the Lessee, enforceable in accordance with its terms (except as limited by bankruptcy, insolvency or similar laws of general application affecting the enforcement of creditors' rights generally and equitable principles);

(3) copies of all Governmental Actions referred to in such opinion;

(4) an indenture supplemental to this Indenture which shall, among other things, confirm the release of the Owner Trustee and the Lease Indenture Estate thereby effected and contain provisions appropriately amending references to the Facility Lease in this Indenture;

(5) a certificate of a Responsible Officer of the Lessee stating that, to the best of his knowledge, (i) the conditions precedent required by this Indenture for such assumption have been complied with, (ii) no Indenture Event of Default has occurred and is

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continuing, (iii) such assumption is permitted by the provisions of the Lessee's Articles of Incorporation and By-Laws and (iv) the Lessee is not insolvent within the meaning of any applicable preferential transfer, fraudulent conveyance or bankruptcy law; and

(6) a certificate of a Responsible Officer of the Owner Trustee stating that, to the best of his knowledge, no Indenture Event of Default has occurred and is continuing.

(c) Notice of any assumption or prepayment of Notes shall be given to the registered Holders of the Notes which have been assumed or are to be prepaid (and any assignee of a registered Holder which has given the Indenture Trustee written notice of such assignment) as promptly as practicable after the Indenture Trustee is notified thereof, and, in the case of prepayment, in no event later than 30 days before the date fixed for prepayment (provided the Indenture Trustee receives such notification at least three Business Days before such 30th day) in the event of the exercise by the Owner Trustee of its option to terminate the Facility Lease pursuant to Section 14 thereof.

(d) If the assumption described in paragraph (b) above has not occurred, then, as required by Section 9(j) of the Facility Lease, not less than 2 Business Days prior to the date on which the Lessee is required to make the payments specified in Section 9(c) or 9(d) of the Facility Lease, the Owner Trustee will cause the Undivided Interest and the Real Property Interest to be subjected to the lien of this Indenture by executing and delivering to the Indenture Trustee an Undivided Interest Indenture Supplement substantially in the form of Exhibit C to this Indenture. Subject to Section 10.3 hereof, the Indenture Trustee shall execute and accept delivery from the Owner Trustee of the Undivided Interest Indenture Supplement.

SECTION 3.10. Mutilated, Destroyed, Lost or Stolen Notes.

If any Note shall become mutilated or shall be destroyed, lost or stolen, the Owner Trustee shall, upon the written request of the Holder of such Note, execute, and the Indenture Trustee shall authenticate and deliver in replacement thereof, a new Note, payable in the same original principal amount and dated the same date and of the same series as the Note so mutilated, destroyed, lost or stolen. The Indenture Trustee shall make a

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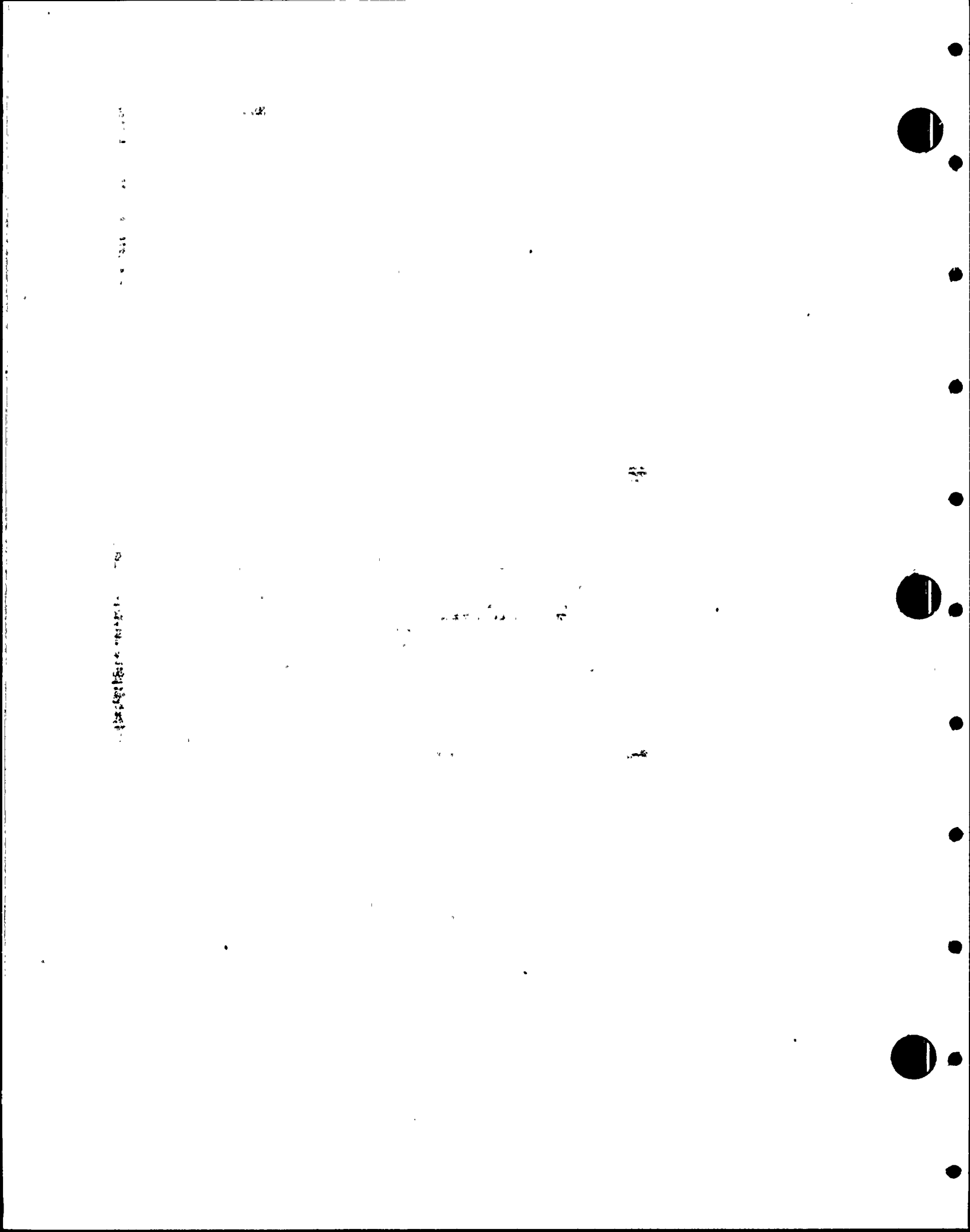
notation on each new Note of the amount of all payments of principal theretofore made on the Note so mutilated, destroyed, lost or stolen and the date to which interest on such old Note has been paid. If the Note being replaced has been mutilated, such Note shall be delivered to the Indenture Trustee who shall then deliver a certificate of destruction of the type required by Section 4.3 hereof. If the Note being replaced has been destroyed, lost or stolen, the Holder of such Note shall furnish to the Lessee, the Owner Trustee and the Indenture Trustee a bond or surety agreement of such Holder as shall be satisfactory to them to save the Lessee, the Owner Trustee, the Indenture Trustee, the Trust Estate and the Lease Indenture Estate harmless from any loss, however remote, including claims for principal of, and premium, if any, and interest on the purportedly destroyed, lost or stolen Note, together with evidence satisfactory to the Lessee, the Owner Trustee and the Indenture Trustee of the destruction, loss or theft of such Note and of the ownership thereof; provided, however, that if the Holder of such Note is the Collateral Trust Trustee, the unsecured written undertaking of the Collateral Trust Trustee, in its individual capacity, shall be sufficient indemnity for purposes of this Section.

SECTION 3.11. Allocation of Principal and Interest.

In the case of each Note, each payment of principal thereof and interest thereon shall be applied, first, to the payment of accrued but unpaid interest on such Note (as well as any interest on overdue principal or, to the extent permitted by law, interest) to the date of such payment, second, to the payment of the principal amount of, and premium, if any, on such Note then due (including any overdue installment of principal) thereunder and third, the balance, if any, remaining thereafter, to the balance of the payment of the principal amount of, and premium, if any, on such Note.

SECTION 3.12. Certain Adjustments to the Amortization Schedule of the Fixed Rate Note due January 15, 2015.

(a) The schedule of principal amortization attached to the Fixed Rate Note due January 15, 2015 may be adjusted at the discretion of the Owner Trustee at one time prior to July 15, 1997; provided, however, that no such adjustment shall be made by the Owner Trustee which will increase or reduce the average life of such



Fixed Rate Note (calculated in accordance with generally accepted financial practice from the date of initial issuance) by more than two years; provided, however, such adjustment may be made only in connection with an adjustment to Basic Rent pursuant to Section 3(d) of the Facility Lease. If the Owner Trustee shall elect to make the foregoing adjustment, the Owner Trustee shall deliver to the Indenture Trustee and to the Lessee at least 60 days prior to the first payment date (specified on the schedule to such Fixed Rate Note) proposed to be affected by such adjustment, a certificate of the Owner Trustee (x) stating that the Owner Trustee has elected to make such adjustment, (y) setting forth the revised schedule of principal amortization for such Fixed Rate Note and (z) attaching calculations showing that the average life of such Fixed Rate Note will not be reduced or increased except as permitted by this Section 3.12(a). The Indenture Trustee may rely on such Owner Trustee certificate and shall have no duty with respect to the calculations referred to in the foregoing clause (z).

(b) If the Lessee, in a timely manner, provides the Owner Trustee and the Owner Participant with information sufficient for the Owner Trustee to direct the adjustments described in paragraph (a) of this Section 3.12, together with a certificate (in form and substance reasonably satisfactory to the Owner Participant) to the effect that such adjustments minimize the aggregate increase or decrease in Basic Rent occurring as a result of the operation of Section 3(d) of the Facility Lease, the Owner Trustee shall deliver to the Indenture Trustee a certificate pursuant to such paragraph (a). Notwithstanding the foregoing, the Owner Participant, the Indenture Trustee and the Owner Trustee may rely on such certificate and shall have no obligation to verify the same.

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ARTICLE IV

REGISTRATION, TRANSFER, EXCHANGE, CANCELLATION AND OWNERSHIP OF NOTES

SECTION 4.1. Register of Notes.

The Indenture Trustee on behalf of the Owner Trustee shall maintain at the Indenture Trustee's Office a register for the purpose of registration, and registration of transfer and exchange, of the Notes by series and in which shall be entered the names and addresses of the owners of such Notes and the principal amounts of the Notes owned by them, respectively. For these purposes, the Indenture Trustee is hereby appointed transfer agent and registrar for the Notes.

SECTION 4.2. Registration of Transfer or Exchange of Notes.

A Holder of a Note intending to register the transfer of any Outstanding Note held by such Holder (including any transfer in the form of a pledge or assignment) or to exchange any Outstanding Note held by such Holder for a new Note or Notes of the same series may surrender such Outstanding Note at the Indenture Trustee's Office, together with the written request of such Holder, or of its attorney duly authorized in writing, in each case with signatures guaranteed, for the registration of such Note in the name of any pledgee or assignee (in the case of a transfer in the form of a pledge or assignment) or for the issuance of a new Note or Notes of the same series, specifying the authorized denomination or denominations of any new Note or Notes to be issued and the name and address of the Person or Persons in whose name or names the Note or Notes are to be registered (either as pledgee or assignee or as owner). Promptly upon receipt by the Indenture Trustee of the foregoing and satisfaction of the requirements of Sections 4.5 and 4.6 hereof, the Indenture Trustee shall register such Note or Notes in the name or names of the Person or Persons as shall be specified in the written request and, in the case in which a new Note or Notes are to be issued, the Owner Trustee shall execute and the Indenture Trustee shall authenticate and deliver such new Note or Notes of the same series, in the same aggregate principal amount and dated the same date as the Outstanding Note surrendered, in such authorized

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denomination or denominations as shall be specified in the written request. The Indenture Trustee shall make a notation on each new Note of the amount of all payments of principal theretofore made on the old Note or Notes in exchange or transfer for which any new Note has been issued and the date to which interest on such old Note or Notes has been paid.

SECTION 4.3. Cancellation of Notes.

All Notes surrendered to the Indenture Trustee for payment in full, prepayment in full or registration of transfer or exchange shall be cancelled by it; and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Indenture Trustee shall destroy cancelled Notes held by it in a manner satisfactory to the Owner Trustee and deliver a certificate of destruction to the Owner Trustee. If the Owner Trustee shall acquire any of the Notes, such acquisition shall not operate as a redemption of or the satisfaction of the indebtedness represented by such Notes unless and until the same shall be delivered to the Indenture Trustee for cancellation.

SECTION 4.4. Limitation on Timing of Registration of Notes.

The Indenture Trustee shall not be required to register transfers or exchanges of Notes on any date fixed for the payment or prepayment of principal of or interest on the Notes or during the fifteen days preceding any such date.

SECTION 4.5. Restrictions on Transfer Resulting from Federal Securities Laws; Legend.

If not prohibited by the Securities Act, each Note shall be delivered to the initial Holder thereof without registration of such Note under the Securities Act and without qualification of this Indenture under the Trust Indenture Act. Prior to any transfer of any Note, in whole or in part, to any Person other than the Collateral Trust Trustee, the Holder thereof shall furnish to the Lessee, the Indenture Trustee and the Owner Trustee an opinion of counsel, which opinion and which counsel shall be reasonably satisfactory to the Indenture Trustee, the Owner Trustee and the Lessee, to the effect that such transfer will not violate the registration provisions of the Securities Act or require

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qualification of this Indenture under the Trust Indenture Act, and all Notes issued hereunder shall be endorsed with a legend which shall read substantially as follows:

This Note has not been registered under the Securities Act of 1933 and may not be transferred, sold or offered for sale in violation of such Act.

SECTION 4.6. Charges upon Transfer or Exchange of Notes.

As a further condition to registration of transfer or exchange of any Note, the Indenture Trustee and the Owner Trustee may charge the Holder thereof for any stamp taxes or governmental charges required to be paid with respect to such registration of transfer or exchange.

SECTION 4.7. Inspection of Register of Notes.

The register of the Holders of the Notes referred to in Section 4.1 shall at all reasonable times be open for inspection by any Holder of a Note. Upon request by any Holder of a Note, or the Owner Trustee or the Lessee, the Indenture Trustee shall furnish such Person, at the expense of such Person, with a list of the names and addresses of all Holders of Notes entered on the register kept by the Indenture Trustee indicating the series, principal amount and number of each Note held by each such Holder.

SECTION 4.8. Ownership of Notes.

(a) Prior to due presentment for registration of transfer of any Note, the Owner Trustee and the Indenture Trustee may deem and treat the Holder of record of such Note as the absolute owner of such Note for the purpose of receiving payment of all amounts payable with respect to such Note and for all other purposes, and neither the Owner Trustee nor the Indenture Trustee shall be affected by any notice to the contrary.

(b) The Owner Trustee and the Indenture Trustee may, in their discretion, treat the Holder of record of any Note as the owner thereof without actual production of such Note for any purpose hereunder,

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except as provided in the last sentence of Section 3.8 hereof.

(c) Neither the Owner Trustee nor the Indenture Trustee shall be bound to take notice of or carry out the execution of any trust in respect of any Note, and may register the transfer of the same on the direction of the Holder of record thereof, whether named as trustee or otherwise, as though such Holder were the beneficial owner thereof.

(d) The receipt by the Holder of record of any Note of any payment of principal, premium or interest shall be a good discharge to the Owner Trustee and the Indenture Trustee for the same and neither the Owner Trustee nor the Indenture Trustee shall be bound to inquire into the title of any such Holder.

ARTICLE V

RECEIPT, DISTRIBUTION AND APPLICATION OF INCOME AND PROCEEDS FROM THE LEASE INDENTURE ESTATE

SECTION 5.1. Basic Rent, Interest on Overdue Installments of Basic Rent and Prepayments of Interest.

Except as otherwise provided in Section 5.3 or 5.7 hereof, each payment of Basic Rent, as well as any payment of Supplemental Rent representing interest on overdue installments of Basic Rent, received by the Indenture Trustee at any time, shall be distributed by the Indenture Trustee in the following order of priority: first, so much of such payment as shall be required to pay in full the aggregate amount of the payment or payments of principal and/or interest (as well as any interest on overdue principal or, to the extent permitted by law, interest) then due and unpaid on all Notes shall be distributed to the Holders of the Notes ratably, without priority of one over the other, in the proportion that the aggregate amount of such payment or payments then due and unpaid on all Notes held by each such Holder on such date bears to the aggregate amount of such payment or payments then due and unpaid on all Notes Outstanding on such date, without priority of interest over principal or principal over interest; and second, the balance, if any, of such payment remaining

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thereafter shall be distributed, concurrently with any distribution pursuant to clause first hereof, to the Owner Trustee or as the Owner Trustee may direct. If there shall not otherwise have been distributed on any date (or within any applicable period of grace), pursuant to this Section 5.1, the full amount then distributable pursuant to clause first of this Section 5.1, the Indenture Trustee shall distribute other payments referred to in Sections 5.4 and 5.5 then held by it or thereafter received by it, except as otherwise provided in Section 5.3, to the Holders of all Notes to the extent necessary to enable it to make all the distributions then due pursuant to such clause first; provided that to the extent any distribution is made from amounts held pursuant to Section 5.4 hereof and the Lessee subsequently makes the payment of Basic Rent or Supplemental Rent in respect of which such distribution was made, such payment of Basic Rent or Supplemental Rent shall, unless an Indenture Default or an Indenture Event of Default shall have occurred and be continuing, be applied to the purpose for which such amount held pursuant to Section 5.4 had been held, subject, in all cases, to the terms of Section 5.4. The portion of each such payment made to the Indenture Trustee which is to be distributed by the Indenture Trustee in payment of Notes shall be applied in accordance with Section 3.11. Any payment received by the Indenture Trustee pursuant to Section 6.8 shall be distributed to the Holders of the Notes, ratably, without priority of one over the other, in the proportion that the amount of such payment or payments then due and unpaid on all Notes held by each such Holder bears to the aggregate amount of the payments then due and unpaid on all Notes Outstanding. Amounts distributed by the Indenture Trustee pursuant to this Section 5.1 shall be distributed as promptly as practicable after such amounts are actually received by the Indenture Trustee; provided, however, that in the event the Indenture Trustee shall be directed to make payments to the Holder of any Note by wire transfer in accordance with Section 3.8 hereof, any amounts received by the Indenture Trustee after 11:00 A.M., New York City time, may be distributed on the following Business Day.

SECTION 5.2. Amounts Received as Result of Event of Loss, Deemed Loss Event, Exercise of Option to Terminate or Exercise of Cure Option.

If an Event of Loss or Deemed Loss Event shall occur or the Lessee shall exercise the Cure Option, and if either the Assumption Agreement or the Undivided

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Interest Indenture Supplement shall have been executed and delivered, any amounts of Casualty Value, Special Casualty Value or Fair Market Sales Value received or held by the Indenture Trustee in respect of such Event of Loss or Deemed Loss Event or exercise of the Cure Option shall, except as otherwise provided in Section 5.3, be distributed forthwith to the Owner Participant. If the Lessee or the Owner Trustee, as the case may be, shall exercise its option to terminate the Facility Lease pursuant to Section 14 thereof, then there shall be prepaid, on the date payments of proceeds with respect thereto are received by the Indenture Trustee (or as soon thereafter as practicable) under Section 14 of the Facility Lease, the unpaid principal amount of all Notes, together with the premium, if any, and all accrued but unpaid interest thereon to the date of such prepayment. Notice of such prepayment shall be given as provided in Section 3.9(c) and may provide that it is subject to receipt of funds for such prepayment. Except as otherwise provided in Section 5.3 or 5.7, any payments received and amounts realized by the Indenture Trustee upon exercise of the Lessee's or the Owner Trustee's option to terminate the Facility Lease under Section 14 thereof shall in each case be distributed on the date of prepayment as provided in clauses first, second and fifth of Section 5.3.

SECTION 5.3. Amounts Received After, or Held at Time of, Indenture Event of Default under Section 6.2.

Except as otherwise provided in Section 5.7, all payments received and amounts realized by the Indenture Trustee in respect of the Lease Indenture Estate (including any amounts realized by the Indenture Trustee from the exercise of any remedies pursuant to the Facility Lease or Article VI of this Indenture) after an Indenture Event of Default referred to in Section 6.2 shall have occurred and be continuing and the Notes have been accelerated pursuant to Section 7.1, as well as all payments thereafter received or amounts then held by the Indenture Trustee as part of the Lease Indenture Estate, shall be distributed by the Indenture Trustee in the following order of priority:

first, so much of such payments or amounts as shall be required to reimburse the Indenture Trustee for any Trustee's Expenses (to the extent not previously reimbursed) and to pay the reasonable remuneration of the Indenture Trustee, shall be

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applied by the Indenture Trustee to such reimbursement and payment;

second, so much of such payments or amounts remaining as shall be required to pay in full the aggregate unpaid principal amount of all Notes, together with premium, if any, plus accrued but unpaid interest (as well as interest on overdue principal and, to the extent permitted by law, on overdue interest) thereon to the date of distribution, shall be distributed to the Holders of such Notes and in case the aggregate amount so to be distributed shall be insufficient to pay all such Notes in full as aforesaid, then ratably, without priority of one over the other, in the proportion that the aggregate unpaid principal amount of all such Notes held by each such Holder, together with premium, if any, plus accrued but unpaid interest thereon to the date of distribution bears to the aggregate unpaid principal amount of all Notes, together with premium, if any, plus accrued but unpaid interest thereon to the date of distribution;

third, so much of such payments or amounts remaining as shall be required to pay the present or former Holders of the Notes the amounts payable to them as Indemnitees (to the extent not previously reimbursed) shall be distributed to such Holders; and in case the aggregate amount so to be paid to all such Holders in accordance with this clause third shall be insufficient to pay all such amounts as aforesaid, then ratably, without priority of one over the other, in the proportion that the amount of such indemnity or other payments to which such Person is entitled bears to the aggregate amount of such indemnity or other payments to which all such Persons are entitled;

fourth, the balance, if any, of such payments or amounts remaining shall be applied to the payment of any other indebtedness at the time due and owing to the Indenture Trustee or the Holders of the Notes which this Indenture by its terms secures; and

fifth, the balance, if any, of such payments or amounts remaining thereafter shall be distributed to or upon the direction of the Owner Trustee.

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SECTION 5.4. Amounts Received for Which Provision Is Made in a Transaction Document.

Except as otherwise provided in Section 5.1, 5.3 or 5.7 hereof, any payments received by the Indenture Trustee in respect of the Lease Indenture Estate for which provision as to the application thereof is made in a Transaction Document shall be applied to the purpose for which such payment was made, in accordance with the terms of such Transaction Document, as determined, in the first instance, from instructions or other information accompanying such payment, or, otherwise, in accordance with instructions from the payor of such payments.

SECTION 5.5. Amounts Received for Which No Provision Is Made.

Except as otherwise provided in Section 5.1, 5.2, 5.3 or 5.7, any payments received and any amounts realized by the Indenture Trustee in respect of the Lease Indenture Estate

(a) for which no provision as to the application thereof is made in a Transaction Document or elsewhere in this Article V shall be held by the Indenture Trustee as part of the Lease Indenture Estate, and

(b) to the extent received or realized at any time after payment in full of the principal of and premium, if any, and interest on all the Notes, as well as any other amounts remaining as part of the Lease Indenture Estate after payment in full of the principal of and premium, if any, and interest on all the Notes, shall be distributed by the Indenture Trustee in the order of priority set forth in Section 5.3 (omitting clause second thereof).

SECTION 5.6. Payments to Owner Trustee.

Unless otherwise directed by the Owner Trustee, all payments to be made to the Owner Trustee hereunder shall be made to the Owner Participant by wire transfer of immediately available funds as soon as practicable but in any event no later than the close of business on the date of receipt (assuming the Indenture Trustee has received such funds prior to 11:00 a.m. New York City time on the same day), to such account at such

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bank or trust company as the Owner Participant shall from time to time designate in writing to the Indenture Trustee.

SECTION 5.7. Excepted Payments.

Anything in this Article V or elsewhere in this Indenture to the contrary notwithstanding, any Excepted Payment received at any time by the Indenture Trustee shall be distributed as promptly as practicable to the Person entitled to receive such Payment (such entitlement to be conclusively determined by reference to payment instructions from such Person).

ARTICLE VI

REPRESENTATIONS, WARRANTIES AND COVENANTS OF OWNER TRUSTEE; EVENTS OF DEFAULT; REMEDIES OF THE INDENTURE TRUSTEE

SECTION 6.1. Representations, Warranties and Covenants of Owner Trustee.

The Owner Trustee hereby covenants and agrees that (i) it will duly and punctually pay the principal of, and premium, if any, and interest on, the Notes in accordance with the terms thereof and this Indenture, (ii) it will not pledge, create a security interest in or mortgage, so long as this Indenture shall remain in effect, any of its estate, right, title or interest in and to the Lease Indenture Estate or otherwise constituting part of the Trust Estate, to anyone other than the Indenture Trustee, (iii) so long as this Indenture shall remain in effect, it will not purchase or agree to purchase any property or asset other than the Undivided Interest and the Real Property Interest and other than as contemplated by the Transaction Documents, (iv) it will not, except with the prior written concurrence of the Indenture Trustee or as expressly provided in or permitted by this Indenture or with respect to the Trust Agreement or any property not constituting part of the Lease Indenture Estate, take any action which would result in an impairment of any Note or the obligation of the Lessee to pay any amount under the Facility Lease which is part of the Lease Indenture Estate (not in any event including in respect of Excepted Payments) or any

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of the other rights or security created or effected thereby, or (v) issue, or incur any obligation in respect of, indebtedness for borrowed money except for its obligations in respect of Notes.

A signed copy of any amendment or supplement to the Trust Agreement shall be delivered by the Owner Trustee to the Indenture Trustee and the Lessee. This Indenture and the Lease Indenture Estate shall not be affected by any action taken under or in respect of the Trust Agreement except as otherwise provided in or permitted by this Indenture. The Trust Agreement may not in any event be terminated by the Owner Participant or the Owner Trustee or revoked by the Owner Participant so long as any of the Notes or any unpaid obligations under this Indenture remain Outstanding. The Owner Trustee may resign as Owner Trustee, appoint a successor Owner Trustee and take all necessary and proper action to constitute one or more Persons as co-trustee(s) jointly with the Owner Trustee or as separate trustee(s), all in accordance with the terms and conditions of Article IX of the Trust Agreement.

SECTION 6.2. Indenture Events of Default.

The term Indenture Event of Default, wherever used herein, shall mean any of the following events (whatever the reason for such Indenture Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) any of the Events of Default specified in the following clauses of Section 15 of the Facility Lease: (1) clause (i)(y), except a failure of the Lessee to pay any amount which shall constitute an Excepted Payment; (2) clause (i)(x), except a failure of the Lessee to pay any amount which shall constitute an Excepted Payment or except where the Owner Trustee shall not have rescinded or terminated the Facility Lease pursuant to Section 16(a)(i) of the Facility Lease; or (3) clause (vii); or

(b) the rescission or termination of, or the taking of action by the Owner Trustee or the Owner Participant the effect of which would be to rescind or terminate, the Facility Lease, whether pursuant to Section 16(a)(i) of the Facility Lease or otherwise; or

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(c) any failure by the Lessee to perform and observe Section 10(b)(3)(iii) of the Participation Agreement; or

(d) the Owner Trustee shall fail to make any payment in respect of the principal of, or premium, if any, or interest on, the Notes within ten (10) Business Days after the same shall have become due (other than by virtue of any failure by the Lessee to make any payment of Rent therefor); or

(e) the Owner Trustee shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 6.1 of this Indenture, or the Owner Participant shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 7(b)(1) of the Participation Agreement and, in any such case, such failure shall continue for a period of 30 days after notice thereof shall have been given to the Owner Trustee, the Owner Participant and the Lessee by the Indenture Trustee, specifying such failure and requiring it to be remedied.

SECTION 6.3. Enforcement of Remedies.

(a) In the event that an Indenture Event of Default shall have occurred and be continuing, then and in every such case the Indenture Trustee, subject to paragraph (b) of this Section 6.3 and Section 6.11, may, and when required pursuant to the provisions of Article VII hereof shall, exercise any or all of the rights and powers and pursue, subject to the rights of the Lessee under the Facility Lease, (x) in the event such Indenture Event of Default is referred to in paragraph (d) or (e) of Section 6.2, any or all of the remedies then available pursuant to this Article VI and Article VII, or (y) in the event such Indenture Event of Default is referred to in paragraph (a), (b) or (c) of Section 6.2, any or all of such remedies concurrently with the exercise and pursuit by the Owner Trustee of any or all of the remedies then available to the Owner Trustee under the Facility Lease.

(b) Any provisions of the Facility Lease or this Indenture to the contrary notwithstanding, if the Lessee shall fail to pay any Excepted Payment to any Person entitled thereto as and when due, such Person shall have the right at all times, to the exclusion of the Indenture Trustee, to demand, collect, sue for, enforce performance of obligations relating to, or

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otherwise obtain all amounts due in respect of such Excepted Payment.

SECTION 6.4. Specific Remedies; Enforcement of Claims without Possession of Notes.

Subject to Sections 6.2, 6.3 and 6.11 hereof and the terms of the documents constituting a part of the Lease Indenture Estate, upon the occurrence and during the continuance of an Indenture Event of Default:

(a) The Indenture Trustee may, in order to enforce the rights of the Indenture Trustee and of the Holders of the Notes, direct payment to it of all moneys and enforce any agreement or undertaking constituting a part of the Lease Indenture Estate by any action, suit, remedy or proceeding authorized or permitted by this Indenture or by law or by equity, and whether for the specific performance of any agreement contained herein, or for an injunction against the violation of any of the terms hereof, or in aid of the exercise of any power granted hereby or by Applicable Law, and in addition may sell, assign, transfer and deliver, from time to time to the extent permitted by Applicable Law, all or any part of the Lease Indenture Estate or any interest therein, at any private sale or public auction with or without demand, advertisement or notice (except as herein required or as may be required by Applicable Law) of the date, time and place of sale and any adjournment thereof, for cash or credit or other property, for immediate or future delivery and for such price or prices and on such terms as the Indenture Trustee, in its uncontrolled discretion, may determine, or as may be required by Applicable Law, so long as the Owner Participant and the Owner Trustee are afforded a commercially reasonable opportunity to bid for all or such part of the Lease Indenture Estate in connection therewith. It is agreed that 90 days' notice to the Owner Participant, the Owner Trustee and the Lessee of the date, time and place of any proposed sale by the Indenture Trustee of all or any part of the Lease Indenture Estate or interest therein is reasonable. The Indenture Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee and of the Holders of the Notes asserted or upheld in any bankruptcy, receivership or other judicial proceedings.

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Figure 6.

(b) Without limiting the foregoing, the Indenture Trustee, its assigns and its legal representatives, subject to the rights of the Lessee under the Facility Lease, shall have as to such of the Lease Indenture Estate as is subject to the Uniform Commercial Code or similar law in each relevant jurisdiction all the remedies of a secured party under the Uniform Commercial Code or similar law in such jurisdiction and such further remedies as from time to time may hereafter be provided in such jurisdiction for a secured party.

(c) All rights of action and rights to assert claims under this Indenture or under any of the Notes may be enforced by the Indenture Trustee without the possession of the Notes at any trial or other proceedings instituted by the Indenture Trustee, and any such trial or other proceedings shall be brought in its own name as trustee of an express trust, and any recovery or judgment shall be for the ratable benefit of the Holders of the Notes as herein provided. In any proceedings brought by the Indenture Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Indenture Trustee shall be a party) the Indenture Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any such Holders parties to such proceedings.

(d) The Indenture Trustee may exercise any other right or remedy that may be available to it under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

SECTION 6.5. Rights and Remedies Cumulative.

Subject to Sections 6.2, 6.3 and 6.11 hereof, (a) each and every right, power and remedy herein specifically given to the Indenture Trustee under this Indenture shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by the Indenture Trustee and the exercise or the beginning of the exercise of any right, power or remedy shall not be construed to be a waiver of the right to exercise at

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the same time or thereafter any other right, power or remedy, and (b) no delay or omission by the Indenture Trustee in the exercise of any right, power or remedy or in the pursuance of any remedy shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of the Owner Participant, the Owner Trustee or the Lessee or to be an acquiescence therein.

SECTION 6.6. Restoration of Rights and Remedies.

In case the Indenture Trustee shall have proceeded to enforce any right, power or remedy under this Indenture by foreclosure, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Indenture Trustee, then and in every such case the Owner Trustee, the Owner Participant, the Indenture Trustee and the Lessee shall be restored to their former positions and rights hereunder with respect to the Lease Indenture Estate, and all rights, powers and remedies of the Indenture Trustee shall continue as if no such proceedings had been taken.

SECTION 6.7. Waiver of Past Defaults.

Any past Indenture Default or Indenture Event of Default and its consequences may be waived by the Indenture Trustee, except an Indenture Default or an Indenture Event of Default (i) in the payment of the principal of or interest on any Note, subject to the provisions of Section 7.1 hereof, or (ii) in respect of a covenant or provision hereof which, under Section 10.2 hereof, cannot be modified or amended without the consent of each Holder of a Note then Outstanding. Upon any such waiver, such Indenture Default or Indenture Event of Default shall cease to exist, and any other Indenture Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Indenture Default or Indenture Event of Default or impair any right consequent thereon.

SECTION 6.8. Right of Owner Trustee to Pay Rent; Note Purchase; Substitute Lessee.

Anything in this Article VI or Article VII to the contrary notwithstanding:

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(a) an Indenture Event of Default shall be deemed cured if such Indenture Event of Default results from non-payment of Basic Rent or Supplemental Rent under the Facility Lease, and the Owner Trustee or the Owner Participant shall have paid all principal of and interest on the Notes due (other than by acceleration) on the date such Basic Rent was payable (plus interest on such amount as required hereby) within 20 days after the receipt by the Owner Trustee of notice of such non-payment, such receipt to be evidenced by, among other things, any notice thereof given to the Owner Trustee in accordance with the notice provisions of the Participation Agreement. The Owner Trustee or the Owner Participant, upon exercising cure rights under this paragraph (a), shall not obtain any Lien on any part of the Lease Indenture Estate on account of such payment for the costs and expenses incurred in connection therewith nor, except as expressly provided in the succeeding sentence, shall any claims of the Owner Trustee or the Owner Participant against the Lessee or any other Person for the repayment thereof impair the prior right and security interest of the Indenture Trustee in and to the Lease Indenture Estate. Upon any payment by the Owner Trustee or the Owner Participant pursuant to this Section 6.8, the Owner Trustee or the Owner Participant, as the case may be, shall (to the extent of such payment made by it) be subrogated to the rights of the Indenture Trustee and the Holders of the Notes to receive the payment of Rent with respect to which the Owner Trustee or the Owner Participant made such payment and interest on account of such Rent payment being overdue in the manner set forth in the next sentence. If the Indenture Trustee shall thereafter receive such payment of Rent or such interest, the Indenture Trustee shall, notwithstanding the requirements of Section 5.1, on the date such payment is received by the Indenture Trustee, remit such payment of Rent (to the extent of the payment made by the Owner Trustee or the Owner Participant pursuant to this Section 6.8) and such interest to the Owner Trustee or the Owner Participant, as the case may be, in reimbursement for the funds so advanced by it.

(b) Each Holder of a Note agrees, by acceptance thereof, that if the Notes have been accelerated pursuant to Section 7.1, and the Owner Trustee, within 30 days after receiving notice from the Indenture Trustee pursuant to Section 7.1 hereof, shall give written notice to the Indenture Trustee of the Owner Trustee's intention to purchase all of the Notes in accordance with this paragraph, accompanied by

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assurances of the Owner Trustee to purchase the Notes, then, upon receipt within 10 Business Days after such notice from the Owner Trustee of an amount equal to the aggregate unpaid principal amount of and any premium with respect to any unpaid Notes then held by such Holder, together with accrued but unpaid interest thereon to the date of such receipt (as well as any interest on overdue principal and, to the extent permitted by law, interest), such Holder will forthwith sell, assign, transfer and convey to the Owner Trustee (without recourse or warranty of any kind other than of title to the Notes so conveyed) all of the right, title and interest of such Holder in and to the Lease Indenture Estate, this Indenture and all Notes held by such Holder; provided, that no such Holder shall be required so to convey unless (1) the Owner Trustee shall have simultaneously tendered payment for all other Notes issued by the Owner Trustee at the time Outstanding pursuant to this paragraph and (2) such conveyance is not in violation of any Applicable Law.

(c) Each Holder of a Note further agrees by its acceptance thereof that the Owner Trustee shall have the right, pursuant to Section 16 of the Facility Lease, to terminate the Facility Lease and, in connection therewith, to arrange for the substitution of another Person as lessee under a new lease substantially similar to the Facility Lease (hereinafter the Substituted Lessee) and, subject to: (i) any Indenture Event of Default under paragraphs (d) and (e) of Section 6.2 having been cured by the Owner Trustee, (ii) the Substituted Lessee's assuming all of the obligations of the Lessee under the Facility Lease and (iii) the Substituted Lessee's having an assigned credit rating by Standard & Poor's Corporation and Moody's Investors Service, Inc. (or, if either of such organizations shall not rate securities issued by such Substituted Lessee, by any other nationally recognized rating organization in the United States of America) with respect to at least one series of its debt obligations or preferred stock equal to or better than the ratings assigned, immediately prior to such substitution, by such organizations to comparable securities of the Lessee immediately prior to such substitution but in no event less than "investment grade", then the Facility Lease between the Owner Trustee and such Substituted Lessee shall, for all purposes of this Indenture, be deemed to be the Facility Lease subject to the lien of this Indenture.

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SECTION 6.9. Further Assurances.

Subject to Section 7.6 hereof, the Owner Trustee covenants and agrees from time to time to do all such acts and execute all such instruments of further assurance as shall be reasonably requested by the Indenture Trustee for the purpose of fully carrying out and effectuating this Indenture and the intent hereof.

SECTION 6.10. Right of Indenture Trustee To Perform Covenants, etc.

If the Owner Trustee shall fail to make any payment or perform any act required to be made or performed by it hereunder or under the Facility Lease or if the Owner Trustee shall fail to release any Lien affecting the Lease Indenture Estate which it is required to release by the terms of this Indenture, the Indenture Trustee, without notice to or demand upon the Owner Trustee and without waiving or releasing any obligation or default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of the Lease Indenture Estate. All sums so paid by the Indenture Trustee and all costs and expenses (including without limitation reasonable fees and expenses of legal counsel and other professionals) so incurred, together with interest thereon from the date of payment or occurrence, shall constitute additional indebtedness secured by this Indenture and shall be paid from the Lease Indenture Estate to the Indenture Trustee on demand. The Indenture Trustee shall not be liable for any damages resulting from any such payment or action unless such damages shall be a consequence of willful misconduct or gross negligence on the part of the Indenture Trustee.

SECTION 6.11. Certain Other Rights of the Owner Trustee.

Notwithstanding any provision to the contrary in this Indenture, the Owner Trustee shall at all times retain, to the exclusion of the Indenture Trustee, all rights of the Owner Trustee to exercise any election or option or to make any decision or determination or to give or receive any notice, consent, waiver or approval or to take any other action under or in respect of the Facility Lease, as well as all rights, powers and remedies on the part of the Owner Trustee, whether arising under the Facility Lease or by statute or at law or in equity or otherwise, arising out of any Default or Event

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of Default subject, however, to Section 10.2. Without the prior written consent of the Indenture Trustee, the exercise of any of the aforesaid rights so retained by the Owner Trustee shall not be exercised in such a manner as to (i) reduce the amounts payable by the Lessee under the Facility Lease below the amounts necessary to provide the Owner Trustee with sufficient monies to make timely payments in full of amounts due with respect to the principal of and premium, if any, and interest on all Notes or (ii) rescind or terminate the Facility Lease pursuant to Section 16 thereof. Nor shall the Owner Trustee exercise any other right or remedy under the Facility Lease the effect of which would be to effect such rescission or termination.

ARTICLE VII

CERTAIN DUTIES OF THE OWNER TRUSTEE AND THE INDENTURE TRUSTEE

SECTION 7.1. Duties in Respect of Events of Default, Deemed Loss Events and Events of Loss; Acceleration of Maturity.

In the event the Owner Trustee shall have actual knowledge of an Indenture Event of Default, an Event of Default, a Deemed Loss Event or an Event of Loss, the Owner Trustee shall give prompt written notice thereof to the Owner Participant, the Lessee and the Indenture Trustee. In the event the Indenture Trustee shall have actual knowledge of an Event of Default, an Indenture Event of Default, a Deemed Loss Event or an Event of Loss, the Indenture Trustee shall give prompt written notice thereof to the Owner Participant, the Owner Trustee, the Lessee and each Holder of a Note. Subject to the terms of Sections 6.2, 6.3, 6.4, 6.8, 6.11 and 7.3 hereof, (a) the Indenture Trustee shall take such action (including the waiver of past Defaults in accordance with Section 6.7 hereof), or refrain from taking such action, with respect to any such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss as the Indenture Trustee shall be instructed by a Directive, (b) if the Indenture Trustee shall not have received instructions as above provided within 20 days after mailing by the Indenture Trustee of notice of such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss to the

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Persons referred to above, the Indenture Trustee may, subject to instructions thereafter received pursuant to the preceding sentence, take such action, or refrain from taking such action, but shall be under no duty to take or refrain from taking any action, with respect to such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss as it shall determine advisable in the best interests of the Holders of the Notes of all series and (c) in the event that an Indenture Event of Default shall have occurred and be continuing, the Indenture Trustee in its discretion may, or upon receipt of a Directive shall, by written notice to the Owner Trustee, declare the unpaid principal amount of all Notes with accrued interest thereon to be immediately due and payable, upon which declaration such principal amount and such accrued interest shall immediately become due and payable without further act or notice of any kind. For all purposes of this Indenture, in the absence of actual knowledge, neither the Owner Trustee nor the Indenture Trustee shall be deemed to have knowledge of an Indenture Event of Default or Event of Default except that the Indenture Trustee shall be deemed to have knowledge of the failure of the Lessee to pay any installment of Basic Rent within 10 Business Days after the same shall become due. For purposes of this Section 7.1, neither the Owner Trustee nor the Indenture Trustee shall be deemed to have actual knowledge of any Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss unless it shall have received notice thereof pursuant to Section 11.6 hereof or such Indenture Event of Default or Event of Default shall actually be known by an officer in the corporate trust department of the Owner Trustee or by an officer in the Corporate Trustee Administration Department of the Indenture Trustee, as the case may be.

SECTION 7.2. Duties in Respect of Matters Specified in Directive.

Subject to the terms of Sections 6.2, 6.3, 6.4, 6.8, 6.11, 7.1 and 7.3 hereof, upon receipt of a Directive, the Indenture Trustee shall take such of the following actions as may be specified in such Directive: (i) give such notice or direction or exercise such right, remedy or power permitted hereunder or permitted with respect to the Facility Lease or in respect of any part or all of the Lease Indenture Estate as shall be specified in such Directive; and (ii) take such action to preserve or protect the Lease Indenture

Estate as shall be specified in such Directive, it being agreed that without such a Directive, the Indenture Trustee shall not waive, consent to or approve any such matter as satisfactory to it.

SECTION 7.3. Indemnification.

The Indenture Trustee shall not be required to take or refrain from taking any action under Section 7.1 or 7.2 or Article VI hereof which shall require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability unless the Indenture Trustee shall have been indemnified by the Holders of the Notes against liability, cost or expense (including counsel fees) which may be incurred in connection therewith, or unless, in the reasonable judgment of the Indenture Trustee, the indemnities of the Lessee shall be adequate for such purpose; provided, however, that if the Holder of such Notes is the Collateral Trust Trustee, the unsecured written undertaking of the Collateral Trust Trustee, in its individual capacity, shall be sufficient indemnity for purposes of this Section. The Indenture Trustee shall not be required to take any action under Section 7.1 or 7.2 or Article VI hereof nor shall any other provision of this Indenture be deemed to impose a duty on the Indenture Trustee to take any action, if the Indenture Trustee shall reasonably determine, or shall have been advised by counsel, that such action is likely to result in personal liability or is contrary to the terms hereof or of the Facility Lease or is otherwise contrary to law.

SECTION 7.4. Limitations on Duties; Discharge of Certain Liens Resulting from Claims Against Indenture Trustee.

The Indenture Trustee shall have no duty or obligation to take or refrain from taking any action under, or in connection with, this Indenture or the Facility Lease, except as expressly provided by the terms of this Indenture. The Indenture Trustee nevertheless agrees that it will, in its individual capacity and at its own cost and expense, promptly take such action as may be necessary duly to discharge all Liens on any part of the Lease Indenture Estate which result from acts by or claims against it arising out of events or conditions not related to its rights in the Lease Indenture Estate or the administration of the Lease Indenture Estate or the transactions contemplated hereby.

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SECTION 7.5. Restrictions on Dealing with Lease Indenture Estate.

Except as provided in the Transaction Documents, the Owner Trustee shall not use, operate, store, lease, control, manage, sell, dispose of or otherwise deal with any part of the Lease Indenture Estate.

SECTION 7.6. Filing of Financing Statements and Continuation Statements.

Pursuant to Section 10(b)(2) of the Participation Agreement, the Lessee has covenanted to maintain the priority of the lien of this Indenture on the Lease Indenture Estate. The Indenture Trustee shall, at the request and expense of the Lessee as provided in the Participation Agreement, execute and deliver to the Lessee and the Lessee will file, if not already filed, such financing statements or other documents and such continuation statements or other documents with respect to financing statements or other documents previously filed relating to the lien created under this Indenture in the Lease Indenture Estate as may be necessary to protect, perfect and preserve the lien created under this Indenture. At any time and from time to time, upon the request of the Lessee or the Indenture Trustee, at the expense of the Lessee as provided in the Participation Agreement (and upon receipt of the form of document so to be executed), the Owner Trustee shall promptly and duly execute and deliver any and all such further instruments and documents as the Lessee or the Indenture Trustee may reasonably request in order for the Indenture Trustee to obtain the full benefits of the security interest, assignment and mortgage created or intended to be created hereby and of the rights and powers herein granted. Upon the reasonable instructions (which instructions shall be accompanied by the form of document to be filed) at any time and from time to time of the Lessee or the Indenture Trustee, the Owner Trustee shall execute and file any financing statement (and any continuation statement with respect to any such financing statement), any certificate of title or any other document, in each case relating to the security interest, assignment and mortgage created by this Indenture, as may be specified in such instructions. In addition, the Indenture Trustee and the Owner Trustee will execute such continuation statements with respect to financing statements and other documents relating to the lien created under this

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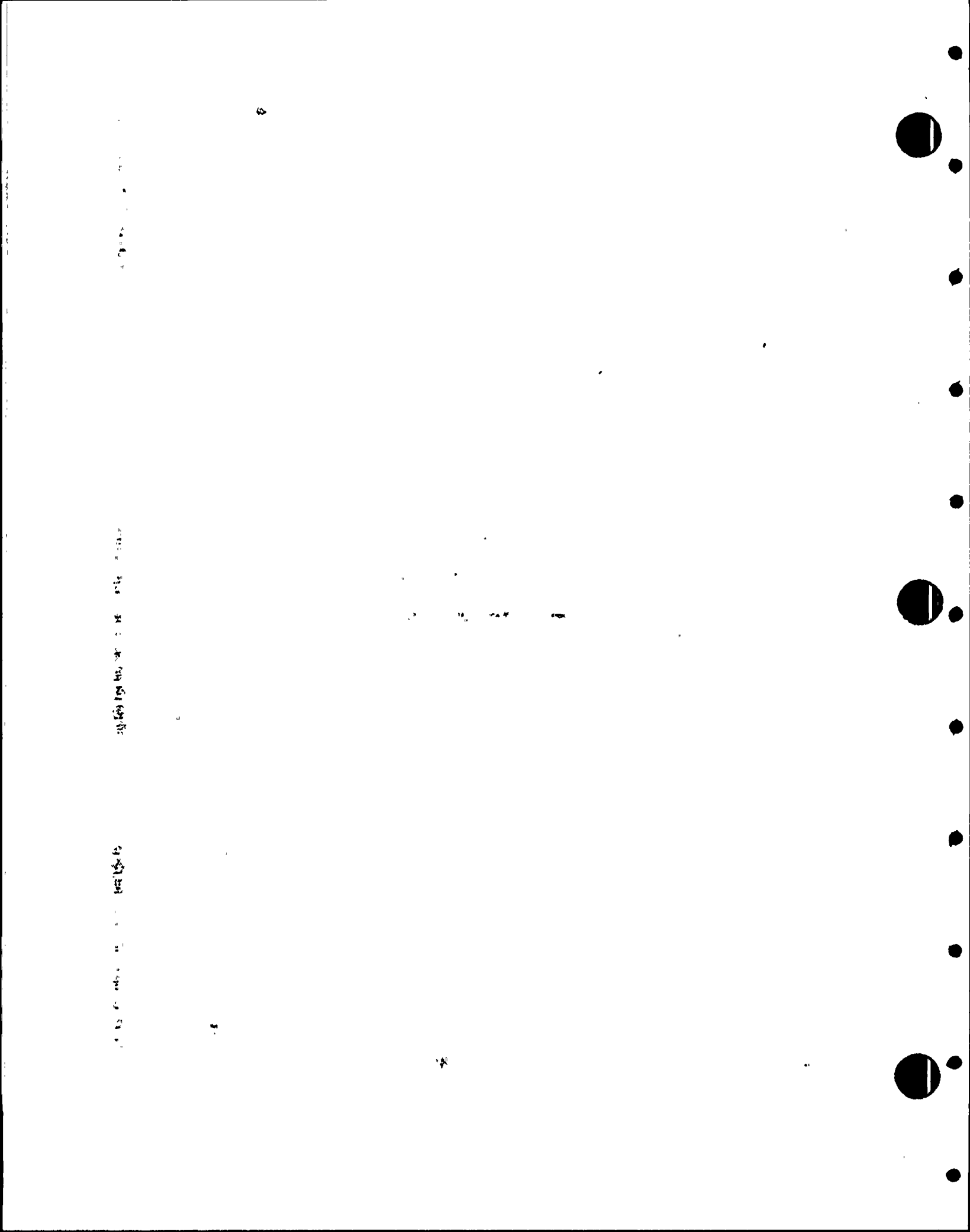
Indenture in the Lease Indenture Estate as may be reasonably specified from time to time in written instructions of any Holder of a Note (which instructions may, by their terms, be operative only at a future date and which shall be accompanied by the form of such continuation statement or other document so to be filed).

ARTICLE VIII

CONCERNING THE OWNER TRUSTEE AND THE INDENTURE TRUSTEE

SECTION 8.1. Acceptance of Trusts; Standard of Care.

The Indenture Trustee accepts the trusts hereby created and applicable to it and agrees to perform the same but only upon the terms of this Indenture and the Participation Agreement and agrees to receive and disburse all moneys constituting part of the Lease Indenture Estate in accordance with the provisions hereof, provided that no implied duties or obligations shall be read into this Indenture or the Participation Agreement against the Indenture Trustee. The Indenture Trustee shall enter into and perform its obligations under the Participation Agreement, and, at the request of the Owner Trustee, any other agreement relating to any transfer of the Undivided Interest or the Real Property Interest or the assignment of rights under the Assignment and Assumption or, at the request of the Owner Trustee, the purchase by any Person of Notes or Additional Notes issued hereunder, all as contemplated hereby. The Indenture Trustee shall not be liable under any circumstances, except for its own willful misconduct or gross negligence. If any Indenture Event of Default shall have occurred and be continuing, the Indenture Trustee shall exercise such of the rights and remedies vested in it by this Indenture, subject to the provisions hereof, 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 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.



SECTION 8.2. No Duties of Maintenance, Etc.

Except pursuant to Section 7.2 hereof and except as provided in, and without limiting the generality of, Sections 7.1 and 7.4 hereof, the Indenture Trustee shall have no duty (i) to see to any recording or filing of any Transaction Document, or to see to the maintenance of any such recording or filing, or (ii) to see to the payment or discharge of any tax, assessment or other governmental charge or any lien or encumbrance of any kind owing with respect to, or assessed or levied against, any part of the Lease Indenture Estate (except such as are required to be paid or discharged by it pursuant to this Indenture or any of the other Transaction Documents) or to make or file any reports or returns related thereto.

SECTION 8.3. Representations and Warranties of Indenture Trustee and the Owner Trustee.

NEITHER THE OWNER TRUSTEE NOR THE INDENTURE TRUSTEE MAKES ANY REPRESENTATION OR WARRANTY AS TO THE VALUE, CONDITION, MERCHANTABILITY OR FITNESS FOR USE OF UNIT 1, THE UNDIVIDED INTEREST OR ANY PART OF THE LEASE INDENTURE ESTATE OR AS TO ITS INTEREST THEREIN, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO UNIT 1, THE UNDIVIDED INTEREST OR ANY PART OF THE LEASE INDENTURE ESTATE WHATSOEVER. The Owner Trustee and the Indenture Trustee each represents and warrants, in its individual capacity, as to itself that this Indenture has been executed and delivered by one or more of its officers who are duly authorized to execute and deliver this Indenture on its behalf.

SECTION 8.4. Moneys Held in Trust; Non-Segregation of Moneys.

All moneys and securities deposited with and held by the Indenture Trustee under this Indenture for the purpose of paying, or securing the payment of, the principal of or premium or interest on the Notes shall be held in trust. Except as provided in Sections 2.3(c), 8.8 and 11.1 hereof, moneys received by the Indenture Trustee under this Indenture need not be segregated in any manner except to the extent required by law, and may be deposited under such general conditions as may be prescribed by law; provided, however, that any payments received or applied hereunder by the Indenture Trustee shall be accounted for by the Indenture Trustee so that any portion thereof paid or

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一、二、三、四、五、六、七、八、九、十、十一、十二、十三、十四、十五、十六、十七、十八、十九、二十、二十一、二十二、二十三、二十四、二十五、二十六、二十七、二十八、二十九、三十、三十一、三十二、三十三、三十四、三十五、三十六、三十七、三十八、三十九、四十、四十一、四十二、四十三、四十四、四十五、四十六、四十七、四十八、四十九、五十、五十一、五十二、五十三、五十四、五十五、五十六、五十七、五十八、五十九、六十、六十一、六十二、六十三、六十四、六十五、六十六、六十七、六十八、六十九、七十、七十一、七十二、七十三、七十四、七十五、七十六、七十七、七十八、七十九、八十、八十一、八十二、八十三、八十四、八十五、八十六、八十七、八十八、八十九、九十、九十一、九十二、九十三、九十四、九十五、九十六、九十七、九十八、九十九、一百。

applied pursuant hereto shall be identifiable as to the source thereof. Except as otherwise expressly provided herein, the Indenture Trustee shall not be liable for any interest on any money held pursuant to this Indenture.

SECTION 8.5. Reliance on Writings, Use of Agents, Etc.

The Indenture Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, telegram, order, certificate, report, opinion, bond or other document or paper believed by it to be genuine and believed by it to be signed by the proper party or parties. In the case of the Lessee, the Indenture Trustee may accept a copy of a resolution of the Board of Directors or any duly constituted and authorized committee of the Board of Directors of the Lessee, certified by the Secretary or an Assistant Secretary of the Lessee as duly adopted and in full force and effect, as conclusive evidence that such resolution has been duly adopted by such Board or Committee and that the same is in full force and effect. As to the aggregate unpaid principal amount of the Notes Outstanding as of any date, the Owner Trustee may for all purposes hereof rely on a certificate signed by any Authorized Officer of the Indenture Trustee. As to any fact or matter the manner of ascertainment of which is not specifically described herein, the Indenture Trustee may for all purposes hereof rely on a certificate, signed by the Chairman of the Board, the President, any Vice President and the Treasurer or the Secretary or any Assistant Treasurer or Assistant Secretary of the Lessee, or a Holder of a Note or any Responsible Officer of the Owner Trustee, as the case may be, as to such fact or matter, and such certificate shall constitute full protection to the Indenture Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon. The Indenture Trustee shall furnish to the Owner Trustee upon request such information and copies of such documents as the Indenture Trustee may have and as are necessary for the Owner Trustee to perform its duties under Article III hereof. In the administration of the trusts hereunder, the Indenture Trustee may execute any of the trusts or powers hereof and perform its powers and duties hereunder directly or through agents or attorneys selected by it in good faith and with reasonable care, and, with respect to matters relating to the Notes, the Lease Indenture Estate and its rights and duties under this

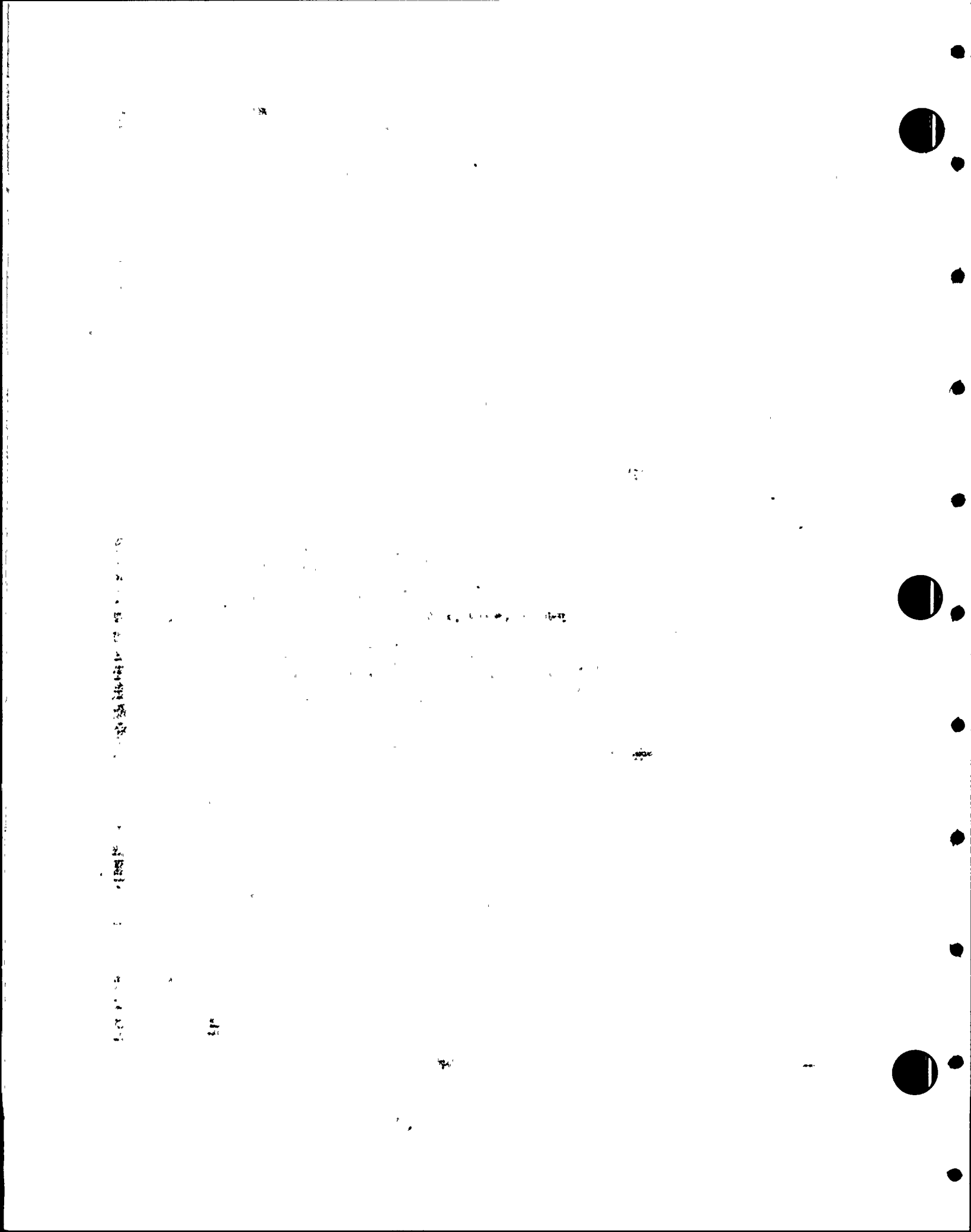
Indenture and the other Transaction Documents, may, at the expense of the Lessee, or, if the Lessee shall have failed to pay or provide for the payment thereof, at the expense of the Lease Indenture Estate, consult with counsel, accountants and other skilled persons to be selected and employed by it in good faith and with reasonable care, and the Indenture Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons so selected. Unless otherwise specified herein or in any other Transaction Document, any opinion of counsel referred to in this Indenture or in such other Transaction Document may be relied on by the Indenture Trustee to the extent it is rendered by an attorney or firm of attorneys satisfactory to the Indenture Trustee (which may be counsel to the Owner Participant, the Owner Trustee, the Lessee or any party to any Transaction Document).

SECTION 8.6. Indenture Trustee to Act Solely as Trustee.

The Indenture Trustee acts hereunder solely as trustee as herein provided and not in any individual capacity, except as otherwise expressly provided herein; and except as provided in Sections 9(a) and 9(b) of the Participation Agreement or Section 7.4 or 8.1 hereof, all Persons having any claim against the Indenture Trustee arising from matters relating to the Notes by reason of the transactions contemplated hereby shall, subject to the lien and priorities of payment as herein provided and to Sections 3.6 and 5.7, look only to the Lease Indenture Estate for payment or satisfaction thereof.

SECTION 8.7. Limitation on Rights Against Registered Holders, the Owner Trustee or Lease Indenture Estate.

The Indenture Trustee shall be entitled to be paid or reimbursed for Trustee's Expenses as provided herein and in the other Transaction Documents. Nonetheless, the Indenture Trustee agrees that it shall have no right against the Holders of the Notes, the Owner Trustee (except to the extent included in Transaction Expenses payable by the Owner Participant) or, except as provided in Article V and Section 6.4 or this Article VIII, the Lease Indenture Estate for any fee as compensation for its services hereunder.



SECTION 8.8. Investment of Certain Payments Held by the Indenture Trustee.

Any amounts held by the Indenture Trustee hereunder other than pursuant to Section 2.3(c) or 11.1 hereof shall be invested by the Indenture Trustee from time to time as directed in writing by the Owner Participant and at the expense and risk of the Owner Participant in (i) obligations of, or guaranteed as to interest and principal by, the United States Government maturing not more than 90 days after such investment, (ii) open market commercial paper of any corporation incorporated under the laws of the United States of America or any State thereof rated "prime-1" or its equivalent by Moody's Investors Service, Inc. or "A-1" or its equivalent by Standard & Poor's Corporation or (iii) certificates of deposit maturing within 90 days after such investment issued by commercial banks organized under the laws of the United States of America or of any political subdivision thereof having a combined capital and surplus in excess of \$500,000,000; provided, however, that the aggregate amount at any one time so invested (a) in open market commercial paper of any corporation shall not exceed \$2,000,000 and (b) in certificates of deposit issued by any one bank shall not exceed \$10,000,000. Any income or gain realized as a result of any such investment shall be applied to make up any losses resulting from any such investment to the extent such losses shall not have been paid by the Owner Trustee or the Owner Participant pursuant to this Section 8.8. Any further income or gain so realized shall be promptly distributed (in no event later than the next Business Day) to the Owner Trustee or the Owner Participant, except after the occurrence and during the continuance of an Indenture Event of Default. The Indenture Trustee shall have no liability for any loss resulting from any investment made in accordance with this Section. Any such investment may be sold (without regard to maturity date) by the Indenture Trustee whenever necessary to make any distribution required by Article V hereof.

SECTION 8.9. No Responsibility for Recitals, etc.

The Indenture Trustee makes no representation or warranty as to the correctness of any statement, recital or representation made by any Person other than the Indenture Trustee in this Indenture, any other Transaction Document or the Notes.



SECTION 8.10. Indenture Trustee May Engage in Certain Transactions.

The Indenture Trustee may engage in or be interested in any financial or other transaction with the Lessee, the Owner Participant, the Owner Trustee and any other party to a Transaction Document, provided that if the Indenture Trustee determines that any such relation is in conflict with its duties under this Indenture, it shall eliminate the conflict or resign as Indenture Trustee.

SECTION 8.11. Construction of Ambiguous Provisions.

The Indenture Trustee, subject to Section 8.1 hereof, may construe any ambiguous or inconsistent provisions of this Indenture, and any such construction by the Indenture Trustee shall be binding upon the Noteholders. In construing any such provision, the Indenture Trustee will be entitled to rely upon opinions of counsel and will not be responsible for any loss or damage resulting from reliance in good faith thereon, except for its own gross negligence or willful misconduct.

ARTICLE IX

SUCCESSOR TRUSTEES

SECTION 9.1. Resignation and Removal of Indenture Trustee; Appointment of Successor.

(a) The Indenture Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Owner Participant, the Owner Trustee, the Lessee and to each Holder of a Note, such resignation to be effective upon the acceptance of such trusteeship by a successor. In addition, the Indenture Trustee may be removed without cause by a Directive delivered to the Owner Participant, the Owner Trustee, the Lessee and the Indenture Trustee, and the Indenture Trustee shall promptly give notice thereof in writing to each Holder of a Note. In the case of the resignation or removal of the Indenture Trustee, a successor trustee may be appointed by such a Directive. If a successor trustee shall not have been appointed within 30 days

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after such notice of resignation or removal, the Indenture Trustee, the Owner Trustee or any Holder of a Note may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided within one year from the date of the appointment by such court.

(b) Any successor trustee, however appointed, shall execute and deliver to its predecessor and to the Owner Trustee an instrument accepting such appointment, and thereupon such successor, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor hereunder in the trusts under this Indenture applicable to it with like effect as if originally named the Indenture Trustee; but, nevertheless, upon the written request of such successor trustee or receipt of a Directive, its predecessor shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressly applicable to it, all the estates, properties, rights and powers of such predecessor under this Indenture, and such predecessor shall duly assign, transfer, deliver and pay over to such successor trustee all moneys or other property then held by such predecessor under this Indenture.

(c) Any successor trustee, however appointed, shall be a bank or trust company organized under the laws of the United States or any jurisdiction thereof having a combined capital and surplus of at least \$100,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Indenture Trustee hereunder upon reasonable or customary terms.

(d) Any corporation into which the Indenture Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Indenture Trustee shall be a party, or any corporation to which substantially all the corporate trust business of the Indenture Trustee may be transferred, shall, subject to the terms of paragraph (c) of this Section 9.1, be the Indenture Trustee under this Indenture without further act.

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ARTICLE X

SUPPLEMENTS AND AMENDMENTS TO THIS INDENTURE AND OTHER DOCUMENTS

SECTION 10.1. Supplements, Amendments and Modifications to This Indenture Without Consent of Holders of Notes.

The Indenture Trustee may, with the written consent of the Owner Trustee, from time to time and at any time execute a supplement to this Indenture without the consent of the Holders of Notes Outstanding in order to (i) cure any defect, omission or ambiguity in this Indenture or for any other purpose if such action does not adversely affect the interests of such Holders, (ii) grant or confer upon the Indenture Trustee for the benefit of such Holders any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred and which are not contrary to or inconsistent with this Indenture, (iii) add to the covenants or agreements to be observed by the Owner Trustee and which are not contrary to this Indenture or surrender any right or power of the Owner Trustee, (iv) confirm or amplify, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture, of the properties covered hereby, or subject to the lien or pledge of this Indenture additional revenues, properties or other collateral, including pursuant to an Undivided Interest Indenture Supplement, (v) qualify this Indenture under the provisions of the Trust Indenture Act, (vi) evidence the appointment of any successor Indenture Trustee pursuant to the terms hereof, (vii) evidence the assumption and release affected by the Assumption Agreement, or (viii) execute supplemental indentures to evidence the issuance of and to provide the terms of, Additional Notes to be issued hereunder in accordance with the terms hereof.

SECTION 10.2. Supplements and Amendments to this Indenture and the Facility Lease With Consent of Holders of Notes.

Except as provided in Section 10.1 hereof, at any time and from time to time, (i) upon receipt of a Directive, the Indenture Trustee shall execute a supplement to this Indenture (to which the Owner Trustee has agreed in writing) for the purpose of adding

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provisions to, or changing or eliminating provisions of, this Indenture, but only as specified in such Directive and, (ii) upon receipt of a written instruction from the Lessee and the Owner Trustee, the Indenture Trustee shall consent to any amendment of or supplement to the Facility Lease or execute and deliver such written waiver or modification of the terms of the Facility Lease to which the Owner Trustee may agree; provided, however, that, without the consent of the Holders of all the Notes then Outstanding no such supplement or amendment to this Indenture or the Facility Lease, or waiver or modification of the terms of either thereof, shall (x) modify any of the provisions of this Section or of Section 7.1 or 7.2 hereof or Section 4 of the Facility Lease or of the definition of Directive contained in Appendix A hereto or the definition of Indenture Event of Default herein, reduce the amount of the Basic Rent, Casualty Value, Special Casualty Value, Termination Value or any payment under or pursuant to Section 16 of the Facility Lease as set forth in the Facility Lease below such amount as is required to pay the full principal of, and premium, if any, and interest on, the Notes when due, or extend the time of payment thereof, (y) except as permitted by clause (x) above, modify, amend or supplement the Facility Lease or consent to the termination or any assignment thereof, in any case reducing the Lessee's obligations in respect of the payment of the Basic Rent, Casualty Value, Special Casualty Value, Termination Value or any payment under or pursuant to Section 16 of the Facility Lease below the amount referred to in clause (x) above, or (z) deprive the Holders of any Notes of the lien of this Indenture on the Lease Indenture Estate (except as contemplated by Section 3.9(b)) or materially adversely affect the rights and remedies for the benefit of such Holders provided in Article VI of this Indenture; and, provided, further, that, without the consent of the Holders of all the Notes then Outstanding and affected thereby no such supplement or amendment to this Indenture or the Facility Lease, or waiver or modification of the terms of either thereof, shall reduce the amount or extend the time of payment of any amount payable under any Note, reduce or modify the provisions for the computation of the rate of interest owing or payable thereon, adversely alter or modify the provisions of Article V with respect to the order of priorities in which distributions thereunder with respect to the Notes shall be made, or reduce, modify or amend any indemnities in favor of the Holders of the Notes. Anything to the contrary contained herein notwithstanding, without the necessity

of the consent of the Holders of Notes or the Indenture Trustee, (a) any indemnities in favor of the Owner Trustee or the Owner Participant may be modified, amended or changed and (b) the Owner Trustee may enter into any agreement with respect to the Lease Indenture Estate which by its terms does not become effective prior to the satisfaction and discharge of this Indenture, provided, however, that any agreement entered into by the Owner Trustee pursuant to this clause (b) shall not materially adversely affect the Indenture Trustee or the Holder of any Note. Notwithstanding the foregoing, the Indenture Trustee shall, upon receipt or a written instruction from the Lessee and the Owner Trustee, consent to an amendment of the definitions of "Deemed Loss Event, "Event of Loss" and "Final Shutdown" contained in or appended to the Facility Lease or this Indenture. The Owner Trustee shall deliver to the Indenture Trustee a copy of each amendment to the Facility Lease whether or not the Indenture Trustee is required to consent or otherwise act with respect thereto.

SECTION 10.3. Certain Limitations on Supplements and Amendments:

If in the opinion of the Owner Trustee or the Indenture Trustee, each of which shall be entitled to rely on counsel for purposes of this Section 10.3, any document required to be executed by either of them pursuant to the terms of Section 10.1 or 10.2 does not comply with the provisions of this Indenture or adversely affects any right, immunity or indemnity in favor of, or increases any duty of, the Owner Trustee or the Indenture Trustee under this Indenture, the Facility Lease or the Participation Agreement, the Owner Trustee or the Indenture Trustee, as the case may be, may in its discretion decline to execute such document.

SECTION 10.4. Directive Need Not Specify Particular Form of Supplement or Amendment.

It shall not be necessary for any Directive furnished pursuant to Section 10.2 hereof to specify the particular form of the proposed documents to be executed pursuant to such Section, but it shall be sufficient if such request shall indicate the substance thereof.

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SECTION 10.5. Trustee to Furnish Copies of Supplement or Amendment.

Promptly after the execution by the Owner Trustee or the Indenture Trustee of any document entered into pursuant to Section 10.2, the Indenture Trustee shall mail, by first-class mail, postage prepaid, a conformed copy thereof to each Holder of an Outstanding Note at the address of such Person set forth in the register kept pursuant to Section 4.1 but the failure of the Indenture Trustee to mail such conformed copies shall not impair or affect the validity of such document.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. Moneys for Payments in Respect of Notes to be Held in Trust.

In case the Holder of any Note shall fail to present the same for payment on any date on which the principal thereof or interest thereon becomes payable, the Indenture Trustee may set aside in trust the moneys then due thereon uninvested and shall pay such moneys to the Holder of such Note or such Person upon due presentation or surrender thereof in accordance with the provisions of this Indenture, subject always, however, to the provisions of Sections 3.8 and 11.2.

SECTION 11.2. Disposition of Moneys Held for Payments of Notes.

Any moneys set aside under Section 11.1 and not paid to Holders of Notes as provided in Section 11.1 shall be held by the Indenture Trustee in trust until the latest of (i) the date three years after the date of such setting aside, (ii) the date all other Holders of the Notes shall have received full payment of all principal of and interest and other sums payable to them on such Notes or the Indenture Trustee shall hold (and shall have notified such Persons that it holds) in trust for that purpose an amount sufficient to make full payment thereof when due and (iii) the date the Owner Trustee shall have fully performed and observed all its covenants and obligations contained in this Indenture

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with respect to the Notes; and thereafter shall be paid to the Owner Trustee by the Indenture Trustee on demand; and thereupon the Indenture Trustee shall be released from all further liability with respect to such moneys; and thereafter the Holders of the Notes in respect of which such moneys were so paid to the Owner Trustee shall have no rights in respect thereof except to obtain payment of such moneys from the Owner Trustee. Upon the setting aside of such moneys, interest shall cease to accrue on the Notes.

SECTION 11.3. Transfers Not to Affect Indenture or Trusts.

No Holder of a Note shall have legal title to any part of the Lease Indenture Estate. No transfer, by operation of law or otherwise, of any Note or other right, title and interest of any Holder of a Note in and to the Lease Indenture Estate or hereunder shall operate to terminate this Indenture or the trusts hereunder with respect to such Note or entitle any successor or transferee of such Holder to an accounting or to the transfer to it of legal title to any part of the Lease Indenture Estate.

SECTION 11.4. Binding Effect of Sale of Lease Indenture Estate.

Any sale or other conveyance of the Lease Indenture Estate or any part thereof by the Indenture Trustee made pursuant to the terms of this Indenture or the Facility Lease shall bind the Holders of the Notes and shall be effective to transfer or convey all right, title and interest of the Indenture Trustee, the Owner Trustee and such Holders in and to the same. No purchaser or other grantee shall be required to inquire as to the authorization, necessity, expediency or regularity of such sale or conveyance or as to the application of any sale or other proceeds with respect thereto by the Indenture Trustee.

SECTION 11.5. Limitation as to Enforcement of Rights, Remedies and Claims.

Nothing in this Indenture, whether express or implied, shall be construed to give to any Person, other than the Owner Trustee, the Owner Participant, the Lessee (to the extent the Lessee's consent or other action by the Lessee is expressly provided for), the Indenture Trustee and the Holders of the Notes, any

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legal or equitable right, remedy or claim under or in respect of this Indenture or any Note.

SECTION 11.6. Notices.

Unless otherwise expressly specified or permitted by the terms hereof, all communications and notices given hereunder to the Lessee, the Owner Trustee, the Owner Participant or the Indenture Trustee shall be given in the manner provided in Section 18 of the Participation Agreement. Notices by the Indenture Trustee to any Holder of a Note shall be in writing and shall be given in person or by means of telex, telecopy or other wire transmission (with request for assurance of receipt in a manner typical with respect to communications of that type), or mailed by registered or certified mail, addressed to such Holder at the address set forth in the register kept pursuant to Section 4.1. Whenever any notice in writing is required to be given by the Indenture Trustee to any Holder of a Note such notice shall be effective (x) if sent by telex, telecopy or other wire transmission, on the date of transmission thereof, or (y) if sent by mail, three Business Days after being mailed.

SECTION 11.7. Separability of Provisions

In case any one or more of the provisions of this Indenture or any application thereof shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof and any other application hereof shall not in any way be affected or impaired.

SECTION 11.8. Benefit of Parties, Successors and Assigns.

All representations, warranties, covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the Owner Trustee, the Indenture Trustee and their respective successors and assigns and each Holder of a Note, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by any Holder of a Note shall bind the successors and assigns of such Holder and any Holder of a Note issued in transfer or exchange of such Note.

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SECTION 11.9. Survival of Representations and Warranties.

All representations and warranties made with respect to the Notes shall survive the execution and delivery of this Indenture and the issue, sale and delivery of any Notes and shall continue in effect so long as any Note issued hereunder is Outstanding and unpaid.

SECTION 11.10. Bankruptcy of the Owner Trustee.

If (a) the Owner Trustee becomes a debtor subject to the reorganization provisions of the Bankruptcy Code, or any successor provision, (b) pursuant to such reorganization provisions the Owner Trustee is required, by reason of the Owner Trustee being held to have recourse liability directly or indirectly to the Holder of any Note or the Indenture Trustee, to make payment on account of any amount payable as principal or interest on such Note and (c) such Holder or the Indenture Trustee actually receives any Excess Amount (as hereinafter defined) which reflects any payment by the Owner Trustee on account of clause (b) of this Section, then such Holder or the Indenture Trustee, as the case may be, shall promptly refund to the Owner Trustee such Excess Amount. "Excess Amount" means the amount by which such payment exceeds the amount which would have been received on or prior to the date of such payment by such Holder or the Indenture Trustee if the Owner Trustee had not become subject to the recourse liability referred to in clause (b) of this Section. Nothing contained in this Section shall prevent such Holder or the Indenture Trustee from enforcing any recourse obligation (and retaining the proceeds thereof) of the Owner Trustee expressly provided for under this Indenture or in the Notes.

SECTION 11.11. Bankruptcy of the Owner Participant.

The Indenture Trustee and the Holders of the Notes shall be bound by the provisions of Section 19(f) of the Participation Agreement.

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SECTION 11.12. Counterpart Execution.

This Indenture and any amendment or supplement to this Indenture may be executed in any number of counterparts and by the different parties hereto and thereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 11.13. Dating of Indenture.

Although this Indenture is dated for convenience and for the purpose of reference as of the date mentioned, the actual date or dates of execution by the Owner Trustee and the Indenture Trustee are as indicated by their respective acknowledgments hereto annexed.

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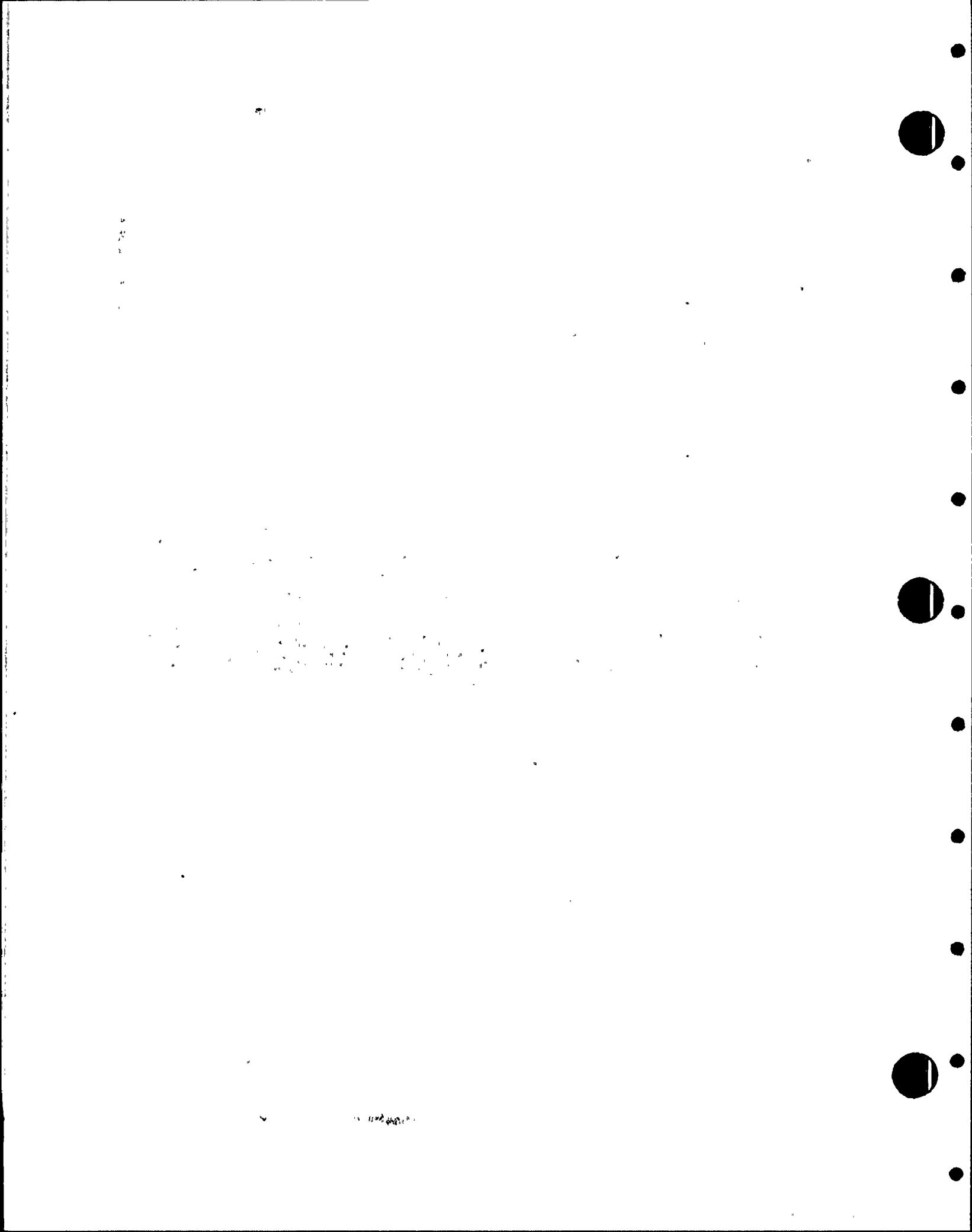
IN WITNESS WHEREOF, the Owner Trustee and the Indenture Trustee have each caused this Indenture to be duly executed by their respective officers thereunto duly authorized, all as of the date first set forth above.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under the Trust
Agreement dated as of
December 15, 1986 with Chase
Manhattan Realty Leasing
Corporation

By 
Assistant Vice President


CHEMICAL BANK

By 
Vice President



STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 16th day of December, 1986, before me personally came Martin P. Henry, to me known, who, being by me duly sworn, did acknowledge, depose and say that he resides at Boston, Massachusetts; that he is an Assistant Vice President of THE FIRST NATIONAL BANK OF BOSTON, a national banking association, described in and which executed the foregoing instrument; and that he signed his name thereto on behalf of said association by authority of the Board of Directors of such association.

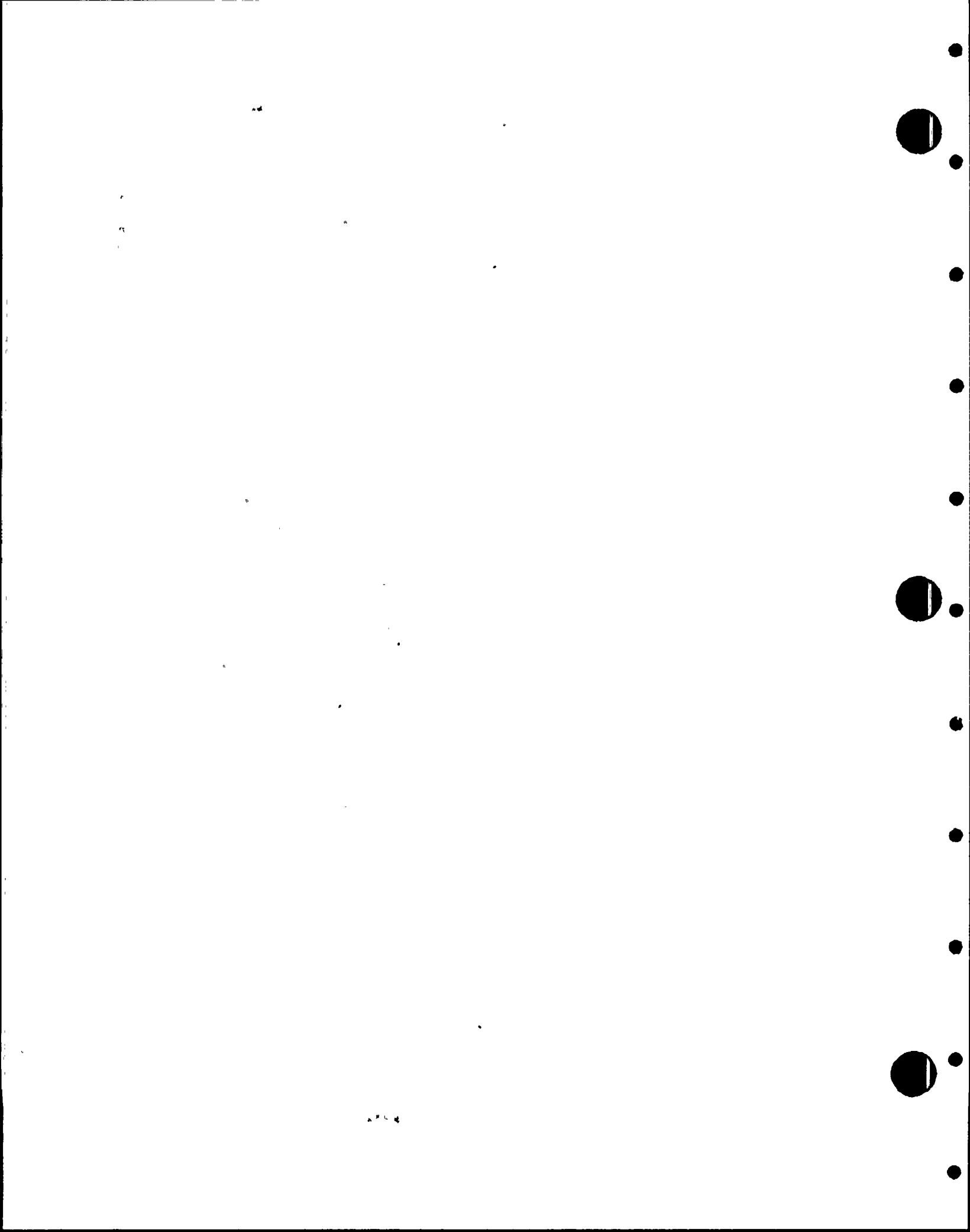


Notary Public

[NOTARIAL SEAL]

Term Expires:

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified In Queens County
Commission Expires March 30, 1987



STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 16th day of December, 1986, before me personally came T.J. FOLEY, to me known, who, being by me duly sworn, did acknowledge, depose and say that he resides at Bethpage, New York; that he is a Vice President of CHEMICAL BANK, a New York banking corporation, described in and which executed the foregoing instrument; and that he signed his name thereto on behalf of said corporation by authority of the Board of Directors of such corporation.



Notary Public

[NOTARIAL SEAL]

Term Expires:

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified In Queens County
Commission Expires March 30, 1987

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EXHIBIT A-1
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 1992)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 1992)

Issued at: New York, New York

Issue Date: December __, 1986

"THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$3,300,000 (Three Million Three Hundred Thousand Dollars) on January 15, 1992 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 8.05% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law)

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any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 9.05% (computed on the basis of a 360-day year of twelve 30-day months) for the period during which any such principal, premium or interest shall be overdue.

In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

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Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture Trustee's Office, or as otherwise provided in the Indenture.

The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note is not subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the

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Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 1992)

Schedule of Principal Amortization

\$3,300,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 1989 | \$ 379,000 | |
| January 15, 1990 | 539,000 | |
| July 15, 1990 | 561,000 | |
| January 15, 1991 | 583,000 | |
| July 15, 1991 | 607,000 | |
| January 15, 1992 | 631,000 | |
| Principal Amount | <u>\$3,300,000</u> | |

ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION

By _____
Vice President

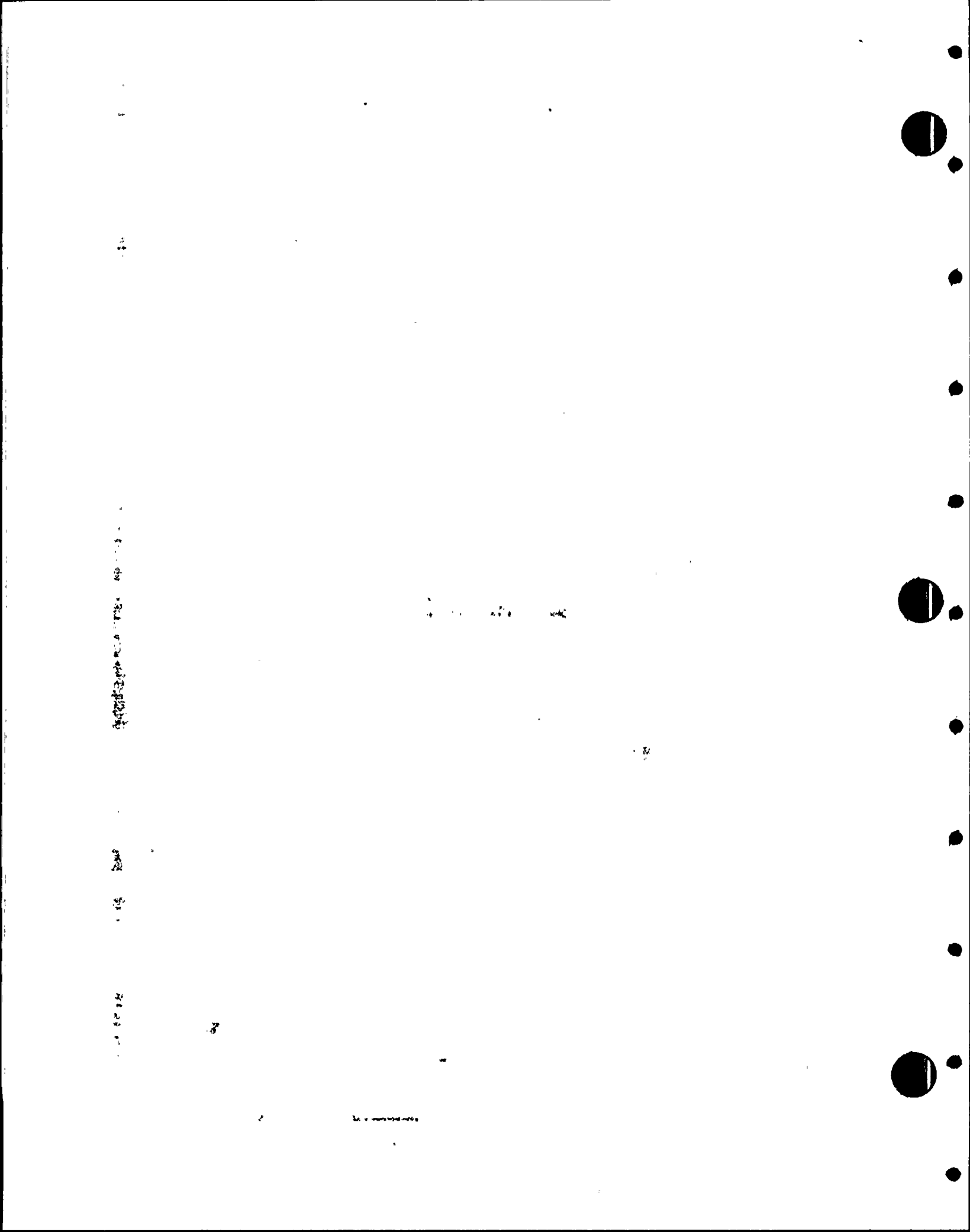


EXHIBIT A-2
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 1997)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 1997)

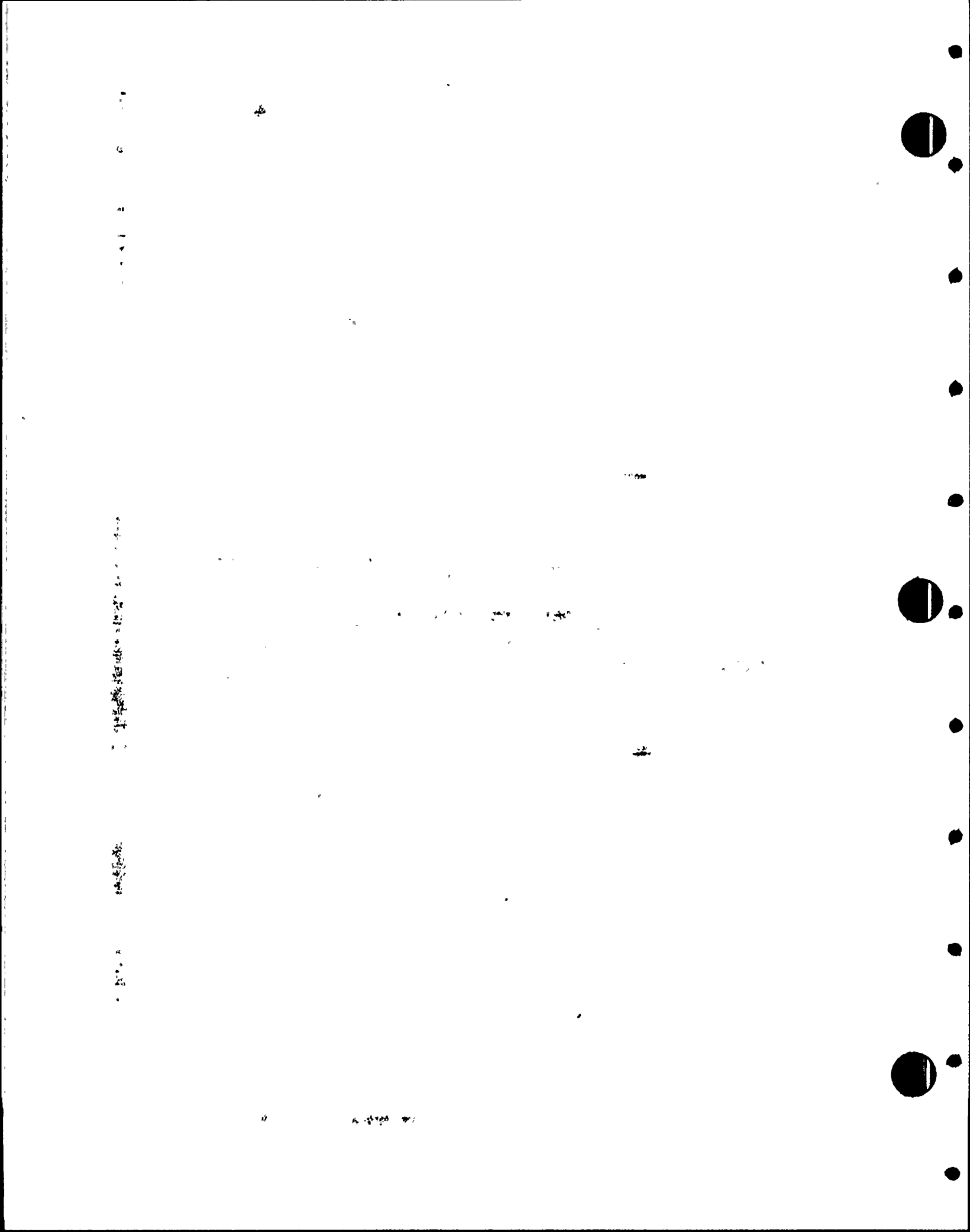
Issued at: New York, New York

Issue Date: December __, 1986

THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$8,060,000 (Eight Million Sixty Thousand Dollars) on January 15, 1997 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 8.95% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

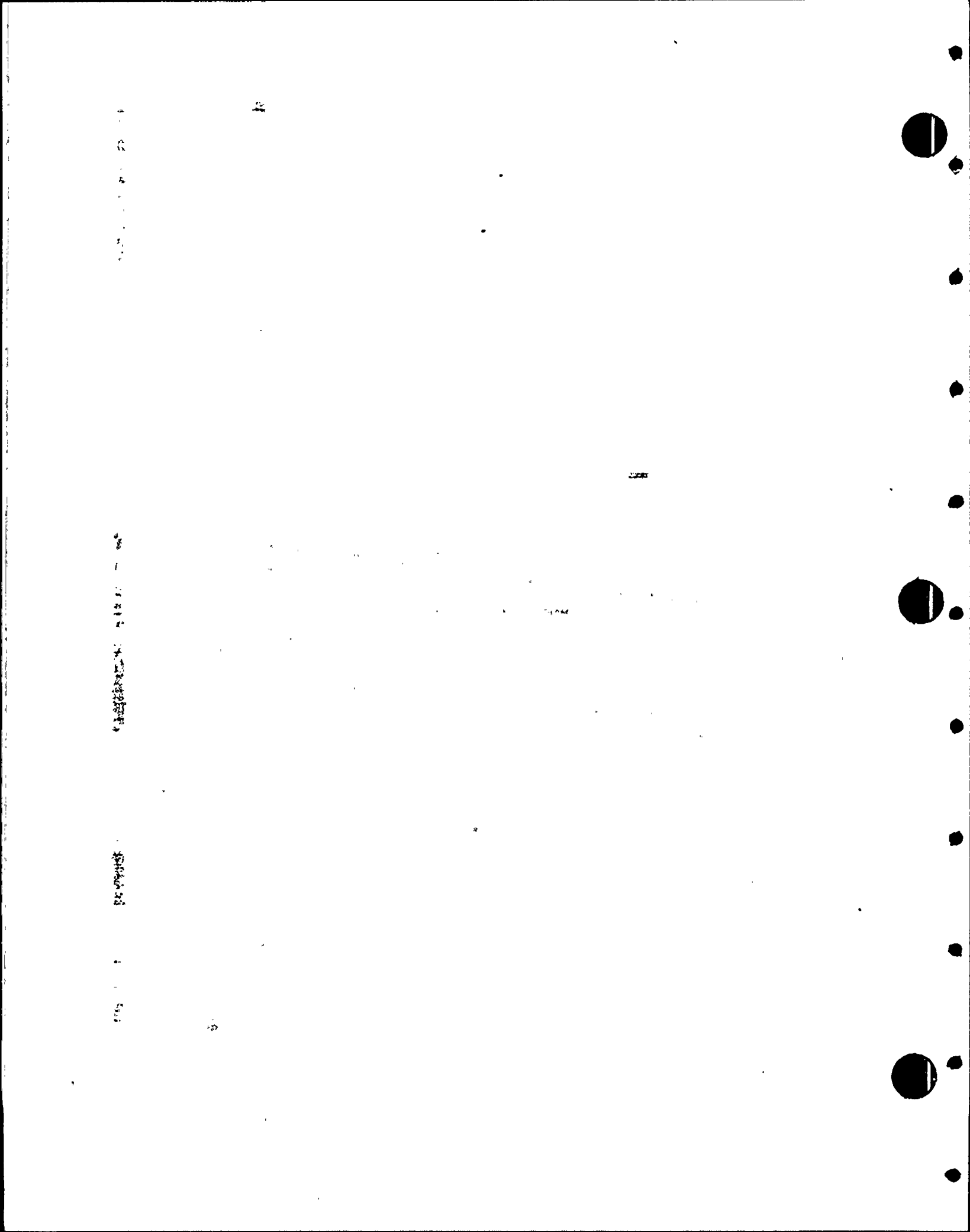
Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law) any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 9.95% (computed on the basis of a 360-day year of twelve 30-day months) for the period during which any such principal, premium or interest shall be overdue.



In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture Trustee's Office, or as otherwise provided in the Indenture.



The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts, and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note may be prepaid in whole or in part at any time on or after January 15, 1992 by the Owner Trustee upon the giving of not less than 30 days' notice (as provided in the Indenture) and at the following prepayment prices (expressed as a percentage of the unpaid principal amount hereof), together with interest accrued to the date fixed for prepayment:

Twelve Month
Period Beginning

Redemption
Price

January 15, 1992
January 15, 1993

102.557%
101.279

Figure 1 consists of 11 small line drawings arranged in a vertical column, illustrating the stages of larval development. The drawings show a progression from a single cell to a more complex, multi-cellular organism with a distinct tail-like structure.

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and thereafter at the principal amount thereof, together with interest accrued to the date fixed for prepayment. This Fixed Rate Note is not otherwise subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof.

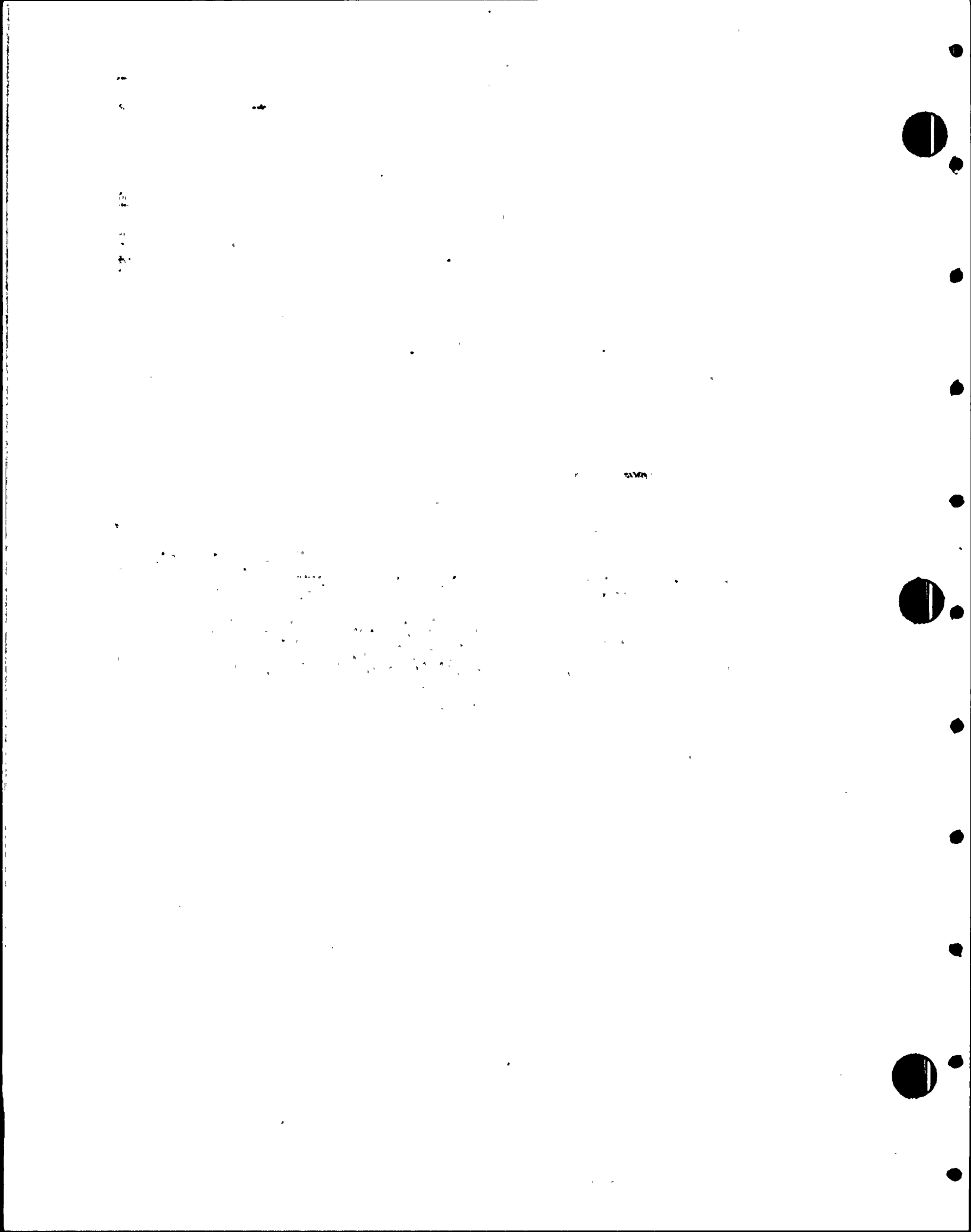
THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer



SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 1997)

Schedule of Principal Amortization

\$8,060,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 1992 | \$657,000 | |
| January 15, 1993 | 686,000 | |
| July 15, 1993 | 717,000 | |
| January 15, 1994 | 749,000 | |
| July 15, 1994 | 782,000 | |
| January 15, 1995 | 817,000 | |
| July 15, 1995 | 854,000 | |
| January 15, 1996 | 892,000 | |
| July 15, 1996 | 932,000 | |
| January 15, 1997 | 974,000 | |
| Principal Amount | <u>\$8,060,000</u> | |

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ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION

By _____
Vice President

EXHIBIT A-3
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 2015)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 2015)

Issued at: New York, New York

Issue Date: December __, 1986

THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$48,640,000 (Forty Eight Million Six Hundred Forty Thousand Dollars) on January 15, 2015 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 10.15% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto, as such Schedule may be adjusted in accordance with the Indenture and the terms contained herein. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

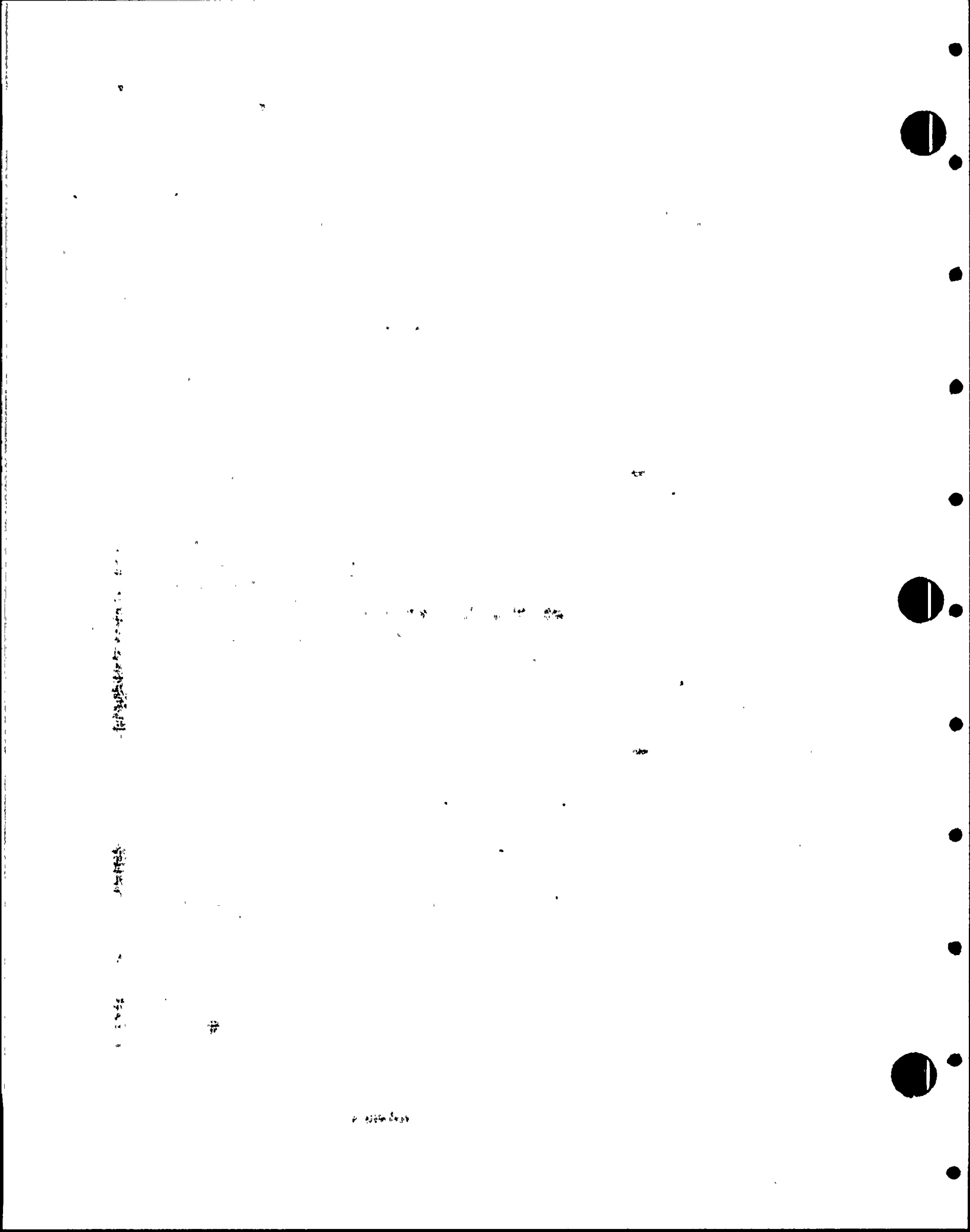
Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law) any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 11.15% (computed on the basis of a 360-day year of twelve 30-

day months) for the period during which any such principal, premium or interest shall be overdue.

In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture



Trustee's Office, or as otherwise provided in the Indenture.

In the manner and to the extent provided in the Indenture, Schedule 1 hereto may be adjusted once at the discretion of the Owner Trustee prior to July 15, 1997, in connection with an adjustment to Basic Rent under Section 3(d) of the Facility Lease.

The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note is subject to prepayment in whole as contemplated by Section 5.2 of the Indenture and in the circumstances therein described. In addition, this Fixed Rate Note may be prepaid in whole or in part at any time on or after January 15, 1992 by the Owner Trustee upon the giving of not less than 30 days'

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notice (as provided in the Indenture) and at the following prepayment prices (expressed as a percentage of the unpaid principal amount hereof), together with interest accrued to the date fixed for prepayment:

| <u>Twelve Month
Period Beginning</u> | <u>Redemption
Price</u> |
|--|-----------------------------|
| January 15, 1992 | 108.120% |
| January 15, 1993 | 107.714 |
| January 15, 1994 | 107.308 |
| January 15, 1995 | 106.902 |
| January 15, 1996 | 106.496 |
| January 15, 1997 | 106.090 |
| January 15, 1998 | 105.684 |
| January 15, 1999 | 105.278 |
| January 15, 2000 | 104.872 |
| January 15, 2001 | 104.466 |
| January 15, 2002 | 104.060 |
| January 15, 2003 | 103.654 |
| January 15, 2004 | 103.248 |
| January 15, 2005 | 102.842 |
| January 15, 2006 | 102.436 |
| January 15, 2007 | 102.030 |
| January 15, 2008 | 101.624 |
| January 15, 2009 | 101.218 |
| January 15, 2010 | 100.812 |
| January 15, 2011 | 100.406 |

and thereafter at the principal amount thereof, together with interest accrued to the date fixed for prepayment. This Fixed Rate Note is not otherwise subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under

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this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

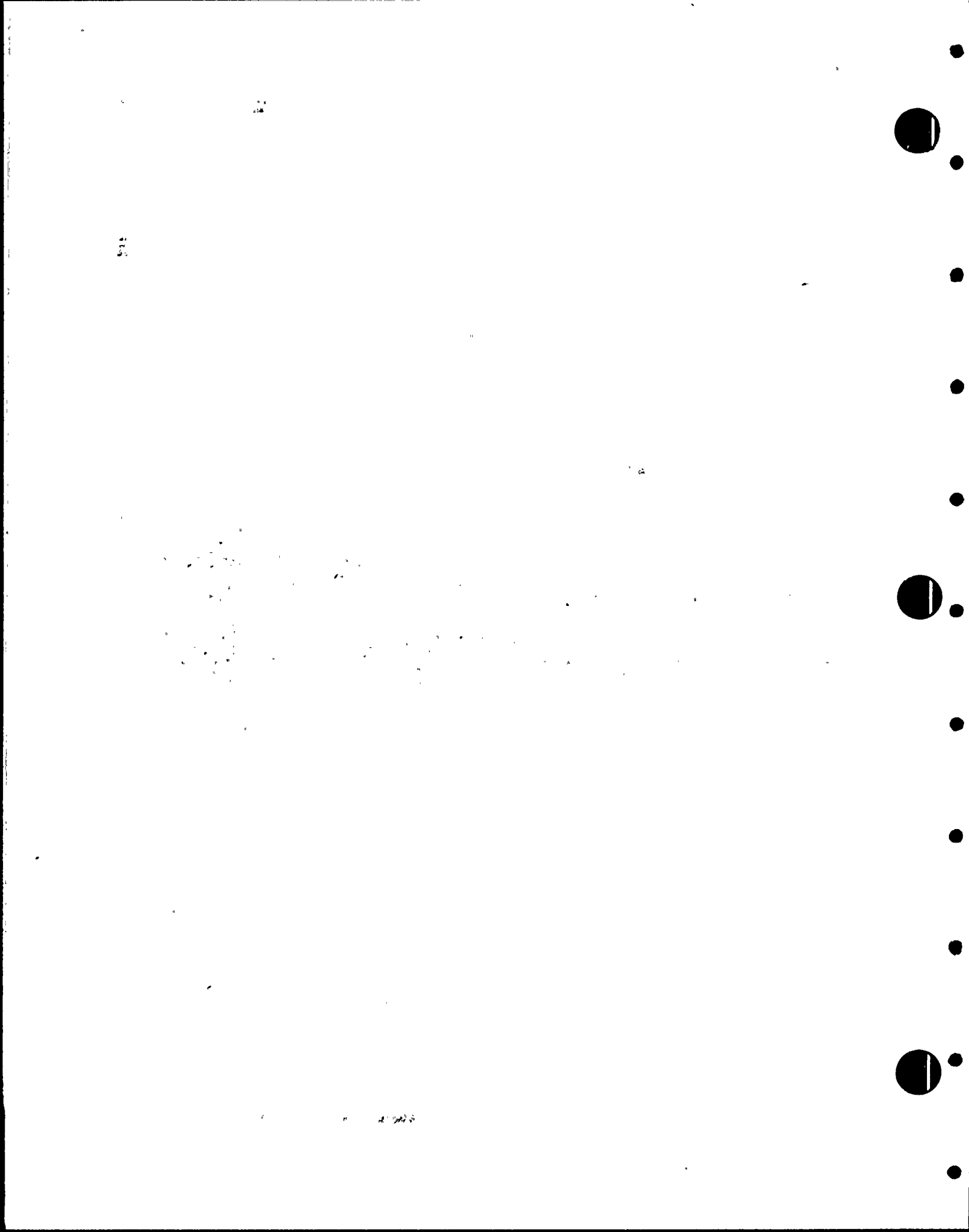
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SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 2015)

Schedule of Principal Amortization

\$48,640,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 1997 | \$1,017,000 | |
| January 15, 1998 | 1,069,000 | |
| July 15, 1998 | 1,123,000 | |
| January 15, 1999 | 1,180,000 | |
| July 15, 1999 | 1,240,000 | |
| January 15, 2000 | 1,303,000 | |
| July 15, 2000 | 1,217,000 | |
| January 15, 2001 | 939,000 | |
| July 15, 2001 | 1,053,000 | |
| January 15, 2002 | 967,000 | |
| July 15, 2002 | 1,065,000 | |
| January 15, 2003 | 960,000 | |
| July 15, 2003 | 1,077,000 | |
| January 15, 2004 | 979,000 | |
| July 15, 2004 | 1,143,000 | |
| January 15, 2005 | 1,039,000 | |
| July 15, 2005 | 1,214,000 | |
| January 15, 2006 | 1,103,000 | |
| July 15, 2006 | 1,288,000 | |
| January 15, 2007 | 1,171,000 | |
| July 15, 2007 | 1,368,000 | |
| January 15, 2008 | 1,243,000 | |
| July 15, 2008 | 1,452,000 | |
| January 15, 2009 | 1,319,000 | |
| July 15, 2009 | 1,541,000 | |
| January 15, 2010 | 1,400,000 | |



SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 2015)

Schedule of Principal Amortization
(Continued)

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 2010 | \$ 1,636,000 | |
| January 15, 2011 | 1,486,000 | |
| July 15, 2011 | 1,737,000 | |
| January 15, 2012 | 1,577,000 | |
| July 15, 2012 | 1,844,000 | |
| January 15, 2013 | 1,674,000 | |
| July 15, 2013 | 1,957,000 | |
| January 15, 2014 | 1,777,000 | |
| July 15, 2014 | 2,077,000 | |
| January 15, 2015 | 2,405,000 | |
| Principal Amount | <u>\$48,640,000</u> | |

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ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION.

By _____
Vice President

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EXHIBIT B

ASSUMPTION AGREEMENT

TO: The Holders (as defined below) from time to time of the Notes (as defined below) of The First National Bank of Boston, not in its individual capacity, but solely as owner trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (in such capacity, the "Issuer") under the Trust Indenture, Mortgage, Security Agreement, and Assignment of Rents (the "Indenture") dated as of December 15, 1986 among the Issuer and Chemical Bank (the "Trustee").

The undersigned, PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the "Obligor"), for the purpose of satisfying in part its obligation to make certain payments under that certain Facility Lease dated as of December 15, 1986 between the Issuer and the Obligor (the "Facility Lease"), does hereby covenant and agree with the Holders (as defined in the Indenture) from time to time of the Notes (as defined in the Indenture) as follows:

SECTION 1. The Obligor does hereby agree to, and does hereby, assume unconditionally the payment of the principal of the Notes and of the interest and premium (if any) thereon, at the rates provided in the Notes, when and as the same shall become due and payable, whether at maturity or upon mandatory prepayment or upon declaration or otherwise, according to the terms of the Notes and of the Indenture.

SECTION 2. The assumption herein contained shall be binding upon the Obligor, its successors and assigns and shall remain in full force and effect irrespective of the power or authority of the Issuer to issue the Notes or to execute, acknowledge and deliver the Indenture or the validity of the Notes, or the Indenture, or of any defense whatsoever that the Issuer may or might have to the payment of the Notes (principal, interest or premium), or to the performance

1. The first part of the document is a list of names and addresses of the members of the committee.

2. The second part of the document is a list of names and addresses of the members of the committee.

3. The third part of the document is a list of names and addresses of the members of the committee.

4. The fourth part of the document is a list of names and addresses of the members of the committee.

5. The fifth part of the document is a list of names and addresses of the members of the committee.

6. The sixth part of the document is a list of names and addresses of the members of the committee.

7. The seventh part of the document is a list of names and addresses of the members of the committee.



or observance of any of the provisions or conditions of the Indenture or any Note, or of the existence or continuance of the Issuer as a legal entity; nor shall said assumption be affected by the merger, consolidation, or other dissolution of the Issuer or the sale or other transfer of the property of the Issuer or by the Issuer as an entirety, or substantially so, to any other person; nor shall the assumption be discharged or impaired by any act, failure or omission whatsoever on the part of any Holder of any Notes or the Trustee, including, among other such acts, failures and omissions, the following:

(a) any failure to present any Note for payment or to demand payment thereof, or to give to the Obligor notice of dishonor and non-payment of any Note when and as the same may become due and payable, or notice of any failure on the part of the Issuer to do any act or thing or to perform or keep any covenant or agreement by it to be done, kept or performed under the terms of Notes or the Indenture;

(b) any extension of the obligation of any Note, either indefinitely or for any period of time, or any other modification in the obligations under any Note or the Indenture or of the Issuer thereon or in connection therewith;

(c) any act or failure to act with regard to any Note or the Indenture or anything which might vary the risk of the Obligor; and

(d) any action taken under the Indenture and the Notes in the exercise of any right or power thereby conferred or any failure or omission on the part of the Trustee or the Holder of any Note to enforce any right or security given under the Indenture or any Note, or any waiver of any right or any failure or omission on the part of the Trustee or any Holder of any Note to enforce any right of any Holder of any Note against the Issuer;

provided, always, that the specific enumeration of the above mentioned acts, failures, waivers or omissions shall not be deemed to exclude any other acts, failures, waivers or omissions though not specifically mentioned herein, it being the purpose and intent of this Assumption Agreement that the obligation of the Obligor shall be absolute and unconditional to the extent herein specified and shall not be discharged, impaired or

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varied except by the payment of the principal of and interest on any Note and any premium thereon in case of prepayment, and then only to the extent of such payments.

SECTION 3. (a) Subject to the requirements of Sections 10(b)(3)(iii) and (b)(3)(iv) of the Participation Agreement and to the provisions of paragraph (b) of this Section, nothing contained in this Assumption Agreement shall prevent any consolidation or merger of the Obligor with or into any other corporation or corporations (whether or not affiliated with the Obligor), or successive consolidations or mergers in which the Obligor or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance or lease of all or substantially all the property of the Obligor, to any other corporation authorized to acquire and operate the same; provided, however, and the Obligor hereby covenants and agrees, that upon any such consolidation, merger, sale, conveyance or lease, all obligations of the Obligor under this Assumption Agreement on or in respect of any Note, and the due and punctual performance and observance of all of the covenants and conditions of this Assumption Agreement to be performed by the Obligor, shall be expressly and duly assumed, by an agreement reasonably satisfactory in form and substance to the Trustee, executed and delivered by the corporation (if other than the Obligor) formed by such consolidation, or into which the Obligor shall have been merged, or by the corporation which shall have acquired such property.

(b) The Indenture Trustee (as defined in the Indenture), subject to applicable provisions of the Indenture, may rely upon an opinion of counsel to the Obligor as conclusive evidence that any such merger, consolidation, sale or conveyance complies with the provisions of this Section.

SECTION 4. The Obligor does hereby consent to all of the terms and conditions of each Note Series and of the Indenture, and hereby waives any and all rights of notice of any fact or facts or circumstance or circumstances whatsoever and consents to any extension or extensions of time of any payment or payments, or of any other act or thing which any Holder or Holders of any Note or the Issuer may agree to consent to, either expressly, by acquiescence or otherwise, and hereby agrees not to claim or enforce any rights of subrogation or any other right or privilege which might otherwise

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arise on account of any payment made by it or act or thing done by it on account of or in accordance with its assumption herein contained, unless and until all of the Notes have been fully paid and discharged.

SECTION 5. The assumption herein expressed may be transferred or assigned at any time or from time to time and shall be considered to be transferred and assigned upon the transfer of any Note, whether with or without the consent of or notice to the Obligor or the Issuer. The Obligor hereby agrees to execute and deliver such instruments and to do such acts and things requested by the Trustee as shall be reasonably necessary to carry out and effectuate the purposes and intents of this Assumption Agreement. This Assumption Agreement may not be amended or modified in any respect without the prior written consent (evidenced as provided in the Indenture) of the Holders of not less than a majority in principal amount of the Notes Outstanding (as defined in the Indenture); provided, however, that without the written consent of the Holders of all of the Notes Outstanding, no such amendment or modification shall be effective which will change any of the provisions of Sections 1, 2, 4 or 5 of this Assumption Agreement. The Obligor agrees to file with the Indenture Trustee a duplicate original of each such consent.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By _____
Title:

ATTEST:

Title:

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EXHIBIT C

UNDIVIDED INTEREST SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE NO. _____ dated as of _____, to the TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS (hereinafter, together with supplements thereto, the Indenture) dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON (FNB), not in its individual capacity, but solely as trustee (the Owner Trustee) under a Trust Agreement, dated as of December 15, 1986, between FNB, whose address is 100 Federal Street, Boston, Massachusetts 02110, and Chase Manhattan Realty Leasing Corporation, and CHEMICAL BANK, a New York banking corporation (the Indenture Trustee), whose address is 55 Water Street, New York, New York 10041.

W I T N E S S E T H:

WHEREAS, in accordance with Section 9(j) of the Facility Lease, the Owner Trustee is obligated, in certain cases, to cause the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture; and

WHEREAS, in order to further secure the obligations referred to in the Indenture, the Owner Trustee desires to grant to the Indenture Trustee the security interest and realty mortgage herein provided and the parties hereto desire that the Indenture be regarded (i) to the extent that the Undivided Interest constitutes personal property, as a "security agreement" and as a "financing statement" under the Uniform Commercial Code and (ii) to the extent that the Undivided Interest and the Real Property Interest constitute fixtures or real property, as a realty mortgage;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1.1. The Indenture. This Supplemental Indenture No. _____ shall be construed as supplemental to and amendatory of the Indenture and shall form a part thereof, and the Indenture is hereby incorporated by

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reference herein and is hereby ratified, approved and confirmed.

SECTION 1.2. Definitions. Capitalized terms used herein, but which are not otherwise defined herein shall have the meanings set forth in Appendix A to the Indenture.

SECTION 1.3. Recording Information. The Indenture was recorded on _____, in Maricopa County, Arizona [describe] [specify other recorded documents] [specify other places of recordation].

SECTION 1.4. Governing Law. This Supplemental Indenture No. ____ and the Indenture shall, for all purposes, be construed in accordance with and governed by the laws of the State of New York except to the extent that the laws of the State of Arizona shall be mandatorily applicable thereto.

SECTION 1.5. Security Interest and Realty Mortgage. As further security for the due and punctual payment of the principal of and premium, if any, and interest on the Notes according to their respective terms and effect and the performance and observance by the Owner Trustee of all the covenants and agreements made by it or on its behalf in the Notes, the Participation Agreement and the Indenture, the Owner Trustee does, by its execution and delivery hereof, hereby grant a security interest in, bargain, convey, warrant, assign, transfer, mortgage, pledge and set over unto the Indenture Trustee, and to its successors and assigns in trust, the following (which shall be a part of the Lease Indenture Estate for all purposes of the Indenture and the other Transaction Documents):

(1) the Undivided Interest and the Real Property Interest, including, but without limitation, the Owner Trustee's share of all Capital Improvements (including any which constitute fixtures under Applicable Law) now existing or which hereafter may become part of the Undivided Interest;

(2) all right, title and interest of the Owner Trustee in, to and under (a) the Bill of Sale, (b) the ANPP Participation Agreement, (c) the Deed and (d) the Assignment of Beneficial Interest, including, but without limitation, all amounts of Rent, insurance

proceeds and condemnation, requisition and other awards and payments of any kind for or with respect to any part of the Lease Indenture Estate as contemplated in such documents;

(3) all other property of every kind and description, real, personal and mixed, and interests therein now held or hereafter acquired by the Owner Trustee pursuant to any term of any Transaction Document, whether or not subjected to the Lien of the Indenture by an indenture supplemental hereto; and

(4) all proceeds of the foregoing;

but excluding, however, (i) such of the foregoing as, in accordance with the terms of the Indenture, shall have been released from the lien of the Indenture and distributed to the Owner Trustee or the Owner Participant, as the case may be, and (ii) any and all Excepted Payments; and subject, however, to (x) the terms and provisions of the Indenture and (y) the rights of the Lessee under the Facility Lease.

TO HAVE AND TO HOLD all the aforesaid properties, rights and interests unto the Indenture Trustee, its successors and assigns forever, but in trust, nevertheless, for the use and purposes and with the power and authority and subject to the terms and conditions mentioned and set forth in the Indenture.

UPON CONDITION that, unless and until an Indenture Event of Default shall have occurred and be continuing, the Owner Trustee shall be permitted, to the exclusion of the Indenture Trustee, to possess and use the Lease Indenture Estate and exercise all rights with respect thereto and, without limitation of the foregoing, the Owner Trustee may exercise all of its rights under the documents specified in clause (2) above to the same extent as if its right, title and interest therein had not been assigned to the Indenture Trustee to the extent set forth above, except that the Indenture Trustee shall receive all payments of Assigned Payments and all moneys and securities required to be held by or deposited with the Indenture Trustee hereunder.

The Owner Trustee hereby warrants and represents that it has not assigned or pledged any of its right, title or interest in and to the Lease

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Indenture Estate to anyone other than the Indenture Trustee.

SECTION 1.6. Real Estate Remedies. In addition to the remedies specified in the Indenture (including but without limitation Section 6.4 thereof) or otherwise available pursuant to Applicable Law, to the extent that any portion of the Lease Indenture Estate constitutes fixtures or real property, the Indenture and this Supplemental Indenture No. ___ shall be, and shall be deemed to be, a realty mortgage and assignment of rents with respect to all items of real property and fixtures and the Indenture Trustee shall have all the rights, remedies and benefits of a mortgagee of real property under Applicable Law (including, but without limitation, rights and remedies pursuant to Arizona Revised Statutes Section 33-702.B, or any comparable successor provision) and the Owner Trustee shall be and be deemed to be, a mortgagor with respect to such fixtures and real property.

SECTION 1.7. Certain Releases. In case a release from the security and other interests created by Section 1.5 hereof by the Indenture Trustee of a portion of the Undivided Interest shall be necessary in order to enable the Owner Trustee or the Lessee to perform its covenants and agreements set forth in the Transaction Documents or in the ANPP Participation Agreement or the Owner Trustee or the Lessee to carry out any action required by Section 8 of the Facility Lease, the Indenture Trustee shall execute and deliver to, or as directed by, the Owner Trustee or the Lessee an appropriate instrument or instruments provided to the Indenture Trustee by the Owner Trustee or the Lessee (in due form for filing or recording), so releasing a portion of the Undivided Interest, provided, however, that the Indenture Trustee shall have first received an Officer's Certificate in form and substance reasonably satisfactory to the Indenture Trustee, executed by the Lessee, accompanied by an opinion of counsel reasonably satisfactory to the Indenture Trustee, each of which shall be to the effect that all necessary actions have been or are being taken simultaneously with such release in connection with the proposed action to comply with the terms of this Indenture and Section 8 of the Facility Lease.

SECTION 1.8. Severance. The parties hereto understand and agree that Unit 1 and the Common Facilities (including the Undivided Interest), each

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Capital Improvement and each part thereof is or shall be severed, and shall be and remain severed, from the real estate constituting the PVNGS Site and even if physically attached thereto, shall retain the character of personal property, shall be treated as personal property with respect to the rights of all persons whomsoever, shall not be or become fixtures or otherwise part of the real estate constituting the PVNGS Site, and, by virtue of its nature as personal property, shall not be affected in any way by any instrument dealing with the real estate constituting the PVNGS Site.

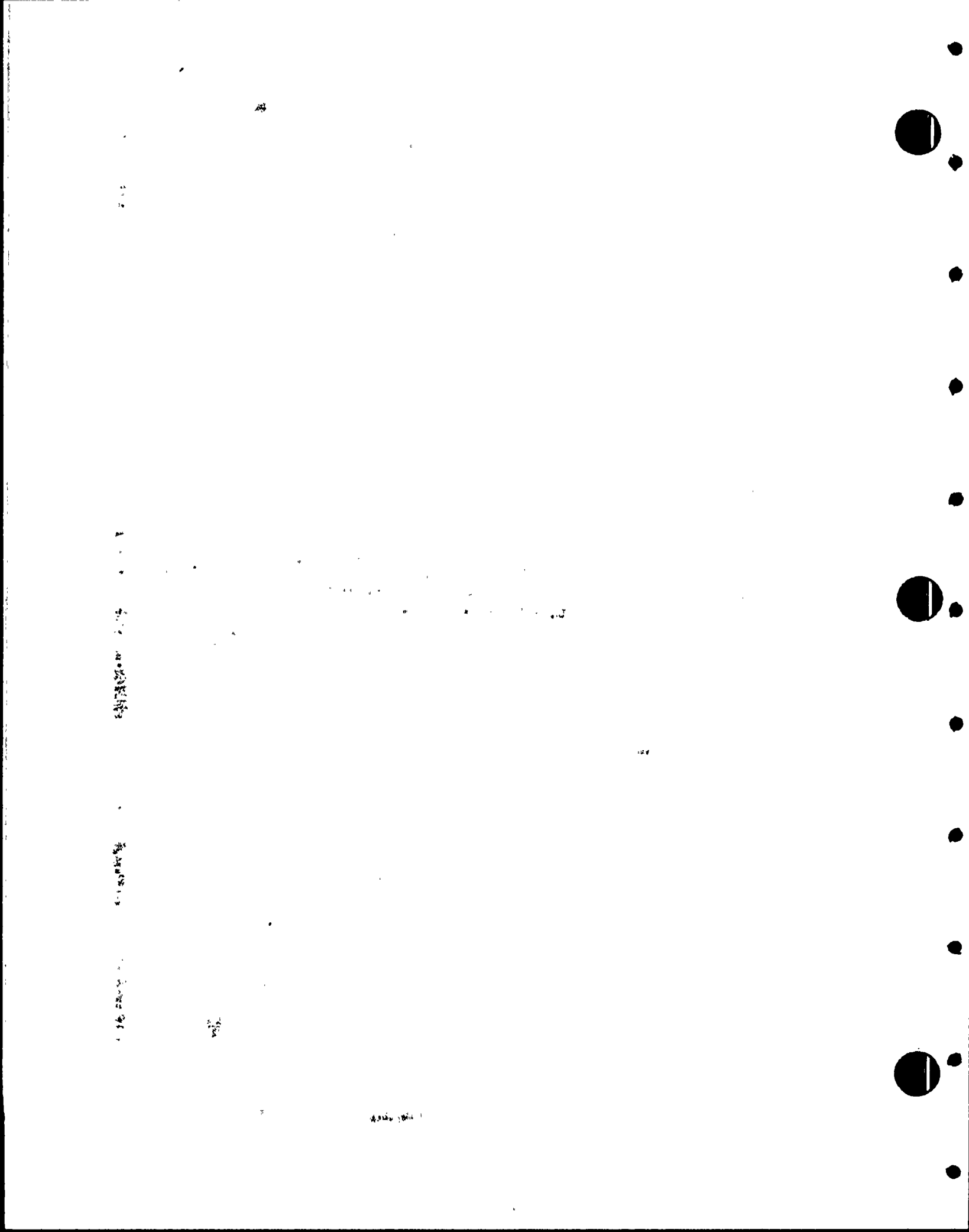
SECTION 1.9. ANPP Participation Agreement.
The provision by the Owner Trustee to the Indenture Trustee of the realty mortgage and the security interest contemplated by this Supplemental Indenture No. ___ is in compliance with the provisions of the ANPP Participation Agreement, including, but without limitation, Section 15.6.3.2 thereof.

SECTION 1.10. Appointment of Co-Trustees or Separate Trustees.

(a) At any time or times, when necessary or prudent or for the purpose of meeting the legal requirements of any jurisdiction in which any part of the Lease Indenture Estate may, at any time, be located, the Indenture Trustee, except as set forth in subsection (b)(6) of this Section 1.10, may, and upon receipt of a Directive shall, appoint one or more Persons to act as co-trustee of all or any such part of the Lease Indenture Estate or to act as separate trustee of any property constituting part thereof, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons any property, title, right or power deemed necessary or desirable, subject to the remaining provisions of this Section 1.10. Except as set forth in subsection (b)(6) of this Section 1.10 the Owner Trustee shall join in any such appointment upon the request of the Indenture Trustee, but such joining will not be necessary for the effectiveness of such appointment.

(b) Every separate trustee or co-trustee shall be appointed subject to the following terms:

(1) The rights, powers, duties and obligations conferred or imposed upon any such separate trustee or co-trustee shall not be greater than those conferred or imposed upon



the Indenture Trustee, and such rights and powers shall be exercisable only jointly with the Indenture Trustee, except to the extent that, under any law of any jurisdiction in which any particular act or acts are to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event, except as set forth in subsection (b) (6) of this Section 1.10, such rights and powers shall be exercised by such separate trustee or co-trustee subject to the provisions of subsection (b) (4) of this Section 1.10.

(2) The Indenture Trustee may at any time, by an instrument in writing executed by it, accept the resignation of, and may (and upon the receipt of a Directive, shall) remove any separate trustee or co-trustee appointed under this Section 1.10.

(3) No trustee under the Indenture and this Supplemental Indenture No. _____ shall be liable by reason of any act or omission of any other trustee or co-trustee under this Indenture.

(4) Except as set forth in subsection (b) (6) of this Section 1.10, no power given to such separate trustee or co-trustee shall be separately exercised hereunder by such separate trustee or co-trustee except with the consent in writing of the Indenture Trustee.

(5) The Indenture Trustee shall maintain custody of all money and securities.

(6) Notwithstanding anything contained to the contrary in this Section 1.10, to the extent the laws of any jurisdiction preclude the Indenture Trustee from taking any action hereunder either alone, jointly or through a separate trustee under the direction and control of the Indenture Trustee, the Owner Trustee, at the instruction of the Indenture Trustee, shall appoint a separate trustee for such jurisdiction, which separate trustee shall have full power and authority to take all action hereunder as to matters relating to such jurisdiction without the consent of the

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Indenture Trustee, but subject to the same limitations in any exercise of his power and authority as those to which the Indenture Trustee is subject.

(c) Upon the acceptance in writing of such appointment by any such separate trustee or co-trustee, it shall be vested with the estates or property to which its appointment relates as specified in the instrument of appointment, subject to all the terms of the Indenture and this Supplemental Indenture No. ____.

(d) Any separate trustee or co-trustee may, at any time, constitute the Indenture Trustee, its agent or attorney-in-fact, with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of the Indenture and this Supplemental Indenture No. ____ on its behalf and in its name. If a separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

SECTION 1.11. Separability of Provisions. In case any one or more of the provisions of this Supplemental Indenture No. ____ or any application thereof shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof and the Indenture and any other application hereof and thereof shall not in any way be affected or impaired.

