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ACCESSION NBR: 8802240342 DOC. DATE: 88/02/18 NOTARIZED: NO DOCKET #
 FACIL: STN-50-529 Palo Verde Nuclear Station, Unit 2, Arizona Publi 05000529
 AUTH. NAME AUTHOR AFFILIATION
 COUGHLIN, F. J. Mudge, Rose, Guthrie, Alexander & Ferden
 RECIP. NAME RECIPIENT AFFILIATION
 KNIGHTON, G. W. Office of Nuclear Reactor Regulation, Director (Post 870411)

SUBJECT: Forwards amends to eight facility leases re sale & leaseback transactions by util to equity investors. Amends do not affect licensed activities or responsibilities.

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 TITLE: Licensing Submittal: Application/General Info Amdt

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NOTES: Standardized plant.

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MUDGE ROSE GUTHRIE ALEXANDER & FERDON

2121 K STREET, N.W.
WASHINGTON, D.C. 20037
202-429-9355

SUITE 2020
333 SOUTH GRAND AVENUE
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213-613-1112

180 MAIDEN LANE
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305-650-8100

12, RUE DE LA PAIX
75002 PARIS, FRANCE
(1) 42. 61. 57. 71

February 18, 1988

Director of Nuclear Reactor Regulation
Attention: Mr. George W. Knighton, Project Director
PWR Project Directorate #7
Division of Pressurized Water Reactor
Licensing-B
Nuclear Regulatory Commission
Washington, D.C. 20555

Re: In the Matter of El Paso Electric Company
(Palo Verde Nuclear Generating Station,
Unit 2) Docket No. STN 50-529, License
No. NPF-51

Dear Mr. Knighton:

Amendment No. 3 issued August 15, 1986 and
Amendment No. 6 issued December 11, 1986 to NRC License
No. NPF-51 authorized sale and leaseback transactions by
El Paso Electric Company (the Company) to six and two
equity investors, respectively, require that the NRC be
notified of any change in the facility leases. Enclosed
are copies of amendments to the eight facility leases
which the Company entered into pursuant to the authori-
zations above. The amendments do not affect licensed
activities or responsibilities.

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WORLD BOOK - THE WAREHOUSE & GARDEN

THE WAREHOUSE & GARDEN

NEW YORK, N. Y.

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As stated by the Company in Amendment No. 1 to Form S-3 filed with the Securities and Exchange Commission on February 12, 1988 (Registration No. 33-19656) (Amendment No. 1 to Form S-3) (capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Amendment No. 1 to Form S-3):

[c]ontemporaneously with the consummation of the Sale and Leaseback Transactions, the Company and the equity investors in the 1986 Sale and Leaseback Transactions agreed to modifications of the documents for those transactions. The modifications require that the Company provide each of the six equity investors in the August 1986 Sale and Leaseback Transactions with a bank letter of credit, having a term expiring not earlier than December 31, 1991, in support of the equity portion of rent under the related lease. In addition, the Company agreed to certain financial covenants with each of the eight equity investors in the 1986 Sale and Leaseback Transactions requiring the Company to be in compliance at June 30, 1991 with specified interest and rental payment coverage ratios and debt (as defined) to capitalization tests. If the Company fails to meet such financial covenants at that time, the equity investor can, in lieu of exercising remedies under the related lease, including drawing on the letter of credit, elect to require that the letter of credit be renewed for successive one year periods until such financial covenants are met as of June 30 in a subsequent year.

As part of the modifications, the Company placed in a bank escrow account, pending the satisfaction of the conditions described below, \$243.1 million, to be used to retire all of the long-term debt of the Company maturing during the period from June 1988 through February 1991. As described [in Amendment No. 1 to Form S-3] under "Use of Proceeds," \$138 million of the proceeds from the Sale and Leaseback Transactions were placed in the escrow, and the Company funded

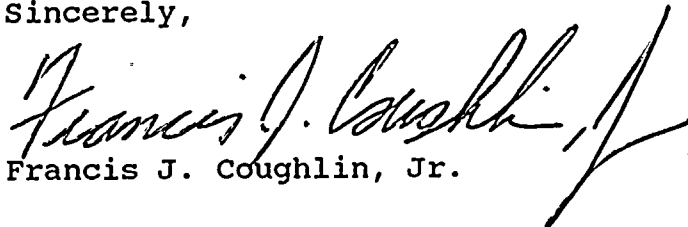
the balance of the escrow by transferring certain cash investments to the escrow account.

The escrowed funds are to be released upon (i) delivery of the letters of credit to the six equity investors in the August 1986 Sale and Leaseback Transactions and (ii) execution and delivery of the amendments to the transaction documents for the 1986 Sale and Leaseback Transactions required to implement the agreed upon modifications. If such letters of credit are not delivered by April 30, 1988, each subsequent rent payment under the six related leases is, under the terms of the modified agreements, to be increased by .35 percent of facility cost, such rent increase to continue until the earlier to occur of (x) the date of delivery of the required letter of credit and (y) the date as of which such letter of credit would have expired had it been in effect as required. The Company has commenced negotiations to secure the required letters of credit and expects that it will be able to provide such letters of credit prior to April 30, 1988 and terminate the escrow.

In connection with the above agreements, certain covenants in the 1986 Sale and Leaseback Transaction documents restricting the incurrence of additional debt by the Company and its subsidiaries were modified. After giving effect to the retirement of debt described [in Amendment No. 1 to Form S-3] under "Use of Proceeds," the retirement after December 31, 1987 of certain short-term debt and the implementation of the required escrow of funds, the Company and its subsidiaries could, under the modified provisions of the 1986 Sale and Leaseback Transactions, incur approximately \$41 million of additional long-term debt and \$173 million of additional short-term debt, although regulatory authorization presently would limit the Company to incurring no more than \$152 million of additional short-term debt. However, principally because of the effect of the losses incurred on the Company's investments in marketable

securities (see Note (1) [in Amendment No. 1 to Form S-3] under "Summary Information Relating to the Company--Selected Consolidated Financial Data") on the Company's ability to meet incurrence tests, the Company expects to be precluded, effective April 13, 1988, from issuing additional long-term debt until after December 31, 1988, at the earliest. At such time, the Company may be required to establish a new escrow of cash for debt retirement, which, under the modified provisions of the 1986 Sale and Leaseback Transactions, serves as a defeasance of debt for financial covenant purposes, in order to issue additional long-term debt. After the release of the currently escrowed funds, additional short-term debt aggregating \$204 million could be incurred by the Company and its subsidiaries, although regulatory authorization would continue to limit the Company to incurring no more than \$152 million of short-term debt.

Sincerely,



Francis J. Coughlin, Jr.