SECTION 1.12. Counterpart Execution. This Supplemental Indenture No. ____ may be executed in any number of counterparts and by the different parties hereto and thereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.



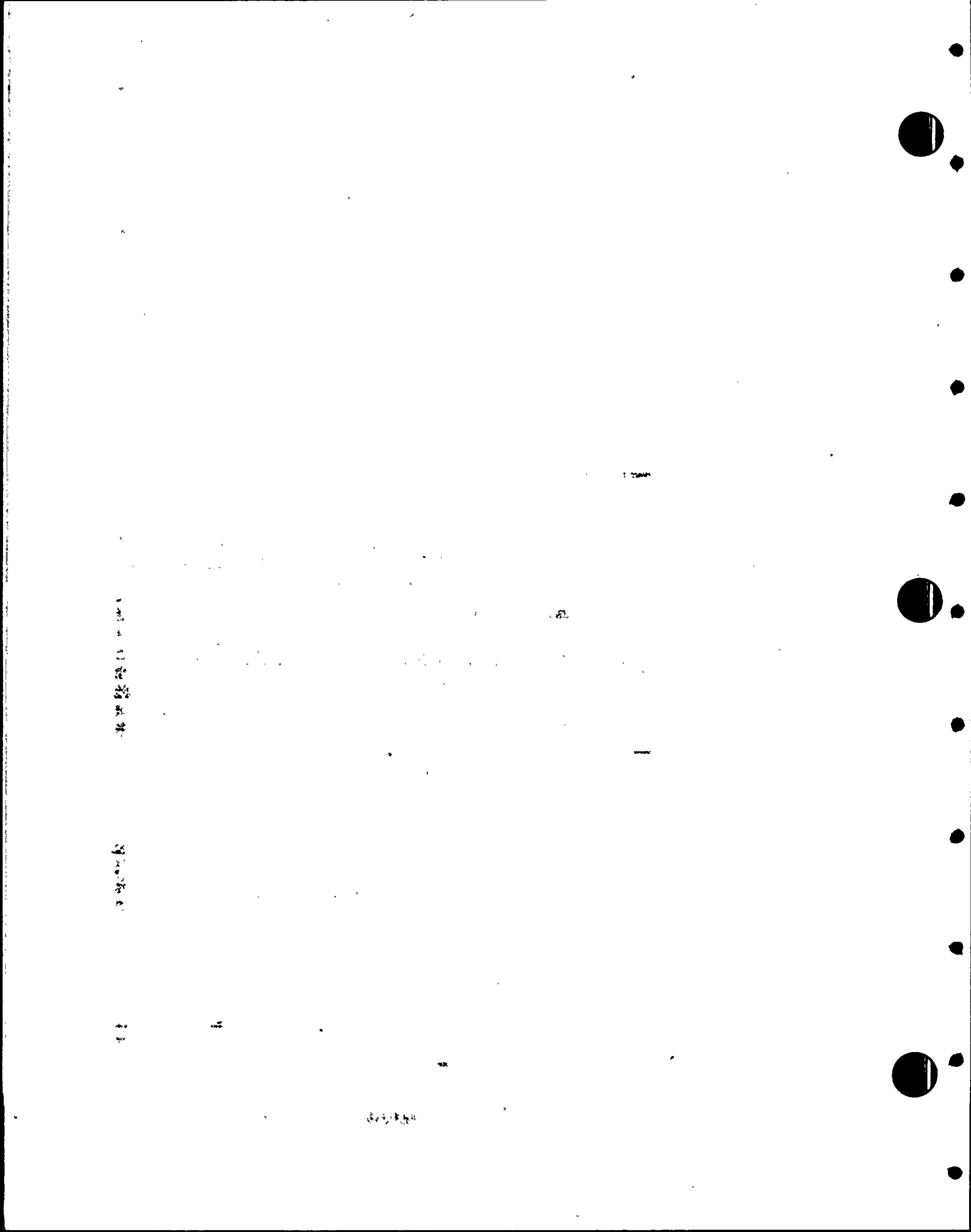
IN WITNESS WHEREOF, the Owner Trustee and the Indenture Trustee have each caused this Indenture to be duly executed by their respective officers thereunto duly authorized, all as of the date first set forth above.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under the Trust
Agreement dated as of
December 15, 1986, with Chase
Manhattan Realty Leasing
Corporation

By _____
Assistant Vice President

CHEMICAL BANK

By _____
Vice President



SCHEDULE 1
to
INDENTURE

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) 1.700000% undivided interest in and to the property described under A below and (ii) a .566667% undivided interest in and to the property described in B below.

A. Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 1 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 1 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 1 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 1 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60

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psig.. The containment building houses the reactor system.

- IV. Unit 1 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 1 start-up transformer.
- V. Unit 1 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 1 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 1 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 1 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 1, including spare fuel assemblies.
- II. Spare Parts (Unit 1).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 1 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).

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- IV.. Oil and diesel fuel inventories (Unit 1).

B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:

- I.. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II.. Water treatment facilities and transport systems for supply of waste water effluent.
- III.. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.
- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust

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No. 530, and Project Agreement
interests described in Schedule 2.

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SCHEDULE 2
to
INDENTURE

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) 0.5% undivided interest in the land described in I below, a (ii) .566667% undivided interest in the rights and interests described in II below, and (iii) a .566667% undivided interest in the right and interests described in III below.

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

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PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of

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892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona

ASSIGNMENT, ASSUMPTION

AND

FURTHER AGREEMENT

Dated as of December 15, 1986

between

PUBLIC SERVICE COMPANY OF NEW MEXICO,

and

THE FIRST NATIONAL BANK OF BOSTON,
not in its individual capacity, but
solely as Owner Trustee under a Trust
Agreement, dated as of December 15,
1986, with Chase Manhattan Realty
Leasing Corporation

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1
and a .566667% Undivided Interest in Certain Common
Facilities



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ASSIGNMENT, ASSUMPTION AND FURTHER AGREEMENT, dated as of December 15, 1986, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM), and THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (the Owner Trustee), under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation.

W I T N E S S E T H :

WHEREAS, PNM and the other ANPP Participants are parties to the ANPP Participation Agreement (such terms and all other terms used in these recitals without definition having the respective definitions to which reference is made in Article I below); and

WHEREAS, PNM has sold, and the Owner Trustee has purchased, the Undivided Interest and the Real Property Interest for and in consideration of the payment to PNM by the Owner Trustee of the Purchase Price, the purchase price of the Real Property Interest and the assignments and assumptions herein set forth;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS; SCHEDULES

SECTION 1.01. General. For purposes hereof, capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned to such terms in Appendix A hereto. References in this Agreement to articles, sections and clauses are to articles, sections and clauses in this Agreement unless otherwise indicated.

SECTION 1.02. Undivided Interest and Real Property Interest. Attached as Schedule 1 hereto is a description of the Undivided Interest and attached as Schedule 2 hereto is a description of the Real Property Interest.

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ARTICLE II

NONPARTITIONMENT

SECTION 2.01. Nonpartitionment. The Owner Trustee hereby waives any rights it may have to partition Unit 1 or the Common Facilities, whether by partitionment in kind or by sale and division of proceeds, and further agrees that it will not resort to any action at law or in equity to partition Unit 1 or the Common Facilities, and it waives the benefits of all laws that may now or hereafter authorize such partition for a term (i) which shall be coterminous with the term of the ANPP Participation Agreement or (ii) which shall be for such lesser period as may be required under Applicable Law.

ARTICLE III

ASSIGNMENTS; EXERCISE OF RIGHTS

SECTION 3.01. Assignment of Warranties. PNM hereby ASSIGNS to the Owner Trustee an undivided interest, equal to the applicable Share, in, to and under any and all warranties of and other claims against dealers, manufacturers, vendors, contractors and subcontractors relating to Unit 1 and the Common Facilities.

SECTION 3.02. Assignment of the ANPP Participation Agreement. (a) PNM hereby ASSIGNS to the Owner Trustee an undivided interest, in, to and under all of PNM's rights under the ANPP Participation Agreement, equal to 1.700000% to the extent that such rights relate to Unit 1 (including, but without limitation, a percentage entitlement equal to 1.700000%, of the Net Energy Generation and Available Generating Capability (as each such term is defined in the ANPP Participation Agreement) of Unit 1) and equal to .566667% to the extent such rights relate to the Common Facilities.

(b) The Owner Trustee hereby ASSIGNS to PNM the rights assigned under paragraph (a) until the Lease Termination Date.

SECTION 3.03. Exercise of Rights as Participant under the ANPP Participation Agreement. (a) Except as provided in Sections 15.2.2, 15.6.4 and Section 15.10 of the ANPP Participation Agreement (or any comparable successor provision) PNM shall be and remain the sole "Participant" for all purposes of the ANPP Participation Agreement and the sole representative (with power to bind) in all dealings with the other ANPP Participants in relation to the Undivided Interest, the



Real Property Interest and the rights assigned to the Owner Trustee pursuant to this Agreement; provided, however, that the foregoing shall not limit in any way the effect of Sections 15 or 16 of the Facility Lease or any liability or obligation that PNM may incur to the Owner Trustee or the Owner Participant under any Transaction Document as a result thereof (including, but without limitation, any liability that PNM may incur under Section 16 of the Facility Lease as the result of an Event of Default).

(b) Unless the ANPP Participation Agreement shall otherwise permit, any right conferred on the Owner Trustee by Section 15.2.2 of the ANPP Participation Agreement shall be exercised as required by Section 15.6.3.3 of said Agreement.

(c) The provisions of this Section 3.03 shall remain in full force and effect until such time as the ANPP Administrative Committee or the ANPP Participants shall otherwise consent.

ARTICLE IV

ASSUMPTION; RELEASE

SECTION 4.01. Assumption by Owner Trustee. Except as contemplated by Section 5(a) of the Facility Lease, the Owner Trustee agrees that, effective on and as of the Lease Termination Date (unless a transferee of the Undivided Interest and the Real Property Interest (an ANPP Transferee) shall have qualified under Section 15.10 of the ANPP Participation Agreement or any comparable successor provision), unless (i) a Default or Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred or (ii) such Lease Termination Date shall have occurred by reason of a termination of the Facility Lease pursuant to Section 16 thereof, the Owner Trustee shall assume and agree to pay, perform and discharge the Owner Trustee's Share of all liabilities and obligations of PNM under, or with respect to, the ANPP Project Agreements, attributable to Unit 1 and the Common Facilities, other than any and all costs relating to, allocable to, or incurred in connection with, the decommissioning and retirement of Unit 1 from commercial service, including, but without limitation, (x) the cost of removal, decontamination and disposition of equipment

and fixtures, the cost of safe storage for later removal, decontamination and disposal and the cost of entombment of equipment and fixtures, and (y) the cost of (i) the razing of Unit 1, (ii) the removal and disposition of debris from the PVNGS Site, and (iii) the restoration of relevant portions of the PVNGS Site.

SECTION 4.02. Release. Upon the assumption and agreement by an ANPP Transferee pursuant to Section 4.01 (whether at the Lease Termination Date or thereafter), the Owner Trustee shall therewith and thereupon be released and discharged from its obligations under Section 4.01 arising on or after such assumption and agreement.

ARTICLE V

NO RELEASE OF PNM; REIMBURSEMENT

SECTION 5.01. No Release of PNM. Notwithstanding the provisions of Article IV or any other provision hereof or of any other Transaction Document, and except to the extent provided in Section 15.10 of the ANPP Participation Agreement (or any comparable successor provision), PNM shall not be released from any liability or obligation under the ANPP Project Agreements, or otherwise, with respect to PVNGS, and PNM shall remain liable for the payment and performance of all such liabilities and obligations, including, but without limitation, any and all liabilities and obligations not assumed by the Owner Trustee or an ANPP Transferee pursuant to Section 4.01.

SECTION 5.02. Reimbursement. Unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred, from and after the Lease Termination Date (except a Lease Termination occurring by reason of a termination of the Facility Lease pursuant to Section 16 thereof), upon the payment or performance by PNM of any liability or obligation in respect of which the Owner Trustee shall also have become obligated in consequence of Article IV or the ANPP Participation Agreement, and for so long as the Owner Trustee shall be so liable, PNM shall be entitled to prompt reimbursement by the Owner Trustee from the Trust Estate for all amounts expended in connection with such payment or performance.

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ARTICLE VI

FURTHER AGREEMENTS OF PNM AND THE OWNER TRUSTEE

SECTION 6.01. Agreement to Sell or Lease Unit 1 Retained Assets. Upon a transfer to an ANPP Transferee, PNM agrees in respect of the Undivided Interest and the Real Property Interest, (i) if such ANPP Transferee is a purchaser of the Undivided Interest and the Real Property Interest, to sell to such ANPP Transferee, at a price equal to the then Fair Market Sales Value (determined on the basis of the then actual condition of the Unit 1 Retained Assets) thereof, an undivided interest, equal to 1.700000%, to the extent related to Unit 1 and .566667%, to the extent related to the PVNGS common facilities, in and to the Unit 1 Retained Assets, or (ii) if such ANPP Transferee is a lessee of the Undivided Interest and the Real Property Interest, to lease or otherwise make available to such ANPP Transferee, at a rent equal to the then Fair Market Rental Value thereof, an undivided interest, equal to 1.700000%, to the extent related to Unit 1 and .566667% to the extent related to the PVNGS common facilities, in and to the Unit 1 Retained Assets. Any such sale or lease by PNM shall be accomplished by an appropriate bill of sale or lease. The Bill of Sale referenced in the definition of Unit 1 Retained Assets set forth in Appendix A hereto was recorded December __, 1986, as Instrument No. _____, records of Maricopa County, Arizona, and is hereby incorporated herein by reference.

SECTION 6.02. Agreement to Assign or Make Available ANPP Project Agreements. Upon a transfer to an ANPP Transferee, PNM agrees in respect of the Undivided Interest and the Real Property Interest, (i) if such ANPP Transferee is a purchaser of the Undivided Interest and the Real Property Interest, to assign to such ANPP Transferee an undivided interest, equal to 1.700000%, to the extent related to Unit 1, and .566667%, to the extent related to the PVNGS common facilities, of the Project Agreements (other than the ANPP Participation Agreement) and (ii) if such ANPP Transferee is a lessee of the Undivided Interest and the Real Property Interest, to assign for the term of such lease to such ANPP Transferee an undivided interest, equal to 1.700000%, to the extent related to Unit 1, and .566667%, to the extent related to the PVNGS common

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facilities, of the Project Agreements (other than the ANPP Participation Agreement). Any assignment pursuant to this Section 6.02 shall be accomplished by an appropriate instrument of assignment.

SECTION 6.03. Agreements to Seek Amendments to the ANPP Participation Agreement and the License. PNM agrees to use its best efforts to obtain any required amendments to the ANPP Participation Agreement and the License to permit PNM to act as Agent of the Owner Trustee in the manner contemplated by Section 7.01 hereof, if (a) (i) PNM shall not have elected to purchase the Undivided Interest and the Real Property Interest as provided in Section 13(b) of the Facility Lease and (ii) there shall not be an ANPP Transferee in respect of the Undivided Interest and the Real Property Interest or (b) PNM shall be obligated to surrender possession of the Undivided Interest and the Real Property Interest pursuant to Section 5(a) of the Facility Lease. PNM acknowledges and agrees that neither the Owner Trustee nor the Owner Participant shall have any obligation whatsoever to assist PNM in obtaining any such amendments.

SECTION 6.04. Owner Trustee's Agreement. If PNM becomes obligated to sell, lease, otherwise make available or assign in accordance with Sections 6.01 and 6.02 hereof, the Owner Trustee shall (at the direction of the Owner Participant) require or cause the ANPP Transferee to purchase, lease, accept or assume, as the case may be, the property or rights being sold, leased, made available or assigned by PNM.

ARTICLE VII

INTERIM AGENCY ARRANGEMENTS

SECTION 7.01. Designation of Agent. From and after surrender of possession to the Owner Trustee (or its assigns) of the Undivided Interest and the Real Property Interest pursuant to Section 5(a) of the Facility Lease (or during such period on or after the Lease Termination Date that the Owner Trustee shall have waived any Default or Event of Default with respect to the inability of PNM to effectively surrender possession as required by such Section 5(a)) and until a transfer to an ANPP Transferee in respect of the Undivided Interest and the Real Property Interest (such period

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being referred to as the Agency Period), PNM shall be, and the Owner Trustee hereby designates PNM as, the initial agent (the Agent) of the Owner Trustee in the exercise of all rights assigned to the Owner Trustee hereunder.

SECTION 7.02. Operation of Unit 1. During the Agency Period, the Agent shall administer the operation of the Undivided Interest and the Real Property Interest in accordance with this Agreement and all instructions of the Owner Trustee in accordance with Applicable Law. If, however, the Owner Trustee and any User shall, prior to, or at any time during, the Agency Period, enter into any joint ownership and operating agreement with other Persons having a legal right to, or right to use, any other undivided interest in Unit 1, the Agent agrees to join in, and be bound by, the terms of such agreement if the Agent's performance thereunder shall not violate, or result in a violation of, any Applicable Law or the License. The Owner Trustee agrees to give the Agent reasonable prior written notice of the commencement of the negotiation of any such agreement.

SECTION 7.03. ANPP Participation Agreement. PNM agrees that, at all times during the Agency Period, it will perform all obligations and discharge all liabilities for which it is responsible as a "Participant" under the ANPP Participation Agreement in respect of the Undivided Interest and the Real Property Interest. In the performance of the foregoing agreement, PNM shall not exercise its rights as an ANPP Participant to cause Capital Improvements to be made to Unit 1 and the Common Facilities unless the Owner Trustee shall have agreed to provide funds for the payment of the Owner Trustee's Share of the cost of such Capital Improvements to PNM prior to the date on which such amounts shall be due with respect thereto under the ANPP Participation Agreement.

SECTION 7.04. Support. Except with respect to the Unit 1 Retained Assets for which provision is made in Section 7.06, PNM covenants and agrees that, at all times during the Agency Period, it will provide, or make available, to the Owner Trustee all PNM's rights in and to other assets owned by PNM and the ANPP Project Agreements to the extent relating to the Undivided Interest and the Real Property Interest.



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SECTION 7.05. Compensation. As compensation for its obligations under Sections 7.02, 7.03 and 7.04, if no Event of Default based upon PNM's failure to perform obligations under Section 5(a) of the Facility Lease has occurred and is continuing, PNM shall be entitled to receive, and the Owner Trustee hereby agrees to pay, an amount equal to the Owner Trustee's Share of the aggregate of (i) amounts paid by PNM as provided in Section 7.03 to the extent reasonably allocable to the Undivided Interest and the Real Property Interest and (ii) reasonable compensation for the Unit 1 Retained Assets and (iii) out-of-pocket expenses incurred by PNM or the Agent, as the case may be, in connection with the performance of its agreements in this Article VII. Compensation under this Section 7.05 shall be paid promptly in cash upon receipt of an invoice from PNM.

SECTION 7.06. Transmission; Transmission Agreement. (a) PNM covenants and agrees that, at all times during the Agency Period, the Owner Trustee shall have the right to wheel, under normal transmission operating conditions, the Owner Trustee's Share of the then rated capacity of Unit 1, under normal transmission operating conditions, over transmission equipment in which PNM now owns or may hereafter acquire an ownership interest, between Unit 1 and the ANPP Switchyard.

(b) Based upon the respective rights, duties and obligations of the Owner Trustee and PNM set forth in Section 7.06(a), if PNM shall fail or decline to give the notice of renewal of the Facility Lease or purchase of the Undivided Interest, in each case as provided in Section 13(a) of the Facility Lease, PNM and the Owner Trustee shall forthwith commence the negotiation in good faith of a definitive transmission agreement, not inconsistent with the terms and provisions of Section 7.06(a), but containing sufficient detail for the proper wheeling of power and energy, under normal transmission operating conditions, over the equipment of PNM referred to in such Section 7.06(a) under then existing circumstances, for the exercise or stipulation, as the case may be, of the respective rights, duties and obligations of the Owner Trustee and PNM set forth in Section 7.06(a). PNM and the Owner Trustee shall complete such negotiations and execute such definitive transmission agreement prior to the Lease Termination Date and such definitive transmission agreement shall provide for compensation to PNM for the transmission

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services so provided at the Fair Market Sales Value thereof.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Successors and Assigns. This Agreement shall be binding upon the successors and assigns of each of PNM and the Owner Trustee.

SECTION 8.02. Governing Law. The interpretation of this Agreement and the rights and obligations of the parties hereto shall be governed by and construed and enforced in accordance with the law of the State of New York.

SECTION 8.03. Counterpart Execution. This Agreement may be executed in any number of counterparts and by each of the parties hereto on separate counterparts, all such counterparts together constituting but one and the same instrument.

SECTION 8.04. Amendments. The terms of this Agreement shall not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever, except by written instrument signed by PNM and the Owner Trustee.

SECTION 8.05. Survival. All agreements and covenants contained in this Agreement or any agreement, document or certificate delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 8.06. Severability of Provisions. Any provision of this Agreement which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and no such prohibition or unenforceability in any jurisdiction shall invalidate or render unenforceable such provisions in any other jurisdiction. To the extent permitted by Applicable Law, PNM hereby waives any provision of law which renders any provision hereof prohibited or unenforceable in any respect.



SECTION 8.07. Headings. The division of this Agreement into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

SECTION 8.08. Disclosure of Beneficiary. Pursuant to Arizona Revised Statutes §33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

SECTION 8.09. Capacity of Lessee. Notwithstanding anything to the contrary in this Agreement, both parties hereto agree that all rights and obligations of the Lessee with respect to PVNGS under this Agreement are rights and obligations of the Lessee solely in its capacity as an ANPP Participant and not in its capacity as Operating Agent.

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be duly executed in New York, New York by their respective officers thereunto duly authorized.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

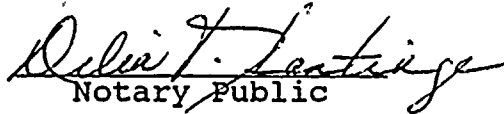
By 47 Robinson
Senior Vice President and
Chief Financial Officer

THE FIRST NATIONAL BANK OF
BOSTON, not in its individ-
ual capacity, but solely as
Owner Trustee under a Trust
Agreement, dated as of
December 15, 1986, with
Chase Manhattan Realty
Leasing Corporation

By: M. J. [Signature]
Assistant Vice President

State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County 87
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1989

SCHEDULE 1

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) 1.700000% undivided interest in and to the property described under A below and (ii) a .566667% undivided interest in and to the property described in B below.

A. Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 1 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 1 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 1 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.

- III. Unit 1 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60 psig. The containment building houses the reactor system.
- IV. Unit 1 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 1 start-up transformer.
- V. Unit 1 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 1 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 1 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 1 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 1, including spare fuel assemblies.
- II. Spare Parts (Unit 1).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 1 turbine generator and the ANPP

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High Voltage Switchyard, including step-up transformers and standby equipment and systems).

- IV. Oil and diesel fuel inventories (Unit 1).

B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse, and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.

- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust No. 530, and Project Agreement interests described in Schedule 2.

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SCHEDULE 2

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) 0.5% undivided interest in the land described in I below, a (ii) .566667% undivided interest in the rights and interests described in II below, and (iii) a .566667% undivided interest in the right and interests described in III below.

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the

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Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the

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East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

DEED AND BILL OF SALE

Dated as of December 15, 1986.

between

PUBLIC SERVICE COMPANY OF NEW MEXICO,
a New Mexico corporation,
as Seller

and

THE FIRST NATIONAL BANK OF BOSTON, a
national banking association, not in its
individual capacity, but solely as Owner
Trustee under a Trust Agreement, dated as of
December 15, 1986, with Chase Manhattan
Realty Leasing Corporation,
as Buyer

Sale and Leaseback of a 1.700000% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 1 and
a .566667% Undivided Interest in Certain Common
Facilities

DEED AND BILL OF SALE, dated as of December 15, 1986, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Seller), and THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee (in such capacity, the Owner Trustee) under the Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation (the Owner Participant, and the Owner Trustee in its capacity as owner trustee under the foregoing Trust Agreement being hereinafter referred to as the Buyer).

W I T N E S S E T H :

WHEREAS, the Seller desires to sell, and the Buyer desires to purchase, the Undivided Interest, for and in consideration of the amounts paid by the Buyer to the Seller pursuant to the Participation Agreement (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. For the purpose hereof, capitalized terms used herein, unless otherwise defined herein, shall have the meanings assigned to such terms in Appendix A attached hereto.

The undivided interests in the property described in Exhibit B hereto being conveyed pursuant to this Deed and Bill of Sale are referred to collectively as the Undivided Interest. The Undivided Interest is located on the PVNGS Site described in Exhibit A hereto.

2. The Seller does hereby GRANT, BARGAIN, CONVEY, SELL, ASSIGN, TRANSFER AND SET OVER unto the Buyer (i) a 1.700000% undivided interest in and to "Unit 1" as described in Exhibit B, Section A hereto (Unit 1) and (ii) a .566667% undivided interest in and to the "Common Facilities" as described in Exhibit B, Section B hereto (the Common Facilities), TO HAVE AND TO HOLD the same unto the Buyer, its successors and assigns, FOREVER. It is the intent of this Deed and Bill of Sale, that, from and after the date of delivery of this Deed and Bill of Sale, Buyer will own an undivided 1.700000% interest in Unit 1, as a tenant in common with the owners of the remaining undivided interests in Unit 1, and an undivided .566667% interest in the Common

Facilities, as a tenant in common with the owners of the remaining undivided interests in the Common Facilities.

3. The Seller does hereby WARRANT AND COVENANT that it is the true and lawful owner of the Undivided Interest and has good right to sell the Undivided Interest, that title to the Undivided Interest is on the date of execution hereof free and clear of all claims, liens, security interests and encumbrances of any nature, other than Permitted Liens (other than those described in clause (ii) of the definition of such term and that portion of clause (iv) of such definition relating to liens for taxes being contested), that good, marketable and indefeasible title to the Undivided Interest is hereby conveyed to the Buyer, and that the Seller will forever warrant and defend such title against the claims of all Persons. The foregoing warranties of the Seller are to the restraint of any other covenant of the Seller otherwise arising by implication by virtue of Arizona Revised Statutes, Section 33-435.

4. The Seller and the Buyer hereby acknowledge and confirm that, as between the Seller and the Buyer, the Undivided Interest is and will remain personal property, and is not, and will not become, an accession to the PVNGS Site or to the Real Property Interest, title thereto being separate and distinct from title to such real property. The Buyer hereby waives any rights it may have to partition Unit 1 or the Common Facilities (including the Undivided Interest), whether by partitionment in kind or by sale and division of proceeds, and further agrees that it will not resort to any action in law or in equity to partition Unit 1 or the Common Facilities (including the Undivided Interest) and it waives the benefits of all laws that may now or hereafter authorize such partition for a term (i) which shall be coterminous with the ANPP Participation Agreement or (ii) which shall be for such lesser period as may be required by Applicable Law.

5. Pursuant to the Assignment and Assumption, the Seller has agreed to pay certain costs and expenses relating to the Undivided Interest, including, but without limitation, with respect to decommissioning and retirement of Unit 1, and to perform and comply with certain obligations relating to transfers of interests in Unit 1. All such agreements and obligations of the Seller are hereby incorporated by reference in this Deed and Bill of Sale as if set forth in full herein.

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6. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation (the Owner Participant), whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

IN WITNESS WHEREOF, the parties hereto have caused this Deed and Bill of Sale to be executed as of this 15th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corporation

By 47 Bohman
Senior Vice President and
Chief Financial Officer

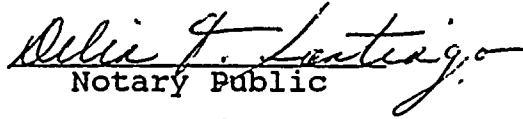
THE FIRST NATIONAL BANK OF
BOSTON, a national banking
association, not in its
individual capacity, but
solely as Owner Trustee
under the Trust Agreement

By [Signature]
Assistant Vice President



State of New York)
) ss.
County of New York)

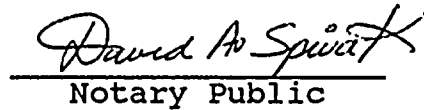
The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation:


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County 87
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

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EXHIBIT A
to
DEED AND
BILL OF SALE

PVNGS SITE DESCRIPTION

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila

and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39

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seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

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EXHIBIT B
to
DEED AND
BILL OF SALE

FACILITY DESCRIPTION

A. Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 1 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 1 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 1 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 1 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60 psig. The containment building houses the reactor system.
- IV. Unit 1 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and

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turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 1 start-up transformer.

- V. Unit 1 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 1 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 1 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 1 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 1, including spare fuel assemblies.
- II. Spare Parts (Unit 1).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 1 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).
- IV. Oil and diesel fuel inventories (Unit 1).

**B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:**

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.
- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust No. 530, and Project Agreement interests described in Exhibit A.

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona

DEED

For the consideration of Ten Dollars (\$10.00) and other valuable considerations, PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (Grantor), hereby grants, conveys, sells, transfers and assigns to THE FIRST NATIONAL BANK OF BOSTON, a national banking association, as Owner Trustee (the Owner Trustee) under that certain Trust Agreement (the Trust Agreement), with the beneficiary identified below, dated as of December 15, 1986 (the Owner Trustee being hereinafter referred to as Grantee), (A) an undivided 0.5% interest in the land that is more particularly described on Exhibit A attached hereto and by this reference incorporated herein and (B) an undivided .566667% interest in those ANPP Project Agreements (as defined in the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority and the Department of Water and Power of the City of Los Angeles, as amended, recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona (the ANPP Participation Agreement)) in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to the Palo Verde Nuclear Generating Station (as defined in the ANPP Participation Agreement) from the 91st Avenue sewage treatment plant serving the Phoenix, Arizona metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement) (such ANPP Project Agreements being hereinafter referred to as the Assigned Project Agreements, and the land described in Exhibit A together with the land subject to the Assigned Project Agreements being hereinafter collectively referred to as the Land), together with all rights and privileges of Grantor appurtenant thereto, including but not limited to the perpetual

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right to locate, maintain and use the Improvements (as hereinafter defined) on the Land and the perpetual right of ingress and egress over, upon and across the Land to the Improvements, BUT excepting and excluding from the transfer being made pursuant to this Deed any and all facilities, structures, improvements, equipment and property of whatever kind and nature now or hereafter constructed, placed or affixed on the Land (collectively, the Improvements), Grantor and Grantee hereby acknowledging and agreeing that the interest in the Improvements to be acquired by Grantee shall be acquired pursuant to a separate Deed and Bill of Sale dated as of December 15, 1986, between Grantor and Grantee and not pursuant to this Deed.

1. The interest being transferred pursuant to this Deed is subject to the ANPP Participation Agreement, the Project Agreements as defined in said ANPP Participation Agreement and to the matters set forth on Exhibit B attached hereto and incorporated herein by this reference.

2. Grantor hereby warrants that it is the true and lawful owner of the undivided interest conveyed hereby in the property described on Exhibit A attached hereto and has good right to sell the undivided interest in such property; that Grantor has good and marketable title to the undivided interest in the property described on Exhibit A and that title to such property is on the date of execution hereof free and clear of all claims, liens, encumbrances, security interests, covenants, assessments, rights, reservations, easements, restrictions and conditions save and except only those matters set forth on Exhibit B attached hereto; that good, marketable and indefeasible title to the undivided interest in the property described on Exhibit A is hereby conveyed to Owner Trustee; and that, subject only to the matters set forth on Exhibit B attached hereto, Grantor hereby warrants, and will forever defend, the title against all persons whomsoever.

3. Grantor intends by this Deed that, from and after the recordation of this Deed, Grantee will own an undivided 0.5% interest in the property described in Exhibit A, as a tenant in common with the owners of the remaining undivided interests in such property, and an undivided .566667% interest in the Assigned Project Agreements as a tenant in common with the owners of the

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1. The first part of the document is a list of the names of the persons who were present at the meeting. The names are listed in alphabetical order.

2. The second part of the document is a list of the topics that were discussed at the meeting. The topics are listed in alphabetical order.

remaining undivided interests in the Assigned Project Agreements.

4. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

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IN WITNESS WHEREOF, Grantor has caused this Deed to be executed as of this 15th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corporation,

By 67 Robison
Senior Vice President and
Chief Financial Officer

Accepted and Agreed
to:

THE FIRST NATIONAL BANK
OF BOSTON, a national
banking association,
not in its individual
capacity, but solely
as Trustee of the
Trust Agreement

By [Signature]
Assistant Vice
President

State of New York)
) ss.
County of New York)

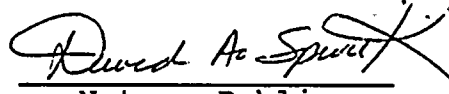
The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation. 11


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987



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EXHIBIT A
to
DEED

PVNGS SITE DESCRIPTION

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the

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Gila and Salt River Base and Meridian, Maricopa County, Arizona.

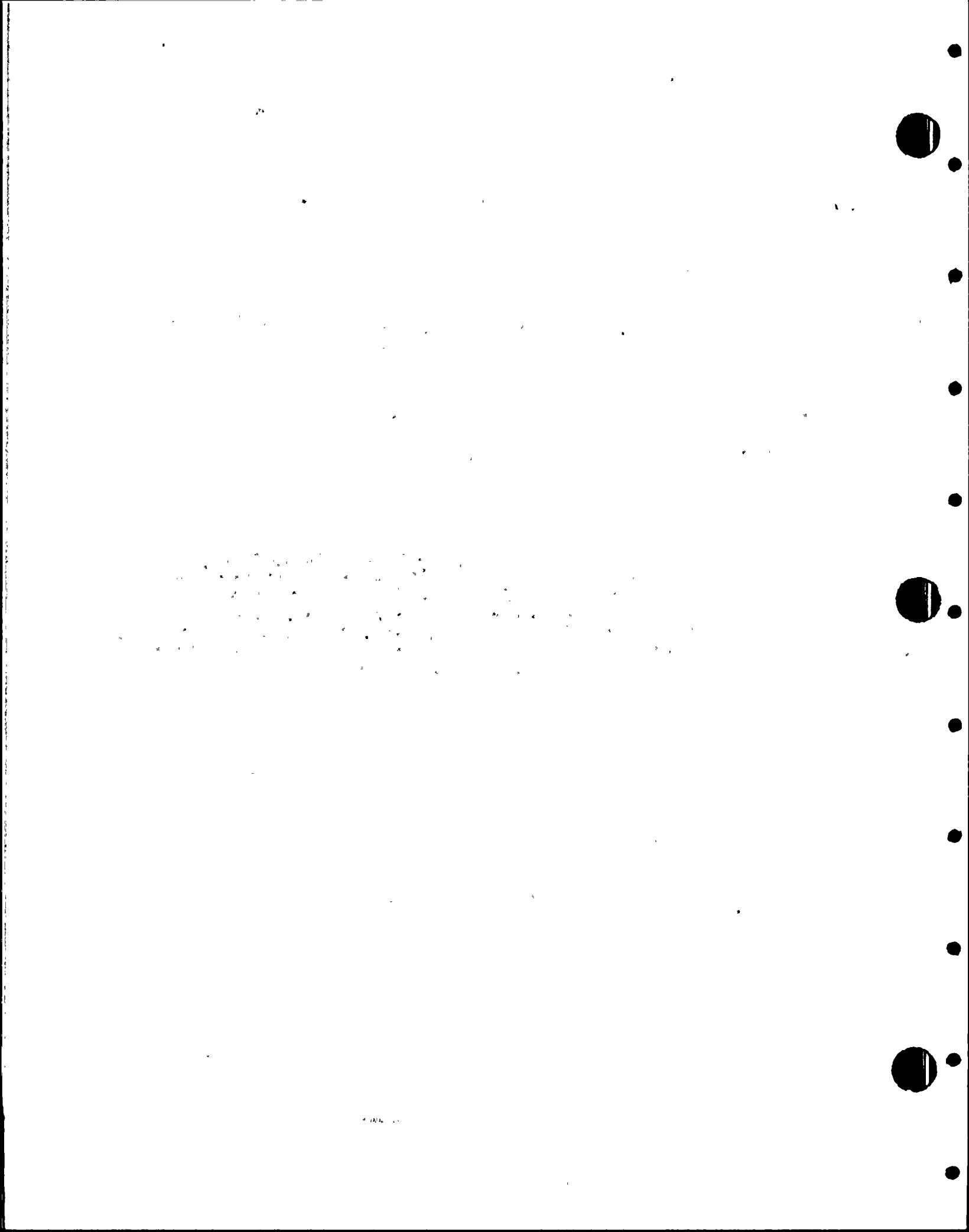
PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West, parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and



EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

EXHIBIT B.
to
DEED

1. The right to enter upon, occupy and use, any part or all of that portion of the West half of the West half of Section 27, lying within 20 feet of the center line of the transmission line right of way of the Central Arizona Light and Power Company for the purposes provided in the Act of June 10, 1920 (41 STAT., 1063), and subject to the conditions and limitations of Section 24 of said Act, as amended by the Act of August 26, 1935 (49 STAT., 846), as reserved unto the United States of America in instrument recorded September 30, 1949 in Docket 442, page 577. (Part of Parcel 5 - South half of said Section 27)

2. Roadway over the South 65 feet of said Sections 9 and 10, as shown in Book 13 of Road Maps, page 48. (Parcels 10 and 11)

3. Easement and rights incident thereto for electric lines approximately 28 feet South of the North line of said Section 34, as set forth in instrument recorded February 20, 1952 in Docket 878, page 548. (Parcel No. 8)

4. All the oil and gas in said lands, as reserved unto the United States of America, and the right to prospect for, mine and remove such deposits from the same upon compliance with the conditions and subject to the provisions and limitations of the Act of June 17, 1914 (38 Stat. 509), as set forth in Patent recorded June 4, 1957 in Docket 2194, page 409. (Part of Parcel No. 11)

5. Easement and rights incident thereto for transmission line over said Section 34, said easement being 10 feet in width, the centerline described as follows: Beginning at a point approximately 28 feet South and 2445.5 feet East of the Northwest corner of said Section 34; thence Southerly along, parallel to and approximately 2620 feet to a point; thence Easterly along, parallel to, and approximately 2648 feet South of the North line of said Section 34, a distance of approximately 1556 feet to a point, as set forth in

instrument recorded January 15, 1962 in Docket 3992, page 49. (Parcel No. 8)

6. One-Sixteenth of all gas, oil, metals and mineral rights as reserved unto the State of Arizona, in Patent recorded January 11, 1974 in Docket 10473, page 447. (Parcel 1)

7. Easement and rights incidents thereto for highway purposes over the West 55 feet of the East half of said Section 4, as set forth in the instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 3)

8. Easement and rights incident thereto for highway purposes over the West 55 feet of the Southeast quarter of said Section 28, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 6)

9. Easement and rights incident thereto for highway purposes over the West 55 feet of the East half of said Section 33, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 7)

10. Easement and rights incident thereto for highway purposes over the West 55 feet of the Southeast quarter of said Section 9, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Part of Parcel 10)

11. Easement and rights incident thereto for electric lines over the North 10 feet of the following described property: The Southeast quarter of Section 28, Township 1 North, Range 6 West; Except the West 55 feet thereof for roadway, as set forth in instrument recorded June 25, 1976 in Docket 11736, page 1089. (Parcel 6).

12. Easement for highway purposes over said premises, as granted to Maricopa County, a Political Subdivision, by instrument recorded December 15, 1977 in Docket 12602, page 575, described as follows: The South 40 feet of the East one-half of the Southeast quarter of Section 9; the South 40 feet of the Southwest quarter of Section 10; the South 40 feet of the West one-half of the Southeast quarter of Section 10; the South 40 feet of the Southwest quarter of the Southeast quarter of Section 9; All being in Township 1 South, Range 6 West

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MAP 1



of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

13. A roadway of a width consistent with the right of way over the Southerly portion of Sections 9 and 10 of the within described property, and other property designated County Road on Book 25 of Road Maps, page 47, recorded December 26, 1978. (Also known as Ward Road from the Hassayampa Salome Highway to the South entrance of the Palo Verde Nuclear Generating Station).

14. 1986 taxes not yet due and payable.

15. Easement and rights incident thereto for transmission line over a portion of said premises, as set forth in instrument recorded November 15, 1985 in Document No. 85-544604. (Parcels 1, 2, 8, 9 and 11)

16. Easement and rights incident thereto for highway over a portion of said premises, as set forth in instrument recorded February 3, 1959 in Docket 2740, page 309, and as shown in Book 12 of Road Maps, page 82 (Parcel 12).

17. Easement and rights incident thereto for roadway, 20 feet in width, over the East 20 feet of the within described property, by instrument recorded October 19, 1976, in Docket 11907, page 115 (Parcel 12).

18. The ANPP Participation Agreement recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona.

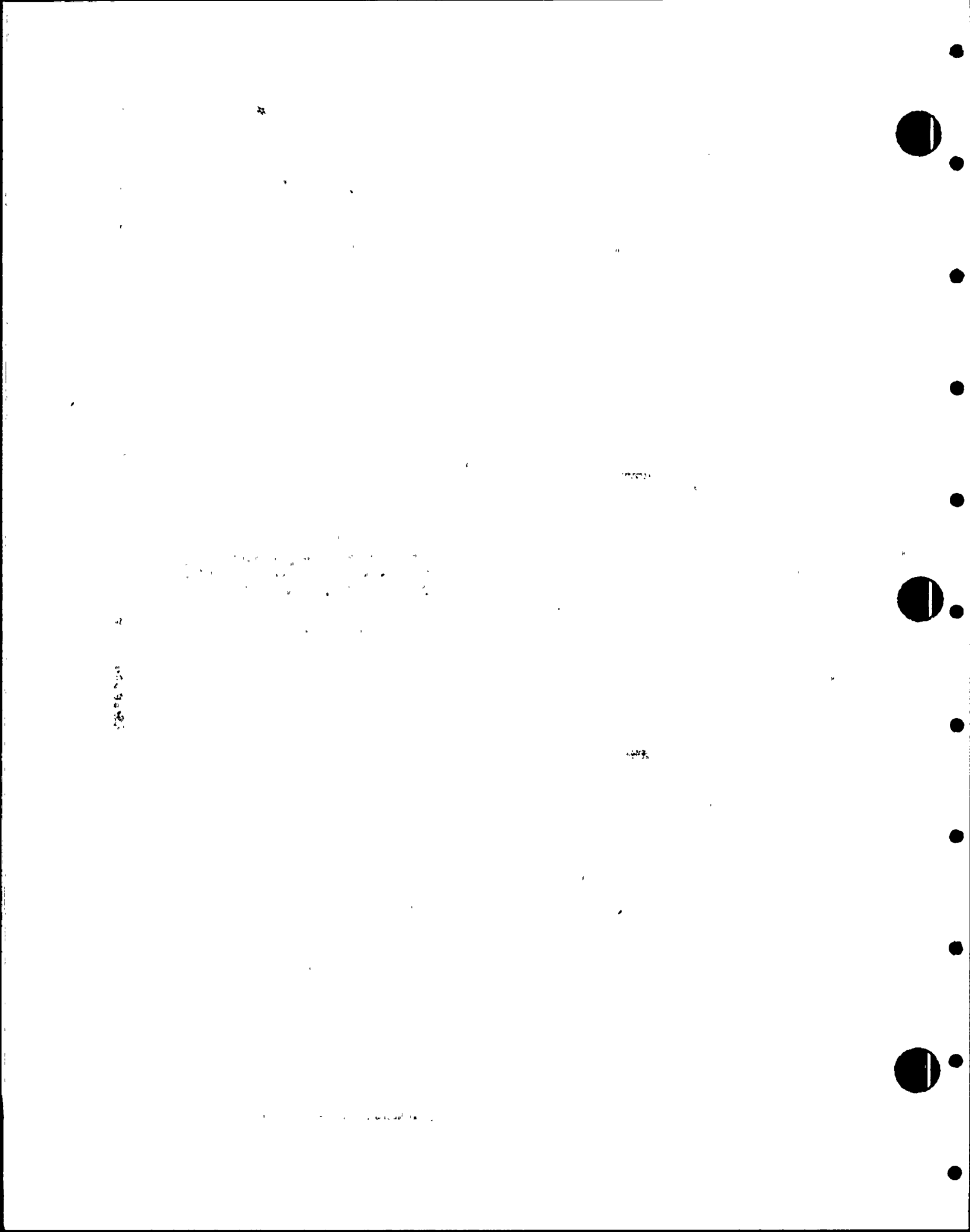
DEED AND ASSIGNMENT OF BENEFICIAL INTEREST

TITLE USA COMPANY OF ARIZONA TRUST NO. 530

PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (Assignor), as the present owner of an undivided 4.2311114% of the entire beneficial interest under Title USA Company of Arizona Trust No. 530 (Trust 530) established by that certain Trust Agreement dated October 15, 1975 (the Trust 530 Agreement), for and in consideration of the sum of Ten and no/100 Dollars (\$10.00) and other valuable consideration, does by these presents sell, assign, convey, transfer and set over to THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee (the Owner Trustee) under that certain Trust Agreement (the Trust Agreement) with the beneficiary identified below, dated as of December 15, 1986 (the Owner Trustee being referred to herein as the Assignee) an undivided .566667% beneficial interest in Trust 530.

1. It is the intent of this Deed and Assignment of Beneficial Interest that, from and after the date of delivery of this Deed and Assignment of Beneficial Interest, Assignee will own an undivided .566667% of the entire beneficial interest in Trust 530, as a tenant in common with other beneficiaries.

2. Assignor hereby warrants that it is the true and lawful owner of the beneficial interest being transferred hereby and has good right to sell such interest; that Assignor has good and marketable title to such beneficial interest and that title to such beneficial interest is on the date of execution hereof free and clear of all claims, liens, security interests, covenants, rights, restrictions, conditions and encumbrances of any nature, save and except only those matters set forth in paragraph 3 hereinbelow; that good, marketable and indefeasible title to such beneficial interest is hereby conveyed to Owner Trustee; and that, subject only to the matters set forth in paragraph 3 hereinbelow, Assignor warrants and will forever defend



such title against the claims of all persons whomsoever.

3. This Deed and Assignment of Beneficial Interest is given and accepted with the understanding and agreement that Assignor and Assignee hereby ratify, confirm and approve all proper actions heretofore taken by Title USA Company of Arizona, as Trustee of Trust 530 (the Trustee) and all proper disbursements heretofore made by the Trustee, and is given and accepted with the understanding and agreement that the interest in Trust 530 which is being transferred hereby is being transferred and assigned, and the property held under Trust 530 is, subject to all the terms and conditions of (i) the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District; Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority and the Department of Water and Power of the City of Los Angeles, as amended, recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona, (ii) the Project Agreements as defined in said Arizona Nuclear Power Project Participation Agreement and (iii) the Trust 530 Agreement, including all supplements and amendments thereto; and is subject to all obligations and liabilities under the Trust 530 Agreement heretofore accrued or hereafter arising under the terms thereof. Assignee hereby accepts, assumes and agrees to be bound by all of the terms, conditions, stipulations and obligations of the Trust 530 Agreement. Trustee is authorized to substitute Assignee in place of Assignor under the Trust 530, to the extent of the interest hereby assigned to Assignee.

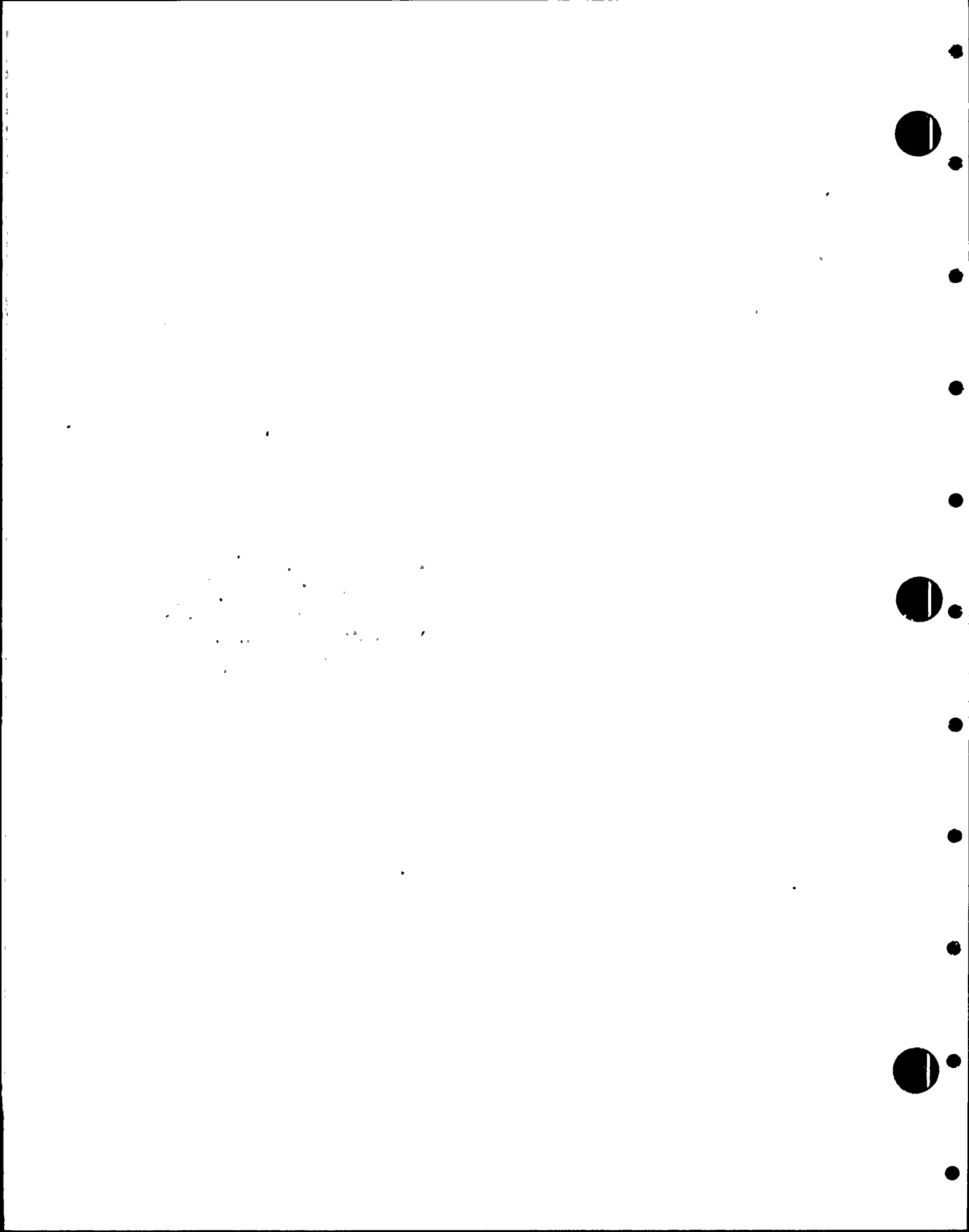
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4. Assignée hereby advises the Trustee that, until further notice, Assignee's address for all Trust 530 purposes is:

100 Federal Street
Boston, Massachusetts 02110
Attention of Corporate Trust
Division

5. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.



IN WITNESS WHEREOF, Assignor has caused this Deed and Assignment of Beneficial Interest to be executed as of this 15th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corporation

By A J Robison
Senior Vice President and
Chief Financial Officer

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State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 5th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

JO ELLEN STACHE
NOTARY PUBLIC, State of New York
No. 30-4821555
Qualified in Nassau County
Commission Expires September 30, 1988

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ACCEPTANCE BY ASSIGNEE

The foregoing Deed and Assignment of Beneficial Interest is hereby accepted and all terms and conditions are hereby approved, and Assignee hereby acknowledges receipt of a copy of the Trust 530 Agreement and all amendments and supplements thereto, and hereby agrees to be bound by and to comply with all the terms and obligations of the Trust 530 Agreement.

Dated as of December 15, 1986

THE FIRST NATIONAL BANK OF
BOSTON, a national banking
association, not in its
individual capacity but
solely as Trustee under the
Trust Agreement

By 
Assistant Vice President

State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of First National Bank of Boston, a national banking association, on behalf of the banking association as Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

JO ELLEN STACHE
NOTARY PUBLIC, State of New York
No. 33-4821553
City of New York, New York County
Commission Expires September 30, 19 88

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ENDORSEMENT OF TRUSTEE

The foregoing Deed and Assignment of Beneficial Interest is hereby accepted, and filed, in Trust Department of TITLE USA COMPANY OF ARIZONA this ___th day of December, 1986.

TITLE USA COMPANY OF ARIZONA,
Trustee

By _____
Authorized Signature

NOTE: Trustee's endorsement hereon shall be effective only after all assignment fees and other fees currently due Trustee with respect to the interest being assigned have been paid in full.

State of Arizona)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this ___th day of December, 1986, by _____, a trust officer of TITLE USA COMPANY OF ARIZONA, an Arizona corporation, on behalf of the corporation, as Trustee under the Trust 530 Agreement.

Notary Public

December 17, 1986

CHEMICAL BANK,
not in its individual
capacity, but solely as Collateral
Trust Trustee
55 Water Street,
New York, New York 10041
Attention: Corporate Trustee Administration

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE NUCLEAR GENERATING STATION UNIT 1 LEASE

Dear Sirs:

Reference is made to the Participation Agreement, dated as of December 15, 1986 (the Participation Agreement), among the parties whose signatures appear at the foot hereof. All capitalized terms used herein without definition shall have the meanings set forth in Appendix A to the Participation Agreement.

1. Representations, Warranties and Agreements. The Loan Participant, the Owner Participant, FNB, the Owner Trustee, the Indenture Trustee and PNM hereby confirm for your benefit that their respective representations and warranties (in the capacity given therein) and, in the case of PNM, agreements, contained in Sections 6, 7, 8, 9, 10, 13 and 14 of the Participation Agreement and, in the case of the Owner Participant, the agreements contained in Section 14(a) of the Participation Agreement, are true and correct and hereby respectively repeat such representations, warranties and, in the case of PNM and the Owner Participant, agreements to the same extent as if such representations, warranties and agreements were set forth herein in full, whether or not the same are amended after the date hereof.

2. Survival of Representations, Warranties and Agreements. All representations, warranties and

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agreements contained herein shall survive the execution and delivery of this letter.

3. Successors and Assigns. All terms and provisions of this letter shall inure to your benefit and the benefit of your successors and assigns and each holder from time to time of each Bond.

4. Consequences of Breach. A breach of the representations, warranties and agreements contained herein will not entitle you or any holder of a Bond to exercise remedies or take other action under the Participation Agreement or any other Transaction Document, but you may pursue all other rights you have at law or in equity in consequence of such a breach.

5. Governing Law. This letter shall in all respects be governed by, and construed in accordance with, the laws of the State of New York.

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CHASE MANHATTAN REALTY
LEASING CORPORATION

By: M. Syraquin, Jr.
Vice President

FIRST PV FUNDING CORPORATION

By: _____
Vice President

CHEMICAL BANK,
as Indenture Trustee

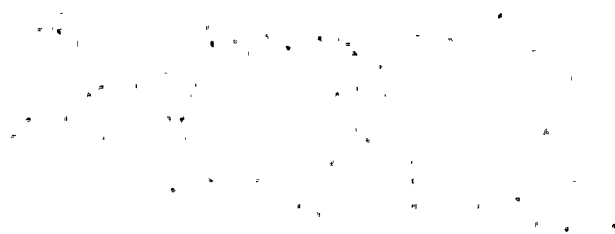
By: [Signature]
Vice President

PUBLIC SERVICE COMPANY OF
NEW MEXICO

By: [Signature]
Vice President and
Treasurer

THE FIRST NATIONAL BANK OF
BOSTON,
in its individual capacity
and as Owner Trustee

By: [Signature]
Assistant Vice President



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TAX INDEMNIFICATION AGREEMENT

dated as of December 15, 1986

between

CHASE MANHATTAN REALTY LEASING CORPORATION,
as Owner Participant

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,
as Lessee

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Sale and Leaseback of an Undivided Interest in
Palo Verde Nuclear Generating Station Unit 1
and Certain Common Facilities

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SECTION 19

No Duplication of
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TAX INDEMNIFICATION AGREEMENT

THIS TAX INDEMNIFICATION AGREEMENT, dated as of December 15, 1986, between CHASE MANHATTAN REALTY LEASING CORPORATION (the Owner Participant) and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee). Capitalized terms not otherwise defined herein shall have the meaning set forth in Appendix A to the Participation Agreement, dated as of December 15, 1986, among CHASE MANHATTAN REALTY LEASING CORPORATION, Public Service Company of New Mexico, First PV Funding Corporation, the First National Bank of Boston, and Chemical Bank.

W I T N E S S E T H:

WHEREAS, the Owner Participant and the Lessee have executed the Participation Agreement pursuant to which the Owner Participant has agreed to cause the Owner Trustee to purchase from the Lessee, and the Lessee has agreed to sell to the Owner Trustee, the Undivided Interest and the Real Property Interest;

WHEREAS, the Owner Trustee and the Lessee have executed the Facility Lease pursuant to which the Owner Trustee has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Owner Trustee, the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee understands that the Owner Participant has entered into the Transaction Documents based on the assumption that, for purposes of federal, New York State, and New York City income tax laws, including any rules, regulations and procedures thereunder, the Owner Participant, as sole beneficiary of the Trust created under the Trust Agreement pursuant to which the Owner Trustee has purchased, and is the owner of, the Undivided Interest and the Real Property Interest, will be entitled to those items of income, loss, deduction and credit with respect to the Undivided Interest and the Real Property Interest as are provided to an owner of property; and

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WHEREAS, the Owner Participant and the Lessee desire to clarify their respective rights and obligations with respect to such items of income, loss, deduction and credit for federal, New York State, and New York City income tax purposes;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

SECTION 1. Tax Assumptions and Tax Representations.

(a) Tax Assumptions. The Facility Lease has been entered into, and the Owner Participant's Net Economic Return has been computed, on the basis of the following assumed consequences for purposes of the taxes imposed by the Code as in effect on the date hereof ("Federal Income Tax Law") and for the New York State and New York City franchise or business income taxes imposed on banking corporations as in effect on the date hereof ("State Tax Law") (collectively, the Federal Tax Law and State Tax Law shall be referred to as the "Tax Laws"):

(1) The Facility Lease will be treated, for purposes of the Tax Laws, as a true lease under which the Owner Trustee will be the purchaser, owner and lessor of the Undivided Interest and the Real Property Interest and the Lessee will be treated as the lessee of the Undivided Interest and the Real Property Interest.

(2) The Owner Participant will be entitled to take into account in computing its income tax liability under the Tax Laws each item of income, gain, deduction, loss and credit of the trust created by the Trust Agreement.

(3) The Lessee will retain the investment credit. The transaction will constitute a "sale-and-leaseback transaction" for purposes of § 1.47-3(g) of the Regulations.

(4) Under Federal Income Tax Law, the Owner Participant will be allowed deductions under the Accelerated Cost Recovery System with respect to the Undivided Interest pursuant to sections 168(a) and

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168(b)(1) of the Code as in effect prior to the enactment of the Tax Reform Act of 1986, Pub. L. 99-514 (hereinafter the Tax Reform Act); the Owner Participant's taxable year in which the Closing Date occurs will be a full taxable year; the Owner Participant's aggregate unadjusted basis for purposes of computing such deductions will be equal to 100% of the Purchase Price; the Owner Participant will be entitled to take such deductions (resulting in a write-off of such percentage of the Purchase Price to a zero salvage value) in the following amounts at the following times:

| <u>Taxable Year Ending</u> | <u>Percentage of Purchase Price</u> |
|----------------------------|-------------------------------------|
| 1986 | 8% |
| 1987 | 14% |
| 1988 | 12% |
| 1989 | 10% |
| 1990 | 10% |
| 1991 | 10% |
| 1992 | 9% |
| 1993 | 9% |
| 1994 | 9% |
| 1995 | 9% |

(the deductions described in this paragraph (4) being hereinafter referred to as the ACRS deductions). Under the State Tax Law, the Owner Participant will be allowed depreciation deductions commencing in the taxable year 1986, using the Asset Depreciation Range (ADR) method assuming a useful life of sixteen years, 150% declining balance method of depreciation switching to straight-line at the optimum point, a net salvage value of zero, and using the half-year convention (the "ADR Deductions").

(5) Under the Tax Laws, the indebtedness evidenced by the Notes will constitute a loan made to the Owner Trustee; all amounts paid with respect to each series of Notes other than payments of principal will be deductible, when paid or accrued, in accordance with the method of accounting on the basis of which the Owner Participant regularly computes its income (the Interest Deductions).

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Exhibits - 70 Cmts.

(6) Under the Tax Laws, the Owner Participant will be allowed current deductions for amortization of an amount equal to the Transaction Expenses computed on a straight-line basis over the Basic Lease Term (the Amortization Deductions).

(7) Under the Tax Laws, the Owner Participant will have at all relevant times sufficient taxable income against which to apply the ACRS Deductions and the ADR Deductions (as the case may be), the Interest Deductions and the Amortization Deductions.

(8) The Notes will bear interest pursuant to their terms at the rates applicable from time to time; the principal amount of the Notes will constitute no more than 80 percent of the Purchase Price; and the Notes will be amortized by certain payments of principal pursuant to the terms thereof.

(9) Basic Rent will be paid on the Basic Rent Payment Dates. Basic Rent will be payable in arrears in semi-annual installments during the Basic Lease Term and the Renewal Term as set forth in the Facility Lease.

(10) Under the Tax Laws, neither the Owner Trustee nor the Owner Participant will at any time be required to include any amount in gross income for purposes of the Tax Laws with respect to the transactions contemplated by the Transaction Documents or the Financing Documents other than (a) payments of Basic Rent in the amounts and no earlier than at the times such payments are required to be made in accordance with the Facility Lease, which payments of Basic Rent shall be accrued ratably over the six-month period preceding the date on which such payment of Basic Rent is required to be made in accordance with the Facility Lease, (except with respect to the payment of Basic Rent due on January 15, 1987, such payment shall be accrued ratably over the period commencing on the Closing Date and ending on January 15, 1987), (b) payments of Casualty Value, Termination Value, and Special Casualty Value as described in the Facility Lease at the time such payments are made and (c) any payments required to be made on an After-Tax Basis pursuant to the Transaction Documents at the time such payments are made.

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(11) Without giving effect to any credits against tax, the Owner Participant's marginal federal rate of income tax is 46 percent for its 1986 taxable year, 39.950685% for its 1987 taxable year, and 34% for each taxable year after 1987; and without giving effect to any credits against tax, the Owner Participant's combined New York State and New York City effective rate of tax is 8.6 percent.

(12) The Owner Participant's cash investment in the Undivided Interest at the Closing Date will be an amount equal to the Investment Percentage of the Purchase Price.

(13) The Closing Date will be December 17, 1986.

(14) The Owner Trustee and the Owner Participant will be entitled to treat each item of income, gain, deduction, loss and credit with respect to the transactions contemplated by the Transaction Documents and the Financing Documents as derived from or allocable to sources within the United States.

(b) Tax Representations. The Lessee represents and warrants to and covenants with the Owner Participant that:

(1) On the Closing Date and throughout the Lease Term, the Undivided Interest will constitute "recovery property" and "10-year property" within the meaning of sections 168(c)(1) and 168(c)(2)(C) of the Code as in effect prior to the enactment of the Tax Reform Act; provided that the Owner Participant does not make any election under section 168(b)(3) of the Code as in effect prior to the enactment of the Tax Reform Act or section 203(a)(1)(B) of the Tax Reform Act.

(2) Unit 1, the Lessee's undivided interest in Unit 1, and each item of property constituting the Undivided Interest will be "placed in service" for purposes of section 168 of the Code as in effect prior to the enactment of the Tax Reform Act no later than the Closing Date.

(3) No portion of the property constituting the Undivided Interest and no portion of the Purchase Price shall be subject to the provisions of section 168(f)(12) of the Code as in effect prior to the enactment of the

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Tax Reform Act, dealing with limitations on property financed with tax-exempt bonds.

(4) The Lessee has provided to the Appraiser all factual information in its possession which is relevant to such Appraiser's conclusions and such information is accurate and complete on the Closing Date. The Lessee has no reason to believe that the Appraiser's conclusions are inaccurate.

(5) Assuming that the Owner Trustee is the owner of the Undivided Interest under the Tax Laws, the Owner Participant will be allowed the ACRS Deductions, the ADR Deductions (as the case may be), the Interest Deductions and the Amortization Deductions.

(6) Under the Tax Laws, neither the Owner Trustee nor the Owner Participant will at any time be required to include any amount in gross income for purposes of the Tax Laws with respect to the transactions contemplated by the Transaction Documents or the Financing Documents other than the amounts described in Sections 1(a)(10)(a), (b) and (c) hereof at the respective times referred to therein.

(7) Under the Tax Laws, the Owner Trustee and the Owner Participant will be entitled to treat each item of income, gain, deduction, loss and credit with respect to the transactions contemplated by the Transaction Documents or the Financing Documents as derived from or allocable to sources within the United States.

(8) The property constituting the Undivided Interest was placed in service by the Lessee more than 12 months prior to the Closing Date, and the Lessee will not take any action pursuant to the Code as in effect both prior to and after the enactment of the Tax Reform Act that is inconsistent with the Owner Participant's entitlement to the ACRS Deductions.

(9) At all times prior to the Closing, the Undivided Interest was owned by the Lessee.

(10) The provisions of section 168(e) of the Code as in effect prior to the enactment of the Tax Reform

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Act will not apply to the transactions contemplated by the Transaction Documents.

(11) Throughout the Lease Term the Undivided Interest shall not constitute "tax-exempt use property" within the meaning of section 168(j) of the Code as in effect prior to the enactment of the Tax Reform Act or section 168(h) of the Code, and the provisions of section 168(j) of the Code as in effect prior to the enactment of the Tax Reform Act or section 168(h) of the Code will not apply to the transactions contemplated by the Transaction Documents.

(12) No part of the Undivided Interest will be used predominantly outside the United States within the meaning of section 168(f)(2) of the Code as in effect prior to the enactment of the Tax Reform Act.

(13) On the Closing Date, no improvements, modifications or additions to the Undivided Interest are required to render the Undivided Interest complete for its intended use by the Lessee.

(14) No part of the cost of the Undivided Interest or Real Property Interest paid for or incurred by the Lessee or any Affiliate thereof shall not have been reimbursed by the Owner Trustee.

(15) On the Closing Date, the fair market value of the Undivided Interest is \$75,000,000, and the fair market value of the Real Property Interest is \$41,903.

(16) (i) To the extent required by Revenue Procedures 75-21 and 76-30, (x) the Undivided Interest will be useful to and useable by a Person other than the Lessee or any Person related to the Lessee at the end of the Basic Lease Term and the Renewal Term and capable of continued leasing or transfer to such a Person at that time, (y) the Appraisal demonstrates (within the meaning of Revenue Procedure 75-21) that it is reasonable for the Owner Participant to expect that the fair market value and the remaining useful life of the Undivided Interest at the end of the Lease Term is an amount equal to at least 20% of Facility Cost (without including in such value any increase or decrease for inflation or deflation during the Lease Term) and the longer of one

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year or 20% of the originally estimated useful life of the Undivided Interest, respectively, and (z) it will be commercially feasible for the Owner Trustee or the Owner Participant to enter into such a lease or transfer at such time in a transaction pursuant to which the Owner Participant would realize, with respect to the Undivided Interest, the residual value set forth in the report of the Appraiser taking into account any amounts that such a Person would be required to expend pursuant to the Assignment and Assumption or otherwise in connection with the acquisition or use of the Undivided Interest and taking into account any amounts that such a Person would be required to expend in connection with the acquisition or use of the Real Property Interest and (ii) the Undivided Interest does not constitute, and will not constitute during the Lease Term, "limited use property" within the meaning of Revenue Procedure 76-30, provided, however, that this representation is not a representation that any residual value shall in fact exist at the end of the Basic Lease Term and Renewal Term.

(17) Lessee does not own directly or indirectly any shares of the capital stock of Funding Corp.

SECTION 2. Indemnification.

(a) Consistent Tax Returns. The Lessee agrees that neither it nor any Affiliate will at any time take any action, directly or indirectly, or file any returns or other documents inconsistent with the assumptions and representations set forth in Section 1 hereof, and that the Lessee and any such Affiliate will file such returns, maintain such records, take such actions and execute such documents, as reasonably requested by the Owner Participant from time to time, as may be appropriate to facilitate the realization of such assumptions by the Owner Participant. The Lessee covenants and agrees to maintain, or cause to be maintained, such other records as shall be reasonably requested by the Owner Participant, in each case in order to verify the factual basis for the matters referred to in this Tax Indemnification Agreement. The Lessee shall make the records referred to in the preceding sentences available, or cause such records to be made available, for inspection by the Owner Participant or its authorized agents, during normal business hours at the Lessee's office at Alvarado

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Square, Albuquerque, New Mexico 87158, Attention: A.J. Robison, Senior Vice President and Chief Financial Officer, upon request by, and five days' prior notice from, the Owner Participant. The Lessee shall, at its expense, upon request by the Owner Participant, provide to the Owner Participant a copy of such records which shall be certified to be a true copy by an affidavit attached thereto and executed by an officer of the Lessee. Notwithstanding the preceding sentence, the Owner Participant or its authorized agents shall have the right to make copies and extracts of any such records at the Owner Participant's sole expense. The Lessee may, in accordance with its record retention practice and consistent with the requirements of the NRC, after written notice to the Owner Participant at least 90 days prior thereto, destroy such records as are specified in such notice other than those identified by the Owner Participant by written notice to the Lessee prior to such destruction.

(b) Indemnification - Loss of Tax Benefits. The Lessee shall indemnify the Owner Participant on an After-Tax Basis for

(1) any loss, disallowance, delay in obtaining, or recapture of the income tax benefits described in Section 1(a) hereof resulting in whole or in part from any one or more of the following events or things:

(i) any representation or warranty of the Lessee in Section 1(b) hereof or elsewhere in this Tax Indemnification Agreement, the other Transaction Documents or the Financing Documents shall prove inaccurate at any time or the Lessee shall breach any of its covenants in Section 1(b) hereof or any of its agreements, covenants, duties, undertakings or other obligations under this Tax Indemnification Agreement or the other Transaction Documents or the Financing Documents, or

(ii) any act or failure to act by the Lessee or by any Affiliate, transferee, sublessee, or assignee of the Lessee or by any user of the Undivided Interest, or by any person to whom the Lessee or any Affiliate thereof shall sell power or energy generated at PVNGS, or by any person having custody or possession of Unit 1 or the Undivided Interest or by any ANPP Participant or by any

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Affiliate of any of the foregoing or by any subsequent transferee, sublessee or assignee or by any trustee, receiver, liquidator or debtor in possession of any of the foregoing, other than, in the case of the Lessee, the execution and delivery of one or more of the Transaction Documents or the Financing Documents and acts specifically required or expressly permitted to be performed by the Lessee under the Facility Lease or any Transaction Document or any Financing Document; provided, however, that (A) any act of the Lessee performed to satisfy a general covenant to comply with Applicable Laws or prudent utility practice or to cause the Undivided Interest to be operated and maintained or to carry out obligations under the ANPP Participation Agreement and related agreements, (B) any act that is permitted by implication or because it is not required or prohibited by such documents, (C) any act that implements a general requirement or right on the part of the Lessee in a manner that is not specifically required or expressly permitted under such documents, (D) the transfer, assignment, sublease or any other disposition (whether by merger or otherwise), by the Lessee, or any use by a Person other than the Lessee, of all or any part of its interest in the Undivided Interest, and (E) the making of any Capital Improvement shall each be an act or failure to act for which the Lessee is responsible under this paragraph (ii), or

(iii) the sale or other disposition of Unit 1, the Undivided Interest or any item of property comprising the Undivided Interest upon the exercise by the Owner Participant of its remedies under the Facility Lease upon the occurrence of an Event of Default thereunder, or

(iv) the bankruptcy, or other proceedings for the protection of debtors, of or involving the Lessee or any transferee, sublessee or assignee of the Lessee or any subsequent transferee, sublessee or assignee or any Affiliate of any of the foregoing, or any foreclosure on any property of any of the foregoing, or

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(v) any damage to or destruction, loss of generating capacity, theft, nongovernmental taking or requisition or repair of or any addition, improvement, modification, alteration, replacement or substitution of or to Unit 1 or the Undivided Interest or the Real Property Interest, or any part of any thereof, or any Event of Loss or Deemed Loss Event, or any event which, with the passage of time or the giving of notice or both, would constitute such an event, or

(vi) any governmental taking or requisition of title, use or otherwise of Unit 1, the Undivided Interest or the Real Property Interest or any part of any thereof if such taking or requisition does not immediately constitute an Event of Loss under the Facility Lease, or

(vii) any payment by any manufacturer or any other vendor or supplier or contractor or subcontractor with respect to any part of Unit 1 or the Undivided Interest, but in the event of any such payment made to the Owner Participant, any indemnity hereunder shall take into account any economic benefit realized by the Owner Participant from the receipt of such payment without double counting for any economic loss for which such payment provided compensation, or

(viii) any issuance, defeasance, refinancing, refunding, redemption, purchase, repurchase, cancellation, retirement, reamortization, reoptimization, substitution, releveraging, modification or remarketing (or the existence of any rights with respect thereto) of the Notes, or the Bonds, or any other debt securities issued or assumed (or that may be issued or assumed), pursuant to the Transaction Documents or the Financing Documents or any terms or provisions thereof or otherwise in connection with the financing, refinancing or any Supplemental Financing of Unit 1, any Capital Improvement or the Undivided Interest or the Real Property Interest or any part thereof or interest therein, including, without limitation, the purchase or deemed purchase by the Lessee or the Loan Participant of any such

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Notes, Bonds or securities, or the existence of any of the Lessee's rights to effect any of the foregoing, or

(ix) the presence of the Loan Participant, or any successor or assign thereof, in the transactions contemplated by the Transaction Documents and the Financing Documents, or

(x) the existence or operation of the ANPP Participation Agreement, the ANPP Project Agreements or any amendment to any of the foregoing (including without limitation the rights and remedies of the ANPP Participants) or any obligations of the Lessee or restriction of rights of the Owner Trustee or the Owner Participant or provisions of any of the Transaction Documents or the Financing Documents (including without limitation the provisions of the Assignment and Assumption) resulting from any of the foregoing, or

(xi) the existence, provisions or operation of the License, or

(xii) the existence, provisions or operation of USLife Title Insurance Company of Arizona Trust No. 530, or

(xiii) the existence or implementation of the provisions set forth in Section 10(b)(3)(ix) or (xi) of the Participant Agreement and Section 15(iv) of the Facility Lease, or

(xiv) the disallowance, loss, recapture, or other denial or of any tax attribute that gave rise to a tax savings for which payment was made pursuant to Section 2(c)(2) hereof;

(2) any inclusion in the Owner Participant's gross income, for purposes of the Tax Laws, of any amount in respect of any replacement or substitution of, any alteration to or modification in, or any addition or improvement to, any item of property comprising the Undivided Interest or any part or any expenditure made, or property furnished by the Lessee in respect of such item of property or pursuant to the Transaction

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Documents or Financing Documents (whether or not permitted or required under the Transaction Document or Financing Documents) or of any interest free advance made in respect of any tax indemnified hereunder

(any such loss, disallowance, delay in obtaining or recapture in respect of either subsection (1) above or this subsection (2) being referred to as a Loss).

(c) Indemnity Payment - After-Tax Basis.

(1) In the event of a Loss, the Owner Participant, unless pursuant to Section 5 hereof the Owner Participant is not entitled to payment with respect to such Loss, shall notify the Lessee of such Loss and the Lessee shall pay to the Owner Participant on an After-Tax Basis in a lump sum an amount (the Indemnity Payment) which shall be equal to the sum of the aggregate additional income taxes under the Tax Laws payable by the Owner Participant as a result of such Loss and any interest, penalties or additions to tax payable as a result of such Loss (except to the extent such penalties result from the Owner Participant's failure to file returns which are timely and proper insofar as they relate to matters unrelated to the transactions contemplated by the Transaction Documents).

(2) If the Owner Participant, as the result of a Loss occurring with respect to any year under circumstances that require the Lessee to indemnify the Owner Participant with respect to such Loss pursuant to Section 2(b) hereof, shall be entitled to claim (taking into account the assumptions set forth in Section 3 hereof) with respect to any subsequent year income tax savings under the Tax Laws that would not have been realized but for such Loss, the Owner Participant shall pay to the Lessee an amount equal to the sum of such income tax savings under the Tax Laws plus the amount of any federal, state or local income tax savings the Owner Participant is entitled to claim (taking into account the assumptions set forth in Section 3 hereof) as the result of any payment made pursuant to this sentence; provided, however, that such sum shall not be payable (i) before such time as the

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Lessee shall have made all payment or indemnities then due pursuant to the Transaction Documents and (ii) while any Default or Event of Default shall have occurred and be continuing; provided further, however, that such sum shall not exceed the excess of the amounts previously paid by the Lessee to the Owner Participant pursuant to Section 2(c)(1) hereof with respect to the Loss that gave rise to such tax savings over the amounts previously paid by the Owner Participant to the Lessee pursuant to this Section 2(c)(2) with respect to such loss.

SECTION 3. Determination of Payments.

Whenever it may be necessary for purposes of this Tax Indemnification Agreement to determine (a) the amount resulting from any Loss suffered by the Owner Participant or (b) the amount of any income tax savings under the Tax Laws referred to in Section 2 hereof, such determination shall be made on the assumptions that (a) the income taxes under the Tax Laws of the Owner Participant are payable at the highest marginal statutory tax rates in effect for corporate taxpayers such as the Owner Participant for the respective years to which any Loss or Losses relate (the Effective Rate), (b) in computing its income tax liability under the Tax Laws, the Owner Participant can currently fully use the tax benefits that are the subject of such Loss against taxes payable at the Effective Rate and (c) the Owner Participant can currently fully use any tax benefits resulting from a Loss against income taxes under the Tax Laws payable at the Effective Rate. For purposes of determining the amount of taxes payable by the Owner Participant upon receipt of any payment required to be made by the Lessee to the Owner Participant under this Tax Indemnification Agreement and the amount of any tax savings realized by the Owner Participant as a result of any payment made by the Owner Participant pursuant to Section 2 hereof, it shall be assumed that federal, state, local and foreign taxes are payable by the Owner Participant at the highest marginal statutory rates then in effect. The determination of the amount payable to or by the Owner Participant under this Tax Indemnification Agreement shall be made in the first instance by the Owner Participant, who shall furnish the Lessee with a notice setting forth in reasonable detail the computations and methods used in computing such amount; and if requested by the Lessee, such determination shall be verified in writing

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by a firm of nationally recognized independent public accountants selected by the Owner Participant and acceptable to the Lessee. The costs of such verification shall be borne by the Lessee unless a net error of 10 percent or more shall be discovered in which case such costs shall be shared equally. Any statements furnished to the Lessee pursuant to Section 3 hereof shall (a) be signed by a Responsible Officer of the Owner Participant, (b) state in reasonable detail the basis upon which such amount or adjustment has been determined and (c) certify that such amount or adjustment has been determined pursuant to and in compliance with this Tax Indemnification Agreement. The Lessee agrees that it will not have the right to inspect the tax returns, books, records or any other documents of the Owner Participant or any Affiliate thereof in order to verify the basis or the accuracy of the calculations so made or of the amounts set forth in any such statement and that the determinations made by the independent accountants in accordance with this Section 3 shall be conclusive and binding.

SECTION 4. Date of Payments.

An Indemnity Payment shall be payable not later than 20 days after demand by the Owner Participant, except as provided in Section 6.

SECTION 5. Excluded Events.

The Owner Participant shall be responsible for, and shall not be entitled to any payment in respect of, any Loss occurring solely as a direct result of one or more of the following events:

(a) a failure of the Owner Participant to claim in a proper or timely manner the ACRS Deductions, the ADR Deductions (as the case may be), the Interest Deductions or the Amortization Deductions for the appropriate years (any disclosure or failure to make a disclosure pursuant to section 6661 of the Code shall not cause a claim to be considered improper), unless (i) the claiming of any such deductions would be inconsistent with any prior audit adjustment by the IRS, New York State taxing authorities, or New York City taxing authorities with respect to which the Lessee is required to indemnify the Owner Participant under this Tax Indemnification Agreement (except to the extent

such prior audit adjustment is being contested in accordance with the provisions of Section 6 hereof), (ii) the Owner Participant shall have furnished the Lessee with an opinion of independent tax counsel (mutually acceptable to the Owner Participant and the Lessee, but not excluding the regular outside counsel of the Owner Participant or the Lessee) to the effect that as a result of a tax law change, Event of Loss, Termination Event, or an act, omission or misrepresentation of the Lessee such claim would not be proper pursuant to the standards of ABA Formal Opinion 85-352 or (iii) such failure to claim any such deductions for the appropriate year is caused by a failure of the Lessee to take any action or provide the Owner Participant with any information or document that the Lessee is required to take or provide pursuant to the Transaction Documents or the Financing Documents;

(b) the failure of the Owner Participant to have sufficient taxable income under the Tax Laws to benefit from the ACRS Deductions, the ADR Deductions, the Interest Deductions, or the Amortization Deductions;

(c) any voluntary sale by the Owner Participant or any involuntary sale or other disposition resulting from the bankruptcy of, the foreclosure against, or any similar proceeding against, the Owner Participant or the Owner Trustee (unless such bankruptcy, foreclosure or similar proceeding shall have been caused by the Lessee or any Affiliate thereof), of the Undivided Interest, the Trust Estate, or any beneficial interest therein, unless an Event of Default shall have occurred and be continuing;

(d) any Event of Loss whereby the Lessee is required under the Facility Lease to pay, and shall have paid in full, Casualty Value for all of the Undivided Interest, or any termination of the Facility Lease, whereby the Lessee is required under the Facility Lease, to pay, and shall have paid in full, Termination Value for all of the Undivided Interest, except to the extent the payment made with respect to such Event of Loss or termination did not properly reflect the time of the occurrence of such Event of Loss or termination;

(e) any amendment, modification, deletion, addition or change in or to the provision of the Code which shall occur after the Closing Date (other than any provision set

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forth in Title XV of H.R. 3838 as adopted by the House of Representatives and Title XVIII of that bill as adopted by the Senate or any provision substantially similar to any such provision, which provision is enacted by the Ninety-ninth or One Hundreth Congress determined without regard to the date of presidential signature); provided, however, that such Loss is not a result in whole or part of any act or failure to act (other than any act specifically required or expressly permitted to be performed by the Lessee under the Facility Lease or any Transaction Document, subject to the proviso in Section 2(b)(1)(ii) hereof), after the date of enactment of such amendment, modification, deletion, addition or change, by any Person referred to in Section 2(b)(1)(ii) hereof that is inconsistent with the provisions of such amendment, modification, deletion, addition or change in the Code or the representations, warranties or covenants made by the Lessee in Section 1(b) hereof;

(f) the Owner Participant or Lessor being treated as engaged in a partnership with any other person, except if such partnership arises as a result of an event or circumstance set forth in Section 2(b) hereof or the application of section 168(f)(5) of the Code as in effect prior to the enactment of the Tax Reform Act to the Owner Participant solely because any taxable year of the Owner Participant is not a full taxable year;

(g) the failure of the Owner Trust to be taxed as a conduit entity unless such failure arises as a result of an event or circumstance set forth in Section 2(b)(1)(viii), (ix), (x) or (xii);

(h) the inability of the Owner Participant to claim the ACRS Deductions or ADR Deductions (as the case may be), Interest Deductions or Amortization Deductions due to the Owner Participant or any affiliate thereof, being or becoming an entity subject to the provisions set forth in sections 168(e)(3), 168(f)(11), 168(j), 465, 501, 593, 851, 856, 871, 881, 1361, 1381, 1391, or other provisions of the Code as in effect prior to the enactment of the Tax Reform Act relating to the status of the Owner Participant unless, in the case of section 168(e)(3) of the Code as in effect prior to the enactment of the Tax Reform Act, such inability results from the transactions contemplated by the Transaction Documents;



(i) failure of the transaction to qualify as a "true lease" for purposes of the Tax Laws, resulting in the Owner Participant not being treated as the Owner of the Undivided Interest for purposes of the Tax Laws, except as a result of an event or circumstance set forth in Section 2(b) hereof; and

(j) failure of the Owner Participant to fulfill its material obligations to contest a proposed adjustment or adverse determination as provided in Section 6 hereof;

SECTION 6. Contests.

(a) If the IRS, New York State taxing authorities, or New York City taxing authorities propose in writing an adjustment in the income tax liability under the Tax Laws of the Owner Participant under the Tax Laws, which adjustment if sustained would result in a Loss, the Owner Participant shall notify the Lessee promptly of such adjustment and of all action taken or proposed to be taken by the IRS, New York State taxing authorities, or New York City taxing authorities, and the Owner Participant shall for at least 30 days after giving such notice forbear, if such forbearance is permitted by law, payment of any tax (including interest, penalties and additions to tax thereon) asserted to be payable as a result of such proposed adjustment.

(b) If the Lessee requests within 30 days after the Owner Participant's notice pursuant to paragraph (a) of this Section 6 that the proposed adjustment be contested, the Owner Participant shall contest the proposed adjustment in good faith at the trial court level upon receipt of an opinion of independent tax counsel of nationally recognized standing selected by the Lessee and reasonably satisfactory to the Owner Participant to the effect that there exists a basis in law and fact under the standard imposed by ABA Formal Opinion 85-352 for such contest and at each appellate level upon receipt of an opinion of independent tax counsel of nationally recognized standing selected by the Lessee and reasonably satisfactory to the Owner Participant to the effect that there exists a substantial possibility that an appellate court will reverse or substantially modify the lower court decision, provided that (i) the Owner Participant shall be entitled to pursue or forgo any administrative proceedings (except that the Owner Participant shall be required to pursue all reasonable

administrative proceedings in the event judicial proceedings shall be unavailable by reason of a Tax Loss decreasing a net operating loss carryover, and in all events, the Owner Participant shall be required to pursue such administrative proceedings as shall be necessary to preserve available judicial proceedings), shall be required to contest any proposed adjustment beyond the level of administrative proceedings only if timely requested by the Lessee and shall not be required to pursue any appeal to the United States Supreme Court, (ii) the Owner Participant shall determine the court of competent jurisdiction in which to contest the proposed adjustment either before or after payment of the tax asserted to be payable as a result thereof, and (iii) the Owner Participant shall keep the Lessee informed as to the progress of any litigation and, if requested by the Lessee, shall consult with the Lessee's counsel (provided that the conduct of all administrative proceedings and litigation shall nevertheless remain within the sole discretion of the Owner Participant and its tax counsel exercised in good faith and provided, further, that the Owner Participant shall not discriminate (except with respect to selecting the forum in which to contest such proposed adjustment) against any such proposed adjustment as compared to other proposed adjustments made by the IRS, New York State taxing authorities, or New York City taxing authorities involving the potential tax liability of the Owner Participant). The Owner Participant shall not be required to take any action pursuant to this paragraph (b) of this Section 6 unless: (i) the amount of the Indemnity Payment arising from all proposed adjustments with respect to a taxable year, plus all indemnities that would arise by reason of the fact that the subject matter of any such adjustments if of a continuing nature, shall be in excess of \$250,000; (ii) the Lessee shall have agreed to indemnify the Owner Participant in a manner satisfactory to the Owner Participant for any expense which the Owner Participant may incur as a result of contesting such proposed adjustment; (iii) the Lessee shall have agreed to pay the Owner Participant on demand all reasonable costs and expenses that the Owner Participant may incur in connection with contesting such proposed adjustment (including, without limitation, reasonable legal and accounting fees, disbursements, penalties, interest and additions to tax); (iv) no Event of Default shall have occurred and be continuing; and (v) the Owner Participant shall have determined that the action to be taken will not result in

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any danger of sale, forfeiture or loss of, or the creation of any Lien (except for Liens permitted under the Transaction Documents and except if the lessee shall have adequately bonded such Lien or otherwise made provision to protect the interests of the Owner Participant in a manner satisfactory to the Owner Participant) on the Undivided Interest, the Real Property Interest, Unit 1 or any part thereof or interest therein. The Owner Participant shall also not be required to contest any proposed adjustment if the subject matter thereof shall be of a continuing nature and shall have previously been decided pursuant to the contest provisions of this Section 6, unless there shall have been a change in the law (including, without limitation, amendments to statutes or regulations, administrative rulings and court decisions) after such previous contest shall have been so decided, and the Owner Participant shall have received an opinion of independent tax counsel selected as provided in this Section 6(b) and furnished at the Lessee's sole expense to the effect that the prior authorities are no longer determinative of the issue and that under such new law there exists a basis in law and fact under the standard imposed by ABA Formal Opinion 85-352 to contest such proposed adjustment.

(c) If the Owner Participant shall elect to contest a proposed adjustment by paying the tax claimed (including such other amounts payable as interest, penalties, or additions to tax) and seeking a refund, and if the proposed adjustment would be a Loss with respect to which the Lessee could be required to indemnify the Owner Participant under this Tax Indemnification Agreement, then the Lessee shall advance to the Owner Participant on an interest-free basis and with no additional net after-tax cost to the Owner Participant the aggregate amount of such taxes, interest, penalties, additions to tax which the Owner Participant shall have elected to pay. If the Owner Participant subsequently receives a refund (or if the Owner Participant would have received a refund but for the fact that funds advanced by the Lessee were applied in payment of a tax liability of the owner Participant for which the Lessee is not required to make an indemnity payment pursuant to this Tax Indemnification Agreement), in whole or part, of such taxes, interest, penalties or additions to tax, or if the Loss is not one for which the Lessee is required to make an indemnity payment, the Owner Participant shall promptly pay to the Lessee the amount of such refunded or credited (or

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refundable or creditable) taxes, money advanced, interest, penalties or additions to tax plus the amount of any interest received (or receivable) by the Owner Participant from the taxing authority, or interest the payment of which is actually avoided with respect to such refunded taxes, interest, penalties, additions to tax or money advanced; provided, however, that the Owner Participant shall not be obligated to refund to the Lessee any amount applied to a tax liability of the Owner Participant (or interest with respect thereto) if the taxing authority would have been foreclosed from asserting such tax liability but for the contest of such proposed adjustment; provided, that the Owner Participant may offset the amount of such refunded taxes, interest, penalties or additions to tax against any amount due and owing by the Lessee to the Owner Participant pursuant to this Tax Indemnification Agreement.

(d) Notwithstanding anything to the contrary contained in this Section 6, the Owner Participant may at any time decline to take any further action with respect to a proposed adjustment or may settle any contest with the consent of the Lessee; provided, however, that if the Lessee has properly requested such action pursuant to paragraph (b) of this Section 6 and shall have duly complied with all of the terms of this Section 6, the Owner Participant shall thereby waive its right to any Indemnity Payment by the Lessee that would otherwise be payable by the Lessee pursuant to this Tax Indemnification Agreement in respect of such adjustment, including any indemnities arising solely from such adjustment in subsequent years or which would arise by reason of the fact that the subject matter of such adjustment is of continuing nature, unless in either case the contest of the adjustment giving rise to such indemnities is not precluded by the Owner Participant so declining or so settling. In such event, the Owner Participant shall, within 30 days of such notice, reimburse the Lessee for all amounts previously advanced by the Lessee to the Owner Participant pursuant to paragraph (c) of this Section 6 including any interest realized by the Owner Participant or the payment of which is actually avoided by reason of payment of the tax claimed with funds advanced by the Lessee.

(e) If the Lessee shall have appropriately requested the Owner Participant to contest any proposed adjustment as above provided and shall have duly complied



with all of the terms of this Section 6, the fact of the Lessee's liability for indemnification to the extent required pursuant to this Tax Indemnification Agreement shall become fixed upon a Final Determination of the liability of the Owner Participant for the tax and any interest, penalties and additions to tax asserted to be payable as a result of such proposed adjustment. A "Final Determination" with respect to a Loss shall mean (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final (i.e., when all allowable appeals have been exhausted by either party to the action to the extent required by this Section 6) or, in any case where judicial review shall at the time be unavailable by reason of the proposed adjustment involving a decrease in a net operating loss carryforward, a decision, judgment, decree or other order of an administrative official or agency of competent jurisdiction, which has become final (i.e., all administrative appeals have been exhausted by either party to the extent required by this Section 6), (ii) a closing agreement entered into under section 7121 of the Code or any other settlement agreement entered into in connection with an administrative or judicial proceeding, or (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto. Notwithstanding anything in this Section 6 to the contrary hereinabove, the Owner Participant shall not be required to make any payments to the Lessee under this Section 6 while there shall be an amount due and owing by the Lessee to the Owner Participant under any of the Transaction Documents, or if and for so long as an Event of Default shall have occurred and be continuing. The amount payable to the Owner Participant pursuant to this Section 6 shall be paid pursuant to Section 3 hereof after receipt by the Lessee of a written demand therefor from the Owner Participant accompanied by a written statement describing in reasonable detail such Loss and the computation of the amount payable; provided, however, that if any verification of such Loss is undertaken pursuant to Section 3 of this Tax Indemnification Agreement and such verification results in a determination by the selected independent public accountants that the Loss was less than the amount paid by the Lessee to the Owner Participant, then the Owner Participant shall refund the amount of the overpayment made by the Lessee within 10 days after completion of the verification procedure. Notwithstanding

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anything in this Section 6 to the contrary, if Lessee does not appropriately request the Owner Participant to contest any proposed adjustment, Lessee shall pay the Owner Participant therefor unless it establishes that the Loss was caused pursuant to Section 5 hereof.

SECTION 7. Adjustments.

The assumed income tax benefits under the Tax Laws set forth in Section 1(a) hereof shall be adjusted to the extent necessary and appropriate to reflect any adjustments to Basic Rent provided for in Section 3(d) or 3(e) of the Facility Lease or the payment of an Indemnity Payment so as to reflect any Change in Tax Law or any Loss in the manner in which it was taken into account in computing such adjustment or Indemnity Payment.

SECTION 8. Affiliated Group.

For purposes of this Tax Indemnification Agreement, the term "Owner Participant" shall include any member of an affiliated group of corporations of which the Owner Participant is, or may become, a member if consolidated or combined returns are or shall be filed for such affiliated group for federal, state or local income tax purposes.

SECTION 9. Duration.

The obligation and liabilities of the Owner Participant and the Lessee arising under this Tax Indemnification Agreement shall continue in full force and effect, notwithstanding the expiration or early termination of the Facility Lease, until all such obligations have been met and such liabilities have been paid in full, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 10. Payments.

All payments to be made to the Owner Participant or the Lessee pursuant to this Tax Indemnification Agreement shall be made in immediately available funds to such bank and/or account on the continental United States for the account of the Owner Participant or the Lessee as from time to time the Owner Participant shall have directed the Lessee or the Lessee shall have directed the Owner Participant, as

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the case may be, in writing. If the date on which any payment to be made pursuant to this Tax Indemnification Agreement shall not be a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 11. Interest.

Interest at the Penalty Rate shall be payable on any amount not paid when due hereunder until such amount shall be paid.

SECTION 12. Notices.

All notices and other communications provided for herein shall be given to the Owner Participant or the Lessee, as the case may be, in the manner and to the appropriate address, and shall become effective, as provided in Section 17 of the Facility Lease.

SECTION 13. No Setoff.

Except in accordance with the express terms hereof, (a) no payment required to be made by the Lessee pursuant to this Tax Indemnification Agreement shall be subject to any right of setoff, counterclaim, defense, abatement, suspension, deferment or reduction, and (b) the Lessee shall have no right to terminate this Tax Indemnification Agreement, or to be released, relieved or discharged from any obligation or liability under this Tax Indemnification Agreement for any reason whatsoever except as expressly provided herein.

SECTION 14. Coordination with General Tax Indemnity.

Any amounts that the Lessee is liable to pay pursuant to this Tax Indemnification Agreement shall be payable by the Lessee hereunder even if such Taxes are not the liability of the Lessee pursuant to Section 13(b) of the Participation Agreement. Any amounts that the Lessee is liable to pay pursuant to this Tax Indemnification Agreement and Section 3(d) of the Facility Lease shall be payable by the Lessee hereunder and not pursuant to the provisions set forth in Section 3(d) of the Facility Lease.

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SECTION 15. Governing Law.

This Tax Indemnification Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 16. Counterparts.

This Tax Indemnification Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts together shall constitute and be one and the same instrument.

SECTION 17. Headings.

The headings of the sections of this Tax Indemnification Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

SECTION 18. Amendments, Supplements, etc.

Neither this Tax Indemnification Agreement nor any of the terms hereof may be amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against which enforcement of such change is sought.

SECTION 19. No Duplication of Payment.

Nothing contained in the terms of this Tax Indemnification Agreement or any other Transaction Document shall be construed to require the Lessee to make any payment with respect to any Loss more than once or to make any payments hereunder to the extent previously reflected in a rental adjustment pursuant to Section 3(d) of the Facility Lease.

IN WITNESS WHEREOF, the Owner Participant and the Lessee have caused this Tax Indemnification Agreement to be duly executed by their respective officers thereunto duly authorized as of the date set forth below.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

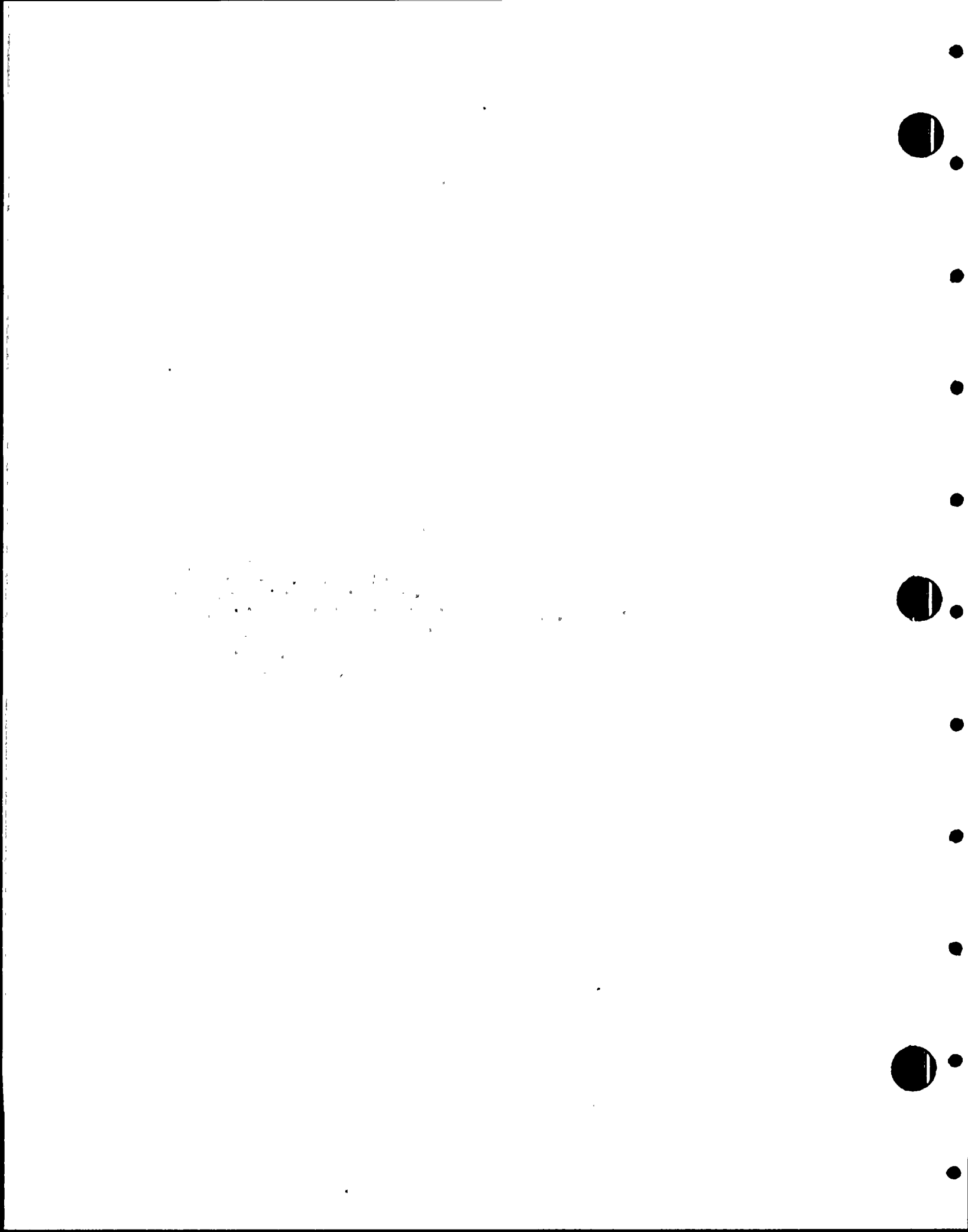
By *Richard J. ...*
Vice President

Dated: December 17, 1986

CHASE MANHATTAN REALTY LEASING
CORPORATION

By *M. S. ...*
Vice President

Dated: December 17, 1986



CONSENT, AGREEMENT AND INSTRUCTION
CHRYSLER FINANCIAL CORPORATION

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, being hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.

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In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) of the Original Participation Agreement or any rights thereunder that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. The Lessee agrees that it will deliver to the Owner Participant, promptly following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to (a) include as Events of Loss any or all (as the Owner Participant may select) events, occurrences or circumstances that constitute "events of loss" under any New Facility Lease, (b) without limitation of the foregoing, include as a Final Shutdown any or all (as the Owner Participant may select) events, occurrences or circumstances that constitute a "final shutdown" under any New Facility Lease and (c) delete any Events of Loss and events constituting a Final Shutdown as the Owner Participant may select in connection with the foregoing; it being the intent and purpose of the foregoing to permit the Owner Participant to cause the Facility Lease to be amended, as it shall elect, to augment the specified Events of Loss and events of Final Shutdown to include, mutatis mutandis, any or all events, occurrences and circumstances that may give rise to an event of loss or a final

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shutdown, respectively, under any New Facility Lease; provided, however, that each such additional Event of Loss and event of Final Shutdown shall include, mutatis mutandis, the same qualifications and incorporate, mutatis mutandis, the same definitions as shall be provided in such New Facility Lease; provided further, however, that in connection with the foregoing the Owner Participant shall use its best efforts and shall be entitled to amalgamate any such additional Events of Loss and events of Final Shutdown into the then present provisions of the Facility Lease so as to incorporate such additional events, occurrences and circumstances therein succinctly. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

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6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated August 1, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.

7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.



IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title:

Date: November 17, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title:

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

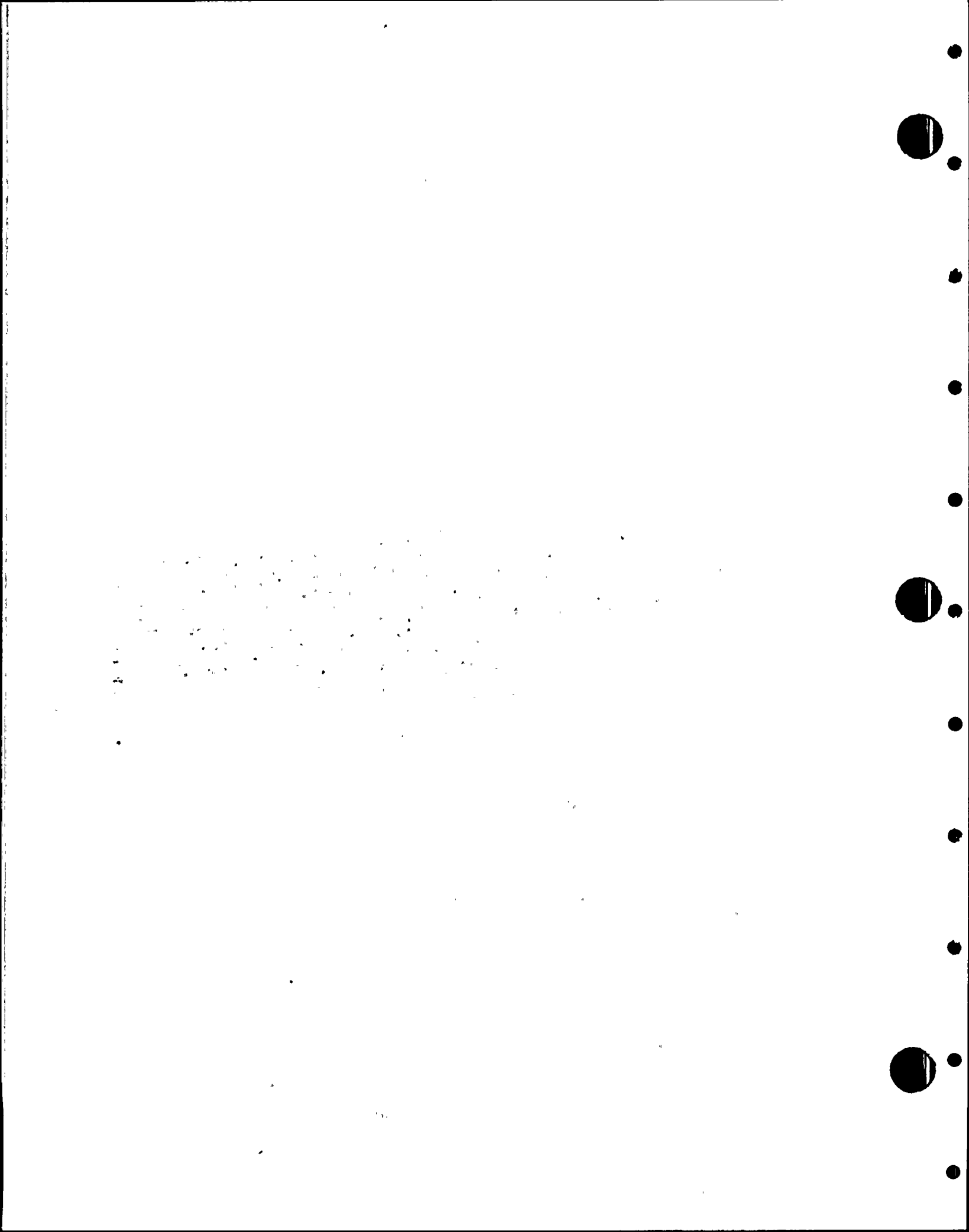
By at Robinson
Title: Senior Vice President and
Chief Financial Officer

Date: November 11, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title: ~~Senior Vice President and~~
~~Chief Financial Officer~~

Date: November __, 1986



IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title: AUTHORIZED OFFICER

Date: November 12, 1986

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CONSENT, AGREEMENT AND INSTRUCTION
BURNHAM LEASING CORPORATION

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, is hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.

In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. (a) The Lessee agrees that it will deliver to the Owner Participant, within 10 business days following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definitions of "Event of Loss" and "Final Shutdown" in the Facility Lease with the definitions of "event of loss" and "final shutdown" set forth in any of the New Facility Leases. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values attached to the Facility Lease.

(b) The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definition of "Deemed Loss Event" in the Facility Lease with the definition of "deemed loss event" set forth in any of the New Facility Leases. In connection with any such amendment, (a) such substituted definitions shall include and be subject

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to, mutatis mutandis, the same qualifications and waivers and incorporate, mutatis mutandis, the same definitions as shall be included in the New Facility Leases or to which the respective lessors party to the respective New Facility Leases shall be subject and (b) neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Special Casualty Values attached to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated July 31, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.



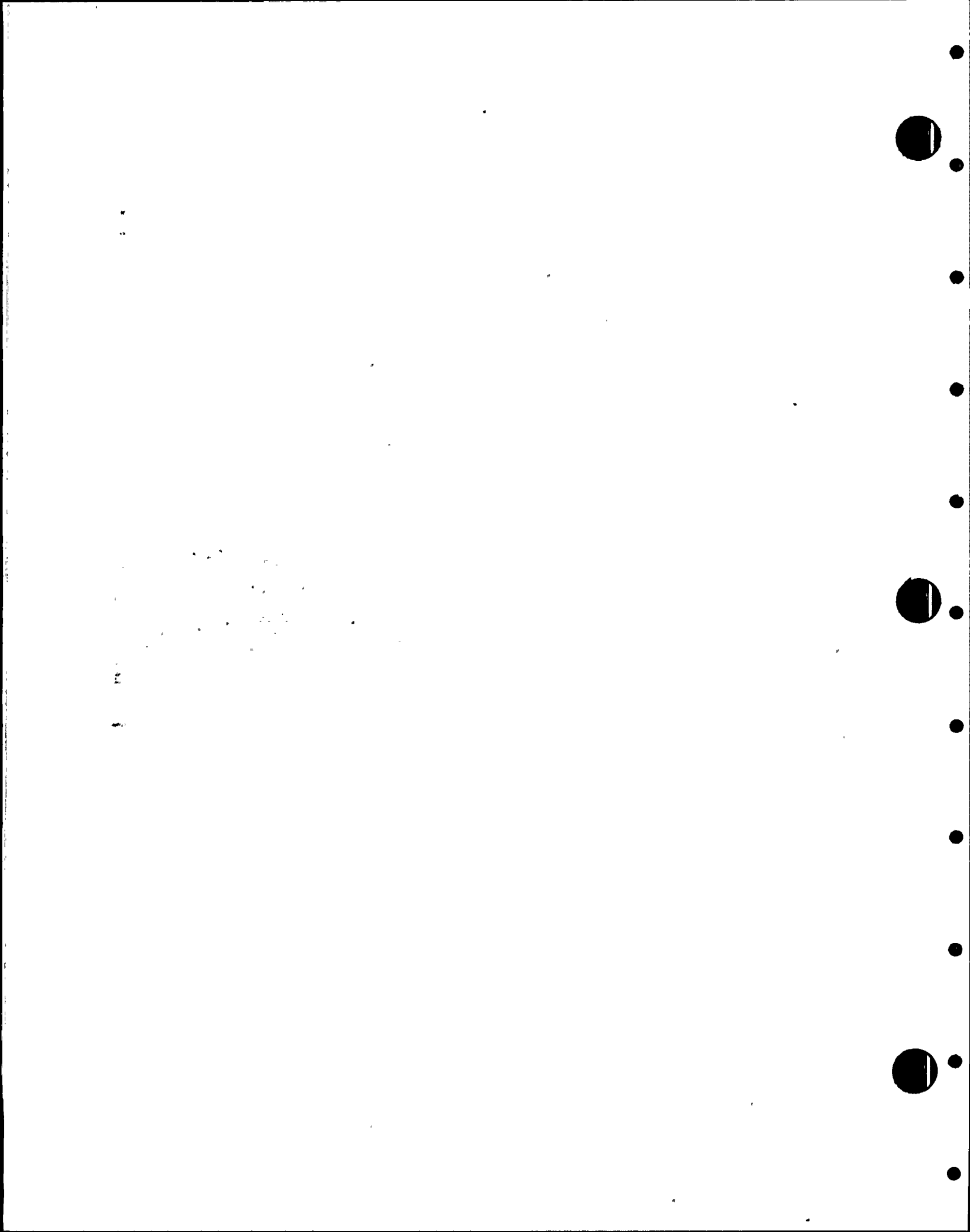
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1. The first part of the document is a list of names and addresses. The names are listed in the first column, and the addresses are listed in the second column. The names are: John Doe, Jane Smith, and Bob Johnson. The addresses are: 123 Main St, 456 Elm St, and 789 Oak St.

7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 above shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.



IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

BURNHAM LEASING CORPORATION

By

Kathleen P. [Signature]
Title: Vice President

Date: November 17, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By

Title:

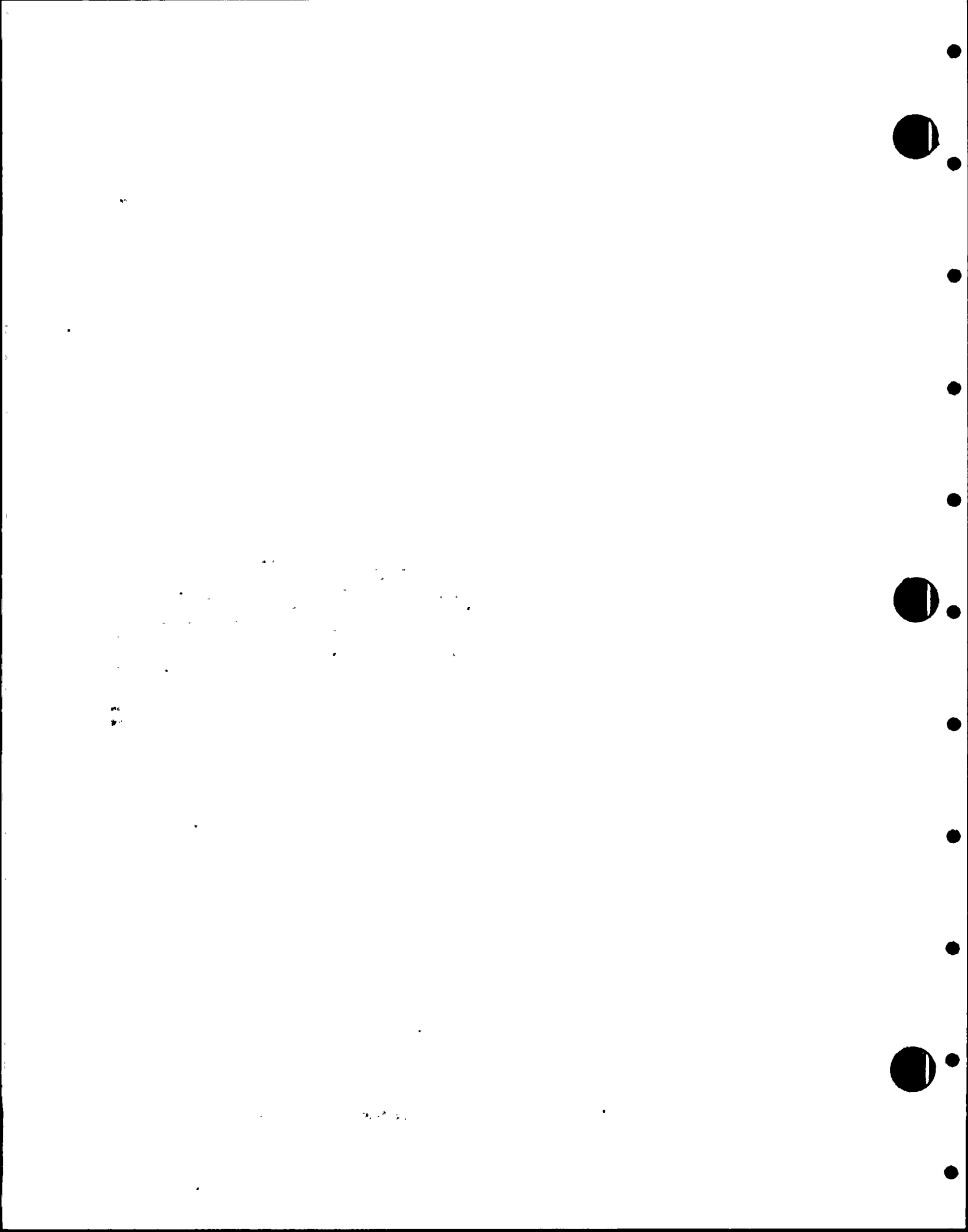
Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By

Title:

Date: November __, 1986



IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

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BURNHAM LEASING CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By 97 Roberson
Title: Senior Vice President and
Chief Financial Officer

Date: November 17, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: ~~... Senior Vice President And
Chief Financial Officer~~

Date: November __, 1986

IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

BURNHAM LEASING CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: AUTHORIZED OFFICER

Date: November 12, 1986

of the

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CONSENT, AGREEMENT AND INSTRUCTION
MFS LEASING CORP.

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, is hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.

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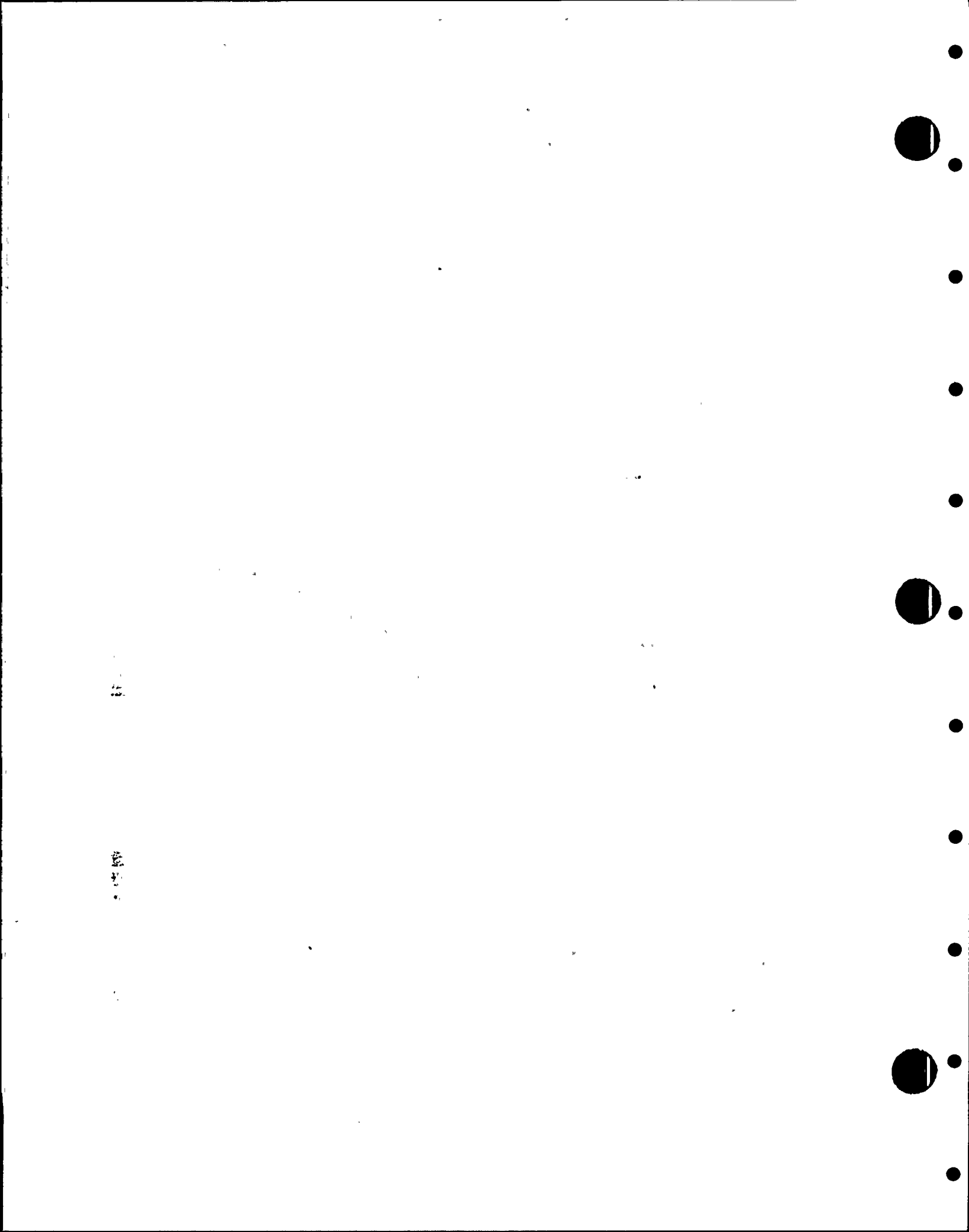
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In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. (a) The Lessee agrees that it will deliver to the Owner Participant, within 10 business days following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definitions of "Event of Loss" and "Final Shutdown" in the Facility Lease with the definitions of "event of loss" and "final shutdown" set forth in any of the New Facility Leases. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values attached to the Facility Lease.

(b) The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definition of "Deemed Loss Event" in the Facility Lease with the definition of "deemed loss event" set forth in any of the New Facility Leases. In connection with any such amendment, (a) such substituted definitions shall include and be subject



to, mutatis mutandis, the same qualifications and waivers and incorporate, mutatis mutandis, the same definitions as shall be included in the New Facility Leases or to which the respective lessors party to the respective New Facility Leases shall be subject and (b) neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Special Casualty Values attached to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated July 31, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.

7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 above shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.

[illegible]

Figure 4

6091.MFSU1.DEBT.76A:2

IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

MFS LEASING CORP.

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By *W. J. Robinson*
Title: Senior Vice President and
Chief Financial Officer

Date: November 17, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: ~~Senior Vice President and~~
~~Chief Financial Officer~~

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

MFS LEASING CORP.

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: AUTHORIZED OFFICER

Date: November 17, 1986

THE
FEDERAL
BUREAU OF
INVESTIGATION
OF THE
DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

FIRST PV FUNDING CORPORATION,
PUBLIC SERVICE COMPANY OF NEW MEXICO
and
CHEMICAL BANK,
as Trustee

UNIT 1 SUPPLEMENTAL INDENTURE OF PLEDGE
(LEASE OBLIGATION BONDS, SERIES 1986B)

dated as of December 15, 1986
to

COLLATERAL TRUST INDENTURE
dated as of December 16, 1985

Providing for the Pledge of
the Lessor Notes Specified
on Schedule 1 hereto

PALO VERDE NUCLEAR GENERATING STATION UNIT 1

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UNIT 1 SUPPLEMENTAL INDENTURE OF PLEDGE (LEASE OBLIGATION BONDS, SERIES 1986B), dated as of December 15, 1986, among FIRST PV FUNDING CORPORATION, a Delaware corporation (the Company), PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM), and CHEMICAL BANK, as trustee (the Trustee).

WHEREAS, the Company and PNM have heretofore executed and delivered to the Trustee an indenture dated as of December 16, 1985 (as heretofore amended and supplemented, the Original Indenture);

WHEREAS, Section 11.01(4) of the Original Indenture provides, among other things, that the Company and the Trustee may, without the consent of the Holders of any Securities, enter into an indenture supplemental to the Original Indenture to convey, transfer and assign to the Trustee, and to subject to the Lien of the Original Indenture, additional Pledged Lessor Notes;

WHEREAS, PNM and the Company have heretofore executed and delivered the Series 1986B Bond Supplemental Indenture, dated as of November 18, 1986 (the Series 1986B Bond Supplemental Indenture), to the Trustee, and the Company issued thereunder a series of Securities designated "Lease Obligation Bonds, Series 1986B" (the Series 1986B Securities) in the aggregate principal amount of \$460,000,000;

WHEREAS, the Company, in accordance with Section 2.15(a) of the Original Indenture, deposited with the Trustee the proceeds of sale of the Series 1986B Securities;

WHEREAS, the Company has heretofore obtained the release of \$372,000,000 from such proceeds of sale;

WHEREAS, the Company, (i) in accordance with Sections 2.15(b) and 13.01 of the Original Indenture, desires to obtain the release of \$60,000,000 from such proceeds of sale and to cause the application thereof in the manner specified by such Section 2.15(b) and (ii) has requested the Trustee to enter into this Supplemental Indenture of Pledge for the purpose, among others, of meeting the condition to such release set forth in clause (a) of such Section 13.01; and

Figure 1 shows a vertical sequence of 10 micrographs illustrating the development of a zebrafish embryo. The images are labeled 1 through 10. 1: Fertilized egg. 2: Two-cell stage. 3: Four-cell stage. 4: Morula stage. 5: Gastrula stage. 6: Tail bud stage. 7: Hatching stage. 8: Early larval stage. 9: Larval stage with yolk sac. 10: Larval stage with yolk sac.

WHEREAS, all acts and things necessary to constitute these presents a valid and binding supplemental indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Indenture of Pledge has in all respects been duly authorized, and the Company, in the exercise of legal right and power in it vested, executes this Supplemental Indenture of Pledge;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE OF PLEDGE WITNESSETH:

That in consideration of the premises and of the sum of one dollar to it duly paid by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company and PNM each covenants and agrees with the Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Securities, as follows:

ARTICLE ONE

PLEDGE OF LESSOR NOTES

To secure the payment of the principal of, premium (if any) and interest on all the Securities from time to time Outstanding under the Original Indenture, and the performance of the covenants therein and herein contained, the Company by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, hypothecate, pledge, confirm and create a security interest in, unto the Trustee, the Lessor Notes identified on Schedule 1 hereto (herein referred to as the Pledged Lessor Notes).

TO HAVE AND TO HOLD the aforesaid Pledged Lessor Notes unto the Trustee and its successors and assigns forever, in trust and for the uses and purposes and subject to the covenants and conditions set forth in the Original Indenture.

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ARTICLE TWO

MISCELLANEOUS

SECTION 2.01. Execution as Supplemental Indenture.

This Supplemental Indenture of Pledge is executed and shall be construed as an indenture supplemental to the Original Indenture and, as provided in the Original Indenture, this Supplemental Indenture of Pledge forms a part thereof. Except as herein or in Schedule 1 hereto expressly otherwise defined, the use of the terms and expressions herein is in accordance with the definitions, uses and constructions contained in the Original Indenture.

SECTION 2.02. Responsibility for Recitals, Etc.

The recitals contained herein shall be taken as the statements of the Company and PNM, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture of Pledge or the Series 1986B Securities.

SECTION 2.03. Provisions Binding on Successors.

All the covenants, stipulations, promises and agreements in this Supplemental Indenture of Pledge contained by or in behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 2.04. New York Contract.

This Supplemental Indenture of Pledge shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said state.

SECTION 2.05. Counterparts.

This Supplemental Indenture of Pledge may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company, PNM and the Trustee have caused this Supplemental Indenture of Pledge to be duly executed by their respective officers thereunto duly authorized, as of the date and year first above written.

FIRST PV FUNDING CORPORATION.

[CORPORATE SEAL]

By _____
Title: _____

Attest:

Assistant Secretary

PUBLIC SERVICE COMPANY
OF NEW MEXICO

[CORPORATE SEAL]

By L. Leopold
Title: _____

VICE PRESIDENT AND TREASURER

Attest:

K.A. Wright
Assistant Secretary



CHEMICAL BANK,
as Trustee

[CORPORATE SEAL]

By


Vice President

Attest:


Trust Officer

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STATE OF NEW YORK)
 : SS.:
COUNTY OF NEW YORK)

On this 6th day of December, 1986, before me personally came M.J. Barbera, to me known; who, being by me duly sworn, did depose and say that he resides at Wilmington, Delaware; that he is a Vice President of FIRST PV FUNDING CORPORATION, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]

David A. Spivak

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-433463
Qualified in New York County
Commission Expires March 30, 1987



STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this th day of December, 1986, before me personally came L.W. Reynolds, Jr., to me known, who, being by me duly sworn, did depose and say that he resides at Albuquerque, New Mexico; that he is the Vice President and Treasurer of PUBLIC SERVICE COMPANY OF NEW MEXICO, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]

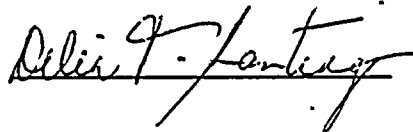
Delia T. Santiago

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 16th day of December, 1986, before me personally came T.J. Foley, to me known, who, being by me duly sworn, did depose and say that he resides at Bethpage, New York; that he is a Vice President of CHEMICAL BANK, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]



DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

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SCHEDULE 1
to
UNIT 1
SUPPLEMENTAL INDENTURE
OF PLEDGE

As used with reference to this Supplemental Indenture of Pledge, the following terms have the following meanings:

(1) Lease Indenture means the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986, between the Indenture Trustee and the Owner Trustee.

(2) Lessor Note means each of (i) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 1992), in the amount of \$3,300,000, (ii) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 1997), in the amount of \$8,060,000 and (iii) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 2015), in the amount of \$48,640,000, each dated December 17, 1986, payable by the Owner Trustee to the Company.

(3) Lessor or Owner Trustee means The First National Bank of Boston, a national banking association (FNB), in its capacity as owner trustee under the Trust Agreement, dated as of December 15, 1986, with the owner participant named therein.

(4) Indenture Trustee means Chemical Bank, a New York banking corporation, as Trustee.

(5) Lease means the Facility Lease, dated as of December 15, 1986, between PNM, as lessee, and the Owner Trustee, as lessor.

(6) Participation Agreement means the Participation Agreement dated as of December 15, 1986, among the Owner Participant party thereto, the Company, FNB in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and PNM.

PUBLIC SERVICE COMPANY OF NEW MEXICO

Sale and Leaseback of an Undivided Interest in
Palo Verde Nuclear Generating Station Unit 2
and Certain Common Facilities*

Chase Manhattan Realty Leasing Corporation

December 17, 1986

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*Debt provided from proceeds of Lease
Obligation Bonds, Series 1986B.

6091.CHASEU2:LEASE.69:1



PARTICIPATION AGREEMENT

dated as of December 15, 1986

among

CHASE MANHATTAN REALTY LEASING CORPORATION
as Owner Participant

FIRST PV FUNDING CORPORATION,
as Loan Participant

THE FIRST NATIONAL BANK OF BOSTON,
in its individual capacity and as Owner Trustee
under a Trust Agreement,
dated as of December 15, 1986,
with the Owner Participant, as Owner Trustee

CHEMICAL BANK,
in its individual capacity and as Indenture Trustee
under a Trust Indenture, Mortgage, Security Agreement
and Assignment of Rents,
dated as of December 15, 1986,
with the Owner Trustee, as Indenture Trustee

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,
as Lessee

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2
and a .2644444% Undivided Interest in Certain Common
Facilities

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PARTICIPATION AGREEMENT

PARTICIPATION AGREEMENT, dated as of December 15, 1986 among CHASE MANHATTAN REALTY LEASING CORPORATION, a New York corporation (the Owner Participant), FIRST PV FUNDING CORPORATION, a Delaware corporation (the Loan Participant), THE FIRST NATIONAL BANK OF BOSTON, a national banking association, in its individual capacity (FNB) and as Owner Trustee (the Owner Trustee) under a Trust Agreement, dated as of December 15, 1986, with the Owner Participant, CHEMICAL BANK, a New York banking corporation, in its individual capacity (Chemical Bank) and as Indenture Trustee (the Indenture Trustee) under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986, with the Owner Trustee, and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico Corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Owner Participant desires to cause the Trust to acquire the Undivided Interest and the Real Property Interest and to lease the Undivided Interest and the Real Property Interest to the Lessee under the Facility Lease;

WHEREAS, the Lessee desires to sell the Undivided Interest and the Real Property Interest to the Trust and lease the Undivided Interest and the Real Property Interest back from the Trust under the Facility Lease;

WHEREAS, the Owner Trustee and the Lessee will enter into the Purchase Documents with respect to the sale and purchase of the Undivided Interest and the Real Property Interest;

WHEREAS, pursuant to the terms and provisions of the Indenture, the Owner Trustee will authorize the creation, issuance, sale and delivery of the Fixed Rate Notes and the granting of the security therefor, and the Indenture Trustee will authenticate the Fixed Rate Notes; and

WHEREAS, the Loan Participant is willing to purchase the Fixed Rate Notes on the terms and conditions set forth herein;

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NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For the purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in Appendix A. References in this Participation Agreement to sections, paragraphs and clauses are to sections, paragraphs and clauses in this Participation Agreement unless otherwise indicated.

SECTION 2. Participation by the Loan Participant.

(a) **Loan Participant's Commitment.** Subject to the satisfaction of the conditions in Sections 5(a) and 11(a), on the Closing Date the Loan Participant agrees to lend to the Owner Trustee, on a non-recourse basis, an amount (the Loan) equal to 79.646017% of the Purchase Price.

(b) **Payment; Terms of the Fixed Rate Notes.**

(1) **Payment.** Proceeds of the Loan shall be paid directly to the Indenture Trustee, for the account of the Owner Trustee, in immediately available funds, at the Indenture Trustee's Office.

(2) **Terms of the Fixed Rate Notes.** The Loan shall be evidenced by the Fixed Rate Notes. The Fixed Rate Notes shall be issued by the Owner Trustee under and pursuant to the Indenture, shall be in the principal amount of the Loan and shall bear interest at the rate or rates per annum and shall be payable as set forth in the Indenture.



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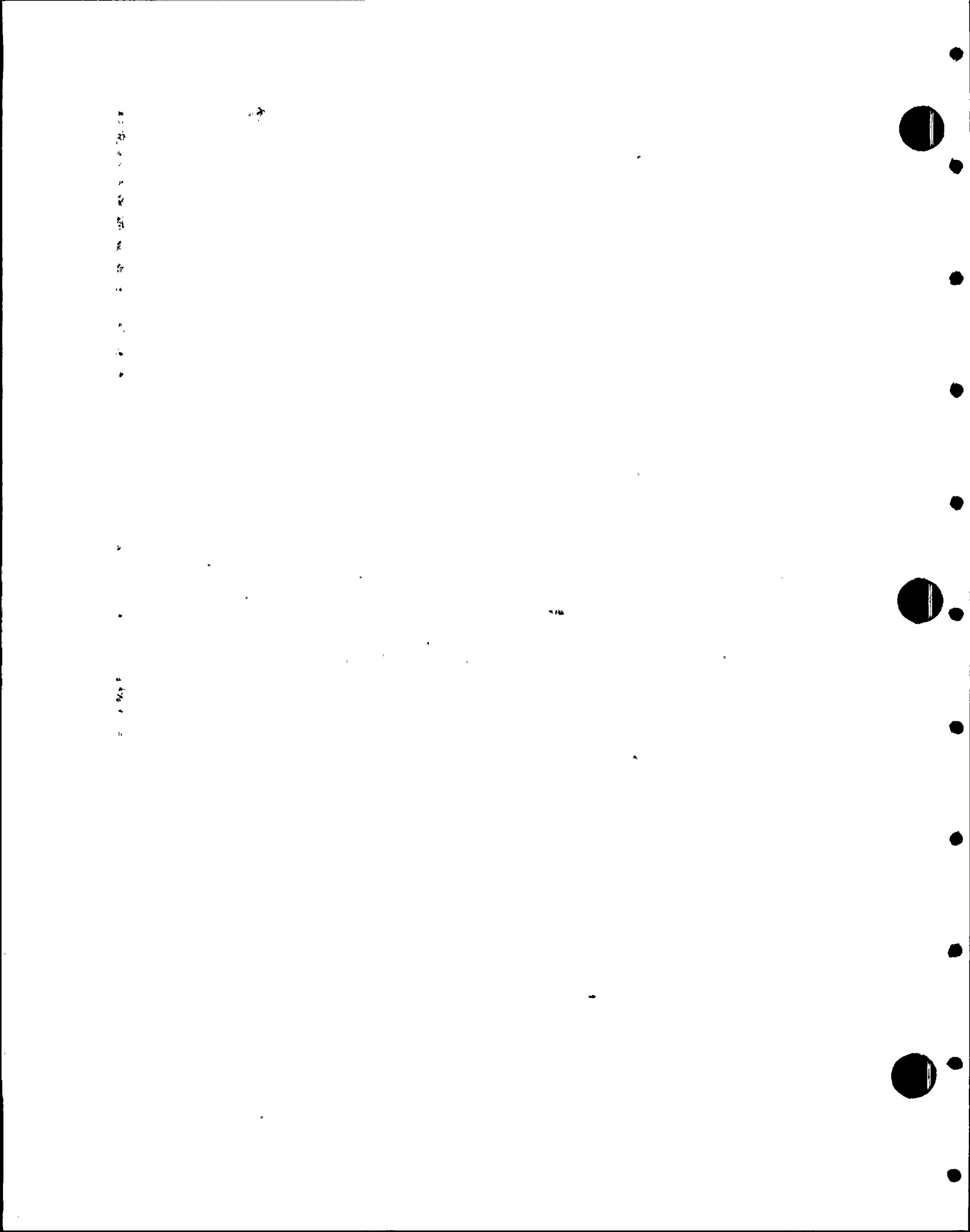
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SECTION 3. Participation by the Owner Participant.

Subject to the satisfaction of the conditions in Sections 5(a) and 11(a), on the Closing Date the Owner Participant agrees to (i) make an equity investment with respect to the Undivided Interest in an amount (the Investment) equal to 20.353983% of the Purchase Price, (ii) make an equity investment with respect to the Real Property Interest in the amount set forth in the Notice of Closing (the Real Estate Investment), and (iii) provide to the Owner Trustee an amount equal to the Estimated Transaction Expenses. Proceeds of the Investment and the Real Estate Investment shall be paid directly to the Indenture Trustee, in immediately available funds, at the Indenture Trustee's Office. The Estimated Transaction Expenses shall be paid to the Owner Trustee, in immediately available funds, at 100 Federal Street, Boston, Massachusetts 02110 Attention: Manager, Corporate Trust Department.

SECTION 4. Purchase, Sale, Financing and Lease of the Undivided Interest; Purchase, Sale and Lease of the Real Property Interest.

(a) The Undivided Interest. Subject to (x) the satisfaction of the conditions in Sections 5(a) and 11(a), (y) receipt from the Owner Participant of the Investment and an amount equal to Estimated Transaction Expenses and (z) receipt from the Loan Participant of the proceeds of the Loan, on the Closing Date the Owner Trustee shall (i) cause the Trust to purchase the Undivided Interest from the Lessee for \$35,155,556 (the Purchase Price) and (ii) disburse an amount equal to the Estimated Transaction Expenses as contemplated by Section 14. Subject to the satisfaction of the conditions in Section 11(b), on the Closing Date the Lessee shall sell the Undivided Interest to the Trust for the Purchase Price. Concurrently with such purchase and sale, the Trust shall lease the Undivided Interest to the Lessee, and the Lessee shall lease the Undivided Interest from the Trust, pursuant to the Facility Lease.



(b) The Real Property Interest. Subject to (x) the satisfaction of the conditions in Sections 5(a) and 11(a) and (y) receipt from the Owner Participant of the Real Estate Investment, on the Closing Date the Owner Participant shall cause the Trust to purchase the Real Property Interest from the Lessee for a purchase price equal to the Real Estate Investment. Subject to the satisfaction of the conditions in Section 11(b), on the Closing Date the Lessee shall sell the Real Property Interest to the Trust for such purchase price. Concurrently with such purchase and sale, the Trust shall lease the Real Property Interest to the Lessee, and the Lessee shall lease the Real Property Interest from the Trust, pursuant to the Facility Lease.

SECTION 5. Notice of Closing; Closing.

(a) Notice of Closing. Not later than two Business Days prior to the Closing Date, the Lessee shall deliver to the Owner Participant, the Owner Trustee, the Loan Participant, the Collateral Trust Trustee and the Indenture Trustee a notice, substantially in the form of Schedule 1 (the Notice of Closing), which shall (i) state that the Closing Date shall occur on the date specified therein, (ii) set forth a list of the then known Transaction Expenses payable by the Owner Trustee pursuant to Section 14(a) (the Estimated Transaction Expenses) and (iii) provide payment instructions in respect of the disposition of the Purchase Price and the amount of the Real Estate Investment.

(b) Closing. Upon satisfaction of the conditions in Section 5(a) and Section 11(a) and upon receipt from the Owner Participant of the amount of the Investment, the Real Estate Investment and the Estimated Transaction Expenses and from the Loan Participant of the Loan, on the Closing Date the Owner Trustee shall (i) instruct the Indenture Trustee to pay to the Lessee an amount equal to the Purchase Price and the amount of the Real Estate Investment in immediately available funds and (ii) disburse the Estimated Transaction Expenses as contemplated by Section 14. Upon

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satisfaction of the conditions in Section 11(b), on the Closing Date, the Lessee shall deliver to the Owner Trustee the Bill of Sale, the Deed and the Assignment of Beneficial Interest.

SECTION 6. Representations, Warranties and Agreements of the Loan Participant; Direction to the Indenture Trustee.

(a) The Loan Participant represents and warrants that:

(1) **Due Organization.** The Loan Participant is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware and has the corporate power and authority to carry on its business as presently conducted, own its properties, and enter into and perform its obligations under this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become on or before the Closing Date, a party.

(2) **Due Authorization; Enforceability.** The execution, delivery and performance by the Loan Participant of this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become, a party on or before the Closing Date, have been duly authorized by all necessary corporate action on the part of the Loan Participant and do not require the consent or approval of the stockholder of the Loan Participant. This Participation Agreement and each other Transaction Document and each Financing Document to which the Loan Participant is, or is to become, a party, have been, or on or before the Closing Date will have been, duly executed and delivered by the Loan Participant and constitute, or upon execution and delivery thereof will constitute, legal, valid and binding agreements of the Loan Participant enforceable against it in accordance with their respective terms.

(3) No Violation. Neither the execution, delivery or performance by the Loan Participant of this Participation Agreement, any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party, nor the consummation by the Loan Participant of the transactions contemplated hereby or thereby, nor compliance by the Loan Participant with the provisions hereof or thereof conflicts or will conflict with, or results or will result in the breach of any provision of, the Certificate of Incorporation or By-Laws of the Loan Participant or any Applicable Law or any indenture, mortgage or agreement to which the Loan Participant is a party or by which it or its property is bound or requires any Governmental Action, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished.

(4) No Other Business. Except as contemplated by this Participation Agreement, the other Transaction Documents and the Financing Documents and except as otherwise contemplated by the Section 6(c) Application, the Loan Participant has not engaged, and will not engage, in any business or activity of any type or kind whatever.

(5) ERISA. The Loan Participant is not acquiring any Note with the "plan assets" of any "employee benefit plan" within the meaning of section 3(3) of ERISA or any "plan" within the meaning of section 4975(e)(1) of the Code.

(6) Securities Act. The Loan Participant understands that (i) none of the Notes to be acquired by it has been registered under the Securities Act and (ii) each will bear the legend set forth in the form of such Notes. The Loan Participant will acquire each Note to be acquired by it hereunder and under the Indenture solely for purposes of pledging such Notes to the Collateral Trust Trustee to secure Bonds issued from time to time under the Collateral Trust Indenture.

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(b) **Agreements of the Loan Participant.** The Loan Participant agrees that:

(1) **Transfers of the Notes.** Any transfer or assignment of any Note or of all or any part of the Loan Participant's interest hereunder or under any other Transaction Document or any Financing Document shall be effected in a transaction constituting an exempted transaction under the Securities Act and on the express condition that the transferee, assignee or participant shall agree to be bound by the terms and provisions hereof and thereof. Neither the Loan Participant nor any subsequent Holder of a Note may sell, exchange or transfer any Note to any other Person (other than the Collateral Trust Trustee) unless such transferee delivers to the other parties hereto a representation and warranty (and an opinion of counsel satisfactory to each of the other parties hereto) to the effect that neither the transfer of such Note to, nor the ownership of such Note by, such transferee will cause such transferee, or any other party hereto, to be engaged in a "prohibited transaction", as defined in section 406 of ERISA or section 4975 of the Code, which is not at such time subject to an exemption contained in ERISA or in the rules, regulations, releases or bulletins adopted thereunder.

(2) **Quiet Enjoyment.** The Loan Participant acknowledges Section 6(a) of the Facility Lease.

(3) **No Other Business.** During such time as any Note is outstanding and held by the Loan Participant or the Collateral Trust Trustee, the Loan Participant will not (i) engage in any business or activity other than (1) in connection with the Transaction Documents or the Financing Documents or (2) as otherwise contemplated by the Section 6(c) Application or (ii) amend or engage in any activity or take any action not permitted by Article THIRD, FOURTH or SIXTH of its Certificate of Incorporation, as in effect on the date of execution and delivery

hereof, without, in each case, the consent of the other parties hereto.

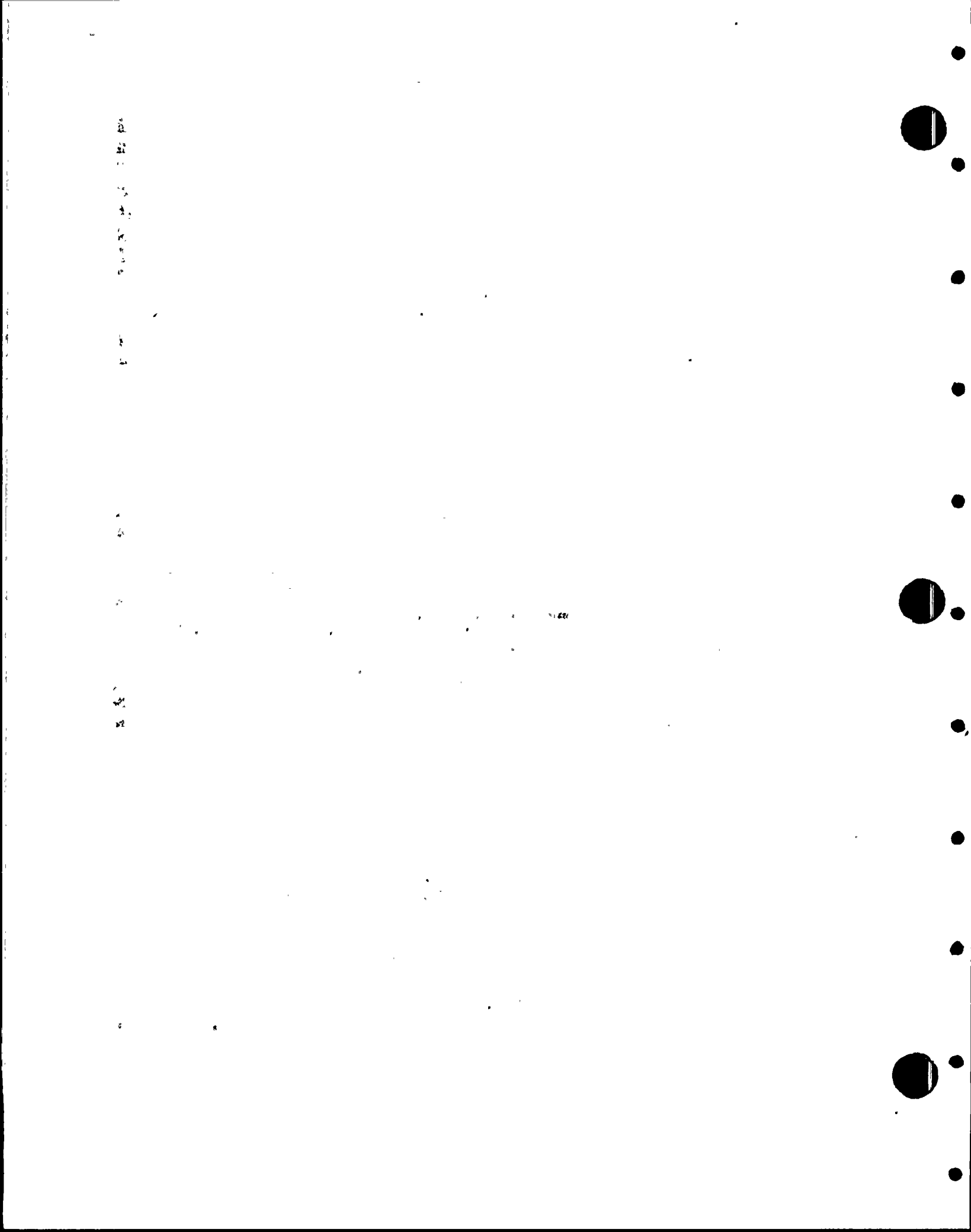
(c) **Direction to the Indenture Trustee.** The Loan Participant, as purchaser of the Fixed Rate Notes, (i) hereby authorizes and directs the Indenture Trustee to execute, deliver and perform this Participation Agreement, (ii) hereby authorizes and directs the Indenture Trustee to register such Notes in the name of the Loan Participant and, upon authentication and delivery thereof pursuant to this Participation Agreement and the Indenture, to deliver such Notes (upon completion by the Loan Participant of the assignment attached to each of the Fixed Rate Notes) to the Collateral Trust Trustee pursuant to the Collateral Trust Indenture, (iii) acknowledges and agrees that, in connection with this Participation Agreement, the Indenture Trustee shall have the benefits and protections of Article VIII of the Indenture and (iv) agrees that, in the event of a conflict between the provisions of this Participation Agreement and the Indenture, the Indenture Trustee shall, as between the Indenture Trustee and the Loan Participant, be fully protected in relying on the express terms of the Indenture.

SECTION 7. Representations, Warranties and Agreements of the Owner Participant.

(a) **Representations and Warranties.** The Owner Participant represents and warrants that:

(1) **Due Organization.** The Owner Participant is a corporation duly organized and validly existing in good standing under the laws of the state of its incorporation and has the corporate power and authority to enter into and perform its obligations under this Participation Agreement and each other Transaction Document to which it is, or is to become, a party.

(2) **Due Authorization.** This Participation Agreement and each other Transaction Document to which the Owner Participant is, or is to become on



or before the Closing Date, a party have been duly authorized by all necessary corporate action on the part of the Owner Participant and do not require the consent or approval of its stockholders or any trustee or holder of any of its indebtedness or other obligations, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished.

(3) Execution. This Participation Agreement and each other Transaction Document to which the Owner Participant is, or is to become on or before the Closing Date, a party have been, or on or before the Closing Date will have been, duly executed and delivered by the Owner Participant and constitute, or upon execution and delivery thereof will constitute, its legal, valid and binding agreements, enforceable against it in accordance with their respective terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally).

(4) No Violation. Neither the execution, delivery or performance by the Owner Participant of this Participation Agreement or any other Transaction Document to which it is, or is to become on or prior to the Closing Date, a party, nor the consummation by the Owner Participant of the transactions contemplated hereby or thereby, nor compliance by the Owner Participant with the provisions hereof or thereof, conflicts with, or results in the breach of any provision of, or is inconsistent with, its documents of incorporation or By-Laws or contravenes any Applicable Law applicable to it or any of its Affiliates, or any indenture, mortgage or agreement for borrowed money to which the Owner Participant is a party or any other agreement or instrument to which the Owner Participant is a party or by which it or its property is bound or requires any Governmental Action with respect to the Owner Participant under Federal or New York law on or before the Closing Date, except such as are contemplated by the Transaction Documents or the

Financing Documents or such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that the Owner Participant makes no representation or warranty as to any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Nuclear Waste Act, ERISA (except to the extent set forth in paragraph (9) below), the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, energy or nuclear matters, public utilities, the environment, health and safety or Unit 2.

(5) No Owner Participant's Liens. Neither the execution and delivery by the Owner Participant of this Participation Agreement or any other Transaction Document to which the Owner Participant is, or is to become on or before the Closing Date, a party, nor the performance by the Owner Participant of its obligations hereunder or thereunder, will subject the Trust Estate or the Lease Indenture Estate, or any portion of either thereof, to any Owner Participant's Lien.

(6) Acquisition. The Owner Participant is acquiring the beneficial interest in the Trust Estate for its own account in the ordinary course of its business and the Owner Participant has no intention of making any sale or other distribution of the beneficial interest in the Trust Estate in violation of any legislation, rule or regulation relating to limitations upon the sale or other distribution of interests such as such beneficial interest.

(7) No Prior Security Interest. There exists no security interest in or other Lien on the Lease Indenture Estate in the state of the chief place of business of the Owner Participant, the State of New Mexico or the State of Arizona arising as a result of claims against the Owner Participant unrelated to the transactions contemplated by the Transaction

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Documents or the Financing Documents which is prior to the Indenture Trustee's security interest in the Lease Indenture Estate.

(8) No Sales or Solicitations. Except as contemplated by the Financing Documents and as described in a letter to the Lessee dated November 17, 1986, neither the Owner Participant nor anyone acting on its behalf has directly or indirectly offered or sold, or solicited any offer to acquire, any beneficial interest in the Trust Estate or any Note or any Bond.

(9) ERISA. The Owner Participant is not acquiring its interests in the Trust with the "plan assets" of any "employee benefit plan" within the meaning of section 3(3) of ERISA or any "plan" within the meaning of section 4975(e)(1) of the Code.

(b) Agreements of the Owner Participant. The Owner Participant agrees that:

(1) No Owner Participant's Liens. The Owner Participant will not create or permit to exist, and, at its own cost and expense, will promptly take such action as may be necessary duly to discharge, all Owner Participant's Liens.

(2) Quiet Enjoyment. The Owner Participant acknowledges the provisions of Section 6(a) of the Facility Lease and Section 8(c) of this Participation Agreement.

(3) No-Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Owner Participant agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of, or in respect of, the Loan Participant under the

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Bankruptcy Code, or any other applicable Federal or state law or the law of the District of Columbia.

(4) **Transfer of Interest in the Trust Estate.** Unless the Lessee shall have assumed the Notes as contemplated by Section 3.9(b) of the Indenture, upon receipt by the Owner Participant under Section 5.2 of the Indenture of the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 of the Facility Lease and, if applicable, compliance in full by the Lessee with Section 9(f) of the Facility Lease, the Owner Participant shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time following the occurrence of an Event of Loss, Deemed Loss Event or a Default or Event of Default or event giving rise to the exercise of the Cure Option the Owner Participant may, assign, convey and transfer to the Lessee all of the Owner Participant's right, title and interest in, to and under the Trust Estate (except the right to receive Excepted Payments), such transfer (i) to be free and clear of Owner Participant's Liens but otherwise without recourse, representation or warranty and (ii) if the Owner Participant so elects, to be effected by the execution and delivery by the Owner Participant to the Lessee of a Bill of Sale and Assignment substantially in the form of Exhibit A hereto (and upon the execution and delivery thereof and the furnishing of executed counterparts thereof to the Owner Trustee such transfer shall be and become effective automatically and without further action by the Owner Trustee, the Owner Participant, the Lessee, the Lessor, the Indenture Trustee or any other Person). The Lessee hereby agrees to accept the transfer contemplated by this Section 7(b)(4) and the parties hereto acknowledge and agree that at the time of such transfer the Lessee shall be deemed to be a Transferee that has satisfied all conditions set forth in Section 15(a) of this Participation Agreement and Section 11.09 of the Trust Agreement.

If, in accordance with the preceding paragraph, the Owner Participant shall assign, convey and transfer to the Lessee all of the Owner Participant's right, title and interest in, to and under the Trust Estate (except the right to receive Excepted Payments) following the occurrence of an Event of Loss, Deemed Loss Event or a Default or Event of Default or event giving rise to the Cure Option, but the transferring Owner Participant shall not have received under Section 5.2 of the Indenture the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be, the obligation of the Lessee to make such payments (together with interest thereon in accordance with Section 3(b)(iii) of the Facility Lease) (or to make other payments in a like amount with respect to Basic Rent or Supplemental Rent paid by application of such payments (and in which the Owner Trustee has thereby acquired an interest) pursuant to Section 5.1 or 5.3 of the Indenture) shall not be deemed to be cancelled or discharged but shall continue until all such amounts are so received by the Lessee, as successor Owner Participant, or by the transferring Owner Participant pursuant to the following provisions of this Section 7(b)(4). The Lessee as successor Owner Participant hereby agrees to pay to the transferring Owner Participant on the date of transfer an amount equal to the amount of the payments to be made to the Lessor as provided in Section 9(c), 9(d) or 16 together with interest thereon at the Penalty Rate (computed in accordance with the Facility Lease) from the date of transfer, such payments (the Secured Obligations) to be made only from amounts payable to the Owner Participant from the Trust Estate. The Secured Obligations shall be secured by (and the Lessee hereby grants to the transferring Owner Participant a security interest in and general lien upon) all of the right, title and interest of the Lessee as successor Owner Participant in, to and under the Trust Estate. In connection therewith, the Lessee as successor Owner Participant hereby agrees as follows:

(i) . The transferring Owner Participant shall have all of the rights and remedies of a secured party under the Uniform Commercial Code as in effect in the State of New York (as such law may at any time be amended).

(ii) Upon the occurrence of such transfer, the Lessee as successor Owner Participant shall appoint, and hereby does appoint, the transferring Owner Participant its attorney-in-fact, irrevocably, with full power of substitution, to the exclusion of the Lessee as successor Owner Participant, to ask for, require, demand, receive and give acquittance for any and all moneys and claims for moneys due and to become due to the Lessee as successor Owner Participant under or arising out of the Trust Estate, to endorse any checks or other instruments or orders in connection therewith, and to take any action (including the filing of financing statements or other documents and the delivery of written instructions to the Owner Trustee and the Indenture Trustee specifying that all payments to be made to the Lessee as successor Owner Participant under the Trust Agreement and the Indenture shall be made directly to the transferring Owner Participant so long as any portion of the Secured Obligations remains outstanding) or institute any proceedings which the transferring Owner Participant may deem necessary or appropriate to protect and preserve the security interest of the transferring Owner Participant in the Trust Estate and the rights of the transferring Owner Participant to receive payments thereunder.

(iii) Upon the occurrence of such transfer, and until the Secured Obligations have been paid in full, the Lessee (in its capacity as such and as successor Owner Participant) shall not, without the prior written consent of the transferring Owner Participant (1) take any

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action or deliver any instruction under any Transaction Document the effect of which would be to (A) relieve or otherwise affect the obligation of the Lessee to make such payments, (B) terminate the Trust Agreement, (C) terminate or rescind the Facility Lease, (D) sell, assign, transfer or deliver the Trust Estate to any Person (except, in the case of the Trust Estate, as contemplated by Section 9(j) of the Facility Lease) or (2) accept, or approve, any amendment to any Transaction Document.

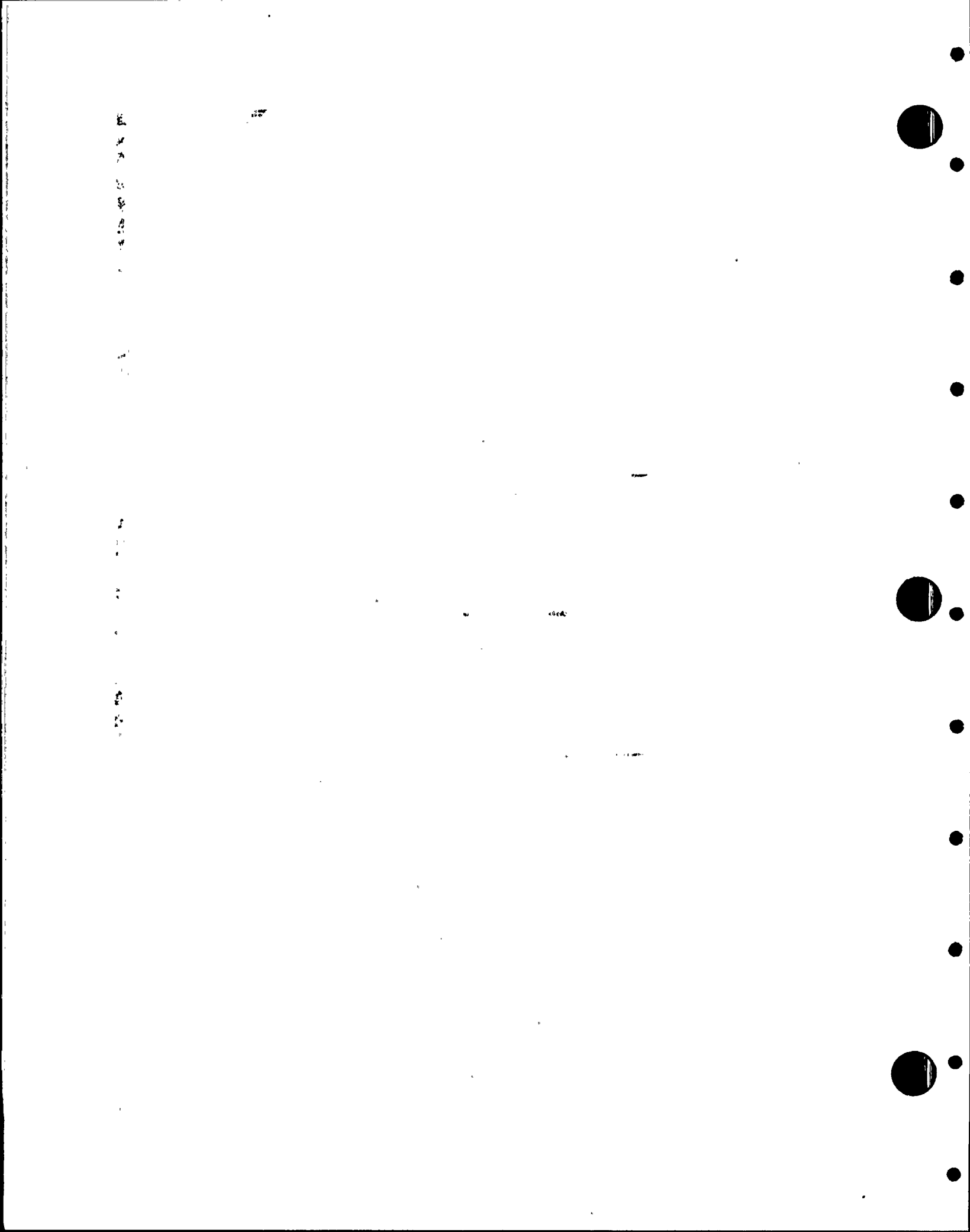
(iv) The Lessee (as such and as successor Owner Participant) covenants and agrees to do all such acts and execute all such instruments of further assurance as shall be reasonably requested from time to time by the transferring Owner Participant for the purpose of fully carrying out and effectuating the provisions of this Section 7(b)(4) and the intent thereof.

Upon the payment in full of the Secured Obligations, the security interest hereinabove provided shall terminate and the transferring Owner Participant, at the request of the Lessee as successor Owner Participant, shall execute and deliver to the Lessee as successor Owner Participant such termination statements, releases or other instruments presented to the transferring Owner Participant as shall be reasonably required to effect such termination.

SECTION 8. Representations, Warranties and Agreements of the Owner Trustee and FNB.

(a) Representations and Warranties. FNB as Owner Trustee and (except as otherwise provided in the last sentence of this Section 8(a)) in its individual capacity, represents and warrants that:

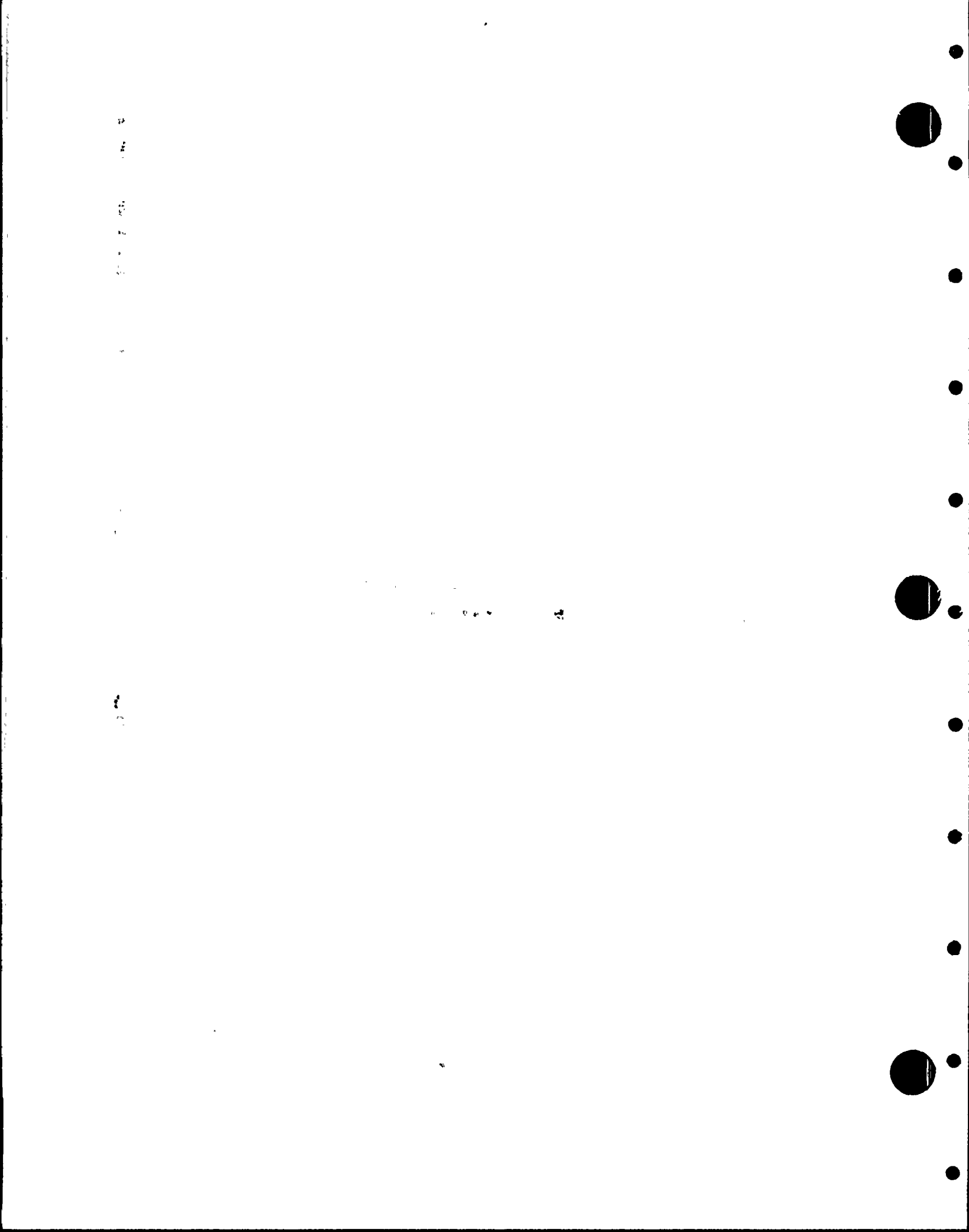
(1) Due Organization. FNB is a national banking association duly organized and validly existing in good standing under the laws of the United States of America and has all requisite corporate power and



authority to enter into and perform its obligations under (x) the Trust Agreement and, to the extent it is a party hereto in its individual capacity, this Participation Agreement and (y) acting as Owner Trustee, this Participation Agreement and each other Transaction Document to which FNB is, or is to become on or before the Closing Date, a party as Owner Trustee.

(2) **Due Authorization; Enforceability; etc.** This Participation Agreement and each other Transaction Document to which FNB is, or is to become on or before the Closing Date, a party have been duly authorized by all necessary corporate action of FNB (in its individual capacity or as Owner Trustee, as the case may be) and, upon execution and delivery hereof and thereof, this Participation Agreement and each such other Transaction Document will be duly executed and delivered and will be legal, valid and binding agreements of FNB (in its respective capacities), enforceable against it (in its respective capacities) in accordance with their respective terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally); it being understood that FNB is not making any representation or warranty as to the priorities of the Liens created or to be created under any Transaction Document, title to the Trust Estate or recordings or filings necessary in connection therewith.

(3) **Notes.** Upon execution of the Fixed Rate Notes, authentication thereof by the Indenture Trustee pursuant to the Indenture and delivery thereof against payment therefor in accordance with this Participation Agreement, each such Note will be a legal, valid and binding obligation of the Owner Trustee, enforceable against the Owner Trustee in accordance with its terms (except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally).



(4) No Violation. Neither the execution and delivery by (x) FNB of the Trust Agreement and, to the extent FNB is a party hereto in its individual capacity, this Participation Agreement and (y) the Owner Trustee of this Participation Agreement and each other Transaction Document (other than the Trust Agreement) to which the Owner Trustee is, or is to become on or before the Closing Date, a party, nor the performance by FNB, in its individual capacity or as Owner Trustee, as the case may be, of its obligations under each, conflicts with, or results in the breach of any provision of, its Articles of Association or By-Laws and does not contravene any Applicable Law of the United States of America or The Commonwealth of Massachusetts governing the banking or trust powers of FNB, and does not contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument to which FNB is a party or by which it is bound or require any Governmental Action with respect to the Owner Trustee under any Federal or Massachusetts law, except such as are contemplated by the Transaction Documents or the Financing Documents or such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that no representation or warranty is made with respect to the right, power or authority of FNB or the Owner Trustee to act under the ANPP Participation Agreement or the License in respect of the Undivided Interest or Unit 2, and the Owner Trustee makes no representation or warranty as to any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, the Nuclear Waste Act, ERISA, energy or nuclear matters, public utilities, the environment, health and safety or Unit 2.

(5) Defaults. To the best knowledge of the Owner Trustee, no Indenture Default or Indenture Event of Default has occurred and is continuing. The Owner Trustee is not in violation of any of the

terms of this Participation Agreement or any other Transaction Document to which it is, or is to become on or before the Closing Date, a party.

(6) **Litigation.** There is no action, suit, investigation or proceeding pending or, to the knowledge of FNB, threatened against FNB (in any capacity) before any court, arbitrator or administrative or governmental body and which relates to its banking or trust powers which, individually or in the aggregate, if decided adversely to the interests of FNB in such capacity, would have a material adverse effect upon the ability of FNB (in any capacity) to perform its obligations under this Participation Agreement or any other Transaction Document to which it is, or is to become on or before the Closing Date, a party (in any capacity).

(7) **Location of the Chief Place of Business and Chief Executive Office, etc.** The chief place of business and chief executive office of the Owner Trustee, and the office where its records concerning the accounts or contract rights relating to the transactions contemplated hereby are located in Boston, Massachusetts.

(8) **No Prior Security Interest.** There exists no security interest in the Lease Indenture Estate in the States of New Mexico, New York or Arizona or in The Commonwealth of Massachusetts arising as a result of any claim against FNB unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents which is prior to the Indenture Trustee's security interest in the Lease Indenture Estate.

(9) **No Owner Trustee's Liens.** Neither the execution by FNB (in any capacity) of this Participation Agreement or any other Transaction Document to which it (in any capacity) is, or is to become on or before the Closing Date, a party, nor the performance in such capacity by it of its obligations hereunder or thereunder, will subject the Trust Estate or the Lease Indenture Estate, or any portion thereof, to any Owner Trustee's Lien.

The representations and warranties in Section 8(a)(2), Section 8(a)(3) and Section 8(a)(5) as to Transaction Documents and the Fixed Rate Notes being legal, valid and binding obligations enforceable in accordance with their respective terms, are given by FNB only in its capacity as Owner Trustee and not in its individual capacity, except that FNB does represent in its individual capacity that it is authorized under the laws of The Commonwealth of Massachusetts to execute and deliver the Transaction Documents to which it is, or is to become on or before the Closing Date, a party.

(b) Agreements. FNB agrees, in its individual capacity, that:

(1) Discharge of Liens. FNB will not create or permit to exist, and will, at its own cost and expense, promptly take such action as may be necessary duly to discharge, all Owner Trustee's Liens.

(2) Certain Amendments. FNB agrees that unless a Default or an Event of Default has occurred and is continuing or an Event of Loss or Deemed Loss Event has occurred, FNB will not amend any of the payment terms of any Note, or take any action to refund any Note after the date of issue thereof pursuant to the terms of this Participation Agreement and the Indenture without the prior written consent of the Lessee. FNB agrees that except for amendments or supplements, if any, made pursuant to Article X of the Trust Agreement or contemplated by Section 7(b)(4), FNB will not amend or supplement, or consent to any amendment of or supplement to, the Trust Agreement if such amendment would materially and adversely affect the rights of the Lessee under the Facility Lease and this Participation Agreement, without the prior written consent of the Lessee unless a Default or an Event of Default has occurred and is continuing or the Lease Termination Date has occurred.

(3) Change in Location of Chief Place of Business and Chief Executive Office, etc. FNB shall notify the Lessee, the Loan Participant and the Indenture Trustee promptly after any change in

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location of its chief executive office, principal and chief place of business or place where its records concerning the accounts or contract rights relating to the transactions contemplated hereby are kept.

(4) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, FNB (in all capacities) agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(5) Quiet Enjoyment. FNB acknowledges Section 6(a) of the Facility Lease.

(c) Agreements of the Owner Trustee. The Owner Trustee agrees that:

(1) Subject and Subordinate. The rights and remedies of the Owner Trustee and the Owner Participant in the Undivided Interest, the Real Property Interest and the related Generation Entitlement Share are subject and subordinate to the rights and remedies of the ANPP Participants (other than (i) the Lessee or (ii) any Person who shall become an ANPP Participant in respect of the Lessor's Interest (as defined in Section 8(c)(3)) under the ANPP Project Agreements.

(2) Lessee to be Participant. Except as provided in Sections 15.2.2, 15.6.4 and 15.10 (or any comparable successor provisions) of the ANPP Participation Agreement, the Lessee shall be and remain the sole "Participant" for all purposes of the ANPP Participation Agreement and the sole representative (with power to bind the Lessor and the Indenture Trustee) in all dealings with the other ANPP Participants in relation to the property, rights, titles and interests of the Lessee transferred to the Lessor pursuant to the

Transaction Documents; provided, however, that the foregoing shall not limit in any way the effect of Section 15 or 16 of the Facility Lease or any liability or obligation that the Lessee may incur to the Owner Trustee or the Owner Participant under any Transaction Document as a result thereof (including, without limitation, any liability that PNM may incur under Section 16 of the Facility Lease as the result of an Event of Default).

(3) Cash Bids. Upon the expiration of the Facility Lease and upon the Lessee failing to purchase or otherwise reacquire all the right, title and interest in PVNGS and contractual rights related thereto necessary for the operation of the interest (the Lessor's Interest) acquired by the Lessor pursuant to the Transaction Documents, the Lessor shall entertain cash bids from each ANPP Participant for the Lessor's Interest.

(4) Survival. The provisions of this paragraph (4) and Sections 8(c)(1), (2) and (3) shall remain in full force and effect until such time as the ANPP Administrative Committee or the ANPP Participants shall otherwise consent.

(5) License Matters. The Owner Trustee acknowledges that before taking possession of the Undivided Interest or any part thereof or of any other interest in PVNGS, either of the following may be required: (i) the issuance of an appropriate license from the NRC, whether by amendment to the License or otherwise, or (ii) a partial transfer of the License authorizing the Lessor to possess its interest in PVNGS, to the extent of the Undivided Interest, upon application for partial transfer of such License to such extent filed pursuant to Applicable Law. Neither the Owner Trustee nor the Owner Participant shall have any responsibility whatsoever to take or initiate any action with respect to any NRC licensing matter.

(6) Acknowledgement and Agreement. The Owner Trustee hereby acknowledges and agrees to the provisions of Section 7(b)(4) of this Participation

Agreement. The Owner Trustee hereby agrees, upon the request of the Owner Participant, to execute and cause to be filed with the County Recorder, Maricopa County, Arizona a duly completed affidavit in substantially the form of Schedule 5 hereto.

SECTION 9. Representations, Warranties and Agreements of Chemical Bank.

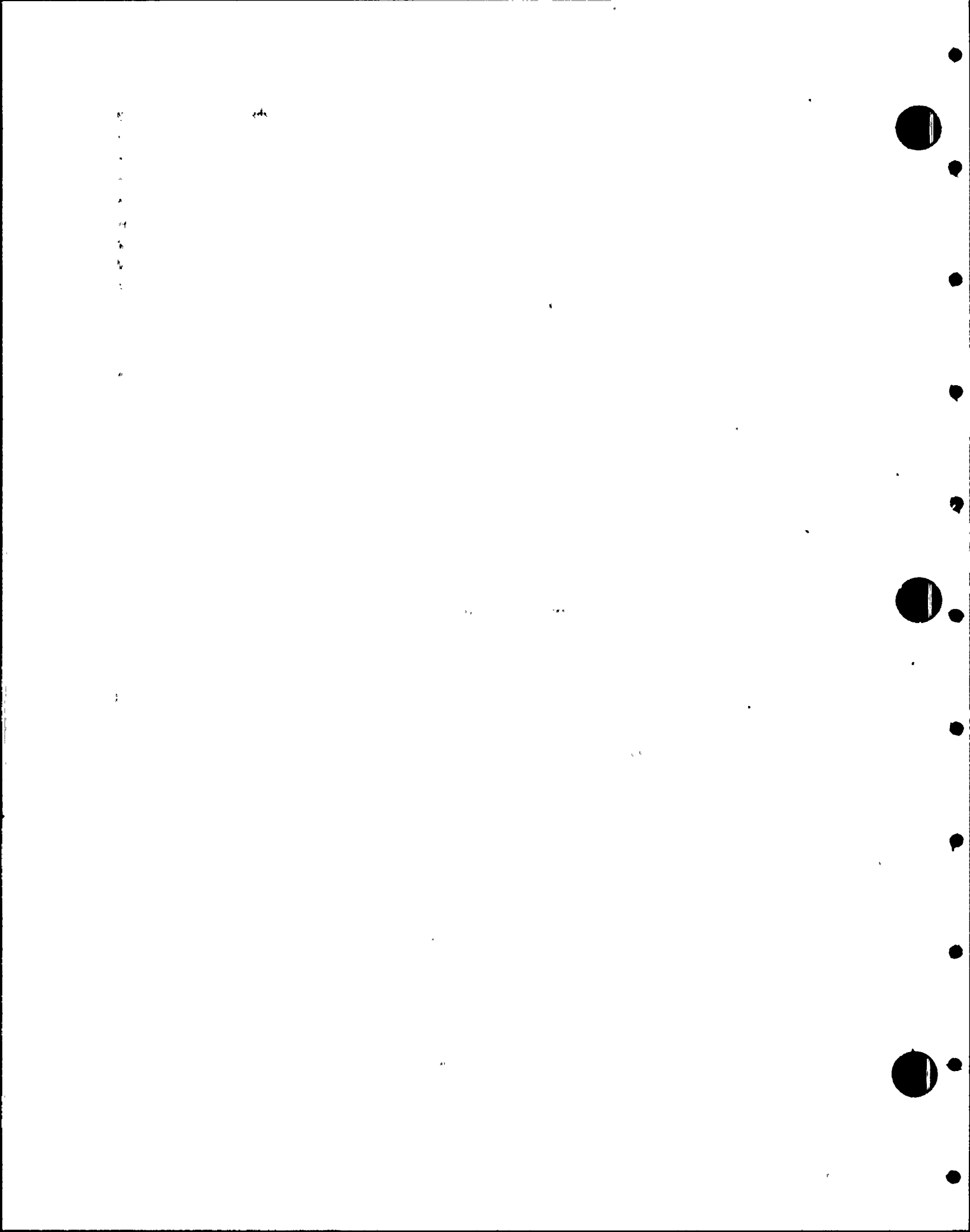
(a) Representations and Warranties. Chemical Bank represents and warrants that:

(1) Due Organization. Chemical Bank is a banking corporation duly organized and validly existing in good standing under the laws of the State of New York and has the corporate power and authority and legal right to enter into and perform its obligations under the Indenture, this Participation Agreement and each other Transaction Document to which it is, or is to become on or before the Closing Date, a party.

(2) Due Authorization. This Participation Agreement and each other Transaction Document to which Chemical Bank is, or is to become on or before the Closing Date, a party have been or will be duly authorized by all necessary corporate action of Chemical Bank and each has been or will have been duly executed and delivered by Chemical Bank.

(3) Authentication of the Fixed Rate Notes. The officer of Chemical Bank who shall authenticate the Fixed Rate Notes to be issued pursuant to the Indenture shall be, at the time of such authentication, an Authorized Officer.

(4) No Violation. Neither the execution and delivery by Chemical Bank of this Participation Agreement or the Indenture, nor the authentication by it of the Fixed Rate Notes, nor the consummation by it of the transactions contemplated hereby or thereby, nor the compliance by it with the provisions hereof or thereof will contravene any Applicable Law governing its banking or trust powers, or contravenes or results in a breach of, or



constitutes a default under, its Articles of Incorporation or By-laws, or requires any Governmental Action under any Federal or New York law, except such as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished; provided, however, that no representation or warranty is made as to (i) any Applicable Law or Governmental Action relating to the Securities Act, the Securities Exchange Act, the Trust Indenture Act, the Federal Power Act, the Atomic Energy Act, the Holding Company Act, the New Mexico Public Utility Act, the Arizona Public Utility Act, the Nuclear Waste Act, ERISA, energy or nuclear matters, public utilities, the environment, health and safety or Unit 2 or (ii) the Lease Indenture Estate to the extent it may constitute real property under Applicable Law.

(b) Agreements. The Indenture Trustee agrees that:

(1) Agreement to Discharge Liens. The Indenture Trustee will not create or permit to exist, and will promptly take such action as may be necessary duly to discharge, all Indenture Trustee's Liens.

(2) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Indenture Trustee agrees that it will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(3) Quiet Enjoyment. The Indenture Trustee agrees to be bound by Section 6(a) of the Facility Lease.

(4) Acknowledgement. The Indenture Trustee hereby acknowledges the provisions of Section 7(b)(4) of this Participation Agreement.

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SECTION 10. Representations, Warranties and Agreements of the Lessee.

(a) **Representations and Warranties.** The Lessee represents and warrants that:

(1) **Due Organization.** The Lessee is a corporation duly organized and validly existing in good standing under the laws of the State of New Mexico and has the corporate power and authority to carry on its business as presently conducted, to own or hold under lease its properties and to enter into and perform its obligations under this Participation Agreement and each other Transaction Document and Financing Document to which it is, or is to become, a party. The Lessee is duly qualified and in good standing to do business as a foreign corporation in the State of Arizona and has not failed to qualify to do business or to be in good standing in any other jurisdiction where failure so to qualify or be in good standing would materially and adversely affect the financial condition of the Lessee or its ability to perform any obligations under this Participation Agreement, any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party.

(2) **Due Authorization.** The execution, delivery and performance by the Lessee of this Participation Agreement and each other Transaction Document and each Financing Document to which it is, or is to become on or before the Closing Date, a party, have been duly authorized by all necessary corporate action on the part of the Lessee and do not, and will not, require the consent or approval of the stockholders of the Lessee or any trustee or holder of any indebtedness or other obligation of the Lessee, other than (i) the Mortgage Release, (ii) the finding of the ANPP Administrative Committee described in Section 15.6.2 of the ANPP Participation Agreement and (iii) such other consents and approvals as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof

delivered to the Owner Participant prior to the Closing Date.

(3) Execution. This Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee is, or is to become on or before the Closing Date, a party, will have been duly executed and delivered by the Lessee, and this Participation Agreement constitutes, and upon execution and delivery thereof, each such Transaction Document and each such Financing Document will constitute, the legal, valid and binding agreement of the Lessee, enforceable against the Lessee in accordance with their respective terms.

(4) No Violation, etc. Neither the execution, delivery or performance by the Lessee of this Participation Agreement or any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party, nor the consummation by the Lessee of the transactions contemplated hereby or thereby, nor compliance by the Lessee with the provisions hereof or thereof, conflicts or will conflict with, or results or will result in a breach or contravention of any of the provisions of, the Restated Articles of Incorporation or By-Laws of the Lessee or any Affiliate of the Lessee, or any Applicable Law, or any indenture, mortgage, lease or any other agreement or instrument to which the Lessee or any Affiliate of the Lessee is a party or by which the property of the Lessee or any Affiliate of the Lessee is bound, or results or will result in the creation or imposition of any Lien (other than Permitted Liens) upon any property of the Lessee or any Affiliate of the Lessee. There is no provision of the Restated Articles of Incorporation or By-Laws of the Lessee or any Affiliate of the Lessee, or any Applicable Law, or any such indenture, mortgage, lease or other agreement or instrument which materially adversely affects or in the future is likely (so far as the Lessee can now foresee) to materially adversely affect the business, operations, affairs, condition, properties or assets of the Lessee, or its ability to perform its obligations under this

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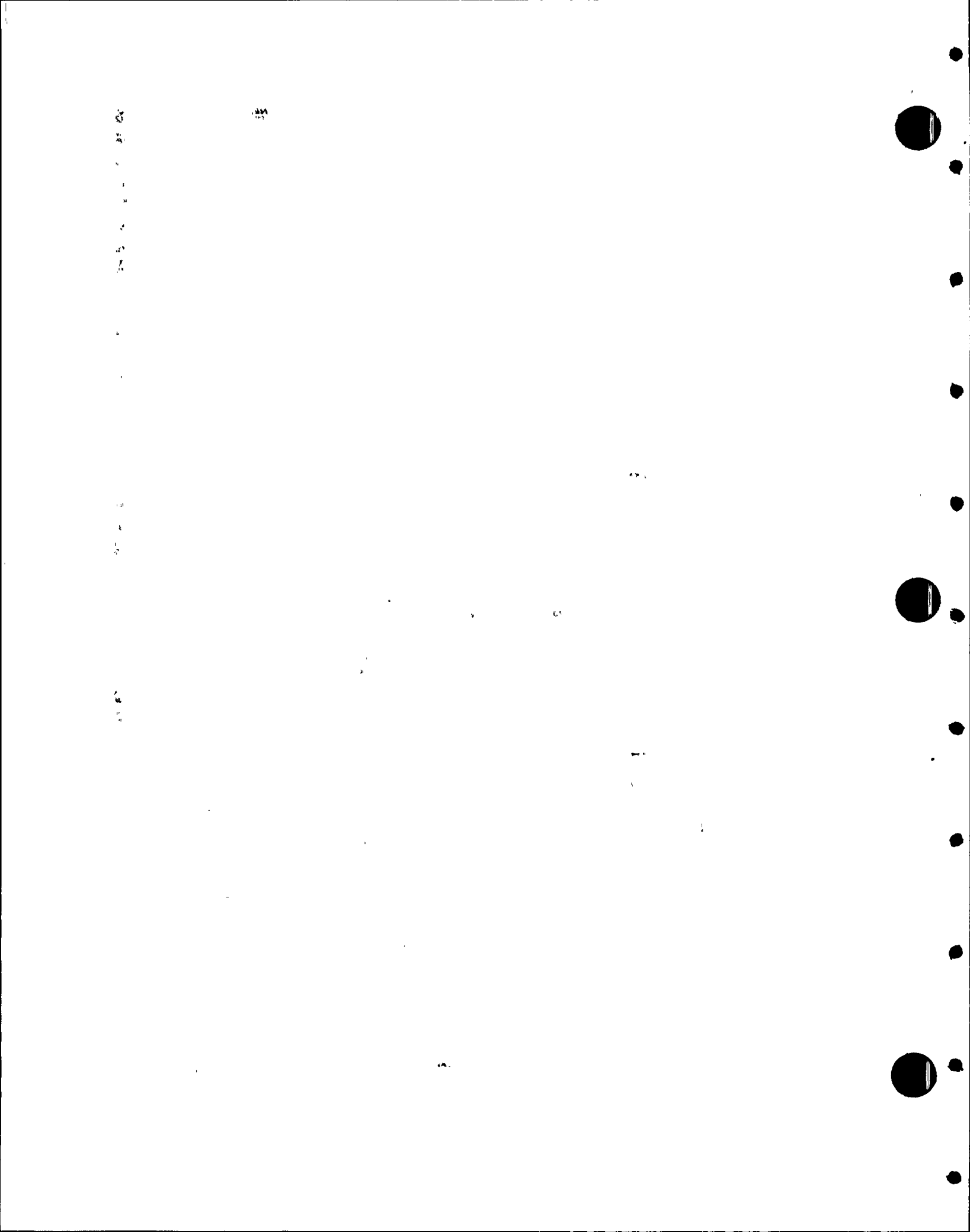
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Participation Agreement or any other Transaction Document or any Financing Document to which it is, or is to become on or before the Closing Date, a party.

(5) **Governmental Actions.** No Governmental Action is or will be required in connection with the execution, delivery or performance by the Lessee of, or the consummation by the Lessee of the transactions contemplated by, this Participation Agreement, any other Transaction Document or any Financing Document, except such Governmental Actions (i) as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof delivered to the Owner Participant and the Loan Participant, (ii) as may be required under existing Applicable Law to be obtained, given or accomplished from time to time after the Closing Date in connection with the maintenance, use, possession or operation of Unit 2 or otherwise with respect to Unit 2 and the Lessee's or the Operating Agent's involvement therewith and which are, for PVNGS, routine in nature and which the Lessee has no reason to believe will not be timely obtained and (iii) as may be required under Applicable Law not now in effect. No Governmental Action (except Governmental Action as may be required by any Governmental Authority of or in New York or Delaware) is or will be required (a) in connection with the participation by the Owner Trustee, the Indenture Trustee, the Owner Participant or the Loan Participant in the consummation of the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document or (b) to be obtained by any of such Persons during the term of the Facility Lease with respect to Unit 2 except such Governmental Actions (i) as have been, or on or before the Closing Date will have been, duly obtained, given or accomplished, with true copies thereof delivered to the Owner Participant, the Owner Trustee and the Loan Participant prior to the Closing Date, (ii) as may be required by Applicable Law not now in effect, (iii) as may be required in consequence of any transfer of ownership of the Undivided Interest or



the Real Property Interest by the Owner Trustee, (iv) as would be required by existing Applicable Law upon termination or expiration of the Facility Lease in connection with taking possession of an interest in Unit 2, (v) as may be required by existing Applicable Law if, after termination or expiration of the Facility Lease, the Lessee should provide transmission services for the Owner Trustee or cease to be agent for the Owner Trustee as provided under the Assignment and Assumption, or (vi) as may be required in consequence of any exercise of remedies or other rights by any such Person in connection with taking possession of an interest in Unit 2.

(6) Securities Act. Neither the Lessee nor anyone acting on its behalf has directly or indirectly offered or sold any Bond, any interest in any Note, any note issued with respect to any other undivided interest in Unit 2, the Undivided Interest or any other undivided interest in Unit 2, the Facility Lease or any other lease of an undivided interest in Unit 2, or any similar security or lease, or any interest in any security or lease the offering of which, for purposes of the Securities Act, would be deemed to be part of the same offering as the offering of the aforementioned securities or leases, in either case, or solicited any offer to acquire any of the aforementioned securities or leases in violation of Section 5 of the Securities Act, and except as contemplated by this Participation Agreement, neither the Lessee nor any one authorized to act on its behalf will take any action which would subject the issuance or sale of any Note or any interest in the Facility Lease or any other debt instrument issued or to be issued to finance the Undivided Interest to the registration requirements of such Section 5.

(7) Title to the Undivided Interest and Real Property Interest; Security Interest. On the Closing Date, (A) good and marketable title to the Undivided Interest and the related Generation Entitlement Share will be duly, validly and effectively conveyed and transferred to the Owner Trustee, free and clear of all Liens, except Permitted Liens (other than

those described in clause (ii) of the definition of such term and that portion of clause (iv) of such definition relating to Liens for taxes being contested), (B) good and marketable title to the Real Property Interest will be duly, validly and effectively conveyed and transferred to the Owner Trustee, as provided in the Deed and the Assignment of Beneficial Interest, (C) the Lessee will have good and marketable title to its ownership interest in the Retained Assets, free and clear of all Liens except Permitted Liens, the Lien of the Existing Mortgage and matters disclosed in the title report referred to in Section 11(a)(33), (D) the Lessee will have good and valid title to its ownership interest in the PVNGS Site, (E) Unit 2 will be wholly located on the PVNGS Site without any material encroachments by any portion thereof on any other property, (F) all filings and recordings necessary or advisable to perfect the Owner Trustee's right, title and interest in and to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, and to perfect for the benefit of the Indenture Trustee and the holders of the Notes the first priority security interest, mortgage and assignment of rents provided for in the Indenture, will have been duly made and (G) no other action, including any action under any fraudulent conveyance statute, will be required to protect the title and interests of the Owner Trustee in and to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest against the claims of all Persons other than the ANPP Participants under the ANPP Project Agreements (in accordance with the terms thereof), or to perfect such first priority security interest, mortgage and assignment of rents in favor of the Indenture Trustee.

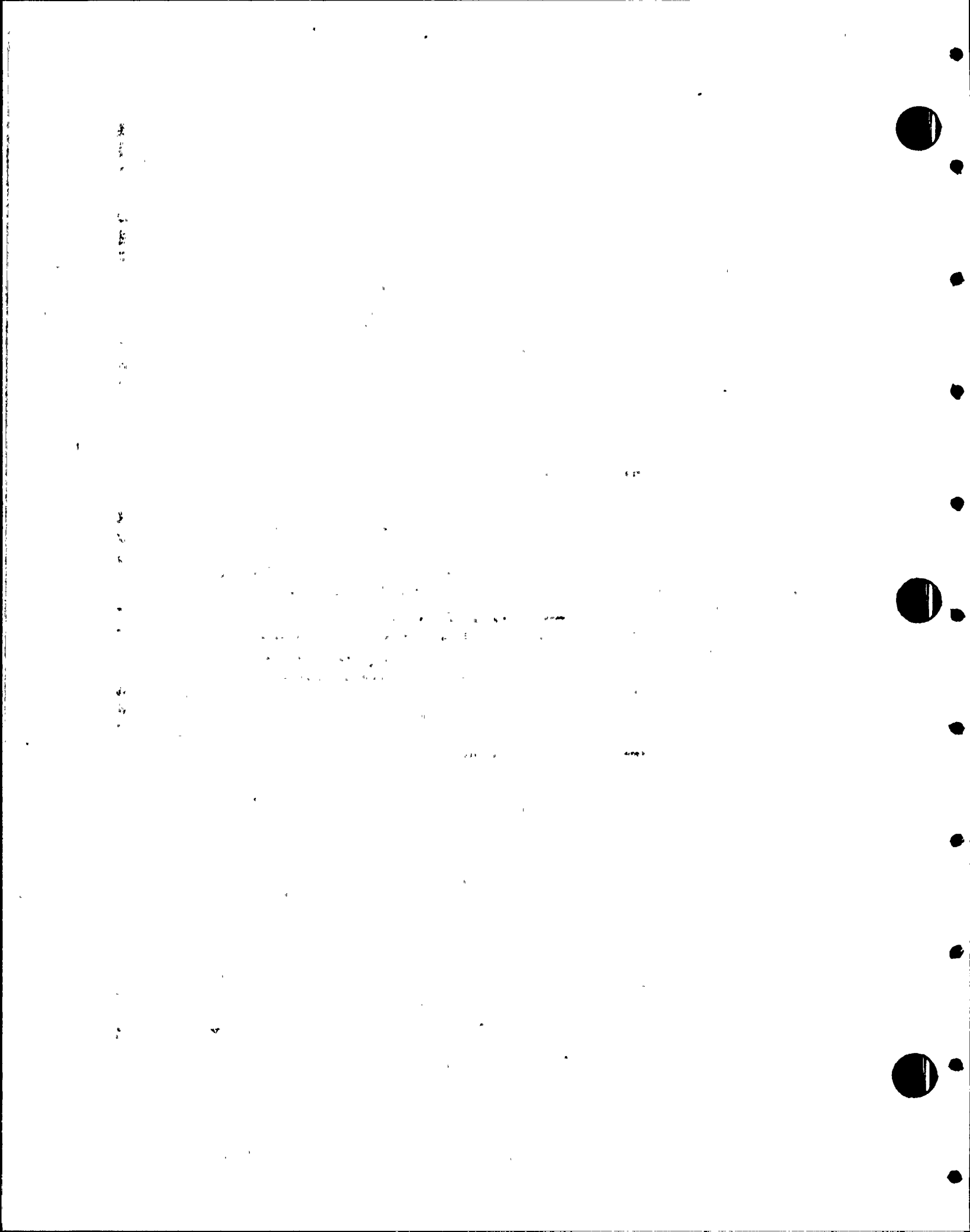
(8) Non-Interference. None of the Permitted Liens will, on and after the Closing Date, materially interfere with the use or possession of the Undivided Interest, the related Generation Entitlement Share or the Real Property Interest or the use of or the exercise by the Owner Trustee of its rights under the Bill of Sale, the Deed, the

Assignment of Beneficial Interest and the Assignment and Assumption with respect to, the interests in PVNGS granted or to be granted under the Bill of Sale, the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption.

(9) Personal Property. Unit 2, based on the agreements of the Lessee and the other ANPP Participants in the ANPP Participation Agreement and of the Lessee and the Owner Trustee herein and in the other Transaction Documents, is to the full extent permitted by Applicable Law personal property under the laws of the State of Arizona.

(10) Location of Chief Executive Office. The chief executive office and place of business of the Lessee and the office where it keeps its records concerning its accounts or contract rights is at Alvarado Square, Albuquerque, Bernalillo County, New Mexico 87158.

(11) Financial Statements. The consolidated balance sheets of the Lessee and subsidiaries (A) as of December 31, 1985 and 1984, respectively, and the related consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1985, together with the notes accompanying such financial statements, all certified by Peat Marwick Mitchell & Co., and (B) as of September 30, 1986 and 1985, respectively, and the related consolidated statements of earnings, retained earnings and changes in financial position for the nine-month periods ended September 30, 1986 and September 30, 1985 respectively, all certified by the Controller or an Assistant Controller of the Lessee, as furnished to the Owner Participant, fairly present the financial position of the Lessee and its subsidiaries taken as a whole at each such date and the results of their operations for each of the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis and in conformity with applicable Accounting Practice.



(12) Disclosure. None of the financial statements to which reference is made in paragraph 11 above nor the reports to which reference is made in this paragraph 12 nor any (other than publicly available documents of any Governmental Authority, (other than documents prepared by or on behalf of the Lessee), and any press reports, insurance reports, if delivered on or before the Closing Date, and appraisals) certificate, written statement or other document furnished to the Owner Participant or the Appraiser by the Lessee in connection with the transactions contemplated hereby (under the circumstances at the time and for the purposes for which any statement made therein was made) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. There is no fact known to the Lessee that materially and adversely affects or, so far as the Lessee can now reasonably foresee, is likely to materially and adversely affect, the business or financial condition of the Lessee or any material portion of its properties or its ability to perform its obligations under this Participation Agreement or any other Transaction Document or any Financing Document to which the Lessee is, or is to become, a party. The Lessee has heretofore delivered to the Owner Participant the Lessee's Annual Report on Form 10-K for the year ended December 31, 1985, the Lessee's Quarterly Report on Form 10-Q for the quarters ended March 31, June 30 and September 30, 1986 and the Current Reports on Form 8-K filed on February 12, 1985 (as amended by Form 8 filed April 12, 1985), January 14, March 3, June 30, July 16, July 31, September 2, September 9, and December 15, 1986.

(13) Litigation. Except as disclosed in the reports to which reference is made in paragraph 12 above, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Lessee, threatened against the Lessee before any court, arbitrator or administrative or governmental body which questions the validity or enforceability of this Participation Agreement or any other

Transaction Document or any Financing Document to which the Lessee is, or is to become, a party, or which, individually or in the aggregate, if decided adversely to the interests of the Lessee, would have a material adverse effect on the business or financial condition of the Lessee or materially and adversely affect the ability of the Lessee to perform its obligations under this Participation Agreement or any other Transaction Document or any Financing Document to which it is or is to become a party.

(14) Tax Returns. The Lessee has filed all Federal, state, local and foreign, if any, tax returns which were required to be filed, and has paid all Taxes shown to be due and payable on such returns and has paid all other Taxes in respect of the Lessee's interest in Unit 2 and in the PVNGS Site which are payable by the Lessee to the extent the same have become due and payable and before they have become delinquent, except (i) any Taxes the amount, applicability or validity of which may be in dispute and which are currently being contested in good faith by appropriate proceedings and with respect to which the Lessee has set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed by it to be adequate and (ii) any Taxes relating to PVNGS in respect of which the Operating Agent has not given notice to the Lessee that the same are due and payable. The Federal income tax returns of the Lessee have been audited by the IRS for taxable years through 1980.

(15) ERISA. In reliance upon, and subject to the accuracy of, the representations made by the Loan Participant in Section 6(a)(5) and the Owner Participant in Section 7(a)(9), the execution and delivery of this Participation Agreement, the other Transaction Documents and the Financing Documents by the Lessee will not involve any prohibited transaction within the meaning of ERISA or section 4975 of the Code.

(16) Regulation. So long as the Facility Lease is in effect, assuming the proper filing of Form U-7D with the SEC on or within 30 days after the Closing Date, under Applicable Law now in effect, neither the Loan Participant, the Owner Participant, FNB nor the Owner Trustee will be or become, solely by reason of either its entering into this Participation Agreement or any other Transaction Document to which any of them is, or is to become, a party, or the transactions contemplated hereby or thereby, subject to regulation (i) as an "electric utility", an "electric utility company", a "public utility", a "public utility company", a "holding company", or a "public utility holding company" by any Federal, state (other than, as to the Owner Participant, New York, as to which no representation or warranty is given) or local public utility commission or other regulatory body, authority or group (including, without limitation, the SEC, the FERC, the NMPSC or the Arizona Corporation Commission) or (ii) in any manner by the NRC. The Lessee is not, and covenants that (except in connection with a transaction permitted by Section 10(b)(3)(ii) hereof) it will not become, a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" within the meaning of the Holding Company Act. The Lessee is not subject to regulation by the Arizona Corporation Commission as a public utility or a public service corporation.

(17) Authorizations, etc. The Lessee has not failed to obtain any Governmental Action or other authorization, license, approval, permit, consent, right or interest, where a failure to obtain such would materially and adversely affect the ability of the Lessee to carry on its business as presently conducted or as described in the Registration Statement.

(18) No Default, etc. The Lessee is not in default, and no condition exists that, with the giving of notice or lapse of time or both, would constitute a default by the Lessee, under any material mortgage, deed of trust, indenture, lease,

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contract or other instrument or agreement to which the Lessee is a party or by which it or any of its properties or assets may be bound.

(19) Certain Documents. True and correct copies of the ANPP Participation Agreement, the other Material Project Agreements and the Existing Mortgage have been delivered to the Owner Participant's Special Counsel for and on behalf of the Owner Participant prior to the date of execution hereof. No ANPP Project Agreement will, on and after the Closing Date, materially and adversely interfere with (i) (except for the ANPP Participation Agreement in the case of the Generation Entitlement Share only) the title of the Owner Trustee to the Undivided Interest, the related Generation Entitlement Share or the Real Property Interest or (ii) except for the ANPP Participation Agreement, the use of, or the exercise by the Owner Trustee of its rights under the Facility Lease, the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption with respect to, the Undivided Interest, the related Generation Entitlement Share, and the interests in the PVNGS Site (including the Real Property Interest) granted or to be granted under the Deed, the Assignment of Beneficial Interest and the Assignment and Assumption. No payment default or other default of a material nature by the Lessee has occurred and is continuing under the Existing Mortgage or any ANPP Project Agreement. The ANPP Participation Agreement and each other ANPP Project Agreement are in full force and effect and no breach of any thereof, to the Lessee's knowledge, by any other party thereto has occurred and is continuing, except where the failure to be in force and effect or such breach would not have a material and adverse effect on the Undivided Interest, the related Generation Entitlement Share, the Real Property Interest, Unit 2 or the rights, interests and benefits of the Owner Trustee or the Owner Participant under any Transaction Document. Upon execution and delivery of the Mortgage Release and the recordation thereof or of UCC releases in respect thereof, (i) the mortgagee and secured party thereunder will have

released the lien of the Existing Mortgage on the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and (ii) the rights of the Owner Trustee in the Undivided Interest and the Real Property Interest and the related Generation Entitlement Share will not be, and will not become, subject or subordinate to the rights of any Person, except the Indenture Trustee under the Indenture and the ANPP Participants to the extent expressly set forth in the ANPP Participation Agreement (as in effect on the Closing Date) and except as may otherwise expressly be permitted by the Facility Lease. The lien of the Existing Mortgage does not extend to rights of PNM under Transaction Documents (other than the Lessee's leasehold interest under the Facility Lease) or to the Generation Entitlement Share related to the Undivided Interest. Neither Section 15.6.3.5 of the ANPP Participation Agreement nor Section 8(c)(3) of this Participation Agreement (i) requires the Owner Trustee to accept any cash bid referred to therein or (ii) otherwise materially impedes the Owner Trustee's right, upon a failure by the Lessee to purchase or otherwise reacquire the Undivided Interest and the Real Property Interest, to conclude a sale or lease to a Person constituting a "Transferee" under Section 15.10 of the ANPP Participation Agreement.

(20) Unit 2. The description of Unit 2 set forth in Exhibit B to the Bill of Sale is correct and sufficiently complete to identify such property.

(21) Investment Company Act. The Lessee is not, and will not become, an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act.

(b) Agreements of Lessee.

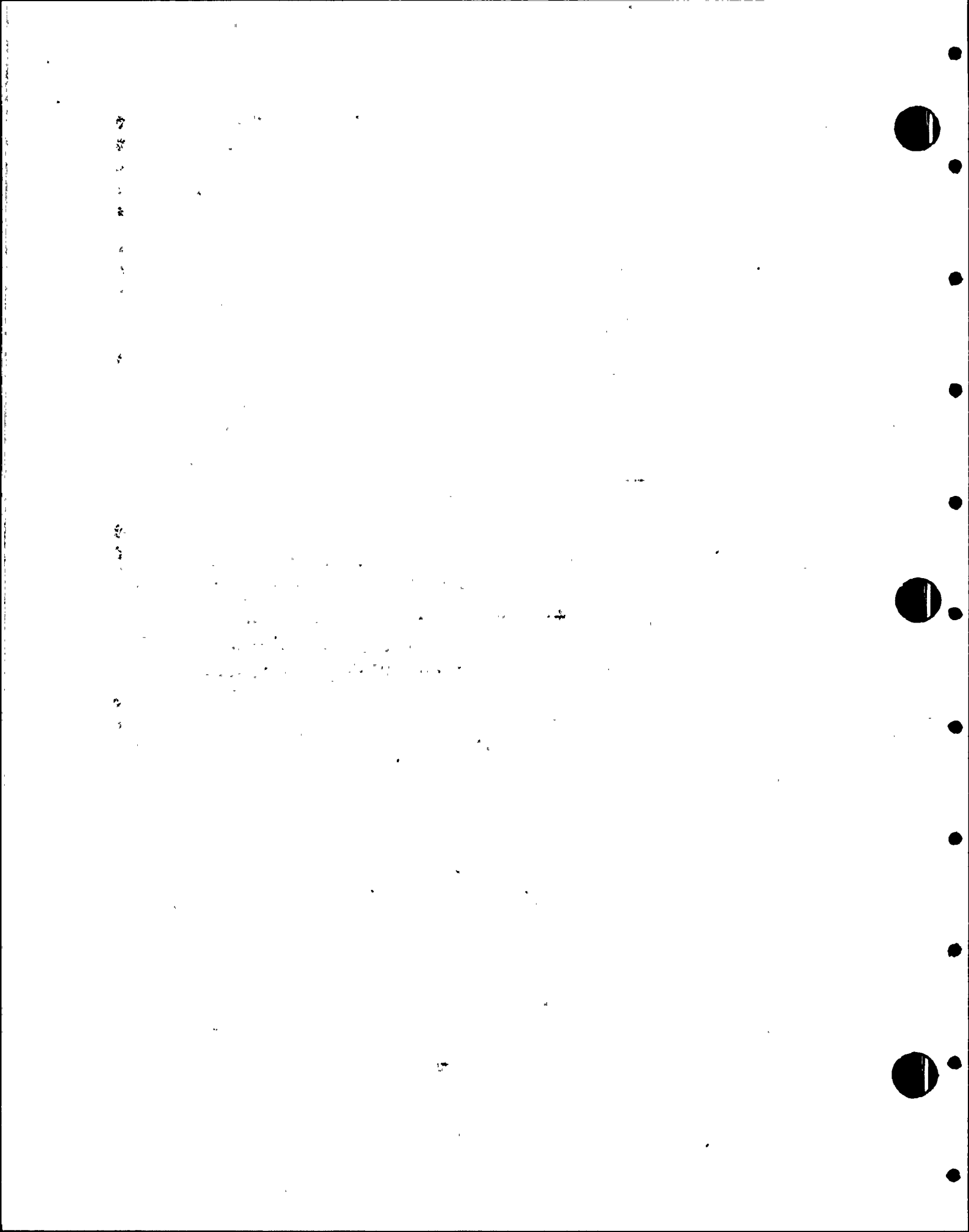
(1) Delivery of Documents. The Lessee agrees that it will deliver to the Owner Participant and the Loan Participant (and, in the case of

Sections 10(b)(1)(iii) and (v) hereof, the Owner Trustee):

(i) Financial Statements: (A) as soon as practicable, and in any event within 120 days, after the end of each fiscal year of the Lessee, a consolidated balance sheet of the Lessee and subsidiaries as of the end of such fiscal year and related consolidated statements of earnings, retained earnings and changes in financial position for such year, all in reasonable detail and certified in an opinion by a nationally recognized firm of independent public accountants, and the annual and interim reports of the Lessee to its stockholders as soon as the same have been mailed to such stockholders, (B) as soon as practicable, and in any event within 60 days, after the end of each fiscal quarter (other than the last fiscal quarter) of each fiscal year of the Lessee, a consolidated balance sheet of the Lessee and subsidiaries as of the end of said period and a related consolidated statement of earnings, retained earnings and changes in financial position for said period, all in reasonable detail, and certified by the Controller or an Assistant Controller or the Chief Financial Officer of the Lessee and (C) as soon as practicable after the same have been filed, a copy of all documents filed by the Lessee with the SEC pursuant to the reporting requirements of the Securities Exchange Act;

(ii) Other Reports: promptly upon their becoming available, any registration statement, offering statement, investment memorandum or prospectus prepared by the Lessee in connection with the public offering of securities (other than public offerings of securities under employee stock option, consumer stock or dividend reinvestment plans);

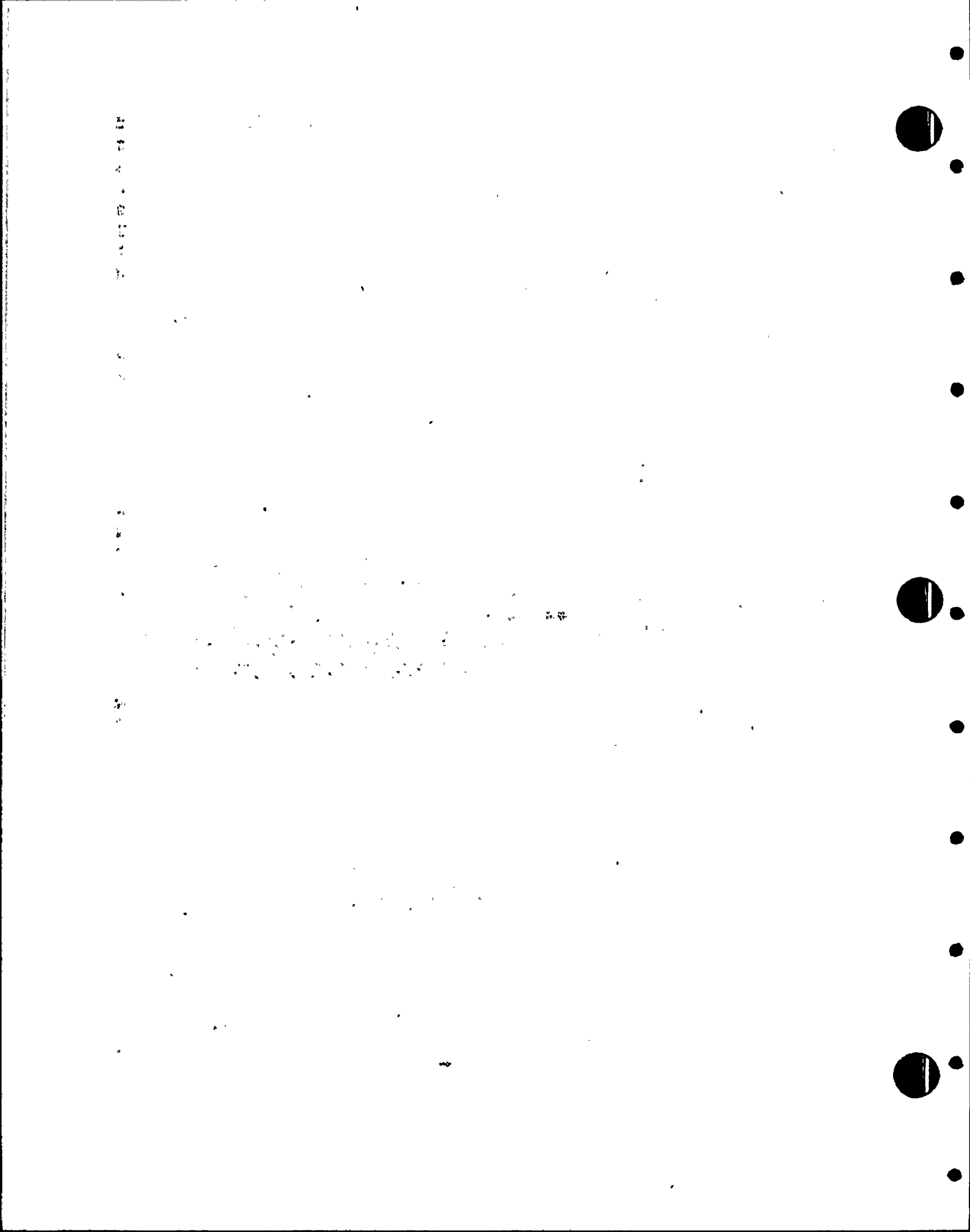
(iii) Notice of Default: promptly upon the Lessee becoming aware of the existence



thereof, written notice specifying any condition which constitutes a Default or an Event of Default or a default by any ANPP Participant under the ANPP Participation Agreement and the nature and status thereof;

(iv) **Annual Certificate:** within 120 days after the end of each fiscal year of the Lessee, a certificate of the Lessee, signed by the Controller or an Assistant Controller or the Chief Financial Officer of the Lessee, to the effect that such officer has reviewed, or caused to be reviewed by individuals under his supervision, this Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee is a party and has made, or caused to be made under his supervision, a review of the transactions contemplated hereby and thereby and the condition of the Lessee during such preceding fiscal year, and such review has not disclosed the existence during such fiscal period, nor does such officer have knowledge of the existence as at the date of such certificate, of any condition or event that constitutes a Default or Event of Default or, if any such condition or event exists, specifying the nature and period of existence thereof and any action the Lessee has taken, is taking, or proposes to take with respect thereto;

(v) **Opinion of Counsel:** within 120 days after the end of each fiscal year of the Lessee, an opinion or opinions, satisfactory to the Owner Participant, the Owner Trustee, the Collateral Trust Trustee and the Indenture Trustee, of Keleher & McLeod, P.A., as general counsel for the Lessee, Snell & Wilmer, as special Arizona counsel for the Lessee, and/or other counsel acceptable to the Owner Participant (A) either to the effect that (1) all filings and recordations (or refilings and rerecordations) required to (i) convey to the Owner Trustee, and establish, preserve, protect and perfect the title of the Owner



Trustee to, the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and establish, preserve and protect the Owner Trustee's rights under this Agreement and the other Transaction Documents, and, (ii) so long as any Note is Outstanding, grant, perfect and preserve the security interest of the Indenture Trustee in the Lease Indenture Estate have been duly made, or (2) no such additional filings, recordations, refilings or rerecordations are necessary, to (i) convey to the Owner Trustee, and establish, preserve, protect and perfect the title of the Owner Trustee to, the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest and establish, preserve and protect the Owner Trustee's rights under this Agreement and the other Transaction Documents, and (ii) so long as any Note is Outstanding, grant, perfect and preserve the security interest of the Indenture Trustee in the Lease Indenture Estate and (B) specifying the particulars of all action required during the period from the date of such opinion through the last day of the next succeeding calendar year, including, in the case of each UCC continuation statement required to be filed during such period, the office in which each such continuation statement is to be filed and the filing date and filing number of the original financing statement or fixture filing to be continued, and the dates within which such continuation statement may be filed under Applicable Law; such opinion shall also address such additional matters relating to actions taken by the Lessee pursuant to Section 10(b)(2) as the Loan Participant or the Owner Participant may reasonably request;

(vi) **ANPP Information:** upon receipt by the Lessee, copies or advice of all Systematic Assessment of Licensee Performance Reports (or comparable successor report) and of all material notices, data, information and other

written communications received by the Lessee under or pursuant to any ANPP Project Agreement or otherwise with respect to Unit 2, PVNGS or the PVNGS Site, subject in each case to applicable confidentiality undertakings with respect thereto, unless prohibited by Applicable Law;

(vii) Other PVNGS Information: the Lessee having furnished a letter to the Owner Participant dated August 12, 1986, describing its internal procedures for monitoring PVNGS and reporting to the Owner Participant with respect thereto, prior written notice of any material change in such procedures; and, upon receipt by the Lessee, copies or advice of all notices of violation or other material communications from the NRC and all notices of nuclear incidents or other material occurrence at PVNGS given to the NRC;

(viii) Annual PVNGS Report: within 120 days after the end of each fiscal year of the Lessee, a certificate of the Lessee with respect to the status and operations of Unit 2 for such fiscal year and current information respecting the status of decommissioning funding arrangements for Unit 2; and

(ix) Requested Information: with reasonable promptness, such other data and information as to the business and properties of the Lessee or as to Unit 2, PVNGS or the PVNGS Site as from time to time may be reasonably requested by the Owner Participant, subject in each case to applicable confidentiality undertakings with respect thereto, unless prohibited by Applicable Law.

(2) Further Assurances. The Lessee will cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, documents and assurances as the Owner Participant may from time to time reasonably request in order to carry out more effectively the intent and purposes of this

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Participation Agreement, the other Transaction Documents and the Financing Documents, and the transactions contemplated hereby and thereby. The Lessee will cause the financing statements (and continuation statements with respect thereto) and the documents enumerated and described in Schedule 4, and all other documents necessary or advisable in that connection, to be recorded or filed at such places and times, and in such manner, and will take all such other actions or cause such actions to be taken, as may be necessary or reasonably requested by the Owner Participant, the Collateral Trust Trustee, the Owner Trustee or the Indenture Trustee, in order to establish, preserve, protect and perfect the title of the Owner Trustee to the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, and the Owner Trustee's rights and interests under this Participation Agreement and the other Transaction Documents and, so long as any Note is Outstanding, the first and prior security interest of the Indenture Trustee in the Lease Indenture Estate and the Indenture Trustee's rights under this Participation Agreement and the other Transaction Documents, all referred to and included under the granting clause of the Indenture.

(3) Covenants. The Lessee covenants and agrees as follows:

(i) Maintenance of Corporate Existence, etc. The Lessee shall at all times maintain its existence as a corporation under the laws of the State of New Mexico, except as permitted by paragraph (ii) below. The Lessee will do or cause to be done all things necessary to preserve and keep in full force and effect its rights (charter and statutory) and franchises; provided, however, that the Lessee may discontinue any right or franchise if its board of directors shall determine that such discontinuance is necessary or desirable in the conduct of its business and does not materially and adversely affect or diminish any right of

the Owner Participant or the Loan Participant.

(ii) Merger, Sale, etc.: Owner Participant. Without the consent of the Owner Participant, the Lessee shall not (1) consolidate with any Person, (2) merge with or into any Person, or (3) except in connection with normal dividend policy of the Lessee, convey, transfer, lease, or dividend (other than transfers and dividends described in the Lessee's proxy statement dated April 11, 1986 and transfers and conveyances constituting sale and leaseback transactions under the ANPP Participation Agreement) to any Person more than 5% of its assets, including cash, in any single transaction or series of related transactions; unless, immediately after giving effect to such transaction:

(A) the Person who is the Lessee immediately following such consolidation, merger, conveyance, transfer or lease (the Surviving Lessee) shall be a corporation or (with the prior consent of the Owner Participant, which consent shall not be unreasonably withheld) other legal entity which (i) is organized under the laws of the United States of America, a state thereof or the District of Columbia, (ii) is a "public utility" under applicable state and Federal laws, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the Undivided Interest), (iv) if other than the Lessee immediately prior to such transaction, shall have assumed each covenant and condition of the Lessee under the ANPP Participation Agreement and each other ANPP Project Agreement and (v) holds a valid and subsisting license from the NRC to possess Unit 2 (including the Undivided Interest);

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(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Participation Agreement, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately preceding such transaction;

(C) no Default (other than a failure to deliver documents and other information specified in Section 10(b)(1)(vi), (vii) or (viii) hereof), Event of Default, Event of Loss or Deemed Loss Event shall have occurred and be continuing;

(D) the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee) after giving effect to such transaction, (1) shall be rated at least "investment grade" by Standard & Poor's Corporation and Moody's Investors Service, Inc. and (2) shall have an investment rating by Standard & Poor's Corporation and Moody's Investors Service, Inc. not less than one "smallest notch" below the rating assigned to the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee) immediately prior to such transaction (or, if neither of such rating organizations shall rate the Bonds (or, if applicable, the preferred stock of the Surviving Lessee) at the time, by any nationally recognized rating organization in the United States of America);

(E) the Surviving Lessee shall have a Minimum Net Worth;

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(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an Officers' Certificate and an opinion, reasonably satisfactory to the Owner Participant, of counsel to the Surviving Lessee, each stating that (1) such transaction complies with this subparagraph (ii) and (2) all conditions precedent to the consummation of such transaction have been satisfied and any Governmental Action required in connection with such transaction has been obtained, given or accomplished;

(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel (if other than Mudge Rose Guthrie Alexander & Ferdon, such counsel to be reasonably satisfactory to the Owner Participant) to the Surviving Lessee stating that such transaction does not and will not cause a Loss (as defined in the Tax Indemnification Agreement);

(H) such transaction is otherwise permitted by and in accordance with the ANPP Participation Agreement; and

(I) the Coverage Ratio of the Surviving Lessee shall be at least 1.6 to 1.

Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Participation Agreement and each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately preceding the date of such transaction, with

the same effect as if the Surviving Lessee had been named herein and therein.

(iii) Merger, Sale, etc.: Bondholders.

The Lessee shall not enter into any transaction constituting a consolidation, merger, conveyance, transfer, lease or dividend not permitted by Section 10(b)(3)(ii), irrespective of any consent or waiver of the Owner Participant, unless immediately after giving effect to such transaction, the Bonds (or, if the Bonds are not then rated, the preferred stock of the Surviving Lessee), after giving effect to such transaction, shall be rated at least "investment grade" by Standard & Poor's Corporation and Moody's Investors Service, Inc.

(iv) Prior Notice to Rating Agencies.

Prior to entering into any transaction as to which the conditions set forth in paragraphs (ii) and (iii) above shall be applicable, the Lessee shall give notice thereof to the rating agencies specified in such paragraphs, such notice to be sufficiently in advance of such transaction to enable the rating agencies to respond thereto prior to consummation thereof.

(v) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not issue or assume any secured or unsecured indebtedness maturing more than eighteen months after the date of issuance thereof, if, immediately after such issue or assumption, the total amount of all secured and unsecured indebtedness of the Lessee maturing more than one year after the date of such issue or assumption shall exceed 65% of the aggregate of (x) such total amount and (y) the total of the capital and surplus of the Lessee.

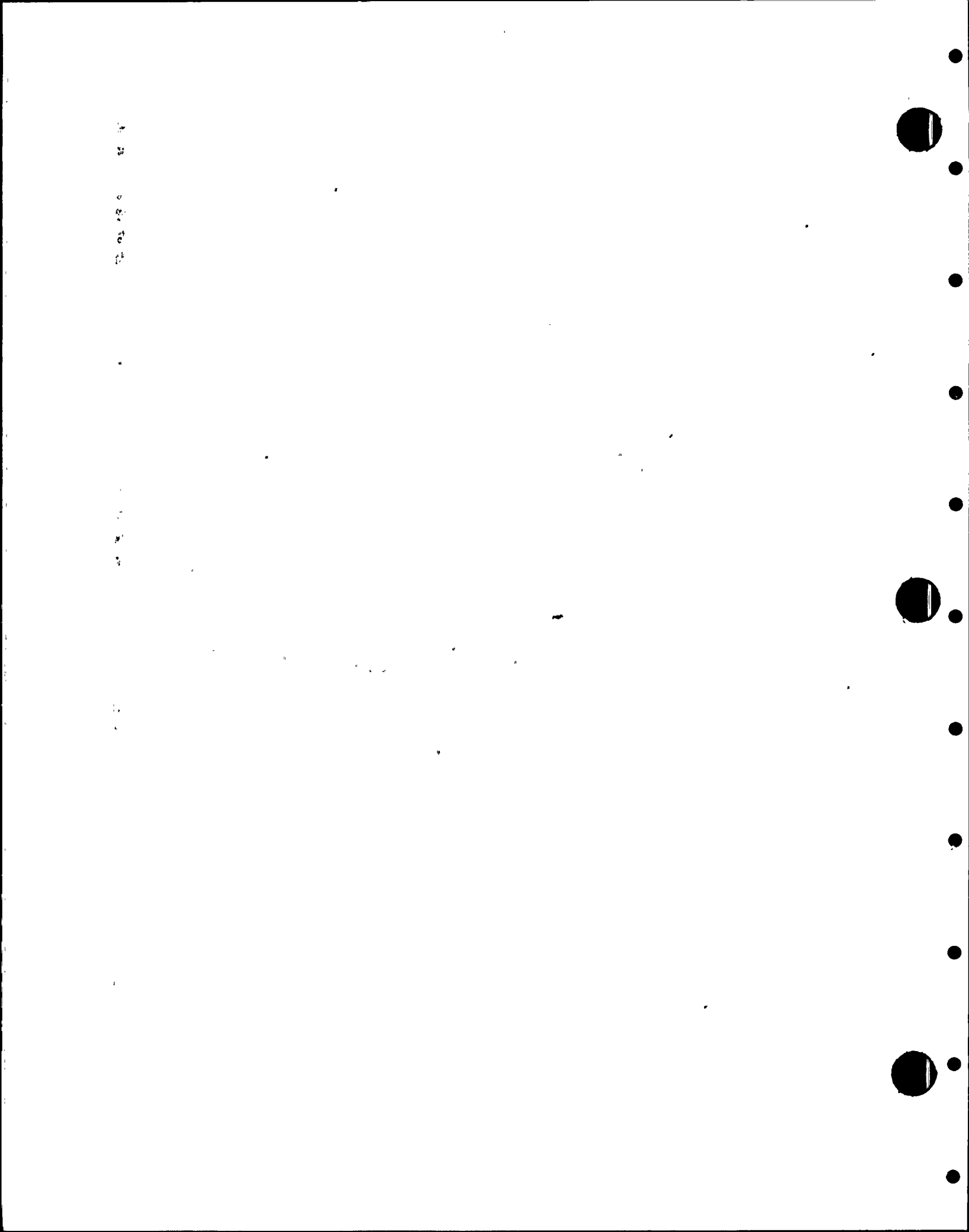
(vi) Change in Chief Executive Office.

The Lessee will notify the Owner Trustee, the Owner Participant, the Loan Participant and

the Indenture Trustee promptly after any change of location of its chief executive office and place of business, principal place of business or place where the Lessee maintains its business records.

(vii) No Petition Agreement. Prior to the 181st day following the payment in full of the Bonds and the discharge in accordance with its terms of the Collateral Trust Indenture, the Lessee will not file a petition, or join in the filing of a petition, seeking reorganization, arrangement, adjustment or composition of or in respect of the Loan Participant under the Bankruptcy Code or any other applicable Federal or state law or the law of the District of Columbia.

(viii) ANPP Project Agreements. Except where the failure to do so would not have a material and adverse effect on the Undivided Interest, the Real Property Interest, Unit 2 or the rights, interests and benefits of the Owner Trustee or the Owner Participant under any Transaction Document, the Lessee (without limiting its obligations under the next sentence) at all times, unless the Owner Participant shall otherwise consent, (1) will perform its obligations under and comply with the terms of each ANPP Project Agreement to be complied with by it, (2) will exercise its rights under the ANPP Participation Agreement to maintain each ANPP Project Agreement in full force and effect, (3) will keep unimpaired all of the Lessee's rights, powers and remedies under each ANPP Project Agreement and prevent any forfeiture or impairment thereof, (4) will enforce the ANPP Participation Agreement in accordance with its terms and (5) will not take or fail to take or join in (i) any action with respect to, nor accept or approve any amendment to or any other change in, the ANPP Participation Agreement or any other ANPP Project Agreement, or (ii) any action or change the effect of which would be



to relieve the Lessee of any obligation under the ANPP Participation Agreement on or after the Closing Date. The Lessee will not, unless the Owner Participant otherwise consents, accept or approve any amendment to any ANPP Project Agreement the effect of which would be to (A) reduce the Generation Entitlement Share related to the Undivided Interest, (B) impose, directly or indirectly, at any time on the Owner Trustee or the Owner Participant any obligations (unless such Person is then an ANPP Participant), (C) discriminate against (x) the Owner Trustee or the Owner Participant in its capacity as lessor in a sale and lease-back transaction or (y) any present or future ANPP Participant because such ANPP Participant derived or will derive its status as "Participant" under the ANPP Participation Agreement from a lessor in a sale and lease-back transaction, (E) deprive the Owner Trustee or the Owner Participant, as the case may be, of the benefit of Sections 15.2.2, 15.10 and 32.1 of the ANPP Participation Agreement (or any comparable successor provisions), or (F) amend or otherwise change Section 15.10 of the ANPP Participation Agreement. The Lessee shall (A) provide copies of any proposed amendment to or modification of the ANPP Participation Agreement to the Owner Participant not less than 45 days prior to the execution thereof by the Lessee (except where the Lessee is unaware thereof 45 days prior to such execution, in which case the Lessee shall provide notice thereof as promptly as possible after becoming so aware) and (B) upon such execution furnish to the Owner Participant a copy of any such amendment or modification as executed. The Lessee will not, except as permitted by paragraph (ii) above or by the Assignment and Assumption, sell, transfer, assign or otherwise dispose of all or any of its rights or interests in and to PVNGS.

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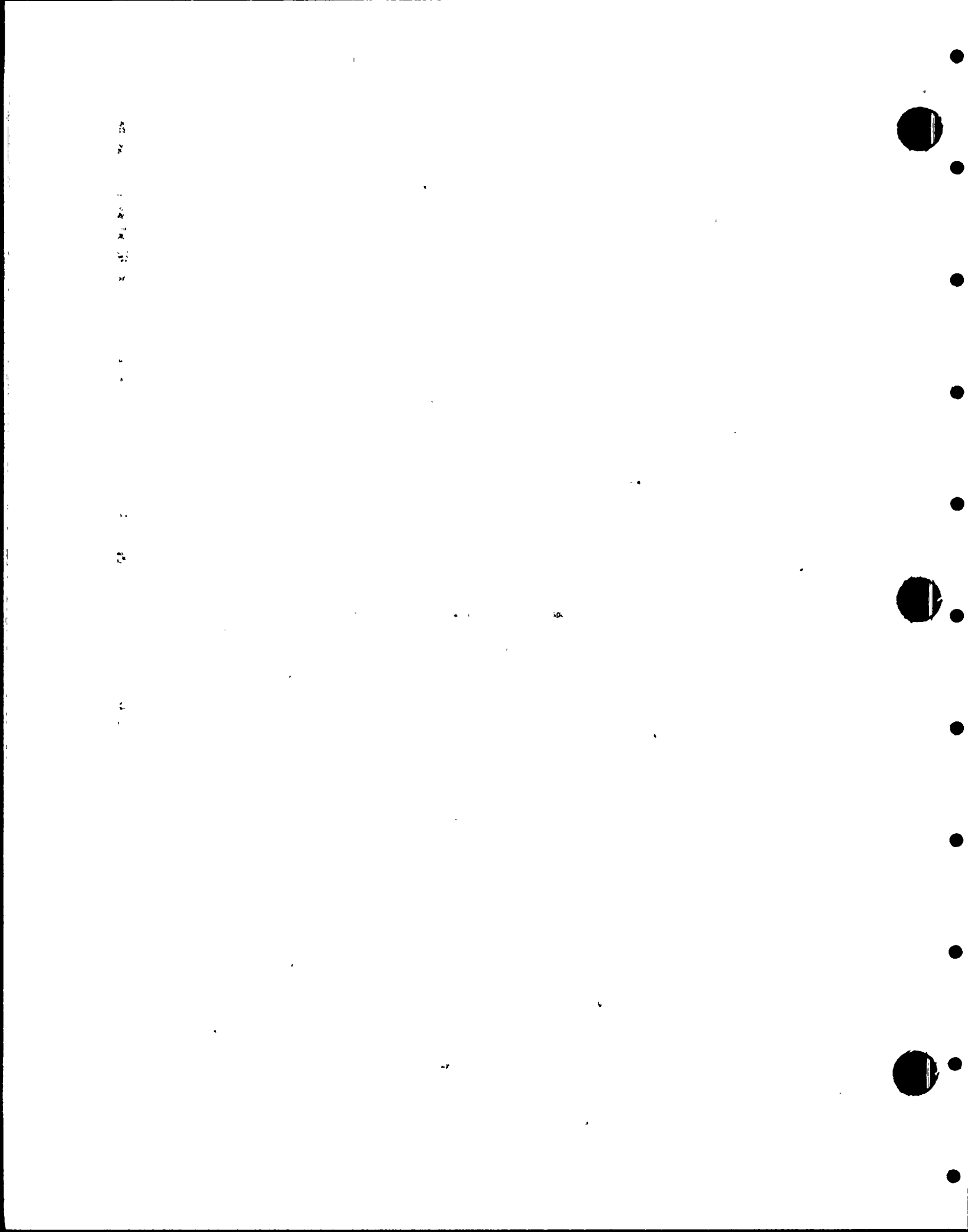
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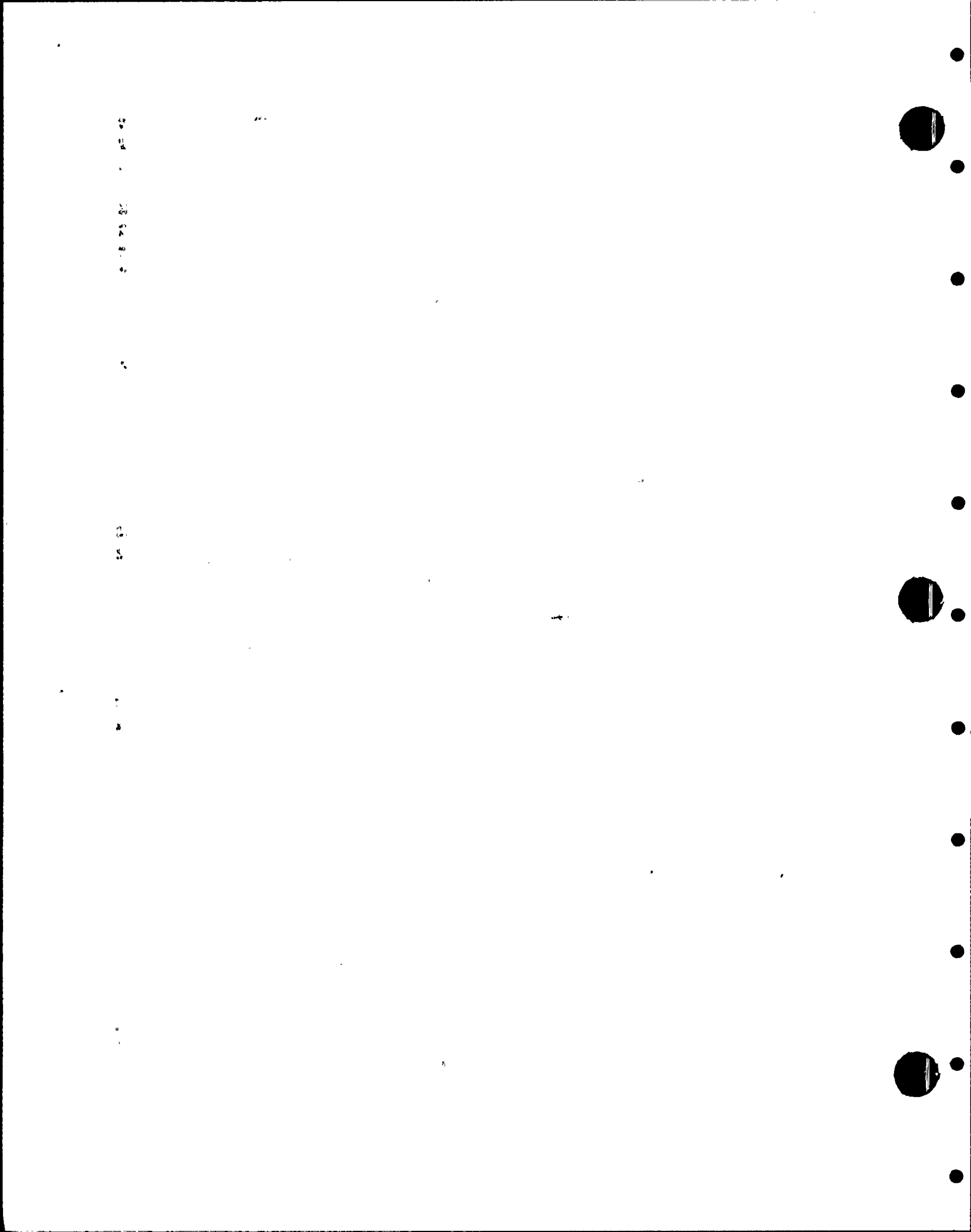
(ix) Notes and Bonds. The Lessee will not, and will not permit any of its Affiliates to, acquire any of the Notes or, except in connection with the selection of Bonds for redemption pursuant to the Collateral Trust Indenture, the Bonds.

(x) Cooperation. The Lessee will cooperate with the Owner Participant and the Owner Trustee in obtaining the valid and effective issue, or, as the case may be, transfer or amendment of all Governmental Actions (including, but without limitation, the License) necessary or, in the opinion of the Owner Participant, desirable for the ownership, operation and possession of the Undivided Interest, the Real Property Interest or any portion of Unit 2 represented thereby by the Owner Trustee or any transferee, lessee or assignee thereof for the period from and after the Lease Termination Date. The Lessee agrees to accept and cooperate in receiving any transfer of the Owner Participant's right, title and interest in the Trust Estate made pursuant to Section 7(b)(4).

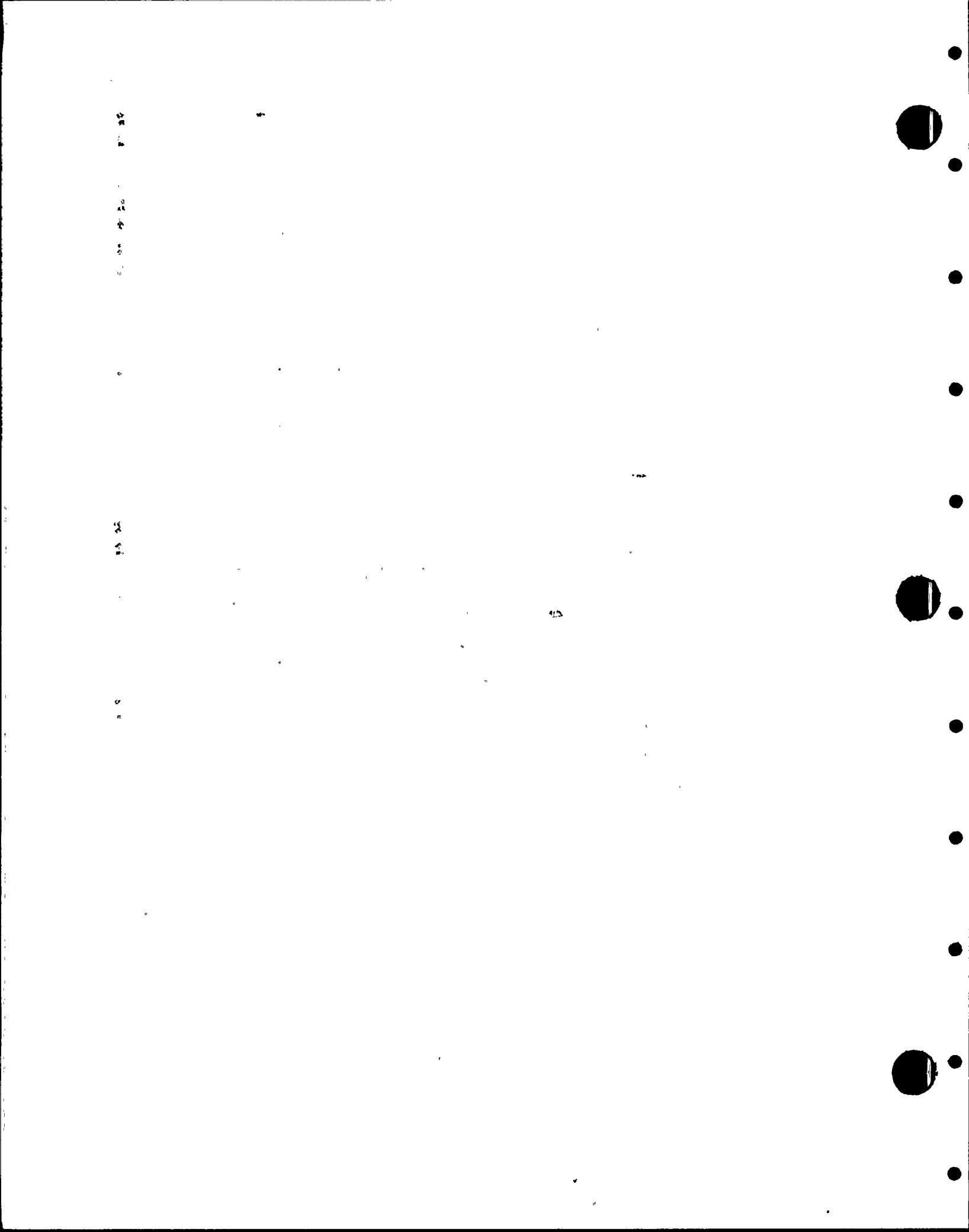
(xi) Decommissioning. (A) The Lessee will comply with its obligations under Applicable Law concerning the decommissioning and retirement from service of Unit 2 (which term shall include, for all purposes of this paragraph (xi), (i) the cost of removal, decontamination and disposition of equipment and fixtures, the cost of safe storage for later removal, decontamination and disposal and the cost of entombment of equipment and fixtures, and (ii) the cost of (x) razing Unit 2, (y) removal and disposition of debris from the PVNGS Site and (z) restoration of relevant portions of the PVNGS Site). If Applicable Law or Governmental Action shall not, on or before December 31, 1990, impose upon the Lessee the obligation to create, fund and maintain an external reserve fund dedicated to paying all the costs of decommissioning and removing from



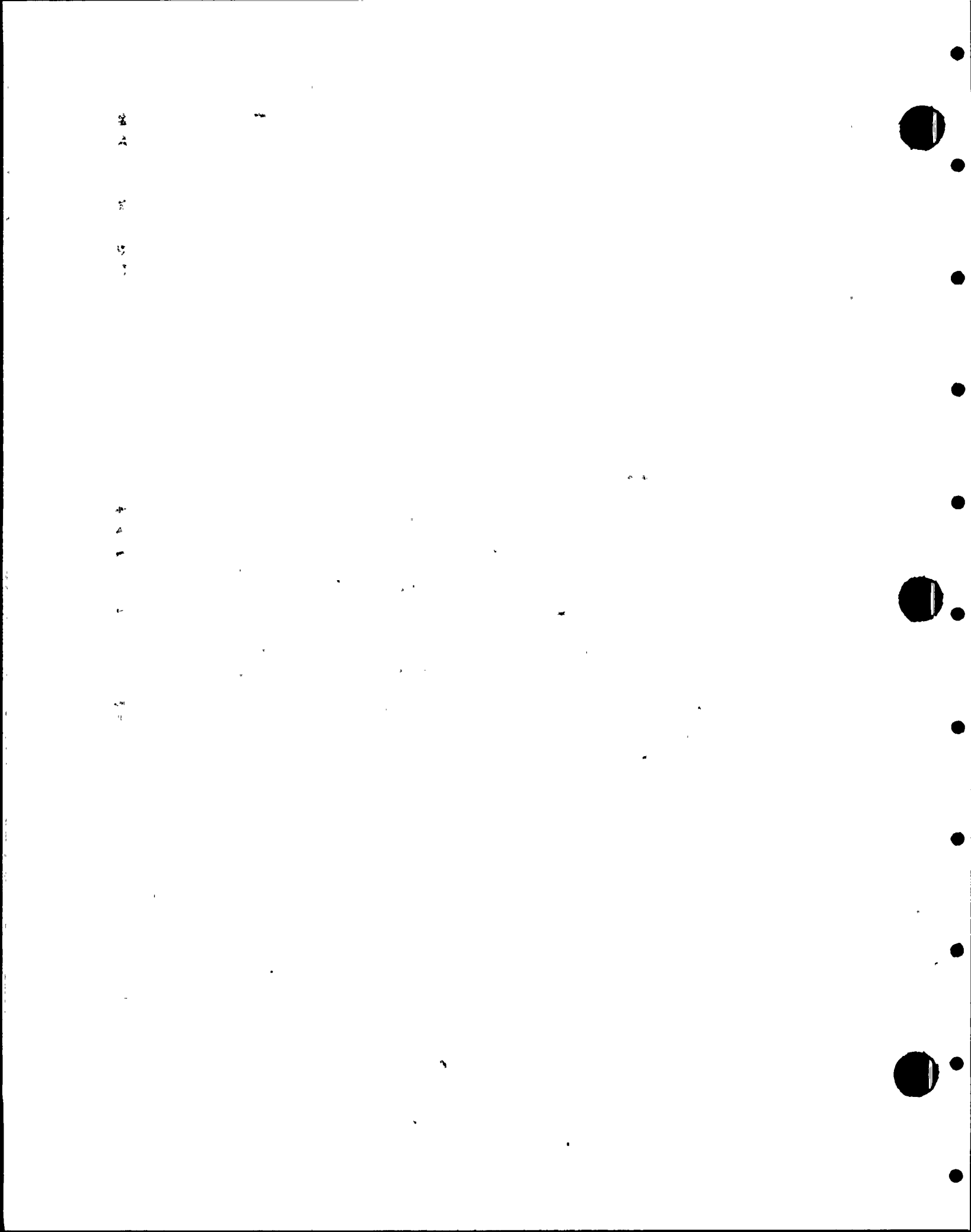
service the Undivided Interest, then the Lessee will create and maintain the Decommissioning Fund; if Applicable Law or Governmental Action shall thereafter impose upon the Lessee an obligation to create and maintain such a fund, any fund in compliance with Applicable Law or such Governmental Action shall be deemed satisfactory to the Owner Participant for purposes of the preceding sentence; provided, however, the Lessee shall in any and all events maintain and fund such an external reserve in accordance with prudent utility practice and thereafter review such fund, at least every five years after its creation, and modify the same as to amount or rate of accumulation to bring the same, if necessary, into conformity with prudent utility practice. (B) Except to the extent provided in clauses (C) and (D) below, as between the Lessee, the Owner Trustee, the Owner Participant and any transferee (including by way of lease) or assignee of any of the Lessor's or the Owner Participant's right, title or interest in Unit 2, the Lessee agrees to pay, be solely responsible for, and to indemnify such parties against, all costs and expenses relating or allocable to, or incurred in connection with, the decommissioning and retirement from service of Unit 2, notwithstanding (i) the occurrence of the Lease Termination Date, any Event of Default, Default, Event of Loss, Deemed Loss Event or any other event or occurrence, (ii) any provision of any Transaction Document, or other document, instrument or agreement, including the ANPP Participation Agreement, (iii) any provision of the License or any other license or permit, or (iv) any Applicable Law, charter or by-law provision, Governmental Action or other impediment, including, without limitation, the bankruptcy or insolvency of the Lessee, either now or hereafter in effect; it being understood that the obligations of the Lessee under this clause (B) are and shall be absolute and unconditional. (C) In the event



that (i) the Facility Lease shall have expired upon expiration (or early termination pursuant to Section 14(e) of the Facility Lease) of the Lease Term (other than in connection with an Event of Loss, Deemed Loss Event or Event of Default) and (ii) thereafter the Lessor shall (1) re-lease the Undivided Interest to any Person or (2) retain the Undivided Interest and sell power and energy from its Generation Entitlement Share through PNM, as agent, then after the Lessor has received (x) in the case of clause (1) above, gross rents in an aggregate amount (when discounted back to such Lease Termination Date at a rate per annum equal to the Prime Rate) equal to 20% of Facility Cost, or (y) in the case of clause (2) above, net electric revenues in an aggregate amount (discounted as aforesaid) equal to 20% of Facility Cost, the Lessor shall thereafter reimburse the Lessee in respect of the decommissioning obligation of the Lessee hereunder in an amount equal to any further rent received or proceeds received from the sale of power and energy to the extent that such rent or proceeds are attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi) with respect to the period from and after such Lease Termination Date (payable on an annual basis with respect to each year or portion thereof during the term of such lease referred to in clause (1) above or such agency period referred to in clause (2) above); provided, however, that when such amount has been paid the Lessor shall be relieved of all obligations to make further reimbursement to the Lessee for such purpose. (D) In the event that (i) the Facility Lease shall have expired upon the expiration (or early termination pursuant to Section 14(e) of the Facility Lease) of the Lease Term (other than in connection with an Event of Loss, Deemed Loss Event or Event of Default, (ii) the Lessor shall sell (other than in connection with the termination by the Lessee of the Facility Lease for



obsolescence pursuant to Section 14 of the Facility Lease) the Undivided Interest to any Person (including the Lessee in connection with the exercise by the Lessee of the purchase option provided by Section 13(b) of the Facility Lease), and (iii) the net sales proceeds (discounted back to such Lease Termination Date at a rate per annum equal to the Prime Rate) received by the Lessor in connection therewith shall exceed 20% of Facility Cost (reduced by the percentage of Facility Cost, if any, actually realized by the Lessor pursuant to clause (C) above), then the Lessor shall reimburse the Lessee in respect of the decommissioning obligation of the Lessee hereunder in an amount equal to any net proceeds of such sale to the extent that such proceeds are attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi) with respect to the period from and after the date of such sale through the remaining useful life of Unit 2 (whereupon the reimbursement obligations of the Lessor under this Section 10(b)(3)(xi) shall terminate); provided, however, that any such reimbursement shall not reduce the amount of such net sales proceeds retained by the Lessor to an amount (discounted as aforesaid) equal to less than 20% of Facility Cost (reduced by the percentage of Facility Cost, if any, actually realized by the Lessor pursuant to clause (C) above). The reimbursement obligations of the Lessor under clauses (C) and (D) above are for the sole benefit of the Lessee, and no other Person shall be a third party beneficiary with respect thereto. In the event that the Lessee and the Lessor shall not agree as to the amount of gross rents, net electric revenues or net sales proceeds attributable to the decommissioning obligation of the Lessee under this Section 10(b)(3)(xi), such amount shall be determined by the Appraisal Procedure. For purposes of determining Facility Cost under clauses (C) and (D) of this Section 10(b)(3)(xi), Facility Cost



shall be adjusted to reflect any inflation or deflation from the Closing Date to the time of the determination.

(xii) Acknowledgment and Agreement.

The Lessee hereby acknowledges and agrees to the provisions of Section 7(b)(4) of this Participation Agreement.

SECTION 11. Conditions Precedent.

(a) Owner Participant and Loan Participant Conditions. The obligation of (x) the Loan Participant to make the Loan on the Closing Date, and (y) the Owner Participant to make the Investment and the Real Estate Investment on the Closing Date, shall be subject to the fulfillment on or prior to the Closing Date of the following conditions precedent (each instrument, document, certificate or opinion referred to below to be in form and substance satisfactory to the Loan Participant and the Owner Participant):

(1) Notice of Closing; Transaction Documents. Each shall have received executed copies, or sets of executed counterparts, of (x) the Notice of Closing, and (y) each Transaction Document (other than the Tax Indemnification Agreement), the Mortgage Release, each Financing Document being executed on the Closing Date and such other documents as are contemplated by this Participation Agreement.

(2) Tax Indemnification Agreement. The Owner Participant shall have received an executed copy of the Tax Indemnification Agreement.

(3) Authentication Request, etc. The Owner Trustee shall have delivered to the Indenture Trustee (x) a request, dated the Closing Date, authorizing the Indenture Trustee to authenticate and deliver the Fixed Rate Notes to the Loan Participant upon its payment to the Indenture Trustee, for the account of the Owner Trustee, of the proceeds of the Loan, and (y) the Original of the Facility Lease.

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(4) **Due Authorization, Execution and Delivery.** All of the documents described in clauses (1) and (2) of this Section 11(a) shall have been duly authorized, executed and delivered by the respective parties thereto and shall be in full force and effect on the Closing Date, and the Loan Participant and the Owner Participant shall have received evidence as to such authorization, execution and delivery.

(5) **Fixed Rate Notes and Bond Transactions; Investment.** In the case of the Loan Participant, (A) the Loan Participant shall have received the proceeds from the sale of the Series B Bonds as a result of the consummation of the transactions contemplated by the Underwriting Agreement, (B) the Owner Trustee shall have executed, and the Indenture Trustee shall have authenticated and delivered to the Loan Participant, the Fixed Rate Notes evidencing the Loan made on the Closing Date, (C) the Collateral Trust Trustee shall have accepted the Series B Supplemental Indenture and the related Supplemental Indenture of Pledge (as defined in the Series B Supplemental Indenture) and shall have released the amount of the Loan from the lien of the Collateral Trust Indenture, and (D) the Owner Participant shall have made the Investment and the Real Estate Investment on the Closing Date.

(6) **Loan.** In the case of the Owner Participant, the Loan Participant shall have made the Loan.

(7) **ANPP Administrative Committee.** The ANPP Administrative Committee shall have made the finding required by Section 15.6.2 of the ANPP Participation Agreement, and the Lessee shall have delivered evidence of such finding having been made.

(8) **No Violation.** The making by the Owner Participant of the Investment and the Real Estate Investment, and by the Loan Participant of the Loan shall not violate any Applicable Law.

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(9) No Default. No Default or Event of Default or, in the case of the Loan Participant, Indenture Default or Indenture Event of Default, shall have occurred and be continuing.

(10) Recording and Filing. The financing statements under the Uniform Commercial Code and certain Transaction Documents, in each case as enumerated and described in Schedule 4, shall have been duly filed or recorded in the respective places or offices set forth in such Schedule and all recording and filing fees with respect thereto shall have been paid.

(11) Representations and Warranties of the Loan Participant. In the case of the Owner Participant, the representations and warranties of the Loan Participant set forth in Section 6(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Owner Participant shall have received an Officers' Certificate of the Loan Participant, dated the Closing Date, to such effect.

(12) Opinion of the Loan Participant's Counsel. In the case of the Owner Participant, it shall have received a favorable opinion of the Loan Participant's Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(13) Representations and Warranties of the Owner Participant. In the case of the Loan Participant, the representations and warranties of the Owner Participant set forth in Section 7(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant shall have received a certificate of an officer of the Owner Participant, dated the Closing Date, to such effect.

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(14) Opinion of the Owner Participant's Special Counsel. In the case of the Loan Participant, it shall have received a favorable opinion of the Owner Participant's Special Counsel, dated the Closing Date and addressed to the Loan Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents, as the Loan Participant may reasonably request.

(15) Representations and Warranties of the Owner Trustee. The representations and warranties of FNB and the Owner Trustee set forth in Section 8(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant and the Owner Participant shall have received a certificate from an officer of FNB and a certificate of the Owner Trustee, dated the Closing Date, to such effect.

(16) Opinion of the Owner Trustee's Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Owner Trustee's Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant may reasonably request.

(17) Representations and Warranties of the Indenture Trustee. The representations and warranties of the Indenture Trustee set forth in Section 9(a) shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date, and the Loan Participant and the Owner Participant shall have received a certificate of the Indenture Trustee, dated the Closing Date, to such effect.

(18) Opinion of the Owner Participant's Special NRC Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special NRC Counsel, dated the Closing

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Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(19) Representations and Warranties of the Lessee. (A) The representations and warranties of the Lessee set forth in Section 10(a), in each other Transaction Document, in the Underwriting Agreement and in each certificate or other document to which the Lessee is a party executed or delivered in connection with the transactions contemplated hereby or thereby shall be true and correct on and as of the Closing Date with the same effect as though made on and as of the Closing Date and (B) no Default, Event of Default, Deemed Loss Event or Event of Loss shall have occurred and be continuing and the Loan Participant and the Owner Participant shall have received an Officers' Certificate of the Lessee, dated the Closing Date, to such effect. Such Officers' Certificate shall state that there has been no material adverse change in the properties, business, prospects or financial condition of the Lessee since September 30, 1986, and no event has occurred since that date which would materially adversely affect the ability of the Lessee to perform its obligations under this Participation Agreement or any other Transaction Document to which it is or is to become a party.

(20) Opinion of the Lessee's Special Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's Special Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(21) Opinion of Lessee's General Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's General Counsel, dated the Closing Date and

addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(22) Opinion of Lessee's Arizona Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of the Lessee's Special Arizona Counsel, dated the Closing Date and addressed to each such Person, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Loan Participant or the Owner Participant shall reasonably request.

(23) Opinion of Owner Participant's Special Arizona Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special Arizona Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant shall reasonably request.

(24) Opinion of Owner Participant's Special New Mexico Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special New Mexico Counsel, dated the Closing Date and addressed to the Owner Participant, addressing such matters relating to the transactions contemplated hereby and by the other Transaction Documents as the Owner Participant may reasonably request.

(25) Opinion of the Owner Participant's Special Counsel. The Owner Participant shall have received a favorable opinion of the Owner Participant's Special Counsel, dated the Closing Date and addressed to the Owner Participant, with respect to such Federal tax and other tax matters as the Owner Participant may reasonably request.

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(26) Opinion of the Loan Participant's Counsel. The Loan Participant shall have received a favorable opinion of the Loan Participant's Counsel, dated the Closing Date and addressed to it, with respect to such matters as the Loan Participant shall reasonably request.

(27) Taxes. All Taxes, if any, payable in connection with the execution, delivery, recording and filing of the Transaction Documents and all the documents and instruments enumerated and described in Schedule 4, or in connection with the issuance and sale of the Fixed Rate Notes and the Series B Bonds and the making by the Owner Participant of the Investment and the Real Estate Investment, and all Taxes payable in connection with the consummation of the transactions contemplated hereby and by the other Transaction Documents, shall have been duly paid in full by the Lessee.

(28) Form U-7D. A certificate on Form U-7D with respect to the Facility Lease shall have been duly executed and delivered by the Owner Trustee and the Owner Participant and shall be in due form for filing.

(29) Appraisal. The Owner Participant shall have received a letter, dated the Closing Date and addressed to the Owner Participant, from the Appraiser containing an appraisal of the Undivided Interest, which appraisal shall reflect the Appraiser's reasonable conclusion that (w) the fair market value in the hands of the Owner Trustee of the Undivided Interest on the Closing Date, taking into account the effect and existence of the Real Property Interest, the Assignment and Assumption and the ANPP Participation Agreement, is equal to the Purchase Price as set forth in the Notice of Closing, (x) the estimated remaining economic useful life of Unit 2 (including the Undivided Interest) is at least 38 years and 11 months (y) at the expiration of the first two years of the Renewal Term the Undivided Interest will have an estimated residual value taking into account the effect and the existence of this Participation Agreement, the Real

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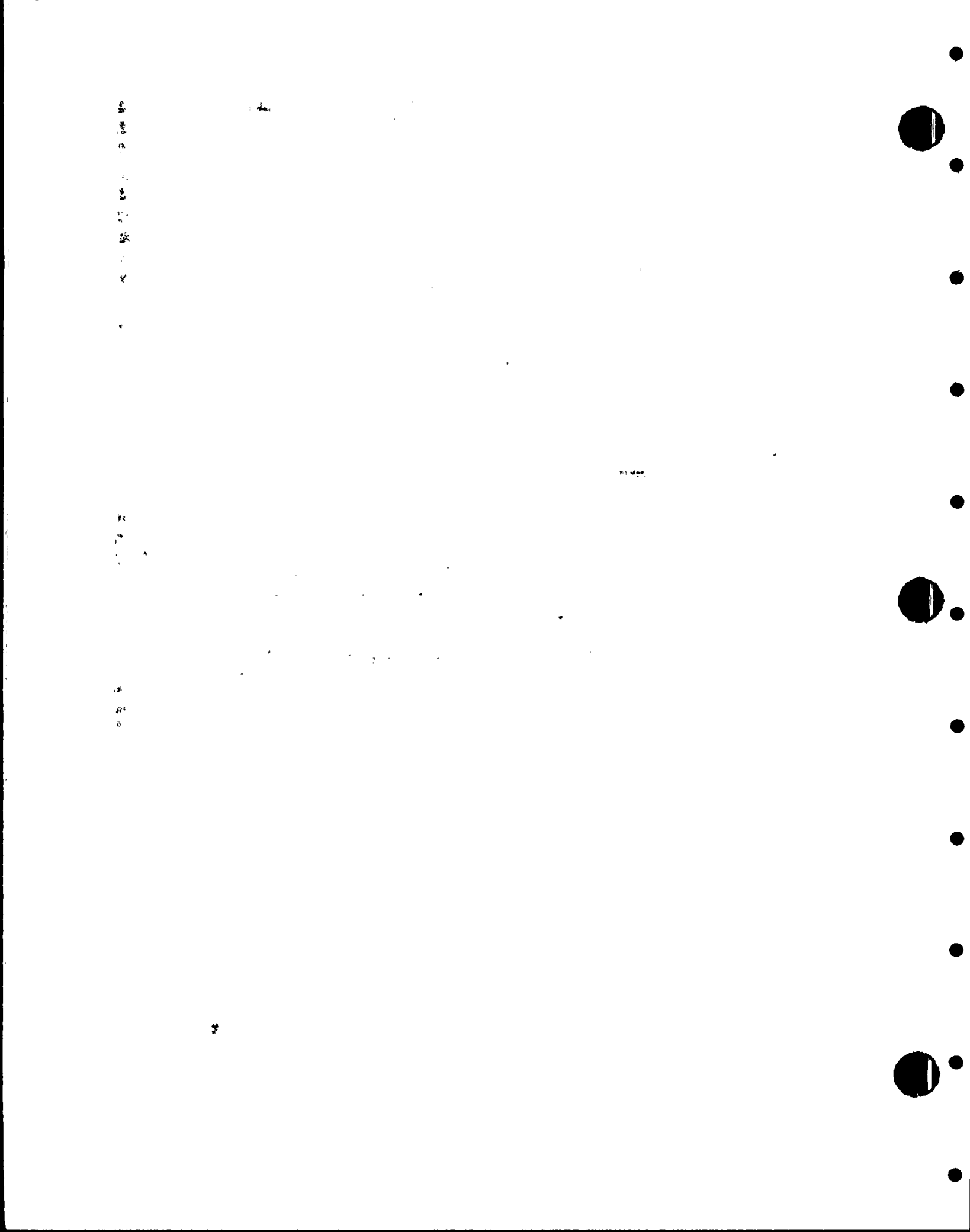
Property Interest, the Assignment and Assumption and the ANPP Participation Agreement, in the hands of the Owner Trustee or a Person (unrelated to the Lessee) who could lease or purchase the Undivided Interest from the Owner Trustee for commercial use, equal to at least 20% of the Purchase Price, determined without including in such value any increase or decrease for inflation or deflation during the period from the Closing Date through the expiration of the first two years of the Renewal Term, and (z) taking into account the effect and the existence of the Real Property Interest, the Assignment and Assumption and the ANPP Participation Agreement, the use of the Undivided Interest at the Lease Termination Date by any User is feasible from an engineering and economic point of view and is commercially reasonable.

(30) Offering and Sale of Interest. The Loan Participant, the Owner Trustee and the Owner Participant shall have received a letter from each of Kidder Peabody and Goldman, Sachs & Co. with respect to the offering and sale of the interests in the transactions contemplated by this Participation Agreement and each other participation agreement relating to an undivided interest in Unit 2.

(31) Extension Letter. The Extension Letter shall have been duly executed by the respective parties thereto and delivered to the Collateral Trust Trustee.

(32) Governmental Action. The Lessee shall have obtained all Governmental Actions (including, without limitation, the New Mexico Order, which order shall be final and non-appealable), required or, in the opinion of the Owner Participant, advisable for the consummation of all the transactions contemplated by this Participation Agreement and the other Transaction Documents and the Financing Documents in accordance with their terms.

(33) Title Report; Title Insurance. The Owner Participant shall have received (i) an updated title report, dated the Closing Date, with respect to the



nuclear plant site, which report does not disclose any exceptions materially adverse to the possession or operation of Unit 2 or the performance by the Lessee of its obligations under this Participation Agreement and the other Transaction Documents to which the Lessee is, or is to become, a party; and (ii) such title insurance policies with respect to the nuclear plant site and improvements thereon (including the Owner Trustee's interests therein) as it shall have reasonably requested, such policies to be in form and substance satisfactory to the Owner Participant.

(34) No Change or Proposed Change in Tax Laws. No change shall have occurred or been proposed in the Code or any other tax statute, the regulations thereunder or any interpretation thereof that would adversely affect the tax consequences anticipated by the Owner Participant with respect to the transactions contemplated by the Transaction Documents, unless the Lessee shall have agreed in writing to protect the Owner Participant, in the Tax Indemnification Agreement or otherwise, in a manner reasonably satisfactory to it, against the effect of such change or proposed change.

(35) Insurance. The Owner Participant shall have received a written report from its independent insurance consultant in form and substance satisfactory to the Owner Participant.

(36) Site Arrangement Plan. The Owner Participant's Special Counsel shall have received a site arrangement plan of the nuclear plant site prepared subsequent to January 1, 1979.

(37) Special Certificate of the Lessee. The Owner Participant shall have received a certificate of the Lessee, dated the Closing Date, to the effect that, except as set forth on the Schedule thereto, (A) Unit 2 has been in all material respects completed in a good and workmanlike manner and in accordance with the plans and specifications relating thereto (as the same may have been modified from time to time to reflect Unit 2 as actually

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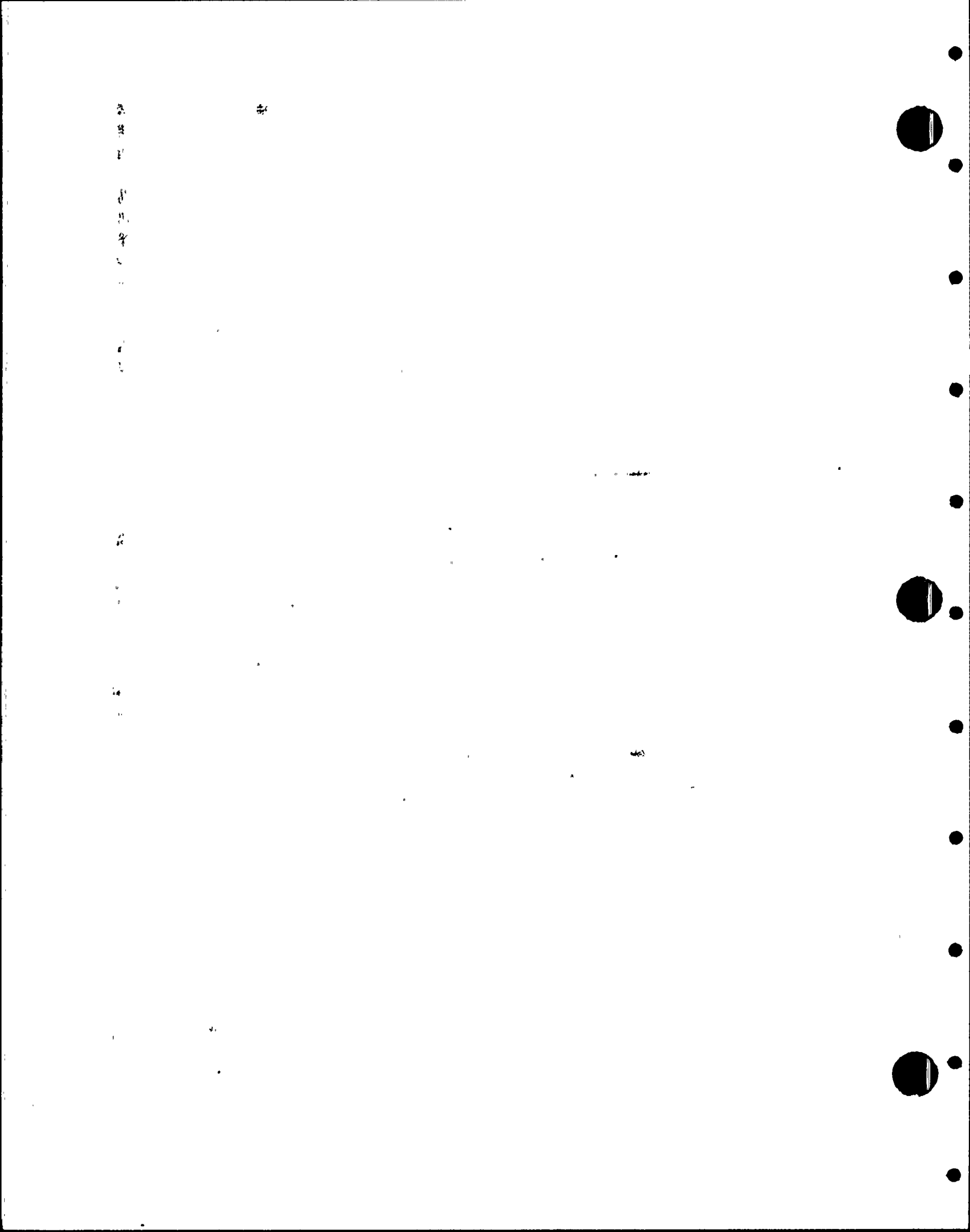
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completed), Applicable Law (including, but without limitation, the regulations of the NRC), the License and the ANPP Participation Agreement, (B) all Governmental Action necessary for the commercial operation of Unit 2 (including the Undivided Interest) have been received, other than Governmental Action that is routine in nature for PVNGS or that cannot be obtained under Applicable Law, or is typically not applied for, prior to the time it is required, and that the Lessee reasonably expects to be obtained in due course, (C) the plans and specifications relating to Unit 2 are complete in all material respects (modified or to be modified as aforesaid) and consistent with prudent engineering practice, (D) the testing and startup procedures for Unit 2 were and the operation and maintenance programs for Unit 2 are consistent with such plans and specifications, Applicable Law and prudent engineering practice, (E) Unit 2 has been tested in accordance with all customary testing and startup procedures which would have been performed on or prior to the Closing Date, and such tests and procedures indicate that Unit 2 will have the capacity and functional ability to perform in commercial operation, on a continuing basis, the function for which it is designed in accordance with such plans and specifications and has a nominal capacity of 1,270 megawatts electric, (F) all material Governmental Actions relating to the construction, operation or maintenance of Unit 2 are listed in a schedule to such certificate, (G) there is no present event or condition which would materially adversely affect the capability of Unit 2 to operate in accordance with such plans and specifications and (H) based upon the Lessee's present reasonable expectations, and subject to Applicable Law, the rights and interests made available to the ANPP Participants (including the Lessee) pursuant to the ANPP Participation Agreement, as such rights and interests are made available to the Owner Trustee, any successor or assign of the Owner Trustee or any "Transferee" of the Owner Trustee under Section 15.10 of the ANPP Participation Agreement, under and pursuant to this Agreement, the Deed, the Assignment of Beneficial Interest or the Assignment



and Assumption, together with the rights to be made available under and pursuant to the Assignment and Assumption, are adequate to permit, during the period following the Lease Termination Date or the taking of possession of the Undivided Interest and the Real Property Interest in the exercise of remedies under Section 16 of the Facility Lease, in accordance with the ANPP Project Agreements (i) the construction, location, occupation, connection, maintenance, replacement, renewal, repair or removal of Unit 2, (ii) the use, operation and possession of Unit 2, (iii) the construction, use, operation, possession, maintenance, replacement, renewal and repair of all alterations, modifications, additions, accessions, improvements, appurtenances, replacements and substitutions thereof and thereto, (iv) adequate ingress to and egress from Unit 2 for any reasonable purpose in connection with the exercise of rights under the Assignment and Assumption and the Owner Trustee's or any transferee's ownership and possession of the Undivided Interest and (v) the obtaining of nuclear fuel, of water and of transmission services to the ANPP Switchyard sufficient to enable delivery of the Generation Entitlement Share related to the Undivided Interest in a commercially efficient manner and on commercially reasonable terms. Nothing in the foregoing clause (H) shall be deemed to be or be construed as a warranty by the Lessee as to the performance by the Operating Agent of its obligations under the ANPP Participation Agreement. Such certificate shall also be attested to by J.L. Wilkins, Senior Vice President, Power Supply, PNM Electric, who shall state that (i) he has made such investigation, inspection and review as he deems necessary to make the statements in the certificate and (ii) to the best of his knowledge, the statements of the Lessee in such certificate are true and correct.

(38) Real Estate Appraisal. The Owner Participant shall have received an appraisal of the Real Property Interest, which appraisal shall reflect the appraiser's reasonable conclusion that the fair market value in the hands of the Owner Trustee of the Real Property Interest on the Closing

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Date is equal to the Real Estate Investment. Such appraisal shall cover such other matters as the Owner Participant shall have requested.