Copies without enclosures to:

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El Paso, Texas 79901

Robert B. Michel, Esq.
Mudge Rose Guthrie Alexander & Ferdon
180 Maiden Lane
New York, New York 10038

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with ALEXANDER HAMILTON LIFE INSURANCE COMPANY OF AMERICA, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

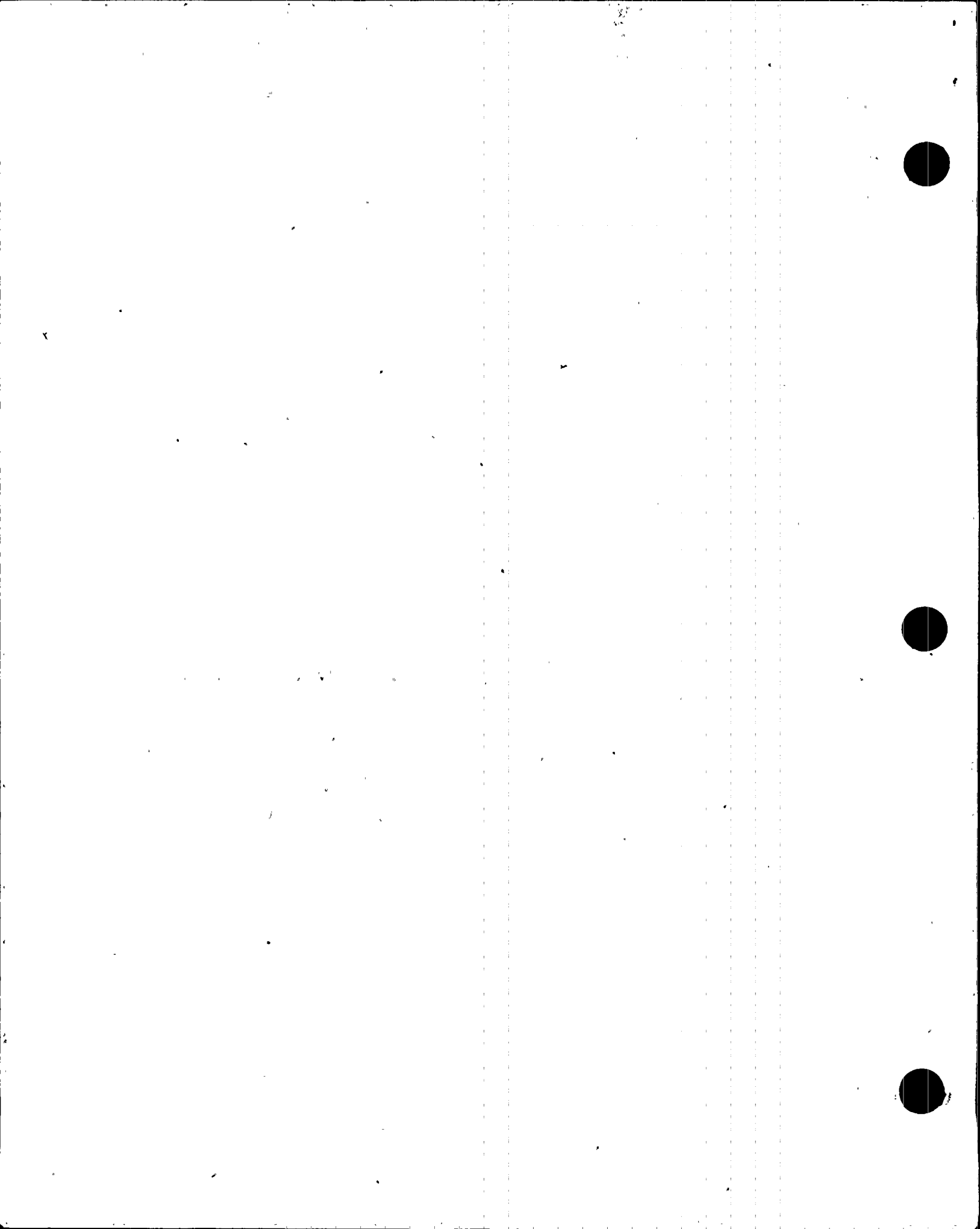
Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

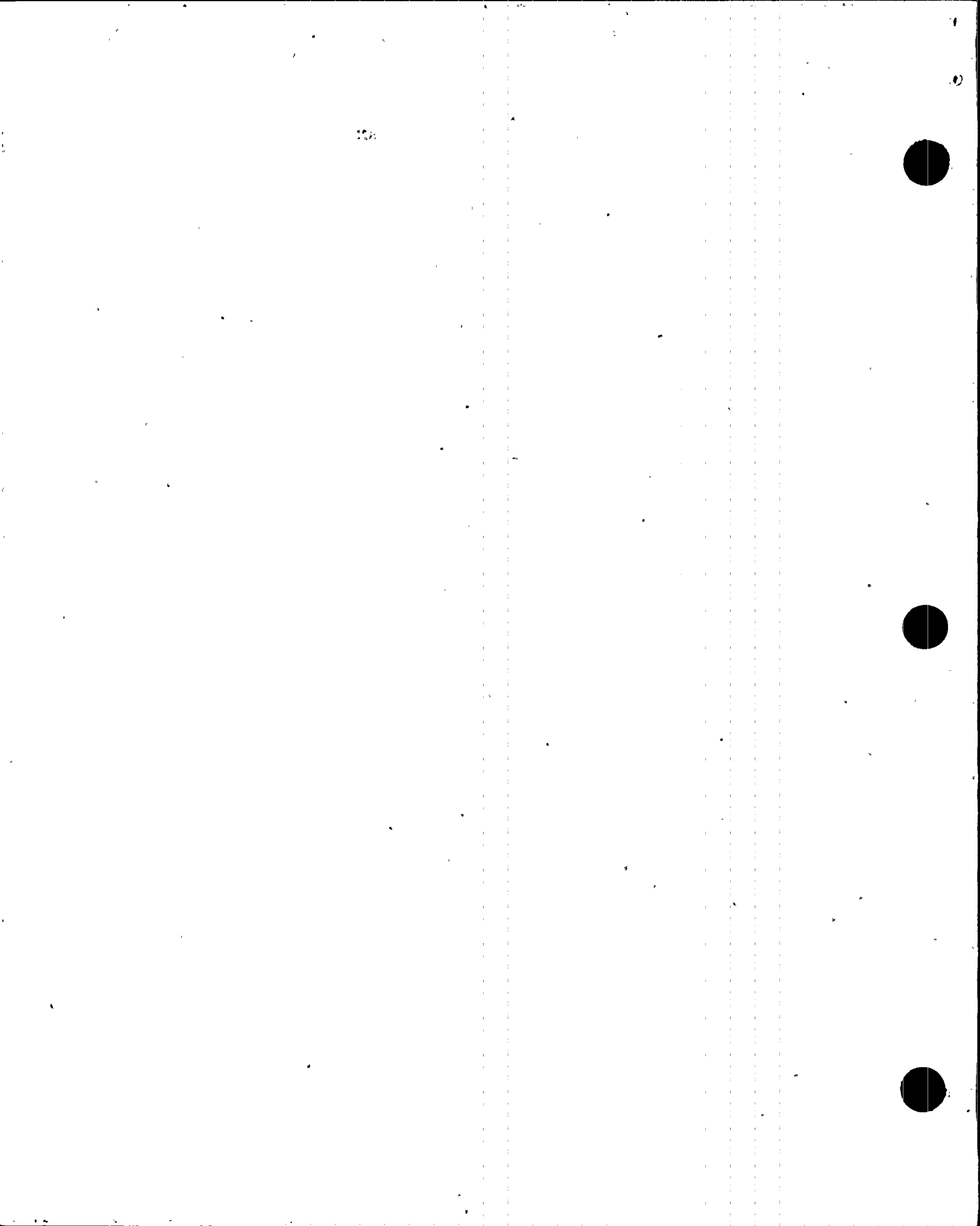
(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries), and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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.