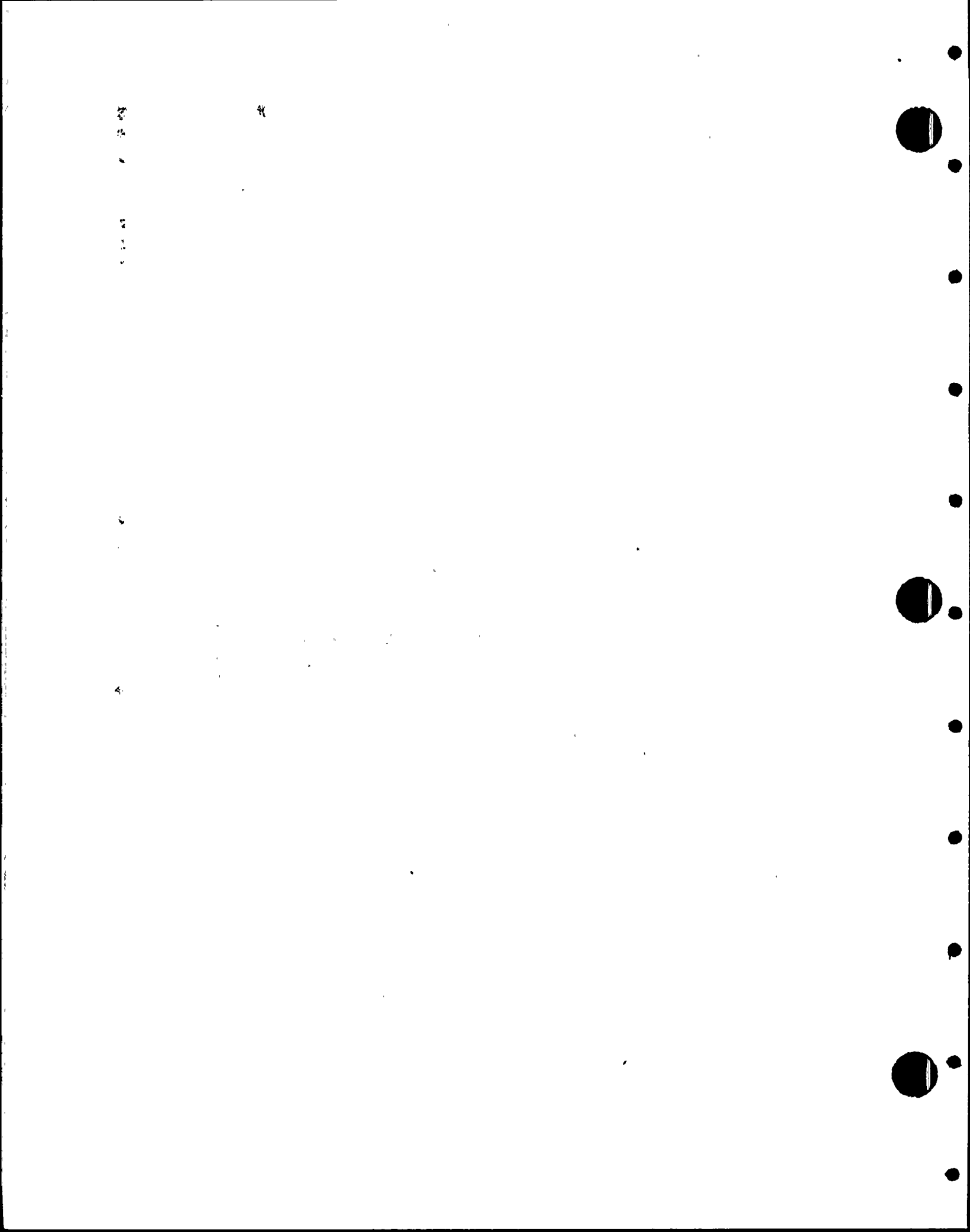
(39) Consent of Certain Unit 1 Lessors. The Lessee shall have obtained the consent required by Section 10 (b)(3)(xii) of each of the three Participation Agreements dated as of December 16, 1985, relating to separate sale and leaseback transactions involving undivided interests in Unit 1 in respect of which the Lessee is lessee.

(40) Opinion of Lessee's FERC Counsel. The Loan Participant and the Owner Participant shall have received a favorable opinion of Lessee's FERC Counsel, dated the Closing Date and addressed to each such Person, addressing such FERC matters as the Loan Participant or the Owner Participant may reasonably request.

(41) Other Matters. The Loan Participant and the Owner Participant shall have received such other documents, certificates and opinions as the Loan Participant or the Owner Participant, or their respective counsel, shall reasonably request.

(b) Lessee Conditions. The obligation of the Lessee to sell and lease back the Undivided Interest and the Real Property Interest on the Closing Date pursuant to Section 4 shall be subject to the fulfillment on or prior to the Closing Date of the following conditions precedent, in each case in form and substance satisfactory to the Lessee:

(1) Paragraph (a) Documents. The Lessee, the Owner Trustee and the Indenture Trustee shall have received executed copies of the documents, certificates, opinions (other than the opinion referred to in Section 11(a)(25)), appraisals, letters and forms described in paragraph (a) of this Section 11. All such opinions shall be addressed to the Lessee, the Owner Trustee and the Indenture Trustee except the opinions or documents to which reference is made in clauses (18), (23), (24) and (25) of said paragraph (a).



(2) **Payment of Purchase Price.** The Owner Trustee shall have paid to the Lessee an amount, in immediately available funds, equal to the Purchase Price and the Real Estate Investment.

(3) **Special Opinion of the Lessee's Special Counsel.** The Lessee shall have received a favorable opinion of the Lessee's Special Counsel, dated the Closing Date and addressed to the Lessee, with respect to such Federal tax and other matters as the Lessee may reasonably request.

(4) **Accountant's Letter.** The Lessee shall have received a letter satisfactory to it from Peat, Marwick, Mitchell & Co., to the effect that, under generally accepted accounting principles and FASB No. 13, the Facility Lease is an "operating lease".

(5) **Changes in Pricing Assumptions.** If any change or changes in the Pricing Assumptions shall have occurred on or before the Closing Date, the effect of such change or changes will not require the payment of Basic Rent (as to be adjusted pursuant to Section 3(e)(iii) of the Facility Lease) on an annual basis to exceed 11.7% of Facility Cost.

SECTION 12. Consent to Assignment of the Facility Lease; Consent to Indenture; Consent to Assignment of Notes.

(a) **Consent to Assignment of Facility Lease.** The Lessee hereby acknowledges, and consents in all respects to, the partial assignment of the Facility Lease by the Owner Trustee to the Indenture Trustee under and pursuant to the Indenture and agrees:

(i) to make each payment of Basic Rent and Supplemental Rent due or to become due thereunder to the extent constituting Assigned Payments (excluding, in any event, all Excepted Payments) directly to the Indenture Trustee at the Indenture Trustee's Office, so long as any of the Notes shall be Outstanding and unpaid; and

(ii) not to seek to recover any payment (other than a payment that both the Owner Trustee and the Lessee agree was made in mistake) made to the Indenture Trustee in accordance with the Indenture once such payment is made.

(b) **Consent to Indenture.** The Lessee hereby consents in all respects to the execution and delivery of the Indenture, and to all of the terms thereof, and the Lessee acknowledges receipt of an executed counterpart of the Indenture; it being understood that such consent shall not be construed to require the Lessee's consent to any future supplement to, or amendment, waiver or modification of the terms of, the Indenture or any Note, except to the extent expressly provided for.

(c) **Consent to Assignment by Loan Participant.** Each of the parties hereto acknowledges that the Loan Participant is assigning its right, title and interest in and to the Notes to the Collateral Trust Trustee as security for the Bonds to the extent set forth in the Collateral Trust Indenture, and each of the parties hereto consents to such assignment.

SECTION 13. Lessee's Indemnities and Agreements.

(a) **General Indemnity.** The Lessee agrees, whether or not any of the transactions contemplated hereby shall be consummated and whether or not the Facility Lease, any other Transaction Document or any Financing Document shall have expired or have been terminated, to assume liability for, and the Lessee does hereby agree to indemnify, protect, defend, save and keep harmless each Indemnitee, on an After-Tax Basis, from and against, any and all Claims which may be imposed on, incurred by or asserted against any Indemnitee (whether because of act or omission by such Indemnitee or otherwise and whether or not such Indemnitee shall also be indemnified as to any such Claim by any other Person) in any way relating to or arising out of (i) Unit 2, the Undivided Interest, the Real Property Interest, PVNGS or the PVNGS Site, or any part of any thereof (or any beneficial interest

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therein), any ANPP Project Agreement, the issuance or payment of the Bonds or the Notes, this Participation Agreement or any other Transaction Document or any Financing Document (including, without limitation, the performance or enforcement of any of the obligations and terms hereunder or thereunder); (ii) a disposition of all or any part of the Undivided Interest, the Real Property Interest, Unit 2 or any other interest of the Owner Trustee or Owner Participant in connection with any termination of the Facility Lease, or (iii) the design, manufacture, financing, erection, purchase, acceptance, rejection, ownership, acquisition, delivery, nondelivery, lease, sublease, preparation, installation, repair, transfer of title, abandonment, possession, use, operation, maintenance, condition, sale, return, storage, disposition, or decommissioning (including, but without limitation, with respect to the Termination Obligation) of the Undivided Interest, Unit 2, the Real Property Interest, any Capital Improvement, the PVNGS Site, any other facilities on the PVNGS Site or any other interest of the Owner Trustee or Owner Participant in any thereof or any accident, nuclear incident or extraordinary nuclear occurrence in connection therewith (including, without limitation, (A) claims or penalties arising from any violation of law or liability in tort (strict or otherwise) or from the active or passive negligence of any Indemnitee, (B) loss of or damage to any property or the environment or death or injury to any Person, (C) latent and other defects, whether or not discoverable, (D) any claim for patent, trademark, service-mark or copyright infringement and (E) any claim of any Indemnitee incurred in the administration of this Participation Agreement, any other Transaction Document or any Financing Document and not paid as Transaction Expenses or included in Facility Cost and, if not included in Transaction Expenses, the reasonable fees and disbursements of counsel and other professionals incurred in connection therewith); provided, however, that the Lessee shall not be required to indemnify any Indemnitee pursuant to this Section 13(a), (1) for any Claim in respect of Unit 2, the Undivided Interest or the Real Property Interest arising from acts or events not attributable to the Lessee which occur after redelivery of the Undivided Interest to the Owner Trustee in accordance with Section 5 of the Facility Lease, except

to the extent expressly provided in any Transaction Document, the ANPP Participation Agreement or any other agreement or undertaking of the Lessee, (2) for any Claim against such Indemnatee resulting solely from acts which would constitute the willful misconduct or gross negligence of such Indemnatee (unless imputed to such Indemnatee by reason of Unit 2, the Undivided Interest, the Real Property Interest, PVNGS, the PVNGS Site or any other facilities at the PVNGS Site or any occurrence in connection with any thereof), (3) for any Transaction Expense to be paid by the Owner Trustee pursuant to Section 14(a) or (4) for any Claim resulting solely from a transfer by the Owner Trustee or the Owner Participant of all or part of its interest in the Facility Lease, Unit 2, the Real Property Interest or the Undivided Interest other than in connection with any early termination of the Facility Lease or any exercise of remedies under Section 16 thereof or the transfer contemplated by Section 7(b)(4) or the first transfer by the Owner Participant to an Affiliate of the Owner Participant. To the extent that an Indemnatee in fact receives indemnification payments from the Lessee under the indemnification provisions of this Section 13(a), the Lessee shall be subrogated, to the extent of such indemnity paid, to such Indemnatee's rights with respect to the transaction or event requiring or giving rise to such indemnity, but only so long as such subrogation shall not materially adversely affect the rights of such Indemnatee or any other Indemnatee hereunder. Nothing herein contained shall be construed as constituting a guaranty by the Lessee of the principal of or premium, if any, or interest on the Notes or the Bonds or of the residual value or useful life of the Undivided Interest.

(b) General Tax Indemnity.

(1) Indemnity. All payments by the Lessee in connection with the transactions contemplated by the Transaction Documents shall be free of withholdings of any nature whatsoever (and at the time that the Lessee is required to make any payment upon which any withholding is required, the Lessee shall pay an additional amount such that the net amount actually received by the Person entitled to receive such

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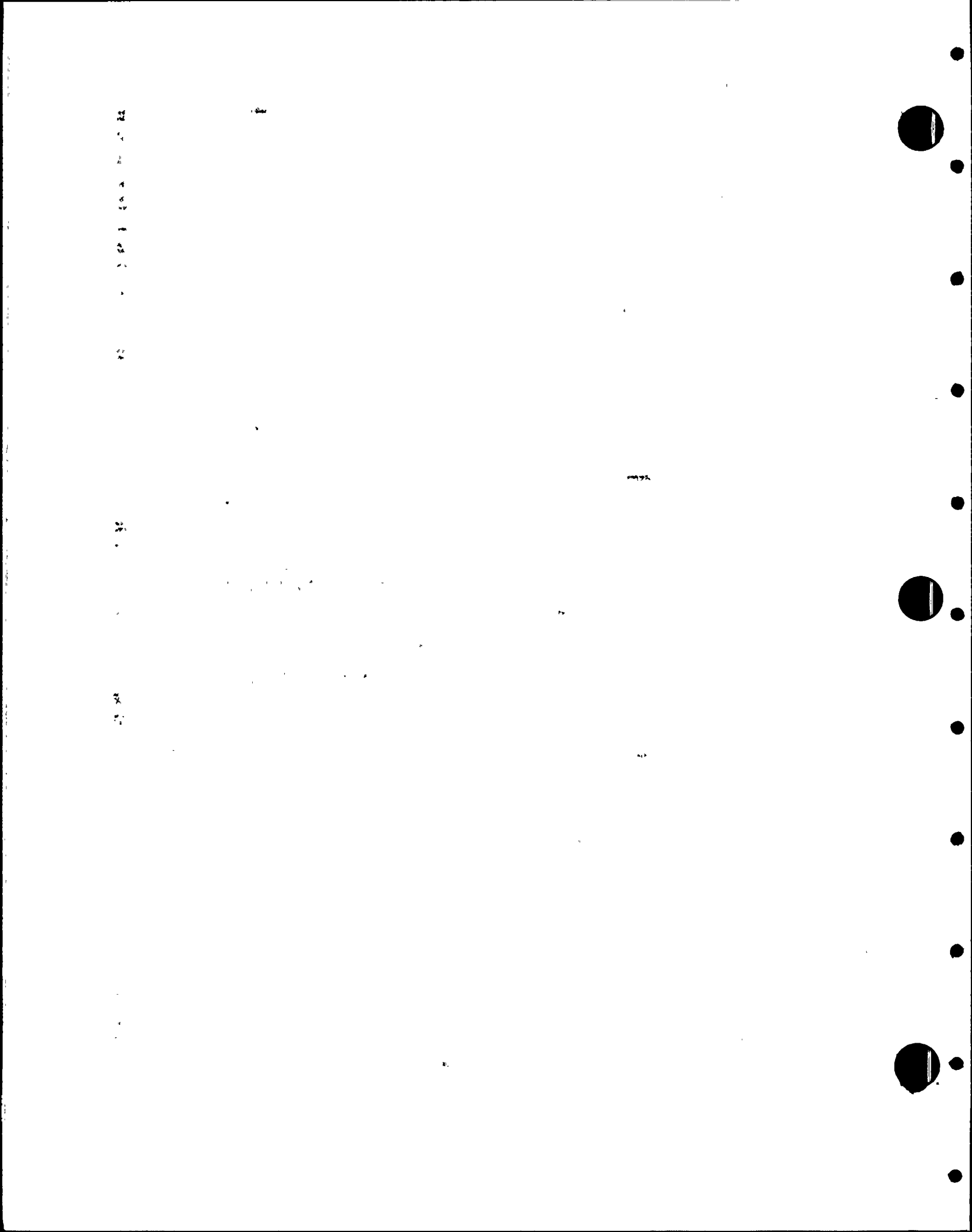
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payment will, after such withholding, equal the full amount of the payment then due) and shall be free of expense to each Indemnatee for collection or other charges. If, for any reason, the Lessee is required to make any payment to a taxing authority with respect to, or as a result of, any withholding tax imposed on any Indemnatee in respect of the transactions contemplated by the Transaction Documents by reason of the Indemnatee not being a United States person, then such Indemnatee shall pay to the Lessee on an After-Tax Basis an amount which equals the amount paid by the Lessee with respect to or as a result of such withholding tax. Whether or not any of the transactions contemplated hereby is consummated, except as provided in Section 13(b)(2), the Lessee shall pay, and shall indemnify, defend and hold each Indemnatee harmless, on an After-Tax Basis, from and against, any and all Taxes howsoever imposed (whether imposed on or with respect to the Indemnatee, the Lessee, Unit 2, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site or any part thereof or interest therein or otherwise) by any Federal, state or local government or subdivision thereof or taxing authority in the United States or by any foreign country or subdivision thereof or by any foreign or international taxing authority in connection with or relating to (A) the design, construction, financing, purchase, acquisition, acceptance, rejection, delivery, nondelivery, transport, ownership, assembly, possession, repossession, operation, use, condition, maintenance, repair, improvement, sale, return, abandonment, decommissioning, preparation, installation, storage, replacement, redelivery, manufacture, insuring, leasing, subleasing, modification, transfer of title, rebuilding, rental, importation, exportation or other application or disposition of, or the imposition of any Lien (or incurrence of any liability to refund or pay over any amount as a result of any Lien other than Owner Participant's Liens and Owner Trustee's Liens) other than Owner Participant's Liens and Owner Trustee's Liens on, Unit 2, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site, or any part thereof or interest therein, (B) the



payment of Rent or the receipts or earnings arising from or received with respect to, and the indebtedness with respect to, Unit 2, the Undivided Interest, the Real Property Interest or any Capital Improvement, or any part thereof, interest therein or application or disposition thereof, (C) any amount paid or payable pursuant to, or contemplated by, this Participation Agreement, any other Transaction Document or any Financing Document or the transactions contemplated hereby or thereby (D) Unit 2, the Undivided Interest, the Real Property Interest, any Capital Improvement or the PVNGS Site, or any part thereof, or interest therein, or the applicability of the Facility Lease to the Undivided Interest or any Capital Improvement, or any part thereof or interest therein, (E) this Participation Agreement, any other Transaction Document or any Financing Document or (F) otherwise with respect to or in connection with the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document.

(2) Exclusions from General Tax Indemnity. Section 13(b)(1) (except for the first sentence thereof) shall not apply to:

(i) Taxes based on, or measured by, net income imposed by the United States federal government (including, without limitation, any minimum Taxes, capital gains Taxes, any Taxes on, or measured by, items of tax preference, surcharges, additions to tax, penalties, fines or other charges in respect thereof);

(ii) Taxes (other than sales, use or rental Taxes) imposed by any state or local government or subdivision thereof or other taxing authority in the United States or by any foreign country or subdivision thereof or by any foreign or international taxing authority that are based on, or measured by, the net income, items of tax preference, net worth or capital of an Indemnatee, or other taxes imposed in lieu of any such Taxes, except, with respect

to the Owner Trustee, the Trust, the Trust Estate, the Owner Participant and any Affiliate of any thereof, any such Taxes imposed by a jurisdiction as a result of a relation or asserted relation of such jurisdiction to the transactions contemplated by the Transaction Documents or the Financing Documents or as a result of the activities of the Lessee, any ANPP Participant or any Affiliate of any thereof in such jurisdiction; provided, however, that the amount of any such excepted Taxes shall be calculated (i) on a pro forma basis assuming that such Indemnatee has no other taxable income or loss in the taxing jurisdiction imposing the Tax (provided that such calculation shall take into account any allocation or apportionment method used by such jurisdiction except to the extent that such method takes into account the income or activities of business entities organized outside the United States) and is able to use any net operating loss carryovers (generated solely by reason of and solely attributable to the transactions contemplated by the Transaction Documents or the Financing Documents, and for this purpose a similar pro forma calculation shall be made) to the fullest extent, reasonably determined, in good faith, by the Indemnatee, and (ii) by taking into account any actual reduction in Taxes in such jurisdiction or in any other jurisdiction in which such Indemnatee is subject to tax (whether such reduction results from the operation of allocation or apportionment formulas, from credits or otherwise, except that no account shall be taken of any actual reductions of tax benefits described in the Tax Indemnification Agreement or any tax liability generated by transactions other than those contemplated by the Transaction Documents or the Financing Documents) which reduction results from the transactions contemplated by the Transaction Documents or the Financing Documents; provided further, however, that, with respect to any Tax based on, or measured

by, capital or net worth, the Lessee's indemnity obligation shall not exceed the incremental portion of such Tax attributable to the transactions contemplated by the Transaction Documents;

(iii) Taxes attributable to the Undivided Interest or the Real Property Interest to the extent that such Taxes are imposed with respect to any period after (a) the Lease Termination Date and (b) the date possession of the Undivided Interest and the Real Property Interest has been delivered to the Lessor as provided in Section 5(a) of the Facility Lease, unless such Taxes relate to events occurring or matters arising prior to or simultaneously with either of the aforementioned dates;

(iv) Taxes on or with respect to an Indemnatee arising from any voluntary transfer by such Indemnatee of any interest in the Undivided Interest, the Real Property Interest, the Trust Estate, the Indenture Estate, the Notes or any other right or interest arising under the Transaction Documents or the Financing Documents, unless an Event of Default has occurred and is continuing, or Taxes arising from an involuntary transfer by such Indemnatee of any such interest arising from a bankruptcy or similar proceeding in which such Indemnatee is the debtor unless such bankruptcy or other proceeding was caused, in whole or in part, by the Lessee or any Affiliate thereof;

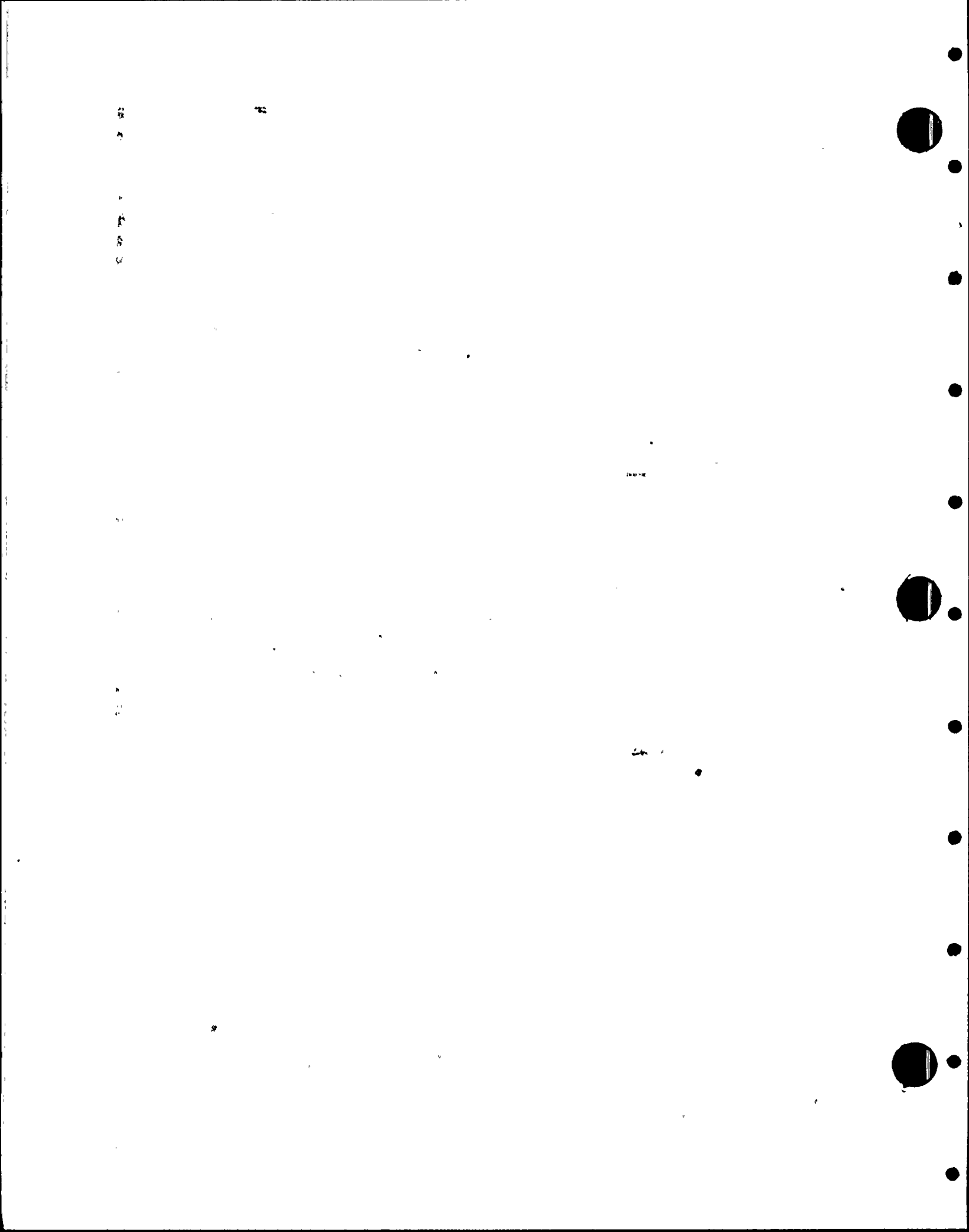
(v) Taxes based on or measured by any fee, commission or compensation received by an Indemnatee for acting as trustee, or for other services rendered, in connection with any of the transactions contemplated by the Transaction Documents or the Financing Documents;

(vi) Taxes on or with respect to an Indemnatee arising by reason of such Indemnatee's failure to file proper and timely reports or returns (unless the filing of such reports or returns is the obligation of the Lessee under the Transaction Documents or the Financing Documents), and any penalties or additions to tax imposed by reason of such Indemnatee's failure to comply with the laws imposing such Tax or its material failure to comply with its obligations under Section 13 (b)(6), unless such failure results from any action of the Lessee or failure by the Lessee to comply with any provision of the Transaction Documents or the Financing Documents, including the failure to provide necessary information;

(vii) Taxes on or with respect to an Indemnatee arising as a result of a material failure of such Indemnatee to fulfill its obligations with respect to the contest of any claim in accordance with Section 13(b)(4) of this Participation Agreement;

(viii) Taxes imposed on or with respect to a transferee (or subsequent transferee) of an original Indemnatee (other than a transferee or subsequent transferee that is an Affiliate of its transferor) to the extent that the amount of such Taxes exceeds the amount of taxes that would have been imposed on or with respect to such original Indemnatee but for the transfer to such transferee or, if imposed, would not have been subject to indemnification under this Section 13(b); provided, however, that the exception in this clause shall not apply to any transferee where such transfer shall have occurred during the continuance of an Event of Default;

(ix) any Taxes imposed on the Lessor or the Owner Participant resulting from, or which would not have occurred but for, Lessor's Liens or Owner Participant's Liens and any



Taxes imposed on the Indenture Trustee which would not have occurred but for Indenture Trustee's Liens;

(x) any Tax that results solely from the activities of an Indemnitee in any taxing jurisdiction which activities are unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents;

(xi) any Tax on or with respect to an Indemnitee resulting from any amendment or modification entered into by such Indemnitee to any Transaction Document or Financing Document if the Lessee is not a party to such amendment or modification or has not consented to such amendment or modification, in each case unless an Event of Default shall have occurred and be continuing; and

(xii) any Tax on or with respect to an Indemnitee resulting from the gross negligence or willful misconduct of such Indemnitee (it being understood that no Indemnitee is responsible for determining whether a Tax is payable if the Lessee is required to indemnify the Indemnitee for such Tax under this Section 13(b));

provided, however, that the foregoing subclauses (i) through (xii) shall not apply to any Tax imposed on the Loan Participant or the indenture estate under the Collateral Trust Indenture.

(3) Calculation of General Tax Indemnity Payments. If any Indemnitee realizes a net permanent tax benefit by reason of the payment of any indemnity under Section 13(b), such Indemnitee shall pay the Lessee, but not before the Lessee shall have made all payments theretofore due to such Indemnitee pursuant to this Section 13(b), an amount equal to the lesser of (x) the sum of such tax benefit plus any other net tax benefit realized by such Indemnitee as the result of any payment made by such

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Indemnatee pursuant to this sentence (determined in a manner consistent with the definition of After-Tax Basis set forth in Appendix A and with the last sentence of Section 13 (b)(6) hereof) or (y) the amount of such payment by the Lessee to such Indemnatee and any other payment by the Lessee to such Indemnatee theretofore made pursuant to this Section 13(b) less the aggregate amount of all prior payments by such Indemnatee to the Lessee pursuant to this clause (y) with respect to amounts paid pursuant to Section 13(b)(1), it being intended that no Indemnatee should realize a net tax benefit pursuant to this Section 13(b) unless the Lessee shall first have been made whole for any payments by it to such Indemnatee pursuant to this Section 13(b); provided, however, that in computing any permanent tax benefit, such Indemnatee shall be deemed first to have utilized all deductions and credits available to it otherwise than by reason of any payment by the Lessee pursuant to this Section 13(b); provided further, however, that notwithstanding the provisions of this clause (3), such Indemnatee shall not be obligated to make any payment to the Lessee pursuant to this clause (3) if at the time such payment shall be due an Event of Default shall have occurred and be continuing.

(4) General Tax Indemnity-Contests. If a written claim shall be made against any Indemnatee for any Tax for which the Lessee is obligated pursuant to this Section 13(b), such Indemnatee shall notify the Lessee promptly of such claim but the failure so to notify the Lessee shall not affect any obligation of the Lessee pursuant to this Section 13(b). If the Lessee shall reasonably request in writing within 30 days after receipt of such notice, such Indemnatee shall in good faith and at the Lessee's expense contest the imposition of such Taxes; provided, however, that such Indemnatee may in its sole discretion select the forum for such contest and determine whether any such contest shall be by (A) resisting payment of such Taxes, (B) paying such Taxes under protest or (C) paying such Taxes and seeking a refund thereof; provided further, however, that (W) such Indemnatee shall not be obligated to

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contest any claim in which the amount in question is less than \$250,000, (X) at such Indemnatee's option, such contest shall be conducted by the Lessee in the name of such Indemnatee (subject to the preceding proviso) and (Y) in no event shall such Indemnatee be required or the Lessee permitted to contest the imposition of any Taxes for which the Lessee is obligated pursuant to this Section 13(b) unless (u) the Lessee shall have acknowledged its liability to such Indemnatee for an indemnity payment pursuant to this Section 13(b) as a result of such claim if and to the extent such Indemnatee or the Lessee, as the case may be, shall not prevail in the contest of such claim; (v) such Indemnatee shall have received from the Lessee (i) satisfactory indemnity for any liability, expense or loss arising out of or relating to such contest including, but not limited to, (A) all reasonable legal, accountants' and investigatory fees and disbursements, (B) the amount of any interest, additions to tax or penalties that may be payable as a result of contesting such claim and (C) if such contest is to be initiated by the payment of, and the claiming of a refund for such Tax, sufficient funds to make such payment on an After-Tax Basis and (ii) an opinion of independent tax counsel selected by the Lessee and approved by such Indemnatee (which approval shall not be unreasonably withheld) and furnished at the Lessee's sole expense to the effect that a Reasonable Basis exists for contesting such claim or, in the event of an appeal, that there exists a substantial possibility that an appellate court or an administrative agency with appellate jurisdiction, as the case may be, will reverse or substantially modify the adverse determination that the Lessee desires to contest; (w) the Lessee shall have agreed to pay such Indemnatee on demand, and on an After-Tax Basis, all reasonable costs and expenses that such Indemnatee may incur in connection with contesting such claim (including, without limitation, all costs, expenses, losses, reasonable legal and accounting fees, disbursements, penalties, interest and additions to tax); (x) such Indemnatee shall have reasonably determined that the action to be taken will not result in any danger of sale, forfeiture or loss of,

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or the creation of any Lien (except if the Lessee shall have adequately bonded such Lien or otherwise made provision to protect the interests of such Indemnatee in a manner satisfactory to such Indemnatee) on, Unit 2, any part thereof, the Undivided Interest, the Real Property Interest, or any interest in any of the foregoing; and (y) if such contest shall be conducted in a manner requiring the payment of the claim, the Lessee shall have paid the amount required. The Lessee agrees to give such Indemnatee reasonable notice of any contest prior to the commencement thereof. If any Indemnatee shall obtain a refund of all or any part of any Taxes paid by the Lessee, or if any such refund would be payable to the Indemnatee in the absence of an offsetting liability for Taxes payable to the taxing authority in question, such Indemnatee shall pay the Lessee, but not before the Lessee shall have made all payments theretofore due to such Indemnatee pursuant to this Section 13(b), an amount equal to the lesser of (xx) the amount of such refund so received or receivable, including interest received or receivable and attributable thereto, plus any net permanent tax benefit realized by such Indemnatee (determined in a manner consistent with the definition of After-Tax Basis set forth in Appendix A and with the last sentence of Section 13(b)(6) hereof) as a result of any payment by such Indemnatee made pursuant to this sentence (but only to the extent that such net permanent tax benefit was not taken into account pursuant to Section 13(b)(3)), and after taking into account the tax consequences of the receipt of such refund and such interest) or (yy) such tax payment by the Lessee to such Indemnatee plus any other payment by the Lessee to such Indemnatee theretofore made pursuant to this Section 13(b), in either case, net of any expenses not already paid or incurred by the Lessee; provided, however, that in computing any net permanent tax benefit, such Indemnatee shall be deemed first to have utilized all deductions and credits available to it otherwise than by reason of any payment by the Lessee pursuant to this Section 13(b); provided, further, however, that notwithstanding the provisions of this clause (4),

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such Indemnatee shall not be obligated to make any payment to the Lessee pursuant to this clause (4) if at the time such payment shall be due a Default or an Event of Default shall have occurred and be continuing under the Facility Lease. An Indemnatee shall not be required to make any payment pursuant to this clause (4) before such time as the Lessee shall have made all payments and indemnities then due under the Transaction Documents to such Indemnatee. Notwithstanding anything contained in this clause (4) to the contrary, no Indemnatee shall be required to contest any claim if the subject matter thereof shall be of a continuing nature and shall have previously been decided pursuant to the contest provisions of this clause (4) unless there shall have been a change in the law (including, without limitation, amendments to statutes or regulations, administrative rulings and court decisions) after such claim shall have been so previously decided, and such Indemnatee shall have received an opinion of independent tax counsel selected by the Lessee and approved by such Indemnatee (which approval shall not be unreasonably withheld) and furnished at the Lessee's sole expense to the effect that such change provides a Reasonable Basis for the position which such Indemnatee and the Lessee, as the case may be, had asserted in such previous contest or for an alternative position based upon such change that the Lessee now desires to assert. Nothing contained in this Section 13(b) shall require any Indemnatee to contest or permit the Lessee to contest a claim which it would otherwise be required to contest pursuant to this Section 13(b) if such Indemnatee shall waive payment by the Lessee of any amount that might otherwise be payable by the Lessee under this Section 13(b) by way of indemnity in respect of such claim. If the Lessee does not request that a Tax be contested pursuant to this paragraph (5), the Lessee shall pay the Indemnatee therefor unless such Tax was not included in the indemnification under Section 13.(b)(1) or was excluded by Section 13 (b)(2).

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(5) General Tax Indemnity-Reports. If any report, return or statement is required to be filed with respect to any obligations of the Lessee under or arising out of this Section 13(b), the Lessee shall timely notify the Indemnatee and timely file the same, except for any such report, return or statement which such Indemnatee has notified the Lessee that it intends to file. The Lessee shall either file such report, return or statement so as to show the ownership of the Undivided Interest or the Real Property Interest, as the case may be, in the Owner Trustee and send a copy of such report, return or statement to the Owner Trustee and such Indemnatee or, where not so permitted, notify the Owner Trustee and such Indemnatee of such requirement and prepare and deliver such report, return or statement to the Owner Trustee and such Indemnatee in a manner satisfactory to the Owner Trustee and such Indemnatee within a reasonable time prior to the time such report, return or statement is to be filed or, where such return, statement or report shall be required to reflect items in addition to any obligations of the Lessee under or arising out of this Section 13(b), provide the Owner Trustee and such Indemnatee with information sufficient to permit such return, statement or report properly to be made with respect to any obligations of the Lessee under or arising out of this Section 13(b) (and the Lessee shall hold each Indemnatee harmless from and against any liabilities, obligations, losses, damages, penalties, claims, actions, suits and reasonable costs arising out of any insufficiency or inaccuracy in any such return, statement, report or information). The Lessee shall not have any right to examine the tax returns of any Indemnatee.

(6) General Tax Indemnity-Payment. All Taxes shall be paid when due and payable and, unless otherwise requested by the appropriate Indemnatee, the Lessee shall pay any Taxes for which it is liable pursuant to this Section 13(b) directly to the appropriate taxing authority and shall pay such

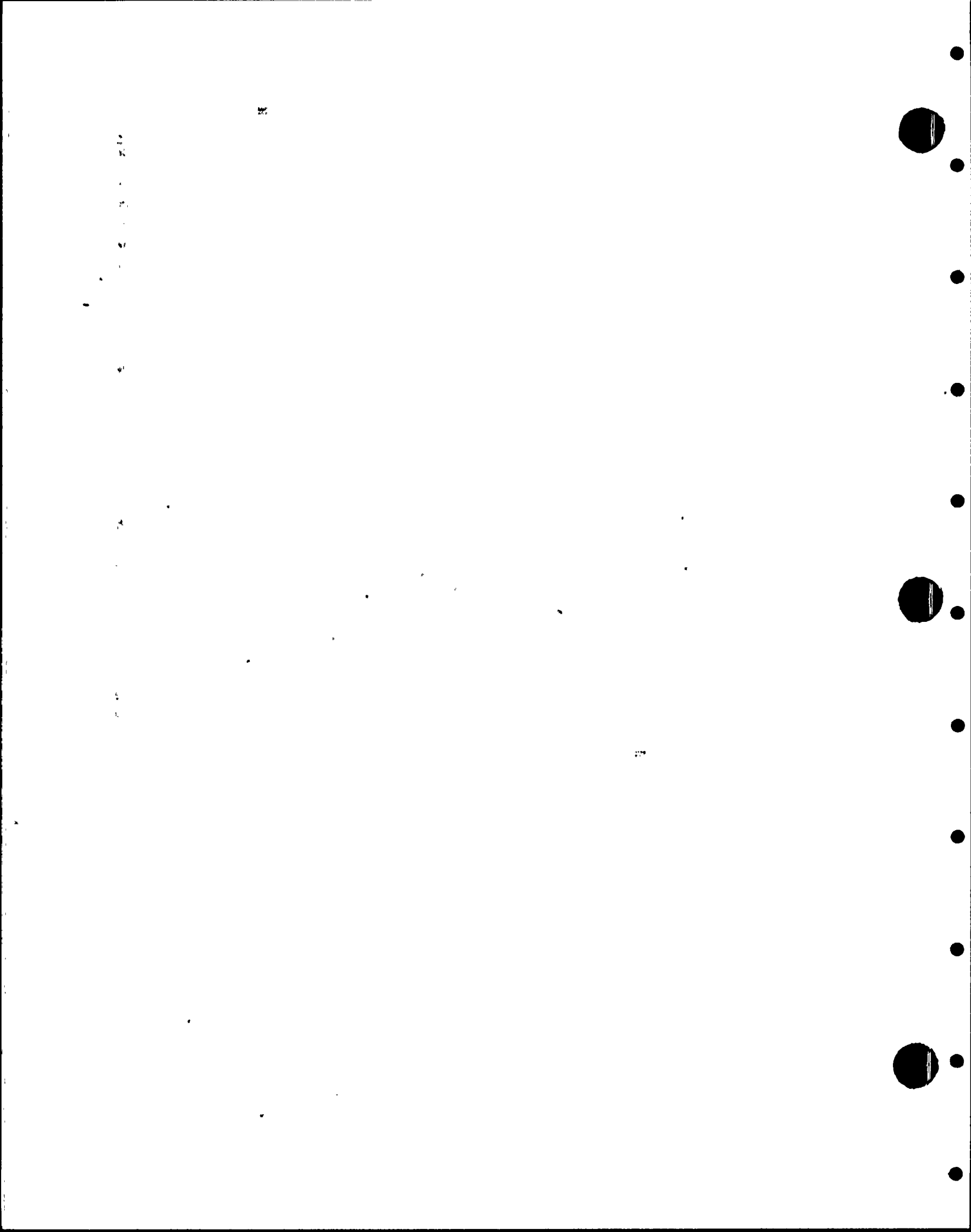
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appropriate Indemnatee promptly on demand in immediately available funds any amount due such Indemnatee pursuant to this Section 13(b) with respect to such Taxes. Any such demand shall specify in reasonable detail the payment and the facts upon which the right to payment is based. Each Indemnatee shall promptly forward to the Lessee any notice, bill or advice received by it concerning any Taxes. Within 30 days after the date of each payment by the Lessee of any Taxes, the Lessee shall furnish the appropriate Indemnatee the original or a certified copy of a receipt for the Lessee's payment of such Taxes or such other evidence of payment of such Taxes as is acceptable to such Indemnatee. The Lessee shall also furnish promptly upon request such data as any Indemnatee may require to enable such Indemnatee to comply with the requirements of any taxing jurisdiction. Whenever any payment is to be made by the Lessee under this Section 13(b) and it shall be necessary, in calculating the After-Tax Basis amount of such payment, to compute the amount of any liability for federal, state or local tax imposed on or measured by the net income of any Indemnatee, such computation shall be based on the assumption that such taxes shall be payable at the highest marginal statutory rate in effect for the relevant period.

(7) Definition of Indemnatee. For purposes of this Section 13(b), the term Indemnatee shall mean and include the successors and assigns of each respective Indemnatee, and for purposes of federal income taxes, the affiliated group of corporations and each member thereof (within the meaning of Section 1504 of the Code) of which such Indemnatee is a member, if such group shall file a consolidated United States federal income tax return, and, for purposes of income or franchise taxes imposed by a particular state or local taxing jurisdiction, shall mean and include any consolidated or combined group of which such Indemnatee is or shall be a member that is treated as such by such state or local taxing jurisdiction.



(c) **Supporting Material.** Upon receipt of any payment provided for by this Section 13, the Indemnatee receiving the same shall provide to the Lessee such supporting material (other than tax returns) as the Lessee shall reasonably request. The Lessee shall reimburse to any Indemnatee, on an After-Tax Basis, any expenses incurred in providing requested supporting material to the Lessee.

(d) **Coordination with Tax Indemnification Agreement.** Any amounts that the Lessee is liable to pay pursuant to this Section 13(b) shall be payable by the Lessee hereunder even if such Taxes are not the liability of the Lessee pursuant to the Tax Indemnification Agreement.

SECTION 14. Transaction Expenses.

(a) **Transaction Expenses.** Subject to the provisions of paragraph (c) below, with funds provided by the Owner Participant, the Owner Trustee hereby agrees that it will pay when due an appropriate portion (taking into account the other undivided interests in Unit 2 sold on August 18, 1986) of the following costs and expenses (Transaction Expenses):

(i) the reasonable legal fees and disbursements of the Loan Participant's Counsel, the Owner Participant's Special Arizona Counsel, the Owner Participant's Special New Mexico Counsel, the Owner Participant's Special Counsel, the Owner Participant's Special NRC Counsel, the Owner Trustee's Counsel and the Indenture Trustee's Counsel for their services rendered in connection with the execution and delivery of this Participation Agreement and the other Transaction Documents and all fees, expenses and disbursements incurred by them in connection with such transactions; and reasonable legal fees, expenses and disbursements in connection with NRC and ANPP Participant

approvals in connection with such transactions;

(ii) the initial (but not the ongoing) fees and expenses of the Owner Trustee and the Indenture Trustee;

(iii) all stenographic, printing, reproduction, and other reasonable out-of-pocket expenses (other than investment banking or brokerage fees) incurred in connection with the execution and delivery of this Participation Agreement and the other Transaction Documents and all other agreements, documents or instruments prepared in connection therewith (including all computer analysis and travel related costs);

(iv) the fees of the Appraiser for services rendered as contemplated by Section 11(a)(29), the fees of the appraiser for services rendered as contemplated by Section 11(a)(38) and the fees of the insurance consultant for services rendered as contemplated by Section 11(a)(35);

(v) all costs of issue of the Series B Bonds including, without limitation, the costs of preparing the Financing Documents, filing fees relating to the Registration Statement and the fees, expenses and disbursements of Collateral Trust Trustee's Counsel, Loan Participant's special Arizona counsel and special New Mexico counsel, Underwriter's Counsel, the initial fees of the Collateral Trust Trustee and its out-of-pocket expenses, rating agency fees, the fees and commissions of the underwriters of the Series B Bonds and the fees, expenses and disbursements of the Loan Participant; and

(vi) the fees and out-of-pocket expenses of Kidder Peabody and Goldman, Sachs & Co. in

connection with the placement of the beneficial interest in the Trust.

Subject to the provisions of paragraph (c) below, funds for the payment of Transaction Expenses will be provided by the Owner Participant to the Owner Trustee and the Owner Trustee will promptly disburse such funds.

(b) **Post-Closing Expenses.** The Lessee will pay, as Supplemental Rent, (i) the ongoing fees, expenses, disbursements and costs (including legal and other professional fees and expenses) of or incurred by the Owner Trustee, the Indenture Trustee and the Collateral Trust Trustee, including in connection with the issue, sale and purchase of Notes and Bonds after the Closing Date, and (ii) all fees, expenses, disbursements and costs (including legal and other professional fees and expenses) incurred by the Loan Participant, the Owner Participant, the Owner Trustee, the Indenture Trustee and the Collateral Trust Trustee in connection with (a) any Default, Event of Default, Indenture Default or Indenture Event of Default, (b) the entering into or giving or withholding of any amendment, modification, supplement, waiver or consent with respect to any Transaction Document or Financing Document, (c) any Event of Loss or Deemed Loss Event, (d) any transfer of all or any part of the right, title and interest of the Indenture Trustee in, to and under the Transaction Documents, (e) any transfer of all or any part of the right, title and interest of the Owner Trustee in the Undivided Interest, the Real Property Interest or in, to and under the Transaction Documents and (f) any transfer contemplated by Section 7(b)(4).

(c) **Lessee's Obligation.** Notwithstanding Section 14(a) hereof, (i) in the event the transactions contemplated by this Participation Agreement shall not be consummated, the Lessee shall pay or cause to be paid, and shall indemnify and hold harmless the Loan Participant, the Indenture Trustee, the Collateral Trust Trustee, the Owner Trustee and the Owner Participant in respect of all Transaction Expenses unless such failure to consummate shall result solely from the Owner

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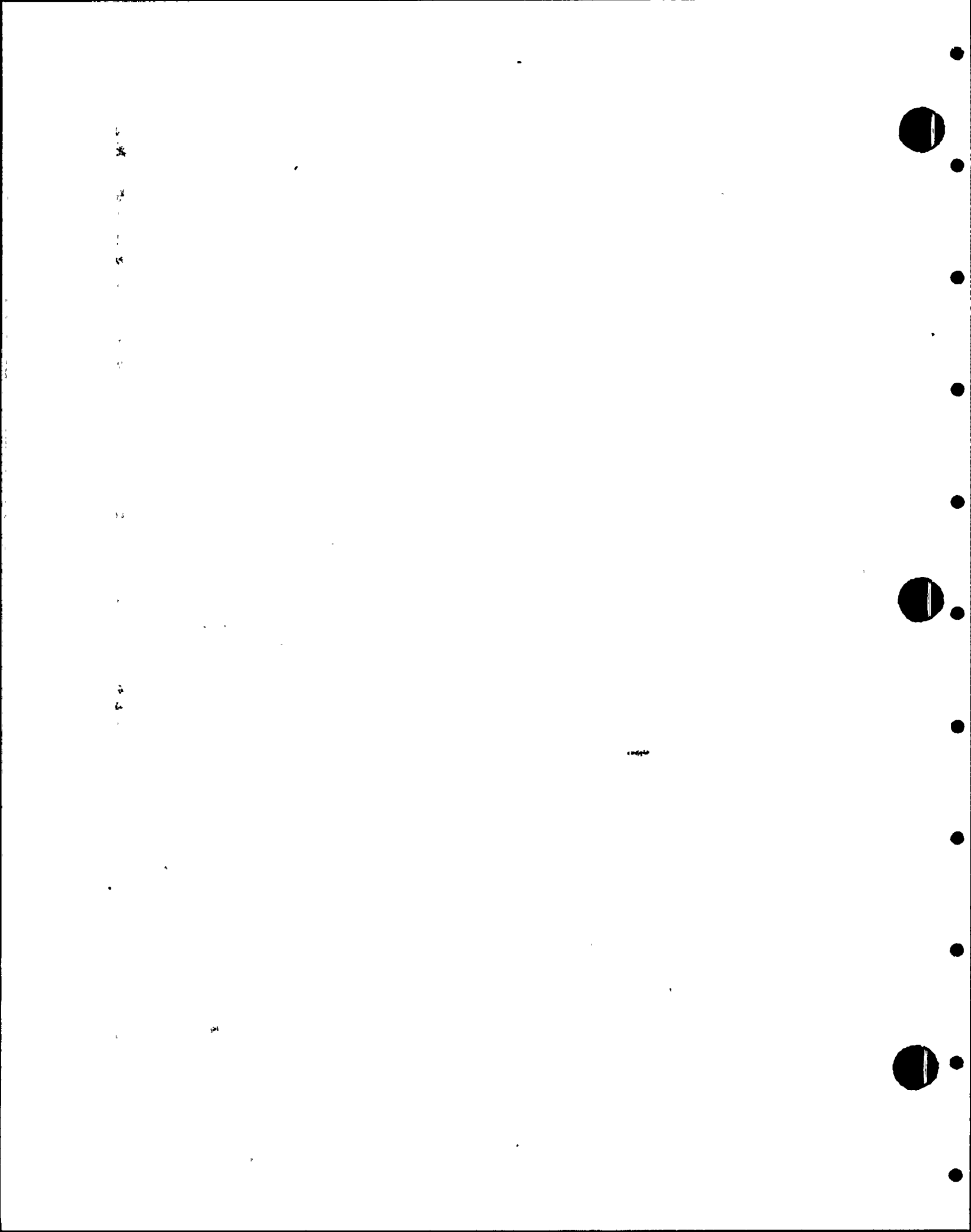
Participant's default in making its Investment hereunder and (ii) the Lessee shall pay or cause to be paid that portion of Transaction Expenses which exceeds a percentage of the Purchase Price equal to 2.5%.

SECTION 15. Owner Participant's Transfers.

(a) Transfers. After the Closing Date, except as contemplated by Section 7(b)(4), the Owner Participant shall not assign, convey or otherwise transfer all or any part of (including without limitation an undivided interest in) its right, title or interest in and to this Participation Agreement, any of the other Transaction Documents or the Trust Estate (except its right to receive Excepted Payments) to any Person (a Transferee) except on the following conditions:

(i) the Transferee shall enter into an agreement or agreements whereby such Transferee confirms that (1) it shall be bound by the terms of this Participation Agreement and each other Transaction Document, to the extent of the interest transferred, as if it had been originally named as the Owner Participant hereunder and thereunder and (2) if such Transferee is a public utility company, it shall have waived its right to claim Special Casualty Value upon the occurrence of a Deemed Loss Event (of the type specified in clause (1) of the definition thereof) under the Facility Lease;

(ii) the Transferee shall be either (A) a financial institution, a corporation or a partnership with a net worth or capital and surplus of at least \$25,000,000 (or, in the case of a partnership, at least one of whose general partners has such a net worth or capital and surplus), or a direct or indirect wholly owned subsidiary of such a financial institution or corporation, (B) a direct or indirect wholly owned subsidiary of (1) the Owner Participant or (2) any parent of the



Owner Participant, (C) the Lessee or such other Person as shall have been approved by the Lessee or (D) any Person; provided, however, that if the Transferee is a subsidiary referred to in clause (A) above or a Person referred to in clause (D) above, the transferring Owner Participant (and any parent thereof secondarily liable pursuant to this Section 15(a)(ii)) shall continue to be liable for (or the parent of such Transferee, which shall otherwise be a permitted Transferee, shall enter into an agreement whereby such parent confirms that it shall be secondarily liable for) the obligations of such Transferee under Section 7(b)(1) notwithstanding such transfer; and

(iii) such transfer shall not violate the Securities Act or any provision of, or create a relationship which would be in violation of, any Applicable Law or agreement to which the transferring Owner Participant or the Transferee is a party or by which its property is bound.

Upon any such transfer, the transferring Owner Participant shall, except as expressly provided in clause (ii) above, be released from its obligations under this Participation Agreement and the other Transaction Documents to the extent of the interest transferred. An agreement to transfer shall not in and of itself constitute a transfer for purposes of this Section 15.

(b) Procedure. If the Owner Participant transfers all or any part of its interest hereunder pursuant to this Section 15, it shall give written notice thereof to the Lessee, the Owner Trustee, the Indenture Trustee and the Loan Participant, specifying the name and address for notices to the Transferee, such other information and evidence as shall be necessary to establish compliance with this Section 15 and the extent of the interest transferred to such Transferee. If, as a

result of any such transfer, the original Owner Participant is not to continue to receive all payments to be made by the Indenture Trustee to the "Owner Participant" under the Indenture, the original Owner Participant shall from time to time, by notice to the Indenture Trustee, with copies to the Lessee, the Owner Trustee and the Collateral Trust Trustee, designate the manner in which any such payments to the "Owner Participant" are to be allocated, and the Indenture Trustee shall be entitled to rely on such notice for all purposes.. This Section 15 (other than the notice provisions contained in the first sentence of this Section 15(c)) is for the benefit of the Lessee, the Owner Trustee and the Owner Participant and may not be enforced by any other party hereto.

SECTION 16: Brokerage and Finders' Fees and Commissions.

Except to the extent of amounts payable by the Owner Participant pursuant to Section 14, the Lessee will indemnify and hold harmless the Loan Participant, the Indenture Trustee, the Owner Trustee and the Owner Participant in respect of any commissions, fees, judgments or other expenses of any nature and kind which any of them may become liable to pay by reason of any claims by or on behalf of brokers, finders, agents, advisors or investment bankers in connection with the transactions contemplated by this Participation Agreement, any other Transaction Document or any Financing Document, or any litigation or similar proceeding arising from any such claim, other than those claims arising out of written undertakings of the party claiming indemnification under this Section 16 or any Affiliate or shareholder (or Affiliate of such shareholder) of such Person with any such broker, finder, agent, advisor or investment banker.

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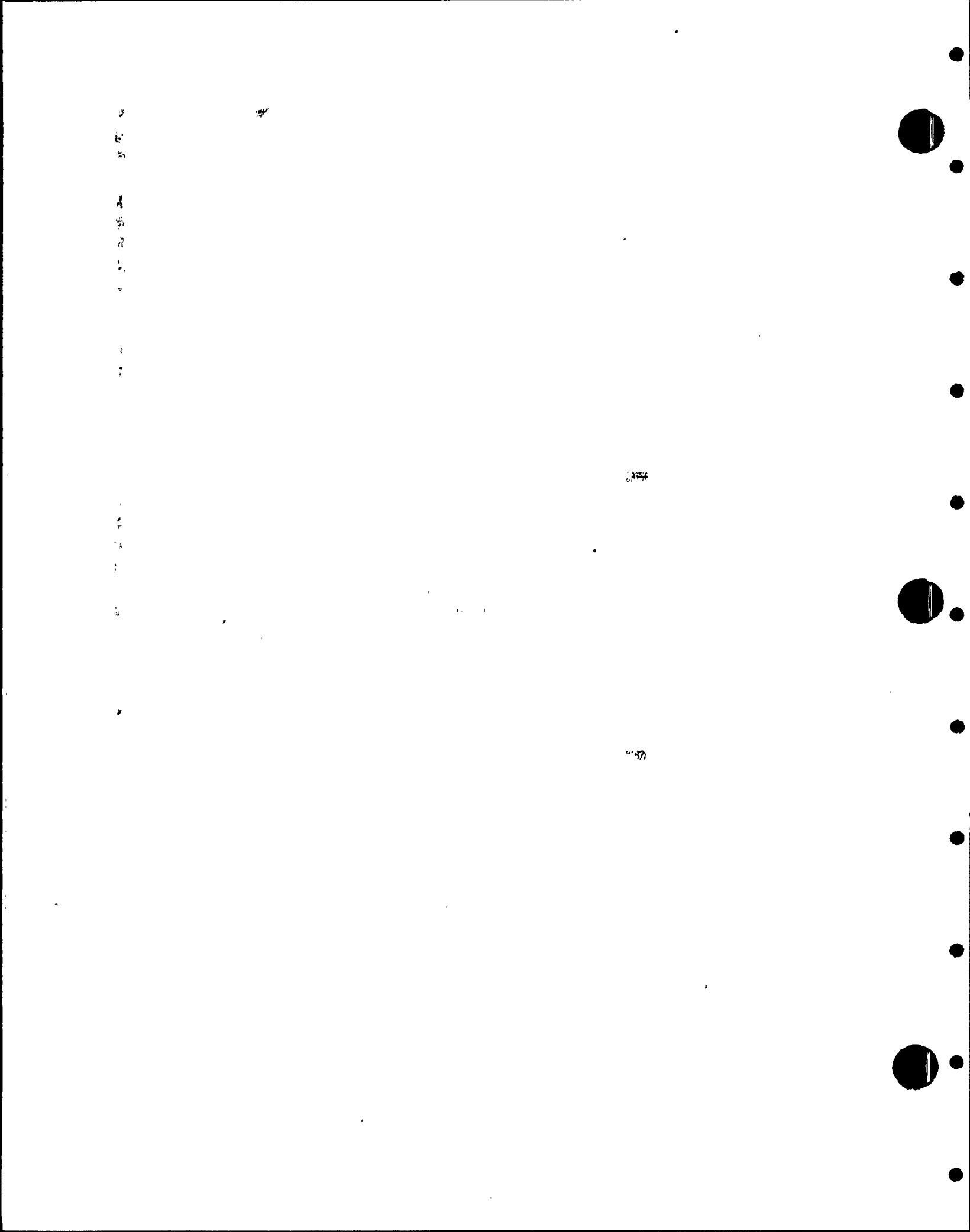
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SECTION 17. Survival of Representations and Warranties; Binding Effect.

(a) **Survival.** All indemnities, representations and warranties contained in this Participation Agreement, in any other Transaction Document, in any Financing Document and in any agreement, document or certificate delivered pursuant hereto or thereto or in connection herewith or therewith, shall survive, and shall continue in effect following, the execution and delivery of this Participation Agreement, the making of the investments and the loans referred to herein, any disposition of any interest in the Undivided Interest, Unit 2 or any other property referred to in this Participation Agreement and the expiration or other termination of any of the Transaction Documents or Financing Documents and shall be and continue in effect notwithstanding (i) any investigation made by the Owner Participant or the Loan Participant or (ii) the fact that any of the Indenture Trustee, the Owner Trustee, the Loan Participant or the Owner Participant may waive compliance with any of the other terms, provisions or conditions of any of the Transaction Documents or Financing Documents. The obligations of the Lessee under Sections 10(b)(1)(ix), 10(b)(2), 10(b)(3)(vii), 10(b)(3)(x), 10(b)(3)(xi), 13, 14, 16 and 19(f) shall survive the expiration or other termination of this Participation Agreement or any other Transaction Document or Financing Document. The extension of any applicable statute of limitations by the Owner Trustee, the Indenture Trustee, the Lessee, the Owner Participant, the Loan Participant or any Indemnatee shall not affect such survival.

(b) **Binding Effect.** All agreements, representations and warranties in this Participation Agreement, the other Transaction Documents and the Financing Documents and in any agreement, document or certificate delivered concurrently with the execution of this Participation Agreement or from time to time thereafter, shall bind the party making the same and its successors and permitted assigns and shall inure to the benefit of each party for whom made and its successors and



permitted assigns, and, to the extent provided in the next sentence, each Indemnitee and its successors and assigns. The obligations of the Lessee under Section 13 hereof and Section 20 of the Facility Lease are expressly made for the benefit of, and shall be enforceable by, any Indemnitee, separately or together, without declaring the Facility Lease to be in default and notwithstanding any assignment by the Lessor of the Facility Lease or any of its rights thereunder or any disposition of all or any part of any interest in the Undivided Interest, the Real Property Interest, Unit 2 or any other property referred to in this Participation Agreement, or in this Participation Agreement or any other Transaction Document or any Financing Document. All payments required to be made pursuant to Section 13 hereof shall be made directly to, or as otherwise requested by, the Indemnitee entitled thereto upon written demand by such Indemnitee. The Lessee shall not assign any of its rights or obligations hereunder without the prior written consent of the Owner Participant and the Owner Trustee. Except as otherwise indicated, all references herein to any party to this Participation Agreement and the other Transaction Documents shall include the permitted successors and assigns of such party.

SECTION 18. Notices.

All communications, notices and consents provided for herein shall be in writing, including telex, telecopy or other wire transmission containing a request for assurance of receipt in a manner typical with respect to communications of that type, or mailed by registered or certified mail, personally delivered (with signed receipt of an officer of the Owner Participant in the case of delivery to the Owner Participant) or delivered by express delivery service, and shall be addressed (i) if to the Owner Participant, at One Chase Manhattan Plaza (20th floor), New York, New York 10081, Attention of Leasing Administrator; (ii) if to First PV Funding Corporation at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, Attention of President; (iii) if to The First National Bank of

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Boston, at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporation Trust Division; (iv) if to Chemical Bank, at 55 Water Street, New York, New York 10041, Attention of Corporate Trustee Administration; and (v) if to Public Service Company of New Mexico, at Alvarado Square, Albuquerque, New Mexico 87158, Attention: Secretary; or at such other address as any party hereto may from time to time designate by notice duly given in accordance with the provisions of this Section to the other parties hereto. All such communications, notices and consents given in the manner provided above shall be effective on the date of receipt of such communication or notice.

SECTION 19. Miscellaneous.

(a) Execution. This Participation Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. Although this Participation Agreement is dated as of the date first above written for convenience, the actual dates of execution hereof by the parties hereto are respectively the dates set forth under the signatures hereto, and this Participation Agreement shall be effective on the latest such date.

(b) Intention of the Owner Trustee and the Owner Participant. Each of the Owner Trustee and the Owner Participant intends to exercise its rights and carry out its obligations hereunder and under the other Transaction Documents solely with a view to furthering its own best interests and does not have, and does not expect to have, any form of joint profit motive with any other Person. The Owner Trustee and the Owner Participant shall not be required to share any Rent to which they are entitled under the Facility Lease, or the residual value of the Undivided Interest or the Real Property Interest, with any other Person. The Owner Trustee and the Owner Participant are not under the control of nor shall they be deemed to be under the

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control of any other Person having any interest in Unit 2, and shall not be the agent of or have a right or power to bind any such Person (other than the Owner Participant as regards the Owner Trustee) without its express written consent. The Owner Trustee and the Owner Participant accordingly do not intend to create any form of partnership or joint venture with any other Person by virtue of the transactions contemplated hereby or by any of the Transaction Documents. In the event that it is determined, contrary to the intent of the Owner Trustee and the Owner Participant, that, for purposes of the Code or any other income tax law, a form of partnership or joint venture exists between the Owner Trustee or the Owner Participant and any other Person, the Owner Trustee and the Owner Participant hereby elect to the extent permitted by law (i) not to have the partnership provisions of the Code or such other income tax law apply to any of the transactions contemplated hereby or by any of the Transaction Documents and (ii) to be treated solely as owning the Undivided Interest.

(c) **Governing Law.** This Participation Agreement has been negotiated and delivered in the State of New York and shall be governed by, and be construed in accordance with, the laws of the State of New York.

(d) **Amendments, Supplements, etc.** Neither this Participation Agreement nor any of the terms hereof may be amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against which enforcement of such change is sought.

(e) **Headings.** The headings of the sections and paragraphs of this Participation Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

(f) **Bankruptcy of Owner Participant.** If
(a) the Owner Participant or the Owner Trustee becomes a debtor subject to the reorganization provisions of the Bankruptcy Code, or any successor provision,
(b) pursuant to such reorganization provisions the Owner

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Participant or the Owner Trustee is required, by reason of the Owner Participant being held to have recourse liability directly or indirectly to the Holder of any Note or the Indenture Trustee, to make payment on account of any amount payable as principal or interest, and premium (if any), on such Note and (c) such Holder or the Indenture Trustee actually receives any Excess Amount (as hereinafter defined) which reflects any payment by the Owner Participant on account of clause (b) of this Section, then such Holder or the Indenture Trustee, as the case may be, shall promptly refund to the Owner Participant such Excess Amount. For purposes of this Section, "Excess Amount" means the amount by which such payment exceeds the amount which would have been received on or prior to the date of such payment by such Holder or the Indenture Trustee if the Owner Participant or the Owner Trustee had not become subject to the recourse liability referred to in clause (b) of this Section. Nothing contained in this Section shall prevent such Holder or the Indenture Trustee from enforcing any personal recourse obligation (and retaining the proceeds thereof) of the Owner Participant expressly provided for under this Participation Agreement.

(g) Entire Agreement. This Participation Agreement (including the Schedules hereto), the other Transaction Documents and the Financing Documents supersede all prior agreements, written or oral, between or among any of the parties hereto relating to the transactions contemplated hereby and thereby and each of the parties hereto represents and warrants to the others that this Participation Agreement and the other Transaction Documents and the Financing Documents constitute the entire agreement among the parties relating to the transactions contemplated hereby and thereby.

(h) Publicity. Each party hereto agrees that it will not issue or release for external publication any article or advertising or publicity matter relating to the transaction contemplated hereby or any similar transaction and mentioning or implying the identity of the Owner Participant without the prior written consent

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of the Owner Participant; provided, however, that the Owner Participant agrees that such written consent shall not be withheld if such disclosure is required by Applicable Law.

IN WITNESS WHEREOF, the parties hereto have each caused this Participation Agreement to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHASE MANHATTAN REALTY
LEASING CORPORATION

By M. Synagous, Jr.
Vice President

Date: December 17, 1986

FIRST PV FUNDING CORPORATION

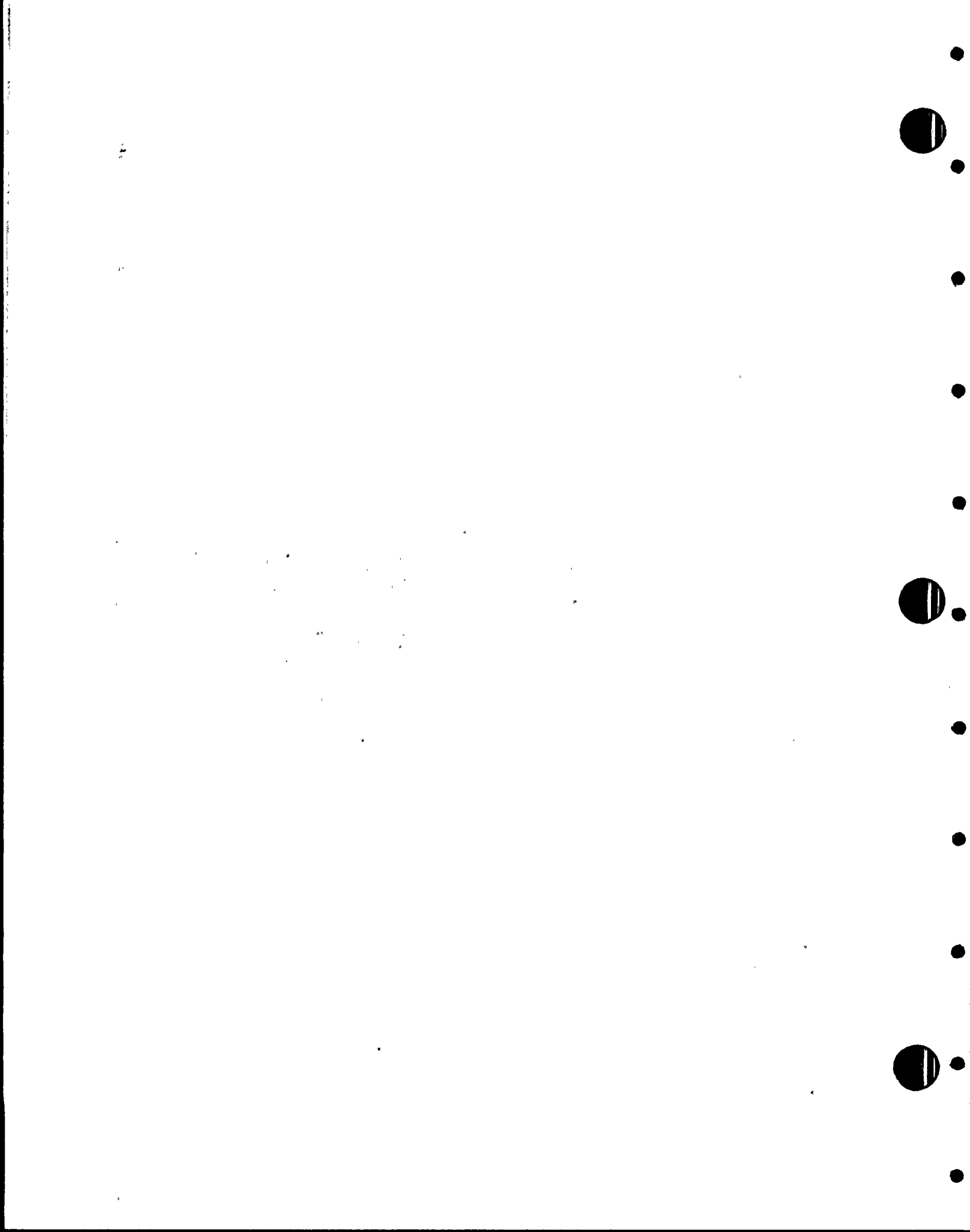
By
Vice President

Date: December , 1986

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By Lu Hylbhl
Vice President and Treasurer

Date: December 4, 1986



THE FIRST NATIONAL BANK OF
BOSTON, in its individual
capacity and as Owner
Trustee

By: _____

Assistant Vice President

Date: December 11, 1986

CHEMICAL BANK, in its indi-
vidual capacity and as
Indenture Trustee

By: _____

Vice President

Date: December 16, 1986

Schedule 1

PUBLIC SERVICE COMPANY OF NEW MEXICO

PALO VERDE NUCLEAR GENERATING
STATION UNIT 2

NOTICE OF CLOSING

CHASE MANHATTAN REALTY LEASING CORPORATION

Pursuant to Section 5(a) of the Participation Agreement, dated as of December 15, 1986 (the Participation Agreement) among Chase Manhattan Realty Leasing Corporation, as Owner Participant (the Owner Participant), First PV Funding Corporation, as Loan Participant, The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee, and Public Service Company of New Mexico (PNM), PNM hereby gives notice of a Closing to occur at 10:00 a.m. on December 17, 1986 (the Closing Date). The Closing will be held at the offices of Messrs. Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

(i) Based upon information supplied to PNM, the current estimate of Transaction Expenses is an aggregate of \$. A list of such transaction expenses is attached hereto.

(ii) Payment of the Purchase Price and the purchase price for the Real Property Interest shall be made pursuant to an Omnibus Transfer Instruction and Receipt to be executed by all parties to the Participation Agreement on the Closing Date.

(iii) The Real Estate Investment is \$_____.

Capitalized terms used herein and not otherwise specifically defined herein shall have the meanings set forth in Appendix A to the Participation Agreement.

IN WITNESS WHEREOF, Public Service Company of New Mexico has executed this Notice of Closing this 10th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By _____
Senior Vice President and
Chief Financial Officer

Schedule 2

PRICING ASSUMPTIONS

Basic Rent and the Schedules of Casualty Values, Special Casualty Values and Termination Values, as set forth in the Facility Lease as originally executed*, have been computed on the basis of the following pricing assumptions:

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| 1. Investment Percentage: | 20.353983% |
| 2. Loan Percentage: | 79.646017% |
| 3. Interest Rate on: | |
| (a) Fixed Rate Note due
January 15, 1992
(\$1,270,000) | 8.05% |
| (b) Fixed Rate Note due
January 15, 1997
(\$3,501,000) | 8.95% |
| (c) Fixed Rate Note due
January 15, 2016
(\$23,229,000) | 10.15% |
| 4. Federal ACRS Deductions: | 10-year public utility property deductions on the basis of 100% of Facility Cost. |
| 5. State and City Deductions: | 16 Year 150% declining balance switching to straight line at the optimal point, using the half year convention, on the basis of 100% of Lessor's Cost. |

| | |
|---|---|
| 6.Owner Participant's Tax
Year-End: | December 31, 1986. |
| 7.Closing Date: | December 17, 1986. |
| 8.Transaction Expenses: | 2.0% of Facility
Cost paid by the
Owner Participant in
addition to its
Investment
(amortized on a
straight-line basis
during the Basic
Lease Term). |
| 9.Real Estate Investment: | \$19,554. |
| 10.Basic Rent Payment Date: | January 15 and
July 15 of each year
(rent payable in
arrears). |
| 11.First Basic Rent Payment
Date: | July 15, 1987. |
| 12.Last Basic Rent Payment
Date: | January 15, 2016. |
| 13.Interim Rent Payment Date: | January 15, 1987. |
| 14.Marginal Federal Tax Rate: | 46% in 1986;
39.950685% in 1987;
and 34% in 1988. |
| 15.Marginal Combined New York
State and City Tax Rate: | 8.6% deductible for
Federal taxes. |
| 16.First Estimated Tax Payment
Date: | March 15, 1987. |
| 17.Tax Accounting Method: | Accrual. |
| 18.Amortization of the Fixed
Rate Notes: | See Schedule
attached thereto. |

Schedule 3

BILL OF SALE AND ASSIGNMENT

BILL OF SALE AND ASSIGNMENT

dated as of _____, 19__

from

[CHASE MANHATTAN REALTY LEASING CORPORATION]

to

PUBLIC SERVICE COMPANY OF NEW MEXICO

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BILL OF SALE AND ASSIGNMENT, dated as of _____, 19__, from [CHASE MANHATTAN REALTY LEASING CORPORATION], a New York corporation (the Owner Participant), to PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM).

W I T N E S S E T H:

WHEREAS, pursuant to Section 7(b)(4) of the Participation Agreement dated as of December 15, 1986 (relating to Unit 2) among the Owner Participant, First PV Funding Corporation, as Loan Participant, The First National Bank of Boston, as Owner Trustee, Chemical Bank, as Indenture Trustee and PNM, as Lessee (the Participation Agreement), the Owner Participant desires to sell and PNM desires to buy the Assigned Property (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. For purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in the Participation Agreement. References in this Agreement to articles, sections and clauses are to articles, sections and clauses in this Agreement unless otherwise indicated.

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ARTICLE II

ASSIGNMENT OF TRUST ESTATE

SECTION 2.01. Assignment. The Owner Participant does hereby grant, bargain, convey, sell, assign, transfer and set over to PNM, without recourse, representation or warranty, express and implied, of any nature whatsoever (except as set forth in the next succeeding sentence), all of the Owner Participant's right, title and interest in, to and under the Trust Estate except the Owner Participant's right to receive Excepted Payments (the Assigned Property) [subject to the Owner Participant's security interest in, and general lien upon all of the right, title, and interest of PNM, as successor Owner Participant in, to and under the Assigned Property*]. The Owner Participant hereby represents and warrants to PNM that the Owner Participant has good and valid title to Assigned Property free and clear of all Owner Participant's Liens.

[Insert the following provision if the Owner Participant has not received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16(e) of the Facility Lease, as the case may be:

SECTION 2.02. No Release of PNM. Notwithstanding the transfer of the Assigned Property to PNM pursuant to Section 2.01 hereof, the obligation of PNM to make the payments as provided in Section [insert applicable section: 9(c), 9(d) or 16] of the Facility Lease (together with interest thereon in accordance with Section 3(b)(iii) of the Facility Lease) (or to make other payments in a like amount with respect to Basic Rent or Supplemental Rent paid by application of such payments (and in which the Owner Trustee has thereby acquired an interest pursuant to Section 5.1 or 5.3 of

* To be inserted if on the date of the transfer the Owner Participant has not received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be.

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the Indenture) shall not be deemed to be cancelled or discharged but shall continue until all such amounts are so received by PNM, as successor Owner Participant, or by the transferring Owner Participant pursuant to the provisions of Section 7(b)(4) of the Participation Agreement.]

[Insert following if the Owner Participant has received under Section 5.2 of the Indenture the payments provided for in Section 9(c), 9(d) or 16 of the Facility Lease, as the case may be:]

SECTION 2.02. Acknowledgement. The Owner Participant hereby acknowledges receipt of \$_____ representing payment in full of all amounts due to the Owner Participant under Section [9(c), 9(d) or 16] of the Facility Lease.

ARTICLE III

EFFECTIVENESS OF TRANSFER

SECTION 3.01. Effectiveness of Transfer. The transfer of the Assigned Property shall become effective without further action upon the execution and delivery by the Owner Participant to the Lessee of this Bill of Sale and Assignment and the furnishing of a counterpart of this Bill of Sale and Assignment to the Owner Trustee.

ARTICLE IV

MISCELLANEOUS

SECTION 4.01. Successors and Assigns. This Bill of Sale and Assignment shall be binding upon the Owner Participant and its successors and shall inure to the benefit of PNM and its successors and assigns.

SECTION 4.02. Governing Law. This Bill of Sale and Assignment shall be governed by and construed and enforced in accordance with the law of the State of New York.



SECTION 4.03. Headings. The division of this Bill of Sale and Assignment into sections, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Bill of Sale and Assignment.

IN WITNESS WHEREOF, the undersigned has caused this Bill of Sale and Assignment to be duly executed as of the day and year written above.

[CHASE MANHATTAN REALTY
LEASING CORPORATION]

By _____
Title:

Schedule 4

Recordations and Filings

Part I. Recordations in Respect of the Sale of, and the Owner Trustee's Title to, the Undivided Interest and the Real Property Interest.

A. County Recorder, Maricopa County, Arizona:

- (i) Deed;
- (ii) Bill of Sale;
- (iii) Assignment and Assumption;
- (iv) Facility Lease;
- (v) Indenture;
- (vi) Indenture of Partial Release/
Facility; and
- (vii) Indenture of Partial Release/Real
Property.

Part II. UCC-1 Financing Statements.

A. County Recorder, Maricopa County, Arizona:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A financing statement amendment on form UCC-2 reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

B. Secretary of State, Arizona:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease [Filed as a public utility filing];

(iii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iv) A financing statement amendment on form UCC-2 reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

C. Office of County Clerk, Bernalillo County, New Mexico:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A UCC financing statement amendment reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

D. Secretary of State, New Mexico:

(i) A financing statement on form UCC-1 naming PNM, as lessee, the Owner Trustee, as lessor, and the Indenture Trustee, as assignee of the Owner Trustee, in respect of the Facility Lease;

(ii) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate; and

(iii) A UCC financing statement amendment reflecting the supplementation of the Collateral Trust Indenture by the Supplemental Indenture of Pledge (as contemplated by the Series B Supplemental Indenture).

E. Secretary of State, Massachusetts:

(i) A financing statement on form UCC-1 naming the Owner Trustee, as debtor, and the Indenture Trustee, as secured party, in respect of the Lease Indenture Estate.

Part III. Other Filings:

Filing of the Indenture with the Secretary of State of the State of New Mexico pursuant to the New Mexico Public Utility Act.

Schedule 5

AFFIDAVIT OF TRUSTEE

THE FIRST NATIONAL BANK OF BOSTON,
as Owner Trustee under that certain
Trust Agreement dated as of
December 15, 1986 with Chase
Manhattan Realty Leasing Corporation

The undersigned, being a duly authorized representative of The First National Bank of Boston, a national banking association, as Trustee under the above-captioned Trust Agreement (the Trust Agreement), does hereby affirm and acknowledge that The First National Bank of Boston, as Trustee, holds legal title to certain real (and other) property on behalf of a certain beneficiary, such property and beneficiary being more particularly described in that certain Deed recorded December __, 1986, as instrument No. 86-____, records of Maricopa County, Arizona; being further described in that certain Deed and Bill of Sale recorded December __, 1986, as instrument No. 86-____, records of Maricopa County, Arizona; being further described in that certain Assignment, Assumption and Further Agreement recorded December __, 1986, as instrument No. 86-____, records of Maricopa County, Arizona; and being further described in that certain Deed and Assignment of Beneficial Interest dated December __, 1986, and that certain related ____ Amended Affidavit of Trustee executed by Title USA Company of Arizona as Trustee of its Trust No. 530 and recorded December __, 1986, as instrument No. 86-____, records of Maricopa County, Arizona; the property descriptions and beneficiary disclosures contained in or incorporated into each of said instruments being incorporated herein by this reference as if fully set forth herein.

A certain change in ownership of the beneficial interest in the Trust Agreement has occurred since the recordation of the above-described instruments. As now reflected in the records of The First National Bank of Boston, the sole beneficiary of the Trust Agreement is:

Public Service Company of New Mexico

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Appendix A

DEFINITION OF TERMS

The terms defined herein relate to the Participation Agreement (as defined below) and certain Transaction Documents executed, or to be executed, in connection with the Participation Agreement. Such terms include the plural as well as the singular. Any agreement defined or referred to below shall include each amendment, modification and supplement thereto and waiver thereof as may become effective from time to time, except where otherwise indicated. Any term defined below by reference to any agreement shall have such meaning whether or not such document is in effect. The terms "hereof", "herein", "hereunder" and comparable terms refer to the entire agreement with respect to which such terms are used and not to any particular article, section or other subdivision thereof.

If, and to the extent that, either the Participation Agreement or any other Transaction Document which incorporates this Appendix shall be amended from time to time pursuant to the respective terms thereof, this Appendix shall be, or be deemed to have been, amended concurrently with the execution and delivery of each such amendment in order to conform the definitions herein to the new or amended definitions set forth in or required by each such amendment.

Acceptable Change shall mean any change in or new interpretation by Governmental Authority having jurisdiction of the Price-Anderson Act or the Atomic Energy Act (or the regulations of the NRC relating thereto) if, after giving effect to such change or new interpretation:

(A) (a) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed \$6.563 billion (assuming 101

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operating nuclear facilities participating in the deferred premium or similar plan referred to in clause (c) below and subject to adjustment in an amount not exceeding (X) \$63 million for each increase or decrease in said number of operating nuclear facilities and (Y) the aggregate of all changes in such "aggregate liability" to reflect the effects of inflation contemplated pursuant to clause (c) below);

(b) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed the sum of, without duplication, (X) the amount of insurance coverage available from commercial insurance underwriters on terms substantially equivalent (in the reasonable opinion of the Owner Participant) to the terms in effect on the Closing Date under Applicable Law and required to be maintained by each licensee with respect to any single nuclear facility, and (Y) the maximum aggregate amount payable with respect to a single "nuclear incident" by all licensees of nuclear facilities participating in any deferred premium or similar plan required under Applicable Law, by more than \$40 million.

(c) the amount payable by all licensees of a single nuclear facility with respect to such facility under any deferred premium or similar plan required under Applicable Law shall not exceed \$63 million per "nuclear incident" (subject to an annual adjustment upward for each calendar year after the enactment of a change in the Price-Anderson Act (if such change increases the standard deferred premium) by an amount equal to, if specified by such change or otherwise by Applicable law, (X) the annual percentage change during the immediately prior calendar year in the implicit price deflator for the Gross National

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Product published by the United States Department of Commerce or (Y) the annual percentage change in the consumer price index since the immediately prior calendar year; provided, however, that (i) in the event that Applicable Law shall not specify an inflation adjustment, then the inflation adjustment permitted by this parenthetical shall be that specified in the preceding sub-clause (X) and (ii) in the event that Applicable Law shall specify a standard deferred premium below \$63 million, the inflation adjustment factor shall not be available to increase the standard deferred premium permissible under this clause (c) beyond \$63 million until such lower deferred premium (as so inflated) equals or exceeds \$63 million);

(d) the amount payable by all licensees of a single nuclear facility with respect to such facility in any one year with respect to any one "nuclear incident" under any deferred premium or similar plan required under Applicable Law shall not exceed \$12 million;

(e) insurance or other financial protection shall be in effect under which the providers of such insurance or other financial protection shall agree to pay any amount payable by any licensee under any deferred premium or similar plan upon a default in such payment by such licensee up to a maximum aggregate amount for all such defaults in payment of not less than \$30 million;

(f) a provision shall be included (X) which authorizes (whether or not subject to appropriation acts) the NRC or other Governmental Authority to borrow from the United States Treasury (1) to make payments on behalf of any licensees under any deferred premium or similar plan and (2) to make payments to claimants in the event that funds available to pay valid claims in any year are insufficient as a

result of any limitation on the amount of deferred premiums that may be required of a licensee under Applicable Law (in both cases the reimbursement obligation of such licensees in any calendar year shall not exceed \$12 million, plus interest), or (Y) which makes the exclusive source of payments for public liability claims the funds provided by financial protection required by Applicable Law and, where appropriate, funds provided as a result of NRC or other Governmental Authority borrowings or (Z) which establishes another mechanism under which the maximum potential liability of all Persons during any calendar year as a result of a "nuclear incident" shall not exceed the amount of insurance or other financial protection required to be available during such calendar year to pay all amounts which may become payable by any such Person, when and as they become payable, in respect of such liability;

(g) there shall be no claim, liability or expense excluded (1) from the limitation of liability established by the Price-Anderson Act (as in effect on the Closing Date) (through modification of the definitions of "aggregate liability", "persons indemnified", "nuclear incident" or otherwise) or (2) under commercially available insurance or other financial protection required under Applicable Law (as in effect on the Closing Date) (other than an exclusion of the costs of investigating and settling claims and defending suits for damages), except, for purposes of subclauses (1) and (2) of this clause (g), to the extent excluded pursuant to Applicable Law as in effect on the Closing Date;

(h) subject only to clause (b) above, policies of insurance, including policies in respect of any deferred premium or similar plan, shall provide, or shall have been amended or

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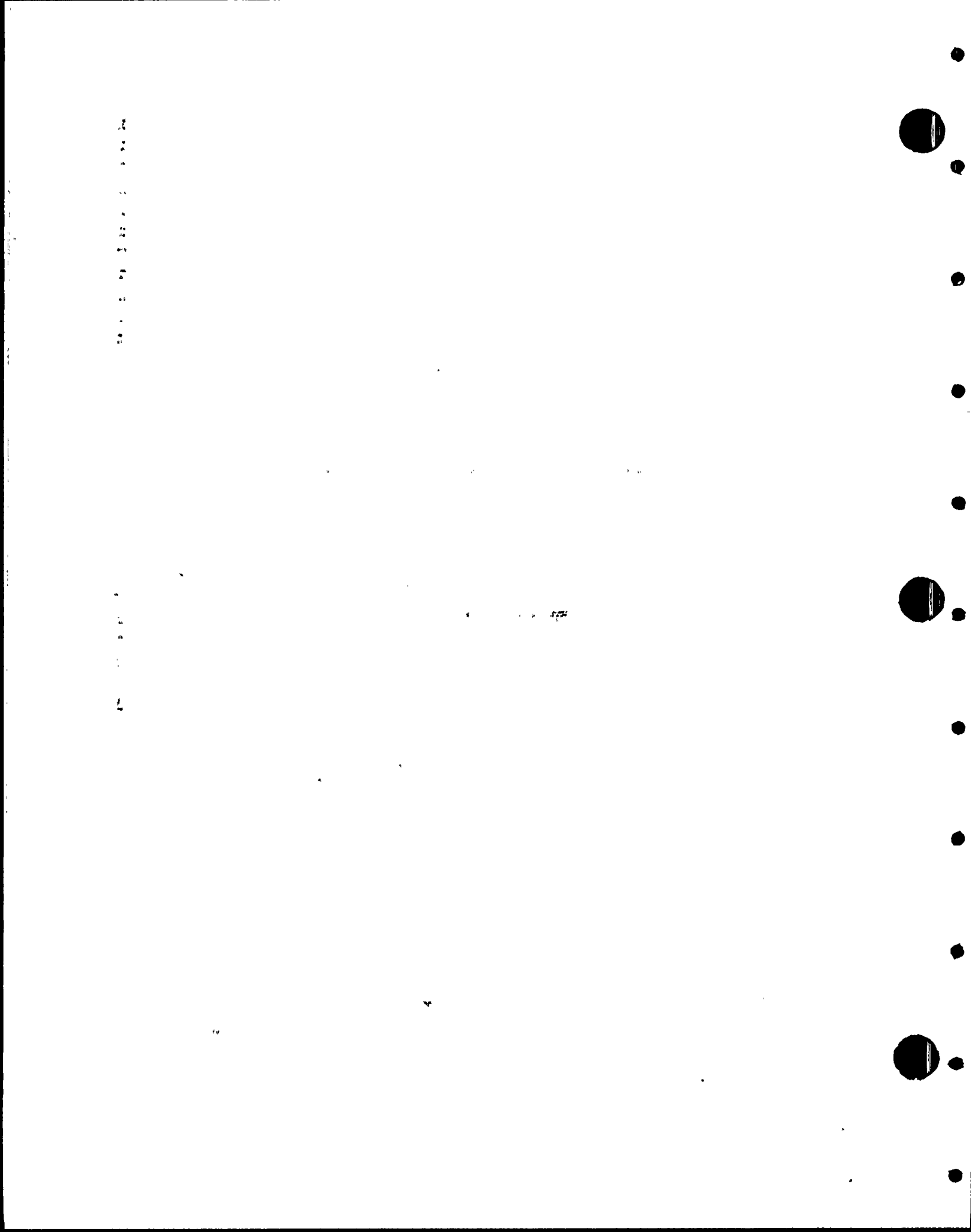
modified to provide, in both timing and amount, and make available, or shall have been amended or modified to make available, financial protection required under Applicable Law; and

(i) neither the Owner Trustee nor the Owner Participant shall be (in the opinion of independent counsel to the Owner Participant) exposed to any other increase in its real or potential liability with respect to a "nuclear incident", either during or subsequent to the Lease Term; or

(B) at all times from the date of such change to, but not including, the Lease Termination Date,

(a) a provision shall be included, with language reasonably satisfactory to the Owner Participant, which exempts the Owner Trustee and the Owner Participant from all real or potential liability in respect of a "nuclear incident" so long as neither the Owner Trustee nor the Owner Participant is in actual possession and control of Unit 2 or the Undivided Interest, unless (in the opinion of independent counsel to the Owner Participant) (x) a court could reasonably hold that the statute incorporating such provision is unconstitutional or (y) there shall have occurred a subsequent change in, or new interpretation by Governmental Authority having jurisdiction of, the exemption from liability provided by such provision as to interests of the Owner Trustee and the Owner Participant in Unit 2 which change or new interpretation renders ineffective such exemption;

(b) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" shall not exceed \$13 billion (assuming 101 operating nuclear facilities participating in



the deferred premium or similar plan referred to in clause (c) of paragraph (A) above, and subject to adjustment in an amount not exceeding (X) \$126 million for each increase or decrease in said number of operating nuclear facilities and (Y) the aggregate of all changes in such "aggregate liability" to reflect the effects of inflation contemplated pursuant to clause (c) of paragraph (A) above (but without giving effect to clause (ii) of the proviso set forth in such clause)); and

(c) the amount payable by all licensees of a single nuclear facility in respect of such facility and with respect to any one "nuclear incident" under any deferred premium or similar plan required by Applicable Law shall not exceed \$36 million (subject to adjustment as provided in subclause (Y) of the preceding clause (b)).

For purposes of this definition, "nuclear facility" shall mean and refer to a facility designed for producing substantial amounts of electricity and having a rated capacity of 100,000 electrical kilowatts or more.

Additional Bonds shall mean Bonds in addition to the Series B Bonds.

Additional Equity Investment shall have the meaning specified in Section 8(f) of the Facility Lease.

Additional Notes shall have the meaning set forth in the recitations in the Indenture, which Additional Notes shall be issued, if at all, pursuant to Section 3.5 of the Indenture.

Affiliate, with respect to any Person, shall mean any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, the term "control" (including the

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correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

After-Tax Basis shall mean, with respect to any payment received or accrued or deemed to have been received or accrued by any Person, the amount of such payment supplemented by a further payment to that Person so that the sum of the two payments shall, after deduction of all taxes and other charges (taking into account any credits or deductions arising therefrom and the timing thereof and computed at the highest marginal statutory tax rate) resulting from the receipt (actual or constructive) of such two payments imposed under any Applicable Law or by any Governmental Authority, be equal to such payment received or accrued or deemed to have been received or accrued.

Agent and Agency Period shall have the meanings specified in Section 7.01 of the Assignment and Assumption.

ANPP Administrative Committee shall mean the committee established pursuant to Section 6.1.1 of the ANPP Participation Agreement (or any comparable successor provision).

ANPP Operating Committee shall mean the committee established pursuant to Section 6.1.2 of the ANPP Participation Agreement (or any comparable successor provision).

ANPP Participants shall have the meaning assigned to the word "Participant" under the ANPP Participation Agreement.

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ANPP Participation Agreement shall mean the Arizona Nuclear Power Project Participation Agreement, dated as of August 23, 1973, among APS, Salt River, Southern California, PNM, El Paso, LADWP and SCPPA, as heretofore and hereafter amended pursuant to the terms thereof.

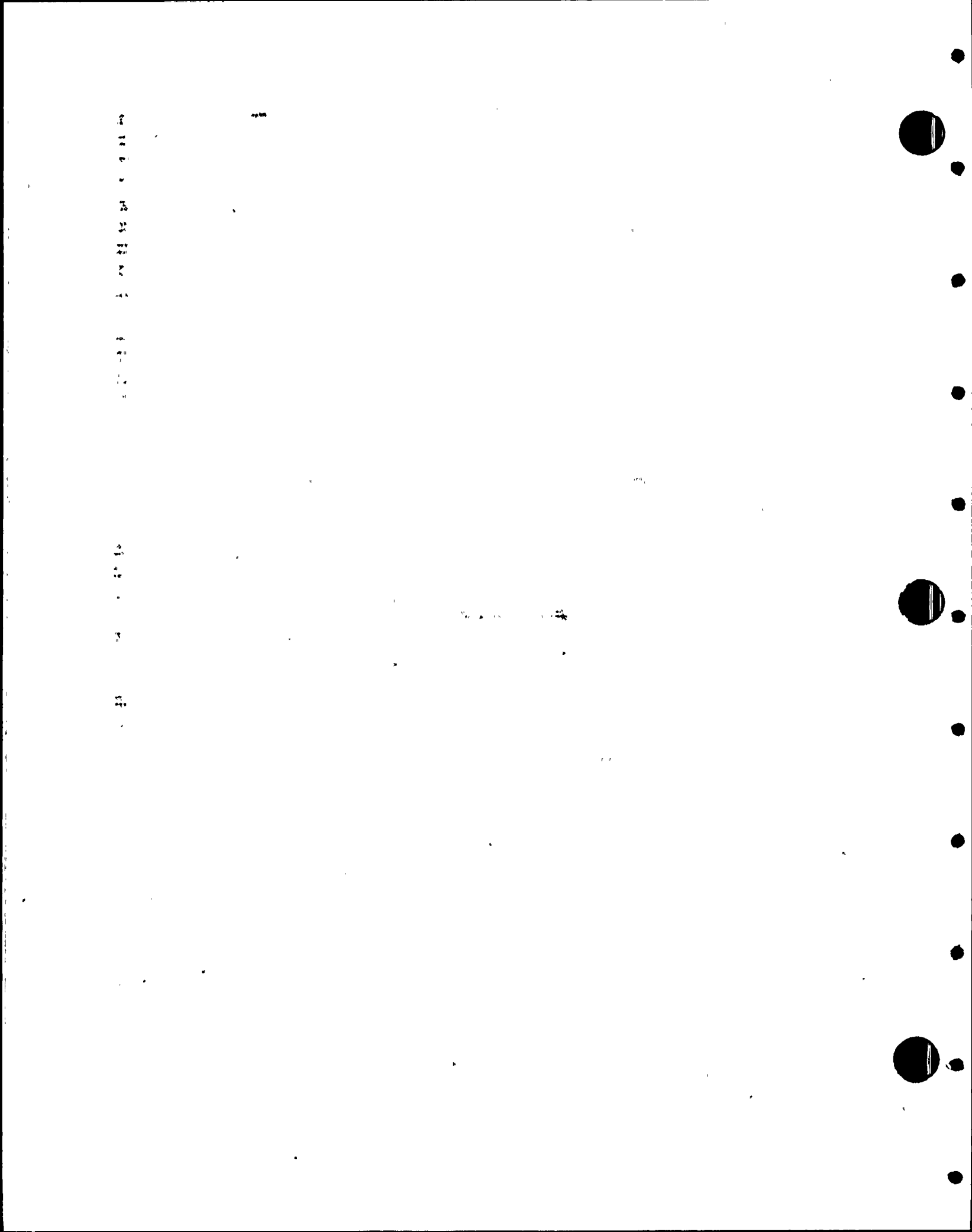
ANPP Project Agreements shall mean the ANPP Participation Agreement and the other Project Agreements (as such term is defined in the ANPP Participation Agreement).

ANPP Switchyard shall mean the ANPP High Voltage Switchyard located at the PVNGS Site, the ownership, construction, operation and maintenance of which are governed by the ANPP High Voltage Switchyard Participation Agreement executed as of August 20, 1981 (APS Contract No. 2252-419,00), the parties to which are APS, PNM, Salt River, El Paso, Southern California and LADWP.

ANPP Transferee shall have the meaning specified in Section 4.01 of the Assignment and Assumption.

Applicable Law shall mean all applicable laws, statutes, treaties, rules, codes, ordinances, regulations, permits, certificates, orders, interpretations, licenses and permits of any Governmental Authority and judgments, decrees, injunctions, writs, orders or like action of any court, arbitrator or other judicial or quasi judicial tribunal (including those pertaining to health, safety, the environment or otherwise).

Appraisal Procedure shall mean a procedure whereby two independent appraisers, one chosen by the Lessee and one by the Lessor, shall mutually agree upon the value, period or amount then the subject of an appraisal. If either the Lessor or the Lessee, as the case may be, shall determine that a value, period or amount to be determined under the Facility Lease or any other Transaction Document cannot promptly be established by mutual agreement, such party shall appoint its appraiser and deliver a written notice thereof to the



other party. Such other party shall appoint its appraiser within 15 days after receipt from the other party of the foregoing written notice. If within 20 days after appointment of the two appraisers, as described above, the two appraisers are unable to agree upon the value, period or amount in question, a third independent appraiser shall be chosen within ten days thereafter by the mutual consent of such first two appraisers or, if such first two appraisers fail to agree upon the appointment of a third appraiser within such period, such appointment shall be made by the American Arbitration Association, or any organization successor thereto, from a panel of arbitrators having experience in the business of operating a nuclear electric generating plant and a familiarity with equipment used or operated in such business. The decision of the third appraiser so appointed and chosen shall be given within ten days after the selection of such third appraiser. If three appraisers shall be so appointed and the determination of one appraiser is disparate from the middle determination by more than twice the amount, period or value by which the third determination is disparate from the middle determination, then the determination of such appraiser shall be excluded, the remaining two determinations shall be averaged and such average shall be binding and conclusive on the Lessor and the Lessee; otherwise the average of all three determinations shall be binding and conclusive on the Lessor and the Lessee. The fees and expenses of appraisers incurred in connection with any Appraisal Procedure relating to any transaction contemplated by any provision of any Transaction Document shall be divided equally between the Lessor and the Lessee (except pursuant to Section 16 of the Facility Lease, which shall be paid solely by the Lessee).

APS shall mean Arizona Public Service Company, an Arizona corporation.

Appraiser shall mean Ebasco Business Consulting Company.

Arizona Public Utility Act shall mean Chapter 2, Title 40, Arizona Revised Statutes.

Assigned Payments shall have the meaning specified in Section 2.1(1) of the Indenture.

Assignment and Assumption shall mean the Assignment, Assumption and Further Agreement, dated as of December 15, 1986, between PNM and the Owner Trustee.

Assignment of Beneficial Interest shall mean the Deed and Assignment of Beneficial Interest under Title USA Company of Arizona Trust No. 530, dated as of December 15, 1986, from PNM to the Owner Trustee.

Assumption Agreement shall mean the Assumption Agreement of PNM substantially in the form of Exhibit B to the Indenture.

Assumptions shall mean the Pricing Assumptions and the Tax Assumptions.

Atomic Energy Act shall mean the Atomic Energy Act of 1954, as amended, and regulations from time to time issued, published or promulgated pursuant thereto.

Authorized Officer shall mean, with respect to the Indenture Trustee, any officer of the Indenture Trustee who shall be duly authorized by appropriate corporate action to authenticate a Note and shall mean, with respect to the Owner Trustee, any officer of the Owner Trustee who shall be duly authorized by appropriate corporate action to execute any Transaction Document.

Bankruptcy Code shall mean the Bankruptcy Reform Act of 1978, as amended, and any law with respect to bankruptcy, insolvency or reorganization successor thereto.

[illegible]

Basic Lease Term shall mean the initial term of the Facility Lease, which shall begin on the Closing Date and end on January 15, 2016, unless earlier terminated as provided in the Facility Lease.

Basic Rent shall have the meaning set forth in Section 3(a) of the Facility Lease.

Basic Rent Payment Dates shall mean and include July 15, 1987, and January 15 and July 15 of each year thereafter, commencing January 15, 1988, and ending January 15, 2016, and, if the Lessee shall elect the Renewal Term, each January 15 and July 15 of each year during the Renewal Term, commencing July 15, 2016 and ending on the last day of the Renewal Term.

Bill of Sale shall mean the Deed and Bill of Sale, dated as of December 15, 1986, between PNM and the Owner Trustee.

Bonds shall mean all bonds, notes and other evidences of indebtedness from time to time issued and outstanding under the Collateral Trust Indenture, including, but without limitation, the Series B Bonds and any Additional Bonds.

Business Day shall mean any day other than a Saturday or Sunday or other day on which banks in Albuquerque, New Mexico, New York, New York or Boston, Massachusetts are authorized or obligated to be closed.

Capital Improvement shall mean (a) the addition, betterment or enlargement of any property constituting part of Unit 2 or the Common Facilities or the replacement of any such property with other property, irrespective of whether (i) such replacement property constitutes an enlargement or betterment of the property which it replaces, (ii) the cost of which addition, betterment, enlargement or replacement is or may be capitalized or charged to maintenance or repairs, in accordance with the Uniform System of Accounts or, (iii) in the case of any addition, betterment or enlargement, is not included or reflected in the plans and specifications for Unit 2 or the Common Facilities, as

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built, and (b) any alteration, modification, addition or improvement to Unit 2 or the Common Facilities, other than original, substitute or replacement parts incorporated into Unit 2 or the Common Facilities; provided, however, that any Capital Improvement with respect to a Common Facility shall mean only an undivided .2644444% interest in and to such Capital Improvement.

Casualty Value, as of any Basic Rent Payment Date during the Basic Lease Term, shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 1 to the Facility Lease. Anything contained in the Participation Agreement or the Facility Lease to the contrary notwithstanding, Casualty Value shall be, when added to all other amounts which the Lessee is required to pay under Section 9(c) of the Facility Lease (taking into account any assumption of the Notes by the Lessee), under any circumstances and in any event, in an amount at least sufficient to pay in full, as of any Basic Rent Payment Date, the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes. Casualty Value as of any Basic Rent Payment Date during the Renewal Term shall mean the unamortized portion as of such Basic Rent Payment Date of the Fair Market Sales Value of the Undivided Interest, determined by the straight-line amortization of such Fair Market Sales Value at the commencement of such Renewal Term over the period from such commencement date through the remaining term of the License determined pursuant to the Appraisal Procedure undertaken in accordance with the last sentence of Section 13(a) of the Facility Lease.

Change in Tax Law shall mean any change in the State Tax Law (as such term is defined in Section 1(a) of the Tax Indemnification Agreement), Code or successor legislation enacted by the appropriate legislative bodies of New York State or New York City no later than the date of adjournment of the One Hundredth Congress, or enacted by either the Ninety-ninth or the One Hundredth Congress (without regard to the date of presidential signature), or if prior to January 15, 1997 (i) there is enacted any technical correction to such

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enactment or (ii) there are promulgated, issued or published any proposed, temporary, or final Regulations resulting from such enactment (regardless of the effective date of such technical corrections or Regulations, but only if such technical corrections or Regulations would affect Net Economic Return).

Chemical Bank shall mean Chemical Bank, a New York banking corporation.

Chief Financial Officer shall mean the person designated by the Board of Directors of PNM as the chief financial officer of PNM.

Claims shall mean liabilities, obligations, losses, damages, penalties, claims (including, without limitation, claims involving liability in tort, strict or otherwise), actions, suits, judgments, costs, interest, expenses and disbursements, whether or not any of the foregoing shall be founded or unfounded (including, without limitation, legal fees and expenses and costs of investigation) of any kind and nature whatsoever without any limitation as to amount.

Closing shall mean the proceedings which occur on the Closing Date, as contemplated by the Participation Agreement.

Closing Date shall mean December 17, 1986.

Code shall mean the Internal Revenue Code of 1986, as amended, or any comparable successor law.

Collateral Trust Indenture shall mean the Collateral Trust Indenture, dated as of December 16, 1985, among PNM, Funding Corp and the Collateral Trust Trustee.

Collateral Trust Indenture Supplement shall mean a supplement to the Collateral Trust Indenture.

Collateral Trust Trustee shall mean Chemical Bank, not in its individual capacity, but solely as Collateral Trust Trustee under the Collateral Trust Indenture, and the successors or assigns of such Trustee.

Common Facilities shall mean all PVNGS common facilities as set forth in Item B of Exhibit B to the Bill of Sale other than excluded common facilities as set forth in said Item B to such Exhibit B or common facilities constituting Unit 2 Retained Assets.

Coverage Ratio shall mean the fraction (i) the denominator of which shall be the sum (calculated as of a date no earlier than 135 days prior to the date of calculation) of (x) the interest that will be payable during the twelve-month period following the date of the transaction with respect to which a calculation is required to be made on the debt (both long-term and short-term) of the Surviving Lessee, and (y) the interest portion of payments due during the twelve-month period following the date of such transaction on lease obligations of the Surviving Lessee with a term in excess of one year, and (ii) the numerator of which shall be the sum of (x) the pro forma net earnings (before taxes and excluding the allowance for funds used during construction) of the Surviving Lessee for a twelve-month period ending no earlier than 135 days prior to the date of such transaction, and (y) such denominator.

Cure Option shall have the meaning set forth in Section 16(e) of the Facility Lease.

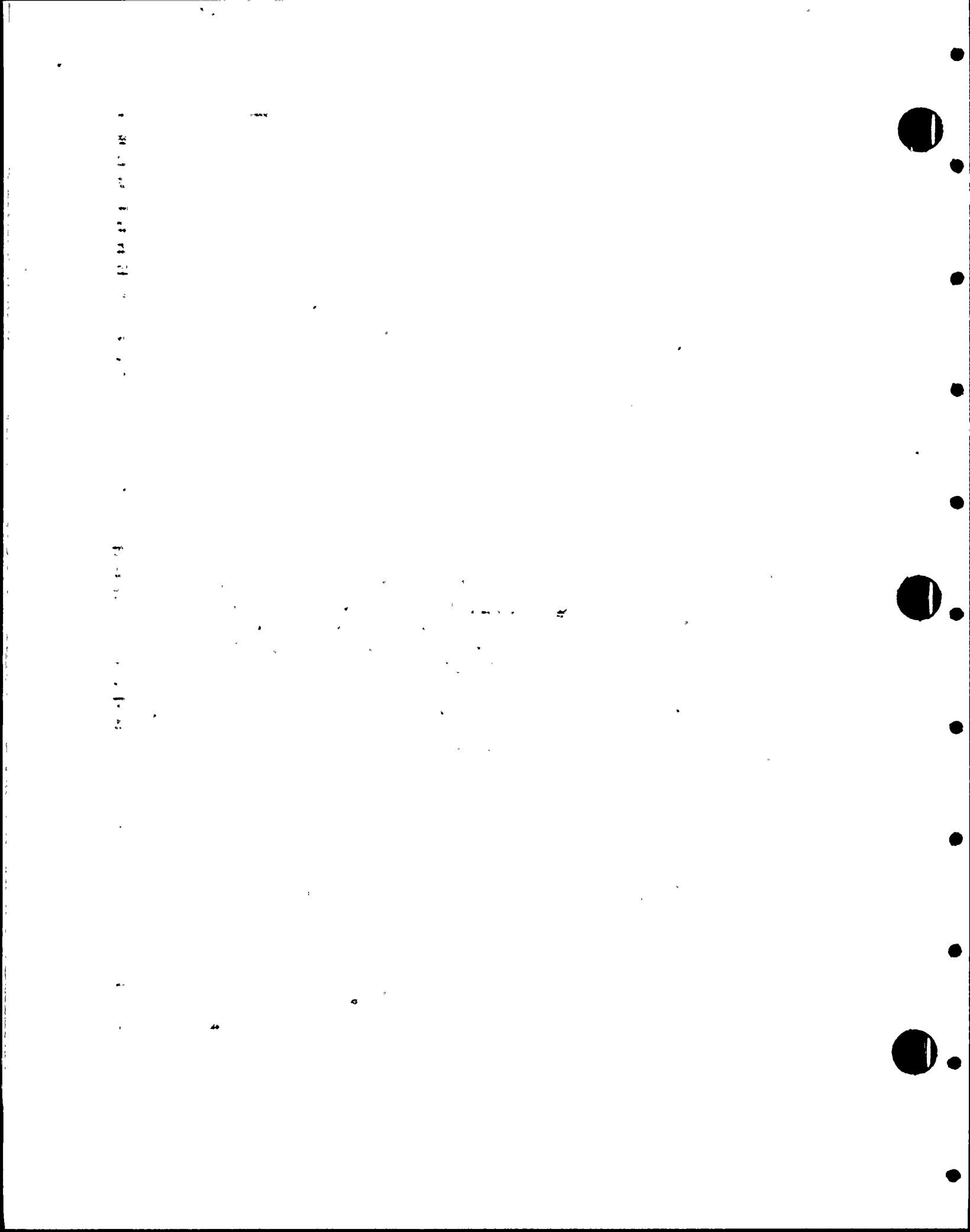
Decommissioning Fund shall mean, with respect to Unit 2 Decommissioning Costs, an external reserve fund which fund shall be segregated from the Lessee's assets, but may be within the Lessee's administrative control, into which deposits are made at least annually in an amount equal to the quotient of (i) Unit 2 Decommissioning Costs (less the balance of the Decommissioning Fund and reasonably projected earnings thereon through the date of expiry of the License) divided by (ii) the number of years remaining until date

of expiry of the License, provided that the amount in the Decommissioning Fund, on the date of expiry of the License, shall be at least equal to Unit 2 Decommissioning Costs.

Deed shall mean the Deed, dated as of December 15, 1986, from PNM to the Owner Trustee.

Deemed Loss Event shall mean any of the following events (unless waived by the Owner Participant, which waiver shall be in writing and may be either indefinite or for a specific period): (1) if at any time after the Closing Date and before the Lease Termination Date, the Owner Trustee or the Owner Participant, by reason of the ownership of the Undivided Interest or the Real Property Interest or any part thereof by the Lessor (or any beneficial interest therein by the Owner Participant) or the lease of the Undivided Interest or the Real Property Interest to the Lessee or any of the other transactions contemplated by the Transaction Documents (the term Owner Participant, as used in this definition, not including any Transferee who at the time of transfer to such Transferee is a non-exempt entity of the type referred to in this definition, whether by reason of such ownership, lease, transactions or otherwise) shall be deemed by any Governmental Authority having jurisdiction to be, or shall become subject to regulation (other than Non-Burdensome Regulation) as, an "electric utility", an "electric utility company", a "public utility", a "public utility company", a "holding company" or a "public utility holding company" under any Applicable Law or by reason of any Governmental Action, and the effect thereof on the Lessor or the Owner Participant would be, in the sole judgment of either such Person, acting on advice of counsel, adverse, and the Owner Trustee and the Owner Participant have not waived application of this definition; except that if the Lessee, at its sole cost and expense, is contesting diligently and in good faith any action by any Governmental Authority which would otherwise constitute a Deemed Loss Event under this clause (1), such Deemed Loss Event shall be deemed not to have occurred so long as (i) such contest does not involve any danger of the foreclosure, sale,

forfeiture or loss of, or the creation of any Lien on, the Undivided Interest, the Real Property Interest or any part thereof or any interest therein, (ii) such contest does not adversely affect the Undivided Interest, the Real Property Interest or any part thereof or any other property, assets or rights of the Lessor or the Owner Participant or the lien of the Indenture thereon, (iii) the Lessee shall have furnished the Owner Trustee, the Owner Participant, and the Indenture Trustee with an opinion of independent counsel satisfactory to each such Person to the effect that there exists a reasonable basis for contesting such determination, (iv) such determination and the effects thereof shall be effectively stayed or withdrawn during such contest (and shall not be subject to retroactive application at the conclusion of such contest) in a manner satisfactory to the Owner Trustee and the Owner Participant, and the Owner Participant shall have determined that the Lessor's continued ownership of the Undivided Interest and the Real Property Interest during the pendency of such contest or such contest will not adversely affect its or its Affiliate's business, and (v) the Lessee shall have indemnified the Owner Trustee and the Owner Participant in a manner satisfactory to each such Person for any liability or loss which either such Person may incur as a result of the Lessee's contest; (2) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law, including without limitation, the Price-Anderson Act, the Atomic Energy Act or the regulations of the NRC, in each case as in effect on the Closing Date, as a result of which (in the opinion of independent counsel to the Owner Participant) (i) the aggregate liability for a single "nuclear incident" of "persons indemnified" (as each such term is defined in the Price-Anderson Act as in effect on the Closing Date) is increased, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident", (ii) the "aggregate liability" for a single "nuclear incident" of "persons indemnified" (as each term is defined in the Price-Anderson Act as in effect on the Closing Date) exceeds the amount of financial protection



established by the NRC as a condition to the License, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident", (iii) the amount of financial protection required, including but not limited to the limitation on the amount of deferred premiums for such financial protection, is increased, unless the change is such that neither the Owner Trustee nor the Owner Participant may be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident", or (iv) either the Owner Trustee or the Owner Participant may be exposed to any other increase in its real or potential liability in respect of a "nuclear incident", either during or subsequent to the Lease Term; provided, however, that no such change or new interpretation shall constitute a Deemed Loss Event if such change or new interpretation constitutes an Acceptable Change; (3) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law as a result of which the Owner Trustee (but not the Trust Estate), or the Owner Participant shall become liable in any capacity, in respect of any portion of the Termination Obligation or, during the Lease Term, any other liability or obligation imposed as of the date hereof on licensees of the NRC; (4) any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law or any Governmental Action the effect of which is to make the transactions contemplated by the Transaction Documents unauthorized, illegal or otherwise contrary to Applicable Law; (5) any change in, or new interpretation by Governmental Authority having jurisdiction of, the License and the NRC Order (each as in effect on the Closing Date) constituting an assertion to the effect that the exercise by the Owner Trustee or the Owner Participant of any right (irrespective of the event giving rise to such right) under any Transaction Document would constitute impermissible control over Unit 2 or the licensees of Unit 2, other than an assertion that affects such rights in a manner consistent with both Section 184 of the Atomic Energy Act and the NRC's regulations thereunder (including, without

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limitation, 10 CFR §50.81, as now and hereafter in effect); (6) any expiration, revocation, suspension, amendment or interpretation by any Governmental Authority of the NRC Order, the License or the licensing of the Lessee by the NRC or any other Governmental Action or change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law as a result of which either the Owner Trustee or the Owner Participant shall be required to become a licensee of the NRC prior to the Lease Termination Date; (7) any policy of public liability insurance with respect to PVNGS or Unit 2 shall be suspended or terminated for any reason whatsoever or shall be amended or supplemented in a manner which may expose the Owner Trustee or the Owner Participant, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident" (as defined in the Price-Anderson Act) and such policy of insurance shall not be immediately replaced by insurance effective immediately upon such suspension, termination, amendment or supplementation which, in the reasonable opinion of the Owner Participant, is at least as protective of it (in all respects reasonably deemed by it to be material) as the policy of insurance so terminated, suspended, amended or supplemented, unless the "aggregate liability" for a "nuclear incident" of "persons indemnified" (as each term is defined in the Atomic Energy Act of 1954, as amended) is reduced by an amount equal to the amount of liability insurance so terminated, suspended, amended or supplemented and, in the reasonable opinion of the Owner Participant, it may not otherwise be exposed, either during or subsequent to the Lease Term, to any increased real or potential liability in respect of a "nuclear incident" as a consequence of such suspension, termination, amendment or supplementation; (8) with respect to PVNGS, the NRC shall have issued within a five year period three or more Modification Orders provided that such Modification Orders are issued (x) in connection with violations constituting "Severity Level I" or "Severity Level II" violations within the activity area of "Reactor Operations", as such terms are used in Supplement I to Appendix C to 10 C.F.R., Part 2 as in effect on the date hereof (or, if such Supplement is

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amended or superseded to change such categories of violations or areas, violations or areas falling within comparable categories) or (y) in connection with wilfull or flagrant violations in any "activity area", repeated poor performance in a particular "activity area" or serious breakdowns in management control; and (9) the cessation of operation of Unit 2 or as a result of either (x) the occurrence of an Extraordinary Nuclear Occurrence or an Incipient Extraordinary Nuclear Occurrence at PVNGS Unit 1 or PVNGS Unit 3 or (y) a Nuclear Incident at PVNGS Unit 1 or PVNGS Unit 3 and the continuation, in the case of this clause (y), of such cessation for the Minimum Period.

Default shall mean an event or condition which, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

Directive shall mean an instrument in writing executed in accordance with the terms and provisions of the Indenture by the Holders, or their duly authorized agents or attorneys-in-fact, representing a Majority in Interest of Holders of Notes, directing the Indenture Trustee to take or refrain from taking the action specified in such instrument.

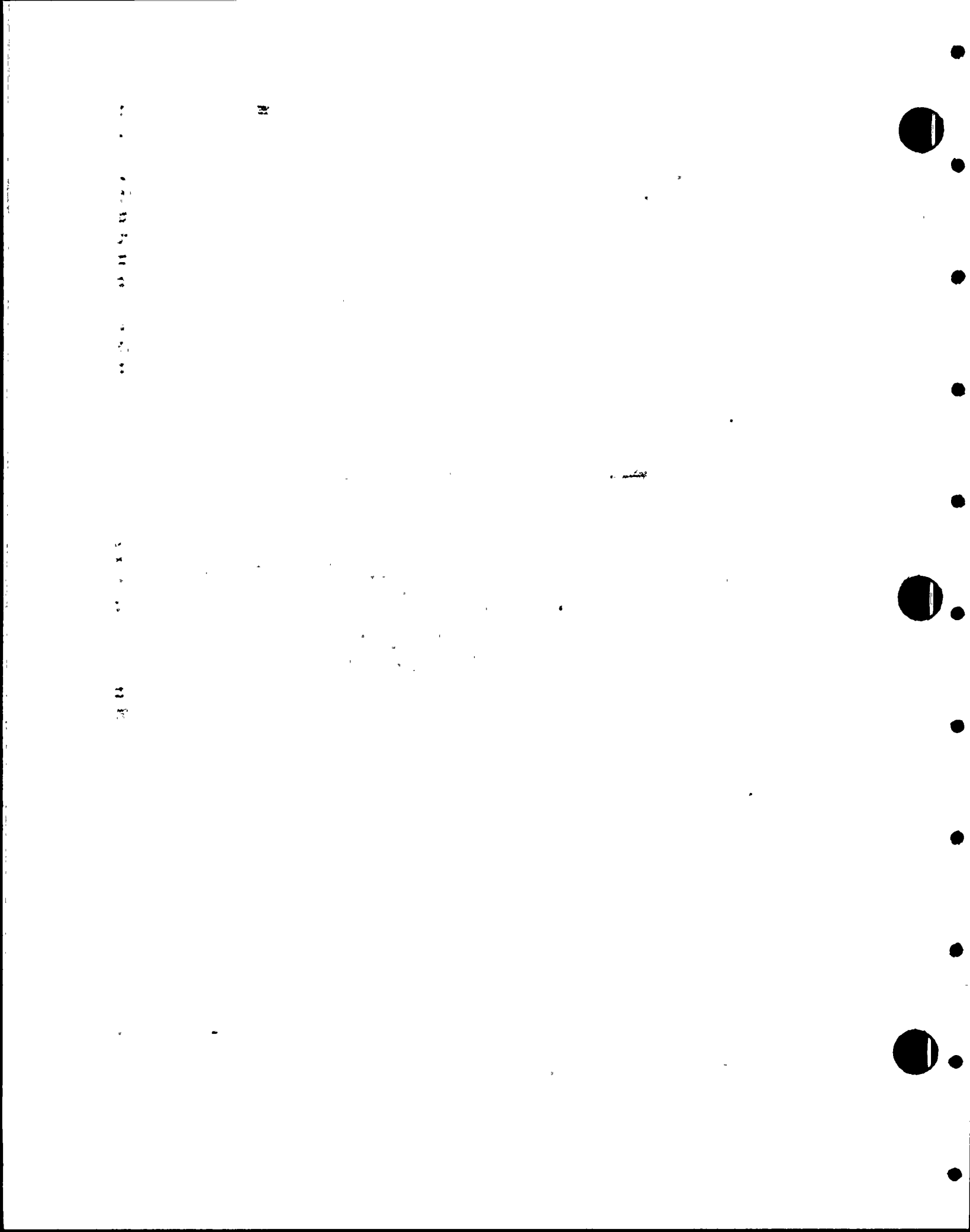
Early Termination Date shall have the meaning specified in Section 14(d) of the Facility Lease.

Early Termination Notice shall have the meaning specified in Section 14(d) of the Facility Lease.

El Paso shall mean El Paso Electric Company, a Texas corporation.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

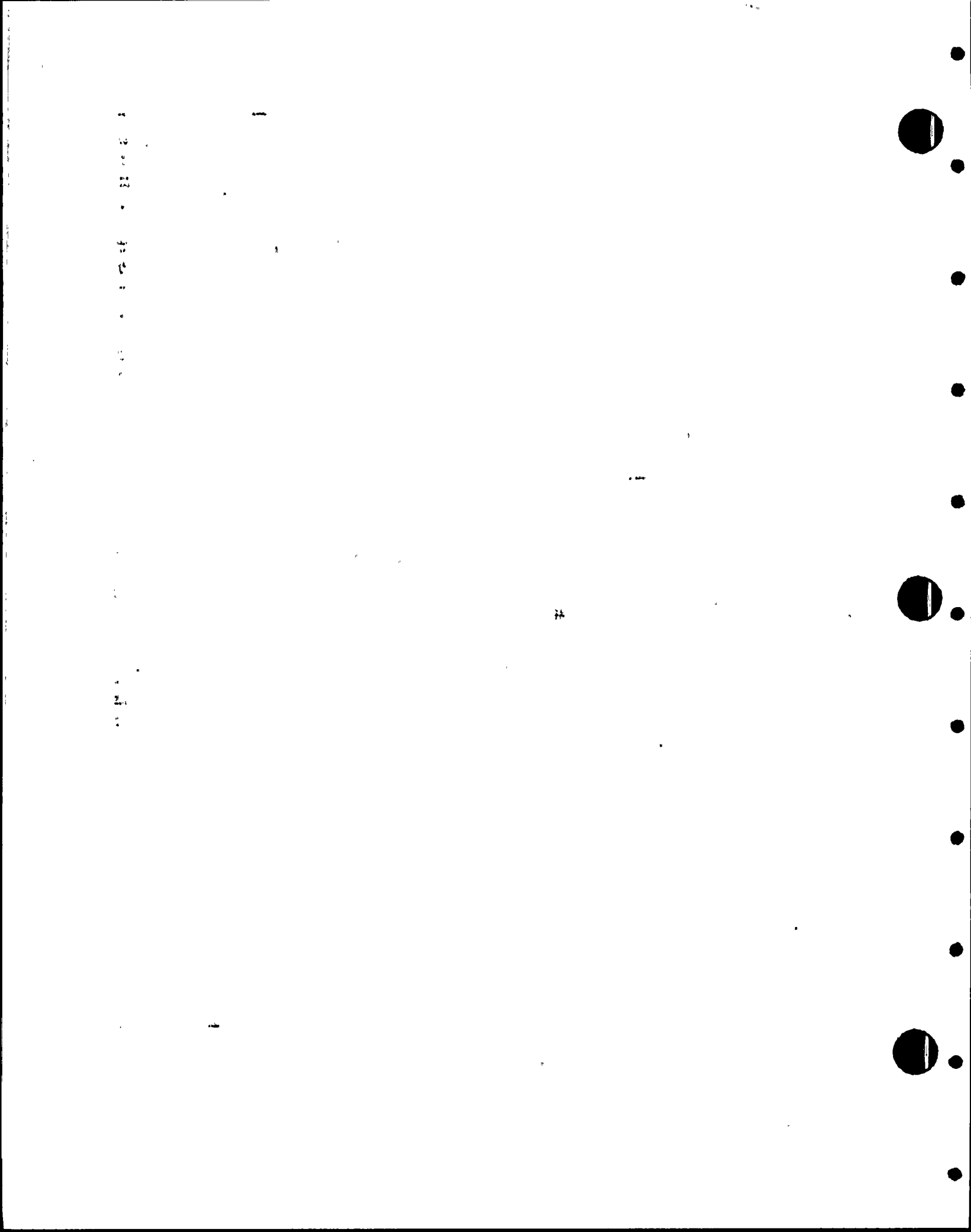
Estimated Transaction Expenses shall have the meaning set forth in Section 5(a) of the Participation Agreement.



Event of Default shall have the meaning set forth in Section 15 of the Facility Lease.

Event of Loss shall mean any of the following events: (a) a Final Shutdown, (b) a Requisition of Title, (c) a Requisition of Use which can reasonably be expected to exceed, or for a stated period which ends on or after, the penultimate day of the Lease Term, (d) any degradation of the rated capacity of Unit 2 to below, or the inability of Unit 2 to produce electricity at a level above, 630 megawatts electric for the Minimum Period (for any reason other than as a result of damage to or destruction of Unit 2, Governmental Action or an event referred to in clause (iii)(x) or (iii)(y) of the definition of "Final Shutdown").

Excepted Payments shall mean (i) all payments of Supplemental Rent, other than payments by the Lessee (x) of Casualty Value, Termination Value or Special Casualty Value or in connection with the exercise of the Cure Option or (y) of indemnity payments to which either the Loan Participant or any Indemnatee other than the Owner Trustee or the Owner Participant, or any of their respective Affiliates, (or the respective successors, assigns, agents, officers, directors or employees of the Owner Trustee or the Owner Participant) is entitled, (ii) any amounts payable under any Transaction Document to reimburse the Lessor or the Owner Participant, or any of their respective Affiliates, (including the reasonable expenses of the Lessor or the Owner Participant incurred in connection with any such payment) for performing or complying with any of the obligations of the Lessee under and as permitted by any Transaction Document, (iii) any amount payable to the Owner Participant by any Transferee as the purchase price of the Owner Participant's interest in the Trust Estate, (iv) so long as no Indenture Default or Indenture Event of Default shall have occurred and be continuing, all payments of Basic Rent in excess of amounts then due and owing in respect of the principal of and premium, if any, and interest on all Notes Outstanding, (v) any insurance proceeds with respect to an Event of Loss in excess of amounts then due and owing in respect of the principal of and premium, if any, and interest on all



Notes Outstanding, (vi) any insurance proceeds (or payments with respect to risks self-insured) under liability policies and (vii) any payments in respect of interest to the extent attributable to payments referred to in clauses (i) through (vi) above.

Existing Mortgage shall mean the Indenture of Mortgage and Deed of Trust dated as of June 1, 1947, between PNM and Irving Trust Company, as heretofore supplemented by all supplemental indentures thereto.

Expenses shall mean liabilities, obligations, losses, damages, taxes (other than taxes on income), claims, actions, suits, costs, interest, expenses and disbursements (including legal fees and expenses) of any kind and nature whatsoever.

Extension Letter shall mean the Extension Letter, to be dated the Closing Date and addressed to the Collateral Trust Trustee by the parties to the Participation Agreement.

Extraordinary Nuclear Occurrence shall have its meaning as defined in Section 11 of the Atomic Energy Act of 1954, as amended to the Closing Date.

Facility Cost shall mean the Purchase Price plus the sum of (x) all Supplemental Financing Amounts, and (y) all Additional Equity Investment amounts.

Facility Lease shall mean the Facility Lease, dated as of December 15, 1986, between PNM, as Lessee, and the Owner Trustee, as Lessor.

Fair Market Rental Value or Fair Market Sales Value of any property or service shall mean the value of such property or service for lease or sale determined on the basis of an arm's-length transaction for cash between an informed and willing lessee or purchaser (under no compulsion to lease or purchase) and an informed and willing lessor or seller (under no compulsion to lease or sell), and shall take into account the Lessor's rights and obligations under the Assignment and Assumption and the Assignment of Beneficial Interest and

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rights under the Deed and the Bill of Sale, but shall be without regard to any rights of the Lessee (including any renewal options) under the Lease. Except pursuant to Section 16 of the Facility Lease (other than Section 16(a)(v)(D) thereof) and Section 6.01 of the Assignment and Assumption, Fair Market Rental Value and Fair Market Sales Value of the Undivided Interest and the Real Property Interest shall be determined on the assumption that (i) Unit 2 has been maintained in accordance with, and the Lessee has complied with, the requirements of the Facility Lease, the other Transaction Documents and the ANPP Participation Agreement, (ii) the Lessee shall not bear the obligation imposed by Section 10(b)(3)(xi) of the Participation Agreement in respect of Transferees (as defined in the ANPP Participation Agreement) of the Lessor, and (iii) the Lessee or PNM, as possessor of the Undivided Interest and the Real Property Interest, is otherwise in compliance with the requirements of all Transaction Documents. Fair Market Rental Value shall be determined on the assumption that rent will be payable in equal semi-annual installments in arrears.

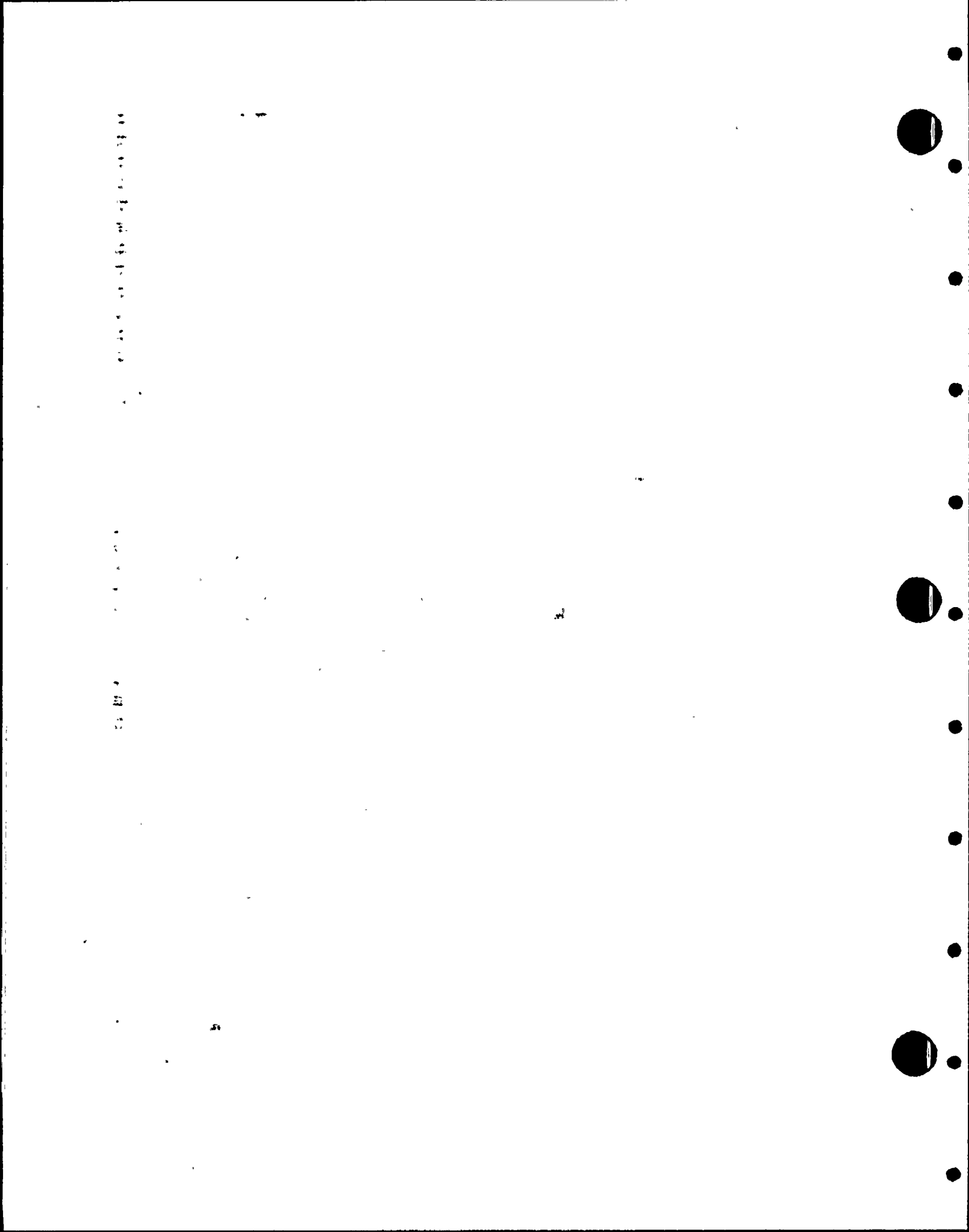
Federal Power Act shall mean the Federal Power Act, as amended.

Federal Securities shall have the meaning set forth in Section 2.3(c) of the Indenture.

FERC shall mean the Federal Energy Regulatory Commission of the United States of America or any successor agency.

Final Prospectus shall mean the Prospectus included in the Registration Statement relating to the Series B Bonds, including documents incorporated into said Prospectus by reference and any applicable Prospectus Supplement.

Final Shutdown shall mean the earlier to occur of (i) the expiration or revocation of the License, or any portion thereof such that the operation of Unit 2 or the possession by the Lessee of the Undivided Interest and the Real Property Interest are no longer permitted, (ii) the taking of any Governmental



Action or the adoption or making of any interpretations, directives or requests by any Governmental Authority (including, without limitation, the staff thereof) or the concurrence by any Governmental Authority in the voluntary action of the operator thereof, in each such case whether formal or informal, by reason of which Unit 2 shall cease to operate, or shall be unable under Applicable Law to resume operation, at a capacity level of at least 630 megawatts electric for the Minimum Period, (iii) the cessation of operation of Unit 2 as a result of either (x) the occurrence of an Extraordinary Nuclear Occurrence or an Incipient Extraordinary Nuclear Occurrence relating to Unit 2 or (y) a Nuclear Incident relating to Unit 2 and, in the case of this clause (y), the continuation of such cessation for the Minimum Period, (iv) damage to Unit 2 and the failure of the Lessee, or of the Lessee and one or more other ANPP Participants, to agree within three years of the occurrence of such damage to restore and reconstruct Unit 2, (v) damage to Unit 2, without restoration or reconstruction having been completed by the expiration of the Minimum Period, such that Unit 2 has a rated capacity of at least 630 megawatts electric, or (vi) destruction of Unit 2. For purposes of this definition, Final Shutdown pursuant to the foregoing clause (iv) will be deemed to have occurred upon the earlier of (x) the written declaration of the Lessee of its intent not to agree and (y) the expiration of the 3-year period referred to in said clause (iv) without written agreement. Final Shutdown pursuant to the foregoing clause (ii), (iii) (y) or (v) will be deemed to have occurred on the last day of the Minimum Period.

Financing Documents shall mean the Collateral Trust Indenture, the Underwriting Agreement, the Series B Supplemental Indenture and the Supplemental Indenture of Pledge.

Fixed Rate Notes shall mean the non-recourse promissory notes, substantially in the forms of Exhibits A-1, A-2 and A-3 to the Indenture, to be issued by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price.

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FNB shall mean the Owner Trustee in its individual capacity, and its successors and assigns.

Form U-7D shall mean the certificate to be filed pursuant to Rule 7(d) of the Holding Company Act for the purpose of exempting the Owner Participant and the Owner Trustee from registration under the Holding Company Act.

Funding Corp shall mean First PV Funding Corporation, a Delaware corporation.

Generating Unit shall mean Unit 2 or any of the other Generating Units (as such term is defined in the ANPP Participation Agreement) constituting PVNGS.

Generation Entitlement Share shall have the meaning assigned thereto in the ANPP Participation Agreement and (i) when used in reference to Unit 2, shall mean the Generation Entitlement Share of PNM as the ANPP Participant with respect to its interest in Unit 2, (ii) when used in reference to the Undivided Interest, shall mean that portion of the Generation Entitlement Share attributable to the Undivided Interest and (iii) when used in Section 19 of the Facility Lease, shall refer to the Generation Entitlement Share of the Lessee in all Generating Units at PVNGS.

Governmental Action shall mean all authorizations, consents, approvals, waivers, exceptions, variances, orders, licenses, exemptions, publications, filings, notices to and declarations of or with any Governmental Authority (other than routine reporting requirements the failure to comply with which will not affect the validity or enforceability of any of the Transaction Documents or have a material adverse effect on the transactions contemplated by any Transaction Document or any Financing Document) or any other action in respect of any Governmental Authority and shall include, without limitation, all siting, environmental and operating permits and licenses which are required for the use and operation of Unit 2, including the Undivided Interest and the Real Property Interest.

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Governmental Authority shall mean any Federal, state, county, municipal, foreign, international, regional or other governmental authority, agency, board, body, instrumentality or court.

Holders shall mean the holders of the Notes.

Holding Company Act shall mean the Public Utility Holding Company Act of 1935, as amended.

Incipient Extraordinary Nuclear Occurrence shall mean an event causing a discharge or dispersal of nuclear source, special nuclear or nuclear by-product material from its intended place of confinement in amounts off site or on site or causing a radiation level off site or on site which an independent nuclear consultant agreed to by the Lessee and the Owner Participant (or, failing prompt agreement, appointed by the American Arbitration Society) determines to be substantial and which such consultant determines has resulted in substantial injury to persons on or off the PVNGS Site or substantial damage to property off the PVNGS Site.

Indemnatee shall mean the Owner Participant, the Owner Trustee, FNB, the Loan Participant, the stockholder of Funding Corp and its officers and directors, Chemical Bank, the Indenture Trustee, each Holder of a Note from time to time Outstanding, the Collateral Trust Trustee, the Trust, the Trust Estate, the Lease Indenture Estate, the indenture estate under the Collateral Trust Indenture, any Affiliate of any of the foregoing and the respective successors, assigns, agents, officers, directors or employees of the foregoing, excluding, however, any ANPP Participant other than the Owner Trustee or the Owner Participant.

Indenture shall mean the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986, between the Owner Trustee and the Indenture Trustee.

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Indenture Default shall mean an event or condition which, after giving of notice or lapse of time, or both, would become an Indenture Event of Default.

Indenture Event of Default shall mean any of the events specified in Section 6.2 of the Indenture.

Indenture Trustee shall mean Chemical Bank, a New York banking corporation, not in its individual capacity, but solely as Indenture Trustee under the Indenture and each successor trustee and co-trustee thereunder.

Indenture Trustee's Counsel shall mean Willkie Farr & Gallagher, One Citicorp Center, 153 East 53rd Street, New York, New York 10022.

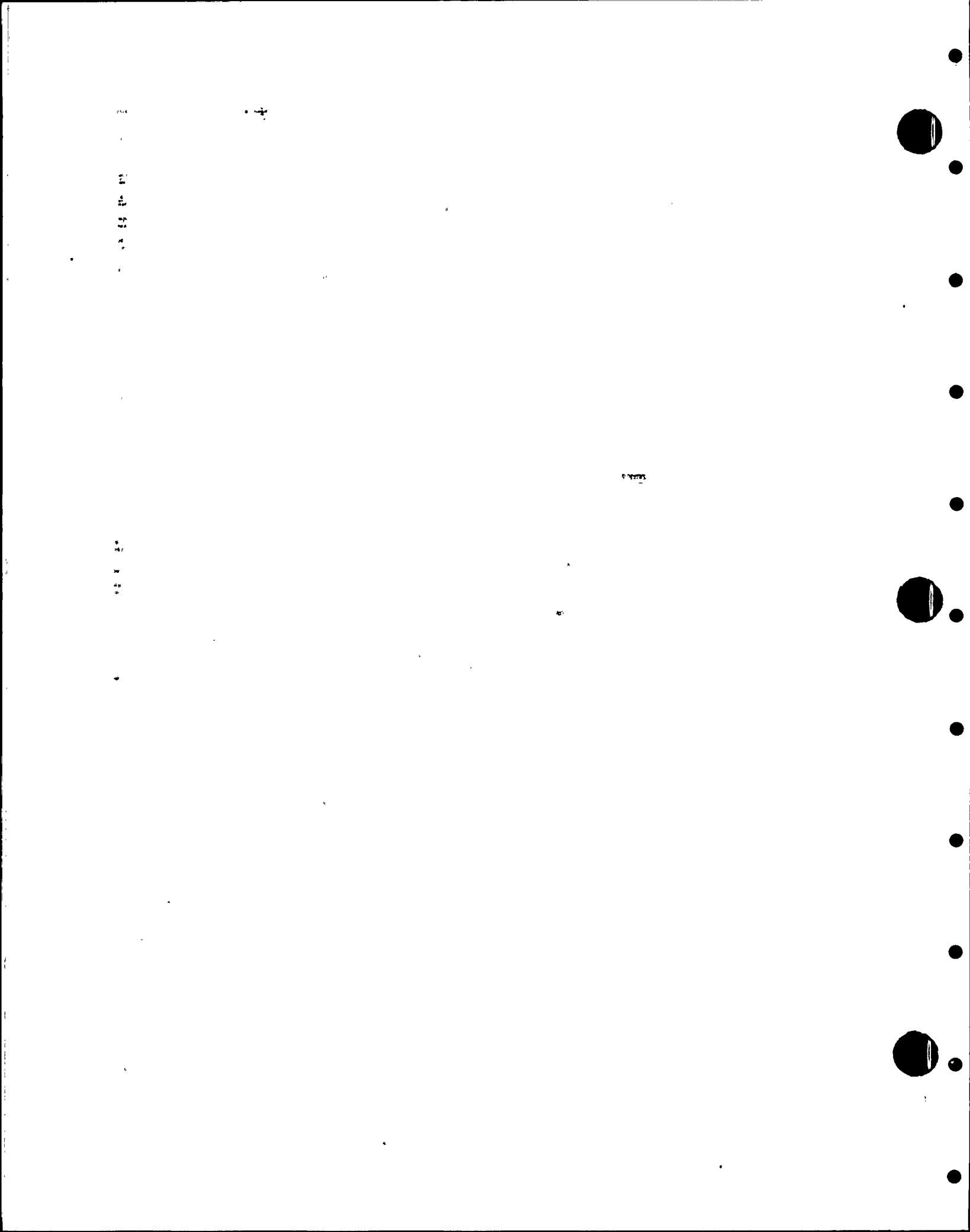
Indenture Trustee's Liens shall mean Liens against the Lease Indenture Estate which result from acts of, or any failure to act by, or as a result of claims against, the Indenture Trustee, in its individual capacity, unrelated to the transactions contemplated by the Transaction Documents.

Indenture Trustee's Office shall mean the office of the Indenture Trustee located at 55 Water Street, New York, New York 10041, or such other office as may be designated by the Indenture Trustee to the Owner Trustee and each Holder of a Note Outstanding under the Indenture.

Investment shall have the meaning set forth in Section 3 of the Participation Agreement.

Investment Company Act shall mean the Investment Company Act of 1940, as amended.

IRS shall mean the Internal Revenue Service of the United States Department of the Treasury or any successor agency.



Kidder Peabody shall mean Kidder, Peabody & Co. Incorporated.

LADWP shall mean the Department of Water and Power of The City of Los Angeles, a department organized and existing under the charter of the City of Los Angeles, a municipal corporation of the State of California..'

Lease Indenture Estate shall have the meaning set forth in Section 2.1 of the Indenture.

Lease Term shall mean the aggregate of the Basic Lease Term and the Renewal Term, if any.

Lease Termination Date shall mean the last day of the Lease Term (whether occurring by reason of a termination or expiration of the Lease Term).

Lessee shall mean Public Service Company of New Mexico, a New Mexico corporation, and its successors and assigns, as lessee under the Facility Lease and as party to the other Transaction Documents and Financing Documents to which it is a signatory.

Lessee's FERC Counsel shall mean Newman & Holtzinger, P.C., 1615 L Street, Washington, D.C. 20036.

Lessee's General Counsel shall mean Keleher & McLeod, P.A., P.O. Drawer AA, Albuquerque, New Mexico 87103.

Lessee's Special Arizona Counsel shall mean Snell & Wilmer, 3100 Valley Bank Center, Phoenix, Arizona 85073.

Lessee's Special Counsel shall mean Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

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Lessor shall mean the Owner Trustee, as lessor under the Facility Lease, and its successors and assigns.

Lessor's Interest shall have the meaning set forth in Section 8(c)(3) of the Participation Agreement.

Lessor's Liens or Owner Trustee's Liens shall mean Liens against the Trust Estate or the Lease Indenture Estate (other than Permitted Liens) for which the Lessee is not responsible and which result from acts of, or any failure to act by, or as a result of claims against, FNB or the Lessor, unrelated to the ownership of the Undivided Interest or the Real Property Interest, the administration of the Trust Estate or the transactions contemplated by the Transaction Documents or the Financing Documents.

License shall mean NRC Facility Operating License No. NPF-51, as the same may be amended, modified, extended, renewed or superseded from time to time.

License Expiration Date shall mean the date of expiration of the License.

Lien shall mean any mortgage, pledge, security interest, encumbrance, lien, easement, servitude or charge of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof or the filing of, or agreement to give, any financing statement under the Uniform Commercial Code of any jurisdiction.

Loan shall have the meaning set forth in Section 2(a) of the Participation Agreement.

Loan Participant shall mean Funding Corp.

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Loan Participant's Counsel shall mean Mudge Rose Guthrie Alexander & Ferdon, 180 Maiden Lane, New York, New York 10038.

Majority in Interest of Holders of Notes shall mean Holders of a majority in principal amount of all Notes Outstanding under the Indenture at the time of any such determination.

Material Project Agreements shall mean

- (i) Nuclear Fuel Contract between APS and Combustion Engineering, Inc. (CE), dated as of August 20, 1973,
- (ii) Nuclear Steam Supply Contract between APS and CE, dated as of August 20, 1973,
- (iii) Turbine Generator Contract between APS and General Electric Company, dated as of March 21, 1974,
- (iv) Uranium Enrichment Services Contract between the United States of America (USA) and APS, dated November 15, 1984, and the Associated Supplemental Agreement of Settlement between USA and APS, dated November 15, 1984,
- (v) Reload Nuclear Fuel Contract between APS and Combustion Engineering, Inc., dated November 5, 1986,
- (vi) Agreement for the Sale and Purchase of Waste Water Effluent between the City of Tolleson, APS and Salt River, dated June 12, 1981,
- (vii) Agreement for Construction of Arizona Nuclear Power Project between Bechtel Power Corporation (Bechtel) and APS, dated January 15, 1973,
- (viii) Agreement for Engineering and Procurement Services between APS and Bechtel, dated January 15, 1973,
- (ix) Option and Purchase of Effluent dated April 23, 1973, among the Cities of Phoenix, Glendale, Mesa, Tempe and Scottsdale, the Town of Youngtown, APS and Salt River,
- (x) Agreement for Conversion Services between Allied Chemical Corporation and APS, dated November 17, 1975, as amended,
- (xi) Uranium Concentrate Sales Agreement between Energy Fuels Exploration Company and APS, dated as of December 1, 1983,
- (xii) Uranium Concentrate Sales Agreement between Energy Fuels Exploration and APS, dated as of October 23, 1981, as amended,
- (xiii) Agreement for Sale of Uranium Concentrates between Pathfinder Mines Corporation and APS, dated December 1, 1983,
- (xiv) Contract for Disposal of Spent Nuclear Fuel and/or High Level Radioactive

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Waste between USA and APS, dated July 21, 1984, and (xv) the ANPP Participation Agreement.

Maximum Option Period shall mean the period, in no event ending after January 15, 2024, determined as provided in Section 13(a) of the Facility Lease as of the date of expiration of the Basic Lease Term, (i) at the end of which the residual value of the Undivided Interest (without regard to inflation or deflation from the Closing Date and without regard to the obligation of the Lessee to pay decommissioning costs pursuant to Section 10(b)(3)(xi) of the Participation Agreement, but taking into consideration the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License) shall be equal to at least 20% of Facility Cost, (ii) which, when added to the Basic Lease Term, does not exceed 80% of the economic useful life of the Undivided Interest from the Closing Date and (iii) at the end of which, taking into consideration the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License, the use of the Undivided Interest by any User (in a transaction pursuant to which the Owner Participant could realize the amount referred to in clause (i) above) is feasible from an engineering and economic point of view and is commercially reasonable. Unless the period, as computed in accordance with the preceding sentence, shall end on a January 15 or July 15, the final date of the Maximum Option Period shall be the final January 15 or July 15 in the period, as so computed. In no event shall the Maximum Option Period end after the License Expiration Date.

Minimum Net Worth means a Net Worth equal to the greater of (x) \$700,000,000 and (y) (1) \$950,000,000 less (2) with respect to each Generating Unit as to which PNM shall have entered into one or more transactions constituting sale and leaseback transactions under the ANPP Participation Agreement (including, but without limitation, the transaction contemplated by the Participation Agreement), (A) \$50,000,000 (in the case of Unit 1) and \$100,000,000 (in the case of each other Generating Unit) times (B) the aggregate

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percentage of the Lessee's undivided interest in such PVNGS unit subject to such transactions.

Minimum Period shall mean the shorter of (a) the shorter of (1) an indefinite period unless such period can reasonably be expected to be shorter than the applicable Benchmark Period and (2) an actual period in excess of the applicable Benchmark Period and (b) a period beginning on the date of determination through and including the penultimate day of the Lease Term. The Benchmark Period shall be a period equal to any 60 consecutive calendar months except that a period of 36 consecutive calendar months shall be applicable with respect to events specified in clause (iii)(y) of the definition of "Final Shutdown" or clause (9)(y) of the definition of "Deemed Loss Event". The period specified in the foregoing clause (a)(1) shall be determined by an independent nuclear consultant agreed to by the Lessee and the Owner Participant, or, failing prompt agreement upon such consultant, appointed by the American Arbitration Society (or comparable or successor organization).

Modification Order shall mean: (i) an order modifying the License or the NRC license for either PVNGS Unit 1 or PVNGS Unit 3 effective immediately upon issuance thereof; (ii) an order modifying the License or the NRC license for either PVNGS Unit 1 or PVNGS Unit 3 effective upon the expiration of the time period for a demand for a hearing if such hearing is not demanded within such period or if the penultimate day of the Lease Term occurs prior to such demand; or (iii) an order modifying the License or the NRC license for either PVNGS Unit 1 or PVNGS Unit 3 effective following a hearing (and not subject to further appeal) or subject to a hearing (or to further appeal) on the penultimate day of the Lease Term.

Mortgage Release shall mean the Indentures of Partial Release, to be dated the Closing Date, under and with respect to the Existing Mortgage.

























Net Economic Return shall mean the after-tax yield and after-tax cash flows (after all Federal, state and local taxes) and the return on investment originally expected by the Owner Participant with respect to the Undivided Interest, utilizing the Pricing Assumptions and the initial computation of Basic Rent, Casualty Values, Special Casualty Values and Termination Values derived from such Pricing Assumptions.

Net Worth means the excess of assets over liabilities determined by the Lessee's auditors on the basis of generally accepted accounting principles.

New Mexico Order shall mean the order issued by the NMPSC on July 8, 1986 in Case No. 2019 (Phase I), approving, among other things, the terms of the Facility Lease and the execution and delivery of the Facility Lease by PNM.

New Mexico Public Utility Act shall mean the New Mexico Public Utility Act, as amended.

NMPSC shall mean the New Mexico Public Service Commission established pursuant to Section 62-5-1 of New Mexico Statutes Annotated, 1978.

Non-Burdensome Regulation shall mean
(i) regulation to which the Owner Participant or the Owner Trustee is otherwise subject by reason of its lease financing or other activities unrelated to the transactions contemplated by the Transaction Documents,
(ii) ministerial regulatory requirements which do not impose limitations or regulatory requirements on the business or activities of the Owner Participant and which are deemed, in the reasonable discretion of the Owner Participant, not to be burdensome,
(iii) regulation resulting from any possession of the Undivided Interest on or after the Lease Termination Date or (iv) regulation of the Owner Trustee which would be terminated by the appointment of a successor Owner Trustee or a co-Owner Trustee pursuant to the terms of the Trust Agreement.

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Nonseverable, when used with respect to any Capital Improvement, shall mean any Capital Improvement which is not a Severable Capital Improvement.

Noteholder shall mean any Holder from time to time of a Note Outstanding under the Indenture.

Notes shall mean the Fixed Rate Notes and any Additional Notes.

Notice of Closing shall have the meaning set forth in Section 5(a) of the Participation Agreement.

NRC shall mean the Nuclear Regulatory Commission of the United States of America or any successor agency.

Nuclear Incident shall mean any occurrence causing bodily injury, sickness, disease, or death, or loss of or damage to, property, or the loss of use of property, arising out of or resulting from the radioactive, toxic, explosive or other hazardous properties of nuclear source, special nuclear or nuclear by-product material.

Officers' Certificate shall mean a certificate signed by the President or any Vice President and by the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Person with respect to which such term is used.

Operating Agent shall have the meaning assigned thereto in the ANPP Participation Agreement.

Original of the Facility Lease shall mean the fully executed counterpart of the Facility Lease, marked "This Counterpart is the Original Counterpart", pursuant to Section 22(e) of the Facility Lease and containing the receipt of the Indenture Trustee.

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Outstanding, when used with respect to Notes, shall mean, as of the date of determination, all such Notes theretofore issued, authenticated and delivered under the Indenture, except (a) Notes theretofore cancelled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation, (b) Notes or portions thereof for the payment of which the Indenture Trustee holds (and has notified the holders thereof that it holds) in trust for that purpose an amount sufficient to make full payment thereof when due, (c) Notes or portions thereof which have been pledged as collateral for any obligations of the obligor thereof to the extent that an amount sufficient to make full payment of such obligations when due has been deposited with the pledgee of such Notes for the purpose of holding such amount in trust for the payment of such obligations in accordance with the indenture or agreement under which such obligations are secured and (d) Notes in exchange for, or in lieu of, which other Notes have been issued, authenticated and delivered pursuant to the Indenture; provided, however, that any Note owned by the Lessee or the Owner Trustee or any Affiliate of either thereof shall be disregarded and deemed not to be Outstanding for the purpose of any Directive.

Overdue Interest Rate shall mean the weighted average rate per annum of interest payable with respect to overdue payments of principal on the Notes Outstanding, computed as set forth in such Notes.

Owner Participant shall mean Chase Manhattan Realty Leasing Corporation, a New York corporation, and the successors and assigns of such Person in accordance with the Trust Agreement and the Participation Agreement.

Owner Participant's Liens shall mean Liens against the Trust Estate or the Lease Indenture Estate (other than Permitted Liens) for which the Lessee is not responsible and which result from acts of, or any failure to act by, or as a result of claims against, the Owner Participant unrelated to the transactions contemplated by the Transaction Documents or the Financing Documents.

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Owner Participant's Special Arizona Counsel shall mean Meyer, Hendricks, Victor, Osborne & Maledon, 2700 North Third Street, Suite 4000, Phoenix, Arizona 85004.

Owner Participant's Special NRC Counsel shall mean Shaw, Pittman, Potts & Trowbridge, 1800 M Street, N.W., Washington, D.C. 20036.

Owner Participant's Special New Mexico Counsel shall mean Rodey, Dickason, Sloan, Akin & Robb, P.A., 20 First Plaza, Suite 700, Albuquerque, New Mexico 87103.

Owner Participant's Special Counsel shall mean Milbank, Tweed, Hadley & McCloy, One Chase Manhattan Plaza, New York, New York, 10005.

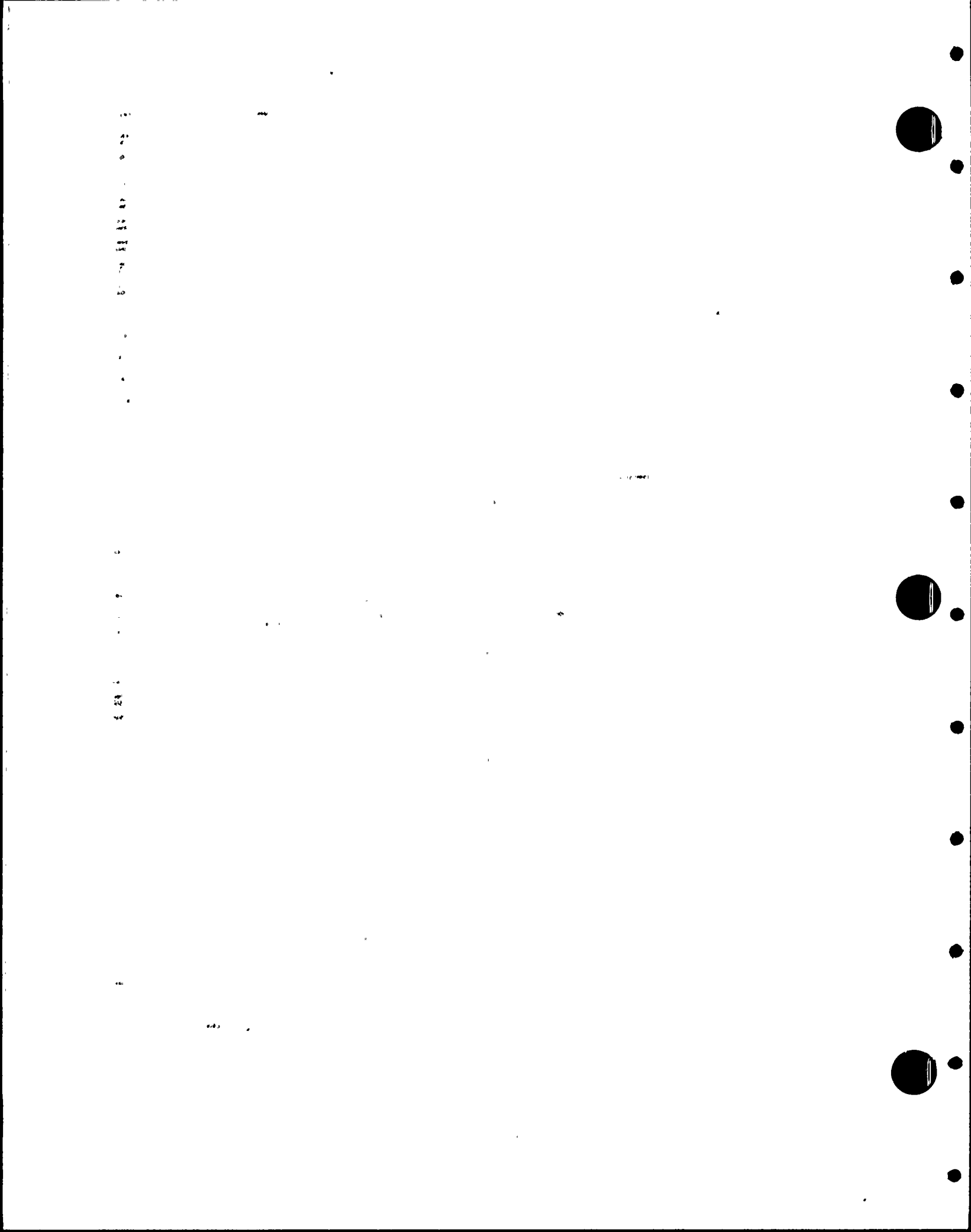
Owner Trustee shall mean The First National Bank of Boston, a national banking association, not in its individual capacity, but solely as Owner Trustee under the Trust Agreement, and each successor as trustee, separate trustee and co-trustee thereunder.

Owner Trustee's Counsel shall mean Csaplar & Bok, 1 Winthrop Square, Boston, Massachusetts 02110.

Participation Agreement shall mean the Participation Agreement, dated as of December 15, 1986, among the Owner Trustee, the Indenture Trustee, Funding Corp, the Owner Participant and PNM.

Penalty Rate shall mean the greater of 2% per annum in excess of the Prime Rate and 2% per annum in excess of the weighted average rate of interest on the Bonds.

Permitted Liens shall mean (i) the respective rights and interests of the Lessee, the Owner Participant, the Lessor, the Loan Participant and the Indenture Trustee, as provided in the Transaction Documents; (ii) the rights of any sublessee or assignee under a sublease or an assignment permitted by the terms of the Facility Lease; (iii) the Lien of the Existing Mortgage on the leasehold estate under the Facility



Lease; (iv) Liens for taxes either not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, so long as such proceedings shall not (x) involve any danger of the sale, forfeiture or loss of the Undivided Interest or the Real Property Interest or any part thereof or interest therein of the Lessor or the Owner Participant, (y) interfere with the use, possession or disposition of the Undivided Interest or the Real Property Interest, or any part thereof or interest therein, or (z) impair payment of Rent; (v) inchoate materialmen's, mechanics', workmen's, repairmen's, employees', carriers', warehousemen's, or other like Liens arising in the ordinary course of business for PVNGS, and not delinquent; (vi) Lessor's Liens, Owner Participant's Liens and Indenture Trustee's Liens; (vii) choate Liens that have been bonded for the full amount in dispute or as to which other satisfactory security arrangements shall have been made and which are being contested diligently by the appropriate party in good faith and by appropriate proceedings so long as such proceedings shall not violate clause (x), (y) or (z) of clause (iv) above; (viii) choate Liens of any of the types described in clause (v) above that have been bonded for the full amount in dispute or as to which other satisfactory security arrangements shall have been made and which arise out of judgments or awards and with respect to which (A) an appeal or proceeding for review is being prosecuted in good faith and for the payment of which adequate reserves shall have been provided as required by generally accepted accounting principles and (B) there shall have been secured a stay of execution pending such appeal or proceeding for review, so long as such proceedings shall not violate clause (x), (y) or (z) of clause (iv) above; (ix) the rights and interests of the Lessee under the Assignment and Assumption; (x) the rights of the NRC under the License; (xi) the rights of the ANPP Participants (other than (i) the Lessee and (ii) any Person who shall become an ANPP Participant in respect of the Undivided Interest and the Real Property Interest) under the ANPP Participation Agreement or any other ANPP Project Agreement; and (xii) Liens on the undivided ownership interests in Unit 2 of

the ANPP Participants and other Persons (other than the Lessee).

Person shall mean any individual, partnership, corporation, trust, unincorporated association or joint venture, a government or any department or agency thereof, or any other entity.

PNM shall mean Public Service Company of New Mexico, a New Mexico corporation.

Price-Anderson Act shall mean the Price-Anderson Act, Pub. L. No. 85-256, 71 Stat. 576 (1957), as amended to the Closing Date.

Pricing Assumptions shall mean the pricing assumptions set forth in Schedule 2 to the Participation Agreement.

Prime Rate shall mean the rate of interest per annum equal to the prime commercial rate of The Chase Manhattan Bank (National Association), as announced from time to time at its principal office in New York, New York, in effect from time to time.

Project Insurance shall have the meaning assigned thereto in the ANPP Participation Agreement.

Project Manager shall have the meaning assigned thereto in the ANPP Participation Agreement.

Purchase Documents shall mean the Bill of Sale, the Deed and the Assignment of Beneficial Interest and such other documents as the Owner Participant, the Owner Trustee, the Indenture Trustee, the Loan Participant or their respective counsel shall deem desirable to convey good and marketable title to the Undivided Interest and the Real Property Interest to the Trust.

Purchase Price shall have the meaning set forth in Section 4(a) of the Participation Agreement.

PVNGS shall mean the Arizona Nuclear Power Project, as that term is defined in the ANPP Participation Agreement.

PVNGS Site shall mean the interest in the Arizona land trust and the real property described in Exhibit A to the Bill of Sale.

Real Estate Investment shall have the meaning set forth in Section 3 of the Participation Agreement.

Real Property Interest shall mean the right, title and interest of the Owner Trustee acquired pursuant to the Deed and the Assignment of Beneficial Interest.

Reasonable Basis for a position shall exist if tax counsel may properly advise reporting such position on a tax return in accordance with Formal Opinion 85-352 issued by the Standing Committee on Ethics and Professional Responsibility of the American Bar Association.

Registration Statement shall mean the registration statements on Form S-3 (File Nos. 33-2031 and 33-8650), as amended, and any other similar registration statement, including all exhibits and all documents incorporated in any such registration statement by reference, filed with the SEC under the Securities Act in connection with the offer, issue and sale of the Series B Bonds.

Regulations shall mean the income tax regulations issued, published or promulgated under the Code.

Renewal Term shall have the meaning set forth in Section 12 of the Facility Lease.

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Rent shall mean Basic Rent and Supplemental Rent.

Requisition of Title shall mean any circumstance or event in consequence of which Unit 2 or the Undivided Interest shall be condemned or seized or title thereto shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise and all administrative or judicial appeals opposing such condemnation, seizure or taking shall have been exhausted or the period for such appeal shall have expired.

Requisition of Use shall mean any circumstance or event in consequence of which the use of Unit 2 or the Undivided Interest shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise, other than a Requisition of Title.

Responsible Officer shall mean, with respect to the subject matter of any covenant, agreement or obligation of any party contained in any Transaction Document, the President, or any Vice President, Assistant Vice President, Treasurer, Assistant Treasurer or other officer who in the normal performance of his operational responsibility would have knowledge of such matter and the requirements with respect thereto.

Retained Assets shall mean (i) the Lessee's ownership interest in PVNGS other than the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest, (ii) Severable Capital Improvements title to the undivided interest in which is retained by the Lessee in accordance with Section 8(e) of the Facility Lease, and (iii) any additional interest in and to PVNGS (other than the Undivided Interest, the related Generation Entitlement Share and the Real Property Interest) to which the Lessee becomes entitled in consequence of Sections 16.2 or 23.5 of the ANPP Participation Agreement (except as otherwise provided in Section 5(a) or 19 of the Facility Lease).

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Sale Proceeds shall mean, with respect to any sale of the Undivided Interest and the Real Property Interest by the Lessor to any Person other than the Lessee, the gross proceeds of such sale payable in cash, less all costs and expenses whatsoever incurred by the Lessor and the Owner Participant in connection therewith.

Salt River shall mean Salt River Project Agricultural Improvement and Power District, an Arizona agricultural improvement district.

SCPPA shall mean Southern California Public Power Authority, a California joint powers agency (doing business in Arizona as Southern California Public Power Authority Association).

SEC shall mean the Securities and Exchange Commission of the United States of America or any successor agency.

Section 6(c) Application shall mean Funding Corp's Application for an Order under Section 6(c) of the Investment Company Act of 1940 Exempting First PV Funding Corporation from All Provisions of such Act, as filed with the SEC on September 20, 1985, as amended by an Amendment No. 1 thereto dated November 8, 1985 and Amendment No. 2 thereto dated November 25, 1985.

Securities Act shall mean the Securities Act of 1933, as amended.

Securities Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Series B Bonds shall mean the Lease Obligation Bonds, Series 1986B of Funding Corp, issued, authenticated and delivered pursuant to the Underwriting Agreement and the Collateral Trust Indenture, as supplemented and amended by the Series B Supplemental Indenture.

Series B Supplemental Indenture shall mean the Collateral Trust Indenture Supplement dated as of November 18, 1986, providing, among other things, for the issuance, authentication and delivery of Funding Corp's Lease Obligation Bonds, Series 1986B.

Severable, when used with respect to any Capital Improvement, shall mean any Capital Improvement which can be removed from Unit 2 or the Common Facilities without materially damaging Unit 2 or the Common Facilities or materially diminishing or impairing the value, utility or condition which Unit 2 or the Common Facilities would have had if the applicable Capital Improvement had not been made.

Share shall mean a percentage equal to the percentage of Undivided Interest in Unit 2 or the Common Facilities, as the context so requires.

Southern California shall mean Southern California Edison Company, a California corporation.

Special Casualty Value shall mean (i) during the Basic Lease Term, the percentage of Facility Cost set forth opposite such date in Schedule 2 to the Facility Lease and (ii) during the Renewal Term, the amount determined by amortizing ratably the Fair Market Sales Value of the Undivided Interest as of the day following the last day of the Basic Term in monthly steps over the remaining term of the License determined pursuant to Section 13(a) of the Facility Lease. Anything contained in the Facility Lease to the contrary notwithstanding, Special Casualty Value shall be, when added to all other amounts which the Lessee is required to pay under Section 9(d) of the Facility Lease (taking into account any assumption of the Notes by the Lessee), under any circumstances and in any event, in an amount at least sufficient to pay in full, as of any date of payment, the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes.

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Substituted Lessee shall have the meaning specified in Section 6.8(c) of the Indenture.

Supplemental Financing shall mean a financing of the Supplemental Financing Amount of Capital Improvements made pursuant to Section 8(f) of the Facility Lease.

Supplemental Indenture of Pledge shall mean the Supplemental Indenture of Pledge, dated as of December 15, 1986, between the Loan Participant, the Lessee and the Collateral Trust Trustee, substantially in the form attached as Exhibit A to the Series B Supplemental Indenture.

Supplemental Financing Amount shall mean that portion of .7933333% of the cost of a Capital Improvement to Unit 2 and .2644444% of the cost of a Capital Improvement to the Common Facilities that shall not exceed (i) the amount of the increase, if any, in the Owner Participant's basis in the Undivided Interest for purposes of section 1012 of the Code as a result of such Capital Improvement less (ii) the amount of the related Additional Equity Investment of the Lessor, if any.

Supplemental Rent shall have the meaning set forth in Section 3(b) of the Facility Lease.

Surviving Lessee shall have the meaning specified in Section 10(b)(3)(ii) of the Participation Agreement.

Tax shall mean any and all fees (including, without limitation, documentation, recording, filing, license and registration fees), taxes (including, without limitation, net income, franchise, value added, ad valorem, gross income, gross receipts, sales, use, property, personal and real, tangible and intangible, excise, and stamp taxes), levies, imposts, duties, charges, assessments, or withholdings of any nature whatsoever, general or specific, ordinary or extraordinary, together with any and all penalties, fines, additions to tax and interest thereon.



Tax Assumptions shall mean the assumptions set forth in Section 1(a) of the Tax Indemnification Agreement, with respect to the Federal income tax consequences of the transactions included or reflected in the Pricing Assumptions.

Tax Indemnification Agreement shall mean the Tax Indemnification Agreement, dated as of December 15, 1986, between PNM and the Owner Participant.

Termination Date shall have the meaning set forth in Section 14(a) of the Facility Lease.

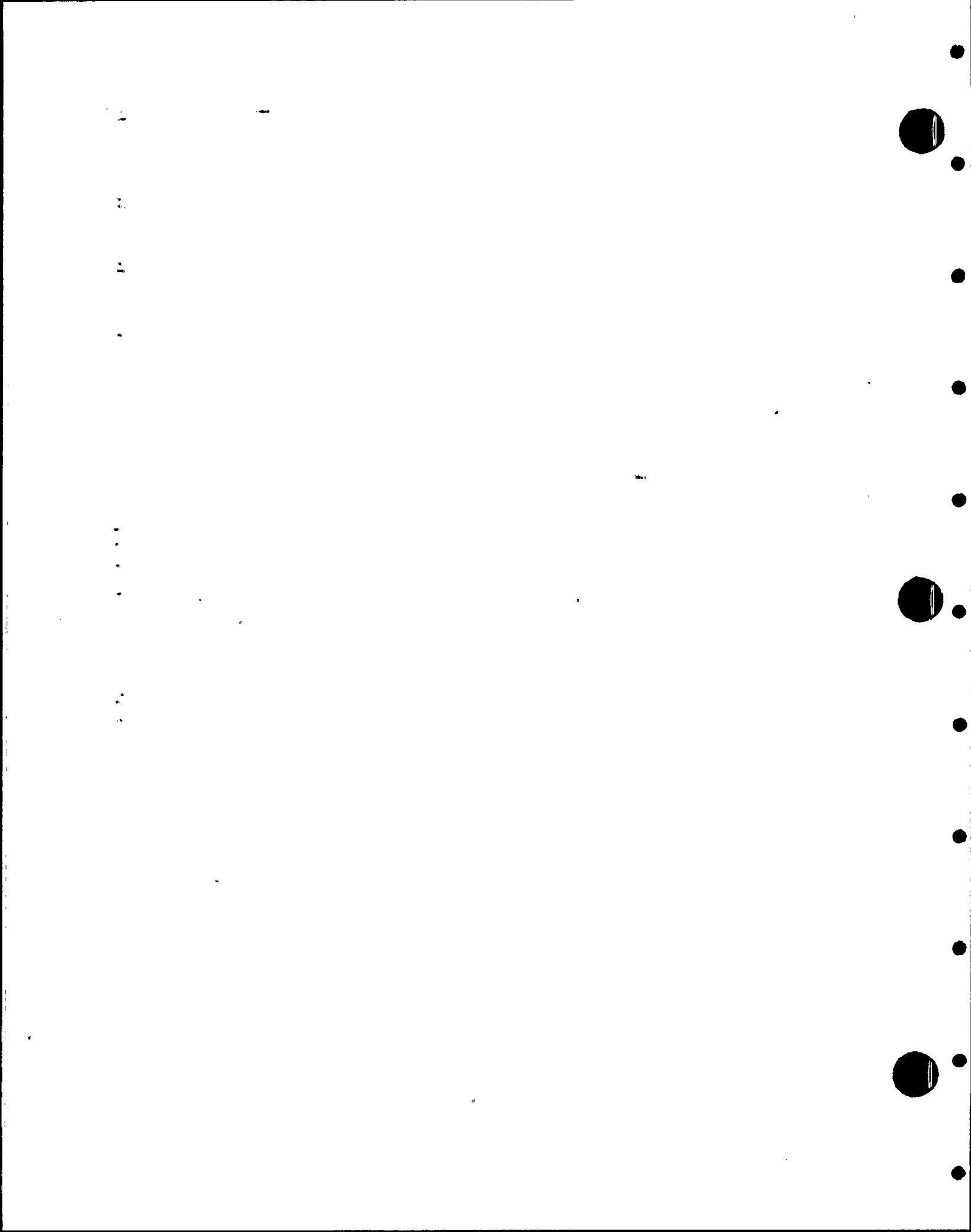
Termination Event shall mean any early termination of the Facility Lease in accordance with Section 14 thereof.

Termination Notice shall have the meaning set forth in Section 14(a) of the Facility Lease.

Termination Obligation shall have the meaning set forth in Section 15.10.2 of the ANPP Participation Agreement (or any comparable successor provision).

Termination Value, as of any Basic Rent Payment Date during the Basic Lease Term, shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 3 to the Facility Lease. Anything contained in the Facility Lease to the contrary notwithstanding, Termination Value shall be, when added to all other amounts which the Lessee is required to pay under Section 14 of the Facility Lease, under any circumstances and in any event, in an amount at least sufficient to pay in full as of any Basic Rent Payment Date the aggregate unpaid principal amount of all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes.

Transaction Documents shall mean the Participation Agreement, the Facility Lease, the Trust Agreement, the Indenture, the Extension Letter, the Tax Indemnification Agreement, the Mortgage Release, the



Assignment and Assumption, each Purchase Document and the Notes.

Transaction Expenses shall have the meaning set forth in Section 14(a) of the Participation Agreement.

Transfer shall mean the transfer, by bill of sale or otherwise, by the Lessor of all the Lessor's right, title and interest in and to the Undivided Interest and the Real Property Interest and under the Assignment and Assumption on an "as.is, where is" basis, free and clear of all Lessor's Liens and Owner Participant's Liens but otherwise without recourse, representation or warranty (including an express disclaimer of representations and warranties in a manner comparable to that set forth in the second sentence of Section 6(b) of the Facility Lease), together with the due assumption by the transferee of, and the due release of the Lessor from, all the Lessor's obligations under the Assignment and Assumption and the Assignment of Beneficial Interest by an instrument or instruments satisfactory in form and substance to the Lessor and the Owner Participant.

Transferee shall have the meaning assigned thereto in Section 15 of the Participation Agreement.

Trust shall mean the trust created by the Trust Agreement.

Trust Agreement shall mean the Trust Agreement, dated as of December 15, 1986, between the Owner Participant and FNB.

Trust Estate shall have the meaning set forth in Section 2.03 of the Trust Agreement.

Trust Indenture Act shall mean the Trust Indenture Act of 1939, as amended.

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Trustee's Expenses shall mean any and all liabilities, obligations, costs, compensation, fees, expenses and disbursements (including, without limitation, legal fees and expenses) of any kind and nature whatsoever (other than such amounts as are included in Transaction Expenses) which may be imposed on, incurred by or asserted against the Indenture Trustee or any of its agents, servants or personal representatives, in any way relating to or arising out of the Indenture, the Lease Indenture Estate, the Participation Agreement or the Facility Lease, or any document contemplated thereby, or the performance or enforcement of any of the terms thereof, or in any way relating to or arising out of the administration of such Lease Indenture Estate or the action or inaction of the Indenture Trustee under the Indenture; provided, however, that such amounts shall not include any Taxes or any amount expressly excluded from the Lessee's indemnity obligations pursuant to Section 13(a) or 13(b) of the Participation Agreement.

UCC or Uniform Commercial Code shall mean the Uniform Commercial Code as in effect in any applicable jurisdiction.

Underwriting Agreement shall mean the agreement among Funding Corp, PNM, Kidder Peabody, Goldman, Sachs & Co. and Drexel Burnham Lambert Incorporated (all acting either as underwriters or representatives of the underwriters named therein) relating to the purchase, sale and delivery of the Series B Bonds and any applicable pricing agreements.

Underwriters' Counsel shall mean Willkie Farr & Gallagher, One Citicorp Center, 153 East 53rd Street, New York, New York 10022.

Undivided Interest shall mean a .7933333% undivided interest in Unit 2 and a .2644444% undivided interest in Common Facilities; the owner of the Undivided Interest shall be a tenant-in-common with the owners (including PNM, if it should be such an owner) of all other undivided interests in Unit 2 and the Common Facilities. Unless the context otherwise requires,

Undivided Interest includes an appropriate portion of Generation Entitlement Share.

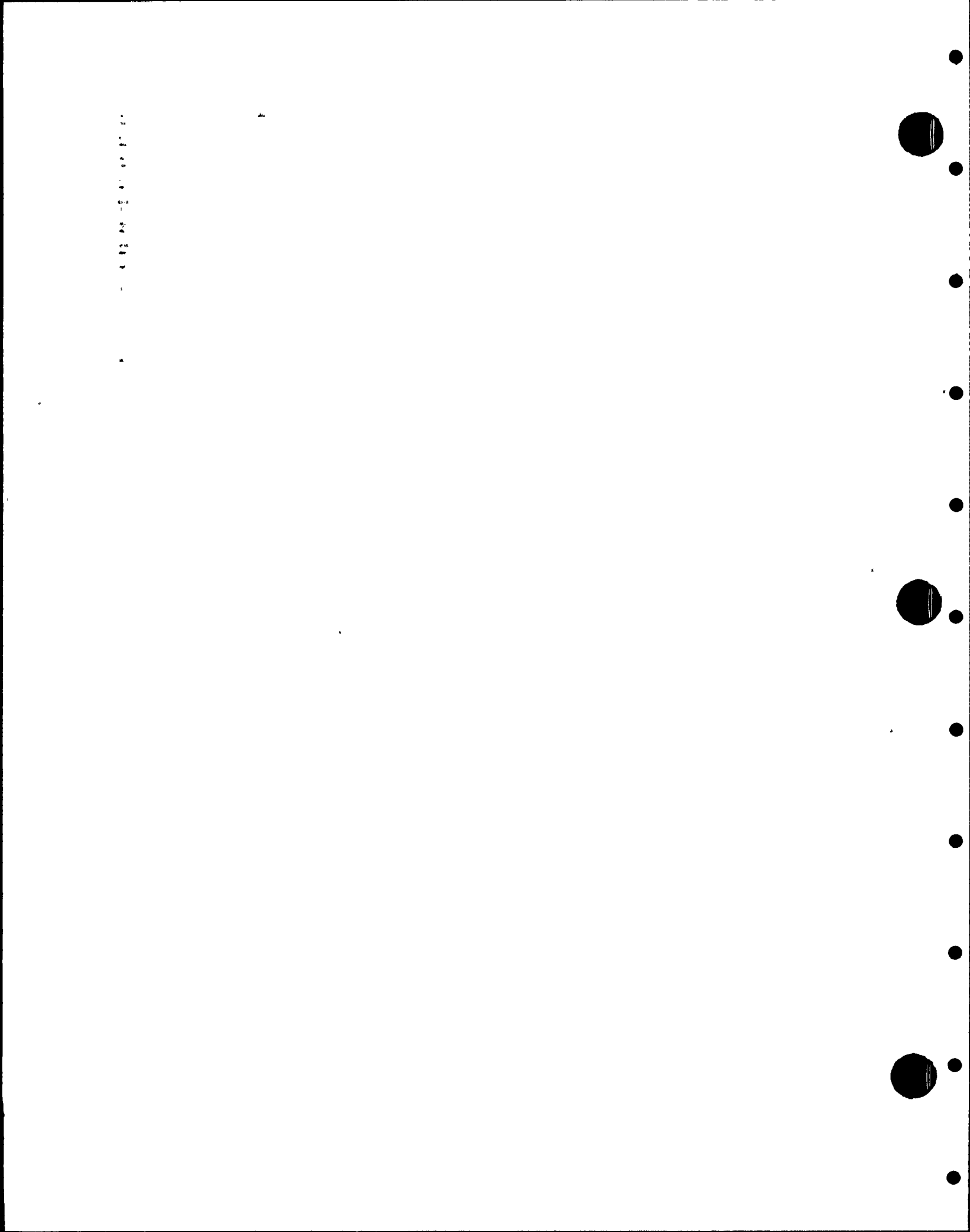
Undivided Interest Indenture Supplement shall mean the supplement to the Indenture substantially in the form of Exhibit C thereto pursuant to which the Owner Trustee causes the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture.

Undivided Interest Percentage shall mean .7933333%; provided, however, that with respect to the portion of the Undivided Interest constituting Common Facilities, the Undivided Interest Percentage shall be a percentage equal to .2644444%.

Uniform System of Accounts shall mean the Uniform System of Accounts prescribed for Public Utilities and Licensees subject to the provisions of the Federal Power Act (Class A and Class B), 18 CFR 101, as in effect on the date of execution of the Participation Agreement, as amended or modified from time to time after such date.

Unit 2 shall mean the 1,270 megawatt unit commonly known as Unit 2 at the Palo Verde Nuclear Generating Station, all as more fully described in Item A of Exhibit B to the Bill of Sale, together with all Capital Improvements thereto, but excluding all common facilities.

Unit 2 Decommissioning Costs shall mean approximately \$23,000,000 (1986 dollars) (or such other amount as shall be determined by the Lessee, in good faith, in accordance with prudent utility practice) adjusted annually on the last day of each calendar year, for inflation using an inflation rate twice that indicated by the change in the Consumer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics for such calendar year, such adjustment to take effect on the first day of the succeeding calendar year.



Unit 2 Retained Assets shall mean (i) all resident fuel assemblies, equipment and personal property constituting part of the Generating Unit (as defined in the ANPP Participation Agreement) designated as Palo Verde Nuclear Generating Station Unit 2 (other than common facilities) owned by the Lessee but excluded from Unit 2 as set forth in Item A of Exhibit B to the Bill of Sale and (ii) a one-third interest in all equipment and personal and real property constituting PVNGS common facilities under the ANPP Participation Agreement owned by the Lessee but excluded from the Common Facilities as set forth in Item B of Exhibit B to the Bill of Sale.

User shall mean a Person unrelated to PNM (within the meaning of Section 318 of the Code) possessing the Undivided Interest after the Lease Termination Date.



TRUST AGREEMENT

Dated as of December 15, 1986

between

CHASE MANHATTAN REALTY LEASING CORPORATION,
as Owner Participant

and

THE FIRST NATIONAL BANK OF BOSTON,
as Owner Trustee

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2
and a .2644444% Undivided Interest in Certain Common
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Transaction Documents. . . | .17 |

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TRUST AGREEMENT

TRUST AGREEMENT, dated as of December 15, 1986, between CHASE MANHATTAN REALTY LEASING CORPORATION, a New York corporation, as Owner Participant (the Owner Participant) and THE FIRST NATIONAL BANK OF BOSTON, a national banking association (the Owner Trustee).

W I T N E S S E T H:

WHEREAS, the Owner Participant desires to acquire the Undivided Interest and the Real Property Interest through the Trust created hereby; and

WHEREAS, The First National Bank of Boston is willing to act as Owner Trustee and to accept the Trust created hereby;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Appendix A to the Participation Agreement dated as of December 15, 1986 among the Owner Participant, First PV Funding Corporation, the Owner Trustee, Chemical Bank and Public Service Company of New Mexico. References in this Agreement to articles, sections, paragraphs and clauses are to articles, sections, paragraphs and clauses of this Agreement unless otherwise indicated.

ARTICLE II

AUTHORITY TO EXECUTE AND PERFORM VARIOUS DOCUMENTS; RATIFICATION AND CONFIRMATION; DECLARATION OF TRUST BY THE OWNER TRUSTEE

SECTION 2.01. Authority To Execute and Perform Various Documents. The Owner Participant hereby authorizes and directs the Owner Trustee (i) to execute and deliver each Transaction Document to which the Owner Trustee is a party and to execute and request the Indenture Trustee to issue, authenticate and deliver the Fixed Rate Notes (each such Transaction Document, including the Fixed Rate Notes, to be in the form approved by the Owner Participant), (ii) to execute and deliver all other agreements, instruments and certificates contemplated by the documents referred to in clause (i), (iii) to take whatever action shall be required to be taken by the Owner Trustee by the terms of, and exercise its rights and perform its duties under, each of the documents, agreements, instruments and certificates referred to in clauses (i) and (ii) above as set forth in such documents, agreements, instruments and certificates and (iv) subject to the terms of this Agreement, to take such other action in connection with the foregoing as the Owner Participant may from time to time direct.

SECTION 2.02. Ratification and Confirmation. By certificate dated November 24, 1986 (the Section 15.6.1 Certificate), the Owner Trustee confirmed the matters required to be confirmed on the part of a lessor in a sale and leaseback transaction under Section 15.6.1 of the ANPP Participation Agreement, a copy of which certificate is attached hereto as Schedule 1. The Owner Participant, by its execution and delivery of this Agreement, ratifies and confirms the execution and delivery by the Owner Trustee of the Section 15.6.1 Certificate.

SECTION 2.03. Declaration of Trust by the Owner Trustee. The Owner Trustee hereby declares that it will hold all estate, right, title and interest of the Owner Trustee in and to the Undivided Interest, the Real Property Interest, the Transaction Documents and any other property contributed by the Owner Participant, including without limitation all amounts of Rent, insurance proceeds and requisition, indemnity or other

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payments of any kind, but specifically excluding any Excepted Payments (collectively, the Trust Estate), upon the trusts set forth herein and for the use and benefit of the Owner Participant.

ARTICLE III

PAYMENTS

SECTION 3.01. Payments from Trust Estate Only. All payments to be made by the Owner Trustee under this Agreement shall be made only from the income and proceeds from the Trust Estate and only to the extent that the Owner Trustee shall have received income or proceeds from the Trust Estate to make such payments in accordance with the terms hereof, except as specifically provided in Section 6.01. The Owner Participant agrees that it will look solely to the income and proceeds from the Trust Estate to the extent available for payment as herein provided and that, except as specifically provided herein, the Owner Trustee shall not be liable to the Owner Participant for any amounts payable under this Agreement and shall not be subject to any liability under this Agreement.

SECTION 3.02. Method of Payment. All amounts payable to the Owner Participant pursuant to this Agreement shall be paid or cause to be paid by the Owner Trustee to the Owner Participant, or its nominee, by crediting the amount to be distributed to the Owner Participant to an account maintained by the Owner Participant with the Owner Trustee in immediately available funds or by transferring such amount in immediately available funds to a banking institution with bank wire transfer facilities for the account of the Owner Participant, as instructed from time to time by the Owner Participant.

ARTICLE IV

DISTRIBUTIONS

SECTION 4.01. Distributions. Subject to the terms and requirements of the Transaction Documents, all payments and amounts received by or on behalf of the Owner Trustee shall be distributed forthwith upon receipt in the following order of priority: first, so

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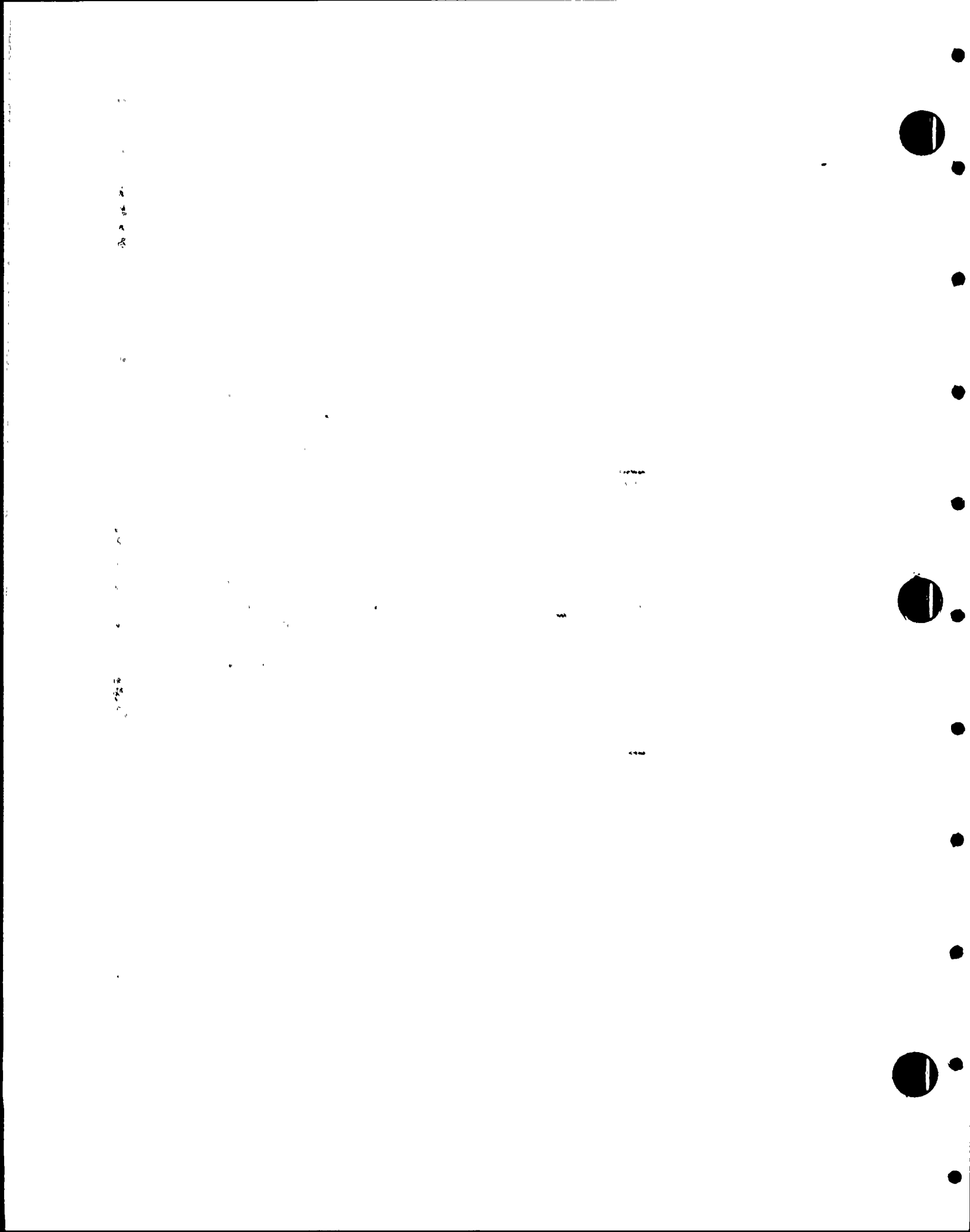
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much of such payment or amount as shall be required to pay or reimburse the Owner Trustee for any fees or expenses (including reasonable attorneys' fees and expenses) not otherwise paid or reimbursed to the Owner Trustee as to which the Owner Trustee is entitled to be paid or reimbursed hereunder shall be retained by the Owner Trustee; and, second, the balance, if any, of such payment or amount remaining thereafter shall be distributed to the Owner Participant.

ARTICLE V

DUTIES OF THE OWNER TRUSTEE

SECTION 5.01. Notice of Certain Events. In the event the Owner Trustee shall have knowledge of any Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event, the Owner Trustee shall give prompt written notice thereof to the Owner Participant, the Lessee, the Loan Participant and the Indenture Trustee unless such Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event no longer exists before the giving of such notice. Subject to the provisions of Section 5.03, the Owner Trustee shall take or refrain from taking such action, not inconsistent with the provisions of the Transaction Documents, with respect thereto as the Owner Participant shall direct by written instruction to the Owner Trustee. If the Owner Trustee shall have given the Owner Participant written notice of any event and shall not have received written instructions as above provided within 30 days after mailing notice of such event to the Owner Participant, the Owner Trustee may, subject to the provisions of the Transaction Documents, take or refrain from taking such action, but shall be under no duty to, and shall have no liability for its failure or refusal to, take or refrain from taking any action with respect thereto as the Owner Trustee shall deem advisable and in the best interests of the Owner Participant. For all purposes of this Agreement, in the absence of actual knowledge of an officer in the corporate trust division of the Owner Trustee, the Owner Trustee shall not be deemed to have knowledge of any Default, Event of Default, Indenture Default, Indenture Event of Default, Event of Loss or Deemed Loss Event unless the Owner Trustee receives written notice thereof given by or on behalf of the Owner Participant, the Lessee, the Loan



Participant, the Indenture Trustee or any Holder of a Note.

SECTION 5.02. Action upon Instructions.

Subject to the terms of Sections 5.01 and 5.03, upon the written instructions of the Owner Participant, the Owner Trustee will take or refrain from taking such action or actions, not inconsistent with the provisions of the Transaction Documents, as may be specified in such instructions.

SECTION 5.03. Indemnification. The Owner Trustee shall not be required to take or refrain from taking any action under this Agreement or any other Transaction Document (other than the actions specified in the first sentence of Section 5.01) unless the Owner Trustee shall have been indemnified by the Lessee or, if the Owner Trustee reasonably believes such indemnity to be inadequate, by the Owner Participant, in manner and form reasonably satisfactory to the Owner Trustee, against any liability, fee, cost or expense (including reasonable attorneys' fees and expenses) which may be incurred or charged in connection therewith, other than such as may result from the willful misconduct or gross negligence of the Owner Trustee; and, if the Owner Participant shall have directed the Owner Trustee to take or refrain from taking any action under any Transaction Document, the Owner Participant agrees to furnish such indemnity by a written undertaking of indemnification and, in addition, to pay the reasonable compensation of the Owner Trustee for the services performed or to be performed by it pursuant to such direction. The Owner Trustee shall not be required to take any action under any Transaction Document if the Owner Trustee shall reasonably determine, or shall have been advised by counsel, that such action is likely to result in personal liability for which the Owner Trustee has not been and will not be adequately indemnified or is contrary to the terms hereof or of any document contemplated hereby to which the Owner Trustee is a party or is otherwise contrary to law.

SECTION 5.04. No Duties Except as Specified in Trust Agreement or Instructions. The Owner Trustee shall not have any duty or obligation to manage, control, use, make any payment in respect of, register, record, insure, inspect, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or any other part of the Trust Estate, or to

otherwise take or refrain from taking any action under or in connection with any document contemplated hereby to which the Owner Trustee is a party, except as expressly provided by the terms of this Agreement or in written instructions from the Owner Participant received pursuant to Section 5.01 or 5.02; and no implied duties or obligations shall be read into this Agreement against the Owner Trustee. The Owner Trustee nevertheless agrees that it will, in its individual capacity and at its own cost and expense, promptly take all action as may be necessary to discharge any Lessor's Liens arising by, through or under it on any part of the Trust Estate.

SECTION 5.05. No Action Except Under Specified Documents or Instructions. The Owner Trustee agrees that it will not manage, control, use, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or any other part of the Trust Estate except (i) as required by the terms of the Transaction Documents, (ii) in accordance with the powers granted to, or the authority conferred upon, such Owner Trustee pursuant to this Agreement or (iii) in accordance with the express terms hereof or with written instructions from the Owner Participant pursuant to Section 5.01 or 5.02.

SECTION 5.06. Absence of Duties. Except in accordance with written instructions furnished pursuant to Section 5.01 and 5.02, and without limitation of the generality of Section 5.04, the Owner Trustee shall not have any duty to (i) file, record or deposit any Transaction Document or any other document, or to maintain any such filing, recording or deposit or to refile, rerecord or redeposit any such document, (ii) obtain insurance on the Undivided Interest or the Real Property Interest or effect or maintain any such insurance, other than to receive and forward to the Owner Participant any notices, policies, certificates or binders furnished to the Owner Trustee pursuant to the Facility Lease, (iii) maintain Unit 2, the Undivided Interest or the Real Property Interest, (iv) pay or discharge any Tax or any Lien owing with respect to or assessed or levied against any part of the Trust Estate, except as provided in the last sentence of Section 5.04, other than to receive and forward notice of such Tax or Lien to the Owner Participant, (v) confirm, verify, investigate or inquire into the failure to receive any reports or financial statements of the Lessee, (vi) inspect Unit 2 at any

time or ascertain or inquire as to the performance or observance of any of the covenants of the Lessee or any other Person under any Transaction Document with respect to the Undivided Interest, the Real Property Interest or Unit 2 or (vii) manage, control, use, sell, dispose of or otherwise deal with the Undivided Interest, the Real Property Interest or Unit 2 or any part thereof or any other part of the Trust Estate, except as provided in Section 5.05.

ARTICLE VI

THE OWNER TRUSTEE

SECTION 6.01. Acceptance of Trust and Duties. The Owner Trustee accepts the trusts hereby created and agrees to perform the same, but only upon the terms of this Agreement. The Owner Trustee also agrees to disburse all moneys actually received by it constituting part of the Trust Estate upon the terms of this Agreement. The Owner Trustee shall not be answerable or accountable under any circumstances, except for (i) its own wilful misconduct or gross negligence, (ii) the inaccuracy of any of its representations or warranties contained in Section 6.03 or under Section 8(a) of the Participation Agreement given expressly in its individual capacity, (iii) its failure to perform obligations expressly undertaken by it in the last sentence of Section 5.04 of this Agreement or in Section 8(b) of the Participation Agreement or (iv) Taxes based on or measured by any fees, commissions or compensation received by it for acting as trustee in connection with any of the transactions contemplated by the Transaction Documents.

SECTION 6.02. Furnishing of Documents. The Owner Trustee will furnish to the Owner Participant, promptly upon receipt thereof, duplicates or copies of all reports, notices, requests, demands, opinions, certificates, financial statements and any other instruments furnished to the Owner Trustee hereunder or under the Transaction Documents, unless by the express terms of any Transaction Document a copy of the same is required to be furnished by some other Person directly to the Owner Participant, or the Owner Trustee shall have determined that the same has already been furnished to the Owner Participant.

SECTION 6.03. No Representations or Warranties as to the Undivided Interest, the Real Property Interest, Unit 2 or Documents. The Owner Trustee makes (i) NO REPRESENTATION OR WARRANTY AS TO THE TITLE, VALUE, CONDITION, DESIGN, OPERATION, MERCHANTABILITY OR FITNESS FOR USE OF THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST, UNIT 2 OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST OR UNIT 2 WHATSOEVER, except that the Owner Trustee hereby represents, warrants and covenants to the Owner Participant that it will comply with the last sentence of Section 5.04, and (ii) no representation or warranty as to the validity or enforceability of any Transaction Document or as to the correctness of any statement made by any Person other than the Owner Trustee, contained in any thereof, and except that the Owner Trustee represents, warrants and covenants to the Owner Participant that this Agreement has been and each of such other documents which contemplates execution thereof by the Owner Trustee has been or will be executed and delivered by its officers who are, or will be, duly authorized to execute and deliver such documents on its behalf.

SECTION 6.04. No Segregation of Moneys; No Interest. Except as otherwise provided herein or in any of the Transaction Documents, moneys received by the Owner Trustee hereunder need not be segregated in any manner, except to the extent required by law, and may be deposited under such general conditions as may be prescribed by law, and the Owner Trustee shall not be liable for any interest thereon, except as may be agreed to by the Owner Trustee.

SECTION 6.05. Reliance; Advice of Counsel. The Owner Trustee shall not incur any liability to any Person in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper believed by it to be genuine and believed by it in good faith to be signed by the proper party or parties. The Owner Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect. As to any fact or matter the manner of ascertainment of which is not specifically prescribed herein, the Owner Trustee may for all purposes hereof rely on an Officers' Certificate

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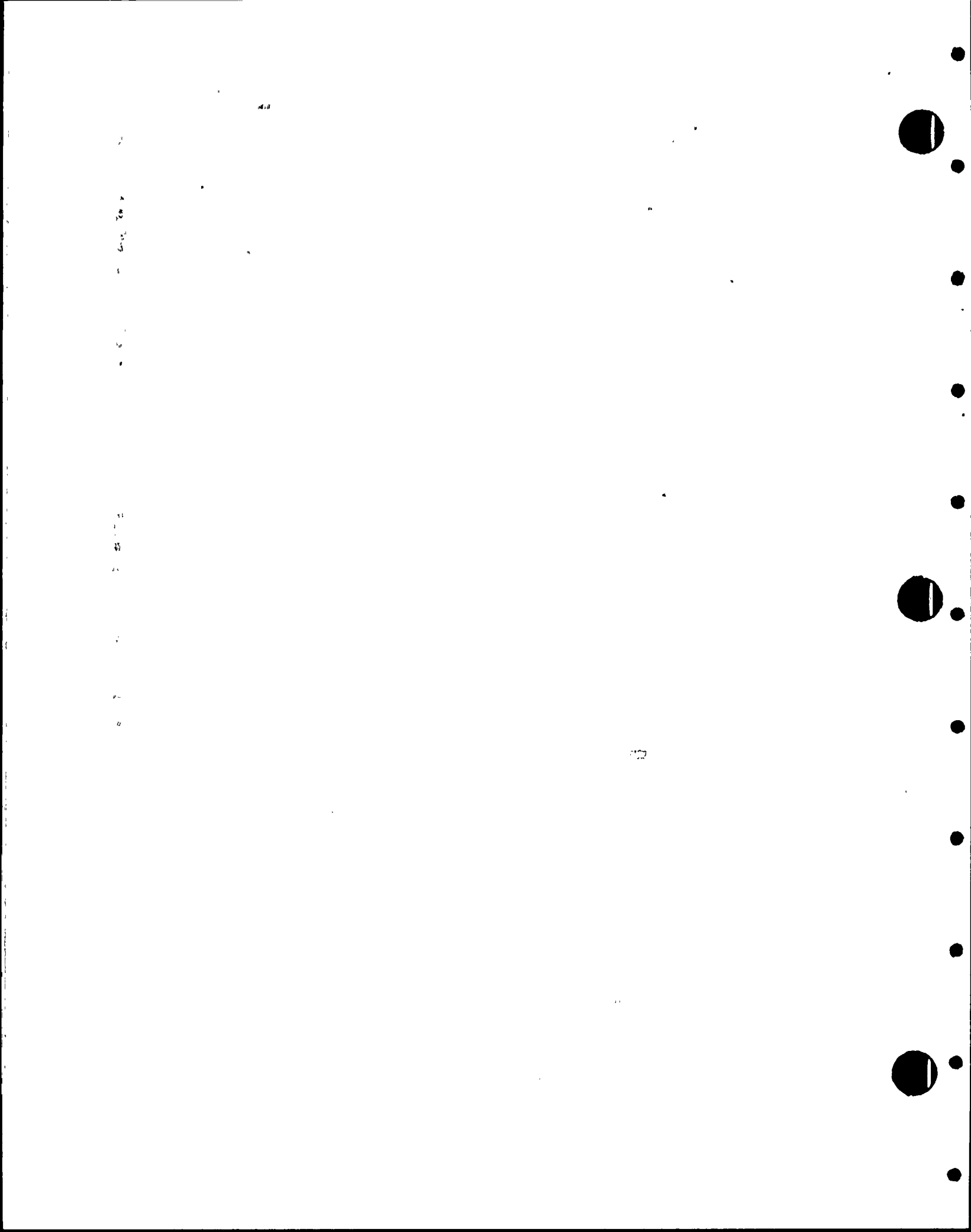
of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to the Owner Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon. In the administration of the trusts hereunder, the Owner Trustee may execute any of the trusts or powers hereof and perform its powers and duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled Persons to be selected and employed by it, and the Owner Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion within the scope of such Person's competence of any such counsel, accountants or other skilled Persons and not contrary to this Agreement.

SECTION 6.06. Not Acting in Individual Capacity. Except as provided in this Article VI, in accepting the trusts hereby created the Owner Trustee acts solely as trustee hereunder and not in its individual capacity; and all Persons having any claim against the Owner Trustee by reason of the transactions contemplated by the Transaction Documents shall look only to the Trust Estate (or a part thereof, as the case may be) for payment or satisfaction thereof, except as specifically provided in this Article VI and except to the extent the Owner Trustee shall otherwise agree in any Transaction Document to which it is a party.

ARTICLE VII

INDEMNIFICATION OF THE OWNER TRUSTEE BY THE OWNER PARTICIPANT

SECTION 7.01. The Owner Participant To Indemnify the Owner Trustee. The Owner Participant agrees to assume liability for, and to indemnify and hold harmless the Owner Trustee and FNB against and from, any and all Expenses which may be imposed on, incurred by or asserted at any time against the Owner Trustee (and not indemnified by the Lessee within a reasonable time after demand therefor) in any way relating to or arising out of the Trust Estate, any of the properties included therein, the administration of the Trust Estate or any action or inaction of the Owner Trustee hereunder or under the Transaction Documents, except only that the Owner Participant shall not be required to indemnify the Owner Trustee for Expenses arising or



resulting from any of the matters described in the last sentences of Sections 5.04 and 6.01. The indemnities contained in this Section 7.01 shall survive the termination of this Agreement.

SECTION 7.02. Compensation and Expenses. The Owner Trustee shall receive as compensation for its services hereunder such ordinary fees as are fair, reasonable and customary for the performance of such services and as may heretofore and from time to time hereafter be agreed upon between the Owner Participant and the Owner Trustee. The Owner Trustee shall be entitled to be reimbursed for its reasonable expenses hereunder and to be compensated reasonably for any extraordinary services rendered hereunder.

ARTICLE VIII

TERMINATION OF TRUST AGREEMENT

SECTION 8.01. Termination of Trust Agreement. This Agreement and the trusts created hereby shall terminate and the Trust Estate shall, subject to the Participation Agreement, the Indenture and Article IV of this Agreement, be distributed to the Owner Participant, and this Agreement shall be of no further force or effect, upon the earlier of (i) the sale or other final disposition by the Owner Trustee of all property constituting part of the Trust Estate and the final distribution by the Owner Trustee of all moneys or other property or proceeds constituting part of the Trust Estate in accordance with the terms of Article IV and (ii) 21 years less one day after the death of the last survivor of all of the descendants living on the date of this Agreement of the present members of the Boards of Directors of the Owner Trustee and The Chase Manhattan Corporation, but if any such rights, privileges or options shall be or become valid under Applicable Law for a period subsequent to the 21st anniversary of the death of such last survivor (or, without limiting the generality of the foregoing, if legislation shall become effective providing for the validity or permitting the effective grant of such rights, privileges and options for a period in gross exceeding the period for which such rights, privileges and options are hereinabove stated to extend and be valid), then such rights, privileges or options shall not terminate as aforesaid but shall extend to and continue in effect, but only if

such nontermination and extension shall then be valid under Applicable Law, until such time as the same shall, under Applicable Law, cease to be valid.

SECTION 8.02. Termination at Option of the Owner Participant. Notwithstanding Section 8.01, this Agreement and the trusts created hereby shall terminate and the Trust Estate shall be distributed to the Owner Participant, and this Agreement shall be of no further force and effect, upon the election of the Owner Participant by notice to the Owner Trustee, if such notice shall be accompanied by the written agreement of the Owner Participant assuming all the obligations of the Owner Trustee under or contemplated by the Transaction Documents and all other obligations of the Owner Trustee incurred by it as trustee hereunder; provided, however, that no such election shall be effective until the lien of the Indenture on the Lease Indenture Estate has been released and until full payment of the principal of and premium, if any, and interest on the Notes has been made and the lien contemplated by Section 7(b)(4) of the Participation Agreement has been released. Such written agreement shall be reasonably satisfactory in form and substance to the Owner Trustee and shall release the Owner Trustee from all further obligations of the Owner Trustee hereunder and under the agreements and other instruments mentioned in the preceding sentence.

ARTICLE IX

SUCCESSOR OWNER TRUSTEES, CO-OWNER TRUSTEES AND SEPARATE OWNER TRUSTEES

SECTION 9.01. Resignation of the Owner Trustee; Appointment of Successor. (a) The Owner Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Owner Participant, the Indenture Trustee, the Holders of the then Outstanding Notes and the Lessee, such resignation to be effective on the acceptance of appointment by a successor Owner Trustee under Section 9.01(b). In addition, the Owner Participant may at any time remove the Owner Trustee with or without cause by an instrument in writing delivered to the Owner Trustee, such removal to be effective upon the acceptance of appointment by a successor owner trustee under Section 9.01(b). In case

of the resignation or removal of the Owner Trustee, the Owner Participant may appoint a successor Owner Trustee by an instrument signed by the Owner Participant. If a successor Owner Trustee shall not have been appointed within 30 days after the giving of written notice of such resignation or the delivery of the written instrument with respect to such removal, the Owner Trustee or the Owner Participant may apply to any court of competent jurisdiction to appoint a successor Owner Trustee to act until such time, if any, as a successor shall have been appointed and shall have accepted its appointment as above provided. Any successor Owner Trustee so appointed by such court shall immediately and without further act be superseded by any successor Owner Trustee appointed as above provided within one year from the date of the appointment by such court.

(b) Any successor Owner Trustee, however appointed, shall execute and deliver to the predecessor Owner Trustee an instrument accepting such appointment, and thereupon such successor Owner Trustee, without further act, shall become vested with all the estates, properties, rights, powers, duties and trusts of the predecessor Owner Trustee in the trusts hereunder with like effect as if originally named an Owner Trustee herein; but nevertheless, upon the written request of such successor Owner Trustee, such predecessor Owner Trustee shall execute and deliver an instrument transferring to such successor Owner Trustee, upon the trusts herein expressed, all the estates, properties, rights, powers, duties and trusts of such predecessor Owner Trustee, and such predecessor Owner Trustee shall duly assign, transfer, deliver and pay over to such successor Owner Trustee all moneys or other property then held by such predecessor Owner Trustee upon the trusts herein expressed.

(c) Any successor Owner Trustee, however appointed, shall be a bank or trust company incorporated and doing business within the United States of America and having a combined capital and surplus of at least \$50,000,000, if there be such an institution willing, able and legally qualified to perform the duties of Owner Trustee hereunder upon reasonable or customary terms.

(d) Any corporation into which the Owner Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any



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merger, conversion or consolidation to which the Owner Trustee shall be a party, or any corporation to which substantially all the corporate trust business of the Owner Trustee may be transferred, shall, subject to the terms of Section 9.01(c), be the Owner Trustee under this Agreement without further act.

SECTION 9.02. Co-Trustees and Separate Trustees. Whenever the Owner Trustee or the Owner Participant shall deem it necessary or prudent in order either to conform to any law of any jurisdiction in which all or any part of the Trust Estate shall be situated or to make any claim or bring any suit with respect to the Trust Estate, the Notes or any Transaction Document, or the Owner Trustee or the Owner Participant shall be advised by counsel satisfactory to it that it is so necessary or prudent, the Owner Trustee and the Owner Participant shall execute and deliver an agreement supplemental hereto and all other instruments and agreements, and shall take all other action, necessary or proper to constitute one or more Persons (and the Owner Trustee may appoint one or more of its officers) either as co-trustee or co-trustees jointly with the Owner Trustee of all or any part of the Trust Estate, or as separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Persons, in such capacity, such title to the Trust Estate or any part thereof and such rights or duties as may be necessary or desirable, all for such period and under such terms and conditions as are satisfactory to the Owner Trustee and the Owner Participant. In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, the title to the Trust Estate and all rights and duties of such co-trustee or separate trustee shall, so far as permitted by law, vest in and be exercised by the Owner Trustee, without the appointment of a successor to such co-trustee or separate trustee.

ARTICLE X

SUPPLEMENTS AND AMENDMENTS

SECTION 10.01. Supplements and Amendments. At the written request of the Owner Participant, this Agreement shall be amended by a written instrument signed by the Owner Trustee and the Owner Participant, but if in the opinion of the Owner Trustee any

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instrument required to be so executed adversely affects any right, duty or liability of, or immunity or indemnity in favor of, it under this Agreement or any of the documents contemplated hereby to which it is a party, or would cause or result in any conflict with or breach of any terms, conditions or provisions of, or default under, its charter documents or by-laws or any document contemplated hereby to which it is a party, the Owner Trustee may in its sole discretion decline to execute such instrument, unless it shall have been provided an indemnity satisfactory to the Owner Trustee by the Owner Participant.

SECTION 10.02. Limitation on Amendments.

Notwithstanding Section 10.01, the Owner Trustee shall not, without the consent of the Indenture Trustee, execute any amendment which might result in the trusts created hereunder being terminated prior to the release of the lien of the Indenture on the Lease Indenture Estate or prior to the payment in full of the principal of and premium, if any, and interest on the Notes.

ARTICLE XI

MISCELLANEOUS

SECTION 11.01. No Legal Title to Trust Estate in the Owner Participant. The Owner Participant shall not have legal title to any part of the Trust Estate. No transfer, by operation of law or otherwise, of any right, title or interest of the Owner Participant in and to the Trust Estate or hereunder shall operate to terminate this Agreement or the trusts hereunder or entitle any successor or transferee to an accounting or to the transfer to it of legal title to any part of the Trust Estate.

SECTION 11.02. Sale of Undivided Interest and/or Real Property Interest by the Owner Trustee is Binding. Any sale or other conveyance of the Undivided Interest, the Real Property Interest or any part thereof or any assignment of rights under the Assignment and Assumption by the Owner Trustee made pursuant to the terms of this Agreement or any other Transaction Document shall bind the Owner Participant and shall be effective to transfer and convey all right, title and interest of the Owner Trustee and the Owner Participant in and to the Undivided Interest, the Real Property

Interest or any part thereof, or such rights under the Assignment and Assumption, as the case may be. No purchaser or other grantee shall be required to inquire as to the authorization, necessity, expediency or regularity of such sale or conveyance or as to the application of any sale or other proceeds with respect thereto by the Owner Trustee.

SECTION 11.03. Limitations on Rights of Others. Nothing in this Agreement, whether express or implied, shall be construed to give to any Person other than the Owner Trustee and the Owner Participant any legal or equitable right, remedy or claim under or in respect of this Agreement, any covenants, conditions or provisions contained herein or the Trust Estate, all of which are and shall be construed to be for the sole and exclusive benefit of the Owner Trustee and the Owner Participant.

SECTION 11.04. Notices. Unless otherwise expressly specified or permitted by the terms hereof, all notices hereunder shall be given as provided in the Participation Agreement.

SECTION 11.05. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.06. Limitation on the Owner Participant's Liability. The Owner Participant shall not have any liability for the performance of this Agreement except as expressly set forth herein.

SECTION 11.07. Separate Counterparts; Dating. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. Although this Trust Agreement is dated as of the date first above written for convenience, the actual dates of execution hereof by the parties hereto are respectively the dates set forth under the signatures hereto, and this Trust Agreement shall be effective on the latest of such dates.

SECTION 11.08. Successors and Assigns. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the Owner Trustee and its successors and assigns and the Owner Participant and its successors and assigns, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by the Owner Participant shall bind the successors and assigns of the Owner Participant.

SECTION 11.09. Transfer of Interests.

Subject to the provisions of Section 15 of the Participation Agreement, the Owner Participant may assign, convey or otherwise transfer all or any part of its right, title and interest in and to this Agreement and the Trust Estate. In case of any such assignment, conveyance or transfer of less than all of the interest of the Owner Participant, (i) the transferor and transferee or transferees shall be severally obligated with respect to the indemnification obligations imposed under Section 7.01 in accordance with the interest held by each of them and (ii) if necessary, appropriate amendments shall be made to this Agreement to provide for the situation in which there is more than one Owner Participant as may be agreed to by the transferor and transferee or transferees and consented to by the Owner Trustee. Upon any assignment, conveyance or transfer of all of the interest of the Owner Participant to the Lessee or an Affiliate of the Lessee, the transferor Owner Participant shall, upon such assignment, conveyance or transfer, be released and discharged without further act or formality whatsoever from the indemnification obligations imposed under Section 7.01. No such assignment, conveyance or transfer shall violate any provision of Applicable Law or create a relationship which would be in violation thereof. The interest of any Owner Participant in this Trust may not be transferred without the consent of the other Owner Participants, if any. The Owner Trustee shall not be on notice of or otherwise be bound by any such assignment, conveyance or transfer until it shall have received an executed counterpart of the instrument of such assignment, conveyance or transfer.

SECTION 11.10. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 11.11. Governing Law. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, including all matters of construction, validity, and performance.

SECTION 11.12. Administration of Trust. The principal place of administration of the Trust shall be in Boston, Massachusetts.

SECTION 11.13. Performance by the Owner Participant. Any obligation of the Owner Trustee hereunder or under any Transaction Document or other document contemplated herein may be performed by the Owner Participant and any such performance shall not be construed as a revocation of the trusts created hereby.

SECTION 11.14. Conflict with Transaction Documents. If this Agreement (or any instructions given by the Owner Participant pursuant hereto) shall require that any action be taken with respect to any matter and any other Transaction Document (or any instructions duly given in accordance with the terms thereof) shall require that a different action be taken with respect to such matter, and such actions shall be mutually exclusive, the provisions of such other Transaction Document, in respect thereof, shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Trust Agreement to be duly executed by their respective officers hereunto duly authorized, as of the dates set forth below.

Owner Participant:

CHASE MANHATTAN REALTY
LEASING CORPORATION

By: M. Sirogians, Jr.
Title: Vice President

Date: December 15, 1986

Owner Trustee:

THE FIRST NATIONAL BANK OF
BOSTON

By: [Signature]
Assistant Vice President

Date: December 15, 1986

When Recorded, Return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

CERTAIN RIGHTS OF THE LESSOR UNDER THIS FACILITY LEASE HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, CHEMICAL BANK, AS INDENTURE TRUSTEE UNDER A TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS DATED AS OF DECEMBER 15, 1986. THIS FACILITY LEASE HAS BEEN EXECUTED IN SEVERAL COUNTERPARTS. SEE SECTION 22(e) OF THIS FACILITY LEASE FOR INFORMATION CONCERNING THE RIGHTS OF HOLDERS OF VARIOUS COUNTERPARTS HEREOF.

THIS COUNTERPART IS NOT THE ORIGINAL COUNTERPART.

FACILITY LEASE

Dated as of December 15, 1986

between

THE FIRST NATIONAL BANK OF BOSTON,
not in its individual capacity, but solely as Owner
Trustee under a Trust Agreement, dated as of
December 15, 1986 with Chase Manhattan Realty Leasing
Corporation,

Lessor

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,

Lessee

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2 and
a .2644444% Undivided Interest in Certain Common
Facilities

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FACILITY LEASE, dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation (the Lessor), and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee).

W I T N E S S E T H :

WHEREAS, the Lessor owns the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee desires to lease the Undivided Interest and the Real Property Interest from the Lessor on the terms and conditions set forth herein; and

WHEREAS, the Lessor is willing to lease the Undivided Interest and the Real Property Interest to the Lessee on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

For purposes hereof, capitalized terms used herein shall have the meanings assigned to such terms in Appendix A hereto. References in this Facility Lease to sections, paragraphs and clauses are to sections, paragraphs and clauses in this Facility Lease unless otherwise indicated.

SECTION 2. Lease of Undivided Interest; Term; Personal Property.

(a) Lease of Undivided Interest. Upon the terms and subject to the conditions of this Facility Lease, the Lessor hereby leases to the Lessee, and the Lessee hereby leases from the Lessor, the Undivided Interest.

(b) Term. The term of this Facility Lease shall begin on December 17, 1986, and shall end on the last day of the Lease Term.

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(c) Personal Property. It is the express intention of the Lessor and the Lessee that title to the Undivided Interest and every portion thereof be, and hereby is, severed, and shall be and remain severed, from title to the real estate constituting the Real Property Interest and the PVNGS Site. The Lessor and the Lessee intend that the Undivided Interest shall constitute personal property to the maximum extent permitted by Applicable Law.

(d) Description. The Real Property Interest is described on Schedule 4 hereto. The Undivided Interest is described on Schedule 5 hereto.

SECTION 3. Rent; Adjustments to Rent.

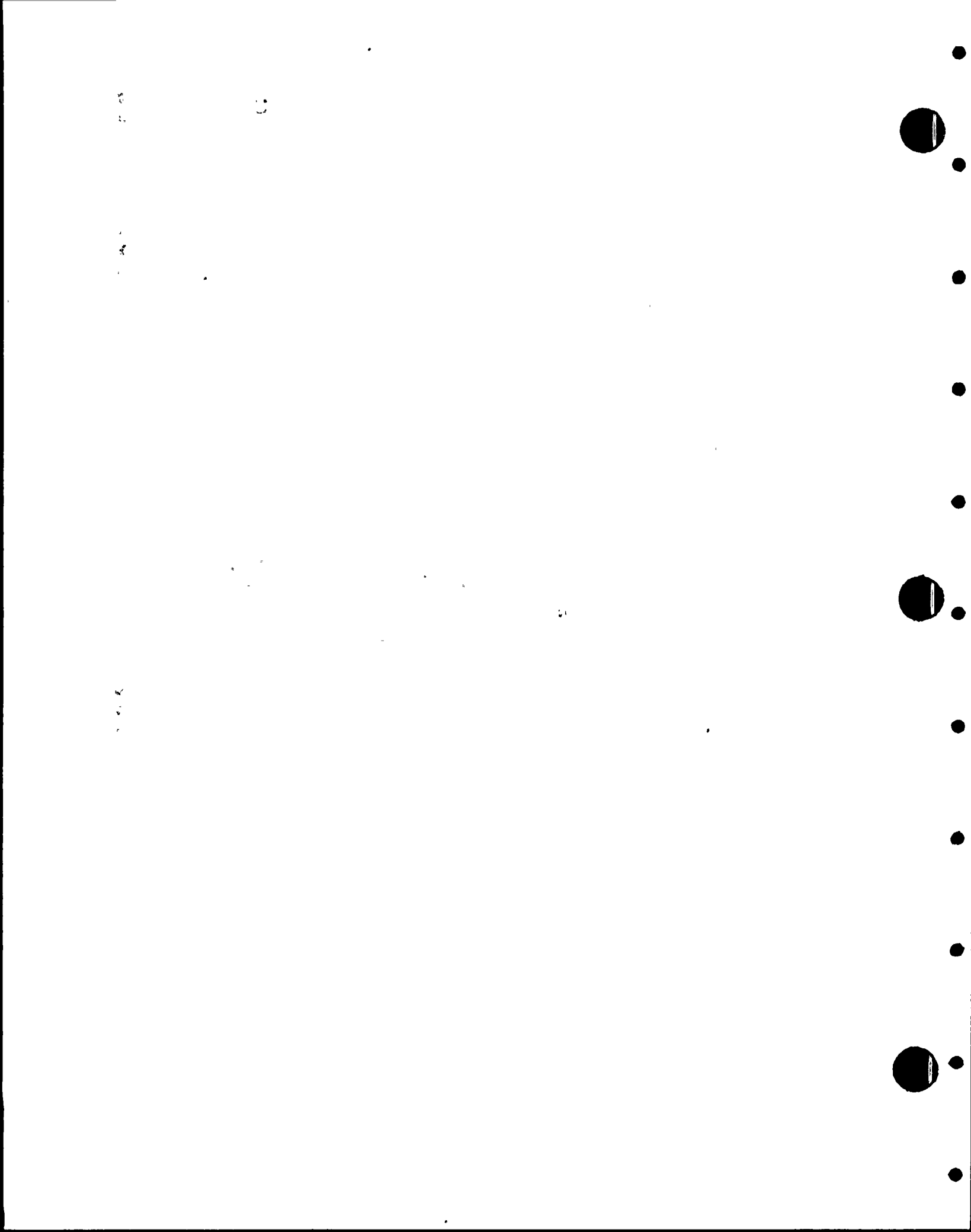
(a) Basic Rent. The Lessee shall pay to the Lessor, as basic rent (herein referred to as Basic Rent) for the Undivided Interest and the Real Property Interest, the following amounts:

(i) on January 15, 1987, an amount equal to .02585778% of the Facility Cost for each day from, and including, December 17, 1986 to, but excluding, January 15, 1987;

(ii) on July 15, 1987 and on each Basic Rent Payment Date thereafter to and including January 15, 2016, an amount equal to 4.654400% of Facility Cost; and

(iii) if the Lessee shall elect the Renewal Term, on July 15, 2016 and on each Basic Rent Payment Date thereafter during the Renewal Term, an amount equal to one-half of an amount determined by dividing the aggregate amount of all payments of Basic Rent payable with respect to the Basic Lease Term pursuant to clause (ii) of this Section 3(a) (taking into account any adjustments pursuant to Sections 3(d) and 3(e)), by 58.

If an interest payment on any Note shall be due on a date other than a Basic Rent Payment Date, the Lessee shall pay additional Basic Rent on such date equal to such interest payment and such payment of additional Basic Rent shall be credited against the Basic Rent due on the Basic Rent Payment Date next succeeding the date that such additional Basic Rent shall have been paid.



(b) Supplemental Rent. The Lessee shall pay the following amounts (herein referred to as Supplemental Rent):

(i) when due or, where no due date is specified, on demand, any amount (other than Basic Rent, Casualty Value, Termination Value and Special Casualty Value) which the Lessee assumes the obligation to pay or agrees to pay to the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee or any Indemnatee under this Facility Lease, any other Transaction Document or the Collateral Trust Indenture, any amount which is to be paid under Section 6.9, 7.6 or 8.7 of the Indenture and any amount that the Lessee is required to pay, or provide for the payment of, under Section 8.5 of the Indenture;

(ii) when due, any amount payable hereunder as Casualty Value, Termination Value or Special Casualty Value, and an amount equal to any premium or prepayment penalty with respect to the Notes;

(iii) on demand and in any event on the Basic Rent Payment Date next succeeding the date such amounts shall be due and payable hereunder, to the extent permitted by Applicable Law, interest (computed on the same basis as interest on the Notes is computed) at a rate per annum equal to (A) the Overdue Interest Rate, on that portion of the payment of Basic Rent or Supplemental Rent distributable pursuant to clause "first" of Section 5.1 or clause "second" of Section 5.3 of the Indenture (determined prior to the computation of interest on overdue payments referred to in such clauses), and (B) the Penalty Rate, on the balance of any such payment of Basic Rent or Supplemental Rent (including, in the case of both clause (i) and clause (ii) above, but without limitation, to the extent permitted by Applicable Law, interest payable pursuant to this clause (iii)) not paid when due (without regard to any period of grace) for any period for which the same shall be overdue.

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The Lessor shall have all rights, powers and remedies provided for in this Facility Lease, at law, in equity or otherwise, in the case of non-payment of Basic Rent or Supplemental Rent.

(c) Form of Payment. Subject to Section 11(b), each payment of Rent under this Facility Lease shall be made in immediately available funds no later than 11:00 a.m., local time at the place of receipt, on the date each such payment shall be due and payable hereunder and shall be paid either (A) in the case of payments other than Excepted Payments, to the Lessor at its address determined in accordance with Section 17, or at such other address as the Lessor may direct by notice in writing to the Lessee, or (B) in the case of Excepted Payments, to such Person as shall be entitled to receive such payment at such address as such Person may direct by notice in writing to the Lessee. If the date on which any payment of Rent is due hereunder shall not be a Business Day, the payment otherwise due thereon shall be due and payable on the preceding Business Day, with the same force and effect as if paid on the nominal date provided in this Facility Lease.

(d) Adjustments to Rent. Basic Rent and the schedules of Casualty Values, Termination Values and Special Casualty Values attached hereto shall be adjusted (upward or downward) to preserve Net Economic Return if there is any Change in Tax Law other than a Change in respect of a minimum tax; provided, however, that the aggregate amount of such downward adjustments shall not exceed the aggregate amount of such upward adjustments. Adjustments under this paragraph (d) shall be (1) made not more than once a year and (2) limited in the aggregate to the extent necessary such that the aggregate amount of Basic Rent theretofore and thereafter payable throughout the Basic Lease Term (computed for such purposes only without regard to any adjustments theretofore made pursuant to Section 3(e)) shall not exceed by more than 4% the aggregate amount of Basic Rent which would have been payable throughout the Basic Lease Term (calculated as aforesaid) had no such adjustments been made.

The provisions of this Section 3(d) to the contrary notwithstanding, if any Change in Tax Law is, or becomes, applicable to the transaction contemplated by this Facility Lease in consequence of the transfer of the Owner Participant's beneficial interest in the Trust

(whether or not permitted by Section 15 of the Participation Agreement) or if such Change in Tax Law would not have been applicable to such transaction had no such transfer occurred, then no adjustment shall be, or be required to be, made pursuant to this Section 3(d); provided, however, that this sentence shall not apply to the initial transfer of the Owner Participant's beneficial interest in the Trust to one of its Affiliates.

(e) Further Adjustments. Basic Rent and the schedules of Casualty Values, Special Casualty Values and Termination Values attached hereto shall be appropriately adjusted (upward or downward) to preserve Net Economic Return if there is (i) any Supplemental Financing, (ii) the payment of Transaction Expenses in an amount which is other than 2.0% of the Purchase Price or (iii) any other change (other than a change in items 4, 5, 8 (as to the basis for amortization of Transaction Expenses), 14, 15 and 17, but without limiting the effect of Section 3(d) hereof) in the Pricing Assumptions.

(f) Computation of Adjustments. Upon the occurrence of an event requiring an adjustment to Basic Rent payable pursuant to clause (ii) of Section 3(a), and the schedules of Casualty Values, Special Casualty Values and Termination Values attached hereto, pursuant to paragraph (d) or (e) of this Section 3, the Owner Participant shall make the necessary computations and furnish to the Lessee, the Loan Participant, the Lessor and the Indenture Trustee the revised amounts and percentages, which amounts and percentages shall be implemented upon delivery thereof and effective as of the date of occurrence of the event requiring such adjustment (taking into account any payment of Basic Rent already made) and shall remain effective until changed in consequence of any verification procedure set forth below. Such revised amounts and percentages shall be subject to verification (at the Lessee's request within 90 days after the Owner Participant furnishes the revised amounts to the Lessee, the Loan Participant, the Lessor and the Indenture Trustee) by the Owner Participant's nationally recognized independent public accountants, in which case such accountants shall either (i) confirm to the Lessee in writing that such revised amounts were computed on a basis consistent with the original calculations, or (ii) compute and provide to the Lessee, the Lessor, the Owner Participant, the Loan

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Participant and the Indenture Trustee revised amounts and percentages which are on such a basis. The revised amounts and percentages, as so confirmed or computed if applicable, shall be conclusive and binding upon the Lessee, the Lessor, the Owner Participant, the Loan Participant and the Indenture Trustee. The cost of any such verification shall be borne by the Lessee unless such accountants shall require an adjustment to the revised amounts and percentages originally provided by the Owner Participant which differs by more than 10% from the adjustment so provided, in which case such cost shall be divided and paid by the Lessee and the Owner Participant in equal amounts. Each adjustment pursuant to paragraph (d) or (e) of this Section 3 may, but need not, be evidenced by the execution and delivery of a supplement to this Facility Lease in form and substance satisfactory to the Lessee and the Owner Participant, but shall be effective as provided herein without regard to the date on which such supplement to this Facility Lease is so executed and delivered. Any adjustment referred to in this Section 3 shall satisfy the provisions of Revenue Procedure 75-21, Revenue Procedure 75-28 and any other applicable statute, regulation, revenue procedure, revenue ruling or technical information release relating to the subject matter of Revenue Procedure 75-21 or Revenue Procedure 75-28, but, in the case of any upward adjustment, shall be no less than the adjustment otherwise required pursuant to this Section 3.

(g) Sufficiency of Basic Rent and Supplemental Rent. Notwithstanding any other provision of this Facility Lease, any other Transaction Document or any Financing Document, (i) the amount of Basic Rent payable on each Basic Rent Payment Date shall be at least equal to the aggregate amount of principal, premium, if any, and accrued interest payable on all Notes then Outstanding and (ii) each payment of Casualty Value, Special Casualty Value and Termination Value shall in no event be less (when added to all other amounts, other than Excepted Payments, required to be paid by the Lessee under this Facility Lease in respect of any Event of Loss or Deemed Loss Event or termination of this Facility Lease) than an amount sufficient, as of the date of payment, to pay in full all principal of, and premium, if any, and interest then due on all Notes Outstanding on and as of such date of payment (taking into account any assumption of the Notes by the Lessee).

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SECTION 4. Net Lease.

This Facility Lease (as originally executed and as modified, supplemented and amended from time to time) is a net lease, and the Lessee hereby acknowledges and agrees that the Lessee's obligation to pay all Rent hereunder, and the rights of the Lessor in and to such Rent, shall be absolute, unconditional and irrevocable and shall not be affected by any circumstances of any character, including, without limitation, (i) any set-off, abatement, counterclaim, suspension, recoupment, reduction, rescission, defense or other right or claim which the Lessee may have against the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant, the Operating Agent, any ANPP Participant, any vendor or manufacturer of any equipment or assets included in the Undivided Interest, Unit 2, any Capital Improvement, the Real Property Interest, the PVNGS Site, PVNGS, or any part of any thereof, or any other Person for any reason whatsoever, (ii) any defect in or failure of the title, merchantability, condition, design, compliance with specifications, operation or fitness for use of all or any part of the Undivided Interest, Unit 2, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS, (iii) any damage to, or removal, abandonment, decommissioning, shutdown, salvage, scrapping, requisition, taking, loss, theft or destruction of all or any part of the Undivided Interest, Unit 2, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS, or any interference, interruption or cessation in the use or possession thereof or of the Undivided Interest by the Lessee or by any other Person (including, but without limitation, the Operating Agent or any other ANPP Participant) for any reason whatsoever or of whatever duration, (iv) any restriction, prevention or curtailment of or interference with any use of all or any part of the Undivided Interest, Unit 2, any Capital Improvement, the Real Property Interest, the PVNGS Site or PVNGS, (v) any insolvency, bankruptcy, reorganization or similar proceeding by or against the Lessee, the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant, the Operating Agent, any other ANPP Participant or any other Person, (vi) the invalidity, illegality or unenforceability of this Facility Lease, any other Transaction Document, any Financing Document, the ANPP Participation Agreement or any other instrument referred to herein or therein or any other infirmity

herein or therein or any lack of right, power or authority of the Lessor, the Lessee, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant or any other Person to enter into this Facility Lease, any other Transaction Document or any Financing Document, or any doctrine of force majeure, impossibility, frustration, failure of consideration, or any similar legal or equitable doctrine that the Lessee's obligation to pay Rent is excused because the Lessee has not received or will not receive the benefit for which the Lessee bargained, it being the intent of the Lessee to assume all risks from all causes whatsoever that the Lessee does not receive such benefit, (vii) the breach or failure of any warranty or representation made in this Facility Lease or any other Transaction Document or any Financing Document by the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Loan Participant or any other Person, (viii) any amendment or other change of, or any assignment of rights under, this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, or any waiver, action or inaction under or in respect of this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, or any exercise or non-exercise of any right or remedy under this Facility Lease, any other Transaction Document, any Financing Document or any ANPP Project Agreement, including, without limitation, the exercise of any foreclosure or other remedy under the Indenture, the Collateral Trust Indenture or this Facility Lease, or the sale of Unit 2, any Capital Improvement, the Undivided Interest, the Real Property Interest, the PVNGS Site or PVNGS, or any part thereof or any interest therein, or (ix) any other circumstance or happening whatsoever whether or not similar to any of the foregoing. The Lessee acknowledges that by conveying the leasehold estate created by this Facility Lease to the Lessee and by putting the Lessee in possession of the Undivided Interest and the Real Property Interest, the Lessor has performed all of the Lessor's obligations under and in respect of this Facility Lease, except the covenant under Section 6(a) hereof that the Lessor and Persons acting for the Lessor will not interfere with the Lessee's quiet enjoyment of the Undivided Interest and the Real Property Interest. The Lessee hereby waives, to the extent permitted by Applicable Law, any and all rights which it may now have or which at any time hereafter may be conferred upon it, by statute or

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otherwise, to terminate, cancel, quit or surrender this Facility Lease or to effect or claim any diminution or reduction of Rent payable by the Lessee hereunder, including without limitation the provisions of Arizona Revised Statutes Section 33-343, except in accordance with the express terms hereof. If for any reason whatsoever this Facility Lease shall be terminated in whole or in part by operation of law or otherwise, except as specifically provided herein, the Lessee nonetheless agrees to pay to the Lessor or other Person entitled thereto an amount equal to each installment of Basic Rent and all Supplemental Rent at the time such payment would have become due and payable in accordance with the terms hereof had this Facility Lease not been terminated in whole or in part. Each payment of Rent made by the Lessee hereunder shall be final and the Lessee shall not seek or have any right to recover all or any part of such payment from the Lessor or any other Person for any reason whatsoever. All covenants, agreements and undertakings of the Lessee herein shall be performed at its cost, expense and risk unless expressly otherwise stated. Nothing in this Section 4 shall be construed as a guaranty by the Lessee of any residual value in the Undivided Interest or as a guaranty of the Notes. Any provisions of Section 7(b)(2) or 8(c) of the Participation Agreement to the contrary notwithstanding, if the Lessee shall fail to make any payment of Rent to any Person when and as due (taking into account applicable grace periods), such Person shall have the right at all times, to the exclusion of the ANPP Participants, to demand, collect, sue for, enforce obligations relating to and otherwise obtain all amounts due in respect of such Rent.

SECTION 5. Return of the Undivided Interest.

(a) Return of the Undivided Interest. On the Lease Termination Date, the Lessee will (1) surrender possession of the Undivided Interest and the Real Property Interest to the Lessor (or to a Person specified by the Lessor to the Lessee in writing not less than 6 months prior to the Lease Termination Date) (i) with full rights as a "Transferee" and the sole "Participant" with respect to the Undivided Interest and the Real Property Interest within the meaning of Section 15.10 of the ANPP Participation Agreement and (ii) without a Price-Anderson Event (as hereinafter defined) having arisen prior to, or arising upon, or immediately following, such surrender and (2) furnish to the

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Lessor: (i) copies certified by a senior officer of the Lessee of all Governmental Action necessary to effect such surrender (including, but without limitation, appropriate amendments to the License permitting the Lessor (without the Lessor being required to change its business) or such Person to possess the Undivided Interest and the Real Property Interest with or without the continued involvement of the Lessee as Agent), which Governmental Action shall be in full force and effect; and (ii) an opinion of counsel (which may be Mudge Rose Guthrie Alexander & Ferdon, Snell & Wilmer or another counsel experienced with NRC and other nuclear matters reasonably satisfactory to the Owner Participant) to the effect that (A) the Lessee has obtained all Governmental Action and action under the ANPP Participation Agreement necessary to effect such surrender by the Lessee and receipt of possession by the Lessor (or by the Person so specified by the Lessor) and (B) such Governmental Action is in full force and effect. At the time of such return the Lessee shall pay or have paid all amounts due and payable, or to become due and payable, by it as an ANPP Participant under each and every ANPP Project Agreement allocable or chargeable (whether or not payable during or after the Lease Term) to the Undivided Interest or the Real Property Interest in respect of any period or periods ending on or prior to the Lease Termination Date (including, but without limitation, all amounts payable with respect to any and all discretionary Capital Improvements to Unit 2 or the PVNGS Site approved or authorized (without the concurrence of the Owner Participant) within the 3-year period preceding the end of the Lease Term, whether or not implementation thereof has been completed on or prior to the Lease Termination Date), and the Undivided Interest and the Real Property Interest shall be free and clear of all Liens (other than Permitted Liens described in clauses (i), (v) (other than those arising by, through or under the Lessee alone), (vi), (vii) (other than as aforesaid), (viii) (other than as aforesaid), (ix) and (x) of the definition of such term) and in the condition and state of repair required by Section 8. In the event that on or prior to the Lease Termination Date there shall have occurred a default by any ANPP Participant (other than the Lessee) under the ANPP Participation Agreement and such default shall not have been cured by the defaulting ANPP Participant, then (i) the Lessee agrees to indemnify and hold the Lessor (and each successor, assign and transferee thereof) harmless against any and all obligations under the ANPP

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Participation Agreement with respect to contributions or payments required to be made thereby as a result of such default and (ii) the Lessor (and each successor, assign and transferee thereof) agrees to reimburse the Lessee for all amounts paid by the Lessee pursuant to the foregoing clause (i) to the extent, but only to the extent, that the Lessor (or such successor, assign or transferee) shall have actually received proceeds from the sale of the Generation Entitlement Share of the defaulting ANPP Participant as a result of the payment made by the Lessee pursuant to the foregoing clause (i), and, to the extent the Lessor (or such successor, assign or transferee) shall have received such proceeds, the amount to be reimbursed to the Lessee pursuant to this clause (ii) shall include interest at the Prime Rate from the date of any payment by the Lessee pursuant to the foregoing clause (i) through the date of reimbursement of such amount pursuant to this clause (ii). For purposes of this Section 5(a) a "Price-Anderson Event" shall mean any change in, or new interpretation by Governmental Authority having jurisdiction of, Applicable Law, including without limitation the Price-Anderson Act, the Atomic Energy Act and the regulations of the NRC, in each case as in effect on the Closing Date, but only if such change is specified in clauses (2)(i) through (iv) of the definition of "Deemed Loss Event" (other than a change which is specified in clause (A) of the definition of "Acceptable Change").

(b) **Disposition Services.** The Lessee agrees that if it does not exercise its option to renew or purchase as provided in Sections 12 and 13, respectively, then during the last thirty-six months of the Lease Term, the Lessee will fully cooperate with the Lessor in connection with the Lessor's efforts to lease or dispose of the Undivided Interest and the Real Property Interest, including using the Lessee's reasonable efforts to lease or dispose of the Undivided Interest and the Real Property Interest. The Lessor agrees to reimburse the Lessee for reasonable out-of-pocket costs and expenses of the Lessee incurred at the request of the Lessor or the Owner Participant in connection with such cooperation and such efforts.

SECTION 6. Warranty of the Lessor.

(a) Quiet Enjoyment. The Lessor warrants that until the Lease Termination Date, so long as no Event of Default shall have occurred and be continuing, the Lessee's use and possession of Unit 2, including the Undivided Interest, shall not be interrupted by the Lessor or any Person claiming by, through or under the Lessor, and their respective successors and assigns.

(b) Disclaimer of Other Warranties. The warranty set forth in Section 6(a) is in lieu of all other warranties of the Lessor or the Owner Participant, whether written, oral or implied, with respect to this Facility Lease, Unit 2, any Capital Improvement, the Undivided Interest, PVNGS, the Real Property Interest or the PVNGS Site. As among the Owner Participant, the Loan Participant, the Indenture Trustee, the Collateral Trust Trustee, the Lessor and the Lessee, execution by the Lessee of this Facility Lease shall be conclusive proof of the compliance of Unit 2 (including any Capital Improvement), the Undivided Interest and the Real Property Interest with all requirements of this Facility Lease, and the Lessee acknowledges and agrees that (i) NEITHER THE LESSOR NOR THE OWNER PARTICIPANT IS A MANUFACTURER OR A DEALER IN PROPERTY OF SUCH KIND AND (ii) THE LESSOR LEASES AND THE LESSEE TAKES THE UNDIVIDED INTEREST AND THE REAL PROPERTY INTEREST, AND SHALL TAKE EACH CAPITAL IMPROVEMENT, AND ANY PART THEREOF, AS IS AND WHERE IS, and neither the Lessor nor the Owner Participant shall be deemed to have made, and THE LESSOR AND THE OWNER PARTICIPANT EACH HEREBY DISCLAIMS, ANY OTHER REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE DESIGN OR CONDITION OF UNIT 2, ANY CAPITAL IMPROVEMENT, THE UNDIVIDED INTEREST; THE REAL PROPERTY INTEREST, THE PVNGS SITE OR PVNGS, OR ANY PART THEREOF, THE MERCHANTABILITY THEREOF OR THE FITNESS THEREOF FOR ANY PARTICULAR PURPOSE, TITLE TO UNIT 2, ANY CAPITAL IMPROVEMENT, THE UNDIVIDED INTEREST, THE REAL PROPERTY INTEREST, THE PVNGS SITE OR PVNGS, OR ANY PART THEREOF, THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREOF OR CONFORMITY THEREOF TO SPECIFICATIONS, FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT OR THE ABSENCE OF ANY LATENT OR OTHER DEFECTS, WHETHER OR NOT DISCOVERABLE, NOR SHALL THE LESSOR OR THE OWNER PARTICIPANT BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING LIABILITY IN TORT, STRICT OR OTHERWISE), it being agreed that all such risks, as

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among the Owner Participant, the Loan Participant, the Collateral Trust Trustee, the Indenture Trustee, the Lessor and the Lessee, are to be borne by the Lessee. The provisions of this Section 6(b) have been negotiated, and, except to the extent otherwise expressly provided in Section 6(a), the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties by the Lessor, the Owner Participant, the Loan Participant, the Collateral Trust Trustee or the Indenture Trustee, express or implied, with respect to Unit 2 (including any Capital Improvement), the Undivided Interest, PVNGS, the Real Property Interest or the PVNGS Site that may arise pursuant to any law now or hereafter in effect, or otherwise.

(c) **Enforcement of Certain Warranties.** The Lessor authorizes the Lessee (directly or through agents, including the Operating Agent), at the Lessee's expense, to assert for the Lessor's account, during the Lease Term, all of the Lessor's rights (if any) under any applicable warranty and any other claims (under this Facility Lease or any Purchase Document) that the Lessee or the Lessor may have against any vendor or manufacturer with respect to Unit 2 (including any Capital Improvement) or the Undivided Interest, and the Lessor agrees to cooperate, at the Lessee's expense, with the Lessee and the Operating Agent in asserting such rights. Any amount received (without regard to any right of setoff or other similar right of any Person against the Lessee) by the Lessee as payment under any such warranty or other claim against any vendor or manufacturer (or, if such warranty or claim relates to the Undivided Interest and the Retained Assets, the portion of such received amount appropriately allocable to the Undivided Interest) shall be applied in accordance with Sections 9(g), (h) and (i).

SECTION 7. Liens.

The Lessee will not directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to the Undivided Interest, the Real Property Interest, the Lessor's title thereto or any interest of the Lessor or Lessee therein (and the Lessee will promptly, at its own expense, take such action as may be necessary duly to discharge any such Lien), except Permitted Liens.

SECTION 8. Operation and Maintenance; Capital Improvements.

(a) Operation and Maintenance. The Lessee agrees that it will exercise its rights, powers, elections and options as an ANPP Participant under the ANPP Project Agreements to cause the Operating Agent to (A) maintain Unit 2 in such condition that Unit 2 will have the capacity and functional ability to perform, on a continuing basis (ordinary wear and tear excepted), in normal commercial operation, the functions and substantially at the ratings at which it is, from time to time, rated, (B) operate, service, maintain and repair Unit 2 and replace all necessary or useful parts and components thereof so that its condition and operating efficiency will be maintained and preserved, ordinary wear and tear excepted, in all material respects in accordance with (1) prudent utility practice for items of similar size and nature, (2) such operating standards as shall be required to take advantage of and enforce all available warranties and (3) the terms and conditions of all insurance policies maintained in effect at any time with respect thereto, (C) use, possess, operate and maintain Unit 2 in compliance with all material applicable Governmental Actions (including the License) affecting PVNGS or Unit 2 or the use, possession, operation and maintenance thereof and (D) otherwise act in accordance with the standards set forth in the ANPP Participation Agreement. The Lessee will comply with all its obligations under Applicable Law affecting Unit 2, the Undivided Interest, PVNGS, the Real Property Interest and the PVNGS Site, and the use, operation and maintenance thereof. The Lessee agrees to (i) exercise its rights under the ANPP Participation Agreement so that there will always be an Operating Agent under the ANPP Participation Agreement and (ii) maintain in full force and effect a license from the NRC adequate to possess the Undivided Interest and the Real Property Interest under the circumstances contemplated by the ANPP Participation Agreement. The Lessee will keep and maintain proper books and records (i) relating to all Operating Funds (as defined in the ANPP Participation Agreement) provided by it to the Operating Agent under the ANPP Participation Agreement and (ii) upon receipt of the requisite information from the Operating Agent, relating to the application of such Operating Funds to the operation and maintenance of Unit 2 and the acquisition, construction and installation of Capital Improvements, all in accordance with the Uniform System

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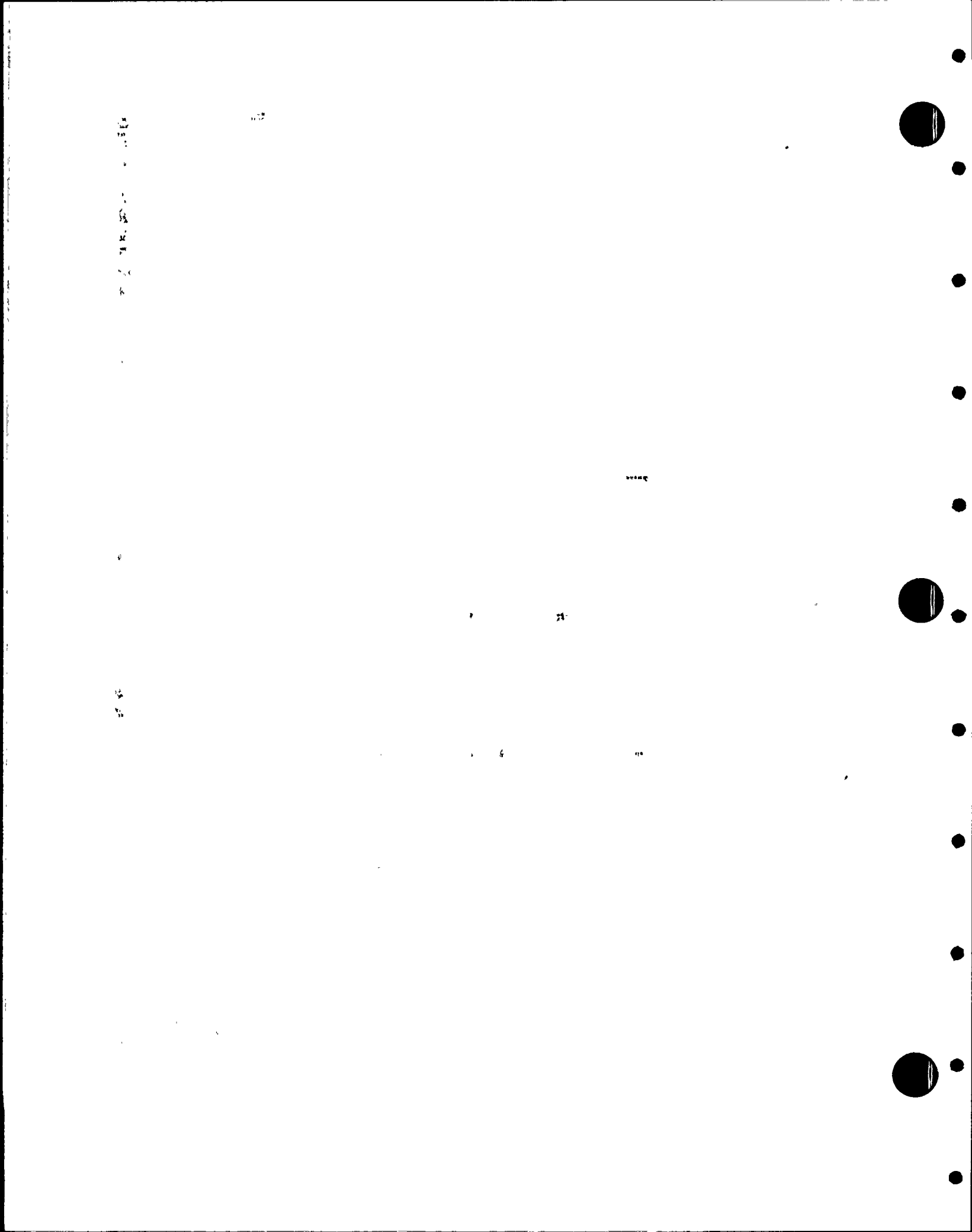
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of Accounts. The Lessor shall not be obliged in any way to maintain, alter, repair, rebuild or replace Unit 2, any Capital Improvement, the Undivided Interest or the Real Property Interest, or any part thereof, or, except as provided in Section 8(f), to pay the cost of alteration, rebuilding, replacement, repair or maintenance of Unit 2, any Capital Improvement, the Undivided Interest or the Real Property Interest, or any part thereof, and the Lessee expressly waives the right to perform any such action at the expense of the Lessor pursuant to any law at any time in effect.

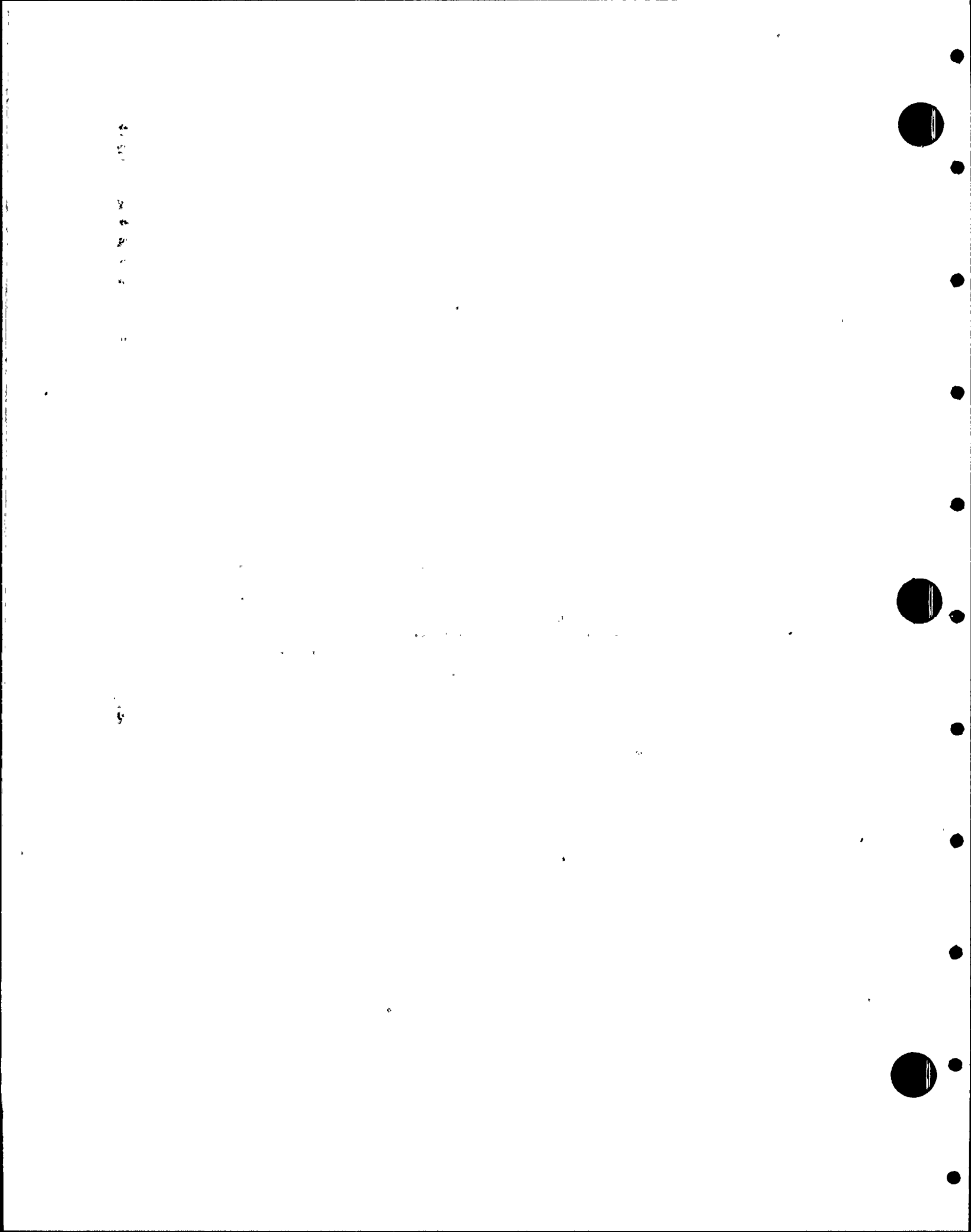
(b) Inspection. The Lessor and the Owner Participant and their respective authorized representatives shall have the right to inspect PVNGS (subject, in each event, to the ANPP Participation Agreement, Applicable Law, applicable confidentiality undertakings and procedures established by the Operating Agent) at their expense. The Lessor and the Owner Participant and their respective authorized representatives shall have the right to inspect, at their expense, the books and records of the Lessee relating to PVNGS, and make copies of and extracts therefrom (subject as aforesaid) and may, at their expense, discuss the Lessee's affairs, finances and accounts with its executive officers and its independent public accountants (and by this provision, the Lessee authorizes such accountants, in the presence of the Lessee, to discuss with the Lessor and the Owner Participant and their respective authorized representatives the affairs, finances and accounts of the Lessee), all at such times and as often as may be reasonably requested. None of the Lessor, the Owner Participant, the Indenture Trustee and the Collateral Trust Trustee shall have any duty whatsoever to make any inspection or inquiry referred to in this Section 8(b) and shall not incur any liability or obligation by reason of not making any such inspection or inquiry.

(c) Capital Improvements. If and to the extent required by the ANPP Participation Agreement, the Lessee shall, at its sole expense, promptly participate in the making of any Capital Improvement to Unit 2 or the Common Facilities. Of the net proceeds of (i) any sale or other disposition of property removed from Unit 2 or the Common Facilities receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) by, or credited to the account of the Lessee in accordance with the ANPP Participation Agreement and (ii) any insurance proceeds receivable



(without regard to any right of setoff or other similar right of any Person against the Lessee) for the account of the Lessor or the Lessee in respect of the loss or destruction of, or damage or casualty to, any such property, 7.777778% in the case of Unit 2, or 2.592593% in the case of Common Facilities, of either such amount shall be applied as provided in Section 9(g), (h) or (i), as the case may be. A .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, undivided interest in property at any time removed from Unit 2 or the Common Facilities shall remain the property of the Lessor, no matter where located, until such time as a Capital Improvement constituting a replacement of such property shall have been installed in Unit 2 or the Common Facilities or such removed property has been disposed of by the Operating Agent in accordance with the ANPP Participation Agreement. Simultaneously with such disposition by the Operating Agent, title to a .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, undivided interest in the removed property shall vest in the Person designated by the Operating Agent, free and clear of any and all claims or rights of the Lessor. Unless subparagraph (3) of Section 8(e) shall be applicable, upon the incorporation of a Capital Improvement in Unit 2 or the Common Facilities, without further act, (i) title to a .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, undivided interest in such Capital Improvement shall vest in the Lessor and (ii) such applicable undivided interest in such Capital Improvement shall become subject to this Facility Lease and be deemed to be part of the Undivided Interest for all purposes hereof to the same extent that the Lessor had a like undivided interest in the property originally incorporated or installed in Unit 2 or the Common Facilities. The Lessee warrants and agrees that the Lessor's .7933333% or .2644444%, as the case may be, undivided interest in all Capital Improvements shall be free and clear of all Liens, except Permitted Liens other than the type specified in clauses (ii), (iii) and (xii) of the definition thereof.

(d) Reports. To the extent permissible; the Lessee shall prepare and file in timely fashion, or, where the Lessor shall be required to file, the Lessee shall prepare and deliver to the Lessor within a reasonable time prior to the date for filing, any reports with respect to Unit 2, the Undivided Interest or the Real Property Interest or the condition or operation thereof



that shall be required to be filed with any governmental or regulatory authority. On or before March 1 of each year (commencing on March 1, 1988) and on the Lease Termination Date, the Lessee shall furnish the Lessor and the Owner Participant with a report stating the total cost of all Capital Improvements and describing separately and in reasonable detail each Capital Improvement (or related group of Capital Improvements) made during the period from the date hereof to December 31, 1987 in the case of the first such report or during the period from the end of the period covered by the last previous report to the December 31 prior to such report in the case of subsequent reports. On or before March 1 in each year (commencing March 1, 1987) and at such other times as the Lessor or the Owner Participant shall reasonably request in writing (which request shall provide a reasonable period for response), the Lessee will report in writing to the Lessor with respect to (i) the most recent annual capital expenditure budget submitted by the Operating Agent to the Lessee in accordance with the ANPP Participation Agreement and (ii) the then plans (if any) which the Lessee may have for the financing of the same under Section 8(f).

(e) Title to Capital Improvements. Title to a .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, undivided interest in each Capital Improvement to Unit 2 or the Common Facilities, as the case may be, shall vest as follows:

(1) in the case of each Nonseverable Capital Improvement, whether or not the Lessor shall have financed or provided financing (in whole or in part) for such undivided interest in such Capital Improvement by an Additional Equity Investment or a Supplemental Financing, or both, effective on the date such Capital Improvement shall have been incorporated or installed in Unit 2 or the Common Facilities, as the case may be, the Lessor shall, without further act, acquire title to such undivided interest in such Capital Improvement;

(2) in the case of each Severable Capital Improvement, if the Lessor shall have financed (by an Additional Equity Investment or a Supplemental Financing, or both) .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, of the cost of such

Capital Improvement, the Lessor shall, without further act, acquire title to such undivided interest in such Capital Improvement; and

(3) in the case of each Severable Capital Improvement, if the Lessor shall not have financed (by an Additional Equity Investment or a Supplemental Financing, or both) .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, of the cost of such Capital Improvement, the Lessee shall retain title to such undivided interest in such Capital Improvement.

Immediately upon title to such .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, undivided interest in any Capital Improvement vesting in the Lessor pursuant to subparagraph (1) or subparagraph (2) of this Section 8(e), such undivided interest in such Capital Improvement shall, without further act, become subject to this Facility Lease and be deemed part of the Undivided Interest for all purposes hereof.

(f) **Funding of the Cost of Capital Improvements.** Before placing in service any Capital Improvement to Unit 2 or the Common Facilities the cost of which exceeds \$100,000,000 in respect of the interests of all ANPP Participants, the Lessee shall give the Lessor and the Owner Participant reasonable advance notice thereof. The Owner Participant shall have the option, in its sole discretion, of financing through the Lessor .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, of the cost of any such Capital Improvement, or any other Capital Improvement presented to the Owner Participant for financing, including or not including the making of an investment by the Owner Participant (an Additional Equity Investment) and the issuance of one or more Additional Notes, all on terms acceptable to the Lessee and the Owner Participant. If the Owner Participant does not finance, or arrange the financing of, .7933333%, in the case of Unit 2, or .2644444%, in the case of Common Facilities, of the cost of such Capital Improvement, the Lessee may cause the Lessor to issue, if and to the extent permitted by the Indenture, to one or more Persons (other than any Person affiliated with the Lessee within the meaning of Section 318 of the Code) one or more Additional Notes and to use the



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proceeds thereof to pay the applicable percentage of the cost of such Capital Improvement, subject to satisfaction of the following conditions:

(i) there shall be no more than one Supplemental Financing in any calendar year;

(ii) the sum of the Supplemental Financing Amounts in any calendar year shall equal or exceed .7933333% of \$5,000,000;

(iii) the Lessee may include in any request for a Supplemental Financing only Capital Improvements not previously financed in any Supplemental Financing and which have been installed or affixed no earlier than three calendar years before the beginning of the calendar year in which such Supplemental Financing occurs;

(iv) the total amount of all Supplemental Financings during the Basic Lease Term shall not exceed 7.777778% of \$100,000,000;

(v) unless waived by the Owner Participant, the Bonds issued and outstanding under the Collateral Trust Indenture shall be rated no less than "investment grade", as determined by Standard & Poor's Corporation and Moody's Investors Service, Inc.;

(vi) the Supplemental Financing Amount shall not exceed that portion of the cost of Capital Improvements which, when financed, will constitute an addition to the Owner Participant's basis under section 1012 of the Code;

(vii) in the opinion of independent tax counsel to the Owner Participant, such Supplemental Financing shall not result in adverse tax consequences to the Owner Participant or adversely affect the status of this Facility Lease as a "true lease" for Federal, New York State or New York City tax purposes, and the Owner Participant and the Lessee shall have agreed upon the amount and manner of payment of the indemnity (if any)

payable by the Lessee as a consequence of such Supplemental Financing;

(viii) the Additional Notes shall have a final maturity date no later than January 15, 2016;

(ix) the Lessee shall have made such representations, warranties and covenants regarding the tax characteristics of the Lessor's undivided interest in each Capital Improvement as the Owner Participant reasonably requests, and the Tax Indemnification Agreement shall have been appropriately modified;

(x) appropriate adjustments to Basic Rent and the schedules of Casualty Values, Special Casualty Values and Termination Values shall have been agreed to by the Owner Participant to support the amortization of the Additional Notes issued in respect of such Supplemental Financing and to preserve Net Economic Return;

(xi) the Lessee shall pay to the Lessor an amount equal to all out-of-pocket costs and expenses reasonably incurred by the Lessor or the Owner Participant and not financed as a part of such Supplemental Financing or reflected in adjustments to Basic Rent;

(xii) no Default or Event of Default shall have occurred and be continuing; and

(xiii) the Lessee shall enter into such agreements and shall have provided such tax indemnities, representations, warranties, covenants, opinions, certificates and other documents as the Owner Participant shall reasonably request.

SECTION 9. Event of Loss; Deemed Loss Event.

(a) Damage or Loss. In the event that Section 16.2 of the ANPP Participation Agreement (as in effect on the date hereof) shall become applicable, or an Event of Loss, a Requisition of Use or a Requisition of Title shall occur, or Unit 2 or any substantial part thereof shall suffer destruction, damage, loss, condemnation, confiscation, theft or seizure for any

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reason whatsoever, such fact shall promptly, and in any case within five Business Days following such event, be reported by the Lessee to the Lessor and the Owner Participant.

(b) Repair. The Lessee shall promptly make any and all payments required of the Lessee under the provisions of the ANPP Participation Agreement relating to damage or destruction or the like to Unit 2 or any portion thereof; provided, however, that the Lessee shall in no event be obligated to make or join in any agreement under Section 16.2 of the ANPP Participation Agreement (as in effect on the date hereof) concerning repairs to or reconstruction of Unit 2.

(c) Payment of Casualty Value. On the Basic Rent Payment Date next following receipt by the Lessee of a written notice from the Lessor that an Event of Loss has occurred, the Lessee shall pay to the Lessor all Basic Rent due on such Basic Rent Payment Date, plus an amount equal to the excess of (i) Casualty Value determined as of such Basic Rent Payment Date over (ii) the unpaid principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such date. An Event of Loss shall not be deemed to have occurred unless and until the Lessor delivers the notice specified in the preceding sentence. Upon compliance in full by the Lessee with the foregoing provisions of this Section 9(c) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time after the occurrence of an Event of Loss, the Lessor may:

(1) in the case of an Event of Loss arising from a Final Shutdown, if the Lessee shall have declined, but one or more of the other ANPP Participants shall have elected, to reconstruct or restore Unit 2, as permitted by the ANPP Participation Agreement, Transfer the Undivided Interest and the Real Property Interest to such electing ANPP Participants, as required by and in the proportions set forth in the ANPP Participation Agreement, in which case the Lessee shall be entitled to receive the portion of the "salvage

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value" purchase price allocable to the Undivided Interest; or

(2) if clause (1) shall not be applicable, Transfer the Undivided Interest and the Real Property Interest to the Lessee.

If the Lessee shall not have assumed all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this Section 9(c) (including interest, if any, thereon pursuant to Section 3(b)(iii) hereof), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that (i) the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes then Outstanding and (ii) this Facility Lease shall become a security agreement for all purposes of Applicable Law.

(d) Payment of Special Casualty Value. If a Deemed Loss Event occurs, the party hereto having knowledge thereof shall promptly notify the other thereof (provided that the failure by the Lessor to furnish to the Lessee the foregoing notification shall not impair the right of the Lessor to exercise the option referred to below) and, at the Lessor's option, exercisable by delivery of written notice to the Lessee, on the day (specified in Schedule 2) of the month next following the month during which such notice is delivered to the Lessee, the Lessee shall pay to the Lessor an amount equal to the excess of (i) Special Casualty Value determined as of the date such payment is due over (ii) the principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such day. Upon compliance in full by the Lessee with the foregoing provisions of this Section 9(d) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing), and at any time after the occurrence of a Deemed Loss Event, the Lessor may,

Transfer the Undivided Interest and the Real Property Interest to the Lessee. If the Lessee shall not have assumed all the liabilities and obligations of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this Section 9(d) (including interest, if any, thereon pursuant to Section 3(b)(iii)), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that (i) the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes Outstanding and (ii) this Facility Lease shall become a security agreement for all purposes of Applicable Law.

(e) Requisition of Use. In the case of a Requisition of Use not constituting an Event of Loss, this Facility Lease shall continue, and each and every obligation of the Lessee hereunder and under each Transaction Document shall remain in full force and effect. So long as no Default or Event of Default shall have occurred and be continuing, the Lessee shall be entitled to all sums received by reason of any such Requisition of Use for the period ending on the Lease Termination Date, and the Lessor shall be entitled to all sums received by reason of any such Requisition of Use for the period after the Lease Termination Date.

(f) Termination of Obligation. Until the Lessee shall have made the payments specified in Section 9(c) or 9(d), the Lessee shall make all payments of Rent when due; and the Lessee shall thereafter be required to make all payments of Supplemental Rent as and when due. In the event that the Lessee shall assume all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, upon receipt by the Owner Participant under Section 5.2 of the Indenture of the payments specified in Section 9(c) or 9(d) and payment by the Lessee of all other Rent due and owing through and including the date of payment (including Basic Rent due on or accrued through such date, as the case may be), the Lease Term shall end and the Lessee's obligation to pay further Basic Rent shall cease.

(g) Application of Payments on an Event of Loss. Any payments receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) at any time by the Lessor or the Lessee (other than insurance placed by the Owner Trustee or the Owner Participant pursuant to Section 10(b)) from any Governmental Authority, insurer or other Person (except the Lessee, the Owner Trustee or the Owner Participant) as a result of the occurrence of an Event of Loss shall be applied as follows:

(i) all such payments received at any time by the Lessee shall be promptly paid to the Lessor for application pursuant to the following provisions of this Section 9(g), except that the Lessee may retain any amounts that would at the time be payable to the Lessee as reimbursement under the provisions of clause (ii) below;

(ii) so much of such payments as shall not exceed the amount required to be paid by the Lessee pursuant to Section 9(c) (ignoring, for this purpose, clause (ii) of the first sentence thereof) shall be applied in reduction of the Lessee's obligation to pay such amount if not already paid by the Lessee or, if already paid by the Lessee, shall be applied to reimburse the Lessee for its payment of such amount; and

(iii) the balance, if any, of such payments remaining thereafter shall be divided between the Lessor and the Lessee as their interests may appear.

(h) Application of Payments Not Relating to an Event of Loss. Payments receivable (without regard to any right of setoff or other similar right of any Person against the Lessee) at any time by the Lessor (other than insurance placed by the Owner Trustee or the Owner Participant pursuant to Section 10(b)) or the Lessee from any Governmental Authority, insurer or other Person with respect to any destruction, damage, loss, condemnation, confiscation, theft or seizure of or Requisition of Title to or Requisition of Use of the Undivided Interest or any part thereof not constituting an Event of Loss shall be applied first to reimburse the Lessee for all amounts expended in respect of the repair,

replacement or reconstruction of the Undivided Interest or any part thereof as provided in Section 9(b), and second the balance, if any, of such payments shall be divided between the Lessor and the Lessee as their interests may appear.

(i) Other Dispositions. Notwithstanding the foregoing provisions of this Section 9, so long as a Default or Event of Default shall have occurred and be continuing, any amount that would otherwise be payable to or for the account of, or that would otherwise be retained by, the Lessee pursuant to Section 10 or this Section 9 shall be paid to the Lessor as security for the obligations of the Lessee under this Facility Lease and, at such time thereafter as no Default or Event of Default shall be continuing, such amount shall be paid promptly to the Lessee unless this Facility Lease shall have theretofore been declared to be in default, in which event such amount shall be disposed of in accordance with the provisions hereof, of the Indenture and of the Trust Agreement.

(j) Assumption of Notes; Creation of Lien on Undivided Interest. In connection with an Event of Loss, a Deemed Loss Event or the exercise of the Cure Option, (i) the Lessee agrees to use its best efforts to comply with the conditions respecting its assumption of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes set forth in Section 3.9(b) of the Indenture, and (ii) the Lessor agrees that, if the Lessee fails to assume all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, not later than two Business Days prior to the date on which the Lessee is required to make the payments specified in Section 9(c) or 9(d), the Lessor will cause the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture by executing and delivering to the Indenture Trustee the Undivided Interest Indenture Supplement.

SECTION 10. Insurance.