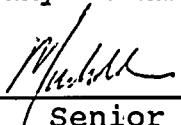
(b) Counterpart Execution. This Amendment No. 2 may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

(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 33-404, the beneficiary of the Trust Agreement is Alexander Hamilton Life Insurance Company of America, a corporation. The address of the beneficiary is 33045 Hamilton Boulevard, Farmington Hills, Michigan, Attention: Richard Egan, General Counsel. 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.

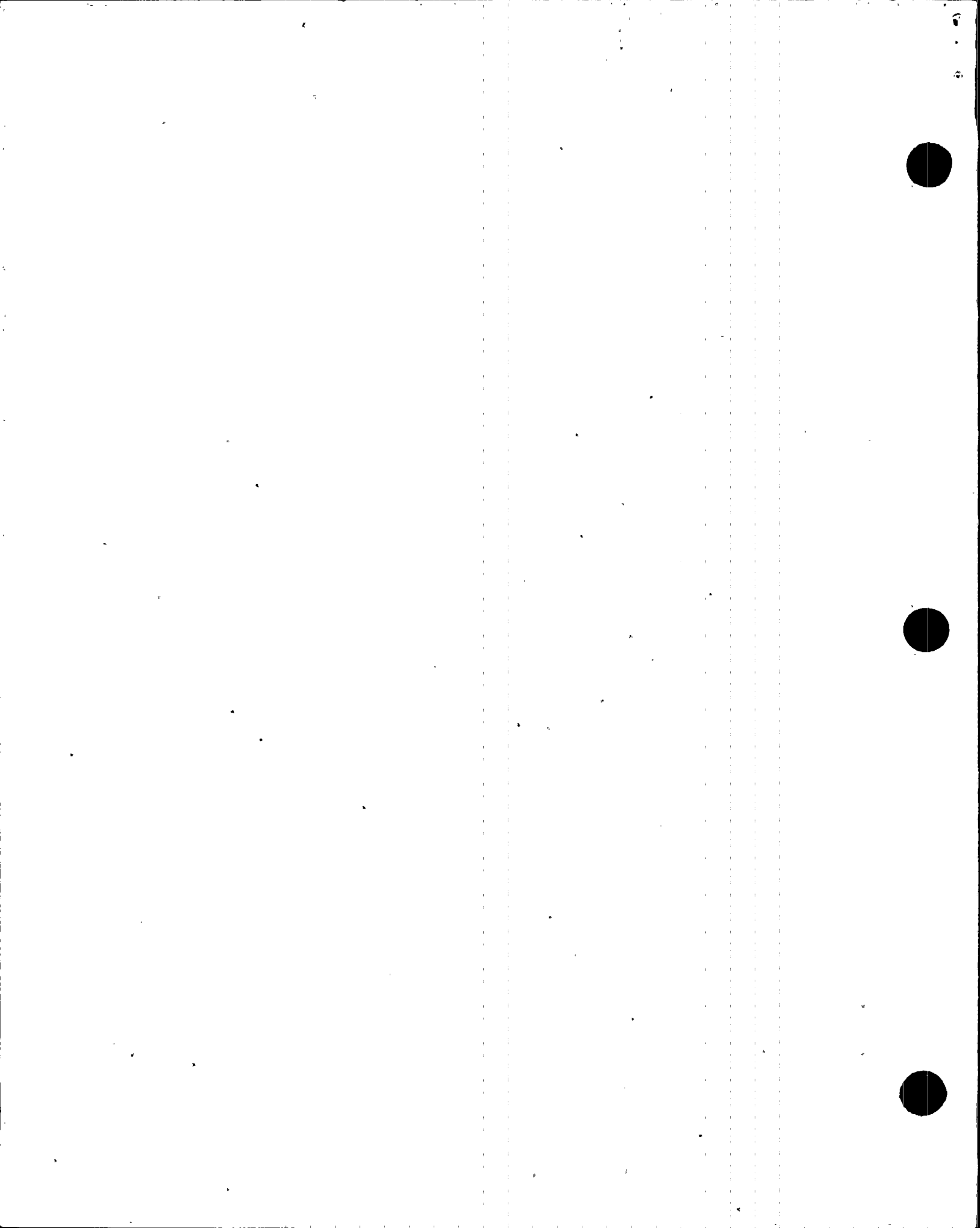
IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Alexander
Hamilton Life Insurance
Company of America,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President



STATE OF TEXAS

COUNTY OF EL PASO

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)
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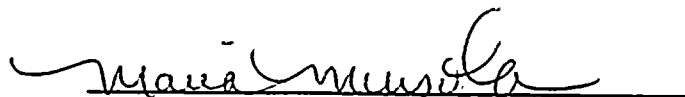
ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF SUFFOLK) ss.:
)

The foregoing instrument was acknowledged before me this 24 day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Alexander Hamilton Life Insurance Company of America.



Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994

1021.7500.2754.06A:1

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AGREEMENT dated as of December 31, 1987 among ALEXANDER HAMILTON LIFE INSURANCE COMPANY OF AMERICA ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.

C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

E. The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee

shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss

Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing IC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

ALEXANDER HAMILTON LIFE
INSURANCE COMPANY OF AMERICA

By: *J. W. Wall*

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By: *Mark Miller*
Admin Manager

EL PASO ELECTRIC COMPANY

By: *W. J. John*
Vice President



ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H:

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in

the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

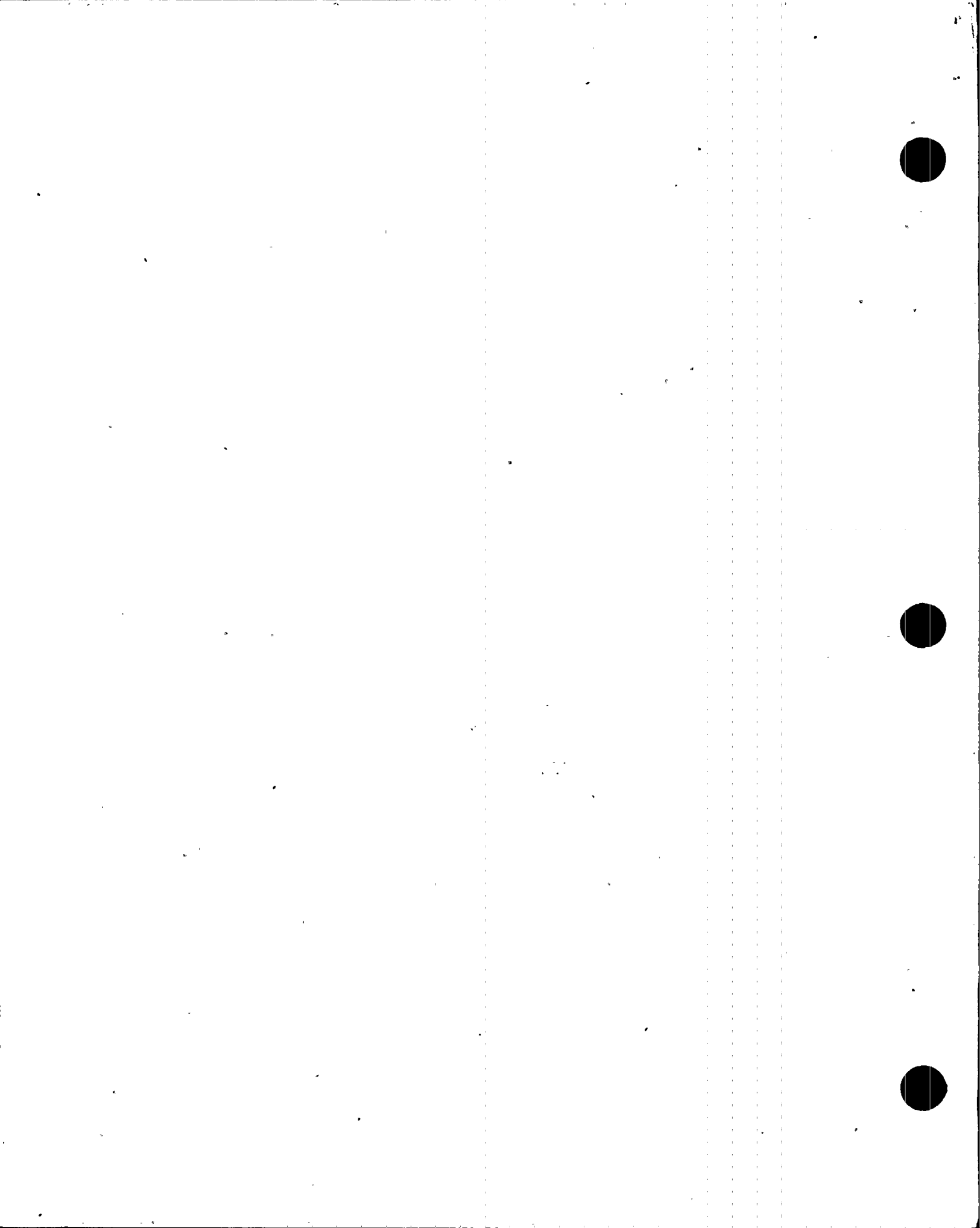
Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and



Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited

Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which



payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the

market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

<u>1988</u> <u>(quarter)</u>	<u>Reduction</u> <u>(millions of Dollars)</u>
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

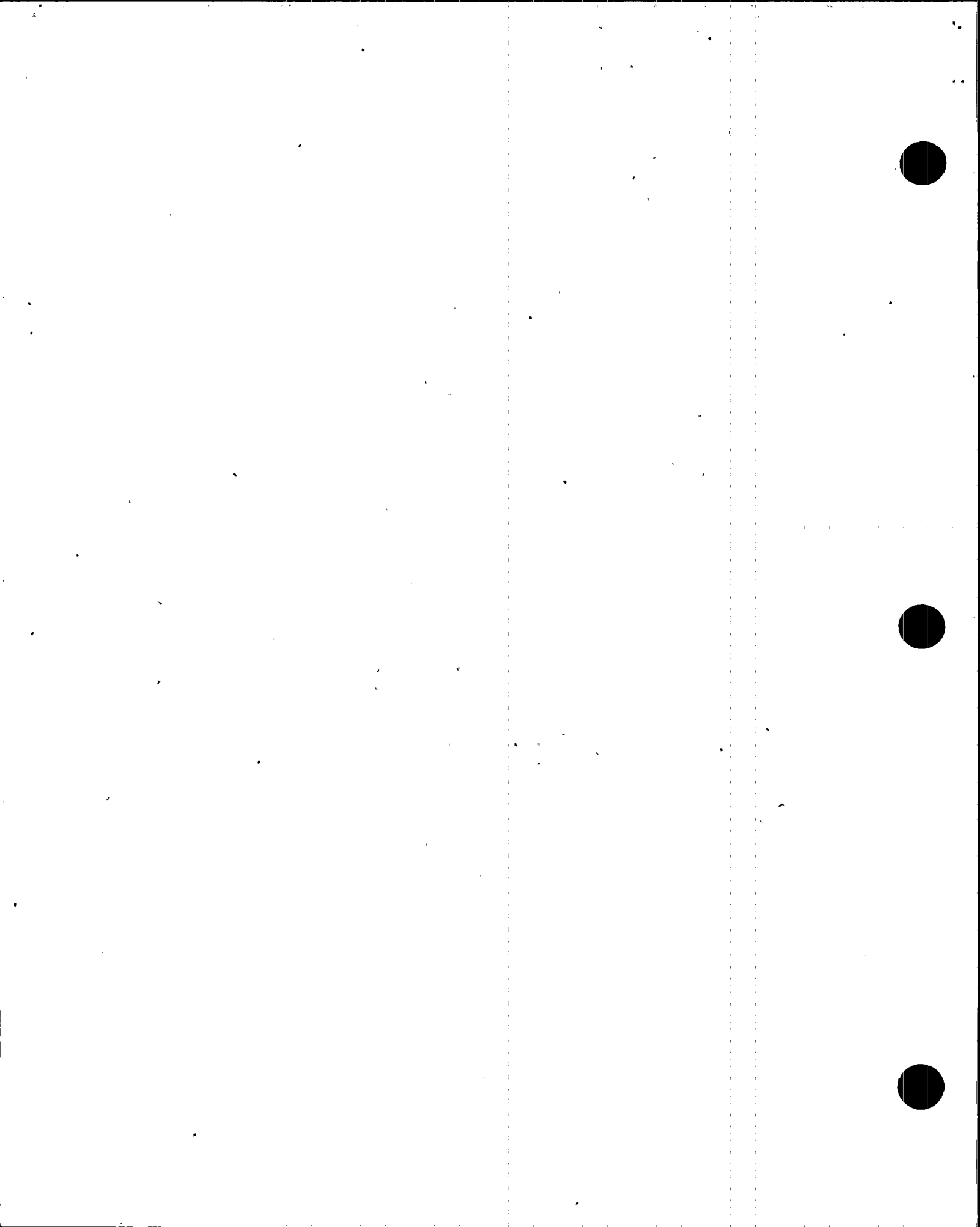
ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

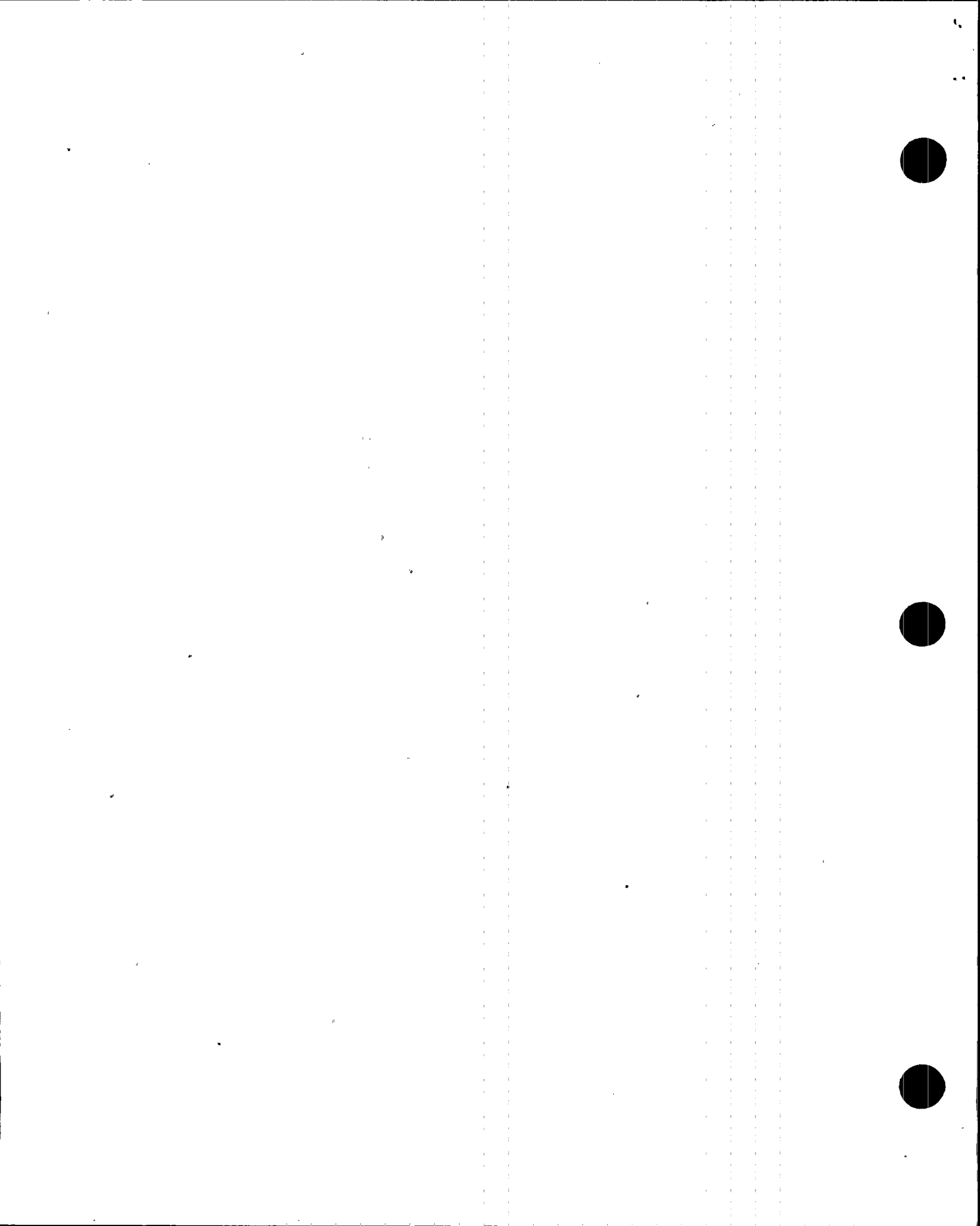


evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and



all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,

Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

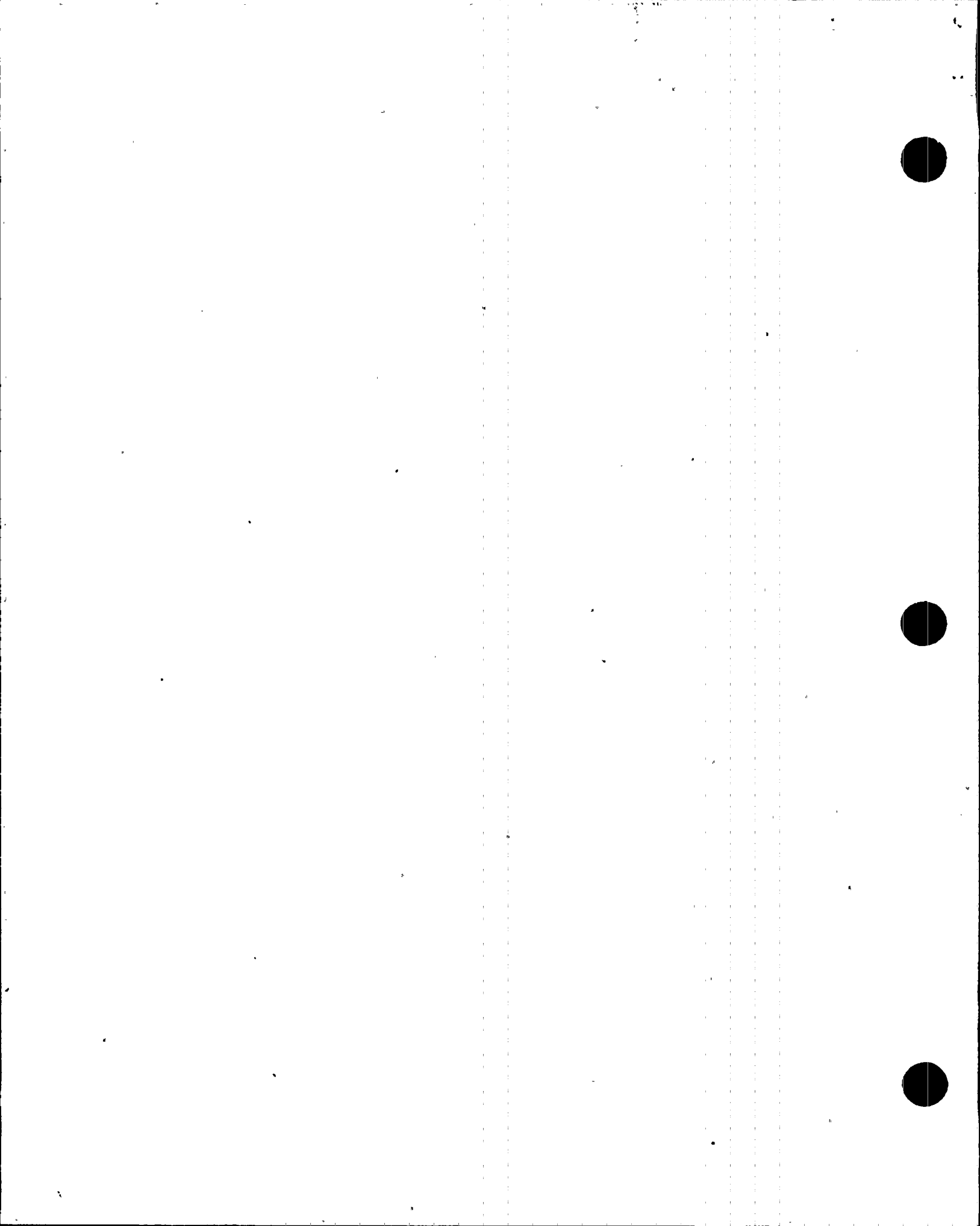
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President



SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo

SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with ALEXANDER HAMILTON LIFE INSURANCE COMPANY OF AMERICA, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

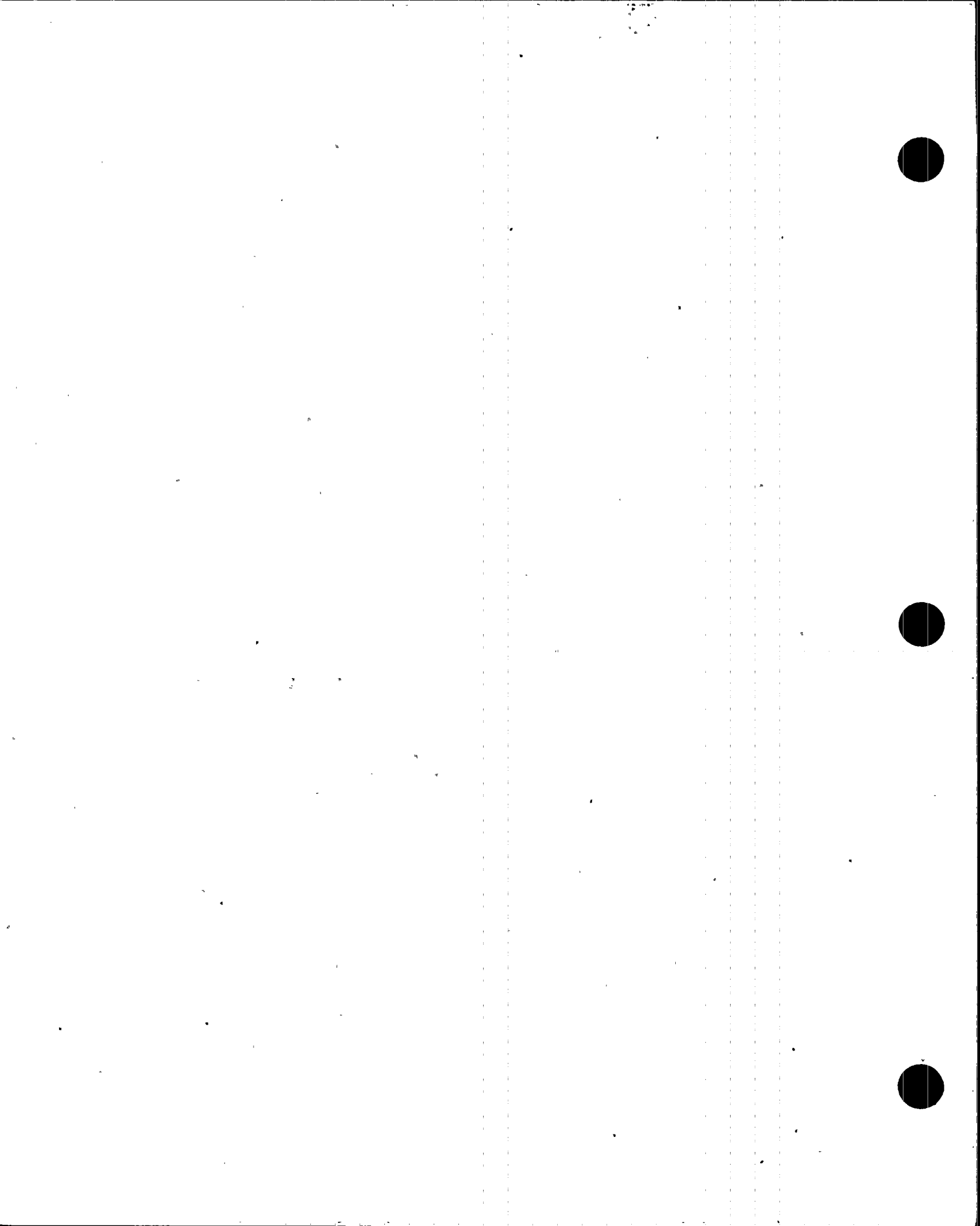
The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ";", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent



Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

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date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) **Escrow Agreement.** The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) **Definitions.** For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) **"New Coverage Ratio"** shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net

income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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 33-404, the beneficiary of the Trust Agreement is Alexander Hamilton Life Insurance Company of America, a corporation. The address of the beneficiary is 33045 Hamilton Boulevard, Farmington Hills, Michigan, Attention: Richard Egan, General Counsel. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Alexander
Hamilton Life Insurance
Company of America,

By



Senior Manager

EL PASO ELECTRIC COMPANY,

By



Vice President

STATE OF TEXAS

COUNTY OF EL PASO

)
)
)

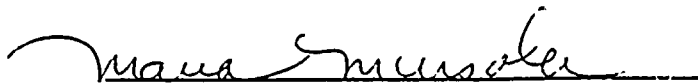
ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

21 The foregoing instrument was acknowledged before me this
day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 August 1, 1986 with Palatine Hills Leasing,
Inc.


Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this ____ day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Burnham Leasing Corporation.

Notary Public

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with UCU PROPERTIES, INC., and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an

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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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) **Incurrence of Debt.** Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

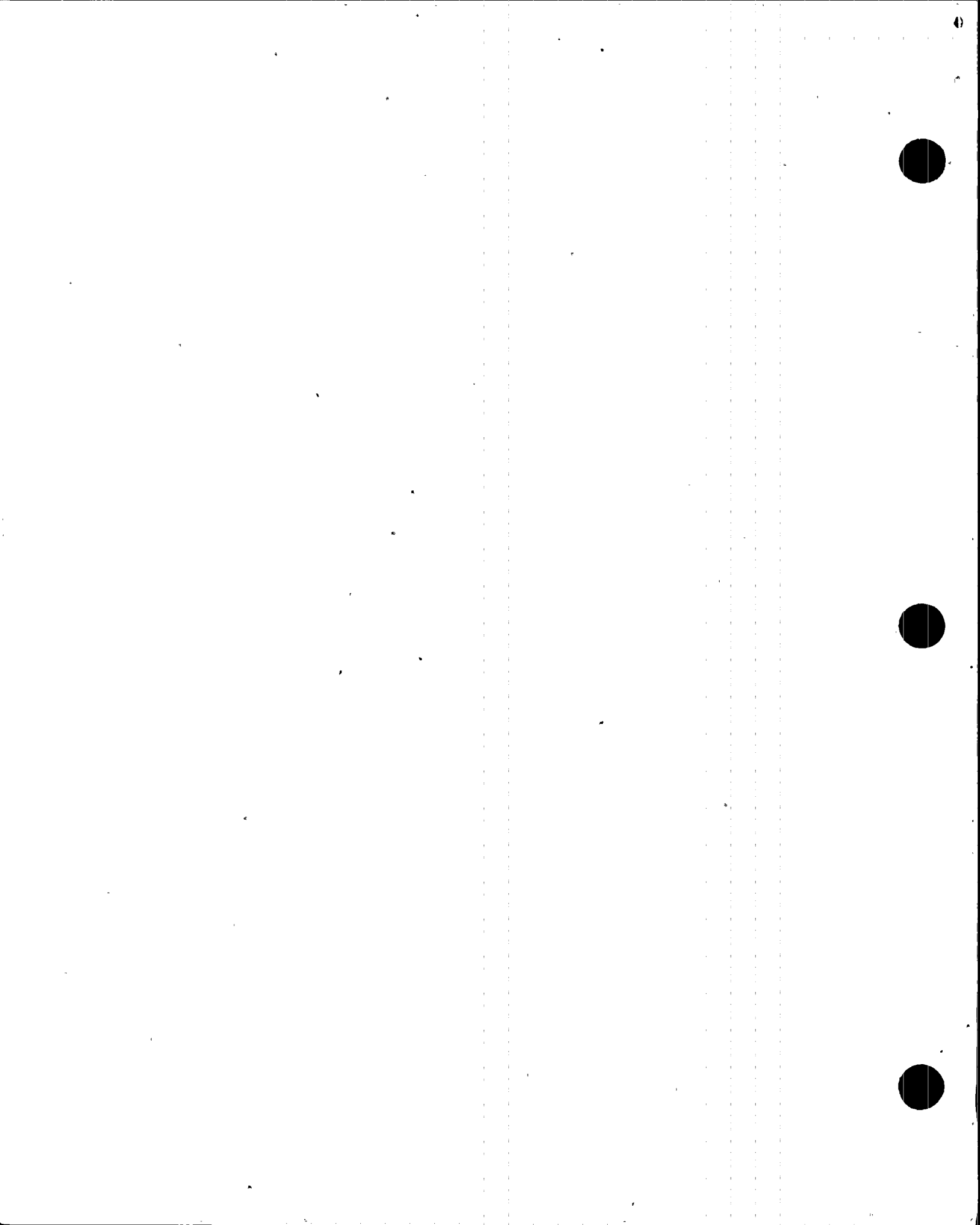
(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net