(a) Required Insurance. The Lessee will use its best efforts to cause the Operating Agent to carry and maintain insurance required under the ANPP Participation Agreement and will make all payments required of the Lessee under the ANPP Participation Agreement in respect of such insurance. The Lessee will

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at all times maintain, directly or through the Operating Agent, policies of casualty and liability insurance with respect to the Undivided Interest and the Real Property Interest in such amounts and with such coverage as shall be adequate in accordance with prudent utility practice. Any policies of insurance in respect of destruction, damage, loss, theft or other casualty to the Undivided Interest, the Real Property Interest, Unit 2 or any part thereof shall name the Lessor (and, to the extent practicable, the Owner Participant) as an additional insured, as its interest (or their interests) may appear, and any policies with respect to nuclear liability insurance with respect to the Undivided Interest, the Real Property Interest, Unit 2, or any part thereof, shall include all Indemnitees as insureds through an omnibus definition of "insured" or through endorsement; provided, however, that if the Operating Agent, as trustee, shall become the loss payee under any policy of insurance constituting Project Insurance, then the Lessor and the Owner Participant shall be and be made beneficiaries of the trust arrangement under which the Operating Agent acts as trustee. The Lessee shall, on or before March 1 of each year, commencing March 1, 1987, furnish to the Lessor and the Owner Participant (A) a report signed by the broker or brokers for the PVNGS insurance (or if insurance is placed directly by the Operating Agent, a certificate signed by the Operating Agent) (i) showing the insurance then maintained by the ANPP Participants with respect to PVNGS, (ii) stating that no premiums are then delinquent, and (iii) stating that the insurance maintained by the ANPP Participants with respect to PVNGS is in accordance with the terms of (1) the ANPP Participation Agreement and (2) this Section 10, (B) a report signed by the broker or brokers for the Lessee's insurance (or if insurance is placed directly by the Lessee, a certificate signed by the Lessee) showing the separate insurance, if any, then maintained by the Lessee with respect to its interest in PVNGS and stating that no premiums under such insurance are delinquent; (C) a certificate signed by the Lessee stating that the insurance maintained by the ANPP Participants and by the Lessee, identified on the reports to be delivered pursuant to clauses (A) and (B), is in accordance with prudent utility practice within the nuclear industry, the ANPP Participation Agreement and this Section 10; and (D) upon the request of the Lessor or the Owner Participant, copies (to the extent permitted by the issuers of such policies) of policies so maintained. Any report by an insurance broker with

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respect to clause (A)(iii)(1) may be made in reliance upon a schedule provided by the Lessee (a copy of which shall be attached) identifying the insurance (by coverage, limits, insureds and other pertinent details) required to be maintained under the ANPP Participation Agreement. Any report with respect to clause (A)(iii)(2) may be made in reliance upon a similar schedule provided by the Lessee (a copy of which shall be attached) identifying the insurance required to be maintained under this Section 10. All insurance proceeds paid in respect of damage, destruction, loss, theft or other casualty to the Undivided Interest or the Real Property Interest shall be applied as provided in Section 9(g), (h) or (i), as the case may be, subject, however, to any priority allocations of such proceeds to decontamination and debris removal set forth in the insurance policies or required under Applicable Law. In the event that either the Operating Agent or the Lessee delivers a certificate pursuant to clause (A) or (B) of the foregoing, the Owner Participant shall be entitled to receive (if it so requests and if the insurer will issue the same) a report from any insurer listed in such certificate.

(b) Permitted Insurance. Nothing in this Section 10 shall prohibit the Lessee from placing, at its expense, insurance on or with respect to the cost of purchasing replacement power, naming the Lessee as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the availability of insurance to be provided or maintained in accordance with Section 10(a). Nothing in this Section 10 shall prohibit the Lessor or the Owner Participant from placing at its expense other insurance on or with respect to Unit 2, the Undivided Interest or the Real Property Interest or the operation of Unit 2, naming the Lessor or the Owner Participant as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the insurance to be provided or maintained in accordance with Section 10(a).

SECTION 11. Rights to Assign or Sublease.

(a) Assignment or Sublease by the Lessee. Without the prior written consent of the Lessor, the Lessee shall not assign, sublease, transfer or encumber (except for Permitted Liens) its leasehold interest in the Undivided Interest or the Real Property Interest under this Facility Lease. The Lessee shall not,

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without the prior written consent of the Lessor and the Owner Participant, part with the possession of, or suffer or allow to pass out of its possession, the Undivided Interest, the Real Property Interest or any interest therein, except to the extent required pursuant to the ANPP Participation Agreement or expressly permitted by the provisions of this Facility Lease or any other Transaction Document.

(b) Assignment by Lessor as Security for Lessor's Obligations. To secure the indebtedness evidenced by the Notes, the Lessor will assign to the Indenture Trustee its right, title and interest to receive certain payments of Rent (not including, in any event, Excepted Payments), to the extent provided in the Indenture and may assign to the Indenture Trustee its right, title and interest in the Undivided Interest and the Real Property Interest as contemplated by Section 9(j). The Lessee hereby (a) consents to such assignment pursuant to the terms of the Indenture, (b) agrees to pay directly to the Indenture Trustee at the Indenture Trustee's Office (so long as the lien of the Indenture has not been satisfied and discharged and the Lessor is obligated thereunder) all amounts of Rent (other than Excepted Payments) due or to become due to the Lessor that shall be required to be paid to the Indenture Trustee pursuant to the Indenture, (c) agrees that the right of the Indenture Trustee to any such payments shall be absolute and unconditional and shall not be affected by any circumstances whatsoever, including, without limitation, those circumstances set forth in Section 4 and (d) agrees that, to the extent provided in the Indenture and until the Indenture is discharged in accordance with its terms, the Indenture Trustee shall have all the rights of the Lessor hereunder with respect to Assigned Payments as if the Indenture Trustee had originally been named herein as the Lessor.

SECTION 12. Lease Renewal.

Subject to the notice requirements set forth in Section 13(a), at the end of the Basic Lease Term, provided that no Default, Event of Default, Event of Loss or Deemed Loss Event shall have occurred and be continuing and the Notes shall have been paid in full, the Lessee shall have the right to renew the term of this Facility Lease for a period commencing January 15, 2016, and ending on the later of January 15, 2018 and the end of the Maximum Option Period (the Renewal Term),

during which the Basic Rent payable shall be the rental provided in Section 3(a)(iii) and one-half of the rental provided in Section 21.

SECTION 13. Notices for Renewal or Purchase; Purchase Options.

(a) **Notice; Determination of Values; Appraisal Procedure.** Not later than three years nor earlier than five years prior to the expiration date of the Basic Lease Term, and not later than three years nor earlier than five years prior to the expiration date of the Renewal Term, as the case may be, the Lessee shall give to the Lessor written notice of its election either to (A) return the Undivided Interest and the Real Property Interest to the Lessor pursuant to Section 5, or (B) exercise the renewal option permitted by Section 12 (in the case of the notice delivered in respect of the expiration date of the Basic Lease Term) or the purchase option permitted by Section 13(b). If the notice specified in clause (B) of the preceding sentence is given three years prior to the expiration of the Basic Lease Term, then not later than two years prior to the expiration date of the Basic Lease Term, the Lessee will give the Lessor written notice of its election either to exercise the renewal option permitted by Section 12 or the purchase option permitted by Section 13(b). Any such election shall be irrevocable as to the Lessee, but no such election shall be binding on the Lessor if, on the effective date thereof, an Event of Default shall have occurred and be continuing or an Event of Loss or a Deemed Loss Event shall have occurred. Promptly after giving notice, (i) in case the renewal option has been elected, the Maximum Option Period shall be determined by the Appraisal Procedure, or (ii) in case the purchase option permitted by Section 13(b) has been elected, the Lessee and the Owner Participant shall agree upon the Fair Market Sales Value of the Undivided Interest and the Real Property Interest, or, if within three months after the date of the Lessee's notice the Lessee and the Owner Participant shall be unable so to agree, such value shall be determined by the Appraisal Procedure.

(b) **Purchase Option at Expiration of the Lease Term.** Subject to the notice requirements set forth in Section 13(a), unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred, on the date of the expiration of the Basic Lease Term or the

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Renewal Term (if elected), the Lessee shall have the right to purchase the Undivided Interest and the Real Property Interest for a purchase price equal to the Fair Market Sales Value thereof.

(c) Purchase of the Undivided Interest; Payment, Etc. If the Lessee shall have elected or be required to purchase the Undivided Interest and the Real Property Interest pursuant to Section 13(b), payment by the Lessee of the purchase price for the Undivided Interest and the Real Property Interest shall be made in immediately available funds, whereupon the Lessor shall Transfer the Undivided Interest and the Real Property Interest to the Lessee.

SECTION 14. Termination for Obsolescence.

(a) Termination Notice. Notwithstanding any provision herein contained to the contrary, unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or a Deemed Loss Event shall have occurred, the Lessee shall have the option (provided that the Lessee shall have delivered to the Lessor an Officers' Certificate to the effect that the Lessee's Board of Directors has adopted and there is in effect a resolution determining that Unit 2 is (A) uneconomic to the Lessee or (B) economically obsolete for any reason; and provided that the Lessee shall be disposing of all its other leased interests in Unit 2), on at least 360 days' prior written notice (a Termination Notice) to the Lessor, the Owner Participant and the Indenture Trustee (which notice shall be irrevocable)) to terminate this Facility Lease on any Basic Rent Payment Date after January 15, 1999, and prior to January 15, 2013 (the Termination Date). If the Lessee shall give the Lessor a Termination Notice, the Lessee shall, as agent for the Lessor, use its best efforts to obtain cash bids for the purchase of the Undivided Interest and the Real Property Interest, together with the interest of the Lessor under the Assignment and Assumption. The Lessor shall also have the right to obtain such cash bids, either directly or through agents other than the Lessee. The Lessee shall certify to the Lessor within ten days after the Lessee's receipt of each bid (and, in any event, prior to the Termination Date) the amount and terms thereof and the name and address of the party (which shall not be the Lessee or an Affiliate of the Lessee) submitting such bid.

(b) Right of Lessor to Retain Undivided Interest upon Termination. If a Termination Notice has been delivered pursuant to Section 14(a), the Lessor may elect to retain, rather than sell, the Undivided Interest and the Real Property Interest by giving notice to the Lessee and the Indenture Trustee prior to the Termination Date. It shall be a condition precedent to the Lessor's right to retain the Undivided Interest and the Real Property Interest that on or prior to the Termination Date the Lessor shall have paid (or made provision for payment) to the Indenture Trustee, the unpaid principal amount of all Notes Outstanding on such date and all premium, if any, and interest accrued and unpaid on the date of payment. If the Lessor elects to retain the Undivided Interest and the Real Property Interest pursuant to this Section 14(b), the Lessee shall pay to the Lessor on the Termination Date the Basic Rent and any other Rent due or accrued, as the case may be, to and including the Termination Date, together with an amount equal to the excess, if any, of the Termination Value as of the Termination Date over the highest bona fide offer received pursuant to Section 14(a).

(c) Events on the Termination Date. If the Lessor has not elected to retain the Undivided Interest and the Real Property Interest as provided in Section 14(b), on the Termination Date the Lessor shall (upon receipt of the sale price and all additional payments specified in the next sentence) Transfer the Undivided Interest and the Real Property Interest for cash to the bidder (which shall not be the Lessee or an Affiliate of the Lessee) that shall have submitted the highest bid on or before the Termination Date. The total sale price realized at such sale shall be retained by the Lessor (subject, however, to the terms of the Indenture and the requirement that there shall have been paid, or provision for payment made, to the Indenture Trustee the unpaid principal amount of all Notes Outstanding on the Termination Date and all premium, if any, and interest accrued and unpaid on the date of payment) and, in addition, on the Termination Date the Lessee shall pay to the Lessor (A) the excess, if any, of the Termination Value as of the Termination Date over the net sale price of the Undivided Interest and the Real Property Interest and (B) any Basic Rent due or accrued, as the case may be, to and including the Termination Date and shall pay to the Person or Persons entitled thereto all Supplemental Rent (other than

Termination Value). Upon compliance by the Lessee with the applicable provisions of this Section 14, the obligation of the Lessee to pay Basic Rent due hereunder for any period after the Termination Date shall cease and the Basic Lease Term shall end on the Termination Date; provided, however, that, in the event of termination of this Facility Lease pursuant to this Section 14, the obligations of the Lessee under the ANPP Participation Agreement (except as therein expressly provided) and the Assignment and Assumption shall continue in full force and effect and shall not be impaired by reason of any such termination. If, other than as a result of the Lessor's election to retain the Undivided Interest and the Real Property Interest as provided in Section 14(b), on or as of the Termination Date no such sale shall occur or the Lessee shall not have complied in full with this Section 14, this Facility Lease shall continue in full force and effect in accordance with its terms without prejudice to the Lessee's right to exercise its rights under this Section 14 thereafter, except that the Lessee shall not be entitled to deliver another Termination Notice during the 3-year period following such Termination Date. The Lessor shall be under no duty to solicit bids, to inquire into the efforts of the Lessee to obtain bids or otherwise take any action in connection with any such sale other than, if the Lessor has not elected to retain the Undivided Interest and the Real Property Interest, to Transfer the Undivided Interest and the Real Property Interest to the purchaser named in the highest bid certified by the Lessee to the Lessor or obtained by the Lessor, against receipt of the payments provided for herein (but only if such purchaser has obtained all Governmental Action by the NRC necessary in connection therewith).

(d) Early Termination Notice. In the event that the Lessee shall fail to exercise its renewal option or purchase option within the time limit provided by Section 13(a), the Lessor shall have the option, on any Basic Rent Payment Date thereafter, on at least 120 days prior written notice (an Early Termination Notice) to the Lessee and the Indenture Trustee, to terminate this Facility Lease on the Basic Rent Payment Date specified in such notice (the Early Termination Date). Any Early Termination Notice may be revoked by the Lessor at any time on or prior to the Early Termination Date.

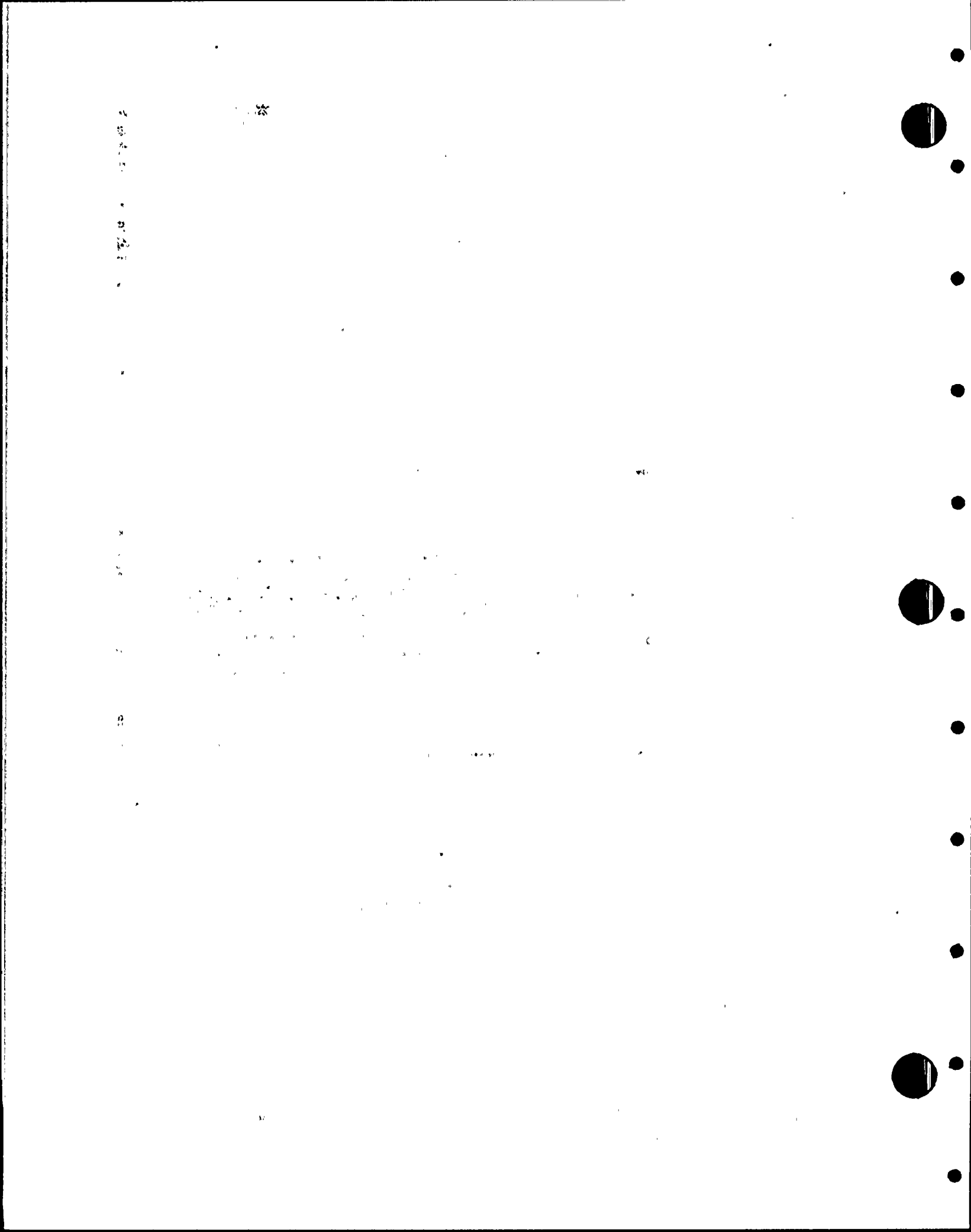
(e) Events on the Early Termination Date. On the Early Termination Date the Lessor shall, at its

option, (i) Transfer the Undivided Interest and the Real Property Interest to the bidder (other than the Lessee or an Affiliate of the Lessee) selected by the Lessor or (ii) retain the Undivided Interest and the Real Property Interest. It shall be a condition precedent to the Lessor's right to sell or retain the Undivided Interest and the Real Property Interest that on or prior to the Early Termination Date the Lessor shall have paid (or made provision for payment) to the Indenture Trustee the unpaid principal amount of all Notes Outstanding on such date and all premium, if any, and interest accrued and unpaid on the date of payment. The total sale price realized at any such sale shall be retained by the Lessor and, in addition, on the Early Termination Date the Lessee shall pay to the Lessor any Basic Rent due or accrued, as the case may be, to and including the Early Termination Date, and shall pay to the Person or Persons entitled thereto all Supplemental Rent (other than Termination Value). Upon compliance by the Lessee with the applicable provisions of this Section 14, the obligation of the Lessee to pay Basic Rent due hereunder for any period after the Early Termination Date shall cease and the Lease Term shall end on the Early Termination Date; provided, however, that in the event of the termination of this Facility Lease pursuant to this Section 14, the obligations of the Lessee under the ANPP Participation Agreement (except as therein expressly provided) and the Assignment and Assumption shall continue in full force and effect and shall not be impaired by reason of any such termination.

SECTION 15. Events of Default.

The term Event of Default, wherever used herein, shall mean any of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary, or come about or be effected by operation of law, or be pursuant to or in compliance with any Applicable Law or Governmental Action):

(i) the Lessee shall fail to make, or cause to be made, (x) payment of Casualty Value, Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option when due, (y) any payment of Basic Rent within 5 Business Days after the same shall become due or (z) any payment of Supplemental Rent (other than Casualty Value,



Termination Value, Special Casualty Value or payment due pursuant to exercise of the Cure Option) within 20 days after the same shall become due or demanded, as the case may be; or

(ii) the Lessee shall fail to perform or observe any covenant, condition or agreement to be performed or observed by it under Section 10(b)(3)(i), 10(b)(3)(ii), 10(b)(3)(iii) or 10(b)(3)(v) of the Participation Agreement or Section 7, 10 (other than failure of the Lessee to cause to be delivered the insurance certificates (other than a certificate of the Lessee) described therein) or 11 of this Facility Lease; or

(iii) the Lessee shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 10(b)(3)(viii) of the Participation Agreement and such failure shall continue for a period of 30 days after there shall have been given to the Lessee by the Lessor or the Owner Participant a notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(iv) the Lessee shall fail to perform its agreements set forth in Section 5(a) hereof; or

(v) the Lessee shall fail to perform or observe any covenant, condition or agreement (other than covenants, conditions or agreements referred to in clauses (i) through (iv) above) to be performed or observed by it under this Facility Lease or any other Transaction Document, and such failure shall continue for a period of 30 days after there shall have been given to the Lessee by the Lessor or the Owner Participant a notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(vi) any representation or warranty made by the Lessee in this Facility Lease, any other Transaction Document (other than the Tax

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Indemnification Agreement) or any agreement, document or certificate delivered by the Lessee in connection herewith or therewith shall prove to have been incorrect in any material respect when any such representation or warranty was made or given and shall remain material and materially incorrect at the time in question; or

(vii) the Lessee shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against the Lessee seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismitted or unstayed for a period of 60 consecutive days; or

(viii) final judgment for the payment of money in excess of \$1,000,000 shall be rendered against the Lessee and the Lessee shall not have discharged the same or provided for its discharge in accordance with its terms or bonded the same or procured a stay of execution thereof within 60 days from the entry thereof; or

(ix) (1) a default by the Lessee under the ANPP Participation Agreement in consequence of

which the Lessee's right to receive its Generation Entitlement Share in PVNGS is suspended by the other ANPP Participants, or (2) the giving by any ANPP Participant of a notice under Section 23.2 (or any comparable successor provision) of the ANPP Participation Agreement respecting a default thereunder by the Lessee and the lapse of 20 Business Days from the giving of such notice without the Lessee having cured such default; provided, however, that for purposes of this clause (2) if the Lessee shall have, in good faith, disputed the existence or nature of a default and such dispute shall have become the subject of an arbitration under Section 24 (or any comparable successor provision) of the ANPP Participation Agreement, such 20 Business Day period shall commence on the date of the final determination of the board of arbitrators under such Section 24; or

(x) (1) the Lessee shall fail to pay when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Debt (which term shall mean (A) indebtedness for borrowed money, (B) obligations as lessee under leases and (C) obligations under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (A) or (B) above, in each case if the principal amount (or equivalent) thereof (or in the case of any operating lease, an equivalent on the assumption such lease were a lease required to be capitalized in accordance with generally accepted accounting principles) is greater than \$20,000,000 (\$5,000,000 in the case of any PVNGS operating lease)) of the Lessee, and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt, but only if the Lessee shall have received notice of such failure or a Responsible Officer of the Lessee shall have actual knowledge of such failure; or (2) any other default under any agreement or instrument

relating to any such Debt, or any other event, shall occur and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Debt, but only if the Lessee shall have received notice of such default or event or a Responsible Officer of the Lessee shall have actual knowledge of such default or event.

SECTION 16: Remedies.

(a) Remedies. Upon the occurrence of any Event of Default and so long as the same shall be continuing, the Lessor may, at its option, declare this Facility Lease to be in default by written notice to such effect given to the Lessee, and may exercise one or more of the following remedies as the Lessor in its sole discretion shall elect:

(i) the Lessor may, by notice to the Lessee, rescind or terminate this Facility Lease;

(ii) the Lessor may (x) demand that the Lessee, and thereupon the Lessee shall, return possession of the Undivided Interest and the Real Property Interest promptly to the Lessor in the manner and condition required by, and otherwise in accordance with the provisions of, this Facility Lease as if the Undivided Interest and the Real Property Interest were being returned at the end of the Lease Term and the Lessor shall not be liable for the reimbursement of the Lessee for any costs and expenses incurred by the Lessee in connection therewith and (y) subject to Applicable Law, enter upon the PVNGS Site and take immediate possession of (to the exclusion of the Lessee) the Undivided Interest and the Real Property Interest, by summary proceedings or otherwise, all without liability to the Lessee for or by reason of such entry or taking of possession, whether for the restoration of damage to property caused by such taking or otherwise;

(iii) the Lessor may sell the Undivided Interest and the Real Property Interest, or

any part thereof, together with any interest of the Lessor under the Assignment and Assumption, at public or private sale in a commercially reasonable manner, as the Lessor may determine, free and clear of any rights of the Lessee in the Undivided Interest and the Real Property Interest and without any duty to account to the Lessee with respect to such action or inaction or any proceeds with respect thereto (except to the extent required by clause (v) or (vi) below if the Lessor shall elect to exercise its rights thereunder), in which event the Lessee's obligation to pay Basic Rent hereunder for periods commencing after the date of such sale shall be terminated or proportionately reduced, as the case may be (except to the extent that Basic Rent is to be included in computations under clause (v) or (vi) below if the Lessor shall elect to exercise its rights thereunder);

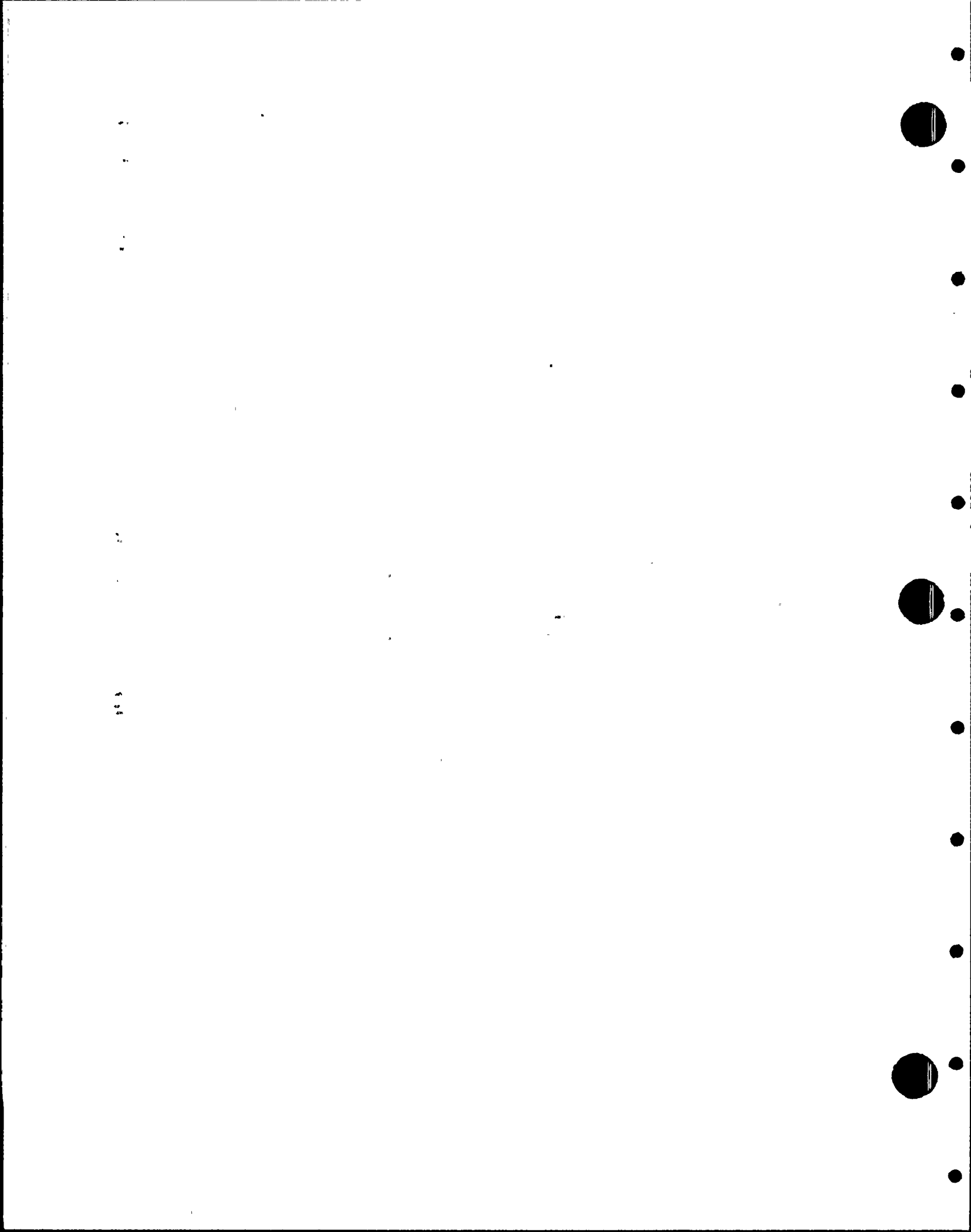
(iv) the Lessor may hold, keep idle or lease to others all or any part of the Undivided Interest and the Real Property Interest, as the Lessor in its sole discretion may determine, free and clear of any rights of the Lessee and without any duty to account to the Lessee with respect to such action or inaction or for any proceeds with respect to such action or inaction, except that the Lessee's obligation to pay Basic Rent for periods commencing after the Lessee shall have been deprived of use of the Undivided Interest and the Real Property Interest pursuant to this clause (iv) shall be reduced by an amount equal to the net proceeds, if any, received by the Lessor from leasing the Undivided Interest and the Real Property Interest to any Person other than the Lessee for the same periods or any portion thereof;

(v) except in the case of an Event of Default specified in clause (iv) of Section 15 (subject, however, to the provisos to the first sentence of Section 16(c) hereof), the Lessor may, whether or not the Lessor shall have exercised or shall thereafter at any time exercise its rights under clause (i), (ii),

(iii) or (iv) above, demand, by written notice to the Lessee specifying a payment date which shall be a Basic Rent Payment Date not earlier than 10 days after the date of such notice, that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on the Basic Rent Payment Date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Rent due after the Basic Rent Payment Date specified in such notice), any unpaid Rent due through the Basic Rent Payment Date specified in such notice plus whichever of the following amounts the Lessor, in its sole discretion, shall specify in such notice (together with interest on such amount at the interest rate specified in Section 3(b)(iii) from the Basic Rent Payment Date specified in such notice to the date of actual payment) (and, in the case of (D) below, upon receipt of such payment the Lessor shall (or may prior to the receipt of such payment) Transfer to the Lessee the Undivided Interest and the Real Property Interest):

(A) an amount equal to the excess, if any, of (1) Casualty Value, computed as of the Basic Rent Payment Date specified in such notice, over (2) the Fair Market Rental Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 2) until the end of the remaining useful life of Unit 2, after discounting such Fair Market Rental Value semi-annually to present value as of the Basic Rent Payment Date specified in such notice at a rate of 10% per annum;

(B) an amount equal to the excess, if any, of (1) such Casualty Value over (2) the Fair Market Sales Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 2) as of the Basic Rent Payment Date specified in such notice;



(C) an amount equal to the excess, if any, of (1) the present value as of the Basic Rent Payment Date specified in such notice of all installments of Basic Rent until the end of the Basic Lease Term or the Renewal Term, as the case may be, discounted semi-annually at a rate of 10% per annum, over (2) the present value as of such Basic Rent Payment Date of the Fair Market Rental Value of the Undivided Interest and the Real Property Interest (determined on the basis of the then actual condition of Unit 2) until the end of the Basic Lease Term or the Renewal Term, as the case may be, discounted semi-annually at a rate of 10% per annum; or

(D) an amount equal to the higher of (1) the Casualty Value (Special Casualty Value if the Event of Default is an event specified in clause (v), (viii) or (x) (2) of Section 15 hereof), computed as of the Basic Rent Payment Date specified in such notice or (2) the Fair Market Sales Value of the Undivided Interest and the Real Property Interest;

(vi) if the Lessor shall have sold all the Undivided Interest and the Real Property Interest pursuant to clause (iii) above, the Lessor, in lieu of exercising its rights under clause (v) above with respect to the Undivided Interest and the Real Property Interest may, if it shall so elect, demand that the Lessee pay to the Lessor and the Lessee shall pay to the Lessor on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty (in lieu of Basic Rent due for periods commencing after the next Basic Rent Payment Date following the date of such sale), any unpaid Basic Rent due through such Basic Rent Payment Date, plus the amount of any deficiency of the Sale Proceeds under the Casualty Value, computed as of such Basic Rent Payment Date, together with interest at the interest rate specified in Section 3(b)(iii) on the amount of such Rent and such deficiency

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from the date of such sale until the date of actual payment; or

(vii) in the case of an Event of Default specified in clause (iv) of Section 15, the Lessor may demand, by written notice to the Lessee specifying a payment date which shall be not earlier than the date 30 days after the last Basic Rent Payment Date of the Lease Term, that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on such last payment date, as liquidated damages for loss of a bargain and not as a penalty, any unpaid Rent due through such last Basic Rent Payment Date plus an amount (not less than zero) equal to the Fair Market Sales Value (determined without regard to the obligation of the Lessee under Section 10(b)(3)(xi) of the Participation Agreement) of the Undivided Interest and the Real Property Interest (determined on the basis of the actual condition of Unit 2) determined as of such last Basic Rent Payment Date (together with interest on such amount at the interest rate specified in Section 3(b)(iii) from such last Basic Rent Payment Date to the date of actual payment) and upon receipt of such payment the Lessor shall (or may prior to the receipt of such payment) Transfer to the Lessee the Undivided Interest and the Real Property Interest); provided, however, that the Lessor may not exercise the foregoing remedy if the Lessor shall have failed to Transfer the Undivided Interest and the Real Property Interest to the bidder (which shall not be the Lessee or an Affiliate of the Lessee) that shall have submitted the highest cash bid on or before the date on which such Event of Default arose excluding, however, any such cash bid which the Lessor or the Owner Participant determines was not submitted in good faith, or as to which the bidder fails to certify to the Lessor such information as the Lessor or Owner Participant may reasonably request in order to determine whether or not such bid was submitted in good faith (and the Lessor agrees that it will, if and to the extent so requested by the Lessee on or after the date 90 days preceding such last Basic

[illegible]

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Rent Payment Date, use reasonable efforts (at the expense of the Lessee) for a period ending on the day 90 days after such last Basic Rent Payment Date, to find a Person willing to submit such cash bid; provided, however, that the failure of the Lessor to do so shall not relieve the Lessee of its obligations under this clause (vii)).

(b) No Release. No rescission or termination of this Facility Lease, in whole or in part, or repossession of the Undivided Interest or the Real Property Interest or exercise of any remedy under paragraph (a) of this Section 16 shall, except as specifically provided therein, relieve the Lessee of any of its liabilities and obligations hereunder. In addition, the Lessee shall be liable, except as otherwise provided above, for any and all unpaid Rent due hereunder before, after or during the exercise of any of the foregoing remedies, including all reasonable legal fees and other costs and expenses incurred by the Lessor or the Owner Participant by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto. At any sale of the Undivided Interest, the Real Property Interest or any part thereof pursuant to this Section 16, the Owner Participant, the Lessor or the Indenture Trustee may bid for and purchase such property.

(c) Remedies Cumulative. No remedy under paragraph (a) of this Section 16 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy provided under such paragraph (a) or otherwise available to the Lessor at law or in equity; provided, however, that notwithstanding anything to the contrary set forth in this Facility Lease, the remedy set forth in Section 16(a)(vii) shall be the sole and exclusive remedy under this Section 16 in the case of an Event of Default specified in clause (iv) of Section 15, unless the Lessee is in default of its payment obligations under Section 16(a)(vii), in which case the Lessor may exercise its other remedies under Section 16(a); (except that the maximum amount payable by the Lessee in the event of the exercise by the Lessor of any of the remedies provided for in Section 16(a)(v) or (vi) shall not exceed the total amount payable by the Lessee under Section 16(a)(vii) minus the amount provided in subclause (2) of clause (A), (B) or (C) of such Section 16(a)(v), if the Lessor elects a remedy

specified in said clause (A), (B) or (C), or the deficiency referred to in Section 16(a)(vi), if the Lessor elects the remedy specified in Section 16(a)(vi) hereof). No express or implied waiver by the Lessor of any Default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default. The failure or delay of the Lessor in exercising any right granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingencies or similar contingencies and any single or partial exercise of any particular right by the Lessor shall not exhaust the same or constitute a waiver of any other right provided herein. To the extent permitted by Applicable Law, the Lessee hereby waives any rights now or hereafter conferred by statute or otherwise which may require the Lessor to sell, lease or otherwise use the Undivided Interest or Unit 2 in mitigation of the Lessor's damages as set forth in paragraph (a) of this Section 16 or which may otherwise limit or modify any of the Lessor's rights and remedies provided in this Section 16.

(d) Exercise of Other Rights or Remedies. In addition to all other rights and remedies provided in this Section 16, the Lessor may, except to the extent expressly limited by provisions of this Section 16, exercise any other right or remedy that may be available to it under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

(e) Special Cure Right of Lessee. In the event a "Notice of Default" is given under Section 15(iii), the Lessee may, on or prior to the occurrence of an Event of Default resulting therefrom, give written notice to the Lessor stating that the Lessee has elected to exercise the option (the Cure Option) provided in this Section 16(e), which election shall be irrevocable as to the Lessee. Promptly after the giving of such notice, the Lessee and the Owner Participant shall agree upon the Fair Market Sales Value of the Undivided Interest and the Real Property Interest or, if they shall be unable so to agree within one month after the date of the Lessee's notice, such value shall be determined by the Appraisal Procedure. On the Basic Rent Payment Date next following the date that such Fair Market Sales Value shall have been determined, the

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Lessee shall pay to the Lessor all Rent due on such Basic Rent Payment Date, plus an amount equal to the excess of (i) the greater of such Fair Market Sales Value and the Casualty Value determined as of such Basic Rent Payment Date over (ii) the unpaid principal amount of the Notes Outstanding on such date after giving effect to the payment, if any, of the principal installment due and payable on such date. Upon compliance in full by the Lessee with the foregoing provisions of this paragraph (e) and assumption by the Lessee of all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes pursuant to Section 3.9(b) of the Indenture, the Lessor shall (so long as no Default or Event of Default shall have occurred and be continuing) Transfer the Undivided Interest and the Real Property Interest to the Lessee. If the Lessee shall not have assumed all the obligations and liabilities of the Owner Trustee under the Indenture and the Notes in accordance with Section 3.9(b) of the Indenture, but the Owner Participant shall have received under Section 5.2 of the Indenture all amounts required to be paid by the Lessee pursuant to this paragraph (e) (including interest, if any, thereon pursuant to Section 3(b)(iii)), the Lessor shall retain the Undivided Interest and the Real Property Interest subject to the terms of this Facility Lease and Section 7(b)(4) of the Participation Agreement; provided, however, that the obligation of the Lessee to pay further Basic Rent shall be reduced to an amount on each Basic Rent Payment Date equal to the aggregate amount of principal, premium, if any, and accrued interest then payable on all Notes then Outstanding and this Facility Lease shall become a security agreement for all purposes of Applicable Law. The Lessee agrees to use its best efforts to comply with the conditions respecting its assumption set forth in Section 3.9(b) of the Indenture and, failing such assumption, agrees to accept a transfer of the Owner Participant's right, title and interest in the Trust Estate pursuant to Section 7(b)(4) of the Participation Agreement.

SECTION 17. Notices.

All communications and notices provided for in this Facility Lease shall be in writing and shall be given in person (with signed receipt of an officer of the Owner Participant in the case of a delivery to the Owner Participant) or by means of telex, telecopy, or other wire transmission, or mailed by registered or

certified mail, or delivered by express delivery service, addressed as provided in the Participation Agreement. All such communications and notices given in such manner shall be effective on the date of receipt of such communication or notice.

SECTION 18. Successors and Assigns.

This Facility Lease, including all agreements, covenants, indemnities, representations and warranties, shall be binding upon and inure to the benefit of the Lessor and its successors and permitted assigns, and the Lessee and its successors and, to the extent permitted hereby, assigns.

SECTION 19. Right to Perform for Lessee.

If the Lessee shall fail to make any payment of Rent to be made by it, or shall fail to perform or comply with any of its other agreements contained herein, or fail to make any payment to be made by it under any ANPP Project Agreement, or shall fail to perform or comply with any of its other agreements contained in any ANPP Project Agreement, either the Lessor or the Owner Participant may, but shall not be obligated to, tender such payment, or effect such performance or compliance, and the amount of such payment and the amount of all costs and expenses (including, without limitation, attorneys' and other professionals' fees and expenses) of the Lessor or the Owner Participant, as the case may be, incurred in connection with such payment or the performance of or compliance with such agreement, as the case may be, together with interest thereon at the Penalty Rate, shall be deemed Supplemental Rent, payable by the Lessee upon demand. In the event that the Lessor or the Owner Participant shall cure any default by the Lessee under the ANPP Participation Agreement, then (so long as an Event of Default has occurred and is continuing) the Lessor, together with each other Person contributing to such cure, shall be entitled (to the full extent enforceable in accordance with Applicable Law) to receive the Generation Entitlement Share of the Lessee under the ANPP Participation Agreement (not limited to Unit 2), with each contributor to receive a percentage of such Generation Entitlement Share equal to the percentage of the cure contributed thereby.

SECTION 20. Additional Covenants.

The Lessee agrees to comply with and to pay, as Supplemental Rent, all amounts payable by it under the provisions of Section 13 of the Participation Agreement and under the provisions of the Tax Indemnification Agreement, which provisions are incorporated herein by this reference as fully as if set forth in full at this place. The Lessee agrees to comply with its covenants and agreements set forth in Sections 10(b), 14 and 16 of the Participation Agreement and Articles III, IV, V and VI of the Assignment and Assumption, which covenants and agreements are incorporated herein by this reference as fully as if set forth in full at this place.

SECTION 21. Lease of Real Property Interest.

Pursuant to the Deed and the Assignment of Beneficial Interest, the Lessee has sold to the Lessor the Real Property Interest. The Lessor hereby grants to the Lessee a leasehold interest in the Real Property Interest, such leasehold to be coterminous with the lease of the Undivided Interest hereunder and to be at a rent per annum equal to the respective percentages of the Real Estate Investment for the applicable period set forth or derived from the respective percentages of Facility Cost in clauses (i), (ii) and (iii), respectively, of Section 3(a) hereof (which rent is incorporated as part of Basic Rent payable pursuant to Section 3(a) hereof).

SECTION 22. Amendments and Miscellaneous.

(a) Amendments in Writing. The terms of this Facility Lease may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by the Lessor and the Lessee.

(b) Survival. (1) All indemnities, representations and warranties contained in this Facility Lease and the other Transaction Documents and the Financing Documents and in any agreement, document or certificate delivered pursuant hereto or thereto or in connection herewith or therewith shall survive, and continue in effect following, the execution and delivery of this Facility Lease and the expiration or other termination of this Facility Lease.

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(2) The obligations of the Lessee to pay Supplemental Rent and the obligations of the Lessee under Sections 5, 16, 19 and 20 hereof shall survive the expiration or termination of this Facility Lease. The extension of any applicable statute of limitations by the Owner Trustee, the Indenture Trustee, the Lessee, the Owner Participant, the Loan Participant or any Indemnatee shall not affect such survival. The obligations of the Lessee under Section 20 are expressly made for the benefit of, and shall be enforceable by, any Indemnatee, separately or together, without declaring this Facility Lease to be in default and notwithstanding any assignment by the Lessor of this Facility Lease or any of its rights thereunder or any disposition of all or any part of any interest in the Undivided Interest, the Real Property Interest, Unit 2 or any other property referred to in this Facility Lease or in this Facility Lease or any other Transaction Document or Financing Document. All payments required to be made pursuant to Section 20 shall be made directly to, or as otherwise requested by, the Indemnatee entitled thereto upon written demand by such Indemnatee.

(c) Severability of Provisions. Any provision of this Facility Lease which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by Applicable Law, the Lessee hereby waives any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

(d) True Lease. This Facility Lease shall constitute an agreement of lease and nothing herein or elsewhere shall be construed as conveying to the Lessee any right, title or interest in or to the Undivided Interest or the Real Property Interest, except as lessee only.

(e) Original Lease. The single executed original of this Facility Lease marked "THIS COUNTERPART IS THE ORIGINAL COUNTERPART" and containing the receipt of the Indenture Trustee thereon shall be the "Original" of this Facility Lease. To the extent that this Facility

Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Facility Lease may be created through the transfer or possession of any counterpart other than the "Original".

(f) Governing Law. This Facility Lease shall be governed by and construed in accordance with the law of the State of New York, except to the extent that pursuant to the law of the State of Arizona the law of the State of Arizona is mandatorily applicable hereto.

(g) Headings. The division of this Facility Lease into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Facility Lease.

(h) Concerning the Owner Trustee. FNB is entering into this Facility Lease solely as Owner Trustee under the Trust Agreement and not in its individual capacity. Anything herein to the contrary notwithstanding, all and each of the representations, warranties, undertakings and agreements herein made on the part of the Owner Trustee are made and intended not as personal representations, warranties, undertakings and agreements by or for the purpose or with the intention of binding FNB personally but are made and intended for the purpose of binding only the Trust Estate, and this Facility Lease is executed and delivered by the Owner Trustee solely in the exercise of the powers expressly conferred upon it as trustee under the Trust Agreement; and no personal liability or responsibility is assumed hereunder by or shall at any time be enforceable against FNB or any successor in trust or the Owner Participant on account of any representation, warranty, undertaking or agreement hereunder of the Owner Trustee, either expressed or implied, all such personal liability, if any, being expressly waived by the Lessee, except that the Lessee or any Person claiming by, through or under it, making claim hereunder, may look to the Trust Estate for satisfaction of the same and the Owner Trustee or its successor in trust, as applicable, shall be personally liable for its own gross negligence or willful misconduct. If a successor owner trustee is appointed in accordance with the terms of the Trust Agreement, such successor owner trustee shall, without any further act, succeed to all the rights, duties, immunities and

obligations of the Owner Trustee hereunder and the predecessor owner trustee shall be released from all further duties and obligations hereunder.

(i) Disclosure. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. The address of the beneficiary is also therein described. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

(j) Counterpart Execution. This Facility Lease may be executed in any number of counterparts and by each of the parties hereto or thereto on separate counterparts, all such counterparts together constituting but one and the same instrument.

IN WITNESS WHEREOF, each of the parties hereto has caused this Facility Lease to be duly executed in New York, New York by an officer thereunto duly authorized.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation

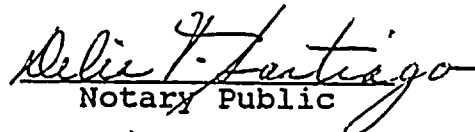
By 
Assistant Vice President

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By 47 Robinson
Senior Vice President and
Chief Financial Officer

State of New York)
) ss.
County of New York)

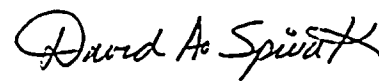
The foregoing instrument was acknowledged before me this 5th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public
DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

SCHEDULE 1
to
FACILITY LEASE

SCHEDULE OF CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|
| 15JAN87 | 106.53611 |
| 15JUL87 | 105.53335 |
| 15JAN88 | 107.07918 |
| 15JUL88 | 106.17858 |
| 15JAN89 | 109.42323 |
| 15JUL89 | 108.43402 |
| 15JAN90 | 111.01369 |
| 15JUL90 | 109.97758 |
| 15JAN91 | 112.00086 |
| 15JUL91 | 110.94964 |
| 15JAN92 | 112.38274 |
| 15JUL92 | 111.28104 |
| 15JAN93 | 112.14605 |
| 15JUL93 | 110.95717 |
| 15JAN94 | 111.21117 |
| 15JUL94 | 109.88662 |
| 15JAN95 | 109.49132 |
| 15JUL95 | 108.10138 |
| 15JAN96 | 107.43704 |
| 15JUL96 | 106.11823 |
| 15JAN97 | 105.42555 |
| 15JUL97 | 104.04483 |
| 15JAN98 | 103.23626 |
| 15JUL98 | 101.76861 |
| 15JAN99 | 100.82360 |
| 15JUL99 | 99.25609 |
| 15JAN100 | 98.15967 |
| 15JUL100 | 96.47795 |
| 15JAN101 | 95.22783 |
| 15JUL101 | 93.45710 |

SCHEDULE OF CASUALTY VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

| | |
|----------|----------|
| 15JAN102 | 92.07347 |
| 15JUL102 | 90.21857 |
| 15JAN103 | 88.71529 |
| 15JUL103 | 86.77283 |
| 15JAN104 | 85.15757 |
| 15JUL104 | 83.11902 |
| 15JAN105 | 81.38095 |
| 15JUL105 | 79.23904 |
| 15JAN106 | 77.36934 |
| 15JUL106 | 75.11630 |
| 15JAN107 | 73.10563 |
| 15JUL107 | 70.73318 |
| 15JAN108 | 68.57156 |
| 15JUL108 | 66.07099 |
| 15JAN109 | 63.74791 |
| 15JUL109 | 61.10991 |
| 15JAN110 | 58.61418 |
| 15JUL110 | 55.82895 |
| 15JAN111 | 53.14878 |
| 15JUL111 | 50.20591 |
| 15JAN112 | 47.32863 |
| 15JUL112 | 44.21696 |
| 15JAN113 | 41.12929 |
| 15JUL113 | 37.83716 |
| 15JAN114 | 34.52492 |
| 15JUL114 | 31.03977 |
| 15JAN115 | 27.48785 |
| 15JUL115 | 23.79647 |
| 15JAN116 | 20.00000 |

SCHEDULE 2
to
FACILITY LEASE

SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15JAN87 | 106.53255 | 15JUN90 | 109.50229 |
| 15FEB87 | 107.01607 | 15JUL90 | 109.59771 |
| 15MAR87 | 107.50825 | 15AUG90 | 109.69058 |
| 15APR87 | 106.50559 | 15SEP90 | 109.19018 |
| 15MAY87 | 106.87841 | 15OCT90 | 109.27162 |
| 15JUN87 | 105.15431 | 15NOV90 | 109.35606 |
| 15JUL87 | 105.50694 | 15DEC90 | 109.32859 |
| 15AUG87 | 105.84743 | | |
| 15SEP87 | 105.06266 | 15JAN91 | 111.52602 |
| 15OCT87 | 105.38322 | 15FEB91 | 111.59608 |
| 15NOV87 | 105.71011 | 15MAR91 | 111.66906 |
| 15DEC87 | 105.77597 | 15APR91 | 111.24112 |
| | | 15MAY91 | 111.29506 |
| 15JAN88 | 107.02636 | 15JUN91 | 110.31900 |
| 15FEB88 | 107.28351 | 15JUL91 | 110.36054 |
| 15MAR88 | 107.54606 | 15AUG91 | 110.39851 |
| 15APR88 | 106.86252 | 15SEP91 | 109.92992 |
| 15MAY88 | 107.10110 | 15OCT91 | 109.95564 |
| 15JUN88 | 105.85414 | 15NOV91 | 109.98371 |
| 15JUL88 | 106.08006 | 15DEC91 | 109.92689 |
| 15AUG88 | 106.29372 | | |
| 15SEP88 | 105.72306 | 15JAN92 | 111.67582 |
| 15OCT88 | 105.92405 | 15FEB92 | 111.68749 |
| 15NOV88 | 106.12965 | 15MAR92 | 111.70138 |
| 15DEC88 | 106.16281 | 15APR92 | 111.34764 |
| | | 15MAY92 | 111.34349 |
| 15JAN89 | 109.27545 | 15JUN92 | 110.45252 |
| 15FEB89 | 109.45576 | 15JUL92 | 110.43700 |
| 15MAR89 | 109.64037 | 15AUG92 | 110.41618 |
| 15APR89 | 109.04760 | 15SEP92 | 109.97484 |
| 15MAY89 | 109.21337 | 15OCT92 | 109.94272 |
| 15JUN89 | 108.06254 | 15NOV92 | 109.91229 |
| 15JUL89 | 108.21768 | 15DEC92 | 109.82333 |
| 15AUG89 | 108.35955 | | |
| 15SEP89 | 107.82054 | 15JAN93 | 111.16133 |
| 15OCT89 | 107.95166 | 15FEB93 | 111.11368 |
| 15NOV89 | 108.08639 | 15MAR93 | 111.06757 |
| 15DEC89 | 108.08146 | 15APR93 | 110.77365 |
| | | 15MAY93 | 110.70939 |
| 15JAN90 | 110.72523 | 15JUN93 | 109.88905 |
| 15FEB90 | 110.84723 | 15JUL93 | 109.81248 |
| 15MAR90 | 110.97275 | 15AUG93 | 109.72935 |
| 15APR90 | 110.46123 | 15SEP93 | 109.30353 |
| 15MAY90 | 110.56836 | 15OCT93 | 109.20803 |

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SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15NOV93 | 109.11348 | 15MAR97 | 102.43914 |
| 15DEC93 | 108.98371 | 15APR97 | 102.22241 |
| | | 15MAY97 | 102.00569 |
| 15JAN94 | 109.90295 | 15JUN97 | 101.45723 |
| 15FEB94 | 109.78866 | 15JUL97 | 101.24050 |
| 15MAR94 | 109.67514 | 15AUG97 | 101.01314 |
| 15APR94 | 109.43114 | 15SEP97 | 100.69041 |
| 15MAY94 | 109.29832 | 15OCT97 | 100.46305 |
| 15JUN94 | 108.54183 | 15NOV97 | 100.23570 |
| 15JUL94 | 108.39558 | 15DEC97 | 100.00834 |
| 15AUG94 | 108.24139 | | |
| 15SEP94 | 107.82253 | 15JAN98 | 100.17698 |
| 15OCT94 | 107.65470 | 15FEB98 | 99.93844 |
| 15NOV94 | 107.48698 | 15MAR98 | 99.69990 |
| 15DEC94 | 107.30680 | 15APR98 | 99.46136 |
| | | 15MAY98 | 99.22283 |
| 15JAN95 | 107.81390 | 15JUN98 | 98.67364 |
| 15FEB95 | 107.63082 | 15JUL98 | 98.43510 |
| 15MAR95 | 107.44774 | 15AUG98 | 98.18483 |
| 15APR95 | 107.25645 | 15SEP98 | 97.84920 |
| 15MAY95 | 107.07337 | 15OCT98 | 97.59892 |
| 15JUN95 | 106.40136 | 15NOV98 | 97.34865 |
| 15JUL95 | 106.21828 | 15DEC98 | 97.09838 |
| 15AUG95 | 106.02733 | | |
| 15SEP95 | 105.65088 | 15JAN99 | 97.21230 |
| 15OCT95 | 105.45994 | 15FEB99 | 96.94969 |
| 15NOV95 | 105.26899 | 15MAR99 | 96.68708 |
| 15DEC95 | 105.07804 | 15APR99 | 96.42447 |
| | | 15MAY99 | 96.16186 |
| 15JAN96 | 105.34471 | 15JUN99 | 95.61030 |
| 15FEB96 | 105.14554 | 15JUL99 | 95.34769 |
| 15MAR96 | 104.94637 | 15AUG99 | 95.07212 |
| 15APR96 | 104.74719 | 15SEP99 | 94.72130 |
| 15MAY96 | 104.54802 | 15OCT99 | 94.44573 |
| 15JUN96 | 103.99654 | 15NOV99 | 94.17016 |
| 15JUL96 | 103.79737 | 15DEC99 | 93.89459 |
| 15AUG96 | 103.58961 | | |
| 15SEP96 | 103.27654 | 15JAN100 | 93.95063 |
| 15OCT96 | 103.06878 | 15FEB100 | 93.66145 |
| 15NOV96 | 102.86102 | 15MAR100 | 93.37227 |
| 15DEC96 | 102.65326 | 15APR100 | 93.08309 |
| | | 15MAY100 | 92.79391 |
| 15JAN97 | 102.87260 | 15JUN100 | 92.23815 |
| 15FEB97 | 102.65587 | 15JUL100 | 91.94897 |

SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15AUG100 | 91.64572 | 15JAN104 | 78.10052 |
| 15SEP100 | 91.27744 | 15FEB104 | 77.72275 |
| 15OCT100 | 90.97585 | 15MAR104 | 77.34498 |
| 15NOV100 | 90.67428 | 15APR104 | 76.96722 |
| 15DEC100 | 90.37273 | 15MAY104 | 76.58945 |
| | | 15JUN104 | 76.02017 |
| 15JAN101 | 90.37535 | 15JUL104 | 75.65062 |
| 15FEB101 | 90.06210 | 15AUG104 | 75.26080 |
| 15MAR101 | 89.74885 | 15SEP104 | 74.83520 |
| 15APR101 | 89.43560 | 15OCT104 | 74.44539 |
| 15MAY101 | 89.12343 | 15NOV104 | 74.05557 |
| 15JUN101 | 88.56778 | 15DEC104 | 73.66576 |
| 15JUL101 | 88.26182 | | |
| 15AUG101 | 87.93741 | 15JAN105 | 73.49763 |
| 15SEP101 | 87.55829 | 15FEB105 | 73.09685 |
| 15OCT101 | 87.23403 | 15MAR105 | 72.69607 |
| 15NOV101 | 86.90977 | 15APR105 | 72.29529 |
| 15DEC101 | 86.58552 | 15MAY105 | 71.89451 |
| | | 15JUN105 | 71.31376 |
| 15JAN102 | 86.53183 | 15JUL105 | 70.92151 |
| 15FEB102 | 86.19716 | 15AUG105 | 70.50794 |
| 15MAR102 | 85.86248 | 15SEP105 | 70.06087 |
| 15APR102 | 85.52780 | 15OCT105 | 69.64729 |
| 15MAY102 | 85.19313 | 15NOV105 | 69.23372 |
| 15JUN102 | 84.63866 | 15DEC105 | 68.82015 |
| 15JUL102 | 84.31128 | | |
| 15AUG102 | 83.96535 | 15JAN106 | 68.61405 |
| 15SEP102 | 83.57514 | 15FEB106 | 68.18884 |
| 15OCT102 | 83.22921 | 15MAR106 | 67.76363 |
| 15NOV102 | 82.88728 | 15APR106 | 67.33842 |
| 15DEC102 | 82.53735 | 15MAY106 | 66.91321 |
| | | 15JUN106 | 66.32021 |
| 15JAN103 | 82.43880 | 15JUL106 | 65.90395 |
| 15FEB103 | 82.08273 | 15AUG106 | 65.46515 |
| 15MAR103 | 81.72665 | 15SEP106 | 64.99524 |
| 15APR103 | 81.37057 | 15OCT106 | 64.55645 |
| 15MAY103 | 81.01449 | 15NOV106 | 64.11765 |
| 15JUN103 | 80.45596 | 15DEC106 | 63.67885 |
| 15JUL103 | 80.10784 | | |
| 15AUG103 | 79.74041 | 15JAN107 | 63.43265 |
| 15SEP103 | 79.33501 | 15FEB107 | 62.98150 |
| 15OCT103 | 78.96758 | 15MAR107 | 62.53034 |
| 15NOV103 | 78.60015 | 15APR107 | 62.07918 |
| 15DEC103 | 78.23272 | 15MAY107 | 61.62802 |

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SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15JUN107 | 61.02195 | 15NOV110 | 40.33502 |
| 15JUL107 | 60.58029 | 15DEC110 | 39.77883 |
| 15AUG107 | 60.11471 | | |
| 15SEP107 | 59.62051 | 15JAN111 | 39.34802 |
| 15OCT107 | 59.15492 | 15FEB111 | 38.77615 |
| 15NOV107 | 58.68934 | 15MAR111 | 38.20428 |
| 15DEC107 | 58.22375 | 15APR111 | 37.63242 |
| | | 15MAY111 | 37.06055 |
| 15JAN108 | 57.93519 | 15JUN111 | 36.39286 |
| 15FEB108 | 57.45650 | 15JUL111 | 35.83382 |
| 15MAR108 | 56.97781 | 15AUG111 | 35.24363 |
| 15APR108 | 56.49912 | 15SEP111 | 34.63599 |
| 15MAY108 | 56.02043 | 15OCT111 | 34.04579 |
| 15JUN108 | 55.40040 | 15NOV111 | 33.45560 |
| 15JUL108 | 54.93186 | 15DEC111 | 32.86541 |
| 15AUG108 | 54.43786 | | |
| 15SEP108 | 53.91784 | 15JAN112 | 32.38166 |
| 15OCT108 | 53.42383 | 15FEB112 | 31.77483 |
| 15NOV108 | 52.92982 | 15MAR112 | 31.16799 |
| 15DEC108 | 52.43581 | 15APR112 | 30.56116 |
| | | 15MAY112 | 29.95433 |
| 15JAN109 | 52.10246 | 15JUN112 | 29.26861 |
| 15FEB109 | 51.59453 | 15JUL112 | 28.67581 |
| 15MAR109 | 51.08660 | 15AUG112 | 28.04955 |
| 15APR109 | 50.57867 | 15SEP112 | 27.40897 |
| 15MAY109 | 50.07074 | 15OCT112 | 26.78271 |
| 15JUN109 | 49.43582 | 15NOV112 | 26.15644 |
| 15JUL109 | 48.93884 | 15DEC112 | 25.53018 |
| 15AUG109 | 48.41465 | | |
| 15SEP109 | 47.86718 | 15JAN113 | 24.99040 |
| 15OCT109 | 47.34299 | 15FEB113 | 24.34648 |
| 15NOV109 | 46.81881 | 15MAR113 | 23.70257 |
| 15DEC109 | 46.29462 | 15APR113 | 23.05866 |
| | | 15MAY113 | 22.41475 |
| 15JAN110 | 45.91393 | 15JUN113 | 21.70984 |
| 15FEB110 | 45.37498 | 15JUL113 | 21.08124 |
| 15MAR110 | 44.83603 | 15AUG113 | 20.41669 |
| 15APR110 | 44.29708 | 15SEP113 | 19.74111 |
| 15MAY110 | 43.75813 | 15OCT113 | 19.07657 |
| 15JUN110 | 43.10734 | 15NOV113 | 18.41202 |
| 15JUL110 | 42.58022 | 15DEC113 | 17.74748 |
| 15AUG110 | 42.02403 | | |
| 15SEP110 | 41.44741 | 15JAN114 | 17.14841 |
| 15OCT110 | 40.89121 | 15FEB114 | 16.46511 |



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SCHEDULE OF SPECIAL CASUALTY VALUES

| <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> | <u>BASIC RENT
PAYMENT DATE</u> | <u>PERCENTAGE OF
FACILITY COST</u> |
|------------------------------------|--|------------------------------------|--|
| 15MAR114 | 15.78181 | | |
| 15APR114 | 15.09851 | | |
| 15MAY114 | 14.41521 | | |
| 15JUN114 | 13.68984 | | |
| 15JUL114 | 13.02337 | | |
| 15AUG114 | 12.31816 | | |
| 15SEP114 | 11.60536 | | |
| 15OCT114 | 10.90016 | | |
| 15NOV114 | 10.19495 | | |
| 15DEC114 | 9.48974 | | |
| 15JAN115 | 8.82800 | | |
| 15FEB115 | 8.10291 | | |
| 15MAR115 | 7.37781 | | |
| 15APR115 | 6.65272 | | |
| 15MAY115 | 5.92763 | | |
| 15JUN115 | 5.18048 | | |
| 15JUL115 | 4.47388 | | |
| 15AUG115 | 3.72551 | | |
| 15SEP115 | 2.97317 | | |
| 15OCT115 | 2.22480 | | |
| 15NOV115 | 1.47643 | | |
| 15DEC115 | 0.72805 | | |
| 15JAN116 | 0.00000 | | |

SCHEDULE 3
to
FACILITY LEASE

SCHEDULE OF TERMINATION VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

| | |
|----------|-----------|
| 15JAN87 | 106.53611 |
| 15JUL87 | 105.53335 |
| 15JAN88 | 107.07918 |
| 15JUL88 | 106.17858 |
| 15JAN89 | 109.42323 |
| 15JUL89 | 108.43402 |
| 15JAN90 | 111.01369 |
| 15JUL90 | 109.97758 |
| 15JAN91 | 112.00086 |
| 15JUL91 | 110.94964 |
| 15JAN92 | 112.38274 |
| 15JUL92 | 111.28104 |
| 15JAN93 | 112.14605 |
| 15JUL93 | 110.95717 |
| 15JAN94 | 111.21117 |
| 15JUL94 | 109.88662 |
| 15JAN95 | 109.49132 |
| 15JUL95 | 108.10138 |
| 15JAN96 | 107.43704 |
| 15JUL96 | 106.11823 |
| 15JAN97 | 105.42555 |
| 15JUL97 | 104.04483 |
| 15JAN98 | 103.23626 |
| 15JUL98 | 101.76861 |
| 15JAN99 | 100.82360 |
| 15JUL99 | 99.25609 |
| 15JAN100 | 98.15967 |
| 15JUL100 | 96.47795 |
| 15JAN101 | 95.22783 |
| 15JUL101 | 93.45710 |



SCHEDULE OF TERMINATION VALUES

BASIC RENT
PAYMENT DATE

PERCENTAGE OF
FACILITY COST

| | |
|----------|----------|
| 15JAN102 | 92.07347 |
| 15JUL102 | 90.21857 |
| 15JAN103 | 88.71529 |
| 15JUL103 | 86.77283 |
| 15JAN104 | 85.15757 |
| 15JUL104 | 83.11902 |
| 15JAN105 | 81.38095 |
| 15JUL105 | 79.23904 |
| 15JAN106 | 77.36934 |
| 15JUL106 | 75.11630 |
| 15JAN107 | 73.10563 |
| 15JUL107 | 70.73318 |
| 15JAN108 | 68.57156 |
| 15JUL108 | 66.07099 |
| 15JAN109 | 63.74791 |
| 15JUL109 | 61.10991 |
| 15JAN110 | 58.61418 |
| 15JUL110 | 55.82895 |
| 15JAN111 | 53.14878 |
| 15JUL111 | 50.20591 |
| 15JAN112 | 47.32863 |
| 15JUL112 | 44.21696 |
| 15JAN113 | 41.12929 |
| 15JUL113 | 37.83716 |
| 15JAN114 | 34.52492 |
| 15JUL114 | 31.03977 |
| 15JAN115 | 27.48785 |
| 15JUL115 | 23.79647 |
| 15JAN116 | 20.00000 |

SCHEDULE 4
to
FACILITY LEASE

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) .2333334% undivided interest in the land described in I below, a (ii) .2644444% undivided interest in the rights and interests described in II below, and (iii) a .2644444% undivided interest in the rights and interests described in III below.

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

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PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East,

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along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

SCHEDULE 5
to
FACILITY LEASE

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) .7933333% undivided interest in and to the property described under A below and (ii) a .2644444% undivided interest in and to the property described in B below.

A. Unit 2 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I: Unit 2 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 2 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 2 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 2 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60

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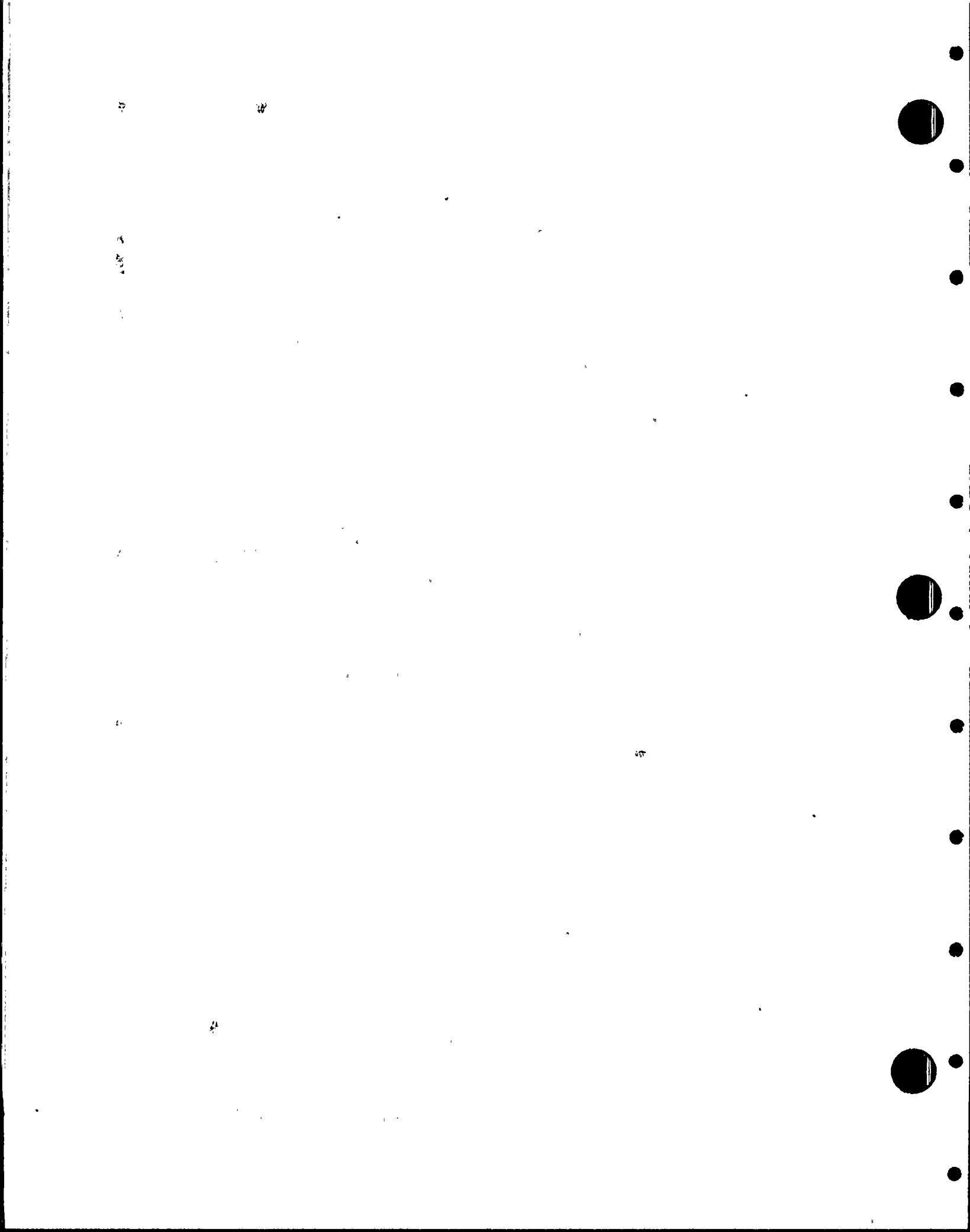


psig. The containment building houses the reactor system.

- IV. Unit 2 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 2 start-up transformer.
- V. Unit 2 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 2 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 2 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 2 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 2, including spare fuel assemblies.
- II. Spare Parts (Unit 2).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 2 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).



IV. Oil and diesel fuel inventories (Unit 2).

B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.
- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust

No. 530, and Project Agreement
interests described in Schedule 4.



When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND
ASSIGNMENT OF RENTS

Dated as of December 15, 1986

between

THE FIRST NATIONAL BANK OF BOSTON, not
in its individual capacity, but solely
as Owner Trustee under a Trust
Agreement dated as of December 15,
1986, with Chase Manhattan
Realty Leasing Corporation

and

CHEMICAL BANK,
as Indenture Trustee

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2 and a
.2644444% Undivided Interest in Certain Common
Facilities

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THE UNIVERSITY OF CHICAGO PRESS

TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON, a national banking association (FNB), not in its individual capacity, but solely as trustee (the Owner Trustee) under a Trust Agreement dated as of December 15, 1986 between FNB, whose address is 100 Federal Street, Boston, Massachusetts 02110, with Chase Manhattan Realty Leasing Corporation, and CHEMICAL BANK, a New York banking corporation (the Indenture Trustee), whose address is 55 Water Street, New York, New York 10041.

W I T N E S S E T H:

WHEREAS, the Owner Trustee has entered into a Participation Agreement, dated as of December 15, 1986 among the Owner Participant, First PV Funding Corporation, a Delaware corporation, Public Service Company of New Mexico, a New Mexico corporation, and the Indenture Trustee;

WHEREAS, the Owner Trustee, acting on behalf of the Owner Participant, pursuant to the Trust Agreement and the Participation Agreement, intends to purchase the Undivided Interest and the Real Property Interest from Public Service Company of New Mexico and lease the Undivided Interest and the Real Property Interest to Public Service Company of New Mexico pursuant to the Facility Lease;

WHEREAS, in order to finance a portion of the Purchase Price of the Undivided Interest, the Owner Trustee desires to issue its promissory notes hereunder with such promissory notes to be substantially in the form of Exhibits A-1, A-2 and A-3 hereto;

WHEREAS, in order to finance all or a portion of the Supplemental Financing Amount of Capital Improvements and to refund Notes of any series previously issued, the Owner Trustee may desire to issue additional promissory notes hereunder (the Additional Notes) secured on a pari passu basis with other Notes Outstanding from time to time;

WHEREAS, in order to secure the obligations referred to herein, the Owner Trustee desires to grant to the Indenture Trustee the security interest herein provided and the parties hereto desire that this Indenture be regarded as a "security agreement" and as a

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"financing statement" for such security agreement under the Uniform Commercial Code;

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Indenture Trustee of the trusts hereby created and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

CONSTRUCTION, GOVERNING LAW, INTERPRETATION AND DEFINITIONS

SECTION 1.1. Governing Law.

This Indenture (i) is being executed and delivered in the State of New York, (ii) shall be deemed to be a contract made in such State and (iii) for all purposes shall be construed in accordance with and governed by the laws of the State of New York, except to the extent that the laws of the State of Arizona are mandatorily applicable hereto.

SECTION 1.2. Headings and Table of Contents.

The division of this Indenture into articles and sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Indenture.

SECTION 1.3. Definitions; Construction of References; Schedules.

In this Indenture, unless the context otherwise requires:

(a) the term this Indenture means this instrument, together with all exhibits, appendices and schedules hereto, as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto pursuant to the provisions hereof;

(b) all references in this instrument to designated Articles, Sections and other subdivisions are

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to designated Articles, Sections and other subdivisions of this instrument unless otherwise indicated;

(c) all accounting terms not otherwise defined herein shall have the meanings assigned to them in accordance with generally accepted accounting principles; and

(d) capitalized terms used herein which are not otherwise defined herein shall have the meanings set forth in Appendix A hereto, and the rules of construction set forth in Appendix A hereto shall be applicable hereto.

(e) Attached as Schedule 1 hereto is a description of the Undivided Interest and attached as Schedule 2 hereto is a description of the Real Property Interest.

SECTION 1.4. Disclosure of Beneficiaries.

Pursuant to Arizona Revised Statutes Section 33-401, (i) the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator and (ii) the beneficiary of this Indenture is the Holder of the Notes, First PV Funding Corporation, whose address is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 and, by pledge and assignment, Chemical Bank, as trustee under the Collateral Trust Indenture, whose address is 55 Water Street, New York, New York 10041: Attention of Corporate Trustee Administration. Copies of the Trust Agreement and this Indenture are available for inspection at the Indenture Trustee's office.

ARTICLE II

SECURITY

SECTION 2.1. Grant of Security Interest; Mortgage.

As security for the due and punctual payment of the principal of and premium, if any, and interest on the Notes according to their respective terms and effect and the performance and observance by the Owner Trustee of all the covenants and agreements made by it or on its behalf in the Notes, the Participation Agreement and this Indenture, the Owner Trustee does by its execution and delivery hereof hereby grant a security interest in and grant, bargain, convey, warrant, assign, transfer, mortgage, pledge and set over unto the Indenture Trustee, and to its successors and assigns in trust, the following (the Lease Indenture Estate):

(1) all right, title and interest of the Owner Trustee in, to and under the Facility Lease recorded concurrently herewith in the records of Maricopa County, Arizona, to the extent, and only to the extent, constituting Rent (including, but without limitation, Basic Rent, payments of Casualty Value, Termination Value and Special Casualty Value, and payments under and pursuant to Section 16 of the Facility Lease, excluding all Excepted Payments) (the Assigned Payments), together with all rights, powers and remedies on the part of the Owner Trustee arising under the Facility Lease to demand, collect or receive the Assigned Payments;

(2) all moneys and securities deposited or required to be deposited with the Indenture Trustee pursuant to any term of this Indenture and held or required to be held by the Indenture Trustee hereunder;

(3) all profits, revenues and other income of all property from time to time subjected to

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the lien of this Indenture, and all right, title and interest of every nature whatsoever of the Owner Trustee in and to the same and every part thereof;

(4) all right, title and interest of the Owner Trustee in and to any right to restitution from the Lessee in respect of any determination of invalidity of the Facility Lease; and

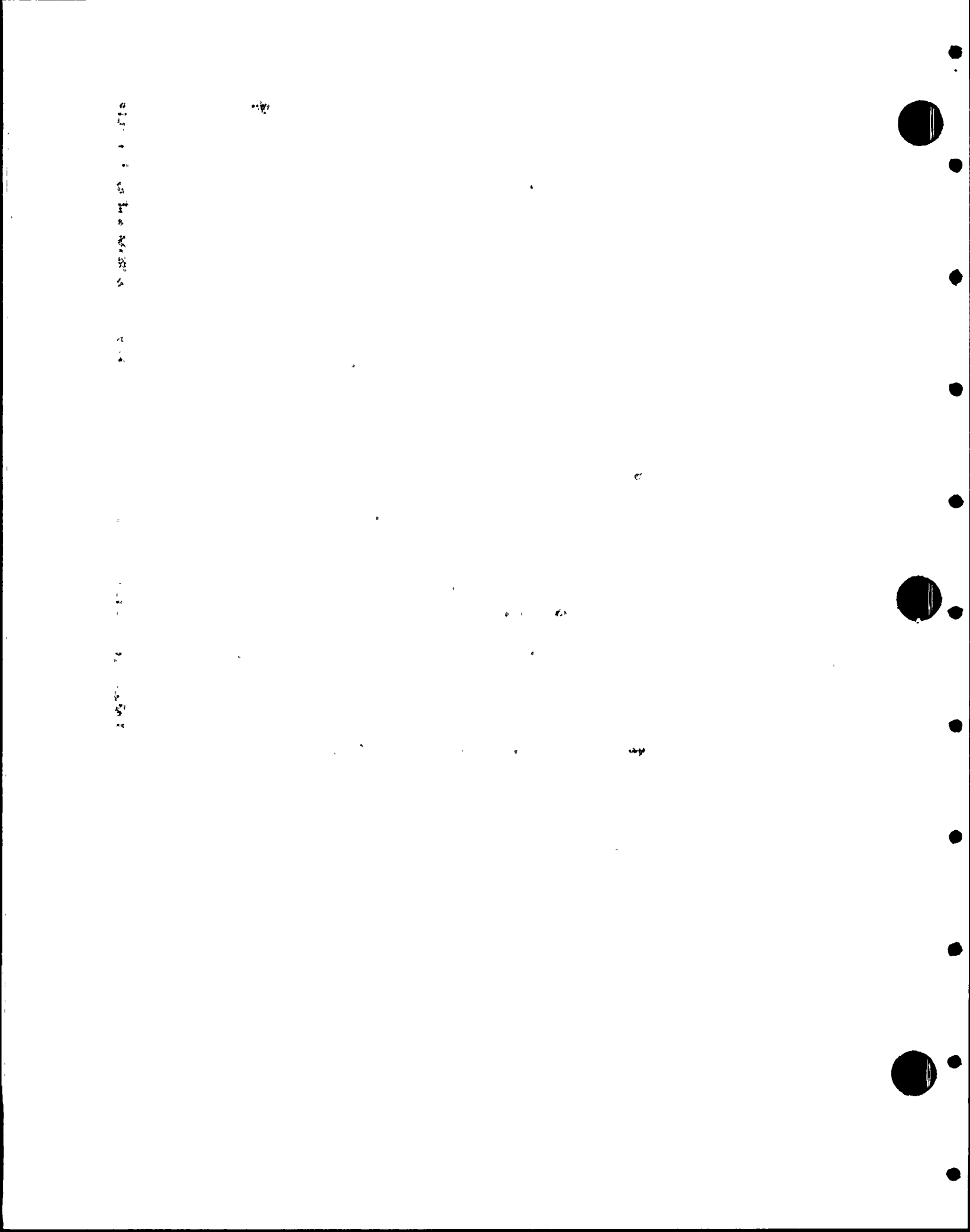
(5) all proceeds of the foregoing;

but excluding, however, from the Lease Indenture Estate any and all Excepted Payments; and subject, however, to (i) the terms and provisions of this Indenture and (ii) the rights of the Lessee under the Facility Lease.

To the extent that any portion of the Lease Indenture Estate constitutes fixtures or real property, this Indenture constitutes a realty mortgage and an assignment of rents with respect to all such items of real property and in addition to all other rights or remedies set forth in this Indenture, or otherwise available under Applicable Law, the Indenture Trustee shall have all of the rights, remedies and benefits of a mortgagee of real property under Applicable Law, including, without limitation, the rights and remedies pursuant to Arizona Revised Statutes § 33-702.B, and the Owner Trustee shall be deemed a mortgagor with respect to such items.

TO HAVE AND TO HOLD all the aforesaid properties, rights and interests unto the Indenture Trustee, its successors and assigns forever, but in trust, nevertheless, for the use and purposes and with the power and authority and subject to the terms and conditions mentioned and set forth in this Indenture.

UPON CONDITION that, unless and until an Indenture Event of Default shall have occurred and be continuing, the Owner Trustee shall be permitted, to the exclusion of the Indenture Trustee, to possess and use the Lease Indenture Estate and exercise all rights with respect thereto and, without limitation of the foregoing, the Owner Trustee may exercise all of its rights under the Facility Lease to the same extent as if its right, title and interest therein had not been assigned to the Indenture Trustee to the extent set forth above, except that the Indenture Trustee shall receive all payments of Assigned Payments and all moneys and securities required to be held by or deposited with the Indenture Trustee hereunder.



It is expressly agreed that, anything herein contained to the contrary notwithstanding, the Owner Trustee shall remain obligated to the Lessee under the Facility Lease to perform all of the Owner Trustee's obligations thereunder in accordance with and pursuant to the terms and provisions thereof, and the Indenture Trustee shall not be required or obligated in any manner, except as expressly provided herein, to perform or fulfill any obligations of the Owner Trustee under the Facility Lease or to make any payment, or to make any inquiry as to the nature or sufficiency of any payment received by it, or to present or file any claim, or to take any action to collect or enforce the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

The Owner Trustee hereby warrants and represents that it has not assigned or pledged any of its right, title or interest in and to the Lease Indenture Estate to anyone other than the Indenture Trustee.

SECTION 2.2. Payments Under the Facility Lease.

The Facility Lease provides that (i) all payments constituting Assigned Payments shall be made to the Indenture Trustee at the Indenture Trustee's Office, (ii) all other payments other than Excepted Payments shall be made to the Lessor at such address as the Lessor may direct by notice in writing to the Lessee, and (iii) all Excepted Payments shall be made to the Person entitled to receive such payments. The Owner Trustee agrees that, so long as any Notes shall be Outstanding hereunder, all payments described in clause (i) above shall be directed to be made to the Indenture Trustee or in accordance with the Indenture Trustee's instruction and that if it should receive any such payments or any proceeds for or with respect to the Lease Indenture Estate or otherwise constituting part of the Lease Indenture Estate, it will promptly forward such payments to the Indenture Trustee or in accordance with the Indenture Trustee's instructions. The Indenture Trustee agrees to apply payments from time to time received by it (from the Lessee, the Owner Trustee or otherwise) with respect to the Lease Indenture Estate in the manner provided in Section 3.11 and Article V hereof.

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SECTION 2.3. Release of Lien on Lease Indenture Estate.

(a) Upon receiving evidence satisfactory to the Indenture Trustee that (i) it has received, or provision has been made in accordance with paragraph (c) hereof for, full payment of all principal of and premium, if any, and interest on the Notes and any other sums payable to the Indenture Trustee and the Holders of the Notes under this Indenture or the Facility Lease, and (ii) all Trustee's Expenses shall have been paid in full or provision satisfactory to the Indenture Trustee shall have been made for such payment,

(A) the security interest and all other estate and rights granted by this Indenture shall cease and become null and void and all of the property, rights and interests included in the Lease Indenture Estate shall revert to and revest in the Owner Trustee without any other act or formality whatsoever, and

(B) the Indenture Trustee shall, at the request of the Owner Trustee, execute and deliver to the Owner Trustee such termination statements, releases or other instruments presented to the Indenture Trustee by or at the direction of the Owner Trustee as shall be requisite to evidence the satisfaction and discharge of this Indenture and the lien hereby created with respect to the Lease Indenture Estate, to release or reconvey to the Owner Trustee or as directed by the Owner Trustee all the Lease Indenture Estate, freed and discharged from the provisions herein contained with respect thereto, and to release the Owner Trustee from its covenants herein contained.

(b) Upon receipt by the Indenture Trustee of the Assumption Agreement and other documents and opinions described in Section 3.9(b) hereof, (i) the security interest and all other estate and rights granted by this Indenture by or on behalf of the Owner Trustee shall cease and become null and void and all of the property, rights and interests included in the Lease Indenture Estate shall revert to and revest in the Owner Trustee without any other act or formality whatsoever and (ii) the Indenture Trustee shall, at the request of the Owner Trustee, execute and deliver to the Owner Trustee such termination statements, releases or other instruments presented to the Indenture Trustee by or at the direction of the Owner Trustee as shall be requisite

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to evidence the satisfaction and discharge of this Indenture as to the Owner Trustee and the lien hereby created with respect to the Lease Indenture Estate, to release or reconvey to the Owner Trustee or as directed by the Owner Trustee all the Lease Indenture Estate, freed and discharged from the provisions herein contained with respect thereto, and to release the Owner Trustee from its covenants herein contained.

(c) Any Note shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in this Section 2.3 if (i) there shall have been deposited with the Indenture Trustee either moneys in an amount which shall be sufficient, or direct obligations of or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America or certificates of an ownership interest in the principal of or interest on obligations of or guaranteed as to principal and interest by the United States of America (Federal Securities), in each case which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys in an amount which shall be sufficient, together with the moneys, if any, deposited with or held by the Indenture Trustee at the same time (such sufficiency to be established by the delivery to the Indenture Trustee of a certificate of an independent public accountant), to pay when due the principal of and premium, if any, and interest due and to become due on said Note on and prior to the redemption date or maturity date thereof, as the case may be, and (ii) in the event said Note does not mature or is not to be redeemed within the next 45 days, the Indenture Trustee shall have been given irrevocable instructions to give, as soon as practicable, a notice to the registered Holder of such Note that the deposit required by subclause (i) above has been made with the Indenture Trustee and that said Note is deemed to have been paid in accordance with this Section 2.3 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Note. Neither the Federal Securities nor moneys deposited with the Indenture Trustee pursuant to this Section 2.3 or principal or interest payments on any such Federal Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on

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said Note; provided, however, that any cash received from such principal or interest payments on such Federal Securities deposited with the Indenture Trustee, shall be reinvested pursuant to Section 8.8 hereof in Federal Securities. At such time as any Note shall be deemed paid as aforesaid, it shall no longer be secured by or entitled to the benefits of the Lease Indenture Estate or this Indenture, except that such Note shall be entitled to the benefits of the portions of the Lease Indenture Estate described in Granting Clauses (2), (3) and (5), to the extent such portions relate to such moneys or Federal Securities deposited with the Indenture Trustee.

(d) So long as any Note as to which this Indenture has been discharged remains unpaid, this Indenture shall continue in effect with respect to such Note solely with respect to rights of registration of transfer, exchange or replacement of such Note, rights to receive payment of the principal thereof and premium, if any, and interest thereon in accordance with the terms of this Indenture from such deposited funds or the proceeds of or interest on such Federal Securities and the correlative rights and responsibilities of the Indenture Trustee; provided, however, that, following such discharge, no claim for payment of principal of or premium, if any, or interest on such Note shall be made against the Owner Trustee or the Lease Indenture Estate other than as provided in this Section; provided, further, that the Owner Trustee, following such discharge, shall be released from any further duties or obligations under this Indenture and, except as expressly provided therein, any other Transaction Document.

SECTION 2.4. Power of Attorney.

Subject to the other terms of this Indenture, the Owner Trustee hereby appoints the Indenture Trustee the Owner Trustee's attorney-in-fact, irrevocably, with full power of substitution, to collect, ask, require, demand, receive and give acquittance for any and all moneys and claims for moneys due and to become due to the Owner Trustee under or arising out of the Lease Indenture Estate, to endorse any checks or other instruments or orders in connection therewith, and to take any action (including the filing of financing statements or other documents) or institute any proceedings which the Indenture Trustee may deem to be necessary or appropriate to protect and preserve the interest of the

Indenture Trustee in the Lease Indenture Estate. Prior to any exercise by it (acting as attorney-in-fact for the Owner Trustee) of the powers, authority or rights granted by this Section 2.4, the Indenture Trustee will give three Business Day's prior written notice to the Owner Trustee and the Owner Participant.

ARTICLE III

ISSUE, EXECUTION, AUTHENTICATION, FORM AND REGISTRATION OF NOTES

SECTION 3.1. Limitation on Notes.

No Notes may be issued under the provisions of, or become secured by, this Indenture except in accordance with the provisions of this Article III. No Note shall be issued in an original principal amount of less than \$5,000.

SECTION 3.2. Execution of Notes.

All Notes shall be manually executed on behalf of the Owner Trustee by one of its Responsible Officers. In case any Responsible Officer of the Owner Trustee who shall have executed any of the Notes shall cease to be such a Responsible Officer before such Notes so executed shall have been authenticated by the Indenture Trustee and delivered or disposed of by the Owner Trustee, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who executed such Notes had not ceased to be such a Responsible Officer of the Owner Trustee; and any Note may be executed on behalf of the Owner Trustee by such person as, at the actual time of execution of such Note, shall be a Responsible Officer of the Owner Trustee, although at the date of such Note any such person was not such a Responsible Officer.

SECTION 3.3. Effect of Certificate of Authentication.

Only such Notes as shall bear thereon a certificate of authentication substantially in the following form manually executed by the Indenture Trustee shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such

certificate of authentication of the Indenture Trustee upon any Note executed by the Owner Trustee shall be conclusive evidence that the Note so authenticated was duly issued, authenticated and delivered under this Indenture:

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

SECTION 3.4. Creation of the Fixed Rate Notes; Aggregate Principal Amount, Dating and Terms; Prerequisites to Authentication and Delivery of the Fixed Rate Notes; Application of Proceeds.

(a) There is hereby created and established a separate series of Notes of the Owner Trustee designated "Nonrecourse Promissory Notes, Fixed Rate Series" herein referred to as the Fixed Rate Notes.. The Fixed Rate Notes shall be payable in the principal amounts and bear interest as follows:

| <u>Fixed Rate Note
Due</u> | <u>Interest
Rate</u> | <u>Principal
Amount</u> |
|--------------------------------|--------------------------|-----------------------------|
| January 15, 1992 | 8.05% | \$1,270,000 |
| January 15, 1997 | 8.95% | \$3,501,000 |
| January 15, 2016 | 10.15% | \$23,229,000 |
| | | <u>\$28,000,000</u> |

Each Fixed Rate Note shall bear interest on the principal amount thereof from time to time Outstanding from the date thereof until paid at the rate of interest set forth therein. The principal amount of each Fixed Rate Note shall be payable as set forth in Schedule 1 attached thereto, as such Schedule 1 may be adjusted, in the case of the Fixed Rate Note due January 15, 2016, in accordance with the terms of such Fixed Rate Note and this Indenture. Installments of interest on and principal of (and premium, if any, on) each Fixed Rate Note shall be due and payable on the dates and at the rates

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2. The second part of the document is a list of names and addresses of the members of the committee.

of interest specified in such Fixed Rate Note. The Fixed Rate Note due January 15, 1992 shall be substantially in the form of Exhibit A-1 to this Indenture. The Fixed Rate Note due January 15, 1997 shall be substantially in the form of Exhibit A-2 to this Indenture. The Fixed Rate Note due January 15, 2016 shall be substantially in the form of Exhibit A-3 to this Indenture.

(b) Subject to the provisions of Section 3.10 hereof, the aggregate principal amount of the Fixed Rate Notes issued by the Owner Trustee and authenticated and delivered by the Indenture Trustee hereunder shall not exceed \$28,000,000.

(c) The Fixed Rate Notes, subject to paragraph (d) of this Section 3.4, shall be executed and issued by the Owner Trustee and authenticated and delivered by the Indenture Trustee on the date and to the Person specified by the Owner Trustee in its request and authorization for issuance, shall be dated the date specified by the Owner Trustee in its request and authorization for issuance, and shall be in the form of a registered Note payable to the Person designated in the Owner Trustee's request and authorization for issuance or its registered assigns.

(d) The Indenture Trustee shall authenticate the Fixed Rate Notes and deliver the Fixed Rate Notes to the Person designated by the Owner Trustee in the request and authorization for issuance in respect of the Fixed Rate Notes in accordance with the provisions of this Section 3.4.

(e) Upon receipt of the proceeds of the Fixed Rate Notes, the Indenture Trustee shall immediately transfer the same to, or pursuant to the direction of, the Owner Trustee, all as set forth in the request and authorization for issuance submitted by the Owner Trustee to the Indenture Trustee.

SECTION 3.5. Additional Notes.

(1) Subject to Section 3.6 hereof, Additional Notes of the Owner Trustee may be issued under and secured by this Indenture, at any time or from time to time, in addition to the Fixed Rate Notes and subject to the conditions hereinafter provided in this Section, for cash in the amount of the original principal amount of such Additional Notes, for the purpose of (i) refunding

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2. The second part of the document is a list of the names of the persons who were not present at the meeting.

3. The third part of the document is a list of the names of the persons who were present at the meeting.

4. The fourth part of the document is a list of the names of the persons who were not present at the meeting.

5. The fifth part of the document is a list of the names of the persons who were present at the meeting.

6. The sixth part of the document is a list of the names of the persons who were not present at the meeting.

7. The seventh part of the document is a list of the names of the persons who were present at the meeting.

8. The eighth part of the document is a list of the names of the persons who were not present at the meeting.

9. The ninth part of the document is a list of the names of the persons who were present at the meeting.

10. The tenth part of the document is a list of the names of the persons who were not present at the meeting.



any previously issued series of Notes, in whole or in part and/or (ii) providing funds for the payment of all or any portion of the Supplemental Financing Amount relating to Capital Improvements made or installed from time to time pursuant to the Facility Lease; provided, however, that in the case of Notes issued for the purposes set forth in clause (ii) of this Section 3.5, no Note shall be issued by the Owner Trustee pursuant to this Section 3.5 unless such Notes may be pledged in accordance with Section 2.15(b) of the Collateral Trust Indenture and serve as the basis for Additional Bonds.

(2) Before any Additional Notes shall be issued under the provisions of this Section 3.5, the Owner Trustee shall have received from the Owner Participant, and delivered to the Indenture Trustee not less than 2 Business Days nor more than 30 Business Days prior to the proposed date of issuance of such Additional Notes as set forth in the below mentioned request and authorization, a request and authorization to issue Additional Notes, which request and authorization shall include the amount of such Additional Notes, the date of issuance of such Additional Notes and details with respect thereto which are not inconsistent with this Section. Additional Notes shall have a designation so as to distinguish such Additional Notes from the Fixed Rate Notes but otherwise shall be substantially similar in terms to the Fixed Rate Notes, shall specify maturity dates, rank pari passu with all Notes then Outstanding, be dated their respective dates of authentication, bear interest at such rates (which may be fixed or floating) as shall be indicated in the aforementioned request and authorization, and shall be stated to be payable by their terms not later than the last day of the Basic Lease Term.

(3) Except as to any differences in the maturity dates and amortization schedules of the Additional Notes or the rate or rates of interest thereon and the date or dates such interest is payable or the provisions for redemption with respect thereto, if any, such Additional Notes shall be on a parity with, and shall be entitled to the same benefits and security of this Indenture as, other Notes issued pursuant to the terms hereof.

(4) The terms, conditions and designations of such Additional Notes (which shall be consistent with this Indenture) shall be set forth in an indenture supplemental to this Indenture executed by the Owner

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Trustee and the Indenture Trustee. Such Additional Notes shall be executed as provided in Section 3.2 and deposited with the Indenture Trustee for authentication, but before such Additional Notes shall be authenticated and delivered by the Indenture Trustee there shall be filed with the Indenture Trustee, in addition to the other documents and certificates required by this Section 3.5, the following, all of which shall be dated as of the date of the supplemental indenture:

(a) a copy of such supplemental indenture (which shall include the form of such series of Notes in respect thereof);

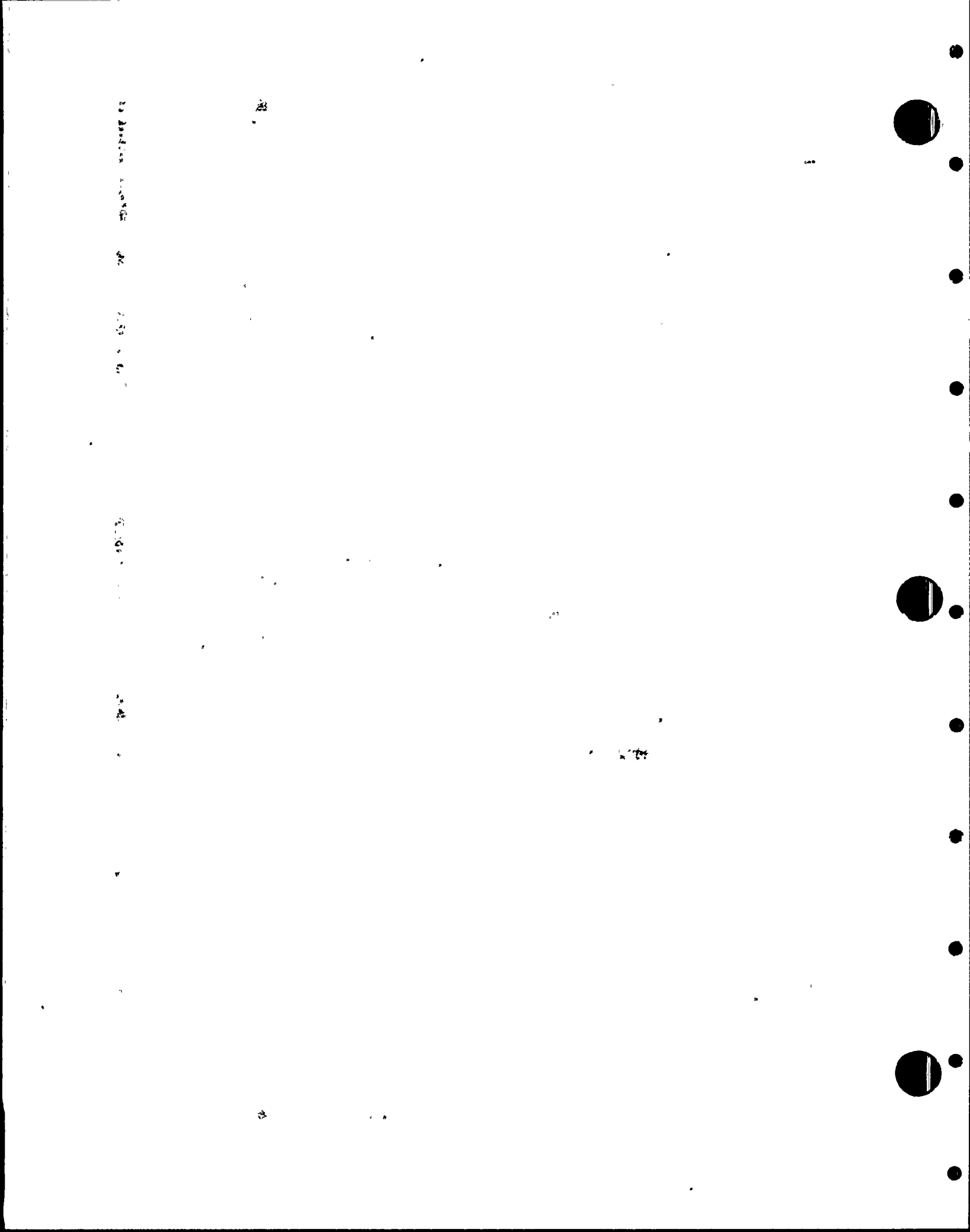
(b) a certificate of a Responsible Officer of the Owner Trustee (i) stating that to the best of his knowledge, no Default or Event of Default or Indenture Event of Default has occurred and is continuing and (ii) stating, in reliance upon a certificate of a Responsible Officer of the Lessee as to such matters, that payments pursuant to the Facility Lease of Basic Rent, Casualty Value, Special Casualty Value and Termination Value and of amounts in respect of the exercise of the Cure Option are sufficient to pay all the Outstanding Notes, after taking into account the issuance of such Additional Notes and any related redemption;

(c) such additional documents, certificates and opinions as shall be reasonably requested by, and acceptable to, the Owner Trustee and the Indenture Trustee;

(d) a request and authorization to the Indenture Trustee by or on behalf of the Owner Trustee to authenticate and deliver such Additional Notes to or upon the order of the Person or Persons noted in such request at the address set forth therein, and in such principal amounts as are stated therein, upon payment to the Indenture Trustee, but for the account of the Owner Trustee, of the sum or sums specified in such request and authorization; and

(e) an opinion of counsel to the effect that the conditions precedent required under this Indenture for the issuance of such Additional Notes have been complied with.

When the documents referred to in the foregoing clauses (a) through (e) above shall have been filed with the Indenture Trustee and when the Additional



Notes described in the above-mentioned order and authorization shall have been executed and authenticated as required by this Indenture, the Indenture Trustee shall deliver such Additional Notes in the manner described in clause (d) above, but only upon payment to the Indenture Trustee of the sum or sums specified in such request and authorization.

SECTION 3.6. Security for and Parity of Notes.

All Notes issued and Outstanding hereunder shall rank on a parity with each other and shall as to each other be secured equally and ratably by this Indenture, without preference, priority or distinction of any thereof over any other by reason of difference in time of issuance or otherwise. The maximum principal amount of Notes Outstanding and secured by this Indenture shall be \$56,000,000.

SECTION 3.7. Source of Payments Limited.

All payments to be made by the Owner Trustee under this Indenture or on the Notes shall be made only from the Lease Indenture Estate and the Trust Estate. Each Holder of a Note, by its acceptance of such Note, and the Indenture Trustee agree that they will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to such Holder or the Indenture Trustee as herein provided and that neither the Owner Participant nor, except as expressly provided in this Indenture, the Owner Trustee nor the Indenture Trustee, shall be personally liable to such Holder of a Note or the Indenture Trustee, as the case may be, for any amounts payable hereunder or under such Note; provided, however, that in the event that the Lessee shall assume all the obligations and liabilities of the Owner Trustee hereunder and under the Notes pursuant to Section 3.9(b), then all payments to be made under this Indenture and the Notes shall be made only from payments made by the Lessee under the Notes in accordance with the Assumption Agreement referred to in Section 3.9(b) and each Holder of a Note and the Indenture Trustee agree that in such event they will look solely to the Lessee for such payment. Nothing herein contained shall be interpreted as affecting the duties and obligations of the Indenture Trustee set forth in Section 7.4 hereof.

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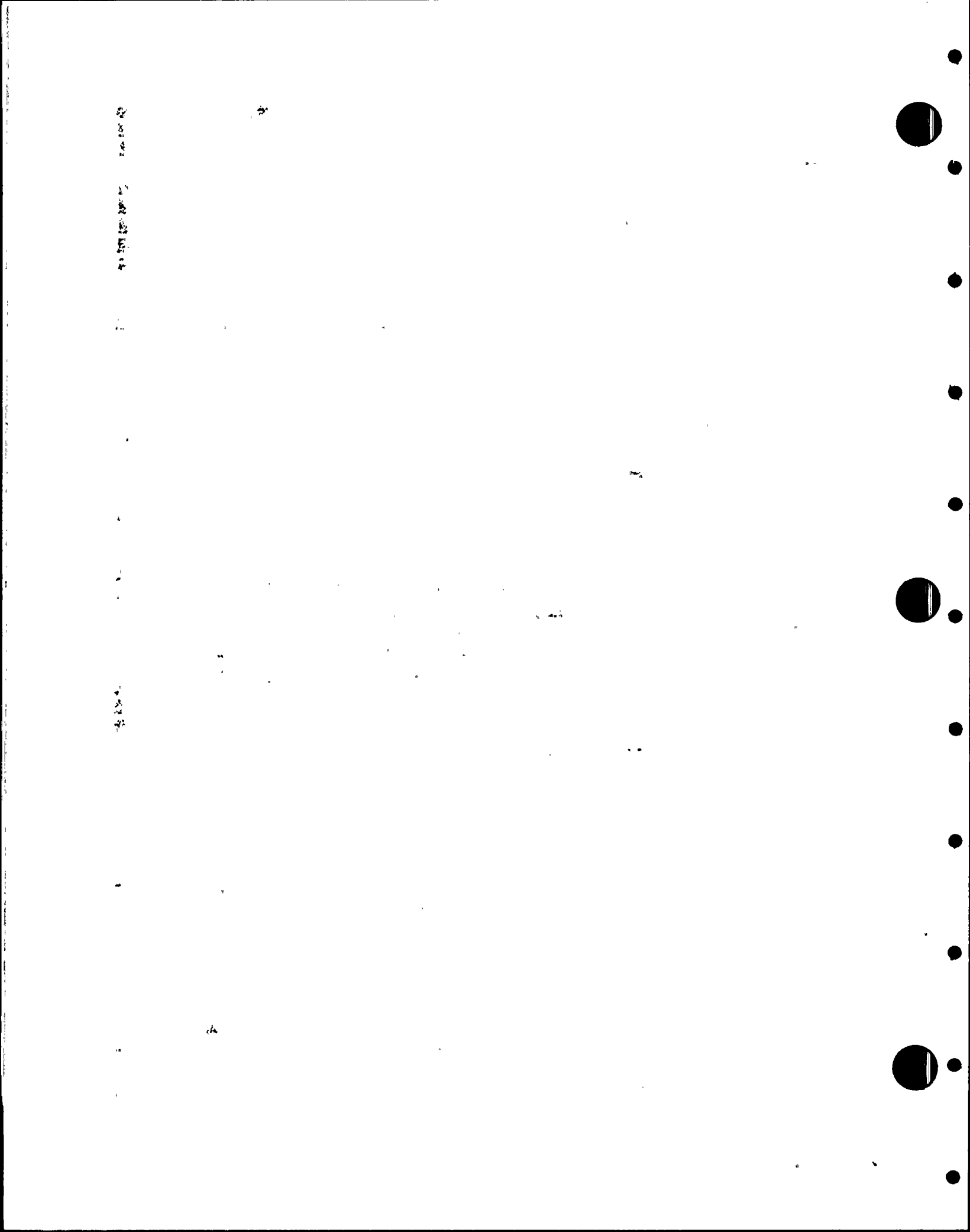
In furtherance of the foregoing, to the fullest extent permitted by law, each Holder of a Note (and each assignee of such Person), by its acceptance thereof, and the Indenture Trustee agree, as a condition to the Notes being secured under this Indenture, that neither such Holder nor the Indenture Trustee will exercise any statutory right to negate the agreements set forth in this Section 3.7.

SECTION 3.8. Place and Medium of Payment.

The principal of and premium, if any, and interest on each Note shall be payable at the Indenture Trustee's Office in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Notwithstanding the foregoing or any provision in any Note to the contrary, if so requested by the Holder of any Note, by written notice to the Indenture Trustee, all amounts (other than the final payment) payable with respect to such obligation shall be paid by crediting the amount to be distributed to such Holder to an account maintained by such Holder with the Indenture Trustee or by the Indenture Trustee's transferring such amount by wire, with such wire transfer to be initiated by such time as to permit, to the extent practicable, oral confirmation thereof (specifying the wire number) to be given no later than 12:00 noon New York City time on the date scheduled for payment, but only to the extent of funds available for such wire transfer, to such other bank in the United States having wire transfer facilities, including a Federal Reserve Bank, as shall have been specified in such notice, for credit to the account of such Holder maintained at such bank, any such credit or transfer pursuant to this Section 3.8 to be in immediately available funds, without any presentment or surrender of such Note. Final payment of any such Note shall be made only against surrender of such Note at the Indenture Trustee's Office.

SECTION 3.9. Prepayment of Notes; Assumption by Lessee; Notice of Assumption or Prepayment.

(a) Notes shall be subject to prepayment (other than through application of the installment payments on such Notes) from time to time only as provided in this Indenture and as otherwise specifically provided, with respect to Notes of a particular series, in such Notes.



(b) In the event of the occurrence of a Deemed Loss Event or Event of Loss or exercise of the Cure Option, and upon receipt by the Indenture Trustee of the documents listed below, all the obligations and liabilities of the Owner Trustee hereunder and under the Notes shall be assumed by the Lessee and the Owner Trustee shall be released and discharged without further act or formality whatsoever from all obligations and liabilities hereunder and under the Notes:

(1) a duly executed Assumption Agreement substantially in the form of Exhibit B to this Indenture;

(2) an opinion of counsel to the Lessee, addressed to the Indenture Trustee and the Holders of the Outstanding Notes, to the effect that the conditions precedent required by this Indenture for such assumption have been complied with, that the Assumption Agreement has been duly authorized, executed and delivered on behalf of the Lessee, that no Governmental Action is necessary or required in connection therewith (or if any such Governmental Action is necessary or required, that the same has been duly obtained and is in full force and effect), and that the Assumption Agreement is a legal, valid and binding agreement and obligation of the Lessee, enforceable in accordance with its terms (except as limited by bankruptcy, insolvency or similar laws of general application affecting the enforcement of creditors' rights generally and equitable principles);

(3) copies of all Governmental Actions referred to in such opinion;

(4) an indenture supplemental to this Indenture which shall, among other things, confirm the release of the Owner Trustee and the Lease Indenture Estate thereby effected and contain provisions appropriately amending references to the Facility Lease in this Indenture;

(5) a certificate of a Responsible Officer of the Lessee stating that, to the best of his knowledge, (i) the conditions precedent required by this Indenture for such assumption have been complied with, (ii) no Indenture Event of Default has occurred and is

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continuing, (iii) such assumption is permitted by the provisions of the Lessee's Articles of Incorporation and By-Laws and (iv) the Lessee is not insolvent within the meaning of any applicable preferential transfer, fraudulent conveyance or bankruptcy law; and

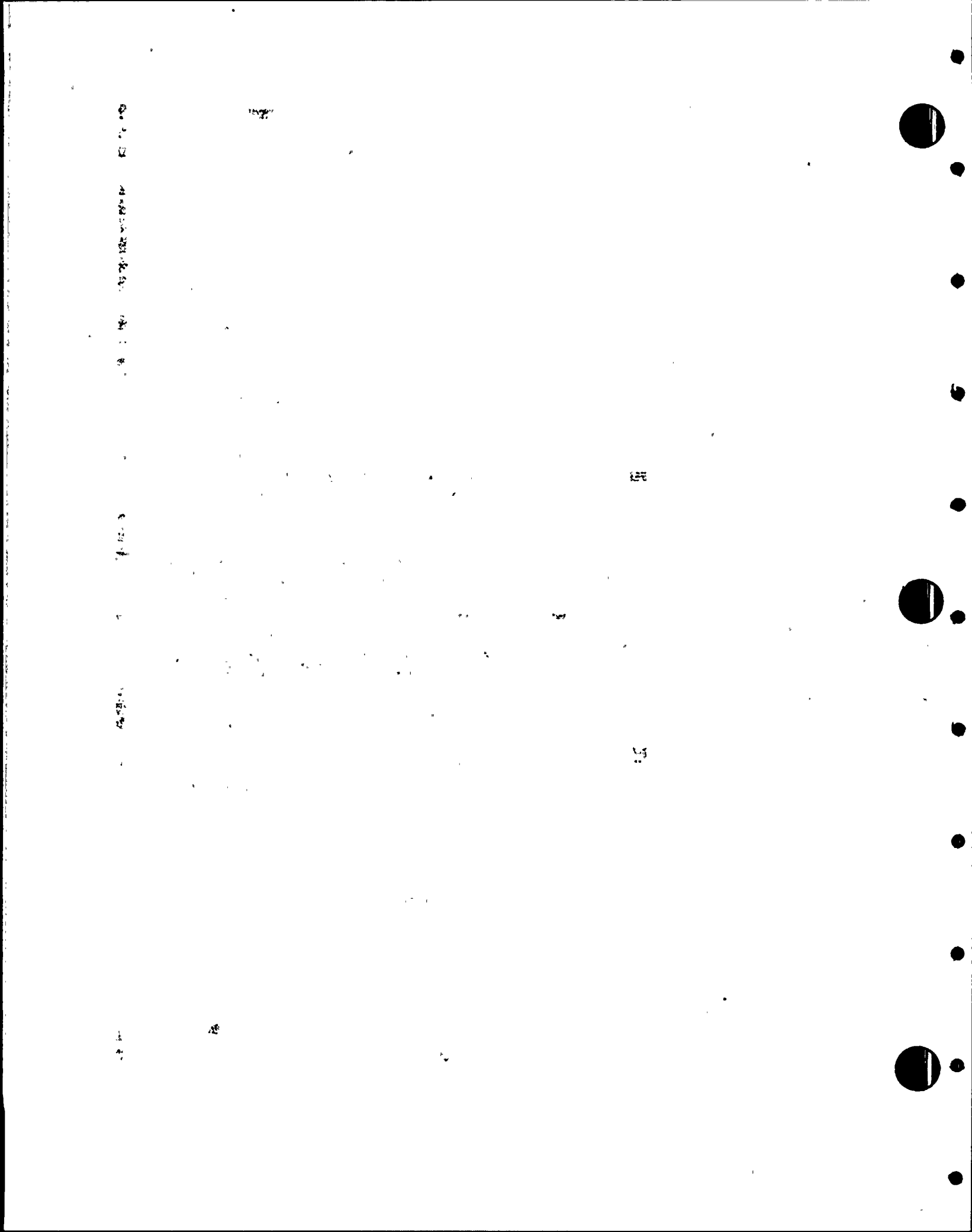
(6) a certificate of a Responsible Officer of the Owner Trustee stating that, to the best of his knowledge, no Indenture Event of Default has occurred and is continuing.

(c) Notice of any assumption or prepayment of Notes shall be given to the registered Holders of the Notes which have been assumed or are to be prepaid (and any assignee of a registered Holder which has given the Indenture Trustee written notice of such assignment) as promptly as practicable after the Indenture Trustee is notified thereof, and, in the case of prepayment, in no event later than 30 days before the date fixed for prepayment (provided the Indenture Trustee receives such notification at least three Business Days before such 30th day) in the event of the exercise by the Owner Trustee of its option to terminate the Facility Lease pursuant to Section 14 thereof.

(d) If the assumption described in paragraph (b) above has not occurred, then, as required by Section 9(j) of the Facility Lease, not less than 2 Business Days prior to the date on which the Lessee is required to make the payments specified in Section 9(c) or 9(d) of the Facility Lease, the Owner Trustee will cause the Undivided Interest and the Real Property Interest to be subjected to the lien of this Indenture by executing and delivering to the Indenture Trustee an Undivided Interest Indenture Supplement substantially in the form of Exhibit C to this Indenture. Subject to Section 10.3 hereof, the Indenture Trustee shall execute and accept delivery from the Owner Trustee of the Undivided Interest Indenture Supplement.

SECTION 3.10. Mutilated, Destroyed, Lost or Stolen Notes.

If any Note shall become mutilated or shall be destroyed, lost or stolen, the Owner Trustee shall, upon the written request of the Holder of such Note, execute, and the Indenture Trustee shall authenticate and deliver in replacement thereof, a new Note, payable in the same original principal amount and dated the same date and of the same series as the Note so mutilated, destroyed, lost or stolen. The Indenture Trustee shall make a



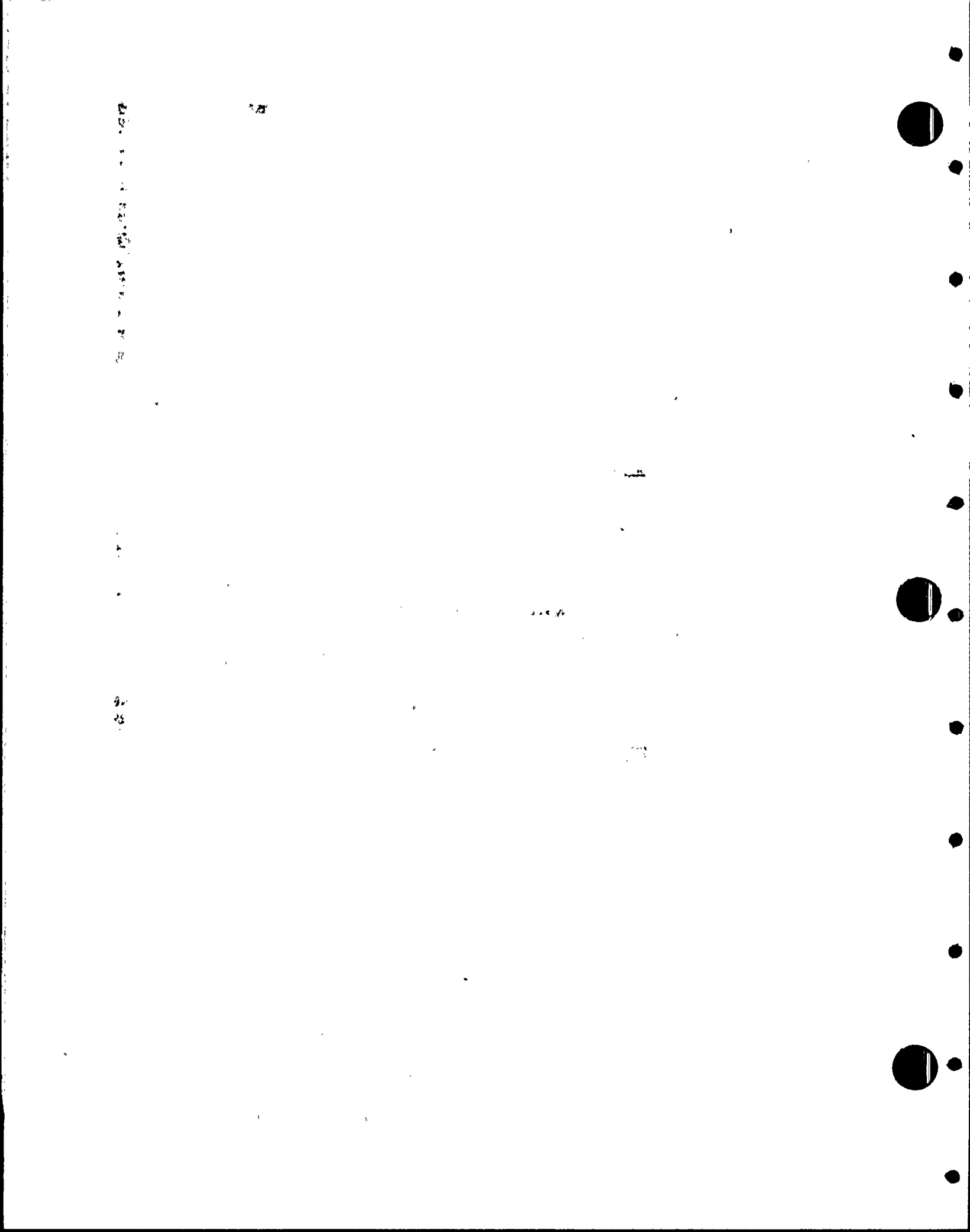
notation on each new Note of the amount of all payments of principal theretofore made on the Note so mutilated, destroyed, lost or stolen and the date to which interest on such old Note has been paid. If the Note being replaced has been mutilated, such Note shall be delivered to the Indenture Trustee who shall then deliver a certificate of destruction of the type required by Section 4.3 hereof. If the Note being replaced has been destroyed, lost or stolen, the Holder of such Note shall furnish to the Lessee, the Owner Trustee and the Indenture Trustee a bond or surety agreement of such Holder as shall be satisfactory to them to save the Lessee, the Owner Trustee, the Indenture Trustee, the Trust Estate and the Lease Indenture Estate harmless from any loss, however remote, including claims for principal of, and premium, if any, and interest on the purportedly destroyed, lost or stolen Note, together with evidence satisfactory to the Lessee, the Owner Trustee and the Indenture Trustee of the destruction, loss or theft of such Note and of the ownership thereof; provided, however, that if the Holder of such Note is the Collateral Trust Trustee, the unsecured written undertaking of the Collateral Trust Trustee, in its individual capacity, shall be sufficient indemnity for purposes of this Section.

SECTION 3.11. Allocation of Principal and Interest.

In the case of each Note, each payment of principal thereof and interest thereon shall be applied, first, to the payment of accrued but unpaid interest on such Note (as well as any interest on overdue principal or, to the extent permitted by law, interest) to the date of such payment, second, to the payment of the principal amount of, and premium, if any, on such Note then due (including any overdue installment of principal) thereunder and third, the balance, if any, remaining thereafter, to the balance of the payment of the principal amount of, and premium, if any, on such Note.

SECTION 3.12. Certain Adjustments to the Amortization Schedule of the Fixed Rate Note due January 15, 2016.

(a) The schedule of principal amortization attached to the Fixed Rate Note due January 15, 2016 may be adjusted at the discretion of the Owner Trustee at one time prior to July 15, 1997; provided, however, that no such adjustment shall be made by the Owner Trustee which will increase or reduce the average life of such



Fixed Rate Note (calculated in accordance with generally accepted financial practice from the date of initial issuance) by more than two years; provided, however, such adjustment may be made only in connection with an adjustment to Basic Rent pursuant to Section 3(d) of the Facility Lease. If the Owner Trustee shall elect to make the foregoing adjustment, the Owner Trustee shall deliver to the Indenture Trustee and to the Lessee at least 60 days prior to the first payment date (specified on the schedule to such Fixed Rate Note) proposed to be affected by such adjustment, a certificate of the Owner Trustee (x) stating that the Owner Trustee has elected to make such adjustment, (y) setting forth the revised schedule of principal amortization for such Fixed Rate Note and (z) attaching calculations showing that the average life of such Fixed Rate Note will not be reduced or increased except as permitted by this Section 3.12(a). The Indenture Trustee may rely on such Owner Trustee certificate and shall have no duty with respect to the calculations referred to in the foregoing clause (z).

(b) If the Lessee, in a timely manner, provides the Owner Trustee and the Owner Participant with information sufficient for the Owner Trustee to direct the adjustments described in paragraph (a) of this Section 3.12, together with a certificate (in form and substance reasonably satisfactory to the Owner Participant) to the effect that such adjustments minimize the aggregate increase or decrease in Basic Rent occurring as a result of the operation of Section 3(d) of the Facility Lease, the Owner Trustee shall deliver to the Indenture Trustee a certificate pursuant to such paragraph (a). Notwithstanding the foregoing, the Owner Participant, the Indenture Trustee and the Owner Trustee may rely on such certificate and shall have no obligation to verify the same.

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ARTICLE IV

REGISTRATION, TRANSFER, EXCHANGE, CANCELLATION AND OWNERSHIP OF NOTES

SECTION 4.1. Register of Notes.

The Indenture Trustee on behalf of the Owner Trustee shall maintain at the Indenture Trustee's Office a register for the purpose of registration, and registration of transfer and exchange, of the Notes by series and in which shall be entered the names and addresses of the owners of such Notes and the principal amounts of the Notes owned by them, respectively. For these purposes, the Indenture Trustee is hereby appointed transfer agent and registrar for the Notes.

SECTION 4.2. Registration of Transfer or Exchange of Notes.

A Holder of a Note intending to register the transfer of any Outstanding Note held by such Holder (including any transfer in the form of a pledge or assignment) or to exchange any Outstanding Note held by such Holder for a new Note or Notes of the same series may surrender such Outstanding Note at the Indenture Trustee's Office, together with the written request of such Holder, or of its attorney duly authorized in writing, in each case with signatures guaranteed, for the registration of such Note in the name of any pledgee or assignee (in the case of a transfer in the form of a pledge or assignment) or for the issuance of a new Note or Notes of the same series, specifying the authorized denomination or denominations of any new Note or Notes to be issued and the name and address of the Person or Persons in whose name or names the Note or Notes are to be registered (either as pledgee or assignee or as owner). Promptly upon receipt by the Indenture Trustee of the foregoing and satisfaction of the requirements of Sections 4.5 and 4.6 hereof, the Indenture Trustee shall register such Note or Notes in the name or names of the Person or Persons as shall be specified in the written request and, in the case in which a new Note or Notes are to be issued, the Owner Trustee shall execute and the Indenture Trustee shall authenticate and deliver such new Note or Notes of the same series, in the same aggregate principal amount and dated the same date as the Outstanding Note surrendered, in such authorized

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denomination or denominations as shall be specified in the written request. The Indenture Trustee shall make a notation on each new Note of the amount of all payments of principal theretofore made on the old Note or Notes in exchange or transfer for which any new Note has been issued and the date to which interest on such old Note or Notes has been paid.

SECTION 4.3. Cancellation of Notes.

All Notes surrendered to the Indenture Trustee for payment in full, prepayment in full or registration of transfer or exchange shall be cancelled by it; and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Indenture Trustee shall destroy cancelled Notes held by it in a manner satisfactory to the Owner Trustee and deliver a certificate of destruction to the Owner Trustee. If the Owner Trustee shall acquire any of the Notes, such acquisition shall not operate as a redemption of or the satisfaction of the indebtedness represented by such Notes unless and until the same shall be delivered to the Indenture Trustee for cancellation.

SECTION 4.4. Limitation on Timing of Registration of Notes.

The Indenture Trustee shall not be required to register transfers or exchanges of Notes on any date fixed for the payment or prepayment of principal of or interest on the Notes or during the fifteen days preceding any such date.

SECTION 4.5. Restrictions on Transfer Resulting from Federal Securities Laws; Legend.

If not prohibited by the Securities Act, each Note shall be delivered to the initial Holder thereof without registration of such Note under the Securities Act and without qualification of this Indenture under the Trust Indenture Act. Prior to any transfer of any Note, in whole or in part, to any Person other than the Collateral Trust Trustee, the Holder thereof shall furnish to the Lessee, the Indenture Trustee and the Owner Trustee an opinion of counsel, which opinion and which counsel shall be reasonably satisfactory to the Indenture Trustee, the Owner Trustee and the Lessee, to the effect that such transfer will not violate the registration provisions of the Securities Act or require

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qualification of this Indenture under the Trust Indenture Act, and all Notes issued hereunder shall be endorsed with a legend which shall read substantially as follows:

This Note has not been registered under the Securities Act of 1933 and may not be transferred, sold or offered for sale in violation of such Act.

SECTION 4.6. Charges upon Transfer or Exchange of Notes.

As a further condition to registration of transfer or exchange of any Note, the Indenture Trustee and the Owner Trustee may charge the Holder thereof for any stamp taxes or governmental charges required to be paid with respect to such registration of transfer or exchange.

SECTION 4.7. Inspection of Register of Notes.

The register of the Holders of the Notes referred to in Section 4.1 shall at all reasonable times be open for inspection by any Holder of a Note. Upon request by any Holder of a Note, or the Owner Trustee or the Lessee, the Indenture Trustee shall furnish such Person, at the expense of such Person, with a list of the names and addresses of all Holders of Notes entered on the register kept by the Indenture Trustee indicating the series, principal amount and number of each Note held by each such Holder.

SECTION 4.8. Ownership of Notes.

(a) Prior to due presentment for registration of transfer of any Note, the Owner Trustee and the Indenture Trustee may deem and treat the Holder of record of such Note as the absolute owner of such Note for the purpose of receiving payment of all amounts payable with respect to such Note and for all other purposes, and neither the Owner Trustee nor the Indenture Trustee shall be affected by any notice to the contrary.

(b) The Owner Trustee and the Indenture Trustee may, in their discretion, treat the Holder of record of any Note as the owner thereof without actual production of such Note for any purpose hereunder,

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except as provided in the last sentence of Section 3.8 hereof.

(c) Neither the Owner Trustee nor the Indenture Trustee shall be bound to take notice of or carry out the execution of any trust in respect of any Note, and may register the transfer of the same on the direction of the Holder of record thereof, whether named as trustee or otherwise, as though such Holder were the beneficial owner thereof.

(d) The receipt by the Holder of record of any Note of any payment of principal, premium or interest shall be a good discharge to the Owner Trustee and the Indenture Trustee for the same and neither the Owner Trustee nor the Indenture Trustee shall be bound to inquire into the title of any such Holder.

ARTICLE V

RECEIPT, DISTRIBUTION AND APPLICATION OF INCOME AND PROCEEDS FROM THE LEASE INDENTURE ESTATE

SECTION 5.1. Basic Rent, Interest on Overdue Installments of Basic Rent and Prepayments of Interest.

Except as otherwise provided in Section 5.3 or 5.7 hereof, each payment of Basic Rent, as well as any payment of Supplemental Rent representing interest on overdue installments of Basic Rent, received by the Indenture Trustee at any time, shall be distributed by the Indenture Trustee in the following order of priority: first, so much of such payment as shall be required to pay in full the aggregate amount of the payment or payments of principal and/or interest (as well as any interest on overdue principal or, to the extent permitted by law, interest) then due and unpaid on all Notes shall be distributed to the Holders of the Notes ratably, without priority of one over the other, in the proportion that the aggregate amount of such payment or payments then due and unpaid on all Notes held by each such Holder on such date bears to the aggregate amount of such payment or payments then due and unpaid on all Notes outstanding on such date, without priority of interest over principal or principal over interest; and second, the balance, if any, of such payment remaining

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thereafter shall be distributed, concurrently with any distribution pursuant to clause first hereof, to the Owner Trustee or as the Owner Trustee may direct. If there shall not otherwise have been distributed on any date (or within any applicable period of grace), pursuant to this Section 5.1, the full amount then distributable pursuant to clause first of this Section 5.1, the Indenture Trustee shall distribute other payments referred to in Sections 5.4 and 5.5 then held by it or thereafter received by it, except as otherwise provided in Section 5.3, to the Holders of all Notes to the extent necessary to enable it to make all the distributions then due pursuant to such clause first; provided that to the extent any distribution is made from amounts held pursuant to Section 5.4 hereof and the Lessee subsequently makes the payment of Basic Rent or Supplemental Rent in respect of which such distribution was made, such payment of Basic Rent or Supplemental Rent shall, unless an Indenture Default or an Indenture Event of Default shall have occurred and be continuing, be applied to the purpose for which such amount held pursuant to Section 5.4 had been held, subject, in all cases, to the terms of Section 5.4. The portion of each such payment made to the Indenture Trustee which is to be distributed by the Indenture Trustee in payment of Notes shall be applied in accordance with Section 3.11. Any payment received by the Indenture Trustee pursuant to Section 6.8 shall be distributed to the Holders of the Notes, ratably, without priority of one over the other, in the proportion that the amount of such payment or payments then due and unpaid on all Notes held by each such Holder bears to the aggregate amount of the payments then due and unpaid on all Notes Outstanding. Amounts distributed by the Indenture Trustee pursuant to this Section 5.1 shall be distributed as promptly as practicable after such amounts are actually received by the Indenture Trustee; provided, however, that in the event the Indenture Trustee shall be directed to make payments to the Holder of any Note by wire transfer in accordance with Section 3.8 hereof, any amounts received by the Indenture Trustee after 11:00 A.M., New York City time, may be distributed on the following Business Day.

SECTION 5.2. Amounts Received as Result of Event of Loss, Deemed Loss Event, Exercise of Option to Terminate or Exercise of Cure Option.

If an Event of Loss or Deemed Loss Event shall occur or the Lessee shall exercise the Cure Option, and if either the Assumption Agreement or the Undivided

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Interest Indenture Supplement shall have been executed and delivered, any amounts of Casualty Value, Special Casualty Value or Fair Market Sales Value received or held by the Indenture Trustee in respect of such Event of Loss or Deemed Loss Event or exercise of the Cure Option shall, except as otherwise provided in Section 5.3, be distributed forthwith to the Owner Participant. If the Lessee or the Owner Trustee, as the case may be, shall exercise its option to terminate the Facility Lease pursuant to Section 14 thereof, then there shall be prepaid, on the date payments of proceeds with respect thereto are received by the Indenture Trustee (or as soon thereafter as practicable) under Section 14 of the Facility Lease, the unpaid principal amount of all Notes, together with the premium, if any, and all accrued but unpaid interest thereon to the date of such prepayment. Notice of such prepayment shall be given as provided in Section 3.9(c) and may provide that it is subject to receipt of funds for such prepayment. Except as otherwise provided in Section 5.3 or 5.7, any payments received and amounts realized by the Indenture Trustee upon exercise of the Lessee's or the Owner Trustee's option to terminate the Facility Lease under Section 14 thereof shall in each case be distributed on the date of prepayment as provided in clauses first, second and fifth of Section 5.3.

SECTION 5.3. Amounts Received After, or Held at Time of, Indenture Event of Default under Section 6.2.

Except as otherwise provided in Section 5.7, all payments received and amounts realized by the Indenture Trustee in respect of the Lease Indenture Estate (including any amounts realized by the Indenture Trustee from the exercise of any remedies pursuant to the Facility Lease or Article VI of this Indenture) after an Indenture Event of Default referred to in Section 6.2 shall have occurred and be continuing and the Notes have been accelerated pursuant to Section 7.1, as well as all payments thereafter received or amounts then held by the Indenture Trustee as part of the Lease Indenture Estate, shall be distributed by the Indenture Trustee in the following order of priority:

first, so much of such payments or amounts as shall be required to reimburse the Indenture Trustee for any Trustee's Expenses (to the extent not previously reimbursed) and to pay the reasonable remuneration of the Indenture Trustee, shall be

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applied by the Indenture Trustee to such reimbursement and payment;

second, so much of such payments or amounts remaining as shall be required to pay in full the aggregate unpaid principal amount of all Notes, together with premium, if any, plus accrued but unpaid interest (as well as interest on overdue principal and, to the extent permitted by law, on overdue interest) thereon to the date of distribution, shall be distributed to the Holders of such Notes and in case the aggregate amount so to be distributed shall be insufficient to pay all such Notes in full as aforesaid, then ratably, without priority of one over the other, in the proportion that the aggregate unpaid principal amount of all such Notes held by each such Holder, together with premium, if any, plus accrued but unpaid interest thereon to the date of distribution bears to the aggregate unpaid principal amount of all Notes, together with premium, if any, plus accrued but unpaid interest thereon to the date of distribution;

third, so much of such payments or amounts remaining as shall be required to pay the present or former Holders of the Notes the amounts payable to them as Indemnitees (to the extent not previously reimbursed) shall be distributed to such Holders; and in case the aggregate amount so to be paid to all such Holders in accordance with this clause third shall be insufficient to pay all such amounts as aforesaid, then ratably, without priority of one over the other, in the proportion that the amount of such indemnity or other payments to which such Person is entitled bears to the aggregate amount of such indemnity or other payments to which all such Persons are entitled;

fourth, the balance, if any, of such payments or amounts remaining shall be applied to the payment of any other indebtedness at the time due and owing to the Indenture Trustee or the Holders of the Notes which this Indenture by its terms secures; and

fifth, the balance, if any, of such payments or amounts remaining thereafter shall be distributed to or upon the direction of the Owner Trustee.

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SECTION 5.4. Amounts Received for Which Provision Is Made in a Transaction Document.

Except as otherwise provided in Section 5.1, 5.3 or 5.7 hereof, any payments received by the Indenture Trustee in respect of the Lease Indenture Estate for which provision as to the application thereof is made in a Transaction Document shall be applied to the purpose for which such payment was made in accordance with the terms of such Transaction Document, as determined, in the first instance, from instructions or other information accompanying such payment, or, otherwise, in accordance with instructions from the payor of such payments.

SECTION 5.5. Amounts Received for Which No Provision Is Made.

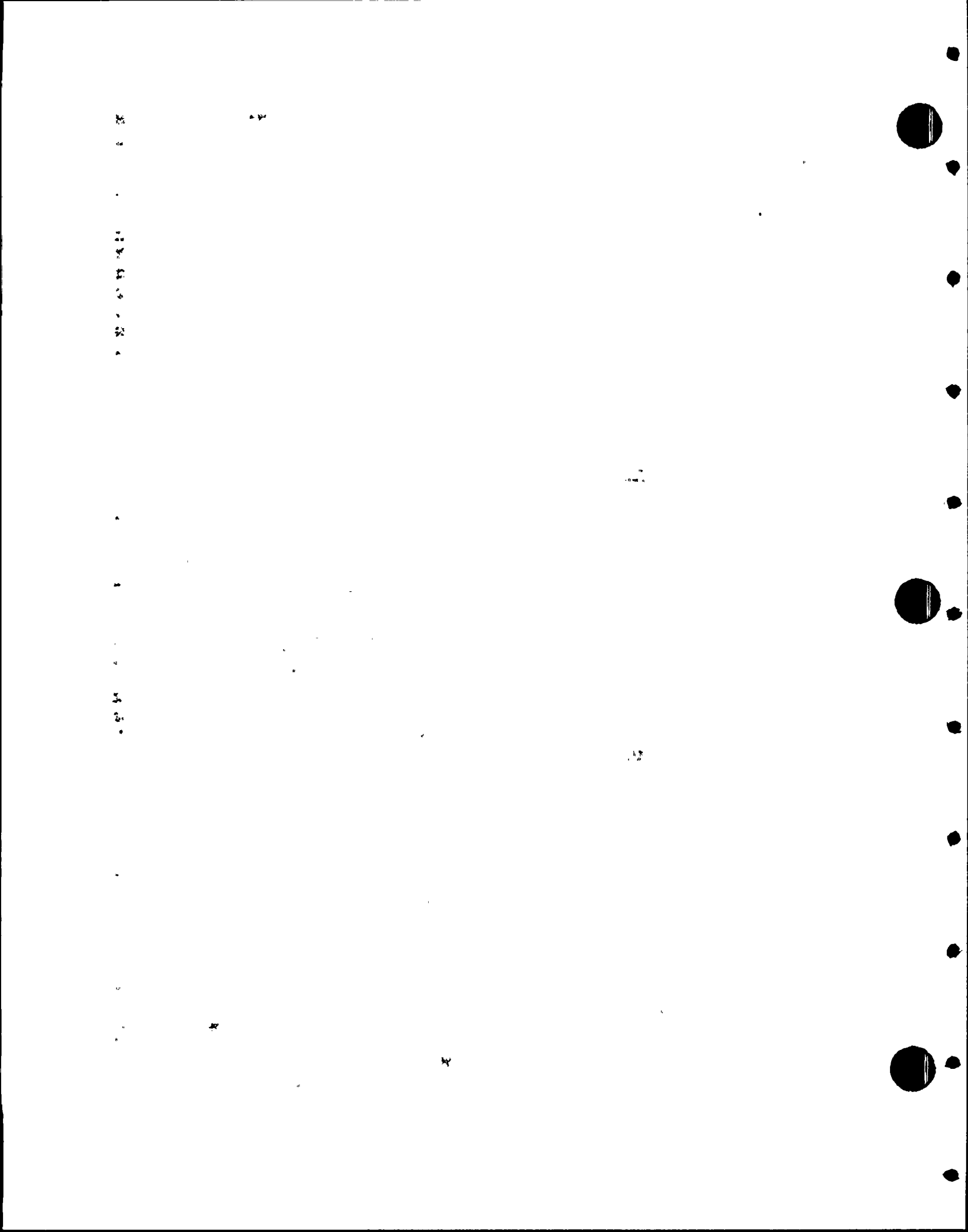
Except as otherwise provided in Section 5.1, 5.2, 5.3 or 5.7, any payments received and any amounts realized by the Indenture Trustee in respect of the Lease Indenture Estate

(a) for which no provision as to the application thereof is made in a Transaction Document or elsewhere in this Article V shall be held by the Indenture Trustee as part of the Lease Indenture Estate, and

(b) to the extent received or realized at any time after payment in full of the principal of and premium, if any, and interest on all the Notes, as well as any other amounts remaining as part of the Lease Indenture Estate after payment in full of the principal of and premium, if any, and interest on all the Notes, shall be distributed by the Indenture Trustee in the order of priority set forth in Section 5.3 (omitting clause second thereof).