income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.



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 33-404, the beneficiary of the Trust Agreement is UCU Properties, Inc., a corporation. The address of the beneficiary is Suite 2000 Commercial Tower, Kansas City, Missouri 64105, Attention: Donald Claar. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Energy
Investments, Inc.,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President

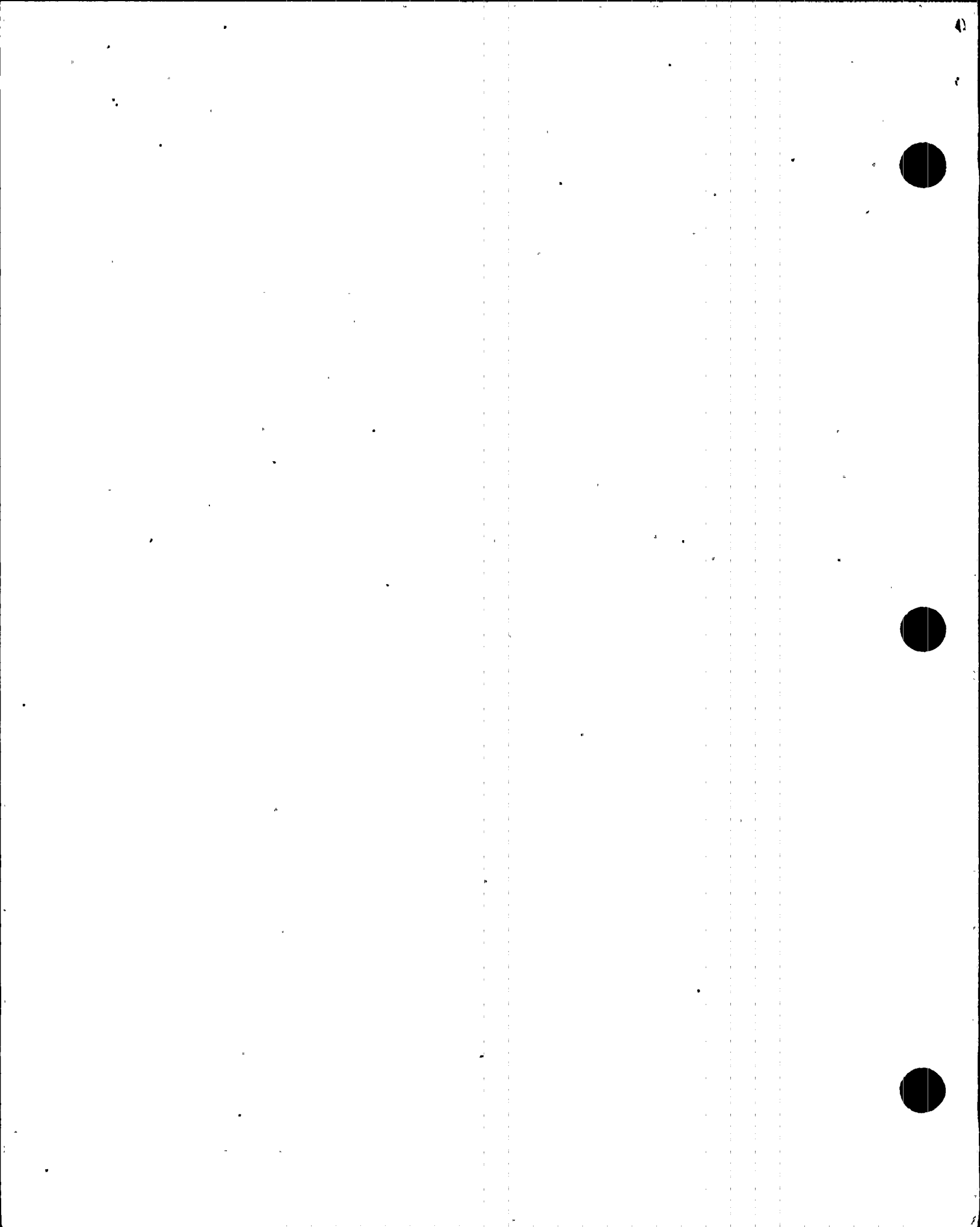
STATE OF TEXAS

COUNTY OF EL PASO

)
)
) ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

Janet A. Perkins
Notary Public.



SCHEDULE 8

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AGREEMENT dated as of December 31, 1987 among ENERGY INVESTMENTS INC. ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.