SECTION 5.6. Payments to Owner Trustee.

Unless otherwise directed by the Owner Trustee, all payments to be made to the Owner Trustee hereunder shall be made to the Owner Participant by wire transfer of immediately available funds as soon as practicable but in any event no later than the close of business on the date of receipt (assuming the Indenture Trustee has received such funds prior to 11:00 a.m. New York City time on the same day), to such account at such



bank or trust company as the Owner Participant shall from time to time designate in writing to the Indenture Trustee.

SECTION 5.7. Excepted Payments.

Anything in this Article V or elsewhere in this Indenture to the contrary notwithstanding, any Excepted Payment received at any time by the Indenture Trustee shall be distributed as promptly as practicable to the Person entitled to receive such Payment (such entitlement to be conclusively determined by reference to payment instructions from such Person).

ARTICLE VI

REPRESENTATIONS, WARRANTIES AND COVENANTS OF OWNER TRUSTEE; EVENTS OF DEFAULT; REMEDIES OF THE INDENTURE TRUSTEE

SECTION 6.1. Representations, Warranties and Covenants of Owner Trustee.

The Owner Trustee hereby covenants and agrees that (i) it will duly and punctually pay the principal of, and premium, if any, and interest on, the Notes in accordance with the terms thereof and this Indenture, (ii) it will not pledge, create a security interest in or mortgage, so long as this Indenture shall remain in effect, any of its estate, right, title or interest in and to the Lease Indenture Estate or otherwise constituting part of the Trust Estate, to anyone other than the Indenture Trustee; (iii) so long as this Indenture shall remain in effect, it will not purchase or agree to purchase any property or asset other than the Undivided Interest and the Real Property Interest and other than as contemplated by the Transaction Documents, (iv) it will not, except with the prior written concurrence of the Indenture Trustee or as expressly provided in or permitted by this Indenture or with respect to the Trust Agreement or any property not constituting part of the Lease Indenture Estate, take any action which would result in an impairment of any Note or the obligation of the Lessee to pay any amount under the Facility Lease which is part of the Lease Indenture Estate (not in any event including in respect of Excepted Payments) or any

of the other rights or security created or effected thereby, or (v) issue, or incur any obligation in respect of, indebtedness for borrowed money except for its obligations in respect of Notes.

A signed copy of any amendment or supplement to the Trust Agreement shall be delivered by the Owner Trustee to the Indenture Trustee and the Lessee. This Indenture and the Lease Indenture Estate shall not be affected by any action taken under or in respect of the Trust Agreement except as otherwise provided in or permitted by this Indenture. The Trust Agreement may not in any event be terminated by the Owner Participant or the Owner Trustee or revoked by the Owner Participant so long as any of the Notes or any unpaid obligations under this Indenture remain Outstanding. The Owner Trustee may resign as Owner Trustee, appoint a successor Owner Trustee and take all necessary and proper action to constitute one or more Persons as co-trustee(s) jointly with the Owner Trustee or as separate trustee(s), all in accordance with the terms and conditions of Article IX of the Trust Agreement.

SECTION 6.2. Indenture Events of Default.

The term Indenture Event of Default, wherever used herein, shall mean any of the following events (whatever the reason for such Indenture Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) any of the Events of Default specified in the following clauses of Section 15 of the Facility Lease: (1) clause (i)(y), except a failure of the Lessee to pay any amount which shall constitute an Excepted Payment; (2) clause (i)(x), except a failure of the Lessee to pay any amount which shall constitute an Excepted Payment or except where the Owner Trustee shall not have rescinded or terminated the Facility Lease pursuant to Section 16(a)(i) of the Facility Lease; or (3) clause (vii); or

(b) the rescission or termination of, or the taking of action by the Owner Trustee or the Owner Participant the effect of which would be to rescind or terminate, the Facility Lease, whether pursuant to Section 16(a)(i) of the Facility Lease or otherwise; or

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(c) any failure by the Lessee to perform and observe Section 10(b)(3)(iii) of the Participation Agreement; or

(d) the Owner Trustee shall fail to make any payment in respect of the principal of, or premium, if any, or interest on, the Notes within ten (10) Business Days after the same shall have become due (other than by virtue of any failure by the Lessee to make any payment of Rent therefor); or

(e) the Owner Trustee shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 6.1 of this Indenture, or the Owner Participant shall fail to perform or observe any covenant or agreement to be performed or observed by it under Section 7(b)(1) of the Participation Agreement and, in any such case, such failure shall continue for a period of 30 days after notice thereof shall have been given to the Owner Trustee, the Owner Participant and the Lessee by the Indenture Trustee, specifying such failure and requiring it to be remedied.

SECTION 6.3. Enforcement of Remedies.

(a) In the event that an Indenture Event of Default shall have occurred and be continuing, then and in every such case the Indenture Trustee, subject to paragraph (b) of this Section 6.3 and Section 6.11, may, and when required pursuant to the provisions of Article VII hereof shall, exercise any or all of the rights and powers and pursue, subject to the rights of the Lessee under the Facility Lease, (x) in the event such Indenture Event of Default is referred to in paragraph (d) or (e) of Section 6.2, any or all of the remedies then available pursuant to this Article VI and Article VII, or (y) in the event such Indenture Event of Default is referred to in paragraph (a), (b) or (c) of Section 6.2, any or all of such remedies concurrently with the exercise and pursuit by the Owner Trustee of any or all of the remedies then available to the Owner Trustee under the Facility Lease.

(b) Any provisions of the Facility Lease or this Indenture to the contrary notwithstanding, if the Lessee shall fail to pay any Excepted Payment to any Person entitled thereto as and when due, such Person shall have the right at all times, to the exclusion of the Indenture Trustee, to demand, collect, sue for, enforce performance of obligations relating to, or

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otherwise obtain all amounts due in respect of such Excepted Payment.

SECTION 6.4. Specific Remedies; Enforcement of Claims without Possession of Notes.

Subject to Sections 6.2, 6.3 and 6.11 hereof and the terms of the documents constituting a part of the Lease Indenture Estate, upon the occurrence and during the continuance of an Indenture Event of Default:

(a) The Indenture Trustee may, in order to enforce the rights of the Indenture Trustee and of the Holders of the Notes, direct payment to it of all moneys and enforce any agreement or undertaking constituting a part of the Lease Indenture Estate by any action, suit, remedy or proceeding authorized or permitted by this Indenture or by law or by equity, and whether for the specific performance of any agreement contained herein, or for an injunction against the violation of any of the terms hereof, or in aid of the exercise of any power granted hereby or by Applicable Law, and in addition may sell, assign, transfer and deliver, from time to time to the extent permitted by Applicable Law, all or any part of the Lease Indenture Estate or any interest therein, at any private sale or public auction with or without demand, advertisement or notice (except as herein required or as may be required by Applicable Law) of the date, time and place of sale and any adjournment thereof, for cash or credit or other property, for immediate or future delivery and for such price or prices and on such terms as the Indenture Trustee, in its uncontrolled discretion, may determine, or as may be required by Applicable Law, so long as the Owner Participant and the Owner Trustee are afforded a commercially reasonable opportunity to bid for all or such part of the Lease Indenture Estate in connection therewith. It is agreed that 90 days' notice to the Owner Participant, the Owner Trustee and the Lessee of the date, time and place of any proposed sale by the Indenture Trustee of all or any part of the Lease Indenture Estate or interest therein is reasonable. The Indenture Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee and of the Holders of the Notes asserted or upheld in any bankruptcy, receivership or other judicial proceedings.

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(b) Without limiting the foregoing, the Indenture Trustee, its assigns and its legal representatives, subject to the rights of the Lessee under the Facility Lease, shall have as to such of the Lease Indenture Estate as is subject to the Uniform Commercial Code or similar law in each relevant jurisdiction all the remedies of a secured party under the Uniform Commercial Code or similar law in such jurisdiction and such further remedies as from time to time may hereafter be provided in such jurisdiction for a secured party.

(c) All rights of action and rights to assert claims under this Indenture or under any of the Notes may be enforced by the Indenture Trustee without the possession of the Notes at any trial or other proceedings instituted by the Indenture Trustee, and any such trial or other proceedings shall be brought in its own name as trustee of an express trust, and any recovery or judgment shall be for the ratable benefit of the Holders of the Notes as herein provided. In any proceedings brought by the Indenture Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Indenture Trustee shall be a party) the Indenture Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any such Holders parties to such proceedings.

(d) The Indenture Trustee may exercise any other right or remedy that may be available to it under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

SECTION 6.5. Rights and Remedies Cumulative.

Subject to Sections 6.2, 6.3 and 6.11 hereof, (a) each and every right, power and remedy herein specifically given to the Indenture Trustee under this Indenture shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time and as often and in such order as may be deemed expedient by the Indenture Trustee and the exercise or the beginning of the exercise of any right, power or remedy shall not be construed to be a waiver of the right to exercise at

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the same time or thereafter any other right, power or remedy, and (b) no delay or omission by the Indenture Trustee in the exercise of any right, power or remedy or in the pursuance of any remedy shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of the Owner Participant, the Owner Trustee or the Lessee or to be an acquiescence therein.

SECTION 6.6. Restoration of Rights and Remedies.

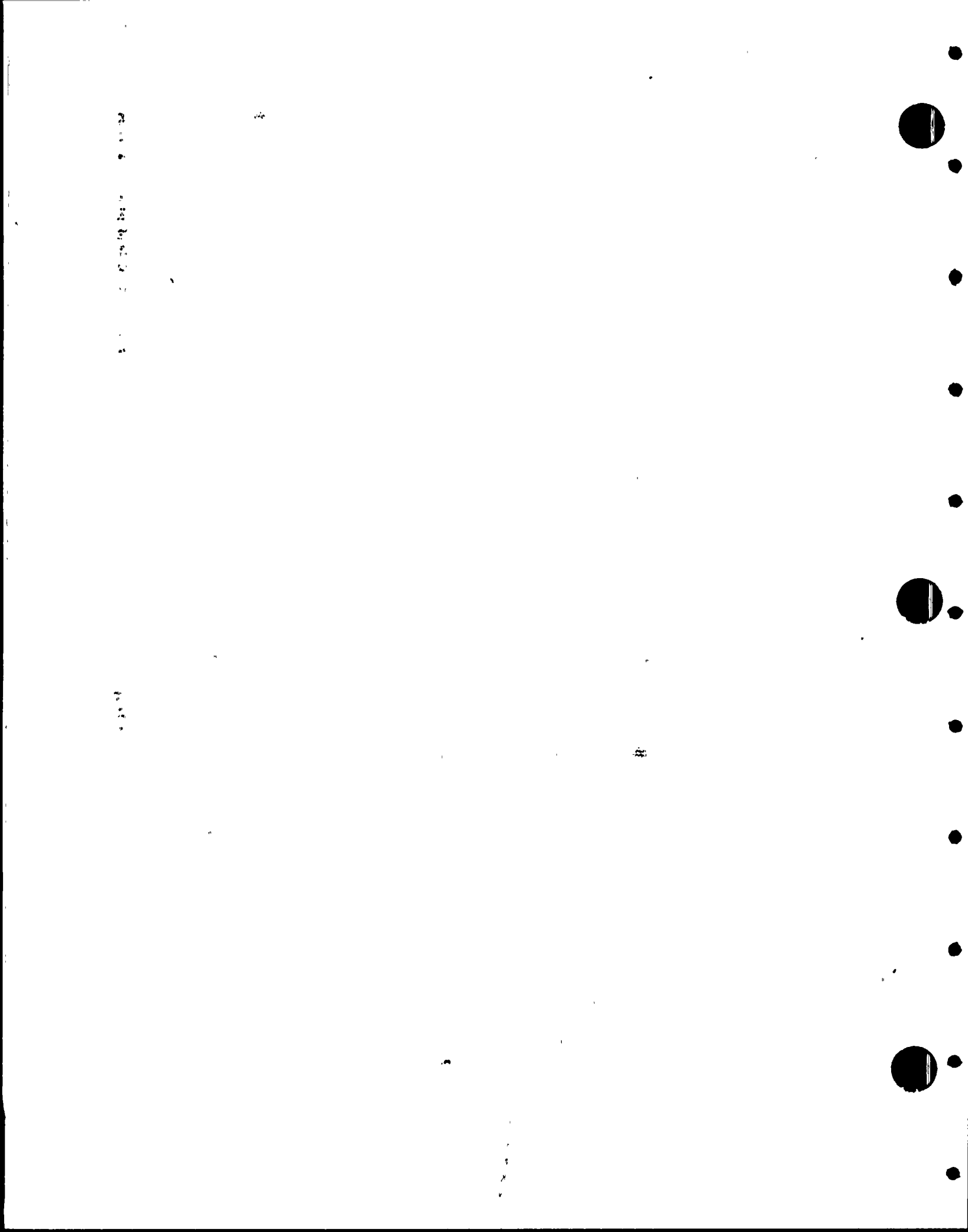
In case the Indenture Trustee shall have proceeded to enforce any right, power or remedy under this Indenture by foreclosure, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Indenture Trustee, then and in every such case the Owner Trustee, the Owner Participant, the Indenture Trustee and the Lessee shall be restored to their former positions and rights hereunder with respect to the Lease Indenture Estate, and all rights, powers and remedies of the Indenture Trustee shall continue as if no such proceedings had been taken.

SECTION 6.7. Waiver of Past Defaults.

Any past Indenture Default or Indenture Event of Default and its consequences may be waived by the Indenture Trustee, except an Indenture Default or an Indenture Event of Default (i) in the payment of the principal of or interest on any Note, subject to the provisions of Section 7.1 hereof, or (ii) in respect of a covenant or provision hereof which, under Section 10.2 hereof, cannot be modified or amended without the consent of each Holder of a Note then Outstanding. Upon any such waiver, such Indenture Default or Indenture Event of Default shall cease to exist, and any other Indenture Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Indenture Default or Indenture Event of Default or impair any right consequent thereon.

SECTION 6.8. Right of Owner Trustee to Pay Rent; Note Purchase; Substitute Lessee.

Anything in this Article VI or Article VII to the contrary notwithstanding:



(a) an Indenture Event of Default shall be deemed cured if such Indenture Event of Default results from non-payment of Basic Rent or Supplemental Rent under the Facility Lease, and the Owner Trustee or the Owner Participant shall have paid all principal of and interest on the Notes due (other than by acceleration) on the date such Basic Rent was payable (plus interest on such amount as required hereby) within 20 days after the receipt by the Owner Trustee of notice of such non-payment, such receipt to be evidenced by, among other things, any notice thereof given to the Owner Trustee in accordance with the notice provisions of the Participation Agreement. The Owner Trustee or the Owner Participant, upon exercising cure rights under this paragraph (a), shall not obtain any Lien on any part of the Lease Indenture Estate on account of such payment for the costs and expenses incurred in connection therewith nor, except as expressly provided in the succeeding sentence, shall any claims of the Owner Trustee or the Owner Participant against the Lessee or any other Person for the repayment thereof impair the prior right and security interest of the Indenture Trustee in and to the Lease Indenture Estate. Upon any payment by the Owner Trustee or the Owner Participant pursuant to this Section 6.8, the Owner Trustee or the Owner Participant, as the case may be, shall (to the extent of such payment made by it) be subrogated to the rights of the Indenture Trustee and the Holders of the Notes to receive the payment of Rent with respect to which the Owner Trustee or the Owner Participant made such payment and interest on account of such Rent payment being overdue in the manner set forth in the next sentence. If the Indenture Trustee shall thereafter receive such payment of Rent or such interest, the Indenture Trustee shall, notwithstanding the requirements of Section 5.1, on the date such payment is received by the Indenture Trustee, remit such payment of Rent (to the extent of the payment made by the Owner Trustee or the Owner Participant pursuant to this Section 6.8) and such interest to the Owner Trustee or the Owner Participant, as the case may be, in reimbursement for the funds so advanced by it.

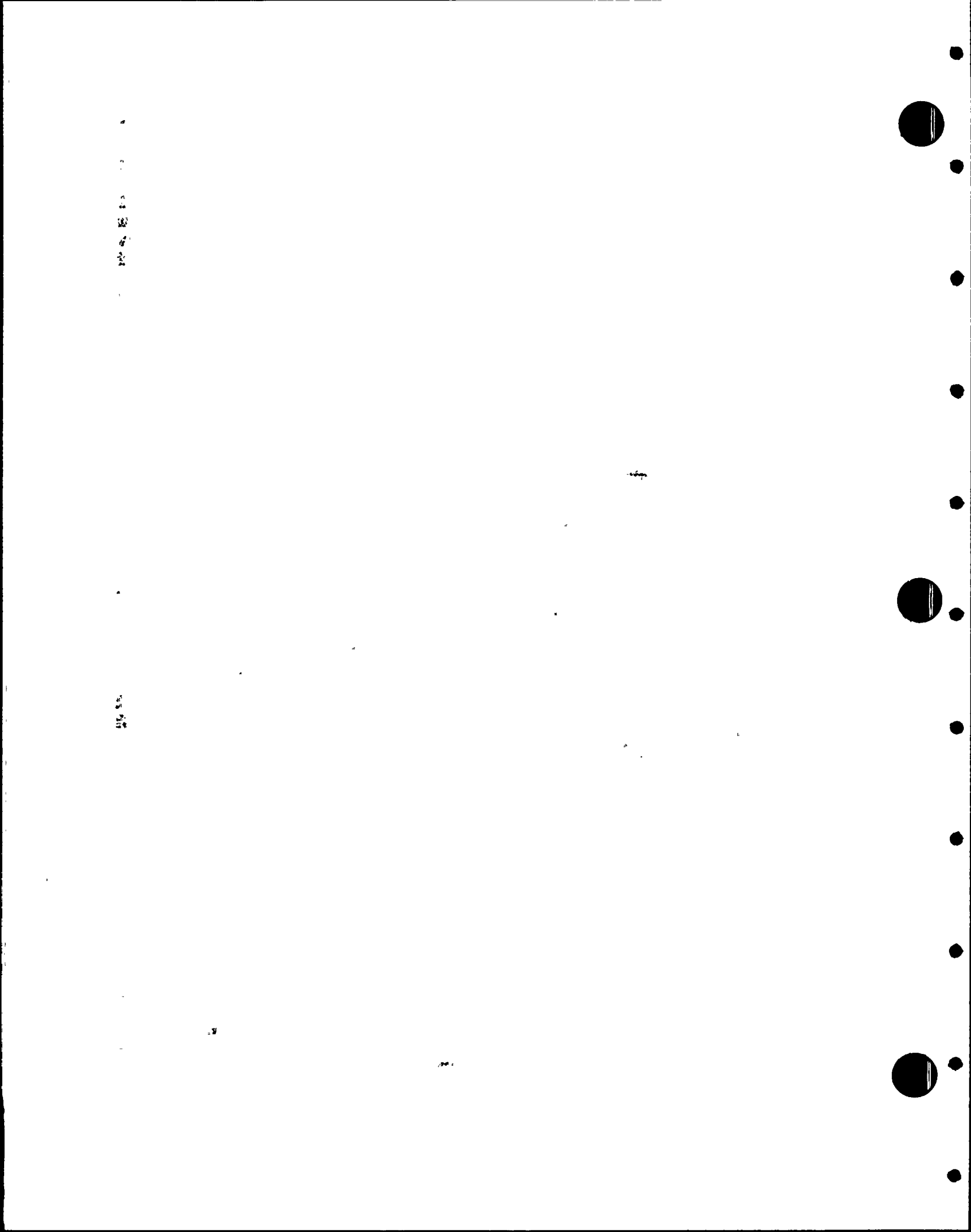
(b) Each Holder of a Note agrees, by acceptance thereof, that if the Notes have been accelerated pursuant to Section 7.1, and the Owner Trustee, within 30 days after receiving notice from the Indenture Trustee pursuant to Section 7.1 hereof, shall give written notice to the Indenture Trustee of the Owner Trustee's intention to purchase all of the Notes in accordance with this paragraph, accompanied by

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assurances of the Owner Trustee to purchase the Notes, then, upon receipt within 10 Business Days after such notice from the Owner Trustee of an amount equal to the aggregate unpaid principal amount of and any premium with respect to any unpaid Notes then held by such Holder, together with accrued but unpaid interest thereon to the date of such receipt (as well as any interest on overdue principal and, to the extent permitted by law, interest), such Holder will forthwith sell; assign, transfer and convey to the Owner Trustee (without recourse or warranty of any kind other than of title to the Notes so conveyed) all of the right, title and interest of such Holder in and to the Lease Indenture Estate, this Indenture and all Notes held by such Holder; provided, that no such Holder shall be required so to convey unless (1) the Owner Trustee shall have simultaneously tendered payment for all other Notes issued by the Owner Trustee at the time Outstanding pursuant to this paragraph and (2) such conveyance is not in violation of any Applicable Law.

(c) Each Holder of a Note further agrees by its acceptance thereof that the Owner Trustee shall have the right, pursuant to Section 16 of the Facility Lease, to terminate the Facility Lease and, in connection therewith, to arrange for the substitution of another Person as lessee under a new lease substantially similar to the Facility Lease (hereinafter the Substituted Lessee) and, subject to: (i) any Indenture Event of Default under paragraphs (d) and (e) of Section 6.2 having been cured by the Owner Trustee, (ii) the Substituted Lessee's assuming all of the obligations of the Lessee under the Facility Lease and (iii) the Substituted Lessee's having an assigned credit rating by Standard & Poor's Corporation and Moody's Investors Service, Inc. (or, if either of such organizations shall not rate securities issued by such Substituted Lessee, by any other nationally recognized rating organization in the United States of America) with respect to at least one series of its debt obligations or preferred stock equal to or better than the ratings assigned, immediately prior to such substitution, by such organizations to comparable securities of the Lessee immediately prior to such substitution but in no event less than "investment grade", then the Facility Lease between the Owner Trustee and such Substituted Lessee shall, for all purposes of this Indenture, be deemed to be the Facility Lease subject to the lien of this Indenture.



SECTION 6.9. Further Assurances.

Subject to Section 7.6 hereof, the Owner Trustee covenants and agrees from time to time to do all such acts and execute all such instruments of further assurance as shall be reasonably requested by the Indenture Trustee for the purpose of fully carrying out and effectuating this Indenture and the intent hereof.

SECTION 6.10. Right of Indenture Trustee To Perform Covenants, etc.

If the Owner Trustee shall fail to make any payment or perform any act required to be made or performed by it hereunder or under the Facility Lease or if the Owner Trustee shall fail to release any Lien affecting the Lease Indenture Estate which it is required to release by the terms of this Indenture, the Indenture Trustee, without notice to or demand upon the Owner Trustee and without waiving or releasing any obligation or default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of the Lease Indenture Estate. All sums so paid by the Indenture Trustee and all costs and expenses (including without limitation reasonable fees and expenses of legal counsel and other professionals) so incurred, together with interest thereon from the date of payment or occurrence, shall constitute additional indebtedness secured by this Indenture and shall be paid from the Lease Indenture Estate to the Indenture Trustee on demand. The Indenture Trustee shall not be liable for any damages resulting from any such payment or action unless such damages shall be a consequence of willful misconduct or gross negligence on the part of the Indenture Trustee.

SECTION 6.11. Certain Other Rights of the Owner Trustee.

Notwithstanding any provision to the contrary in this Indenture, the Owner Trustee shall at all times retain, to the exclusion of the Indenture Trustee, all rights of the Owner Trustee to exercise any election or option or to make any decision or determination or to give or receive any notice, consent, waiver or approval or to take any other action under or in respect of the Facility Lease, as well as all rights, powers and remedies on the part of the Owner Trustee, whether arising under the Facility Lease or by statute or at law or in equity or otherwise, arising out of any Default or Event

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of Default subject, however, to Section 10.2. Without the prior written consent of the Indenture Trustee, the exercise of any of the aforesaid rights so retained by the Owner Trustee shall not be exercised in such a manner as to (i) reduce the amounts payable by the Lessee under the Facility Lease below the amounts necessary to provide the Owner Trustee with sufficient monies to make timely payments in full of amounts due with respect to the principal of and premium, if any, and interest on all Notes or (ii) rescind or terminate the Facility Lease pursuant to Section 16 thereof. Nor shall the Owner Trustee exercise any other right or remedy under the Facility Lease the effect of which would be to effect such rescission or termination.

ARTICLE VII

CERTAIN DUTIES OF THE OWNER TRUSTEE AND THE INDENTURE TRUSTEE

SECTION 7.1: Duties in Respect of Events of Default, Deemed Loss Events and Events of Loss; Acceleration of Maturity.

In the event the Owner Trustee shall have actual knowledge of an Indenture Event of Default, an Event of Default, a Deemed Loss Event or an Event of Loss, the Owner Trustee shall give prompt written notice thereof to the Owner Participant, the Lessee and the Indenture Trustee. In the event the Indenture Trustee shall have actual knowledge of an Event of Default, an Indenture Event of Default, a Deemed Loss Event or an Event of Loss, the Indenture Trustee shall give prompt written notice thereof to the Owner Participant, the Owner Trustee, the Lessee and each Holder of a Note. Subject to the terms of Sections 6.2, 6.3, 6.4, 6.8, 6.11 and 7.3 hereof, (a) the Indenture Trustee shall take such action (including the waiver of past Defaults in accordance with Section 6.7 hereof), or refrain from taking such action, with respect to any such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss as the Indenture Trustee shall be instructed by a Directive, (b) if the Indenture Trustee shall not have received instructions as above provided within 20 days after mailing by the Indenture Trustee of notice of such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss to the

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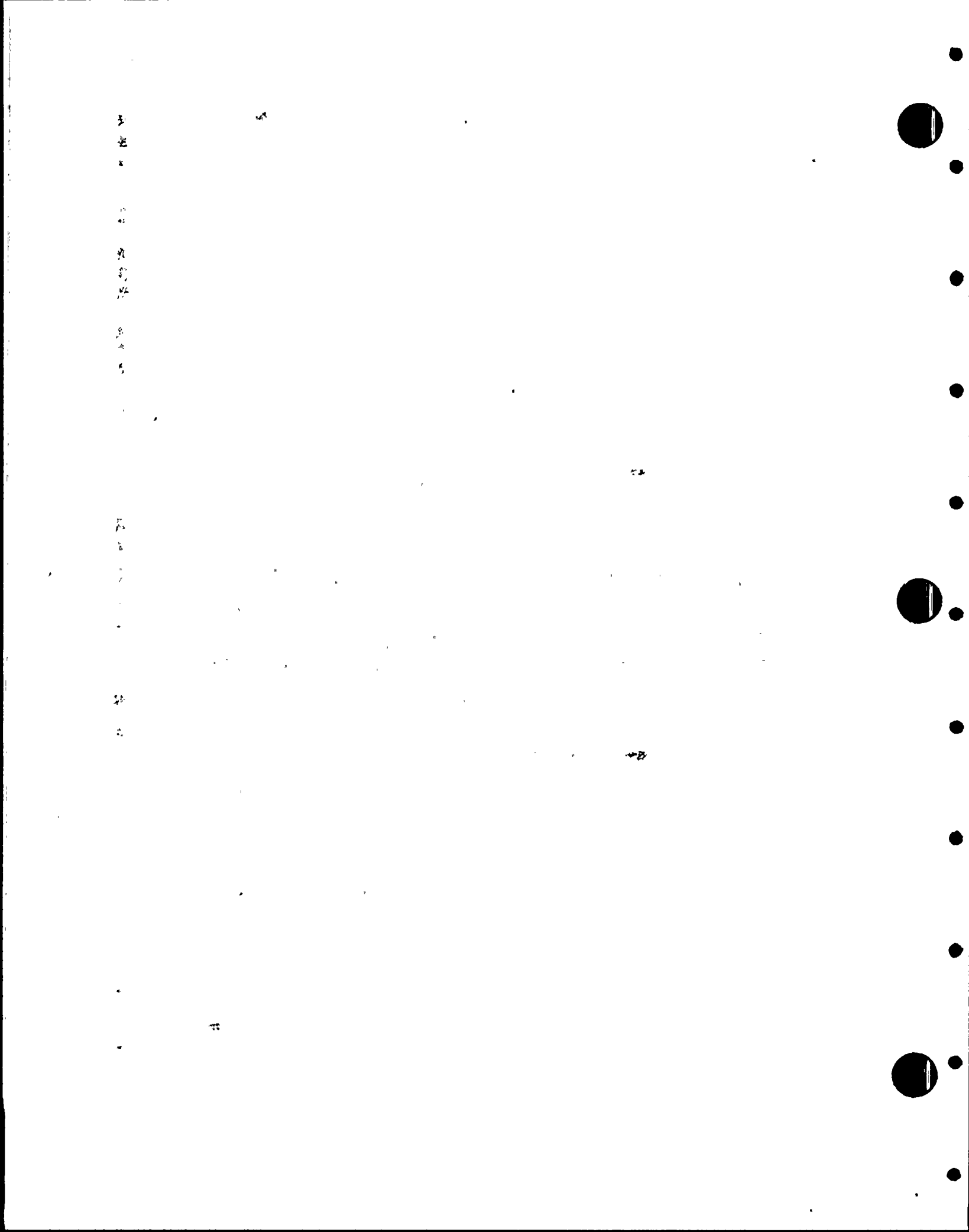
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Persons referred to above, the Indenture Trustee may, subject to instructions thereafter received pursuant to the preceding sentence, take such action, or refrain from taking such action, but shall be under no duty to take or refrain from taking any action, with respect to such Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss as it shall determine advisable in the best interests of the Holders of the Notes of all series and (c) in the event that an Indenture Event of Default shall have occurred and be continuing, the Indenture Trustee in its discretion may, or upon receipt of a Directive shall, by written notice to the Owner Trustee, declare the unpaid principal amount of all Notes with accrued interest thereon to be immediately due and payable, upon which declaration such principal amount and such accrued interest shall immediately become due and payable without further act or notice of any kind. For all purposes of this Indenture, in the absence of actual knowledge, neither the Owner Trustee nor the Indenture Trustee shall be deemed to have knowledge of an Indenture Event of Default or Event of Default except that the Indenture Trustee shall be deemed to have knowledge of the failure of the Lessee to pay any installment of Basic Rent within 10 Business Days after the same shall become due. For purposes of this Section 7.1, neither the Owner Trustee nor the Indenture Trustee shall be deemed to have actual knowledge of any Indenture Event of Default, Event of Default, Deemed Loss Event or Event of Loss unless it shall have received notice thereof pursuant to Section 11.6 hereof or such Indenture Event of Default or Event of Default shall actually be known by an officer in the corporate trust department of the Owner Trustee or by an officer in the Corporate Trustee Administration Department of the Indenture Trustee, as the case may be.

SECTION 7.2. Duties in Respect of Matters Specified in Directive.

Subject to the terms of Sections 6.2, 6.3, 6.4, 6.8, 6.11, 7.1 and 7.3 hereof, upon receipt of a Directive, the Indenture Trustee shall take such of the following actions as may be specified in such Directive: (i) give such notice or direction or exercise such right, remedy or power permitted hereunder or permitted with respect to the Facility Lease or in respect of any part or all of the Lease Indenture Estate as shall be specified in such Directive; and (ii) take such action to preserve or protect the Lease Indenture



Estate as shall be specified in such Directive, it being agreed that without such a Directive, the Indenture Trustee shall not waive, consent to or approve any such matter as satisfactory to it.

SECTION 7.3. Indemnification.

The Indenture Trustee shall not be required to take or refrain from taking any action under Section 7.1 or 7.2 or Article VI hereof which shall require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability unless the Indenture Trustee shall have been indemnified by the Holders of the Notes against liability, cost or expense (including counsel fees) which may be incurred in connection therewith, or unless, in the reasonable judgment of the Indenture Trustee, the indemnities of the Lessee shall be adequate for such purpose; provided, however, that if the Holder of such Notes is the Collateral Trust Trustee, the unsecured written undertaking of the Collateral Trust Trustee, in its individual capacity, shall be sufficient indemnity for purposes of this Section. The Indenture Trustee shall not be required to take any action under Section 7.1 or 7.2 or Article VI hereof nor shall any other provision of this Indenture be deemed to impose a duty on the Indenture Trustee to take any action, if the Indenture Trustee shall reasonably determine, or shall have been advised by counsel, that such action is likely to result in personal liability or is contrary to the terms hereof or of the Facility Lease or is otherwise contrary to law.

SECTION 7.4. Limitations on Duties; Discharge of Certain Liens Resulting from Claims Against Indenture Trustee.

The Indenture Trustee shall have no duty or obligation to take or refrain from taking any action under, or in connection with, this Indenture or the Facility Lease, except as expressly provided by the terms of this Indenture. The Indenture Trustee nevertheless agrees that it will, in its individual capacity and at its own cost and expense, promptly take such action as may be necessary duly to discharge all Liens on any part of the Lease Indenture Estate which result from acts by or claims against it arising out of events or conditions not related to its rights in the Lease Indenture Estate or the administration of the Lease Indenture Estate or the transactions contemplated hereby.

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SECTION 7.5. Restrictions on Dealing with Lease Indenture Estate.

Except as provided in the Transaction Documents, the Owner Trustee shall not use, operate, store, lease, control, manage, sell, dispose of or otherwise deal with any part of the Lease Indenture Estate.

SECTION 7.6. Filing of Financing Statements and Continuation Statements.

Pursuant to Section 10(b)(2) of the Participation Agreement, the Lessee has covenanted to maintain the priority of the lien of this Indenture on the Lease Indenture Estate. The Indenture Trustee shall, at the request and expense of the Lessee as provided in the Participation Agreement, execute and deliver to the Lessee and the Lessee will file, if not already filed, such financing statements or other documents and such continuation statements or other documents with respect to financing statements or other documents previously filed relating to the lien created under this Indenture in the Lease Indenture Estate as may be necessary to protect, perfect and preserve the lien created under this Indenture. At any time and from time to time, upon the request of the Lessee or the Indenture Trustee, at the expense of the Lessee as provided in the Participation Agreement (and upon receipt of the form of document so to be executed), the Owner Trustee shall promptly and duly execute and deliver any and all such further instruments and documents as the Lessee or the Indenture Trustee may reasonably request in order for the Indenture Trustee to obtain the full benefits of the security interest, assignment and mortgage created or intended to be created hereby and of the rights and powers herein granted. Upon the reasonable instructions (which instructions shall be accompanied by the form of document to be filed) at any time and from time to time of the Lessee or the Indenture Trustee, the Owner Trustee shall execute and file any financing statement (and any continuation statement with respect to any such financing statement), any certificate of title or any other document, in each case relating to the security interest, assignment and mortgage created by this Indenture, as may be specified in such instructions. In addition, the Indenture Trustee and the Owner Trustee will execute such continuation statements with respect to financing statements and other documents relating to the lien created under this

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Indenture in the Lease Indenture Estate as may be reasonably specified from time to time in written instructions of any Holder of a Note (which instructions may, by their terms, be operative only at a future date and which shall be accompanied by the form of such continuation statement or other document so to be filed).

ARTICLE VIII

CONCERNING THE OWNER TRUSTEE AND THE INDENTURE TRUSTEE

SECTION 8.1. Acceptance of Trusts; Standard of Care.

The Indenture Trustee accepts the trusts hereby created and applicable to it and agrees to perform the same but only upon the terms of this Indenture and the Participation Agreement and agrees to receive and disburse all moneys constituting part of the Lease Indenture Estate in accordance with the provisions hereof, provided that no implied duties or obligations shall be read into this Indenture or the Participation Agreement against the Indenture Trustee. The Indenture Trustee shall enter into and perform its obligations under the Participation Agreement, and, at the request of the Owner Trustee, any other agreement relating to any transfer of the Undivided Interest or the Real Property Interest or the assignment of rights under the Assignment and Assumption or, at the request of the Owner Trustee, the purchase by any Person of Notes or Additional Notes issued hereunder, all as contemplated hereby. The Indenture Trustee shall not be liable under any circumstances, except for its own willful misconduct or gross negligence. If any Indenture Event of Default shall have occurred and be continuing, the Indenture Trustee shall exercise such of the rights and remedies vested in it by this Indenture, subject to the provisions hereof, 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 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.

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SECTION 8.2. No Duties of Maintenance, Etc.

Except pursuant to Section 7.2 hereof and except as provided in, and without limiting the generality of, Sections 7.1 and 7.4 hereof, the Indenture Trustee shall have no duty (i) to see to any recording or filing of any Transaction Document, or to see to the maintenance of any such recording or filing, or (ii) to see to the payment or discharge of any tax, assessment or other governmental charge or any lien or encumbrance of any kind owing with respect to, or assessed or levied against, any part of the Lease Indenture Estate (except such as are required to be paid or discharged by it pursuant to this Indenture or any of the other Transaction Documents) or to make or file any reports or returns related thereto.

SECTION 8.3. Representations and Warranties of Indenture Trustee and the Owner Trustee.

NEITHER THE OWNER TRUSTEE NOR THE INDENTURE TRUSTEE MAKES ANY REPRESENTATION OR WARRANTY AS TO THE VALUE, CONDITION, MERCHANTABILITY OR FITNESS FOR USE OF UNIT 2, THE UNDIVIDED INTEREST OR ANY PART OF THE LEASE INDENTURE ESTATE OR AS TO ITS INTEREST THEREIN, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO UNIT 2, THE UNDIVIDED INTEREST OR ANY PART OF THE LEASE INDENTURE ESTATE WHATSOEVER. The Owner Trustee and the Indenture Trustee each represents and warrants, in its individual capacity, as to itself that this Indenture has been executed and delivered by one or more of its officers who are duly authorized to execute and deliver this Indenture on its behalf.

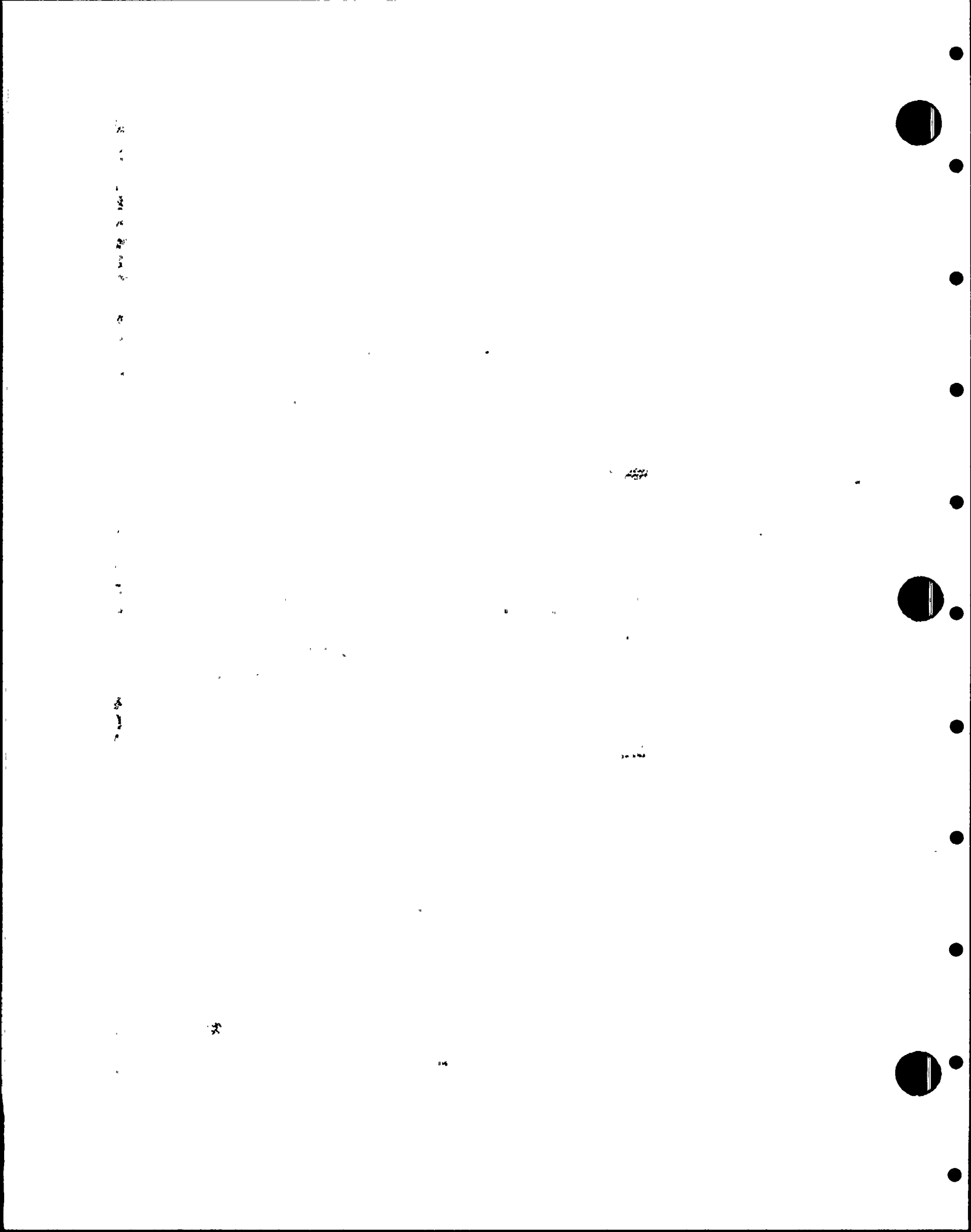
SECTION 8.4. Moneys Held in Trust; Non-Segregation of Moneys.

All moneys and securities deposited with and held by the Indenture Trustee under this Indenture for the purpose of paying, or securing the payment of, the principal of or premium or interest on the Notes shall be held in trust. Except as provided in Sections 2.3(c), 8.8 and 11.1 hereof, moneys received by the Indenture Trustee under this Indenture need not be segregated in any manner except to the extent required by law, and may be deposited under such general conditions as may be prescribed by law; provided, however, that any payments received or applied hereunder by the Indenture Trustee shall be accounted for by the Indenture Trustee so that any portion thereof paid or

applied pursuant hereto shall be identifiable as to the source thereof. Except as otherwise expressly provided herein, the Indenture Trustee shall not be liable for any interest on any money held pursuant to this Indenture.

SECTION 8.5. Reliance on Writings, Use of Agents, Etc.

The Indenture Trustee shall incur no liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, telegram, order, certificate, report, opinion, bond or other document or paper believed by it to be genuine and believed by it to be signed by the proper party or parties. In the case of the Lessee, the Indenture Trustee may accept a copy of a resolution of the Board of Directors or any duly constituted and authorized committee of the Board of Directors of the Lessee, certified by the Secretary or an Assistant Secretary of the Lessee as duly adopted and in full force and effect, as conclusive evidence that such resolution has been duly adopted by such Board or Committee and that the same is in full force and effect. As to the aggregate unpaid principal amount of the Notes Outstanding as of any date, the Owner Trustee may for all purposes hereof rely on a certificate signed by any Authorized Officer of the Indenture Trustee. As to any fact or matter the manner of ascertainment of which is not specifically described herein, the Indenture Trustee may for all purposes hereof rely on a certificate, signed by the Chairman of the Board, the President, any Vice President and the Treasurer or the Secretary or any Assistant Treasurer or Assistant Secretary of the Lessee, or a Holder of a Note or any Responsible Officer of the Owner Trustee, as the case may be, as to such fact or matter, and such certificate shall constitute full protection to the Indenture Trustee for any action taken or omitted to be taken by it in good faith in reliance thereon. The Indenture Trustee shall furnish to the Owner Trustee upon request such information and copies of such documents as the Indenture Trustee may have and as are necessary for the Owner Trustee to perform its duties under Article III hereof. In the administration of the trusts hereunder, the Indenture Trustee may execute any of the trusts or powers hereof and perform its powers and duties hereunder directly or through agents or attorneys selected by it in good faith and with reasonable care, and, with respect to matters relating to the Notes, the Lease Indenture Estate and its rights and duties under this



Indenture and the other Transaction Documents, may, at the expense of the Lessee, or, if the Lessee shall have failed to pay or provide for the payment thereof, at the expense of the Lease Indenture Estate, consult with counsel, accountants and other skilled persons to be selected and employed by it in good faith and with reasonable care, and the Indenture Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons so selected. Unless otherwise specified herein or in any other Transaction Document, any opinion of counsel referred to in this Indenture or in such other Transaction Document may be relied on by the Indenture Trustee to the extent it is rendered by an attorney or firm of attorneys satisfactory to the Indenture Trustee (which may be counsel to the Owner Participant, the Owner Trustee, the Lessee or any party to any Transaction Document).

SECTION 8.6. Indenture Trustee to Act Solely as Trustee.

The Indenture Trustee acts hereunder solely as trustee as herein provided and not in any individual capacity, except as otherwise expressly provided herein; and except as provided in Sections 9(a) and 9(b) of the Participation Agreement or Section 7.4 or 8.1 hereof, all Persons having any claim against the Indenture Trustee arising from matters relating to the Notes by reason of the transactions contemplated hereby shall, subject to the lien and priorities of payment as herein provided and to Sections 3.6 and 5.7, look only to the Lease Indenture Estate for payment or satisfaction thereof.

SECTION 8.7. Limitation on Rights Against Registered Holders, the Owner Trustee or Lease Indenture Estate.

The Indenture Trustee shall be entitled to be paid or reimbursed for Trustee's Expenses as provided herein and in the other Transaction Documents. Nonetheless, the Indenture Trustee agrees that it shall have no right against the Holders of the Notes, the Owner Trustee (except to the extent included in Transaction Expenses payable by the Owner Participant) or, except as provided in Article V and Section 6.4 or this Article VIII, the Lease Indenture Estate for any fee as compensation for its services hereunder.

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SECTION 8.8. Investment of Certain Payments Held by the Indenture Trustee.

Any amounts' held by the Indenture Trustee hereunder other than pursuant to Section 2.3(c) or 11.1 hereof shall be invested by the Indenture Trustee from time to time as directed in writing by the Owner Participant and at the expense and risk of the Owner Participant in (i) obligations of, or guaranteed as to interest and principal by, the United States Government maturing not more than 90 days after such investment, (ii) open market commercial paper of any corporation incorporated under the laws of the United States of America or any State thereof rated "prime-1" or its equivalent by Moody's Investors Service, Inc. or "A-1" or its equivalent by Standard & Poor's Corporation or (iii) certificates of deposit maturing within 90 days after such investment issued by commercial banks organized under the laws of the United States of America or of any political subdivision thereof having a combined capital and surplus in excess of \$500,000,000; provided, however, that the aggregate amount at any one time so invested (a) in open market commercial paper of any corporation shall not exceed \$2,000,000 and (b) in certificates of deposit issued by any one bank shall not exceed \$10,000,000. Any income or gain realized as a result of any such investment shall be applied to make up any losses resulting from any such investment to the extent such losses shall not have been paid by the Owner Trustee or the Owner Participant pursuant to this Section 8.8. Any further income or gain so realized shall be promptly distributed (in no event later than the next Business Day) to the Owner Trustee or the Owner Participant, except after the occurrence and during the continuance of an Indenture Event of Default. The Indenture Trustee shall have no liability for any loss resulting from any investment made in accordance with this Section. Any such investment may be sold (without regard to maturity date) by the Indenture Trustee whenever necessary to make any distribution required by Article V hereof.

SECTION 8.9. No Responsibility for Recitals, etc.

The Indenture Trustee makes no representation or warranty as to the correctness of any statement, recital or representation made by any Person other than the Indenture Trustee in this Indenture, any other Transaction Document or the Notes.

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SECTION 8.10. Indenture Trustee May Engage in Certain Transactions.

The Indenture Trustee may engage in or be interested in any financial or other transaction with the Lessee, the Owner Participant, the Owner Trustee and any other party to a Transaction Document, provided that if the Indenture Trustee determines that any such relation is in conflict with its duties under this Indenture, it shall eliminate the conflict or resign as Indenture Trustee.

SECTION 8.11. Construction of Ambiguous Provisions.

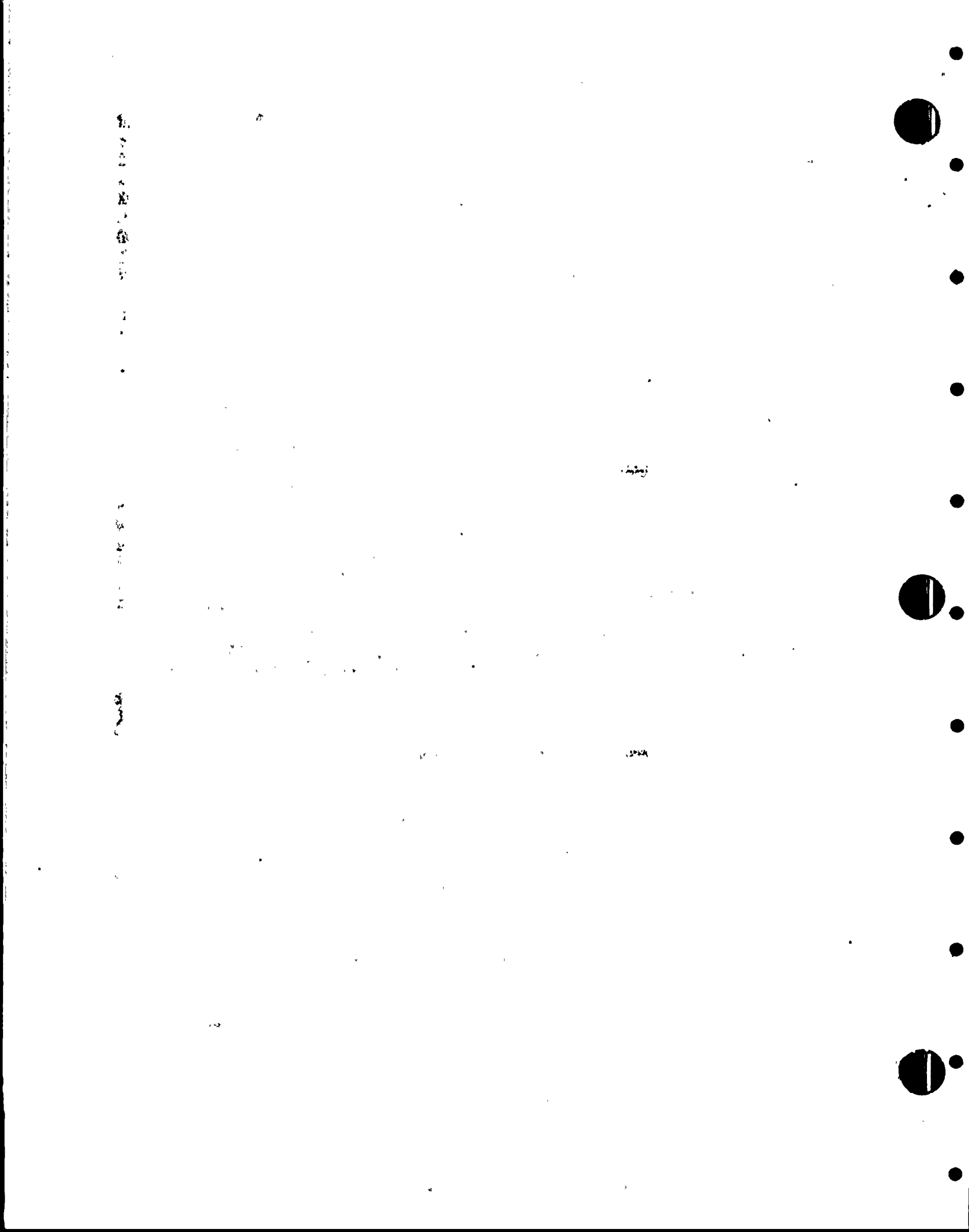
The Indenture Trustee, subject to Section 8.1 hereof, may construe any ambiguous or inconsistent provisions of this Indenture, and any such construction by the Indenture Trustee shall be binding upon the Noteholders. In construing any such provision, the Indenture Trustee will be entitled to rely upon opinions of counsel and will not be responsible for any loss or damage resulting from reliance in good faith thereon, except for its own gross negligence or willful misconduct.

ARTICLE IX

SUCCESSOR TRUSTEES

SECTION 9.1. Resignation and Removal of Indenture Trustee; Appointment of Successor.

(a) The Indenture Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Owner Participant, the Owner Trustee, the Lessee and to each Holder of a Note, such resignation to be effective upon the acceptance of such trusteeship by a successor. In addition, the Indenture Trustee may be removed without cause by a Directive delivered to the Owner Participant, the Owner Trustee, the Lessee and the Indenture Trustee, and the Indenture Trustee shall promptly give notice thereof in writing to each Holder of a Note. In the case of the resignation or removal of the Indenture Trustee, a successor trustee may be appointed by such a Directive. If a successor trustee shall not have been appointed within 30 days



after such notice of resignation or removal, the Indenture Trustee, the Owner Trustee or any Holder of a Note may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided within one year from the date of the appointment by such court.

(b) Any successor trustee, however appointed, shall execute and deliver to its predecessor and to the Owner Trustee an instrument accepting such appointment, and thereupon such successor, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor hereunder in the trusts under this Indenture applicable to it with like effect as if originally named the Indenture Trustee; but, nevertheless, upon the written request of such successor trustee or receipt of a Directive, its predecessor shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressly applicable to it, all the estates, properties, rights and powers of such predecessor under this Indenture, and such predecessor shall duly assign, transfer, deliver and pay over to such successor trustee all moneys or other property then held by such predecessor under this Indenture.

(c) Any successor trustee, however appointed, shall be a bank or trust company organized under the laws of the United States or any jurisdiction thereof having a combined capital and surplus of at least \$100,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Indenture Trustee hereunder upon reasonable or customary terms.

(d) Any corporation into which the Indenture Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Indenture Trustee shall be a party, or any corporation to which substantially all the corporate trust business of the Indenture Trustee may be transferred, shall, subject to the terms of paragraph (c) of this Section 9.1, be the Indenture Trustee under this Indenture without further act.

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ARTICLE X

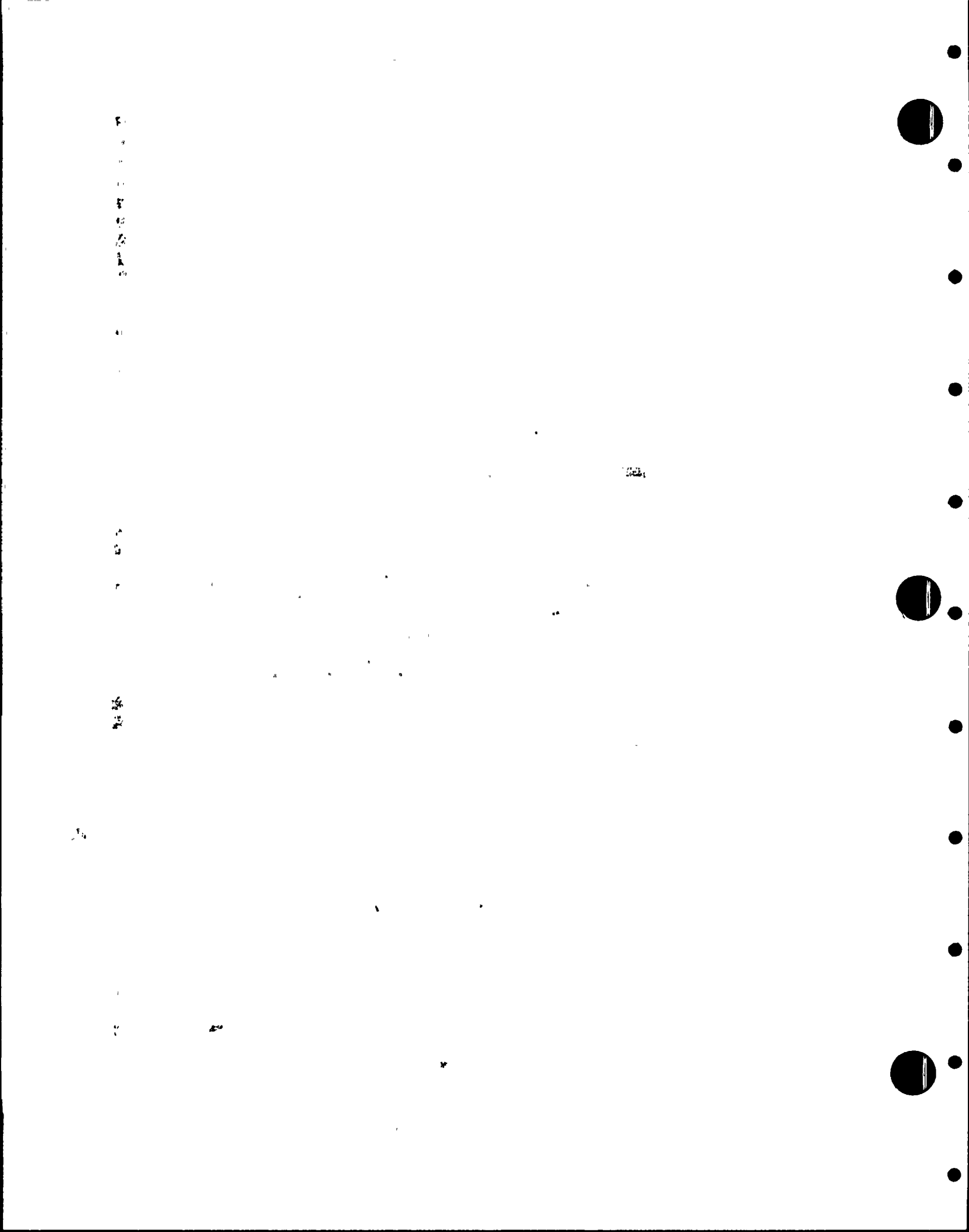
SUPPLEMENTS AND AMENDMENTS TO THIS INDENTURE AND OTHER DOCUMENTS

SECTION 10.1. Supplements, Amendments and Modifications to This Indenture Without Consent of Holders of Notes.

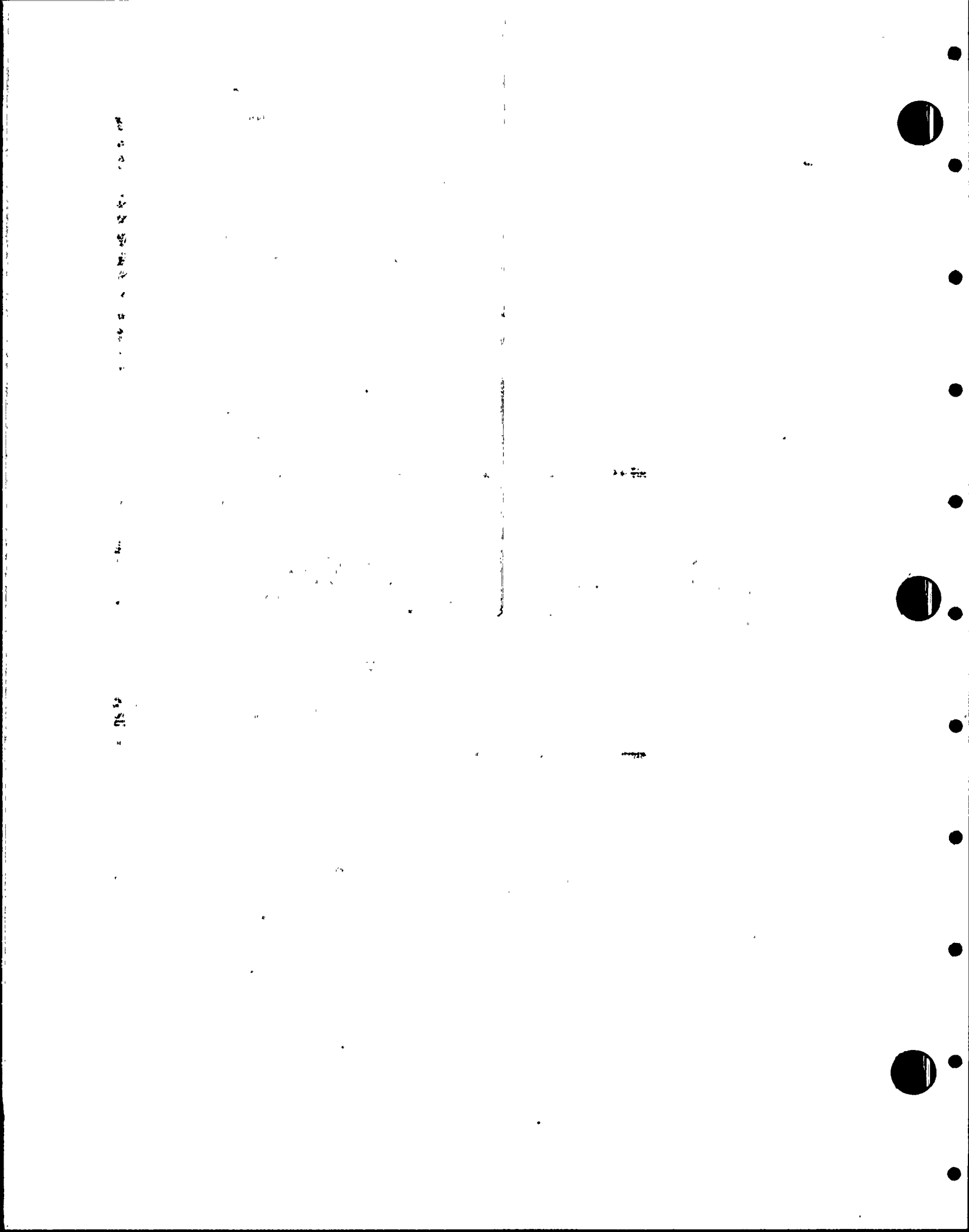
The Indenture Trustee may, with the written consent of the Owner Trustee, from time to time and at any time execute a supplement to this Indenture without the consent of the Holders of Notes Outstanding in order to (i) cure any defect, omission or ambiguity in this Indenture or for any other purpose if such action does not adversely affect the interests of such Holders, (ii) grant or confer upon the Indenture Trustee for the benefit of such Holders any additional rights, remedies, powers, authority or security which may be lawfully granted or conferred and which are not contrary to or inconsistent with this Indenture, (iii) add to the covenants or agreements to be observed by the Owner Trustee and which are not contrary to this Indenture or surrender any right or power of the Owner Trustee, (iv) confirm or amplify, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, this Indenture, of the properties covered hereby, or subject to the lien or pledge of this Indenture additional revenues, properties or other collateral, including pursuant to an Undivided Interest Indenture Supplement, (v) qualify this Indenture under the provisions of the Trust Indenture Act, (vi) evidence the appointment of any successor Indenture Trustee pursuant to the terms hereof, (vii) evidence the assumption and release affected by the Assumption Agreement, or (viii) execute supplemental indentures to evidence the issuance of and to provide the terms of, Additional Notes to be issued hereunder in accordance with the terms hereof.

SECTION 10.2. Supplements and Amendments to this Indenture and the Facility Lease With Consent of Holders of Notes.

Except as provided in Section 10.1 hereof, at any time and from time to time, (i) upon receipt of a Directive, the Indenture Trustee shall execute a supplement to this Indenture (to which the Owner Trustee has agreed in writing) for the purpose of adding



provisions to, or changing or eliminating provisions of, this Indenture, but only as specified in such Directive and, (ii) upon receipt of a written instruction from the Lessee and the Owner Trustee, the Indenture Trustee shall consent to any amendment of or supplement to the Facility Lease or execute and deliver such written waiver or modification of the terms of the Facility Lease to which the Owner Trustee may agree; provided, however, that, without the consent of the Holders of all the Notes then Outstanding no such supplement or amendment to this Indenture or the Facility Lease, or waiver or modification of the terms of either thereof, shall (x) modify any of the provisions of this Section or of Section 7.1 or 7.2 hereof or Section 4 of the Facility Lease or of the definition of Directive contained in Appendix A hereto or the definition of Indenture Event of Default herein, reduce the amount of the Basic Rent, Casualty Value, Special Casualty Value, Termination Value or any payment under or pursuant to Section 16 of the Facility Lease as set forth in the Facility Lease below such amount as is required to pay the full principal of, and premium, if any, and interest on, the Notes when due, or extend the time of payment thereof, (y) except as permitted by clause (x) above, modify, amend or supplement the Facility Lease or consent to the termination or any assignment thereof, in any case reducing the Lessee's obligations in respect of the payment of the Basic Rent, Casualty Value, Special Casualty Value, Termination Value or any payment under or pursuant to Section 16 of the Facility Lease below the amount referred to in clause (x) above, or (z) deprive the Holders of any Notes of the lien of this Indenture on the Lease Indenture Estate (except as contemplated by Section 3.9(b)) or materially adversely affect the rights and remedies for the benefit of such Holders provided in Article VI of this Indenture; and, provided, further, that, without the consent of the Holders of all the Notes then Outstanding and affected thereby no such supplement or amendment to this Indenture or the Facility Lease, or waiver or modification of the terms of either thereof, shall reduce the amount or extend the time of payment of any amount payable under any Note, reduce or modify the provisions for the computation of the rate of interest owing or payable thereon, adversely alter or modify the provisions of Article V with respect to the order of priorities in which distributions thereunder with respect to the Notes shall be made, or reduce, modify or amend any indemnities in favor of the Holders of the Notes. Anything to the contrary contained herein notwithstanding, without the necessity



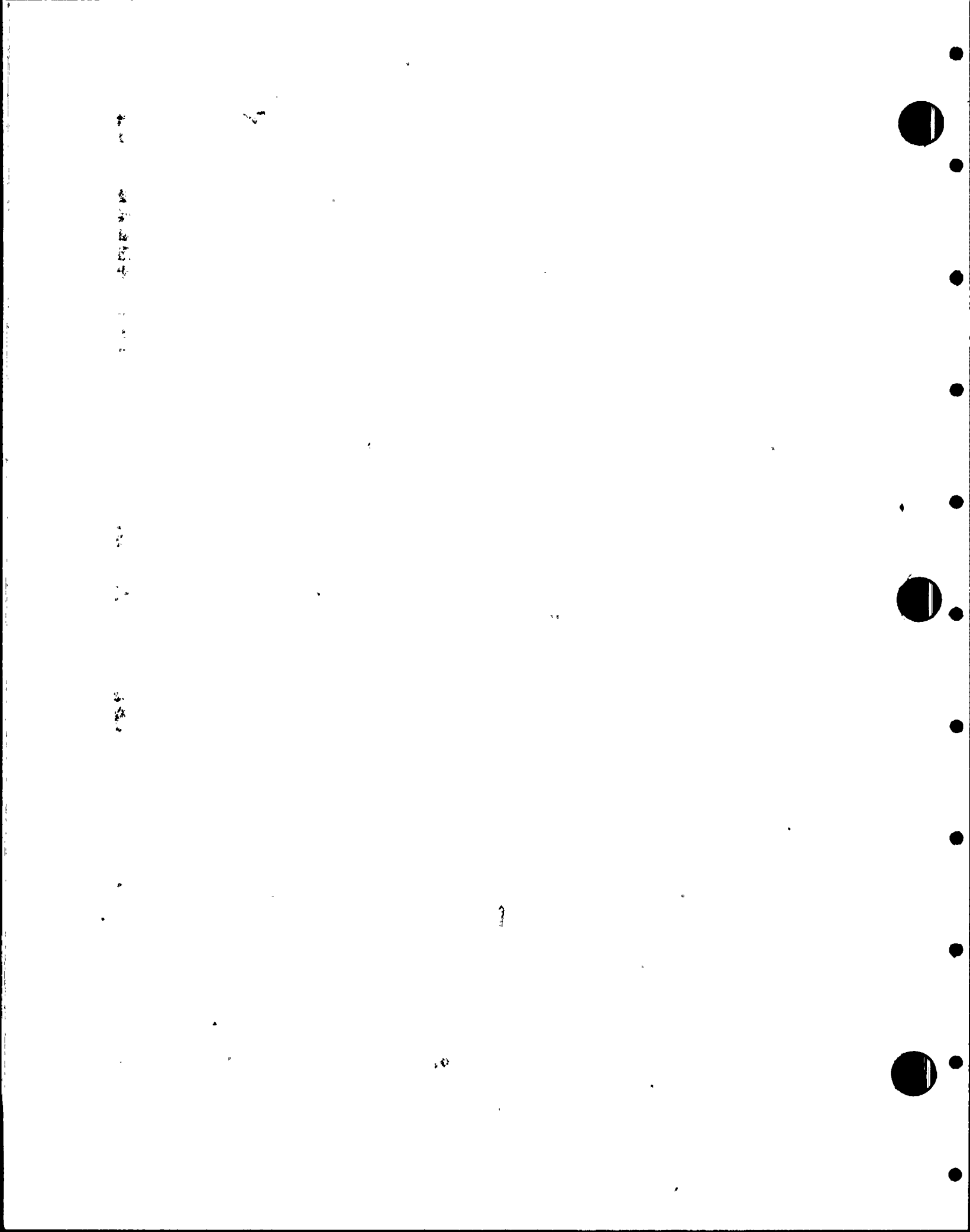
of the consent of the Holders of Notes or the Indenture Trustee, (a) any indemnities in favor of the Owner Trustee or the Owner Participant may be modified, amended or changed and (b) the Owner Trustee may enter into any agreement with respect to the Lease Indenture Estate which by its terms does not become effective prior to the satisfaction and discharge of this Indenture, provided, however, that any agreement entered into by the Owner Trustee pursuant to this clause (b) shall not materially adversely affect the Indenture Trustee or the Holder of any Note. Notwithstanding the foregoing, the Indenture Trustee shall, upon receipt or a written instruction from the Lessee and the Owner Trustee, consent to an amendment of the definitions of "Deemed Loss Event," "Event of Loss" and "Final Shutdown" contained in or appended to the Facility Lease or this Indenture. The Owner Trustee shall deliver to the Indenture Trustee a copy of each amendment to the Facility Lease whether or not the Indenture Trustee is required to consent or otherwise act with respect thereto.

SECTION 10.3. Certain Limitations on Supplements and Amendments.

If in the opinion of the Owner Trustee or the Indenture Trustee, each of which shall be entitled to rely on counsel for purposes of this Section 10.3, any document required to be executed by either of them pursuant to the terms of Section 10.1 or 10.2 does not comply with the provisions of this Indenture or adversely affects any right, immunity or indemnity in favor of, or increases any duty of, the Owner Trustee or the Indenture Trustee under this Indenture, the Facility Lease or the Participation Agreement, the Owner Trustee or the Indenture Trustee, as the case may be, may in its discretion decline to execute such document.

SECTION 10.4. Directive Need Not Specify Particular Form of Supplement or Amendment.

It shall not be necessary for any Directive furnished pursuant to Section 10.2 hereof to specify the particular form of the proposed documents to be executed pursuant to such Section, but it shall be sufficient if such request shall indicate the substance thereof.



SECTION 10.5. Trustee to Furnish Copies of Supplement or Amendment.

Promptly after the execution by the Owner Trustee or the Indenture Trustee of any document entered into pursuant to Section 10.2, the Indenture Trustee shall mail, by first-class mail, postage-prepaid, a conformed copy thereof to each Holder of an Outstanding Note at the address of such Person set forth in the register kept pursuant to Section 4.1 but the failure of the Indenture Trustee to mail such conformed copies shall not impair or affect the validity of such document.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1. Moneys for Payments in Respect of Notes to be Held in Trust.

In case the Holder of any Note shall fail to present the same for payment on any date on which the principal thereof or interest thereon becomes payable, the Indenture Trustee may set aside in trust the moneys then due thereon uninvested and shall pay such moneys to the Holder of such Note or such Person upon due presentation or surrender thereof in accordance with the provisions of this Indenture, subject always, however, to the provisions of Sections 3.8 and 11.2.

SECTION 11.2. Disposition of Moneys Held for Payments of Notes.

Any moneys set aside under Section 11.1 and not paid to Holders of Notes as provided in Section 11.1 shall be held by the Indenture Trustee in trust until the latest of (i) the date three years after the date of such setting aside, (ii) the date all other Holders of the Notes shall have received full payment of all principal of and interest and other sums payable to them on such Notes or the Indenture Trustee shall hold (and shall have notified such Persons that it holds) in trust for that purpose an amount sufficient to make full payment thereof when due and (iii) the date the Owner Trustee shall have fully performed and observed all its covenants and obligations contained in this Indenture

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with respect to the Notes; and thereafter shall be paid to the Owner Trustee by the Indenture Trustee on demand; and thereupon the Indenture Trustee shall be released from all further liability with respect to such moneys; and thereafter the Holders of the Notes in respect of which such moneys were so paid to the Owner Trustee shall have no rights in respect thereof except to obtain payment of such moneys from the Owner Trustee. Upon the setting aside of such moneys, interest shall cease to accrue on the Notes.

SECTION 11.3. Transfers Not to Affect Indenture or Trusts.

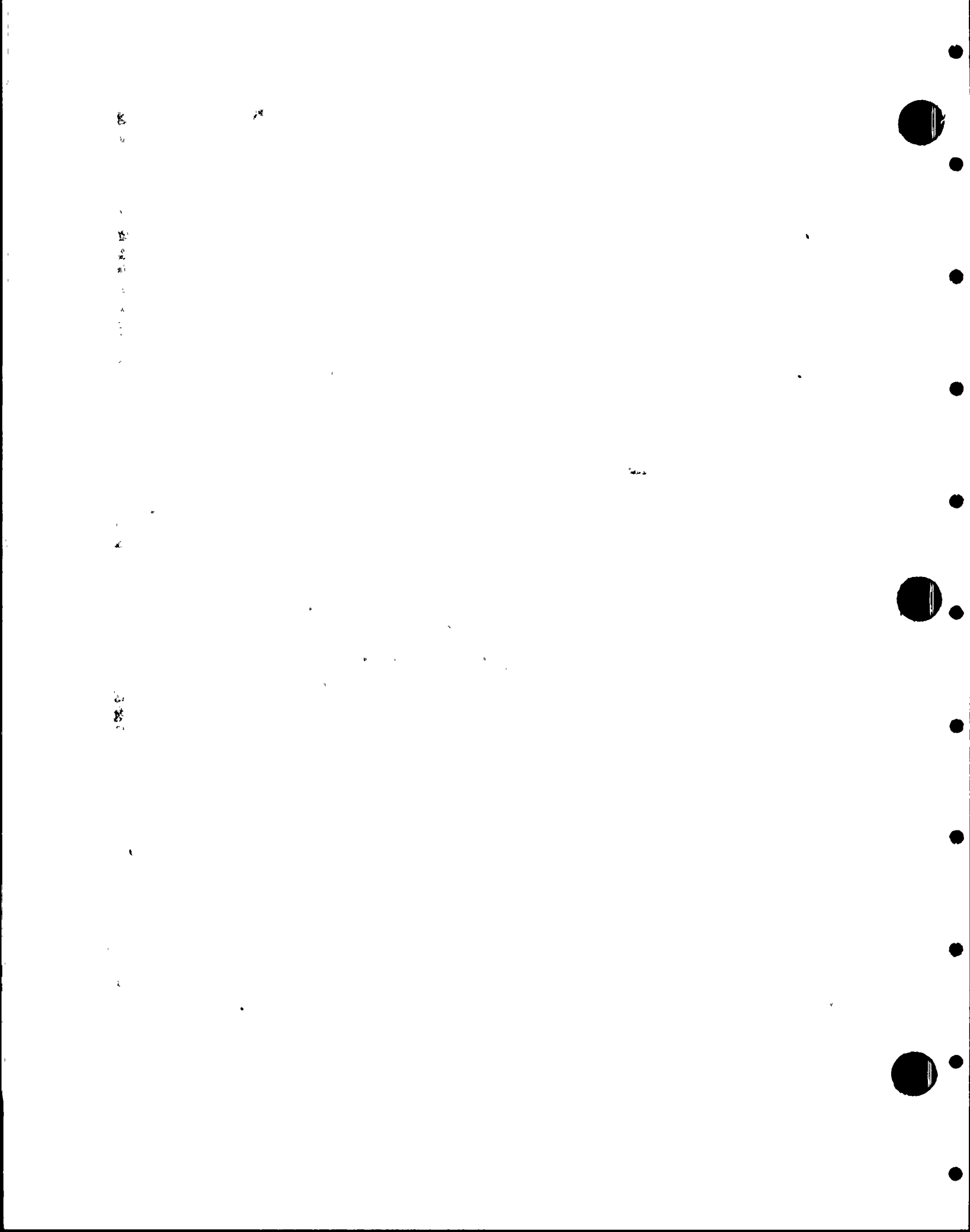
No Holder of a Note shall have legal title to any part of the Lease Indenture Estate. No transfer, by operation of law or otherwise, of any Note or other right, title and interest of any Holder of a Note in and to the Lease Indenture Estate or hereunder shall operate to terminate this Indenture or the trusts hereunder with respect to such Note or entitle any successor or transferee of such Holder to an accounting or to the transfer to it of legal title to any part of the Lease Indenture Estate.

SECTION 11.4. Binding Effect of Sale of Lease Indenture Estate.

Any sale or other conveyance of the Lease Indenture Estate or any part thereof by the Indenture Trustee made pursuant to the terms of this Indenture or the Facility Lease shall bind the Holders of the Notes and shall be effective to transfer or convey all right, title and interest of the Indenture Trustee, the Owner Trustee and such Holders in and to the same. No purchaser or other grantee shall be required to inquire as to the authorization, necessity, expediency or regularity of such sale or conveyance or as to the application of any sale or other proceeds with respect thereto by the Indenture Trustee.

SECTION 11.5. Limitation as to Enforcement of Rights, Remedies and Claims.

Nothing in this Indenture, whether express or implied, shall be construed to give to any Person, other than the Owner Trustee, the Owner Participant, the Lessee (to the extent the Lessee's consent or other action by the Lessee is expressly provided for), the Indenture Trustee and the Holders of the Notes, any



legal or equitable right, remedy or claim under or in respect of this Indenture or any Note.

SECTION 11.6. Notices.

Unless otherwise expressly specified or permitted by the terms hereof, all communications and notices given hereunder to the Lessee, the Owner Trustee, the Owner Participant or the Indenture Trustee shall be given in the manner provided in Section 18 of the Participation Agreement. Notices by the Indenture Trustee to any Holder of a Note shall be in writing and shall be given in person or by means of telex, telecopy or other wire transmission (with request for assurance of receipt in a manner typical with respect to communications of that type), or mailed by registered or certified mail, addressed to such Holder at the address set forth in the register kept pursuant to Section 4.1. Whenever any notice in writing is required to be given by the Indenture Trustee to any Holder of a Note such notice shall be effective (x) if sent by telex, telecopy or other wire transmission, on the date of transmission thereof, or (y) if sent by mail, three Business Days after being mailed.

SECTION 11.7. Separability of Provisions

In case any one or more of the provisions of this Indenture or any application thereof shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof and any other application hereof shall not in any way be affected or impaired.

SECTION 11.8. Benefit of Parties, Successors and Assigns.

All representations, warranties, covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the Owner Trustee, the Indenture Trustee and their respective successors and assigns and each Holder of a Note, all as herein provided. Any request, notice, direction, consent, waiver or other instrument or action by any Holder of a Note shall bind the successors and assigns of such Holder and any Holder of a Note issued in transfer or exchange of such Note.

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SECTION 11.9. Survival of Representations and Warranties.

All representations and warranties made with respect to the Notes shall survive the execution and delivery of this Indenture and the issue, sale and delivery of any Notes and shall continue in effect so long as any Note issued hereunder is Outstanding and unpaid.

SECTION 11.10. Bankruptcy of the Owner Trustee.

If (a) the Owner Trustee becomes a debtor subject to the reorganization provisions of the Bankruptcy Code, or any successor provision, (b) pursuant to such reorganization provisions the Owner Trustee is required, by reason of the Owner Trustee being held to have recourse liability directly or indirectly to the Holder of any Note or the Indenture Trustee, to make payment on account of any amount payable as principal or interest on such Note and (c) such Holder or the Indenture Trustee actually receives any Excess Amount (as hereinafter defined) which reflects any payment by the Owner Trustee on account of clause (b) of this Section, then such Holder or the Indenture Trustee, as the case may be, shall promptly refund to the Owner Trustee such Excess Amount. "Excess Amount" means the amount by which such payment exceeds the amount which would have been received on or prior to the date of such payment by such Holder or the Indenture Trustee if the Owner Trustee had not become subject to the recourse liability referred to in clause (b) of this Section.....Nothing contained in this Section shall prevent such Holder or the Indenture Trustee from enforcing any recourse obligation (and retaining the proceeds thereof) of the Owner Trustee expressly provided for under this Indenture or in the Notes.

SECTION 11.11. Bankruptcy of the Owner Participant.

The Indenture Trustee and the Holders of the Notes shall be bound by the provisions of Section 19(f) of the Participation Agreement.

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SECTION 11.12. Counterpart Execution.

This Indenture and any amendment or supplement to this Indenture may be executed in any number of counterparts and by the different parties hereto and thereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 11.13. Dating of Indenture.

Although this Indenture is dated for convenience and for the purpose of reference as of the date mentioned, the actual date or dates of execution by the Owner Trustee and the Indenture Trustee are as indicated by their respective acknowledgments hereto annexed.

IN WITNESS WHEREOF, the Owner Trustee and the Indenture Trustee have each caused this Indenture to be duly executed by their respective officers thereunto duly authorized, all as of the date first set forth above.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under the Trust
Agreement dated as of
December 15, 1986 with Chase
Manhattan Realty Leasing
Corporation

By 
Assistant Vice President

CHEMICAL BANK

By 
Vice President

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STATE OF NEW YORK.)
) ss.:
COUNTY OF NEW YORK)

On the 16th day of December, 1986, before me personally came Martin P. Henry, to me known, who, being by me duly sworn, did acknowledge, depose and say that he resides at Boston, Massachusetts; that he is an Assistant Vice President of THE FIRST NATIONAL BANK OF BOSTON, a national banking association, described in and which executed the foregoing instrument; and that he signed his name thereto on behalf of said association by authority of the Board of Directors of such association.

Delia T. Santiago
Notary Public

[NOTARIAL SEAL]

Term Expires:


DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified In Queens County
Commission Expires March 30, 1987



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STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 16th day of December, 1986, before me personally came T.J. FOLEY, to me known, who, being by me duly sworn, did acknowledge, depose and say that he resides at Bethpage, New York; that he is a Vice President of CHEMICAL BANK, a New York banking corporation; described in and which executed the foregoing instrument; and that he signed his name thereto on behalf of said corporation by authority of the Board of Directors of such corporation.



Notary Public

[NOTARIAL SEAL]

Term Expires:

DEBRA T. SPATOLLO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

EXHIBIT A-1
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 1992)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 1992)

Issued at: New York, New York

Issue Date: December __, 1986

THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$1,270,000 (One Million Two Hundred Seventy Thousand Dollars) on January 15, 1992 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 8.05% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law)

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any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 9.05% (computed on the basis of a 360-day year of twelve 30-day months) for the period during which any such principal, premium or interest shall be overdue.

In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture Trustee's Office, or as otherwise provided in the Indenture.

The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note is not subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the

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Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 1992)

Schedule of Principal Amortization

\$1,270,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| January 15, 1990 | \$ 234,000 | |
| July 15, 1990 | 244,000 | |
| January 15, 1991 | 254,000 | |
| July 15, 1991 | 264,000 | |
| January 15, 1992 | 274,000 | |
| Principal Amount | <u>\$1,270,000</u> | |

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ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION

By _____
Vice President

EXHIBIT A-2
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 1997)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 1997)

Issued at: New York, New York

Issue Date: December __, 1986

THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$3,501,000 (Three Million Five Hundred One Thousand Dollars) on January 15, 1997 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 8.95% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law) any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 9.95% (computed on the basis of a 360-day year of twelve 30-

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day months) for the period during which any such principal, premium or interest shall be overdue.

In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture

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Trustee's Office, or as otherwise provided in the Indenture.

The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note may be prepaid in whole or in part at any time on or after January 15, 1992 by the Owner Trustee upon the giving of not less than 30 days' notice (as provided in the Indenture) and at the following prepayment prices (expressed as a percentage of the unpaid principal amount hereof), together with interest accrued to the date fixed for prepayment:

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Twelve Month
Period Beginning

Redemption
Price

January 15, 1992
January 15, 1993

102.557%
101.279

and thereafter at the principal amount thereof, together with interest accrued to the date fixed for prepayment. This Fixed Rate Note is not otherwise subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and

neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof.

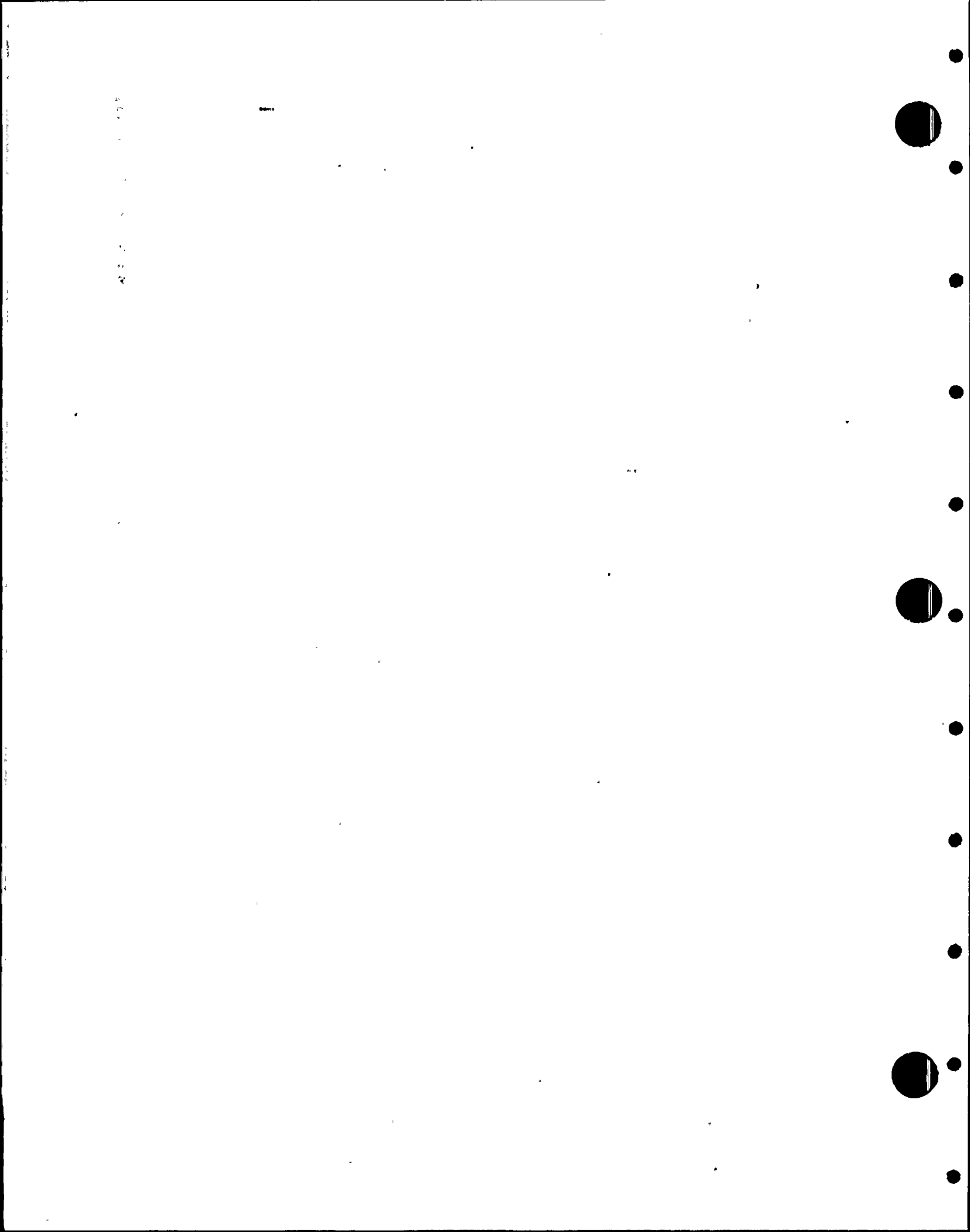
THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer



SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 1997)

Schedule of Principal Amortization

\$3,501,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 1992 | \$285,000 | |
| January 15, 1993 | 298,000 | |
| July 15, 1993 | 311,000 | |
| January 15, 1994 | 325,000 | |
| July 15, 1994 | 340,000 | |
| January 15, 1995 | 355,000 | |
| July 15, 1995 | 371,000 | |
| January 15, 1996 | 388,000 | |
| July 15, 1996 | 405,000 | |
| January 15, 1997 | 423,000 | |
| Principal Amount | <u>\$3,501,000</u> | |

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ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION

By _____
Vice President

EXHIBIT A-3
TO INDENTURE

FORM OF FIXED RATE NOTE
(DUE JANUARY 15, 2016)

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED,
SOLD OR OFFERED FOR SALE IN VIOLATION OF SUCH ACT

NONRECOURSE PROMISSORY NOTE, FIXED RATE SERIES
(DUE JANUARY 15, 2016)

Issued at: New York, New York

Issue Date: December __, 1986

THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (Owner Trustee) under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (the Owner Participant), hereby promises to pay to FIRST PV FUNDING CORPORATION, or registered assigns, the principal sum of \$23,229,000 (Twenty Three Million Two Hundred Twenty Nine Thousand Dollars) on January 15, 2016 together with interest (computed on the basis of a 360-day year of twelve 30-day months) on the aggregate amount of such principal sum remaining unpaid from time to time from the date of this Fixed Rate Note until due and payable, in arrears, at the rate of 10.15% per annum. Payments of principal installments of this Fixed Rate Note shall be made in the "principal amount payable" and on the "payment dates" specified in Schedule 1 hereto, as such Schedule may be adjusted in accordance with the Indenture and the terms contained herein. Payments of accrued interest on this Fixed Rate Note shall be made on January 15 and July 15 in each year, commencing January 15, 1987, to and including the last "payment date" specified in Schedule 1 hereto.

Capitalized terms used in this Fixed Rate Note which are not otherwise defined herein shall have the meanings ascribed thereto in the Indenture (as hereinafter defined).

Interest on any overdue principal and premium, if any, and (to the extent permitted by applicable law) any overdue interest, shall be paid, on demand, from the due date thereof at the rate per annum equal to 11.15% (computed on the basis of a 360-day year of twelve 30-

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day months) for the period during which any such principal, premium or interest shall be overdue.

In the event any date on which a payment is due under this Fixed Rate Note is not a Business Day, then payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the date on which such payment was due.

All payments of principal, premium, if any, and interest to be made by the Owner Trustee hereunder and under the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, as at any time heretofore or hereafter amended or supplemented in accordance with the provisions thereof (the Indenture), between the Owner Trustee and Chemical Bank, as Trustee (the Indenture Trustee), shall be made only from the Lease Indenture Estate and the Trust Estate and the Indenture Trustee shall have no obligation for the payment thereof except to the extent that the Indenture Trustee shall have sufficient income or proceeds from the Lease Indenture Estate to make such payments in accordance with the terms of Article V of the Indenture. The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that such Holder will look solely to the Trust Estate and the income and proceeds from the Lease Indenture Estate to the extent available for distribution to the Holder hereof as above provided, and that neither the Owner Participant nor, except as expressly provided in the Indenture, the Owner Trustee nor the Indenture Trustee is or shall be personally liable to the Holder hereof for any amounts payable under this Fixed Rate Note or for any performance to be rendered under the Indenture or any other Transaction Document or for any liability thereunder; provided, however, that in the event the Lessee shall assume all the obligations of the Owner Trustee hereunder and under the Indenture pursuant to Section 3.9(b) of the Indenture, then all the payments to be made under this Fixed Rate Note shall be made only from payments made by the Lessee under this Fixed Rate Note in accordance with the Assumption Agreement referred to in said Section 3.9(b) and the Holder of this Fixed Rate Note agrees that in such event it will look solely to the Lessee for such payment.

Principal, premium, if any, and interest shall be payable, in the manner provided in the Indenture, on presentment of this Fixed Rate Note at the Indenture

Trustee's Office, or as otherwise provided in the Indenture.

In the manner and to the extent provided in the Indenture, Schedule 1 hereto may be adjusted once at the discretion of the Owner Trustee prior to July 15, 1997, in connection with an adjustment to Basic Rent under Section 3(d) of the Facility Lease.

The Holder hereof, by its acceptance of this Fixed Rate Note, agrees that each payment received by it hereunder shall be applied in the manner set forth in Section 3.11 of the Indenture. The Holder of this Fixed Rate Note agrees, by its acceptance hereof, that it will duly note by appropriate means all payments of principal or interest made hereon and that it will not in any event transfer or otherwise dispose of this Fixed Rate Note unless and until all such notations have been duly made.

This Fixed Rate Note is one of the Fixed Rate Notes referred to in the Indenture. The Indenture permits the issuance of additional series of Notes, as provided in Section 3.5 of the Indenture, and the several series may be for varying aggregate principal amounts and may have different maturity dates, interest rates, redemption provisions and other terms. The properties of the Owner Trustee included in the Lease Indenture Estate are pledged to the Indenture Trustee to the extent provided in the Indenture as security for the payment of the principal of and premium, if any, and interest on this Fixed Rate Note and all other Notes issued and outstanding from time to time under the Indenture. Reference is hereby made to the Indenture for a statement of the rights of the Holders of, and the nature and extent of the security for, this Fixed Rate Note and of the rights of, and the nature and extent of the security for, the Holders of the other Notes and of certain rights of the Owner Trustee, as well as for a statement of the terms and conditions of the trust created by the Indenture, to all of which terms and conditions the Holder hereof agrees by its acceptance of this Fixed Rate Note.

This Fixed Rate Note is subject to prepayment in whole as contemplated by Section 5.2 of the Indenture and in the circumstances therein described. In addition, this Fixed Rate Note may be prepaid in whole or in part at any time on or after January 15, 1992 by the Owner Trustee upon the giving of not less than 30 days'

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notice (as provided in the Indenture) and at the following prepayment prices (expressed as a percentage of the unpaid principal amount hereof), together with interest accrued to the date fixed for prepayment:

| <u>Twelve Month
Period Beginning</u> | <u>Redemption
Price</u> |
|--|-----------------------------|
| January 15, 1992 | 108.120% |
| January 15, 1993 | 107.714 |
| January 15, 1994 | 107.308 |
| January 15, 1995 | 106.902 |
| January 15, 1996 | 106.496 |
| January 15, 1997 | 106.090 |
| January 15, 1998 | 105.684 |
| January 15, 1999 | 105.278 |
| January 15, 2000 | 104.872 |
| January 15, 2001 | 104.466 |
| January 15, 2002 | 104.060 |
| January 15, 2003 | 103.654 |
| January 15, 2004 | 103.248 |
| January 15, 2005 | 102.842 |
| January 15, 2006 | 102.436 |
| January 15, 2007 | 102.030 |
| January 15, 2008 | 101.624 |
| January 15, 2009 | 101.218 |
| January 15, 2010 | 100.812 |
| January 15, 2011 | 100.406 |

and thereafter at the principal amount thereof, together with interest accrued to the date fixed for prepayment. This Fixed Rate Note is not otherwise subject to prepayment in whole or in part.

In case an Indenture Event of Default shall occur and be continuing, the unpaid balance of the principal of this Fixed Rate Note and any other Notes, together with all accrued but unpaid interest thereon, may, subject to certain rights of the Owner Trustee or the Owner Participant contained or referred to in the Indenture, be declared or may become due and payable in the manner and with the effect provided in the Indenture.

The lien upon the Lease Indenture Estate is subject to being legally discharged prior to the maturity of this Fixed Rate Note upon the deposit with the Indenture Trustee of cash or certain securities sufficient to pay this Fixed Rate Note when due or an assumption of the obligation of the Owner Trustee under

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this Fixed Rate Note and the Indenture, in each case in accordance with the terms of the Indenture.

There shall be maintained at the Indenture Trustee's Office a register for the purpose of registering transfers and exchanges of Notes in the manner provided in the Indenture. The transfer of this Fixed Rate Note is registrable, as provided in the Indenture, upon surrender of this Fixed Rate Note for registration of transfer duly accompanied by a written instrument of transfer duly executed by or on behalf of the registered Holder hereof, together with the amount of any applicable transfer taxes. Prior to due presentment for registration of transfer of this Fixed Rate Note, the Owner Trustee and the Indenture Trustee may treat the person in whose name this Fixed Rate Note is registered as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Fixed Rate Note and for all other purposes whatsoever, whether or not this Fixed Rate Note be overdue, and neither the Owner Trustee nor the Indenture Trustee shall be affected by notice to the contrary.

This Fixed Rate Note shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the Owner Trustee has caused this Fixed Rate Note to be duly executed as of the date hereof. .

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation

By _____
Assistant Vice President

This Note is one of the series of Notes referred to therein and in the within-mentioned Indenture.

CHEMICAL BANK,
as Indenture Trustee

By _____
Authorized Officer

SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 2016)

Schedule of Principal Amortization

\$23,229,000 Principal Amount

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| July 15, 1997 | \$442,000 | |
| January 15, 1998 | 465,000 | |
| July 15, 1998 | 488,000 | |
| January 15, 1999 | 513,000 | |
| July 15, 1999 | 539,000 | |
| January 15, 2000 | 566,000 | |
| July 15, 2000 | 585,000 | |
| January 15, 2001 | 416,000 | |
| July 15, 2001 | 464,000 | |
| January 15, 2002 | 427,000 | |
| July 15, 2002 | 468,000 | |
| January 15, 2003 | 422,000 | |
| July 15, 2003 | 472,000 | |
| January 15, 2004 | 430,000 | |
| July 15, 2004 | 501,000 | |
| January 15, 2005 | 456,000 | |
| July 15, 2005 | 532,000 | |
| January 15, 2006 | 484,000 | |
| July 15, 2006 | 565,000 | |
| January 15, 2007 | 514,000 | |
| July 15, 2007 | 600,000 | |
| January 15, 2008 | 545,000 | |
| July 15, 2008 | 637,000 | |
| January 15, 2009 | 579,000 | |
| July 15, 2009 | 676,000 | |
| January 15, 2010 | 614,000 | |
| July 15, 2010 | 717,000 | |

SCHEDULE 1
TO THE FIXED RATE NOTE
(DUE JANUARY 15, 2016)

Schedule of Principal Amortization
(Continued)

| <u>Payment
Date</u> | <u>Principal
Amount Payable</u> | <u>Principal
Amount Paid</u> |
|-------------------------|-------------------------------------|----------------------------------|
| January 15, 2011 | \$ 652,000 | |
| July 15, 2011 | 762,000 | |
| January 15, 2012 | 692,000 | |
| July 15, 2012 | 808,000 | |
| January 15, 2013 | 734,000 | |
| July 15, 2013 | 858,000 | |
| January 15, 2014 | 780,000 | |
| July 15, 2014 | 911,000 | |
| January 15, 2015 | 827,000 | |
| July 15, 2015 | 968,000 | |
| January 15, 2016 | <u>1,120,000</u> | |
| Principal Amount | <u>\$23,229,000</u> | |

ASSIGNMENT

Date: December __, 1986

For value received, FIRST PV FUNDING CORPORATION (First PV) hereby sells, assigns and transfers to CHEMICAL BANK, as Collateral Trust Trustee pursuant to the Collateral Trust Indenture dated as of December 16, 1985, as heretofore amended and supplemented, among First PV, Public Service Company of New Mexico and said Collateral Trust Trustee, without recourse, the Fixed Rate Note to which this Assignment is annexed and all rights thereunder.

FIRST PV FUNDING CORPORATION

By _____
Vice President

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EXHIBIT B

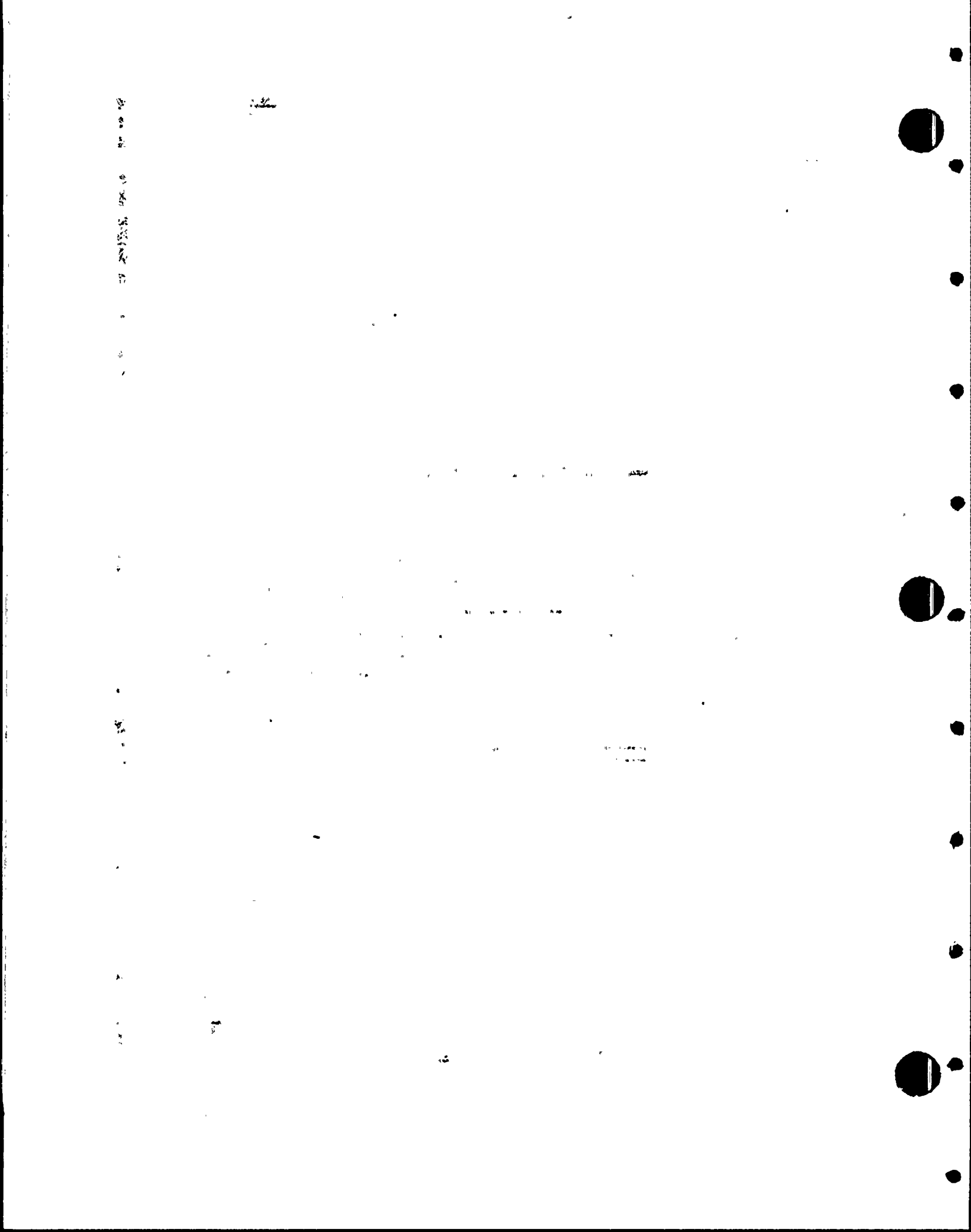
ASSUMPTION AGREEMENT

TO: The Holders (as defined below) from time to time of the Notes (as defined below) of The First National Bank of Boston, not in its individual capacity, but solely as owner trustee under a Trust Agreement dated as of December 15, 1986 with Chase Manhattan Realty Leasing Corporation (in such capacity, the "Issuer") under the Trust Indenture, Mortgage, Security Agreement, and Assignment of Rents (the "Indenture") dated as of December 15, 1986 among the Issuer and Chemical Bank (the "Trustee").

The undersigned, PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the "Obligor"), for the purpose of satisfying in part its obligation to make certain payments under that certain Facility Lease dated as of December 15, 1986 between the Issuer and the Obligor (the "Facility Lease"), does hereby covenant and agree with the Holders (as defined in the Indenture) from time to time of the Notes (as defined in the Indenture) as follows:

SECTION 1. The Obligor does hereby agree to, and does hereby, assume unconditionally the payment of the principal of the Notes and of the interest and premium (if any) thereon, at the rates provided in the Notes, when and as the same shall become due and payable, whether at maturity or upon mandatory prepayment or upon declaration or otherwise, according to the terms of the Notes and of the Indenture.

SECTION 2. The assumption herein contained shall be binding upon the Obligor, its successors and assigns and shall remain in full force and effect irrespective of the power or authority of the Issuer to issue the Notes or to execute, acknowledge and deliver the Indenture or the validity of the Notes, or the Indenture, or of any defense whatsoever that the Issuer may or might have to the payment of the Notes (principal, interest or premium), or to the performance



or observance of any of the provisions or conditions of the Indenture or any Note, or of the existence or continuance of the Issuer as a legal entity; nor shall said assumption be affected by the merger, consolidation, or other dissolution of the Issuer or the sale or other transfer of the property of the Issuer or by the Issuer as an entirety, or substantially so, to any other person; nor shall the assumption be discharged or impaired by any act, failure or omission whatsoever on the part of any Holder of any Notes or the Trustee, including, among other such acts, failures and omissions, the following:

(a) any failure to present any Note for payment or to demand payment thereof, or to give to the Obligor notice of dishonor and non-payment of any Note when and as the same may become due and payable, or notice of any failure on the part of the Issuer to do any act or thing or to perform or keep any covenant or agreement by it to be done, kept or performed under the terms of Notes or the Indenture;

(b) any extension of the obligation of any Note, either indefinitely or for any period of time, or any other modification in the obligations under any Note or the Indenture or of the Issuer thereon or in connection therewith;

(c) any act or failure to act with regard to any Note or the Indenture or anything which might vary the risk of the Obligor; and

(d) any action taken under the Indenture and the Notes in the exercise of any right or power thereby conferred or any failure or omission on the part of the Trustee or the Holder of any Note to enforce any right or security given under the Indenture or any Note, or any waiver of any right or any failure or omission on the part of the Trustee or any Holder of any Note to enforce any right of any Holder of any Note against the Issuer;

provided, always, that the specific enumeration of the above mentioned acts, failures, waivers or omissions shall not be deemed to exclude any other acts, failures, waivers or omissions though not specifically mentioned herein, it being the purpose and intent of this Assumption Agreement that the obligation of the Obligor shall be absolute and unconditional to the extent herein specified and shall not be discharged, impaired or

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varied except by the payment of the principal of and interest on any Note and any premium thereon in case of prepayment, and then only to the extent of such payments.

SECTION 3. (a) Subject to the requirements of Sections 10(b)(3)(iii) and (b)(3)(iv) of the Participation Agreement and to the provisions of paragraph (b) of this Section, nothing contained in this Assumption Agreement shall prevent any consolidation or merger of the Obligor with or into any other corporation or corporations (whether or not affiliated with the Obligor), or successive consolidations or mergers in which the Obligor or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance or lease of all or substantially all the property of the Obligor, to any other corporation authorized to acquire and operate the same; provided, however, and the Obligor hereby covenants and agrees, that upon any such consolidation, merger, sale, conveyance or lease, all obligations of the Obligor under this Assumption Agreement on or in respect of any Note, and the due and punctual performance and observance of all of the covenants and conditions of this Assumption Agreement to be performed by the Obligor, shall be expressly and duly assumed, by an agreement reasonably satisfactory in form and substance to the Trustee, executed and delivered by the corporation (if other than the Obligor) formed by such consolidation, or into which the Obligor shall have been merged, or by the corporation which shall have acquired such property.

(b) The Indenture Trustee (as defined in the Indenture), subject to applicable provisions of the Indenture, may rely upon an opinion of counsel to the Obligor as conclusive evidence that any such merger, consolidation, sale or conveyance complies with the provisions of this Section.

SECTION 4. The Obligor does hereby consent to all of the terms and conditions of each Note Series and of the Indenture, and hereby waives any and all rights of notice of any fact or facts or circumstance or circumstances whatsoever and consents to any extension or extensions of time of any payment or payments, or of any other act or thing which any Holder or Holders of any Note or the Issuer may agree to consent to, either expressly, by acquiescence or otherwise, and hereby agrees not to claim or enforce any rights of subrogation or any other right or privilege which might otherwise

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arise on account of any payment made by it or act or thing done by it on account of or in accordance with its assumption herein contained, unless and until all of the Notes have been fully paid and discharged.

SECTION 5. The assumption herein expressed may be transferred or assigned at any time or from time to time and shall be considered to be transferred and assigned upon the transfer of any Note, whether with or without the consent of or notice to the Obligor or the Issuer. The Obligor hereby agrees to execute and deliver such instruments and to do such acts and things requested by the Trustee as shall be reasonably necessary to carry out and effectuate the purposes and intents of this Assumption Agreement. This Assumption Agreement may not be amended or modified in any respect without the prior written consent (evidenced as provided in the Indenture) of the Holders of not less than a majority in principal amount of the Notes Outstanding (as defined in the Indenture); provided, however, that without the written consent of the Holders of all of the Notes Outstanding, no such amendment or modification shall be effective which will change any of the provisions of Sections 1, 2, 4 or 5 of this Assumption Agreement. The Obligor agrees to file with the Indenture Trustee a duplicate original of each such consent.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By _____
Title:

ATTEST:

Title:

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EXHIBIT C

UNDIVIDED INTEREST SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE NO. _____ dated as of _____, to the TRUST INDENTURE, MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS (hereinafter, together with supplements thereto, the Indenture) dated as of December 15, 1986, between THE FIRST NATIONAL BANK OF BOSTON (FNB), not in its individual capacity, but solely as trustee (the Owner Trustee) under a Trust Agreement, dated as of December 15, 1986, between FNB, whose address is 100 Federal Street, Boston, Massachusetts 02110, and Chase Manhattan Realty Leasing Corporation, and CHEMICAL BANK, a New York banking corporation (the Indenture Trustee), whose address is 55 Water Street, New York, New York 10041.

W I T N E S S E T H:

WHEREAS, in accordance with Section 9(j) of the Facility Lease, the Owner Trustee is obligated, in certain cases, to cause the Undivided Interest and the Real Property Interest to be subjected to the Lien of the Indenture; and

WHEREAS, in order to further secure the obligations referred to in the Indenture, the Owner Trustee desires to grant to the Indenture Trustee the security interest and realty mortgage herein provided and the parties hereto desire that the Indenture be regarded (i) to the extent that the Undivided Interest constitutes personal property, as a "security agreement" and as a "financing statement" under the Uniform Commercial Code and (ii) to the extent that the Undivided Interest and the Real Property Interest constitute fixtures or real property, as a realty mortgage;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1.1. The Indenture. This Supplemental Indenture No. _____ shall be construed as supplemental to and amendatory of the Indenture and shall form a part thereof, and the Indenture is hereby incorporated by

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reference herein and is hereby ratified, approved and confirmed.

SECTION 1.2. Definitions. Capitalized terms used herein, but which are not otherwise defined herein shall have the meanings set forth in Appendix A to the Indenture.

SECTION 1.3. Recording Information. The Indenture was recorded on _____, in Maricopa County, Arizona [describe] [specify other recorded documents] [specify other places of recordation].

SECTION 1.4. Governing Law. This Supplemental Indenture No. ___ and the Indenture shall, for all purposes, be construed in accordance with and governed by the laws of the State of New York except to the extent that the laws of the State of Arizona shall be mandatorily applicable thereto.

SECTION 1.5. Security Interest and Realty Mortgage. As further security for the due and punctual payment of the principal of and premium, if any, and interest on the Notes according to their respective terms and effect and the performance and observance by the Owner Trustee of all the covenants and agreements made by it or on its behalf in the Notes, the Participation Agreement and the Indenture, the Owner Trustee does, by its execution and delivery hereof, hereby grant a security interest in, bargain, convey, warrant, assign, transfer, mortgage, pledge and set over unto the Indenture Trustee, and to its successors and assigns in trust, the following (which shall be a part of the Lease Indenture Estate for all purposes of the Indenture and the other Transaction Documents):

(1) the Undivided Interest and the Real Property Interest, including, but without limitation, the Owner Trustee's share of all Capital Improvements (including any which constitute fixtures under Applicable Law) now existing or which hereafter may become part of the Undivided Interest;

(2) all right, title and interest of the Owner Trustee in, to and under (a) the Bill of Sale, (b) the ANPP Participation Agreement, (c) the Deed and (d) the Assignment of Beneficial Interest, including, but without limitation, all amounts of Rent, insurance

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proceeds and condemnation, requisition and other awards and payments of any kind for or with respect to any part of the Lease Indenture Estate as contemplated in such documents;

(3) all other property of every kind and description, real, personal and mixed, and interests therein now held or hereafter acquired by the Owner Trustee pursuant to any term of any Transaction Document, whether or not subjected to the Lien of the Indenture by an indenture supplemental hereto; and

(4) all proceeds of the foregoing;

but excluding, however, (i) such of the foregoing as, in accordance with the terms of the Indenture, shall have been released from the lien of the Indenture and distributed to the Owner Trustee or the Owner Participant, as the case may be, and (ii) any and all Excepted Payments; and subject, however, to (x) the terms and provisions of the Indenture and (y) the rights of the Lessee under the Facility Lease.

TO HAVE AND TO HOLD all the aforesaid properties, rights and interests unto the Indenture Trustee, its successors and assigns forever, but in trust, nevertheless, for the use and purposes and with the power and authority and subject to the terms and conditions mentioned and set forth in the Indenture.

UPON CONDITION that, unless and until an Indenture Event of Default shall have occurred and be continuing, the Owner Trustee shall be permitted, to the exclusion of the Indenture Trustee, to possess and use the Lease Indenture Estate and exercise all rights with respect thereto and, without limitation of the foregoing, the Owner Trustee may exercise all of its rights under the documents specified in clause (2) above to the same extent as if its right, title and interest therein had not been assigned to the Indenture Trustee to the extent set forth above, except that the Indenture Trustee shall receive all payments of Assigned Payments and all moneys and securities required to be held by or deposited with the Indenture Trustee hereunder.

The Owner Trustee hereby warrants and represents that it has not assigned or pledged any of its right, title or interest in and to the Lease

Indenture Estate to anyone other than the Indenture Trustee.

SECTION 1.6. Real Estate Remedies. In addition to the remedies specified in the Indenture (including but without limitation Section 6.4 thereof) or otherwise available pursuant to Applicable Law, to the extent that any portion of the Lease Indenture Estate constitutes fixtures or real property, the Indenture and this Supplemental Indenture No. ___ shall be, and shall be deemed to be, a realty mortgage and assignment of rents with respect to all items of real property and fixtures and the Indenture Trustee shall have all the rights, remedies and benefits of a mortgagee of real property under Applicable Law (including, but without limitation, rights and remedies pursuant to Arizona Revised Statutes Section 33-702:B, or any comparable successor provision) and the Owner Trustee shall be and be deemed to be, a mortgagor with respect to such fixtures and real property.

SECTION 1.7. Certain Releases. In case a release from the security and other interests created by Section 1.5 hereof by the Indenture Trustee of a portion of the Undivided Interest shall be necessary in order to enable the Owner Trustee or the Lessee to perform its covenants and agreements set forth in the Transaction Documents or in the ANPP Participation Agreement or the Owner Trustee or the Lessee to carry out any action required by Section 8 of the Facility Lease, the Indenture Trustee shall execute and deliver to, or as directed by, the Owner Trustee or the Lessee an appropriate instrument or instruments provided to the Indenture Trustee by the Owner Trustee or the Lessee (in due form for filing or recording), so releasing a portion of the Undivided Interest, provided, however, that the Indenture Trustee shall have first received an Officer's Certificate in form and substance reasonably satisfactory to the Indenture Trustee, executed by the Lessee, accompanied by an opinion of counsel reasonably satisfactory to the Indenture Trustee, each of which shall be to the effect that all necessary actions have been or are being taken simultaneously with such release in connection with the proposed action to comply with the terms of this Indenture and Section 8 of the Facility Lease.

SECTION 1.8. Severance. The parties hereto understand and agree that Unit 2 and the Common Facilities (including the Undivided Interest), each

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Capital Improvement and each part thereof is or shall be severed, and shall be and remain severed, from the real estate constituting the PVNGS Site and even if physically attached thereto, shall retain the character of personal property, shall be treated as personal property with respect to the rights of all persons whomsoever, shall not be or become fixtures or otherwise part of the real estate constituting the PVNGS Site, and, by virtue of its nature as personal property, shall not be affected in any way by any instrument dealing with the real estate constituting the PVNGS Site.

SECTION 1.9. ANPP Participation Agreement.
The provision by the Owner Trustee to the Indenture Trustee of the realty mortgage and the security interest contemplated by this Supplemental Indenture No. ___ is in compliance with the provisions of the ANPP Participation Agreement, including, but without limitation, Section 15.6.3.2 thereof.

SECTION 1.10. Appointment of Co-Trustees or Separate Trustees.

(a) At any time or times, when necessary or prudent or for the purpose of meeting the legal requirements of any jurisdiction in which any part of the Lease Indenture Estate may, at any time, be located, the Indenture Trustee, except as set forth in subsection (b)(6) of this Section 1.10, may, and upon receipt of a Directive shall, appoint one or more Persons to act as co-trustee of all or any such part of the Lease Indenture Estate or to act as separate trustee of any property constituting part thereof, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons any property, title, right or power deemed necessary or desirable, subject to the remaining provisions of this Section 1.10. Except as set forth in subsection (b)(6) of this Section 1.10 the Owner Trustee shall join in any such appointment upon the request of the Indenture Trustee, but such joining will not be necessary for the effectiveness of such appointment.

(b) Every separate trustee or co-trustee shall be appointed subject to the following terms:

(1) The rights, powers, duties and obligations conferred or imposed upon any such separate trustee or co-trustee shall not be greater than those conferred or imposed upon

the Indenture Trustee, and such rights and powers shall be exercisable only jointly with the Indenture Trustee, except to the extent that, under any law of any jurisdiction in which any particular act or acts are to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event, except as set forth in subsection (b) (6) of this Section 1.10, such rights and powers shall be exercised by such separate trustee or co-trustee subject to the provisions of subsection (b) (4) of this Section 1.10.

(2) The Indenture Trustee may at any time, by an instrument in writing executed by it, accept the resignation of, and may (and upon the receipt of a Directive, shall) remove any separate trustee or co-trustee appointed under this Section 1.10.

(3) No trustee under the Indenture and this Supplemental Indenture No. _____ shall be liable by reason of any act or omission of any other trustee or co-trustee under this Indenture.

(4) Except as set forth in subsection (b) (6) of this Section 1.10, no power given to such separate trustee or co-trustee shall be separately exercised hereunder by such separate trustee or co-trustee except with the consent in writing of the Indenture Trustee.

(5) The Indenture Trustee shall maintain custody of all money and securities.

(6) Notwithstanding anything contained to the contrary in this Section 1.10, to the extent the laws of any jurisdiction preclude the Indenture Trustee from taking any action hereunder either alone, jointly or through a separate trustee under the direction and control of the Indenture Trustee, the Owner Trustee, at the instruction of the Indenture Trustee, shall appoint a separate trustee for such jurisdiction, which separate trustee shall have full power and authority to take all action hereunder as to matters relating to such jurisdiction without the consent of the

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Indenture Trustee, but subject to the same limitations in any exercise of his power and authority as those to which the Indenture Trustee is subject.

(c) Upon the acceptance in writing of such appointment by any such separate trustee or co-trustee, it shall be vested with the estates or property to which its appointment relates as specified in the instrument of appointment, subject to all the terms of the Indenture and this Supplemental Indenture No. ____.

(d) Any separate trustee or co-trustee may, at any time, constitute the Indenture Trustee, its agent or attorney-in-fact, with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of the Indenture and this Supplemental Indenture No. ____ on its behalf and in its name. If a separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

SECTION 1.11. Separability of Provisions. In case any one or more of the provisions of this Supplemental Indenture No. ____ or any application thereof shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof and the Indenture and any other application hereof and thereof shall not in any way be affected or impaired.

SECTION 1.12. Counterpart Execution. This Supplemental Indenture No. ____ may be executed in any number of counterparts and by the different parties hereto and thereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the Owner Trustee and the Indenture Trustee have each caused this Indenture to be duly executed by their respective officers thereunto duly authorized, all as of the date first set forth above.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under the Trust
Agreement dated as of
December 15, 1986, with Chase
Manhattan Realty Leasing
Corporation.

By _____
Assistant Vice President

CHEMICAL BANK

By _____
Vice President

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SCHEDULE 1
to
INDENTURE

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) .7933333% undivided interest in and to the property described under A below and (ii) a .2644444% undivided interest in and to the property described in B below.

A. Unit 2 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 2 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 2 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 2 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 2 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60

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psig. The containment building houses the reactor system.

- IV. Unit 2 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 2 start-up transformer.
- V. Unit 2 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 2 radioactive waste treatment system, including liquid, gaseous, and solid-waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 2 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 2 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 2, including spare fuel assemblies.
- II. Spare Parts (Unit 2).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 2 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).

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- IV. Oil and diesel fuel inventories (Unit 2).

B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.
- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust

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No. 530, and Project Agreement
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SCHEDULE 2
to
INDENTURE

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) .2333334% undivided interest in the land described in I below, a (ii) .2644444% undivided interest in the rights and interests described in II below, and (iii) a .2644444% undivided interest in the right and interests described in III below.

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

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PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of

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892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52; Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).



When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona

ASSIGNMENT, ASSUMPTION

AND

FURTHER AGREEMENT

Dated as of December 15, 1986

between

PUBLIC SERVICE COMPANY OF NEW MEXICO,

and

THE FIRST NATIONAL BANK OF BOSTON,
not in its individual capacity, but
solely as Owner Trustee under a Trust
Agreement, dated as of December 15,
1986, with Chase Manhattan Realty
Leasing Corporation

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2
and a .2644444% Undivided Interest in Certain Common
Facilities

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ASSIGNMENT, ASSUMPTION AND FURTHER AGREEMENT, dated as of December 15, 1986, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM), and THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity, but solely as Owner Trustee (the Owner Trustee), under a Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation.

W I T N E S S E T H :

WHEREAS, PNM and the other ANPP Participants are parties to the ANPP Participation Agreement (such terms and all other terms used in these recitals without definition having the respective definitions to which reference is made in Article I below); and

WHEREAS, PNM has sold, and the Owner Trustee has purchased, the Undivided Interest and the Real Property Interest for and in consideration of the payment to PNM by the Owner Trustee of the Purchase Price, the purchase price of the Real Property Interest and the assignments and assumptions herein set forth;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS; SCHEDULES

SECTION 1.01. General. For purposes hereof, capitalized terms used herein which are not otherwise defined herein shall have the meanings assigned to such terms in Appendix A hereto. References in this Agreement to articles, sections and clauses are to articles, sections and clauses in this Agreement unless otherwise indicated.

SECTION 1.02. Undivided Interest and Real Property Interest. Attached as Schedule 1 hereto is a description of the Undivided Interest and attached as Schedule 2 hereto is a description of the Real Property Interest.

ARTICLE II

NONPARTITIONMENT

SECTION 2.01. Nonpartitionment. The Owner Trustee hereby waives any rights it may have to partition Unit 2 or the Common Facilities, whether by partitionment in kind or by sale and division of proceeds, and further agrees that it will not resort to any action at law or in equity to partition Unit 2 or the Common Facilities, and it waives the benefits of all laws that may now or hereafter authorize such partition for a term (i) which shall be coterminous with the term of the ANPP Participation Agreement or (ii) which shall be for such lesser period as may be required under Applicable Law.

ARTICLE III

ASSIGNMENTS; EXERCISE OF RIGHTS

SECTION 3.01. Assignment of Warranties. PNM hereby ASSIGNS to the Owner Trustee an undivided interest, equal to the applicable Share, in, to and under any and all warranties of and other claims against dealers, manufacturers, vendors, contractors and subcontractors relating to Unit 2 and the Common Facilities.

SECTION 3.02. Assignment of the ANPP Participation Agreement. (a) PNM hereby ASSIGNS to the Owner Trustee an undivided interest, in, to and under all of PNM's rights under the ANPP Participation Agreement, equal to .7933333% to the extent that such rights relate to Unit 2 (including, but without limitation, a percentage entitlement equal to .7933333%, of the Net Energy Generation and Available Generating Capability (as each such term is defined in the ANPP Participation Agreement) of Unit 2) and equal to .2644444% to the extent such rights relate to the Common Facilities.

(b) The Owner Trustee hereby ASSIGNS to PNM the rights assigned under paragraph (a) until the Lease Termination Date.

SECTION 3.03. Exercise of Rights as Participant under the ANPP Participation Agreement. (a) Except as provided in Sections 15.2.2, 15.6.4 and Section 15.10 of the ANPP Participation Agreement (or any comparable successor provision) PNM shall be and remain the sole "Participant" for all purposes of the ANPP Participation Agreement and the sole representative (with power to bind) in all dealings with the other ANPP Participants in relation to the Undivided Interest, the

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Real Property Interest and the rights assigned to the Owner Trustee pursuant to this Agreement; provided, however, that the foregoing shall not limit in any way the effect of Sections 15 or 16 of the Facility Lease or any liability or obligation that PNM may incur to the Owner Trustee or the Owner Participant under any Transaction Document as a result thereof (including, but without limitation, any liability that PNM may incur under Section 16 of the Facility Lease as the result of an Event of Default).

(b) Unless the ANPP Participation Agreement shall otherwise permit, any right conferred on the Owner Trustee by Section 15.2.2 of the ANPP Participation Agreement shall be exercised as required by Section 15.6.3.3 of said Agreement.

(c) The provisions of this Section 3.03 shall remain in full force and effect until such time as the ANPP Administrative Committee or the ANPP Participants shall otherwise consent.

ARTICLE IV

ASSUMPTION; RELEASE

SECTION 4.01. Assumption by Owner Trustee. Except as contemplated by Section 5(a) of the Facility Lease, the Owner Trustee agrees that, effective on and as of the Lease Termination Date (unless a transferee of the Undivided Interest and the Real Property Interest (an ANPP Transferee) shall have qualified under Section 15.10 of the ANPP Participation Agreement or any comparable successor provision), unless (i) a Default or Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred or (ii) such Lease Termination Date shall have occurred by reason of a termination of the Facility Lease pursuant to Section 16 thereof, the Owner Trustee shall assume and agree to pay, perform and discharge the Owner Trustee's Share of all liabilities and obligations of PNM under, or with respect to, the ANPP Project Agreements, attributable to Unit 2 and the Common Facilities, other than any and all costs relating to, allocable to, or incurred in connection with, the decommissioning and retirement of Unit 2 from commercial service, including, but without limitation, (x) the cost of removal, decontamination and disposition of equipment

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3. The second part of the document is a list of names and addresses of the members of the committee.



and fixtures, the cost of safe storage for later removal, decontamination and disposal and the cost of entombment of equipment and fixtures, and (y) the cost of (i) the razing of Unit 2, (ii) the removal and disposition of debris from the PVNGS Site, and (iii) the restoration of relevant portions of the PVNGS Site.

SECTION 4.02. Release. Upon the assumption and agreement by an ANPP Transferee pursuant to Section 4.01 (whether at the Lease Termination Date or thereafter), the Owner Trustee shall therewith and thereupon be released and discharged from its obligations under Section 4.01 arising on or after such assumption and agreement.

ARTICLE V

NO RELEASE OF PNM; REIMBURSEMENT

SECTION 5.01. No Release of PNM. Notwithstanding the provisions of Article IV or any other provision hereof or of any other Transaction Document, and except to the extent provided in Section 15.10 of the ANPP Participation Agreement (or any comparable successor provision), PNM shall not be released from any liability or obligation under the ANPP Project Agreements, or otherwise, with respect to PVNGS, and PNM shall remain liable for the payment and performance of all such liabilities and obligations, including, but without limitation, any and all liabilities and obligations not assumed by the Owner Trustee or an ANPP Transferee pursuant to Section 4.01.

SECTION 5.02. Reimbursement. Unless a Default or an Event of Default shall have occurred and be continuing or an Event of Loss or Deemed Loss Event shall have occurred, from and after the Lease Termination Date (except a Lease Termination occurring by reason of a termination of the Facility Lease pursuant to Section 16 thereof), upon the payment or performance by PNM of any liability or obligation in respect of which the Owner Trustee shall also have become obligated in consequence of Article IV or the ANPP Participation Agreement, and for so long as the Owner Trustee shall be so liable, PNM shall be entitled to prompt reimbursement by the Owner Trustee from the Trust Estate for all amounts expended in connection with such payment or performance.

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ARTICLE VI

FURTHER AGREEMENTS OF PNM AND THE OWNER TRUSTEE

SECTION 6.01. Agreement to Sell or Lease Unit 2 Retained Assets. Upon a transfer to an ANPP Transferee, PNM agrees in respect of the Undivided Interest and the Real Property Interest, (i) if such ANPP Transferee is a purchaser of the Undivided Interest and the Real Property Interest, to sell to such ANPP Transferee, at a price equal to the then Fair Market Sales Value (determined on the basis of the then actual condition of the Unit 2 Retained Assets) thereof, an undivided interest, equal to .7933333%, to the extent related to Unit 2 and .2644444%, to the extent related to the PVNGS common facilities, in and to the Unit 2 Retained Assets, or (ii) if such ANPP Transferee is a lessee of the Undivided Interest and the Real Property Interest, to lease or otherwise make available to such ANPP Transferee, at a rent equal to the then Fair Market Rental Value thereof, an undivided interest, equal to .7933333%, to the extent related to Unit 2 and .2644444% to the extent related to the PVNGS common facilities, in and to the Unit 2 Retained Assets. Any such sale or lease by PNM shall be accomplished by an appropriate bill of sale or lease. The Bill of Sale referenced in the definition of Unit 2 Retained Assets set forth in Appendix A hereto was recorded December __, 1986, as Instrument No. _____, records of Maricopa County, Arizona, and is hereby incorporated herein by reference.

SECTION 6.02. Agreement to Assign or Make Available ANPP Project Agreements. Upon a transfer to an ANPP Transferee, PNM agrees in respect of the Undivided Interest and the Real Property Interest, (i) if such ANPP Transferee is a purchaser of the Undivided Interest and the Real Property Interest, to assign to such ANPP Transferee an undivided interest, equal to .7933333%, to the extent related to Unit 2, and .2644444%, to the extent related to the PVNGS common facilities, of the Project Agreements (other than the ANPP Participation Agreement) and (ii) if such ANPP Transferee is a lessee of the Undivided Interest and the Real Property Interest, to assign for the term of such lease to such ANPP Transferee an undivided interest, equal to .7933333%, to the extent related to Unit 2, and .2644444%, to the extent related to the PVNGS common

facilities, of the Project Agreements (other than the ANPP Participation Agreement). Any assignment pursuant to this Section 6.02 shall be accomplished by an appropriate instrument of assignment.

SECTION 6.03. Agreements to Seek Amendments to the ANPP Participation Agreement and the License. PNM agrees to use its best efforts to obtain any required amendments to the ANPP Participation Agreement and the License to permit PNM to act as Agent of the Owner Trustee in the manner contemplated by Section 7.01 hereof, if (a) (i) PNM shall not have elected to purchase the Undivided Interest and the Real Property Interest as provided in Section 13(b) of the Facility Lease and (ii) there shall not be an ANPP Transferee in respect of the Undivided Interest and the Real Property Interest or (b) PNM shall be obligated to surrender possession of the Undivided Interest and the Real Property Interest pursuant to Section 5(a) of the Facility Lease. PNM acknowledges and agrees that neither the Owner Trustee nor the Owner Participant shall have any obligation whatsoever to assist PNM in obtaining any such amendments.

SECTION 6.04. Owner Trustee's Agreement. If PNM becomes obligated to sell, lease, otherwise make available or assign in accordance with Sections 6.01 and 6.02 hereof, the Owner Trustee shall (at the direction of the Owner Participant) require or cause the ANPP Transferee to purchase, lease, accept or assume, as the case may be, the property or rights being sold, leased, made available or assigned by PNM.

ARTICLE VII

INTERIM AGENCY ARRANGEMENTS

SECTION 7.01. Designation of Agent. From and after surrender of possession to the Owner Trustee (or its assigns) of the Undivided Interest and the Real Property Interest pursuant to Section 5(a) of the Facility Lease (or during such period on or after the Lease Termination Date that the Owner Trustee shall have waived any Default or Event of Default with respect to the inability of PNM to effectively surrender possession as required by such Section 5(a)) and until a transfer to an ANPP Transferee in respect of the Undivided Interest and the Real Property Interest (such period

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2. The second part of the document is a list of names and dates, which appears to be a roster or a list of participants in a meeting or conference. The names are written in a cursive script, and the dates are written in a more formal, printed style. The list is organized into two columns, with names on the left and dates on the right.

3. The third part of the document is a list of names and dates, which appears to be a roster or a list of participants in a meeting or conference. The names are written in a cursive script, and the dates are written in a more formal, printed style. The list is organized into two columns, with names on the left and dates on the right.

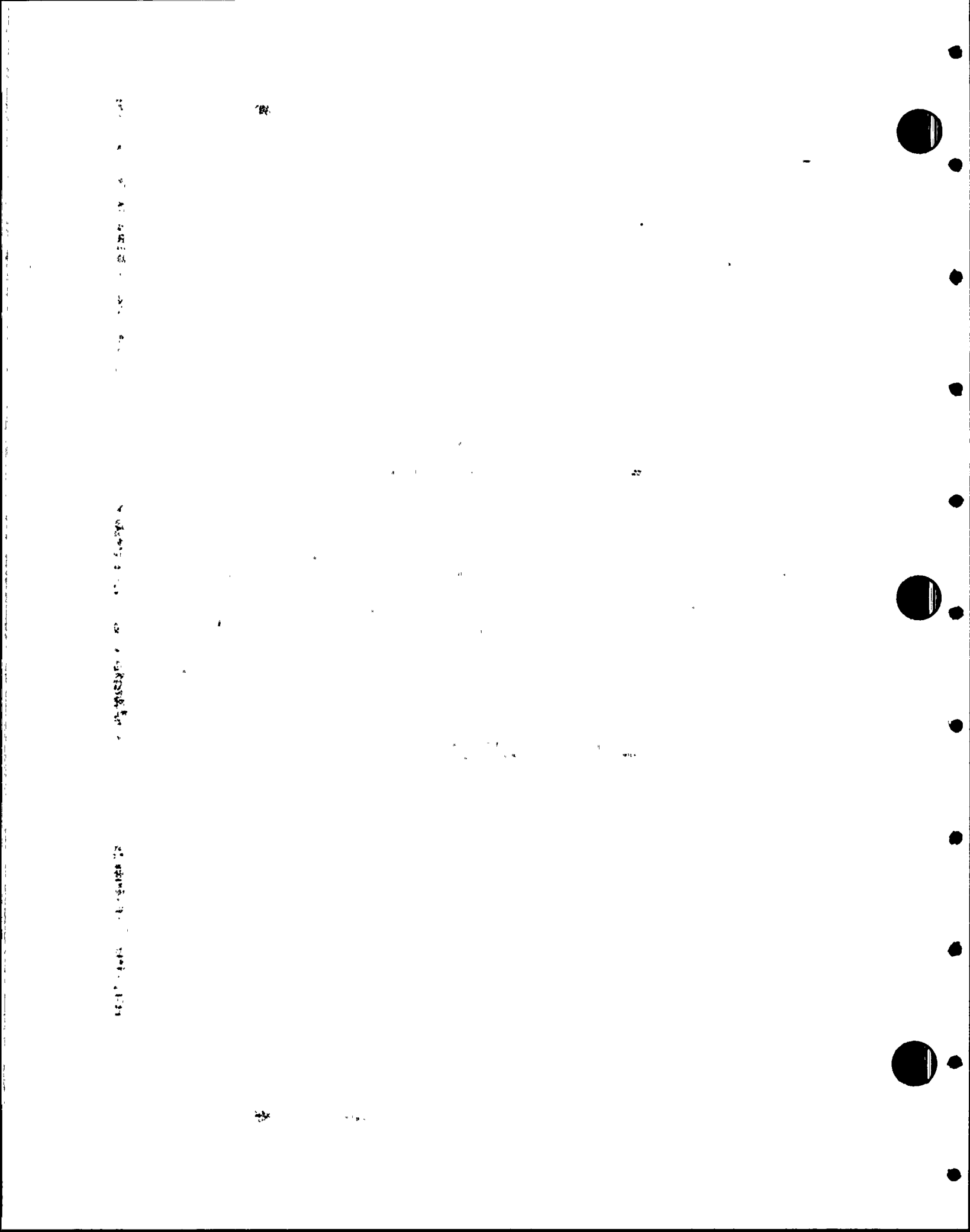
4. The fourth part of the document is a list of names and dates, which appears to be a roster or a list of participants in a meeting or conference. The names are written in a cursive script, and the dates are written in a more formal, printed style. The list is organized into two columns, with names on the left and dates on the right.

being referred to as the Agency Period), PNM shall be, and the Owner Trustee hereby designates PNM as, the initial agent (the Agent) of the Owner Trustee in the exercise of all rights assigned to the Owner Trustee hereunder.

SECTION 7.02. Operation of Unit 2. During the Agency Period, the Agent shall administer the operation of the Undivided Interest and the Real Property Interest in accordance with this Agreement and all instructions of the Owner Trustee in accordance with Applicable Law. If, however, the Owner Trustee and any User shall, prior to, or at any time during, the Agency Period, enter into any joint ownership and operating agreement with other Persons having a legal right to, or right to use, any other undivided interest in Unit 2, the Agent agrees to join in, and be bound by, the terms of such agreement if the Agent's performance thereunder shall not violate, or result in a violation of, any Applicable Law or the License. The Owner Trustee agrees to give the Agent reasonable prior written notice of the commencement of the negotiation of any such agreement.

SECTION 7.03. ANPP Participation Agreement. PNM agrees that, at all times during the Agency Period, it will perform all obligations and discharge all liabilities for which it is responsible as a "Participant" under the ANPP Participation Agreement in respect of the Undivided Interest and the Real Property Interest. In the performance of the foregoing agreement, PNM shall not exercise its rights as an ANPP Participant to cause Capital Improvements to be made to Unit 2 and the Common Facilities unless the Owner Trustee shall have agreed to provide funds for the payment of the Owner Trustee's Share of the cost of such Capital Improvements to PNM prior to the date on which such amounts shall be due with respect thereto under the ANPP Participation Agreement.

SECTION 7.04. Support. Except with respect to the Unit 2 Retained Assets for which provision is made in Section 7.06, PNM covenants and agrees that, at all times during the Agency Period, it will provide, or make available, to the Owner Trustee all PNM's rights in and to other assets owned by PNM and the ANPP Project Agreements to the extent relating to the Undivided Interest and the Real Property Interest.



SECTION 7.05. Compensation. As compensation for its obligations under Sections 7.02, 7.03 and 7.04, if no Event of Default based upon PNM's failure to perform obligations under Section 5(a) of the Facility Lease has occurred and is continuing, PNM shall be entitled to receive, and the Owner Trustee hereby agrees to pay, an amount equal to the Owner Trustee's Share of the aggregate of (i) amounts paid by PNM as provided in Section 7.03 to the extent reasonably allocable to the Undivided Interest and the Real Property Interest and (ii) reasonable compensation for the Unit 2 Retained Assets and (iii) out-of-pocket expenses incurred by PNM or the Agent, as the case may be, in connection with the performance of its agreements in this Article VII. Compensation under this Section 7.05 shall be paid promptly in cash upon receipt of an invoice from PNM.

SECTION 7.06. Transmission; Transmission Agreement. (a) PNM covenants and agrees that, at all times during the Agency Period, the Owner Trustee shall have the right to wheel, under normal transmission operating conditions, the Owner Trustee's Share of the then rated capacity of Unit 2, under normal transmission operating conditions, over transmission equipment in which PNM now owns or may hereafter acquire an ownership interest, between Unit 2 and the ANPP Switchyard.

(b) Based upon the respective rights, duties and obligations of the Owner Trustee and PNM set forth in Section 7.06(a), if PNM shall fail or decline to give the notice of renewal of the Facility Lease or purchase of the Undivided Interest, in each case as provided in Section 13(a) of the Facility Lease, PNM and the Owner Trustee shall forthwith commence the negotiation in good faith of a definitive transmission agreement, not inconsistent with the terms and provisions of Section 7.06(a), but containing sufficient detail for the proper wheeling of power and energy, under normal transmission operating conditions, over the equipment of PNM referred to in such Section 7.06(a) under then existing circumstances, for the exercise or stipulation, as the case may be, of the respective rights, duties and obligations of the Owner Trustee and PNM set forth in Section 7.06(a). PNM and the Owner Trustee shall complete such negotiations and execute such definitive transmission agreement prior to the Lease Termination Date and such definitive transmission agreement shall provide for compensation to PNM for the transmission

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services so provided at the Fair Market Sales Value thereof.

ARTICLE VIII

MISCELLANEOUS

||| SECTION 8.01. Successors and Assigns. This Agreement shall be binding upon the successors and assigns of each of PNM and the Owner Trustee.

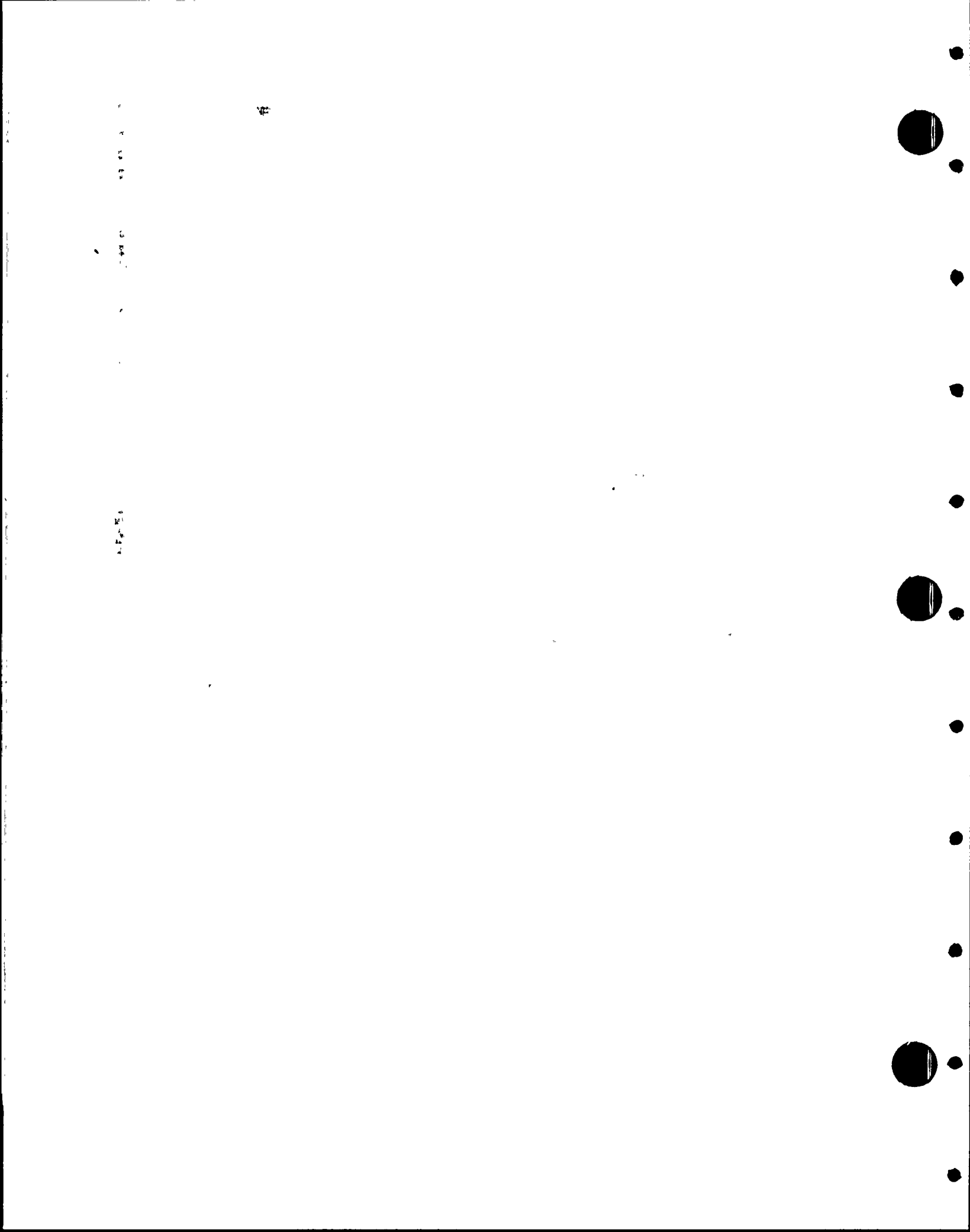
SECTION 8.02. Governing Law. The interpretation of this Agreement and the rights and obligations of the parties hereto shall be governed by and construed and enforced in accordance with the law of the State of New York.

SECTION 8.03. Counterpart Execution. This Agreement may be executed in any number of counterparts and by each of the parties hereto on separate counterparts, all such counterparts together constituting but one and the same instrument.

SECTION 8.04. Amendments. The terms of this Agreement shall not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever, except by written instrument signed by PNM and the Owner Trustee.

SECTION 8.05. Survival. All agreements and covenants contained in this Agreement or any agreement, document or certificate delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement.

SECTION 8.06. Severability of Provisions. Any provision of this Agreement which may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and no such prohibition or unenforceability in any jurisdiction shall invalidate or render unenforceable such provisions in any other jurisdiction. To the extent permitted by Applicable Law, PNM hereby waives any provision of law which renders any provision hereof prohibited or unenforceable in any respect.



SECTION 8.07. Headings. The division of this Agreement into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

SECTION 8.08. Disclosure of Beneficiary.

Pursuant to Arizona Revised Statutes §33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

SECTION 8.09. Capacity of Lessee.

Notwithstanding anything to the contrary in this Agreement, both parties hereto agree that all rights and obligations of the Lessee with respect to PVNGS under this Agreement are rights and obligations of the Lessee solely in its capacity as an ANPP Participant and not in its capacity as Operating Agent.

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IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be duly executed in New York, New York by their respective officers thereunto duly authorized.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By A. J. Robinson
Senior Vice President and
Chief Financial Officer

THE FIRST NATIONAL BANK OF
BOSTON, not in its individ-
ual capacity, but solely as
Owner Trustee under a Trust
Agreement, dated as of
December 15, 1986, with
Chase Manhattan Realty
Leasing Corporation

By: [Signature]
Assistant Vice President

State of New York)
) ss.
County of New York)


The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

SCHEDULE 1

UNDIVIDED INTEREST DESCRIPTION

The Undivided Interest is a (i) .7933333% undivided interest in and to the property described under A below and (ii) a .2644444% undivided interest in and to the property described in B below.

A. Unit 2 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 2 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 2 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 2 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.

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- III. Unit 2 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60 psig. The containment building houses the reactor system.
- IV. Unit 2 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 2 start-up transformer.
- V. Unit 2 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 2 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 2 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 2 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 2, including spare fuel assemblies.
- II. Spare Parts (Unit 2).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 2 turbine generator and the ANPP

High Voltage Switchyard, including step-up transformers and standby equipment and systems).

- IV. Oil and diesel fuel inventories (Unit 2).

B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.

- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust No. 530, and Project Agreement interests described in Schedule 2.

SCHEDULE 2

REAL PROPERTY INTEREST DESCRIPTION

The Real Property Interest is a (i) .2333334% undivided interest in the land described in I below, a (ii) .2644444% undivided interest in the rights and interests described in II below, and (iii) a .2644444% undivided interest in the right and interests described in III below.

I. PVNGS PLANT SITE.

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian; Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the

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Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the

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East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona 85073

DEED AND BILL OF SALE

Dated as of December 15, 1986

between

PUBLIC SERVICE COMPANY OF NEW MEXICO,
a New Mexico corporation,
as Seller

and

THE FIRST NATIONAL BANK OF BOSTON, a
national banking association, not in its
individual capacity, but solely as Owner
Trustee under a Trust Agreement, dated as of
December 15, 1986, with Chase Manhattan
Realty Leasing Corporation,
as Buyer

Sale and Leaseback of a .7933333% Undivided Interest
in Palo Verde Nuclear Generating Station Unit 2 and
a .2644444% Undivided Interest in Certain Common
Facilities

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DEED AND BILL OF SALE, dated as of December 15, 1986, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Seller), and THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee (in such capacity, the Owner Trustee) under the Trust Agreement, dated as of December 15, 1986, with Chase Manhattan Realty Leasing Corporation (the Owner Participant, and the Owner Trustee in its capacity as owner trustee under the foregoing Trust Agreement being hereinafter referred to as the Buyer).

W I T N E S S E T H :

WHEREAS; the Seller desires to sell, and the Buyer desires to purchase, the Undivided Interest, for and in consideration of the amounts paid by the Buyer to the Seller pursuant to the Participation Agreement (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. For the purpose hereof, capitalized terms used herein, unless otherwise defined herein, shall have the meanings assigned to such terms in Appendix A attached hereto.

The undivided interests in the property described in Exhibit B hereto being conveyed pursuant to this Deed and Bill of Sale are referred to collectively as the Undivided Interest. The Undivided Interest is located on the PVNGS Site described in Exhibit A hereto.

2. The Seller does hereby GRANT, BARGAIN, CONVEY, SELL, ASSIGN, TRANSFER AND SET OVER unto the Buyer (i) a .7933333% undivided interest in and to "Unit 2" as described in Exhibit B, Section A hereto (Unit 2) and (ii) a .2644444% undivided interest in and to the "Common Facilities" as described in Exhibit B, Section B hereto (the Common Facilities), TO HAVE AND TO HOLD the same unto the Buyer, its successors and assigns, FOREVER. It is the intent of this Deed and Bill of Sale, that, from and after the date of delivery of this Deed and Bill of Sale, Buyer will own an undivided .7933333% interest in Unit 2, as a tenant in common with the owners of the remaining undivided interests in Unit 2, and an undivided .2644444% interest in the Common

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Facilities, as a tenant in common with the owners of the remaining undivided interests in the Common Facilities.

3. The Seller does hereby WARRANT AND COVENANT that it is the true and lawful owner of the Undivided Interest and has good right to sell the Undivided Interest, that title to the Undivided Interest is on the date of execution hereof free and clear of all claims, liens, security interests and encumbrances of any nature, other than Permitted Liens (other than those described in clause (ii) of the definition of such term and that portion of clause (iv) of such definition relating to liens for taxes being contested), that good, marketable and indefeasible title to the Undivided Interest is hereby conveyed to the Buyer, and that the Seller will forever warrant and defend such title against the claims of all Persons. The foregoing warranties of the Seller are to the restraint of any other covenant of the Seller otherwise arising by implication by virtue of Arizona Revised Statutes, Section 33-435.

4. The Seller and the Buyer hereby acknowledge and confirm that, as between the Seller and the Buyer, the Undivided Interest is and will remain personal property, and is not, and will not become, an accession to the PVNGS Site or to the Real Property Interest, title thereto being separate and distinct from title to such real property. The Buyer hereby waives any rights it may have to partition Unit 2 or the Common Facilities (including the Undivided Interest), whether by partitionment in kind or by sale and division of proceeds, and further agrees that it will not resort to any action in law or in equity to partition Unit 2 or the Common Facilities (including the Undivided Interest) and it waives the benefits of all laws that may now or hereafter authorize such partition for a term (i) which shall be coterminous with the ANPP Participation Agreement or (ii) which shall be for such lesser period as may be required by Applicable Law.

5. Pursuant to the Assignment and Assumption, the Seller has agreed to pay certain costs and expenses relating to the Undivided Interest, including, but without limitation, with respect to decommissioning and retirement of Unit 2, and to perform and comply with certain obligations relating to transfers of interests in Unit 2. All such agreements and obligations of the Seller are hereby incorporated by reference in this Deed and Bill of Sale as if set forth in full herein.

[illegible]

6. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation (the Owner Participant), whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

IN WITNESS WHEREOF, the parties hereto have caused this Deed and Bill of Sale to be executed as of this 15th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corpo-
ration

By W. J. Robinson
Senior Vice President and
Chief Financial Officer

THE FIRST NATIONAL BANK OF
BOSTON, a national banking
association, not in its
individual capacity, but
solely as Owner Trustee
under the Trust Agreement

By [Signature]
Assistant Vice President

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State of New York)
) ss.
County of New York)

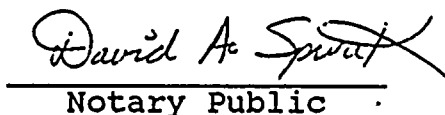
The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

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EXHIBIT A
to
DEED AND
BILL OF SALE

PVNGS SITE DESCRIPTION

I. PVNGS PLANT SITE

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila

and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West; parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39

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seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

II. HASSAYAMPA PUMPING STATION AND EFFLUENT PIPELINE

All real property, leases, licenses, easements, rights-of-way and other property held by Title USA Company of Arizona Trust No. 530 established by that certain Trust Agreement dated October 15, 1975, as amended, but excluding therefrom all improvements.

III. MISCELLANEOUS REAL PROPERTY INTERESTS

Those ANPP Project Agreements (as defined in the ANPP Participation Agreement), in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements, and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to PVNGS from the 91st Avenue sewage treatment plant serving the Phoenix Metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement).

EXHIBIT B
to
DEED AND
BILL OF SALE

FACILITY DESCRIPTION

A. Unit 2 of the Palo Verde Nuclear Generating Station (PVNGS), located in Maricopa County, Arizona, approximately 55 miles west of the City of Phoenix, Arizona, and approximately 16 miles west of the City of Buckeye, Arizona, consisting of:

- I. Unit 2 Combustion Engineering "System 80" pressurized water reactor nuclear steam supply system (the NSSS). The NSSS is comprised of a reactor vessel containing 241 fuel assemblies with approximately 100 tons of enriched uranium (fuel assemblies, however, are not part of Unit 2 and are not included in the Undivided Interest being sold), two steam generators, four reactor coolant pumps and various additional systems and subsystems. The licensed thermal rating of the NSSS is 3800 MW.
- II. Unit 2 GE TC6F-43, 1800 RPM tandem-compound, six flow, reheat turbine-generator including turbine, generator, moisture separator-reheater, exciter, controls, and auxiliary subsystems. The turbine-generator is conductor cooled and rated at 1,554 MVA at 24,000 V, 3 phase, 60 Hz, 1.5 in Hg ABS back pressure, and approximately 1,363 MW maximum gross electric output.
- III. Unit 2 146 ft. inside diameter, steel-lined, prestressed concrete cylindrical containment building with a hemispherical dome designed for 60 psig. The containment building houses the reactor system.
- IV. Unit 2 auxiliary systems and equipment including engineered safeguards systems, reactor auxiliary systems and

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turbine-generator auxiliary systems associated with items I, II, and III above, extending to and including the Unit 2 start-up transformer.

- V. Unit 2 cooling tower system consisting of three (3) mechanical draft cooling towers, including a closed cycle circulating water system, make-up water systems and essential spray ponds.
- VI. Unit 2 radioactive waste treatment system, including liquid, gaseous, and solid waste subsystems, controls, instrumentation, storage, handling and shipment facilities.
- VII. Unit 2 emergency diesel-generator system, including a diesel-generator building which contains two diesel generators, fuel oil systems, storage tanks, control and instrumentation systems and other equipment.
- VIII. Unit 2 internal communication systems, including associated interconnections and computer data links.

BUT EXCLUDING:

- I. Nuclear fuel for Unit 2, including spare fuel assemblies.
- II. Spare Parts (Unit 2).
- III. Transmission facilities (including any and all facilities and equipment providing interconnection between the Unit 2 turbine generator and the ANPP High Voltage Switchyard, including step-up transformers and standby equipment and systems).
- IV. Oil and diesel fuel inventories (Unit 2).

**B. All PVNGS common facilities, INCLUDING
BUT NOT LIMITED TO:**

- I. Surveillance systems, including associated radioactive monitoring systems and equipment.
- II. Water treatment facilities and transport systems for supply of waste water effluent.
- III. Warehouse and related storage facilities and equipment.

BUT EXCLUDING:

- I. Nuclear fuel, including spare fuel assemblies.
- II. All transmission and ANPP High Voltage Switchyard facilities.
- III. Administration Building.
- IV. Administration Annex Building.
- V. Technical Support Center.
- VI. Visitor Center.
- VII. External communication systems and equipment, including associated interconnections and computer data links.
- VIII. Parking lot improvements, road improvements, fencing and dikes.
- IX. Spare parts (common facilities).
- X. Simulator.
- XI. Oil and diesel fuel inventories.
- XII. Real property, beneficial interest in Title USA Company of Arizona Trust No. 530, and Project Agreement interests described in Exhibit A.

When recorded, return to: Greg R. Nielsen
Snell & Wilmer
3100 Valley Bank Center
Phoenix, Arizona

DEED

For the consideration of Ten Dollars (\$10.00) and other valuable considerations, PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (Grantor), hereby grants, conveys, sells, transfers and assigns to THE FIRST NATIONAL BANK OF BOSTON, a national banking association, as Owner Trustee (the Owner Trustee) under that certain Trust Agreement (the Trust Agreement), with the beneficiary identified below, dated as of December 15, 1986 (the Owner Trustee being hereinafter referred to as Grantee), (A) an undivided .2333334% interest in the land that is more particularly described on Exhibit A attached hereto and by this reference incorporated herein and (B) an undivided .2644444% interest in those ANPP Project Agreements (as defined in the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority and the Department of Water and Power of the City of Los Angeles, as amended, recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona (the ANPP Participation Agreement)) in addition to the Trust Agreement for Title USA Company of Arizona Trust 530, consisting of leases, licenses, easements and permits, which provide land and land rights for (a) the pipeline to supply waste water effluent to the Palo Verde Nuclear Generating Station (as defined in the ANPP Participation Agreement) from the 91st Avenue sewage treatment plant serving the Phoenix, Arizona metropolitan area and (b) railroad access to the Nuclear Plant Site (as defined in the ANPP Participation Agreement) (such ANPP Project Agreements being hereinafter referred to as the Assigned Project Agreements, and the land described in Exhibit A together with the land subject to the Assigned Project Agreements being hereinafter collectively referred to as the Land), together with all rights and privileges of Grantor appurtenant thereto, including but not limited

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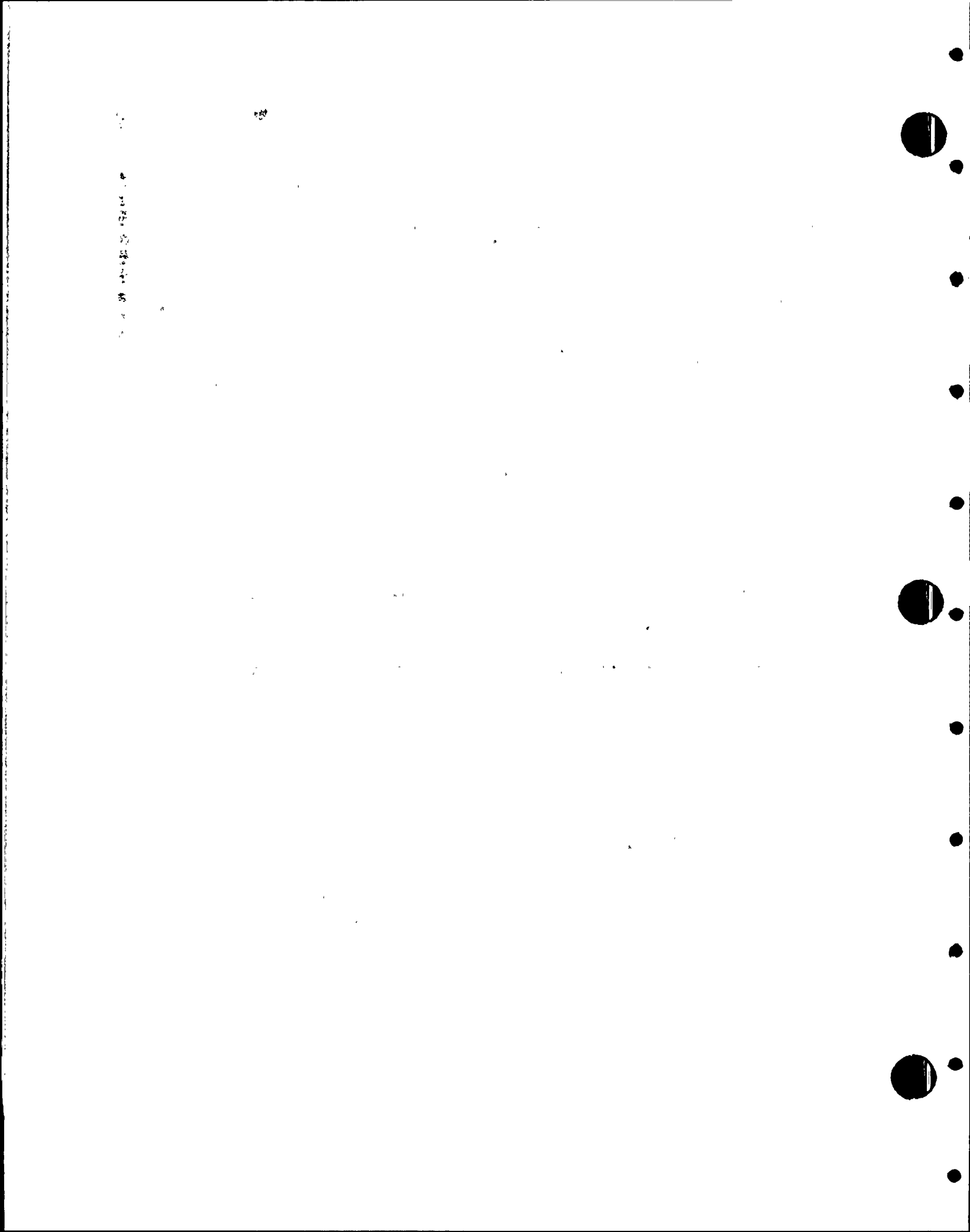
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to the perpetual right to locate, maintain and use the Improvements (as hereinafter defined) on the Land and the perpetual right of ingress and egress over, upon and across the Land to the Improvements, BUT excepting and excluding from the transfer being made pursuant to this Deed any and all facilities, structures, improvements, equipment and property of whatever kind and nature now or hereafter constructed, placed or affixed on the Land (collectively, the Improvements), Grantor and Grantee hereby acknowledging and agreeing that the interest in the Improvements to be acquired by Grantee shall be acquired pursuant to a separate Deed and Bill of Sale dated as of December 15, 1986, between Grantor and Grantee and not pursuant to this Deed.

1. The interest being transferred pursuant to this Deed is subject to the ANPP Participation Agreement, the Project Agreements as defined in said ANPP Participation Agreement and to the matters set forth on Exhibit B attached hereto and incorporated herein by this reference.

2. Grantor hereby warrants that it is the true and lawful owner of the undivided interest conveyed hereby in the property described on Exhibit A attached hereto and has good right to sell the undivided interest in such property; that Grantor has good and marketable title to the undivided interest in the property described on Exhibit A and that title to such property is on the date of execution hereof free and clear of all claims, liens, encumbrances, security interests, covenants, assessments, rights, reservations, easements, restrictions and conditions save and except only those matters set forth on Exhibit B attached hereto; that good, marketable and indefeasible title to the undivided interest in the property described on Exhibit A is hereby conveyed to Owner Trustee; and that, subject only to the matters set forth on Exhibit B attached hereto, Grantor hereby warrants, and will forever defend, the title against all persons whomsoever.

3. Grantor intends by this Deed that, from and after the recordation of this Deed, Grantee will own an undivided .2333334% interest in the property described in Exhibit A, as a tenant in common with the owners of the remaining undivided interests in such property, and an undivided .2644444% interest in the Assigned Project Agreements as a tenant in common with



the owners of the remaining undivided interests in the Assigned Project Agreements.

4. Pursuant to Arizona Revised Statutes Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

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IN WITNESS WHEREOF, Grantor has caused this
Deed to be executed as of this 15th day of December,
1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corpo-
ration,

By A. J. Robinson
Senior Vice President and
Chief Financial Officer

Accepted and Agreed
to:

THE FIRST NATIONAL BANK
OF BOSTON, a national
banking association,
not in its individual
capacity, but solely
as Trustee of the
Trust Agreement

By [Signature]
Assistant Vice
President

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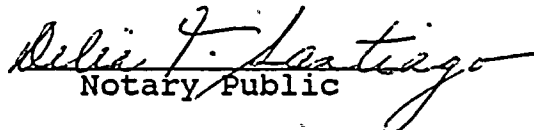
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11. 12. 13. 14. 15.



State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.


Notary Public

State of New York)
) ss.
County of New York)

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of The First National Bank of Boston, a national banking association, on behalf of the banking association as Owner Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693468
Qualified in New York County
Commission Expires March 30, 1987

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EXHIBIT A
to
DEED

PVNGS SITE DESCRIPTION

PARCEL NO. 1: Lot Four (4); the Southwest quarter of the Northwest quarter; and the West half of the Southwest quarter, all in Section Two (2), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 2: All of Section Three (3), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 3: The East half of Section Four (4), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 4: The West half of Section Twenty-six (26), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

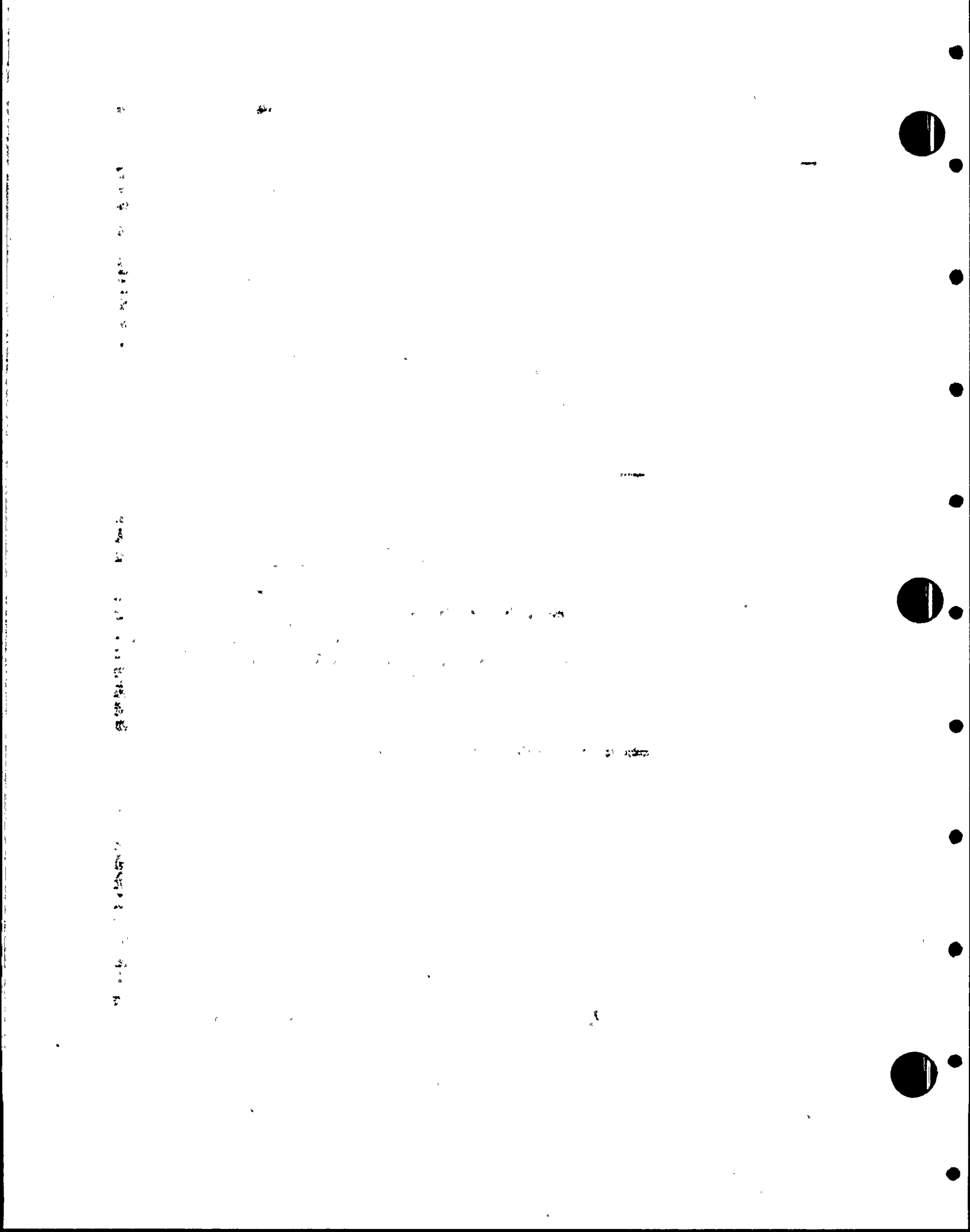
PARCEL NO. 5: Section Twenty-seven (27), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter of Section 27.

PARCEL NO. 6: The Southeast quarter of Section Twenty-eight (28), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT 50% of all oil, gas and other mineral deposits and geothermal resources recovered from or developed on the property, as reserved in instrument recorded May 10, 1974 in Docket 10647, page 136.

PARCEL NO. 7: The East half of Section Thirty-three (33), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 8: All of Section Thirty-four (34), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 9: The West half of Section Thirty-five (35), Township One (1) North, Range Six (6) West of the



Gila and Salt River Base and Meridian, Maricopa County, Arizona.

PARCEL NO. 10: The Southeast quarter of Section Nine (9), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the Northwest quarter thereof.

PARCEL NO. 11: All of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona; EXCEPT the East half of the Southeast quarter thereof; and EXCEPT the North half of the South half of the Northwest quarter of the Northwest quarter thereof.

PARCEL NO. 12: That part of the East half of the Southwest quarter of Section Twenty-three (23), Township One (1) North, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona, more particularly described as follows:

BEGINNING at the Southeast corner of the said East half of the Southwest quarter of Section 23; thence West, an assumed bearing along the South line of the said East half of the Southwest quarter of Section 23, for a distance of 762.04 feet; thence North 0 degrees 03 minutes 39 seconds West, parallel to the East line of the said East half of the Southwest quarter of Section 23, for a distance of 1946.46 feet to a point on the South right-of-way line of the 200 foot wide HASSAYAMPA-SALOME HIGHWAY, as recorded in Book 12 of Road Maps, page 82, Maricopa County Recorder, Maricopa County, Arizona; thence continuing North 0 degrees 03 minutes 39 seconds West for a distance of 234.15 feet to a point on the North right-of-way line of said highway; thence South 58 degrees 43 minutes 35 seconds East, along said North right-of-way line for a distance of 892.17 feet to a point on the said East line of the East half of the Southwest quarter of Section 23; thence South 0 degrees 03 minutes 39 seconds East, along said East line for a distance of 234.15 feet to a point on the said South right-of-way line; thence continuing South 0 degrees 03 minutes 39 seconds East for a distance of 1483.31 feet to the true point of beginning;

EXCEPT the East 305 feet of the South 305 feet thereof; and

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WILLIAM A. FOSTER

EXCEPT one-half of the minerals and mineral rights and mineral estates of every kind and nature, as set forth in Deed recorded in Docket 11652, page 52, Maricopa County Records.

PARCEL NO. 13: The North half of the South half of the Northwest quarter of the Northwest quarter of Section Ten (10), Township One (1) South, Range Six (6) West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

EXHIBIT B
to
DEED

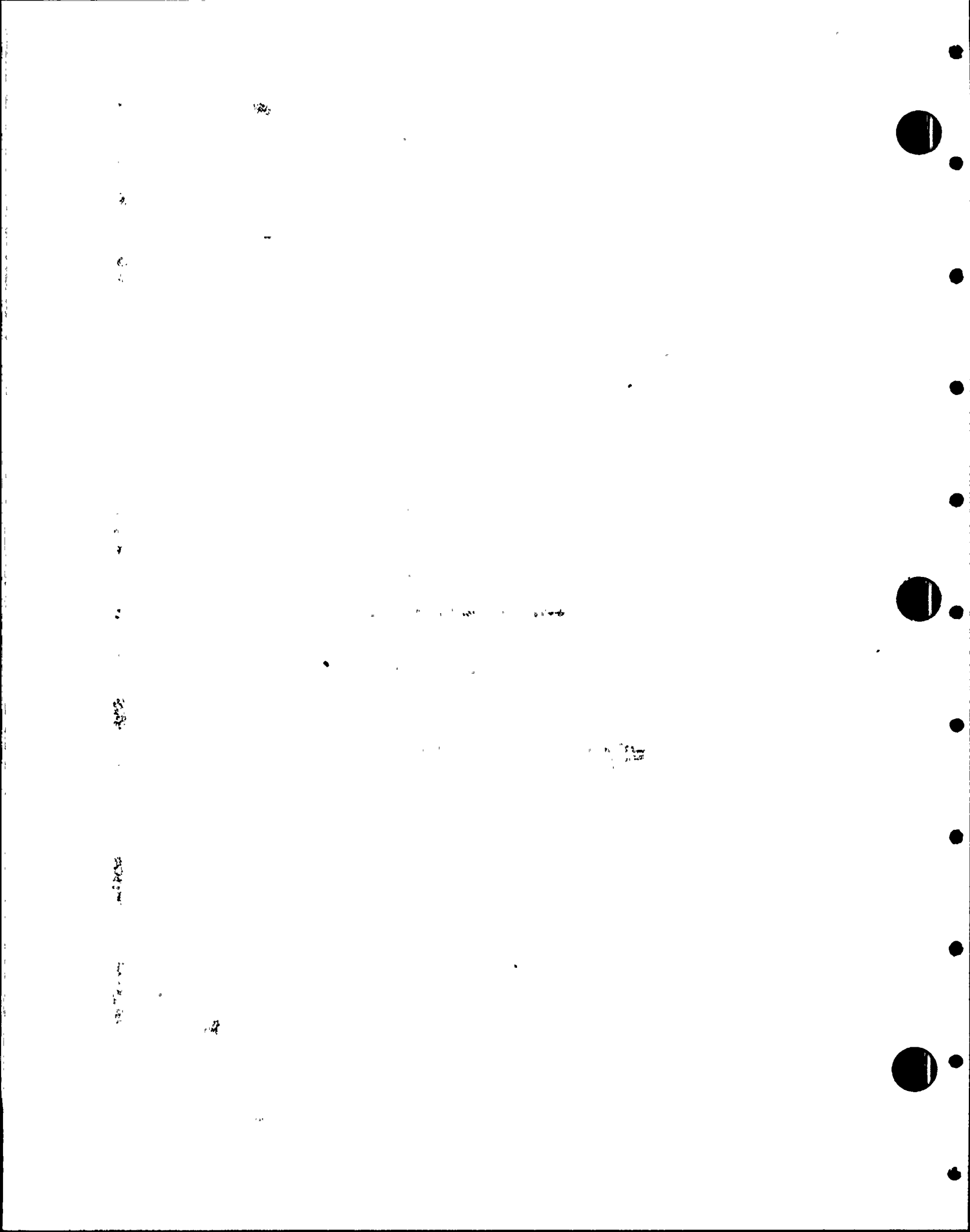
1. The right to enter upon, occupy and use, any part or all of that portion of the West half of the West half of Section 27, lying within 20 feet of the center line of the transmission line right of way of the Central Arizona Light and Power Company for the purposes provided in the Act of June 10, 1920 (41 STAT., 1063), and subject to the conditions and limitations of Section 24 of said Act, as amended by the Act of August 26, 1935 (49 STAT., 846), as reserved unto the United States of America in instrument recorded September 30, 1949 in Docket 442, page 577. (Part of Parcel 5 - South half of said Section 27)

2. Roadway over the South 65 feet of said Sections 9 and 10, as shown in Book 13 of Road Maps, page 48. (Parcels 10 and 11)

3. Easement and rights incident thereto for electric lines approximately 28 feet South of the North line of said Section 34, as set forth in instrument recorded February 20, 1952 in Docket 878, page 548. (Parcel No. 8)

4. All the oil and gas in said lands, as reserved unto the United States of America, and the right to prospect for, mine and remove such deposits from the same upon compliance with the conditions and subject to the provisions and limitations of the Act of June 17, 1914 (38 Stat. 509), as set forth in Patent recorded June 4, 1957 in Docket 2194, page 409. (Part of Parcel No. 11)

5. Easement and rights incident thereto for transmission line over said Section 34, said easement being 10 feet in width, the centerline described as follows: Beginning at a point approximately 28 feet South and 2445.5 feet East of the Northwest corner of said Section 34; thence Southerly along, parallel to and approximately 2620 feet to a point; thence Easterly along, parallel to, and approximately 2648 feet South of the North line of said Section 34, a distance of approximately 1556 feet to a point, as set forth in



instrument recorded January 15, 1962 in Docket 3992, page 49. (Parcel No. 8)

6. One-Sixteenth of all gas, oil, metals and mineral rights as reserved unto the State of Arizona, in Patent recorded January 11, 1974 in Docket 10473, page 447. (Parcel 1)

7. Easement and rights incidents thereto for highway purposes over the West 55 feet of the East half of said Section 4, as set forth in the instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 3)

8. Easement and rights incident thereto for highway purposes over the West 55 feet of the Southeast quarter of said Section 28, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 6)

9. Easement and rights incident thereto for highway purposes over the West 55 feet of the East half of said Section 33, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Parcel 7)

10. Easement and rights incident thereto for highway purposes over the West 55 feet of the Southeast quarter of said Section 9, as set forth in instrument recorded October 10, 1975 in Docket 11370, page 142. (Part of Parcel 10)

11. Easement and rights incident thereto for electric lines over the North 10 feet of the following described property: The Southeast quarter of Section 28, Township 1 North, Range 6 West; Except the West 55 feet thereof for roadway, as set forth in instrument recorded June 25, 1976 in Docket 11736, page 1089. (Parcel 6).

12. Easement for highway purposes over said premises, as granted to Maricopa County, a Political Subdivision, by instrument recorded December 15, 1977 in Docket 12602, page 575, described as follows: The South 40 feet of the East one-half of the Southeast quarter of Section 9; the South 40 feet of the Southwest quarter of Section 10; the South 40 feet of the West one-half of the Southeast quarter of Section 10; the South 40 feet of the Southwest quarter of the Southeast quarter of Section 9; All being in Township 1 South, Range 6 West

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of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

13. A roadway of a width consistent with the right of way over the Southerly portion of Sections 9 and 10 of the within described property, and other property designated County Road on Book 25 of Road Maps, page 47, recorded December 26, 1978. (Also known as Ward Road from the Hassayampa Salome Highway to the South entrance of the Palo Verde Nuclear Generating Station).

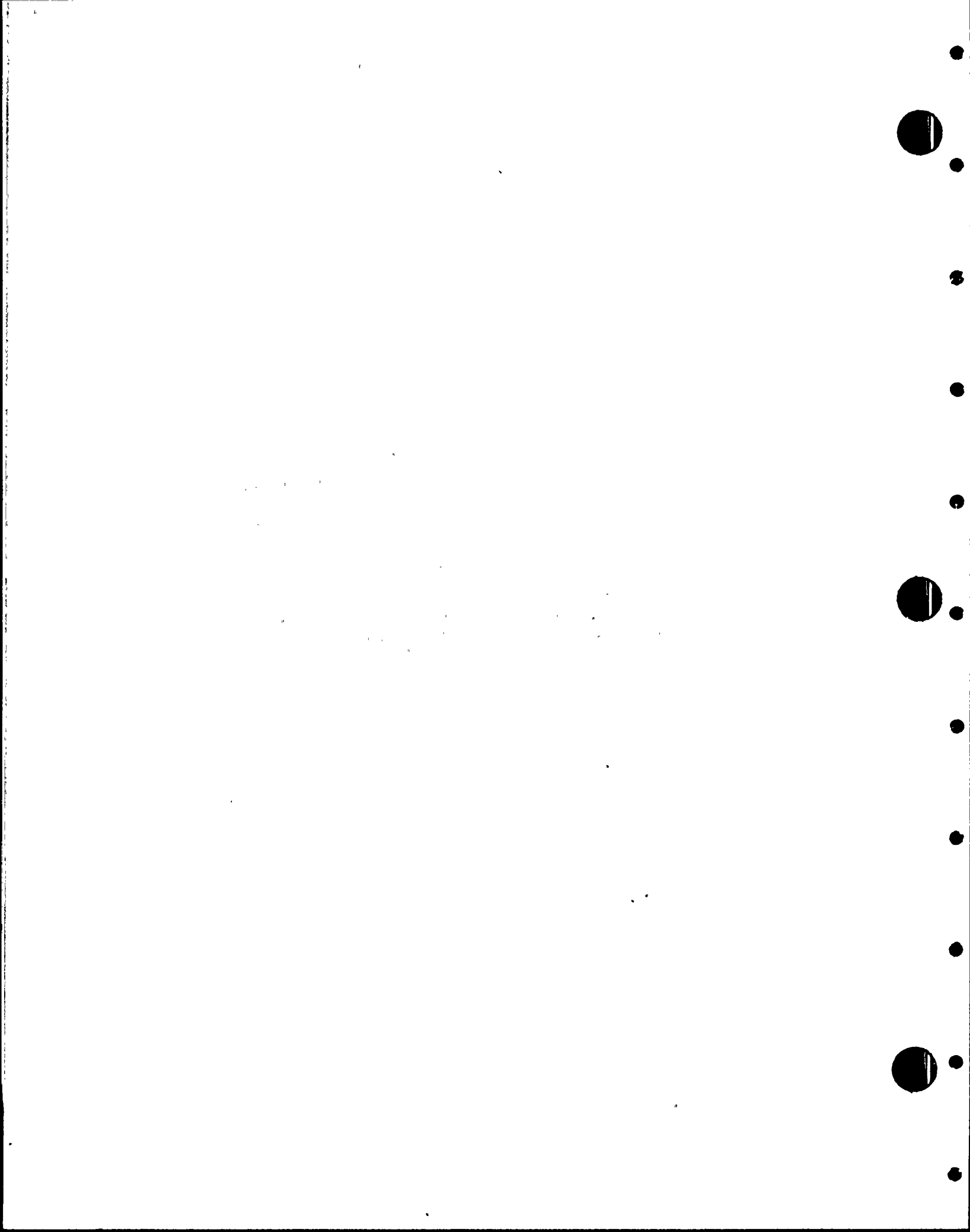
14. 1986 taxes not yet due and payable.

15. Easement and rights incident thereto for transmission line over a portion of said premises, as set forth in instrument recorded November 15, 1985 in Document No. 85-544604. (Parcels 1, 2, 8, 9 and 11)

16. Easement and rights incident thereto for highway over a portion of said premises, as set forth in instrument recorded February 3, 1959 in Docket 2740, page 309, and as shown in Book 12 of Road Maps, page 82 (Parcel 12).

17. Easement and rights incident thereto for roadway, 20 feet in width, over the East 20 feet of the within described property, by instrument recorded October 19, 1976, in Docket 11907, page 115 (Parcel 12).

18. The ANPP Participation Agreement recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona.



DEED AND ASSIGNMENT OF BENEFICIAL INTEREST

TITLE USA COMPANY OF ARIZONA TRUST NO. 530

PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (Assignor), as the present owner of an undivided 4.2311114% of the entire beneficial interest under Title USA Company of Arizona Trust No. 530 (Trust 530) established by that certain Trust Agreement dated October 15, 1975 (the Trust 530 Agreement), for and in consideration of the sum of Ten and no/100 Dollars (\$10.00) and other valuable consideration, does by these presents sell, assign, convey, transfer and set over to THE FIRST NATIONAL BANK OF BOSTON, a national banking association, not in its individual capacity, but solely as Owner Trustee (the Owner Trustee) under that certain Trust Agreement (the Trust Agreement) with the beneficiary identified below, dated as of December 15, 1986 (the Owner Trustee being referred to herein as the Assignee) an undivided .2644444% beneficial interest in Trust 530.

1. It is the intent of this Deed and Assignment of Beneficial Interest that, from and after the date of delivery of this Deed and Assignment of Beneficial Interest, Assignee will own an undivided .2644444% of the entire beneficial interest in Trust 530, as a tenant in common with other beneficiaries.

2. Assignor hereby warrants that it is the true and lawful owner of the beneficial interest being transferred hereby and has good right to sell such interest; that Assignor has good and marketable title to such beneficial interest and that title to such beneficial interest is on the date of execution hereof free and clear of all claims, liens, security interests, covenants, rights, restrictions, conditions and encumbrances of any nature, save and except only those matters set forth in paragraph 3 hereinbelow; that good, marketable and indefeasible title to such beneficial interest is hereby conveyed to Owner Trustee; and that, subject only to the matters set forth in paragraph 3 hereinbelow, Assignor warrants and will forever defend

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such title against the claims of all persons whomsoever.

3. This Deed and Assignment of Beneficial Interest is given and accepted with the understanding and agreement that Assignor and Assignee hereby ratify, confirm and approve all proper actions heretofore taken by Title USA Company of Arizona, as Trustee of Trust 530 (the Trustee) and all proper disbursements heretofore made by the Trustee, and is given and accepted with the understanding and agreement that the interest in Trust 530 which is being transferred hereby is being transferred and assigned, and the property held under Trust 530 is, subject to all the terms and conditions of (i) the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority and the Department of Water and Power of the City of Los Angeles, as amended, recorded on December 31, 1985 as Instrument No. 85-620132 in the records of Maricopa County, Arizona, (ii) the Project Agreements as defined in said Arizona Nuclear Power Project Participation Agreement and (iii) the Trust 530 Agreement, including all supplements and amendments thereto; and is subject to all obligations and liabilities under the Trust 530 Agreement heretofore accrued or hereafter arising under the terms thereof. Assignee hereby accepts, assumes and agrees to be bound by all of the terms, conditions, stipulations and obligations of the Trust 530 Agreement. Trustee is authorized to substitute Assignee in place of Assignor under the Trust 530, to the extent of the interest hereby assigned to Assignee.

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4. Assignee hereby advises the Trustee that, until further notice, Assignee's address for all Trust 530 purposes is:

100 Federal Street
Boston, Massachusetts 02110
Attention of Corporate Trust
Division

5. Pursuant to Arizona Revised Statutes, Section 33-401, the beneficiary of the Trust Agreement is Chase Manhattan Realty Leasing Corporation, a New York corporation, whose address is One Chase Manhattan Plaza (20th Floor), New York, New York 10081, Attention of Leasing Administrator. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at 100 Federal Street, Boston, Massachusetts 02110, Attention of Corporate Trust Division.

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IN WITNESS WHEREOF, Assignor has caused this Deed and Assignment of Beneficial Interest to be executed as of this 15th day of December, 1986.

PUBLIC SERVICE COMPANY OF NEW
MEXICO, a New Mexico corporation

By *W. J. Robinson*
Senior Vice President and
Chief Financial Officer

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State of New York,)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by A.J. Robison, Senior Vice President and Chief Financial Officer of Public Service Company of New Mexico, a New Mexico corporation, on behalf of the corporation.

J. Ellen Stache
Notary Public

JO ELLEN STACHE
NOTARY PUBLIC, State of New York
No. 22-122083
Qualified in New York
Commission Expires July 12, 1987

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ACCEPTANCE BY ASSIGNEE

The foregoing Deed and Assignment of Beneficial Interest is hereby accepted and all terms and conditions are hereby approved, and Assignee hereby acknowledges receipt of a copy of the Trust 530 Agreement and all amendments and supplements thereto, and hereby agrees to be bound by and to comply with all the terms and obligations of the Trust 530 Agreement.

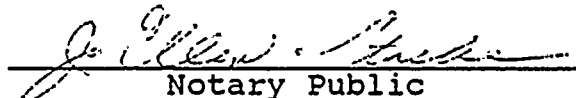
Dated as of December 15, 1986

THE FIRST NATIONAL BANK OF
BOSTON, a national banking
association, not in its
individual capacity but
solely as Trustee under the
Trust Agreement

By 
Assistant Vice President

State of New York)
) ss.
County of New York)

The foregoing instrument was acknowledged before me this 15th day of December, 1986, by Martin P. Henry, Assistant Vice President of First National Bank of Boston, a national banking association, on behalf of the banking association as Trustee under that certain Trust Agreement dated as of December 15, 1986.


Notary Public

JO ELLEN STACHE
NOTARY PUBLIC, State of New York
No. 30-4021555
Qualified in Nassau County
Commission Expires September 30, 1987

ENDORSEMENT OF TRUSTEE

The foregoing Deed and Assignment of Beneficial Interest is hereby accepted, and filed in Trust Department of TITLE USA COMPANY OF ARIZONA this ___th day of December, 1986.

TITLE USA COMPANY OF ARIZONA,
Trustee

By _____
Authorized Signature

NOTE: Trustee's endorsement hereon shall be effective only after all assignment fees and other fees currently due Trustee with respect to the interest being assigned have been paid in full..

State of Arizona)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this ___th day of December, 1986, by _____, a trust officer of TITLE USA COMPANY OF ARIZONA, an Arizona corporation, on behalf of the corporation, as Trustee under the Trust 530 Agreement.

Notary Public

December 17, 1986

CHEMICAL BANK,
not in its individual
capacity, but solely as Collateral
Trust Trustee
55 Water Street,
New York, New York 10041
Attention: Corporate Trustee Administration

PUBLIC SERVICE COMPANY OF NEW MEXICO
PALO VERDE NUCLEAR GENERATING STATION UNIT 2 LEASE

Dear Sirs:

Reference is made to the Participation Agreement, dated as of December 15, 1986 (the Participation Agreement), among the parties whose signatures appear at the foot hereof. All capitalized terms used herein without definition shall have the meanings set forth in Appendix A to the Participation Agreement.

1. Representations, Warranties and Agreements. The Loan Participant, the Owner Participant, FNB, the Owner Trustee, the Indenture Trustee and PNM hereby confirm for your benefit that their respective representations and warranties (in the capacity given therein) and, in the case of PNM, agreements, contained in Sections 6, 7, 8, 9, 10, 13 and 14 of the Participation Agreement and, in the case of the Owner Participant, the agreements contained in Section 14(a) of the Participation Agreement, are true and correct and hereby respectively repeat such representations, warranties and, in the case of PNM and the Owner Participant, agreements to the same extent as if such representations, warranties and agreements were set forth herein in full, whether or not the same are amended after the date hereof.

2. Survival of Representations, Warranties and Agreements. All representations, warranties and agreements contained herein shall survive the execution and delivery of this letter.

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3. Successors and Assigns. All terms and provisions of this letter shall inure to your benefit and the benefit of your successors and assigns and each holder from time to time of each Bond.

4. Consequences of Breach. A breach of the representations, warranties and agreements contained herein will not entitle you or any holder of a Bond to exercise remedies or take other action under the Participation Agreement or any other Transaction Document, but you may pursue all other rights you have at law or in equity in consequence of such a breach.

5. Governing Law. This letter shall in all respects be governed by, and construed in accordance with, the laws of the State of New York.

CHASE MANHATTAN REALTY
LEASING CORPORATION

By: *M. G. Grogan, Jr.*
Vice President

FIRST PV FUNDING CORPORATION

By: _____
Vice President

CHEMICAL BANK,
as Indenture Trustee

By: *[Signature]*
Vice President

PUBLIC SERVICE COMPANY OF
NEW MEXICO

By: *Lee R. [Signature]*
Vice President and
Treasurer

THE FIRST NATIONAL BANK OF
BOSTON,
in its individual capacity
and as Owner Trustee

By: *[Signature]*
Assistant Vice President

=====

TAX INDEMNIFICATION AGREEMENT

dated as of December 15, 1986

between

CHASE MANHATTAN REALTY LEASING CORPORATION,
as Owner Participant

and

PUBLIC SERVICE COMPANY OF NEW MEXICO,
as Lessee

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Sale and Leaseback of an Undivided Interest in
Palo Verde Nuclear Generating Station Unit 2
and Certain Common Facilities

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TAX INDEMNIFICATION AGREEMENT

THIS TAX INDEMNIFICATION AGREEMENT, dated as of December 15, 1986, between CHASE MANHATTAN REALTY LEASING CORPORATION (the Owner Participant) and PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the Lessee). Capitalized terms not otherwise defined herein shall have the meaning set forth in Appendix A to the Participation Agreement, dated as of December 15, 1986, among CHASE MANHATTAN REALTY LEASING CORPORATION, Public Service Company of New Mexico, First PV Funding Corporation, the First National Bank of Boston, and Chemical Bank.

W I T N E S S E T H:

WHEREAS, the Owner Participant and the Lessee have executed the Participation Agreement pursuant to which the Owner Participant has agreed to cause the Owner Trustee to purchase from the Lessee, and the Lessee has agreed to sell to the Owner Trustee, the Undivided Interest and the Real Property Interest;

WHEREAS, the Owner Trustee and the Lessee have executed the Facility Lease pursuant to which the Owner Trustee has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Owner Trustee, the Undivided Interest and the Real Property Interest;

WHEREAS, the Lessee understands that the Owner Participant has entered into the Transaction Documents based on the assumption that, for purposes of federal, New York State, and New York City income tax laws, including any rules, regulations and procedures thereunder, the Owner Participant, as sole beneficiary of the Trust created under the Trust Agreement pursuant to which the Owner Trustee has purchased, and is the owner of, the Undivided Interest and the Real Property Interest, will be entitled to those items of income, loss, deduction and credit with respect to the Undivided Interest and the Real Property Interest as are provided to an owner of property; and

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WHEREAS, the Owner Participant and the Lessee desire to clarify their respective rights and obligations with respect to such items of income, loss, deduction and credit for federal, New York State, and New York City income tax purposes;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

SECTION 1. Tax Assumptions and Tax Representations.

(a) Tax Assumptions. The Facility Lease has been entered into, and the Owner Participant's Net Economic Return has been computed, on the basis of the following assumed consequences for purposes of the taxes imposed by the Code as in effect on the date hereof ("Federal Income Tax Law") and for the New York State and New York City franchise or business income taxes imposed on banking corporations as in effect on the date hereof ("State Tax Law") (collectively, the Federal Tax Law and State Tax Law shall be referred to as the "Tax Laws"):

(1) The Facility Lease will be treated, for purposes of the Tax Laws, as a true lease under which the Owner Trustee will be the purchaser, owner and lessor of the Undivided Interest and the Real Property Interest and the Lessee will be treated as the lessee of the Undivided Interest and the Real Property Interest.

(2) The Owner Participant will be entitled to take into account in computing its income tax liability under the Tax Laws each item of income, gain, deduction, loss and credit of the trust created by the Trust Agreement.

(3) The Lessee will retain the investment credit. The transaction will constitute a "sale-and-leaseback transaction" for purposes of § 1.47-3(g) of the Regulations.

(4) Under Federal Income Tax Law, the Owner Participant will be allowed deductions under the Accelerated Cost Recovery System with respect to the Undivided Interest pursuant to sections 168(a) and

168(b)(1) of the Code as in effect prior to the enactment of the Tax Reform Act of 1986, Pub. L. 99-514 (hereinafter the Tax Reform Act); the Owner Participant's taxable year in which the Closing Date occurs will be a full taxable year; the Owner Participant's aggregate unadjusted basis for purposes of computing such deductions will be equal to 100% of the Purchase Price; the Owner Participant will be entitled to take such deductions (resulting in a write-off of such percentage of the Purchase Price to a zero salvage value) in the following amounts at the following times:

| <u>Taxable Year Ending</u> | <u>Percentage of Purchase Price</u> |
|----------------------------|-------------------------------------|
| 1986 | 8% |
| 1987 | 14% |
| 1988 | 12% |
| 1989 | 10% |
| 1990 | 10% |
| 1991 | 10% |
| 1992 | 9% |
| 1993 | 9% |
| 1994 | 9% |
| 1995 | 9% |

(the deductions described in this paragraph (4) being hereinafter referred to as the ACRS deductions). Under the State Tax Law, the Owner Participant will be allowed depreciation deductions commencing in the taxable year 1986, using the Asset Depreciation Range (ADR) method assuming a useful life of sixteen years, 150% declining balance method of depreciation switching to straight-line at the optimum point, a net salvage value of zero, and using the half-year convention (the "ADR Deductions").

(5) Under the Tax Laws, the indebtedness evidenced by the Notes will constitute a loan made to the Owner Trustee; all amounts paid with respect to each series of Notes other than payments of principal will be deductible, when paid or accrued, in accordance with the method of accounting on the basis of which the Owner Participant regularly computes its income (the Interest Deductions).

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(6) Under the Tax Laws, the Owner Participant will be allowed current deductions for amortization of an amount equal to the Transaction Expenses computed on a straight-line basis over the Basic Lease Term (the Amortization Deductions).

(7) Under the Tax Laws, the Owner Participant will have at all relevant times sufficient taxable income against which to apply the ACRS Deductions and the ADR Deductions (as the case may be), the Interest Deductions and the Amortization Deductions.

(8) The Notes will bear interest pursuant to their terms at the rates applicable from time to time; the principal amount of the Notes will constitute no more than 80 percent of the Purchase Price; and the Notes will be amortized by certain payments of principal pursuant to the terms thereof.

(9) Basic Rent will be paid on the Basic Rent Payment Dates. Basic Rent will be payable in arrears in semi-annual installments during the Basic Lease Term and the Renewal Term as set forth in the Facility Lease.

(10) Under the Tax Laws, neither the Owner Trustee nor the Owner Participant will at any time be required to include any amount in gross income for purposes of the Tax Laws with respect to the transactions contemplated by the Transaction Documents or the Financing Documents other than (a) payments of Basic Rent in the amounts and no earlier than at the times such payments are required to be made in accordance with the Facility Lease, which payments of Basic Rent shall be accrued ratably over the six-month period preceding the date on which such payment of Basic Rent is required to be made in accordance with the Facility Lease, (except with respect to the payment of Basic Rent due on January 15, 1987, such payment shall be accrued ratably over the period commencing on the Closing Date and ending on January 15, 1987), (b) payments of Casualty Value, Termination Value, and Special Casualty Value as described in the Facility Lease at the time such payments are made and (c) any payments required to be made on an After-Tax Basis pursuant to the Transaction Documents at the time such payments are made.

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(11) Without giving effect to any credits against tax, the Owner Participant's marginal federal rate of income tax is 46 percent for its 1986 taxable year, 39.950685% for its 1987 taxable year, and 34% for each taxable year after 1987; and without giving effect to any credits against tax, the Owner Participant's combined New York State and New York City effective rate of tax is 8.6 percent.

(12) The Owner Participant's cash investment in the Undivided Interest at the Closing Date will be an amount equal to the Investment Percentage of the Purchase Price.

(13) The Closing Date will be December 17, 1986.

(14) The Owner Trustee and the Owner Participant will be entitled to treat each item of income, gain, deduction, loss and credit with respect to the transactions contemplated by the Transaction Documents and the Financing Documents as derived from or allocable to sources within the United States.

(b) Tax Representations. The Lessee represents and warrants to and covenants with the Owner Participant that:

(1) On the Closing Date and throughout the Lease Term, the Undivided Interest will constitute "recovery property" and "10-year property" within the meaning of sections 168(c)(1) and 168(c)(2)(C) of the Code as in effect prior to the enactment of the Tax Reform Act, provided that the Owner Participant does not make any election under section 168(b)(3) of the Code as in effect prior to the enactment of the Tax Reform Act or section 203(a)(1)(B) of the Tax Reform Act.

(2) Unit 2, the Lessee's undivided interest in Unit 2, and each item of property constituting the Undivided Interest will be "placed in service" for purposes of section 168 of the Code as in effect prior to the enactment of the Tax Reform Act no later than the Closing Date.

(3) No portion of the property constituting the Undivided Interest and no portion of the Purchase Price shall be subject to the provisions of section 168(f)(12) of the Code as in effect prior to the enactment of the

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Tax Reform Act, dealing with limitations on property financed with tax-exempt bonds.

(4) The Lessee has provided to the Appraiser all factual information in its possession which is relevant to such Appraiser's conclusions and such information is accurate and complete on the Closing Date. The Lessee has no reason to believe that the Appraiser's conclusions are inaccurate.

(5) Assuming that the Owner Trustee is the owner of the Undivided Interest under the Tax Laws, the Owner Participant will be allowed the ACRS Deductions, the ADR Deductions (as the case may be), the Interest Deductions and the Amortization Deductions.

(6) Under the Tax Laws, neither the Owner Trustee nor the Owner Participant will at any time be required to include any amount in gross income for purposes of the Tax Laws with respect to the transactions contemplated by the Transaction Documents or the Financing Documents other than the amounts described in Sections 1(a)(10)(a), (b) and (c) hereof at the respective times referred to therein.

(7) Under the Tax Laws, the Owner Trustee and the Owner Participant will be entitled to treat each item of income, gain, deduction, loss and credit with respect to the transactions contemplated by the Transaction Documents or the Financing Documents as derived from or allocable to sources within the United States.

(8) The property constituting the undivided interest in the Common Facilities was placed in service by the Lessee more than 12 months prior to the Closing Date, and the property constituting the undivided interest in Unit 2 was placed in service by the Lessee in May 1986, and the Lessee will not take any action pursuant to the Code as in effect both prior to and after the enactment of the Tax Reform Act that is inconsistent with the Owner Participant's entitlement to the ACRS Deductions.

(9) At all times prior to the Closing, the Undivided Interest was owned by the Lessee.

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(10) The provisions of section 168(e) of the Code as in effect prior to the enactment of the Tax Reform Act will not apply to the transactions contemplated by the Transaction Documents.

(11) Throughout the Lease Term the Undivided Interest shall not constitute "tax-exempt use property" within the meaning of section 168(j) of the Code as in effect prior to the enactment of the Tax Reform Act or section 168(h) of the Code, and the provisions of section 168(j) of the Code as in effect prior to the enactment of the Tax Reform Act or section 168(h) of the Code will not apply to the transactions contemplated by the Transaction Documents.

(12) No part of the Undivided Interest will be used predominantly outside the United States within the meaning of section 168(f)(2) of the Code as in effect prior to the enactment of the Tax Reform Act.

(13) On the Closing Date, no improvements, modifications or additions to the Undivided Interest are required to render the Undivided Interest complete for its intended use by the Lessee.

(14) No part of the cost of the Undivided Interest or Real Property Interest paid for or incurred by the Lessee or any Affiliate thereof shall not have been reimbursed by the Owner Trustee.

(15) On the Closing Date, the fair market value of the Undivided Interest is \$35,155,556, and the fair market value of the Real Property Interest is \$19,554.

(16) (i) To the extent required by Revenue Procedures 75-21 and 76-30, (x) the Undivided Interest will be useful to and useable by a Person other than the Lessee or any Person related to the Lessee at the end of the Basic Lease Term and the Renewal Term and capable of continued leasing or transfer to such a Person at that time, (y) the Appraisal demonstrates (within the meaning of Revenue Procedure 75-21) that it is reasonable for the Owner Participant to expect that the fair market value and the remaining useful life of the Undivided Interest at the end of the Lease Term is an amount equal to at least 20% of Facility Cost (without including in

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such value any increase or decrease for inflation or deflation during the Lease Term) and the longer of one year or 20% of the originally estimated useful life of the Undivided Interest, respectively, and (z) it will be commercially feasible for the Owner Trustee or the Owner Participant to enter into such a lease or transfer at such time in a transaction pursuant to which the Owner Participant would realize, with respect to the Undivided Interest, the residual value set forth in the report of the Appraiser taking into account any amounts that such a Person would be required to expend pursuant to the Assignment and Assumption or otherwise in connection with the acquisition or use of the Undivided Interest and taking into account any amounts that such a Person would be required to expend in connection with the acquisition or use of the Real Property Interest and (ii) the Undivided Interest does not constitute, and will not constitute during the Lease Term, "limited use property" within the meaning of Revenue Procedure 76-30, provided, however, that this representation is not a representation that any residual value shall in fact exist at the end of the Basic Lease Term and Renewal Term.

(17) Lessee does not own directly or indirectly any shares of the capital stock of Funding Corp.

SECTION 2. Indemnification.

(a) Consistent Tax Returns. The Lessee agrees that neither it nor any Affiliate will at any time take any action, directly or indirectly, or file any returns or other documents inconsistent with the assumptions and representations set forth in Section 1 hereof, and that the Lessee and any such Affiliate will file such returns, maintain such records, take such actions and execute such documents, as reasonably requested by the Owner Participant from time to time, as may be appropriate to facilitate the realization of such assumptions by the Owner Participant. The Lessee covenants and agrees to maintain, or cause to be maintained, such other records as shall be reasonably requested by the Owner Participant, in each case in order to verify the factual basis for the matters referred to in this Tax Indemnification Agreement. The Lessee shall make the records referred to in the preceding sentences available, or cause such records to be made available, for inspection by

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is a list of the names of the

persons who have been

admitted to the

membership of the

association since

the year 1900.

2. The second part of the document

the Owner Participant or its authorized agents, during normal business hours at the Lessee's office at Alvarado Square, Albuquerque, New Mexico 87158, Attention: A.J. Robison, Senior Vice President and Chief Financial Officer, upon request by, and five days' prior notice from, the Owner Participant. The Lessee shall, at its expense, upon request by the Owner Participant, provide to the Owner Participant a copy of such records, which shall be certified to be a true copy by an affidavit attached thereto and executed by an officer of the Lessee. Notwithstanding the preceding sentence, the Owner Participant or its authorized agents shall have the right to make copies and extracts of any such records at the Owner Participant's sole expense. The Lessee may, in accordance with its record retention practice and consistent with the requirements of the NRC, after written notice to the Owner Participant at least 90 days prior thereto, destroy such records as are specified in such notice other than those identified by the Owner Participant by written notice to the Lessee prior to such destruction.

(b) Indemnification - Loss of Tax Benefits. The Lessee shall indemnify the Owner Participant on an After-Tax Basis for

(1) any loss, disallowance, delay in obtaining, or recapture of the income tax benefits described in Section 1(a) hereof resulting in whole or in part from any one or more of the following events or things:

(i) any representation or warranty of the Lessee in Section 1(b) hereof or elsewhere in this Tax Indemnification Agreement, the other Transaction Documents or the Financing Documents shall prove inaccurate at any time or the Lessee shall breach any of its covenants in Section 1(b) hereof or any of its agreements, covenants, duties, undertakings or other obligations under this Tax Indemnification Agreement or the other Transaction Documents or the Financing Documents, or

(ii) any act or failure to act by the Lessee or by any Affiliate, transferee, sublessee, or assignee of the Lessee or by any user of the Undivided Interest, or by any person to whom the Lessee or any Affiliate thereof shall sell power or energy generated at PVNGS, or by any person having

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custody or possession of Unit 2 or the Undivided Interest or by any ANPP Participant or by any Affiliate of any of the foregoing or by any subsequent transferee, sublessee or assignee or by any trustee, receiver, liquidator or debtor in possession of any of the foregoing, other than, in the case of the Lessee, the execution and delivery of one or more of the Transaction Documents or the Financing Documents and acts specifically required or expressly permitted to be performed by the Lessee under the Facility Lease or any Transaction Document or any Financing Document; provided, however, that (A) any act of the Lessee performed to satisfy a general covenant to comply with Applicable Laws or prudent utility practice or to cause the Undivided Interest to be operated and maintained or to carry out obligations under the ANPP Participation Agreement and related agreements, (B) any act that is permitted by implication or because it is not required or prohibited by such documents, (C) any act that implements a general requirement or right on the part of the Lessee in a manner that is not specifically required or expressly permitted under such documents, (D) the transfer, assignment, sublease or any other disposition (whether by merger or otherwise), by the Lessee, or any use by a Person other than the Lessee, of all or any part of its interest in the Undivided Interest, and (E) the making of any Capital Improvement shall each be an act or failure to act for which the Lessee is responsible under this paragraph (ii), or

(iii) the sale or other disposition of Unit 2, the Undivided Interest or any item of property comprising the Undivided Interest upon the exercise by the Owner Participant of its remedies under the Facility Lease upon the occurrence of an Event of Default thereunder, or

(iv) the bankruptcy, or other proceedings for the protection of debtors, of or involving the Lessee or any transferee, sublessee or assignee of the Lessee or any subsequent transferee, sublessee or assignee or any Affiliate of any of the

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foregoing, or any foreclosure on any property of any of the foregoing, or

(v) any damage to or destruction, loss of generating capacity, theft, nongovernmental taking or requisition or repair of or any addition, improvement, modification, alteration, replacement or substitution of or to Unit 2 or the Undivided Interest or the Real Property Interest, or any part of any thereof, or any Event of Loss or Deemed Loss Event, or any event which, with the passage of time or the giving of notice or both, would constitute such an event, or

(vi) any governmental taking or requisition of title, use or otherwise of Unit 2, the Undivided Interest or the Real Property Interest or any part of any thereof if such taking or requisition does not immediately constitute an Event of Loss under the Facility Lease, or

(vii) any payment by any manufacturer or any other vendor or supplier or contractor or subcontractor with respect to any part of Unit 2 or the Undivided Interest, but in the event of any such payment made to the Owner Participant, any indemnity hereunder shall take into account any economic benefit realized by the Owner Participant from the receipt of such payment without double counting for any economic loss for which such payment provided compensation, or

(viii) any issuance, defeasance, refinancing, refunding, redemption, purchase, repurchase, cancellation, retirement, reamortization, reoptimization, substitution, releveraging, modification or remarketing (or the existence of any rights with respect thereto) of the Notes, or the Bonds, or any other debt securities issued or assumed (or that may be issued or assumed), pursuant to the Transaction Documents or the Financing Documents or any terms or provisions thereof or otherwise in connection with the financing, refinancing or any Supplemental Financing of Unit 2, any Capital Improvement or the Undivided Interest or the Real Property Interest or

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any part thereof or interest therein, including, without limitation, the purchase or deemed purchase by the Lessee or the Loan Participant of any such Notes, Bonds or securities, or the existence of any the Lessee's rights to effect any of the foregoing, or

(ix) the presence of the Loan Participant, or any successor or assign thereof, in the transactions contemplated by the Transaction Documents and the Financing Documents, or

(x) the existence or operation of the ANPP Participation Agreement, the ANPP Project Agreements or any amendment to any of the foregoing (including without limitation the rights and remedies of the ANPP Participants) or any obligations of the Lessee or restriction of rights of the Owner Trustee or the Owner Participant or provisions of any of the Transaction Documents or the Financing Documents (including without limitation the provisions of the Assignment and Assumption) resulting from any of the foregoing, or

(xi) the existence, provisions or operation of the License, or

(xii) the existence, provisions or operation of USLife Title Insurance Company of Arizona Trust No. 530, or

(xiii) the existence or implementation of the provisions set forth in Section 10(b)(3)(ix) or (xi) of the Participant Agreement and Section 15(iv) of the Facility Lease, or

(xiv) the disallowance, loss, recapture, or other denial or of any tax attribute that gave rise to a tax savings for which payment was made pursuant to Section 2(c)(2) hereof;

(2) any inclusion in the Owner Participant's gross income, for purposes of the Tax Laws, of any amount in respect of any replacement or substitution of, any alteration to or modification in, or any addition or improvement to, any item of property comprising the

Undivided Interest or any part or any expenditure made, or property furnished by the Lessee in respect of such item of property or pursuant to the Transaction Documents or Financing Documents (whether or not permitted or required under the Transaction Document or Financing Documents) or of any interest free advance made in respect of any tax indemnified hereunder

(any such loss, disallowance, delay in obtaining or recapture in respect of either subsection (1) above or this subsection (2) being referred to as a Loss).

(c) Indemnity Payment - After-Tax Basis.

(1) In the event of a Loss, the Owner Participant, unless pursuant to Section 5 hereof the Owner Participant is not entitled to payment with respect to such Loss, shall notify the Lessee of such Loss and the Lessee shall pay to the Owner Participant on an After-Tax Basis in a lump sum an amount (the Indemnity Payment) which shall be equal to the sum of the aggregate additional income taxes under the Tax Laws payable by the Owner Participant as a result of such Loss and any interest, penalties or additions to tax payable as a result of such Loss (except to the extent such penalties result from the Owner Participant's failure to file returns which are timely and proper insofar as they relate to matters unrelated to the transactions contemplated by the Transaction Documents).

(2) If the Owner Participant, as the result of a Loss occurring with respect to any year under circumstances that require the Lessee to indemnify the Owner Participant with respect to such Loss pursuant to Section 2(b) hereof, shall be entitled to claim (taking into account the assumptions set forth in Section 3 hereof) with respect to any subsequent year income tax savings under the Tax Laws that would not have been realized but for such Loss, the Owner Participant shall pay to the Lessee an amount equal to the sum of such income tax savings under the Tax Laws plus the amount of any federal, state or local income tax savings the Owner Participant is entitled to claim (taking into account the assumptions set forth in Section 3

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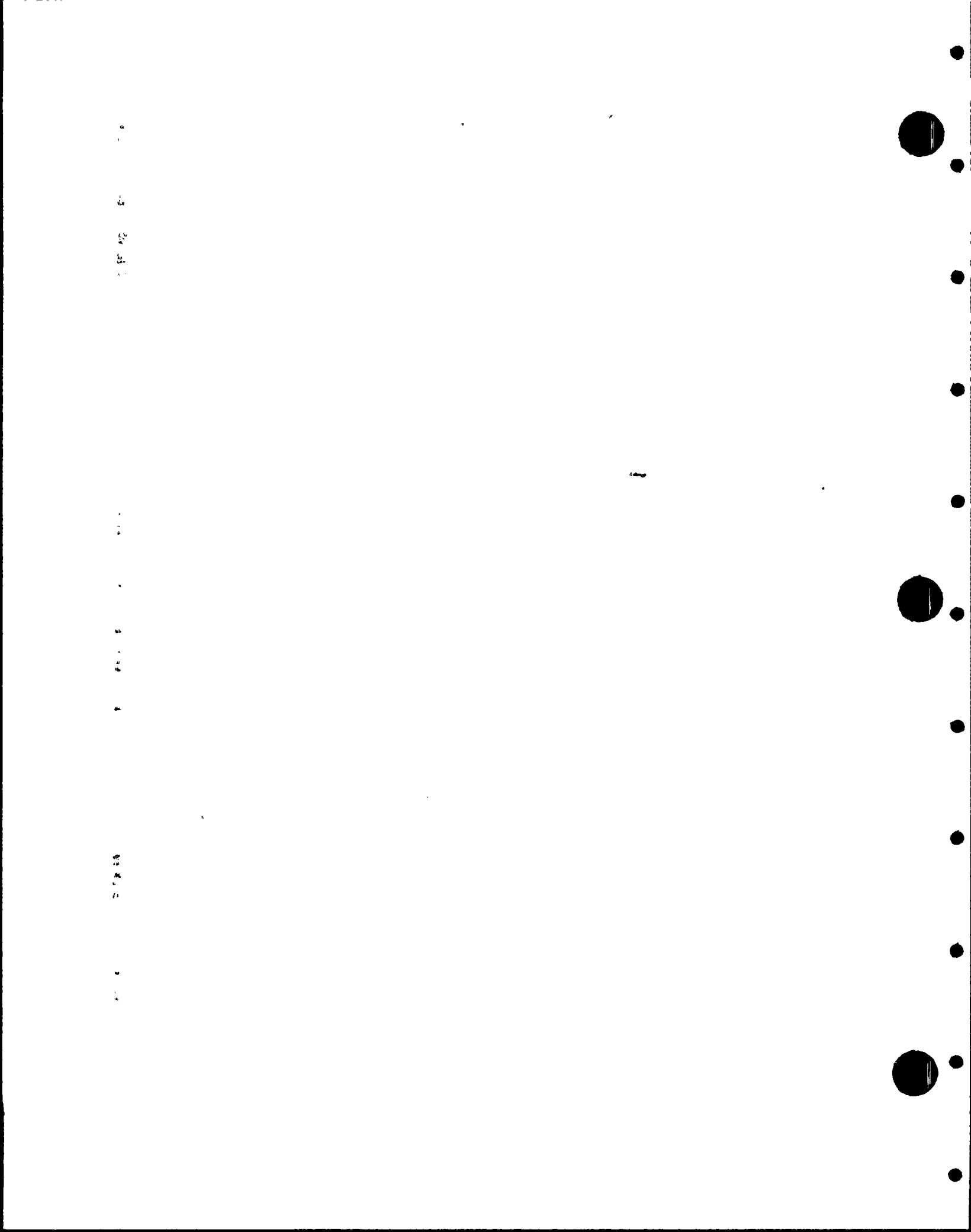
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hereof) as the result of any payment made pursuant to this sentence; provided, however, that such sum shall not be payable (i) before such time as the Lessee shall have made all payment or indemnities then due pursuant to the Transaction Documents and (ii) while any Default or Event of Default shall have occurred and be continuing; provided further, however, that such sum shall not exceed the excess of the amounts previously paid by the Lessee to the Owner Participant pursuant to Section 2(c)(1) hereof with respect to the Loss that gave rise to such tax savings over the amounts previously paid by the Owner Participant to the Lessee pursuant to this Section 2(c)(2) with respect to such loss.

SECTION 3. Determination of Payments.

Whenever it may be necessary for purposes of this Tax Indemnification Agreement to determine (a) the amount resulting from any Loss suffered by the Owner Participant or (b) the amount of any income tax savings under the Tax Laws referred to in Section 2 hereof, such determination shall be made on the assumptions that (a) the income taxes under the Tax Laws of the Owner Participant are payable at the highest marginal statutory tax rates in effect for corporate taxpayers such as the Owner Participant for the respective years to which any Loss or Losses relate (the Effective Rate), (b) in computing its income tax liability under the Tax Laws, the Owner Participant can currently fully use the tax benefits that are the subject of such Loss against taxes payable at the Effective Rate and (c) the Owner Participant can currently fully use any tax benefits resulting from a Loss against income taxes under the Tax Laws payable at the Effective Rate. For purposes of determining the amount of taxes payable by the Owner Participant upon receipt of any payment required to be made by the Lessee to the Owner Participant under this Tax Indemnification Agreement and the amount of any tax savings realized by the Owner Participant as a result of any payment made by the Owner Participant pursuant to Section 2 hereof, it shall be assumed that federal, state, local and foreign taxes are payable by the Owner Participant at the highest marginal statutory rates then in effect. The determination of the amount payable to or by the Owner Participant under this Tax Indemnification Agreement shall be made in the first instance by the Owner Participant, who shall furnish the Lessee with a notice



setting forth in reasonable detail the computations and methods used in computing such amount; and if requested by the Lessee, such determination shall be verified in writing by a firm of nationally recognized independent public accountants selected by the Owner Participant and acceptable to the Lessee. The costs of such verification shall be borne by the Lessee unless a net error of 10 percent or more shall be discovered in which case such costs shall be shared equally. Any statements furnished to the Lessee pursuant to Section 3 hereof shall (a) be signed by a Responsible Officer of the Owner Participant, (b) state in reasonable detail the basis upon which such amount or adjustment has been determined and (c) certify that such amount or adjustment has been determined pursuant to and in compliance with this Tax Indemnification Agreement. The Lessee agrees that it will not have the right to inspect the tax returns, books, records or any other documents of the Owner Participant or any Affiliate thereof in order to verify the basis or the accuracy of the calculations so made or of the amounts set forth in any such statement and that the determinations made by the independent accountants in accordance with this Section 3 shall be conclusive and binding.

SECTION 4. Date of Payments.

An Indemnity Payment shall be payable not later than 20 days after demand by the Owner Participant, except as provided in Section 6.

SECTION 5. Excluded Events.

The Owner Participant shall be responsible for, and shall not be entitled to any payment in respect of, any Loss occurring solely as a direct result of one or more of the following events:

(a) a failure of the Owner Participant to claim in a proper or timely manner the ACRS Deductions, the ADR Deductions (as the case may be), the Interest Deductions or the Amortization Deductions for the appropriate years (any disclosure or failure to make a disclosure pursuant to section 6661 of the Code shall not cause a claim to be considered improper), unless (i) the claiming of any such deductions would be inconsistent with any prior audit adjustment by the IRS, New York State taxing authorities, or

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New York City taxing authorities with respect to which the Lessee is required to indemnify the Owner Participant under this Tax Indemnification Agreement (except to the extent such prior audit adjustment is being contested in accordance with the provisions of Section 6 hereof), (ii) the Owner Participant shall have furnished the Lessee with an opinion of independent tax counsel (mutually acceptable to the Owner Participant and the Lessee, but not excluding the regular outside counsel of the Owner Participant or the Lessee) to the effect that as a result of a tax law change, Event of Loss, Termination Event, or an act, omission or misrepresentation of the Lessee such claim would not be proper pursuant to the standards of ABA Formal Opinion 85-352 or (iii) such failure to claim any such deductions for the appropriate year is caused by a failure of the Lessee to take any action or provide the Owner Participant with any information or document that the Lessee is required to take or provide pursuant to the Transaction Documents or the Financing Documents;

(b) the failure of the Owner Participant to have sufficient taxable income under the Tax Laws to benefit from the ACRS Deductions, the ADR Deductions, the Interest Deductions, or the Amortization Deductions;

(c) any voluntary sale by the Owner Participant or any involuntary sale or other disposition resulting from the bankruptcy of, the foreclosure against, or any similar proceeding against, the Owner Participant or the Owner Trustee (unless such bankruptcy, foreclosure or similar proceeding shall have been caused by the Lessee or any Affiliate thereof), of the Undivided Interest, the Trust Estate, or any beneficial interest therein, unless an Event of Default shall have occurred and be continuing;

(d) any Event of Loss whereby the Lessee is required under the Facility Lease to pay, and shall have paid in full, Casualty Value for all of the Undivided Interest, or any termination of the Facility Lease, whereby the Lessee is required under the Facility Lease, to pay, and shall have paid in full, Termination Value for all of the Undivided Interest, except to the extent the payment made with respect to such Event of Loss or termination did not properly reflect the time of the occurrence of such Event of Loss or termination;

and of

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(e) any amendment, modification, deletion, addition or change in or to the provision of the Code which shall occur after the Closing Date (other than any provision set forth in Title XV of H.R. 3838 as adopted by the House of Representatives and Title XVIII of that bill as adopted by the Senate or any provision substantially similar to any such provision, which provision is enacted by the Ninety-ninth or One Hundreth Congress determined without regard to the date of presidential signature); provided, however, that such Loss is not a result in whole or part of any act or failure to act (other than any act specifically required or expressly permitted to be performed by the Lessee under the Facility Lease or any Transaction Document, subject to the proviso in Section 2(b)(1)(ii) hereof), after the date of enactment of such amendment, modification, deletion, addition or change, by any Person referred to in Section 2(b)(1)(ii) hereof that is inconsistent with the provisions of such amendment, modification, deletion, addition or change in the Code or the representations, warranties or covenants made by the Lessee in Section 1(b) hereof;

(f) the Owner Participant or Lessor being treated as engaged in a partnership with any other person, except if such partnership arises as a result of an event or circumstance set forth in Section 2(b) hereof or the application of section 168(f)(5) of the Code as in effect prior to the enactment of the Tax Reform Act to the Owner Participant solely because any taxable year of the Owner Participant is not a full taxable year;

(g) the failure of the Owner Trust to be taxed as a conduit entity unless such failure arises as a result of an event or circumstance set forth in Section 2(b)(1)(viii), (ix), (x) or (xii);

(h) the inability of the Owner Participant to claim the ACRS Deductions or ADR Deductions (as the case may be), Interest Deductions or Amortization Deductions due to the Owner Participant or any affiliate thereof, being or becoming an entity subject to the provisions set forth in sections 168(e)(3), 168(f)(11), 168(j), 465, 501, 593, 851, 856, 871, 881, 1361, 1381, 1391, or other provisions of the Code as in effect prior to the enactment of the Tax Reform Act relating to the status of the Owner Participant unless, in the case of section 168(e)(3) of the Code as in effect prior to the enactment of the Tax Reform Act, such inability

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results from the transactions contemplated by the Transaction Documents;

(i) failure of the transaction to qualify as a "true lease" for purposes of the Tax Laws, resulting in the Owner Participant not being treated as the Owner of the Undivided Interest for purposes of the Tax Laws, except as a result of an event or circumstance set forth in Section 2(b) hereof; and

(j) failure of the Owner Participant to fulfill its material obligations to contest a proposed adjustment or adverse determination as provided in Section 6 hereof;

SECTION 6. Contests.

(a) If the IRS, New York State taxing authorities, or New York City taxing authorities propose in writing an adjustment in the income tax liability under the Tax Laws of the Owner Participant under the Tax Laws, which adjustment if sustained would result in a Loss, the Owner Participant shall notify the Lessee promptly of such adjustment and of all action taken or proposed to be taken by the IRS, New York State taxing authorities, or New York City taxing authorities, and the Owner Participant shall for at least 30 days after giving such notice forbear, if such forbearance is permitted by law, payment of any tax (including interest, penalties and additions to tax thereon) asserted to be payable as a result of such proposed adjustment.

(b) If the Lessee requests within 30 days after the Owner Participant's notice pursuant to paragraph (a) of this Section 6 that the proposed adjustment be contested, the Owner Participant shall contest the proposed adjustment in good faith at the trial court level upon receipt of an opinion of independent tax counsel of nationally recognized standing selected by the Lessee and reasonably satisfactory to the Owner Participant to the effect that there exists a basis in law and fact under the standard imposed by ABA Formal Opinion 85-352 for such contest and at each appellate level upon receipt of an opinion of independent tax counsel of nationally recognized standing selected by the Lessee and reasonably satisfactory to the Owner Participant to the effect that there exists a substantial possibility that an appellate court will reverse or substantially modify the lower court decision, provided that (i) the Owner

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Participant shall be entitled to pursue or forgo any administrative proceedings (except that the Owner Participant shall be required to pursue all reasonable administrative proceedings in the event judicial proceedings shall be unavailable by reason of a Tax Loss decreasing a net operating loss carryover, and in all events, the Owner Participant shall be required to pursue such administrative proceedings as shall be necessary to preserve available judicial proceedings), shall be required to contest any proposed adjustment beyond the level of administrative proceedings only if timely requested by the Lessee and shall not be required to pursue any appeal to the United States Supreme Court, (ii) the Owner Participant shall determine the court of competent jurisdiction in which to contest the proposed adjustment either before or after payment of the tax asserted to be payable as a result thereof, and (iii) the Owner Participant shall keep the Lessee informed as to the progress of any litigation and, if requested by the Lessee, shall consult with the Lessee's counsel (provided that the conduct of all administrative proceedings and litigation shall nevertheless remain within the sole discretion of the Owner Participant and its tax counsel exercised in good faith and provided, further, that the Owner Participant shall not discriminate (except with respect to selecting the forum in which to contest such proposed adjustment) against any such proposed adjustment as compared to other proposed adjustments made by the IRS, New York State taxing authorities, or New York City taxing authorities involving the potential tax liability of the Owner Participant). The Owner Participant shall not be required to take any action pursuant to this paragraph (b) of this Section 6 unless: (i) the amount of the Indemnity Payment arising from all proposed adjustments with respect to a taxable year, plus all indemnities that would arise by reason of the fact that the subject matter of any such adjustments if of a continuing nature, shall be in excess of \$250,000; (ii) the Lessee shall have agreed to indemnify the Owner Participant in a manner satisfactory to the Owner Participant for any expense which the Owner Participant may incur as a result of contesting such proposed adjustment; (iii) the Lessee shall have agreed to pay the Owner Participant on demand all reasonable costs and expenses that the Owner Participant may incur in connection with contesting such proposed adjustment (including, without limitation, reasonable legal and accounting fees, disbursements, penalties, interest and additions to tax);

1. The first part of the document is a list of names and addresses of the members of the committee.

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(iv) no Event of Default shall have occurred and be continuing; and (v) the Owner Participant shall have determined that the action to be taken will not result in any danger of sale, forfeiture or loss of, or the creation of any Lien (except for Liens permitted under the Transaction Documents and except if the lessee shall have adequately bonded such Lien or otherwise made provision to protect the interests of the Owner Participant in a manner satisfactory to the Owner Participant) on the Undivided Interest, the Real Property Interest, Unit 2 or any part thereof or interest therein. The Owner Participant shall also not be required to contest any proposed adjustment if the subject matter thereof shall be of a continuing nature and shall have previously been decided pursuant to the contest provisions of this Section 6, unless there shall have been a change in the law (including, without limitation, amendments to statutes or regulations, administrative rulings and court decisions) after such previous contest shall have been so decided, and the Owner Participant shall have received an opinion of independent tax counsel selected as provided in this Section 6(b) and furnished at the Lessee's sole expense to the effect that the prior authorities are no longer determinative of the issue and that under such new law there exists a basis in law and fact under the standard imposed by ABA Formal Opinion 85-352 to contest such proposed adjustment.

(c) If the Owner Participant shall elect to contest a proposed adjustment by paying the tax claimed (including such other amounts payable as interest, penalties, or additions to tax) and seeking a refund, and if the proposed adjustment would be a Loss with respect to which the Lessee could be required to indemnify the Owner Participant under this Tax Indemnification Agreement, then the Lessee shall advance to the Owner Participant on an interest-free basis and with no additional net after-tax cost to the Owner Participant the aggregate amount of such taxes, interest, penalties, additions to tax which the Owner Participant shall have elected to pay. If the Owner Participant subsequently receives a refund (or if the Owner Participant would have received a refund but for the fact that funds advanced by the Lessee were applied in payment of a tax liability of the owner Participant for which the Lessee is not required to make an indemnity payment pursuant to this Tax Indemnification Agreement), in whole or part, of such taxes, interest, penalties or additions to tax, or if the

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Loss is not one for which the Lessee is required to make an indemnity payment, the Owner Participant shall promptly pay to the Lessee the amount of such refunded or credited (or refundable or creditable) taxes, money advanced, interest, penalties or additions to tax plus the amount of any interest received (or receivable) by the Owner Participant from the taxing authority, or interest the payment of which is actually avoided with respect to such refunded taxes, interest, penalties, additions to tax or money advanced; provided, however, that the Owner Participant shall not be obligated to refund to the Lessee any amount applied to a tax liability of the Owner Participant (or interest with respect thereto) if the taxing authority would have been foreclosed from asserting such tax liability but for the contest of such proposed adjustment; provided, further, that the Owner Participant may offset the amount of such refunded taxes, interest, penalties or additions to tax against any amount due and owing by the Lessee to the Owner Participant pursuant to this Tax Indemnification Agreement.

(d) Notwithstanding anything to the contrary contained in this Section 6, the Owner Participant may at any time decline to take any further action with respect to a proposed adjustment or may settle any contest with the consent of the Lessee; provided, however, that if the Lessee has properly requested such action pursuant to paragraph (b) of this Section 6 and shall have duly complied with all of the terms of this Section 6, the Owner Participant shall thereby waive its right to any Indemnity Payment by the Lessee that would otherwise be payable by the Lessee pursuant to this Tax Indemnification Agreement in respect of such adjustment, including any indemnities arising solely from such adjustment in subsequent years or which would arise by reason of the fact that the subject matter of such adjustment is of continuing nature, unless in either case the contest of the adjustment giving rise to such indemnities is not precluded by the Owner Participant so declining or so settling. In such event, the Owner Participant shall, within 30 days of such notice, reimburse the Lessee for all amounts previously advanced by the Lessee to the Owner Participant pursuant to paragraph (c) of this Section 6 including any interest realized by the Owner Participant or the payment of which is actually avoided by reason of payment of the tax claimed with funds advanced by the Lessee.

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(e) If the Lessee shall have appropriately requested the Owner Participant to contest any proposed adjustment as above provided and shall have duly complied with all of the terms of this Section 6, the fact of the Lessee's liability for indemnification to the extent required pursuant to this Tax Indemnification Agreement shall become fixed upon a Final Determination of the liability of the Owner Participant for the tax and any interest, penalties and additions to tax asserted to be payable as a result of such proposed adjustment. A "Final Determination" with respect to a Loss shall mean (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final (i.e., when all allowable appeals have been exhausted by either party to the action to the extent required by this Section 6) or, in any case where judicial review shall at the time be unavailable by reason of the proposed adjustment involving a decrease in a net operating loss carryforward, a decision, judgment, decree or other order of an administrative official or agency of competent jurisdiction, which has become final (i.e., all administrative appeals have been exhausted by either party to the extent required by this Section 6), (ii) a closing agreement entered into under section 7121 of the Code or any other settlement agreement entered into in connection with an administrative or judicial proceeding, or (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto. Notwithstanding anything in this Section 6 to the contrary hereinabove, the Owner Participant shall not be required to make any payments to the Lessee under this Section 6 while there shall be an amount due and owing by the Lessee to the Owner Participant under any of the Transaction Documents, or if and for so long as an Event of Default shall have occurred and be continuing. The amount payable to the Owner Participant pursuant to this Section 6 shall be paid pursuant to Section 3 hereof after receipt by the Lessee of a written demand therefor from the Owner Participant accompanied by a written statement describing in reasonable detail such Loss and the computation of the amount payable; provided, however, that if any verification of such Loss is undertaken pursuant to Section 3 of this Tax Indemnification Agreement and such verification results in a determination by the selected independent public accountants that the Loss was less than the amount paid by the Lessee to the Owner Participant, then

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the Owner Participant shall refund the amount of the overpayment made by the Lessee within 10 days after completion of the verification procedure. Notwithstanding anything in this Section 6 to the contrary, if Lessee does not appropriately request the Owner Participant to contest any proposed adjustment, Lessee shall pay the Owner Participant therefor unless it establishes that the Loss was caused pursuant to Section 5 hereof.

SECTION 7. Adjustments.

The assumed income tax benefits under the Tax Laws set forth in Section 1(a) hereof shall be adjusted to the extent necessary and appropriate to reflect any adjustments to Basic Rent provided for in Section 3(d) or 3(e) of the Facility Lease or the payment of an Indemnity Payment so as to reflect any Change in Tax Law or any Loss in the manner in which it was taken into account in computing such adjustment or Indemnity Payment.

SECTION 8. Affiliated Group.

For purposes of this Tax Indemnification Agreement, the term "Owner Participant" shall include any member of an affiliated group of corporations of which the Owner Participant is, or may become, a member if consolidated or combined returns are or shall be filed for such affiliated group for federal, state or local income tax purposes.

SECTION 9. Duration.

The obligation and liabilities of the Owner Participant and the Lessee arising under this Tax Indemnification Agreement shall continue in full force and effect, notwithstanding the expiration or early termination of the Facility Lease, until all such obligations have been met and such liabilities have been paid in full, and shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 10. Payments.

All payments to be made to the Owner Participant or the Lessee pursuant to this Tax Indemnification Agreement shall be made in immediately available funds to such bank and/or account on the continental United States for the

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account of the Owner Participant or the Lessee as from time to time the Owner Participant shall have directed the Lessee or the Lessee shall have directed the Owner Participant, as the case may be, in writing. If the date on which any payment to be made pursuant to this Tax Indemnification Agreement shall not be a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 11. Interest.

Interest at the Penalty Rate shall be payable on any amount not paid when due hereunder until such amount shall be paid.

SECTION 12. Notices.

All notices and other communications provided for herein shall be given to the Owner Participant or the Lessee, as the case may be, in the manner and to the appropriate address, and shall become effective, as provided in Section 17 of the Facility Lease.

SECTION 13. No Setoff.

Except in accordance with the express terms hereof, (a) no payment required to be made by the Lessee pursuant to this Tax Indemnification Agreement shall be subject to any right of setoff, counterclaim, defense, abatement, suspension, deferment or reduction, and (b) the Lessee shall have no right to terminate this Tax Indemnification Agreement, or to be released, relieved or discharged from any obligation or liability under this Tax Indemnification Agreement for any reason whatsoever except as expressly provided herein.

SECTION 14. Coordination with General Tax Indemnity.

Any amounts that the Lessee is liable to pay pursuant to this Tax Indemnification Agreement shall be payable by the Lessee hereunder even if such Taxes are not the liability of the Lessee pursuant to Section 13(b) of the Participation Agreement. Any amounts that the Lessee is liable to pay pursuant to this Tax Indemnification Agreement and Section 3(d) of the Facility Lease shall be payable by

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the Lessee hereunder and not pursuant to the provisions set forth in Section 3(d) of the Facility Lease.

SECTION 15. Governing Law.

This Tax Indemnification Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 16. Counterparts.

This Tax Indemnification Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, and such counterparts together shall constitute and be one and the same instrument.

SECTION 17. Headings.

The headings of the sections of this Tax Indemnification Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof.

SECTION 18. Amendments, Supplements, etc.

Neither this Tax Indemnification Agreement nor any of the terms hereof may be amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against which enforcement of such change is sought.

SECTION 19. No Duplication of Payment.

Nothing contained in the terms of this Tax Indemnification Agreement or any other Transaction Document shall be construed to require the Lessee to make any payment with respect to any Loss more than once or to make any payments hereunder to the extent previously reflected in a rental adjustment pursuant to Section 3(d) of the Facility Lease.

IN WITNESS WHEREOF, the Owner Participant and the Lessee have caused this Tax Indemnification Agreement to be duly executed by their respective officers thereunto duly authorized as of the date set forth below.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By *[Signature]*
Vice President

Dated: December 17, 1986

CHASE MANHATTAN REALTY LEASING
CORPORATION

By *M. Springman Jr.*
Vice President

Dated: December 17, 1986

CONSENT, AGREEMENT AND INSTRUCTION
CHRYSLER FINANCIAL CORPORATION

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, being hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.

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1991, 1992, 1993

In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) of the Original Participation Agreement or any rights thereunder that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. The Lessee agrees that it will deliver to the Owner Participant, promptly following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to (a) include as Events of Loss any or all (as the Owner Participant may select) events, occurrences or circumstances that constitute "events of loss" under any New Facility Lease, (b) without limitation of the foregoing, include as a Final Shutdown any or all (as the Owner Participant may select) events, occurrences or circumstances that constitute a "final shutdown" under any New Facility Lease and (c) delete any Events of Loss and events constituting a Final Shutdown as the Owner Participant may select in connection with the foregoing; it being the intent and purpose of the foregoing to permit the Owner Participant to cause the Facility Lease to be amended, as it shall elect, to augment the specified Events of Loss and events of Final Shutdown to include, mutatis mutandis, any or all events, occurrences and circumstances that may give rise to an event of loss or a final

1. The first part of the document is a list of names and addresses of the members of the committee.

2. The second part of the document is a list of names and addresses of the members of the committee.

3. The third part of the document is a list of names and addresses of the members of the committee.

shutdown, respectively, under any New Facility Lease; provided, however, that each such additional Event of Loss and event of Final Shutdown shall include, mutatis mutandis, the same qualifications and incorporate, mutatis mutandis, the same definitions as shall be provided in such New Facility Lease; provided further, however, that in connection with the foregoing the Owner Participant shall use its best efforts and shall be entitled to amalgamate any such additional Events of Loss and events of Final Shutdown into the then present provisions of the Facility Lease so as to incorporate such additional events, occurrences and circumstances therein succinctly. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

1. The first part of the document is a list of names and addresses of the members of the committee.

2. The second part of the document is a list of names and addresses of the members of the committee.

3. The third part of the document is a list of names and addresses of the members of the committee.

4. The fourth part of the document is a list of names and addresses of the members of the committee.

6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated August 1, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.

7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY.
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title:

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title: _____

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By at Robinson
Title: Senior Vice President and
Chief Financial Officer

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title: ~~Senior Vice President and~~
~~Chief Financial Officer~~

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

CHRYSLER FINANCIAL
CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee,

By _____
Title: AUTHORIZED OFFICER

Date: November 12, 1986

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101 102 103 104 105 106 107 108 109 110 111 112 113 114 115 116 117 118 119 120 121 122 123 124 125 126 127 128 129 130 131 132 133 134 135 136 137 138 139 140 141 142 143 144 145 146 147 148 149 150 151 152 153 154 155 156 157 158 159 160 161 162 163 164 165 166 167 168 169 170 171 172 173 174 175 176 177 178 179 180 181 182 183 184 185 186 187 188 189 190 191 192 193 194 195 196 197 198 199 200

CONSENT, AGREEMENT AND INSTRUCTION
BURNHAM LEASING CORPORATION

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, is hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.

In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. (a) The Lessee agrees that it will deliver to the Owner Participant, within 10 business days following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definitions of "Event of Loss" and "Final Shutdown" in the Facility Lease with the definitions of "event of loss" and "final shutdown" set forth in any of the New Facility Leases. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values attached to the Facility Lease.

(b) The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definition of "Deemed Loss Event" in the Facility Lease with the definition of "deemed loss event" set forth in any of the New Facility Leases. In connection with any such amendment, (a) such substituted definitions shall include and be subject

to, mutatis mutandis, the same qualifications and waivers and incorporate, mutatis mutandis, the same definitions as shall be included in the New Facility Leases or to which the respective lessors party to the respective New Facility Leases shall be subject and (b) neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Special Casualty Values attached to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated July 31, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.

7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 above shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

BURNHAM LEASING CORPORATION

By _____

Title: _____

Date: November 17, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____

Title: _____

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____

Title: _____

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

BURNHAM LEASING CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

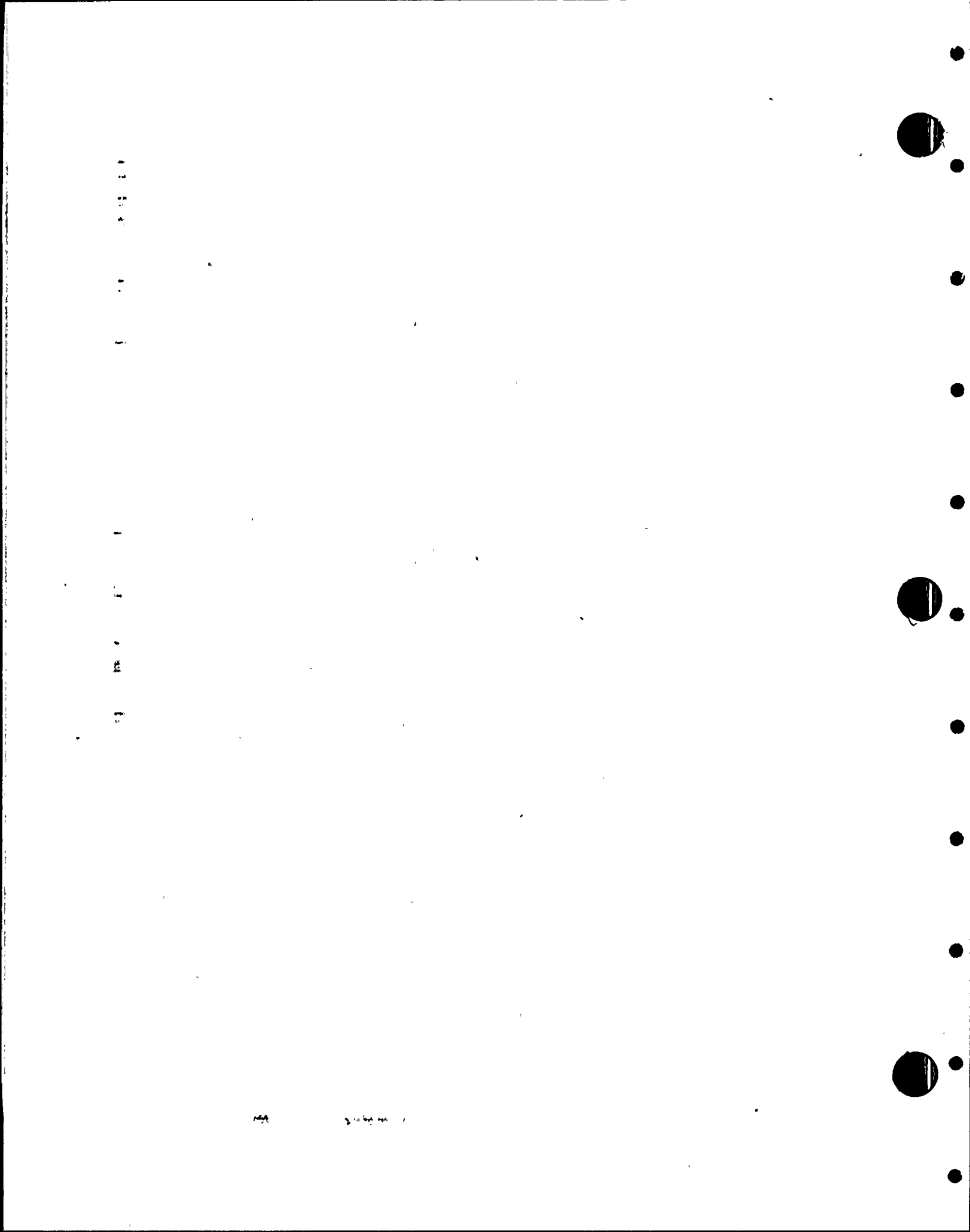
By 47 Robison
Title: Senior Vice President and
Chief Financial Officer

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: ~~Senior Vice President and~~
~~Chief Financial Officer~~

Date: November __, 1986



IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

BURNHAM LEASING CORPORATION

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: AUTHORIZED OFFICER

Date: November 17, 1986

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CONSENT, AGREEMENT AND INSTRUCTION
MFS LEASING CORP.

Reference is made to (i) the Participation Agreement, dated as of December 16, 1985, among the parties whose signatures appear below, First PV Funding Corporation (First PV) and Chemical Bank, in its individual capacity and as Indenture Trustee, as amended by Amendment No. 1 thereto, dated as of July 15, 1986 (such Participation Agreement, as so amended, is hereinafter referred to as the Original Participation Agreement), (ii) the other Transaction Documents (as defined in the Original Participation Agreement), (iii) the Participation Agreement, to be dated as of December 15, 1986, among Chase Manhattan Realty Leasing Corporation (or other subsidiary or affiliate of The Chase Manhattan Corporation) (Chase), First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 1 and certain related common facilities, and (iv) the Participation Agreement, to be dated as of December 15, 1986, among Chase, First PV, The First National Bank of Boston, in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and Public Service Company of New Mexico, relating to the sale and leaseback of an undivided interest in Unit 2 (as defined in such Participation Agreement) and certain related common facilities (the Participation Agreements described in clauses (iii) and (iv) above being hereinafter referred to as the New Participation Agreements). Capitalized terms used herein without definition shall have the respective meanings set forth in the Original Participation Agreement.



In consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt of which is hereby acknowledged:

1. To the extent required by Section 10(b)(3)(xii) of the Original Participation Agreement, the Owner Participant hereby consents to the sale and leaseback transactions contemplated by the New Participation Agreements, provided that the closings thereunder occur on or prior to December 31, 1986. The consent of the Owner Participant set forth herein is without prejudice to any construction of Section 10(b)(3)(xii) that the Owner Participant may wish to assert in connection with any further lease transaction entered into by the Lessee or an Affiliate of the Lessee with respect to any undivided interest in PVNGS.

2. (a) The Lessee agrees that it will deliver to the Owner Participant, within 10 business days following execution and delivery thereof by the Lessee, all transaction documents with respect to the transactions, including the facility leases (the New Facility Leases), contemplated by the New Participation Agreements. The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definitions of "Event of Loss" and "Final Shutdown" in the Facility Lease with the definitions of "event of loss" and "final shutdown" set forth in any of the New Facility Leases. In connection with any such amendment, neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Casualty Values attached to the Facility Lease.

(b) The Lessee agrees, upon the written request of the Owner Participant delivered on or prior to March 31, 1987, to enter (within a reasonable time as specified in such request) into an amendment to the Facility Lease as necessary to replace the definition of "Deemed Loss Event" in the Facility Lease with the definition of "deemed loss event" set forth in any of the New Facility Leases. In connection with any such amendment, (a) such substituted definitions shall include and be subject

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to, mutatis mutandis, the same qualifications and waivers and incorporate, mutatis mutandis, the same definitions as shall be included in the New Facility Leases or to which the respective lessors party to the respective New Facility Leases shall be subject and (b) neither the Lessor nor the Lessee shall be required to accept any change to the schedule of Special Casualty Values attached to the Facility Lease.

3. The Owner Participant agrees that it will not seek any amendment to the Facility Lease pursuant to this Consent, Agreement and Instruction unless the Owner Participant shall have determined, based upon advice of counsel, that such amendment will not materially adversely affect its status as owner of the Undivided Interest for Federal income tax purposes.

4. In accordance with Section 2.01 of the Trust Agreement, the Owner Participant hereby requests and instructs the Owner Trustee to execute and deliver this Consent, Agreement and Instruction and all other instruments and certificates contemplated by the Transaction Documents in connection with this Consent, Agreement and Instruction.

5. The parties hereto agree that this Consent, Agreement and Instruction shall constitute a Transaction Document for all purposes of the Original Participation Agreement and the Facility Lease.

6. Reference is made to the Consent, Agreement and Instruction dated August 18, 1986, among the parties whose signatures appear below, and the Consent, Agreement and Instruction dated July 31, 1986, among such parties, providing, among other things, for certain amendments to the Facility Lease (each a Consent). To the extent that either Consent requires the Owner Participant to make a written request to the Lessee by a specified date in order to effect any such amendments, the Lessee hereby agrees that such date is hereby extended to March 31, 1987, and the Lessee agrees to enter into any amendments contemplated by either Consent if the Owner Participant shall so request in writing by March 31, 1987.

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7. If the Owner Participant under either of the New Participation Agreements is not Chase, this Consent, Agreement and Instruction will be deemed ineffective and without force or effect as to such New Participation Agreement, provided that in any event paragraph 6 above shall remain in full force and effect.

8. This Consent, Agreement and Instruction may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Consent, Agreement and Instruction shall be effective on and as of the latest of the dates of execution hereof by the parties hereto. This Consent, Agreement and Instruction shall be governed by, and construed in accordance with, the laws of the State of New York.

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

MFS LEASING CORP.

By _____
Title: VICE PRESIDENT

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title:

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

MFS LEASING CORP.

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

By A. J. Robinson
Title: Senior Vice President and
Chief Financial Officer

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: ~~Senior Vice President and~~
~~Chief Financial Officer~~

Date: November __, 1986

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IN WITNESS WHEREOF, the parties hereto have caused this Consent, Agreement and Instruction to be duly executed by their respective officers thereunto duly authorized as of the dates set forth below.

MFS LEASING CORP.

By _____
Title:

Date: November __, 1986

PUBLIC SERVICE COMPANY
OF NEW MEXICO

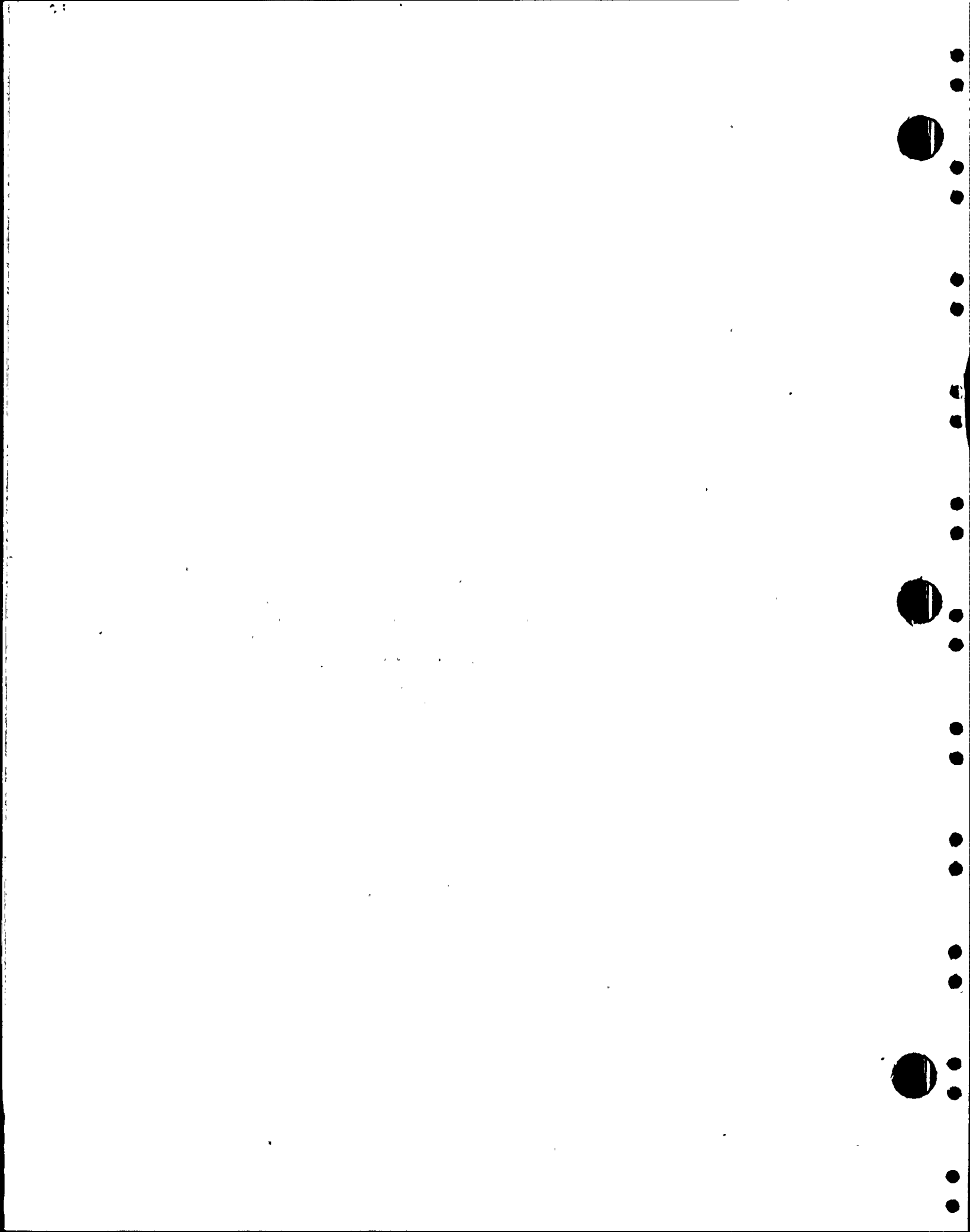
By _____
Title:

Date: November __, 1986

THE FIRST NATIONAL BANK OF
BOSTON, as Owner Trustee

By _____
Title: AUTHORIZED OFFICER

Date: November 17, 1986



FIRST PV FUNDING CORPORATION,
PUBLIC SERVICE COMPANY OF NEW MEXICO
and
CHEMICAL BANK,
as Trustee

UNIT 2 SUPPLEMENTAL INDENTURE OF PLEDGE
(LEASE OBLIGATION BONDS, SERIES 1986B)

dated as of December 15, 1986
to

COLLATERAL TRUST INDENTURE
dated as of December 16, 1985

Providing for the Pledge of
the Lessor Notes Specified
on Schedule 1 hereto

PALO VERDE NUCLEAR GENERATING STATION UNIT 2

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UNIT 2 SUPPLEMENTAL INDENTURE OF PLEDGE (LEASE OBLIGATION BONDS, SERIES 1986B), dated as of December 15, 1986, among FIRST PV FUNDING CORPORATION, a Delaware corporation (the Company), PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (PNM), and CHEMICAL BANK, as trustee (the Trustee).

WHEREAS, the Company and PNM have heretofore executed and delivered to the Trustee an indenture dated as of December 16, 1985 (as heretofore amended and supplemented, the Original Indenture);

WHEREAS, Section 11.01(4) of the Original Indenture provides, among other things, that the Company and the Trustee may, without the consent of the Holders of any Securities, enter into an indenture supplemental to the Original Indenture to convey, transfer and assign to the Trustee, and to subject to the Lien of the Original Indenture, additional Pledged Lessor Notes;

WHEREAS, PNM and the Company have heretofore executed and delivered the Series 1986B Bond Supplemental Indenture, dated as of November 18, 1986 (the Series 1986B Bond Supplemental Indenture), to the Trustee, and the Company issued thereunder a series of Securities designated "Lease Obligation Bonds, Series 1986B" (the Series 1986B Securities) in the aggregate principal amount of \$460,000,000;

WHEREAS, the Company, in accordance with Section 2.15(a) of the Original Indenture, deposited with the Trustee the proceeds of sale of the Series 1986B Securities;

WHEREAS, the Company has heretofore obtained the release of \$372,000,000 from such proceeds of sale;

WHEREAS, the Company, (i) in accordance with Sections 2.15(b) and 13.01 of the Original Indenture, desires to obtain the release of \$28,000,000 from such proceeds of sale and to cause the application thereof in the manner specified by such Section 2.15(b) and (ii) has requested the Trustee to enter into this Supplemental Indenture of Pledge for the purpose, among others, of meeting the condition to such release set forth in clause (a) of such Section 13.01; and

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WHEREAS, all acts and things necessary to constitute these presents a valid and binding supplemental indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Indenture of Pledge has in all respects been duly authorized, and the Company, in the exercise of legal right and power in it vested, executes this Supplemental Indenture of Pledge;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE OF PLEDGE WITNESSETH:

That in consideration of the premises and of the sum of one dollar to it duly paid by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company and PNM each covenants and agrees with the Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Securities, as follows:

ARTICLE ONE

PLEDGE OF LESSOR NOTES

To secure the payment of the principal of, premium (if any) and interest on all the Securities from time to time Outstanding under the Original Indenture, and the performance of the covenants therein and herein contained, the Company by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, hypothecate, pledge, confirm and create a security interest in, unto the Trustee, the Lessor Notes identified on Schedule 1 hereto (herein referred to as the Pledged Lessor Notes).

TO HAVE AND TO HOLD the aforesaid Pledged Lessor Notes unto the Trustee and its successors and assigns forever, in trust and for the uses and purposes and subject to the covenants and conditions set forth in the Original Indenture.

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ARTICLE TWO

MISCELLANEOUS

SECTION 2.01. Execution as Supplemental Indenture.

This Supplemental Indenture of Pledge is executed and shall be construed as an indenture supplemental to the Original Indenture and, as provided in the Original Indenture, this Supplemental Indenture of Pledge forms a part thereof. Except as herein or in Schedule 1 hereto expressly otherwise defined, the use of the terms and expressions herein is in accordance with the definitions, uses and constructions contained in the Original Indenture.

SECTION 2.02. Responsibility for Recitals, Etc.

The recitals contained herein shall be taken as the statements of the Company and PNM, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture of Pledge or the Series 1986B Securities.

SECTION 2.03. Provisions Binding on Successors.

All the covenants, stipulations, promises and agreements in this Supplemental Indenture of Pledge contained by or in behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 2.04. New York Contract.

This Supplemental Indenture of Pledge shall be deemed to be a contract under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said state.

SECTION 2.05. Counterparts.

This Supplemental Indenture of Pledge may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the Company, PNM and the Trustee have caused this Supplemental Indenture of Pledge to be duly executed by their respective officers thereunto duly authorized, as of the date and year first above written.

FIRST PV FUNDING CORPORATION

[CORPORATE SEAL]

By _____
Title:

Attest:

[Signature]
Assistant Secretary

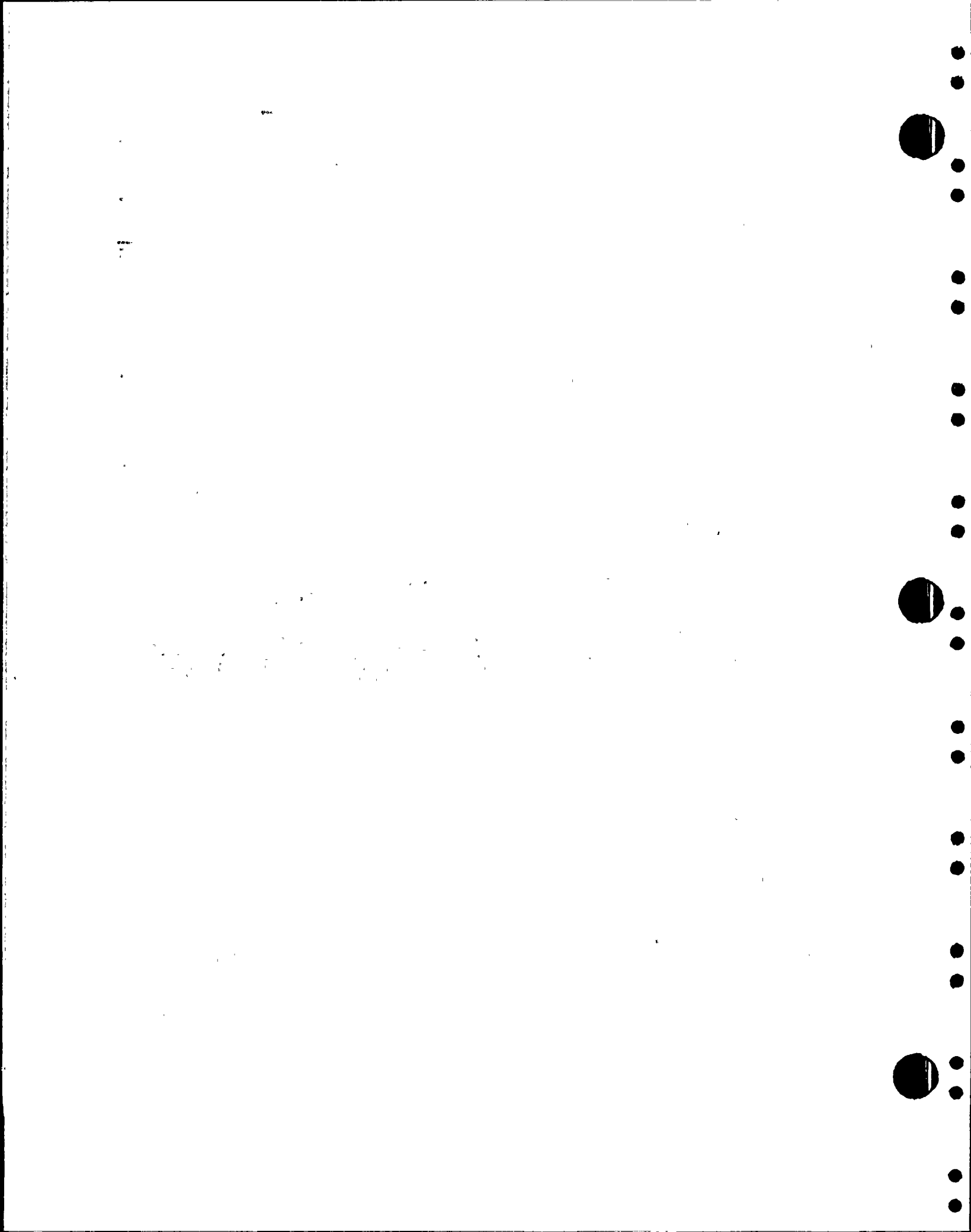
PUBLIC SERVICE COMPANY
OF NEW MEXICO

[CORPORATE SEAL]

By *W. A. Marshall*
Title: *VICE PRESIDENT AND MANAGER*

Attest:

A. D. Wright
Assistant Secretary




CHEMICAL BANK,
as Trustee

[CORPORATE SEAL]

By: 

Vice President

Attest:


Trust Officer

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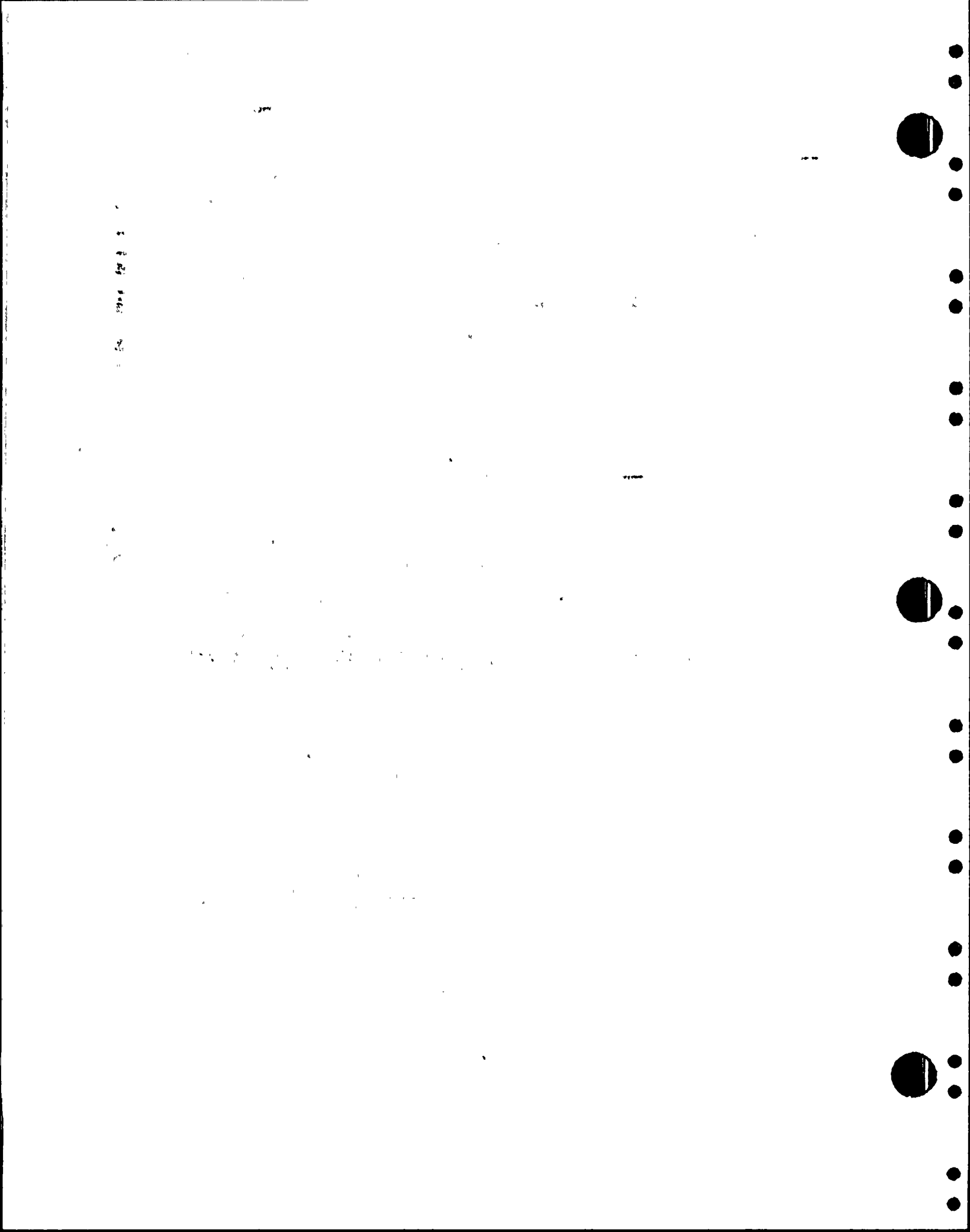
STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 6th day of December, 1986, before me personally came M.J. Barbera, to me known, who, being by me duly sworn, did depose and say that he resides at Wilmington, Delaware; that he is a Vice President of FIRST PV FUNDING CORPORATION, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]

David A. Spivak

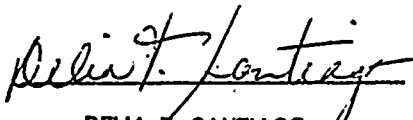
DAVID A. SPIVAK
Notary Public, State of New York
No. 31-4693463
Qualified in New York County
Commission Expires March 30, 1987

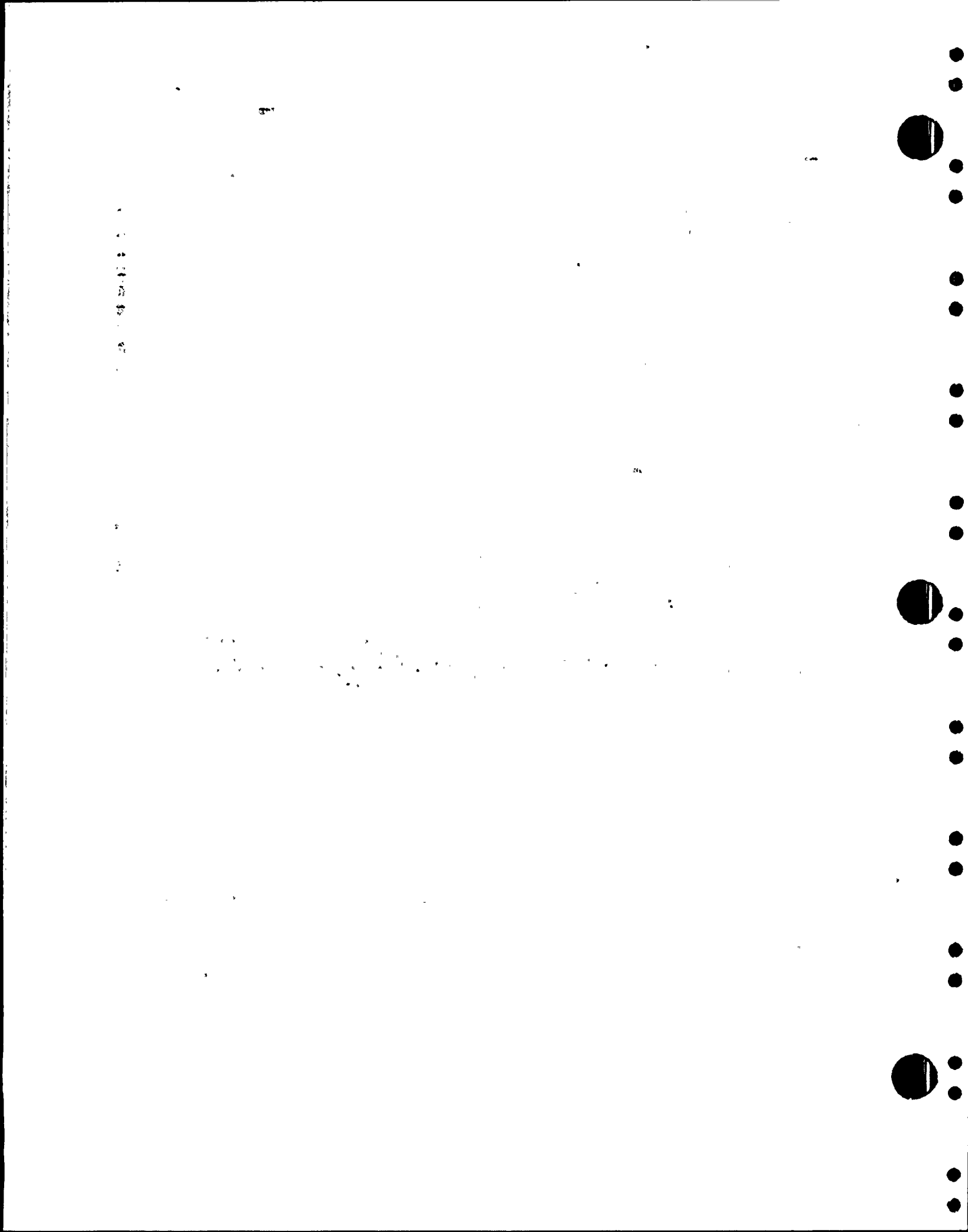


STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On this 16th day of December, 1986, before me personally came E.W. Reynolds, Jr., to me known, who, being by me duly sworn, did depose and say that he resides at Albuquerque, New Mexico; that he is the Vice President and Treasurer of PUBLIC SERVICE COMPANY OF NEW MEXICO, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]

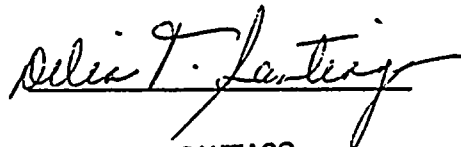

DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987



STATE OF NEW YORK)
 : SS.:
COUNTY OF NEW YORK)

On this 16th day of December, 1986, before me personally came T.J. Foley, to me known, who, being by me duly sworn, did depose and say that he resides at Bethpage, New York; that he is a Vice President of CHEMICAL BANK, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

[NOTARIAL SEAL]



DELIA T. SANTIAGO
Notary Public, State of New York
No. 41-3451160
Qualified in Queens County
Commission Expires March 30, 1987.

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SCHEDULE 1
to
UNIT 2
SUPPLEMENTAL INDENTURE
OF PLEDGE

As used with reference to this Supplemental Indenture of Pledge, the following terms have the following meanings:

(1) Lease Indenture means the Trust Indenture, Mortgage, Security Agreement and Assignment of Rents, dated as of December 15, 1986, between the Indenture Trustee and the Owner Trustee.

(2) Lessor Note means each of (i) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 1992), in the amount of \$1,270,000, (ii) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 1997), in the amount of \$3,501,000 and (iii) the Non-Recourse Promissory Note, Fixed Rate Series (Due January 15, 2016), in the amount of \$23,229,000, each dated December 17, 1986, payable by the Owner Trustee to the Company.

(3) Lessor or Owner Trustee means The First National Bank of Boston, a national banking association (FNB), in its capacity as owner trustee under the Trust Agreement, dated as of December 15, 1986, with the owner participant named therein.

(4) Indenture Trustee means Chemical Bank, a New York banking corporation, as Trustee.

(5) Lease means the Facility Lease, dated as of December 15, 1986, between PNM, as lessee, and the Owner Trustee, as lessor.

(6) Participation Agreement means the Participation Agreement dated as of December 15, 1986, among the Owner Participant party thereto, the Company, FNB in its individual capacity and as Owner Trustee, Chemical Bank, in its individual capacity and as Indenture Trustee, and PNM.

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