●

C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

E. The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee

shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss

Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing IC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

ENERGY INVESTMENTS INC

By:

Donald K. Cean
Vice President

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By:

Michael
Senior Manager

EL PASO ELECTRIC COMPANY

By:

W. J. Johnson
Vice President

ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

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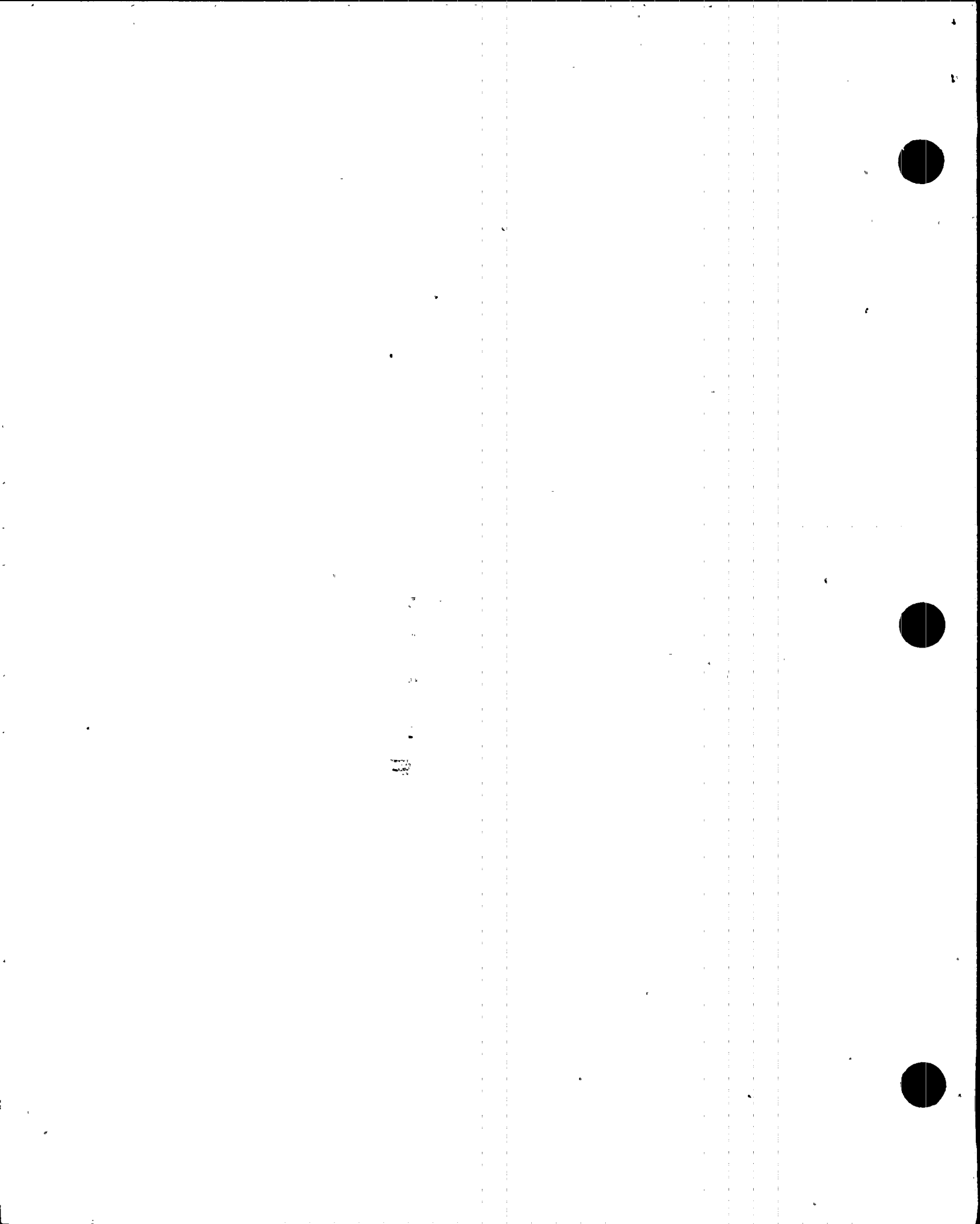


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H:

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in



the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and

Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

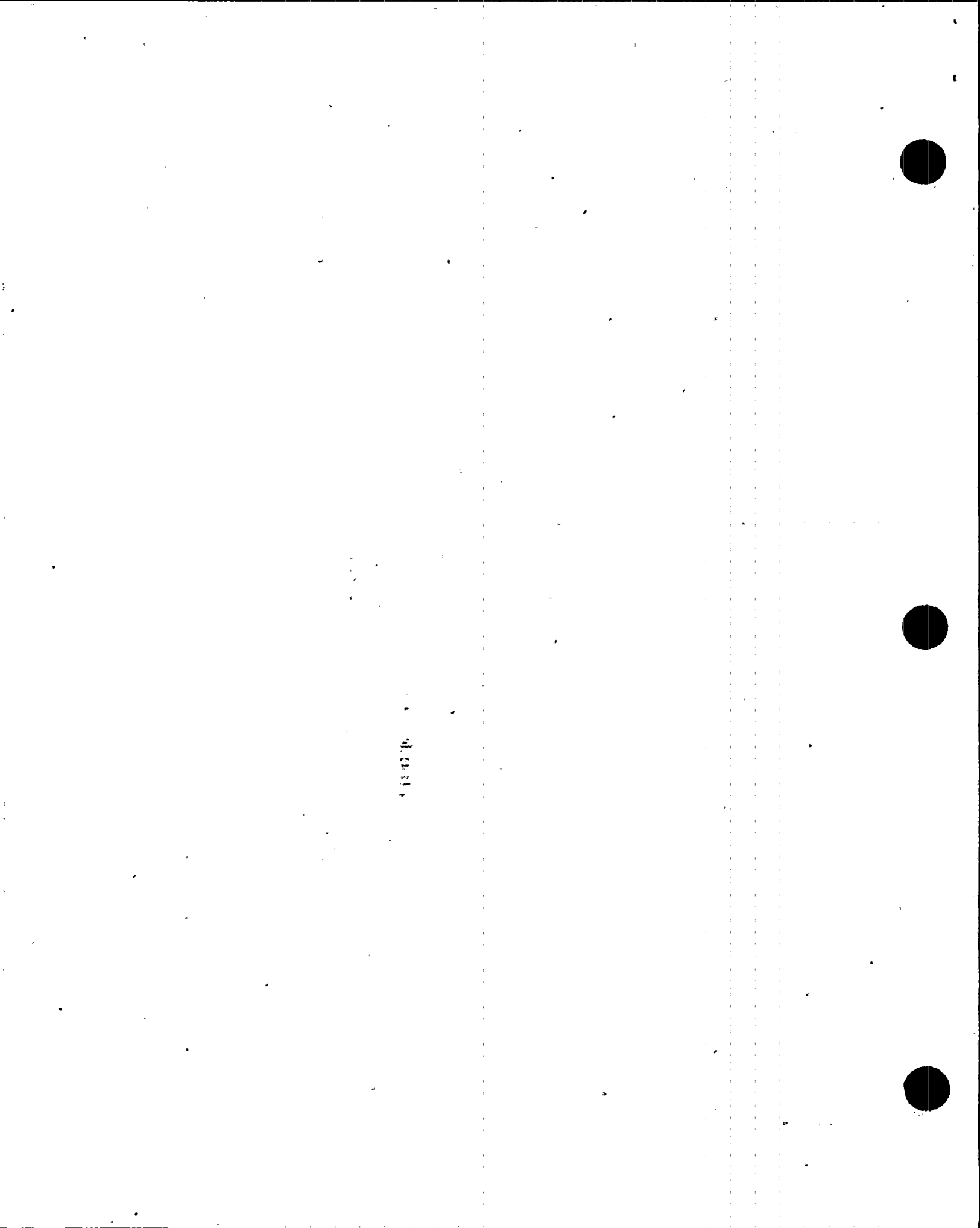
(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for



credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited

Partnership I, obtained on November 13, 1986 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the

market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

1988 (quarter)	Reduction (millions of Dollars)
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

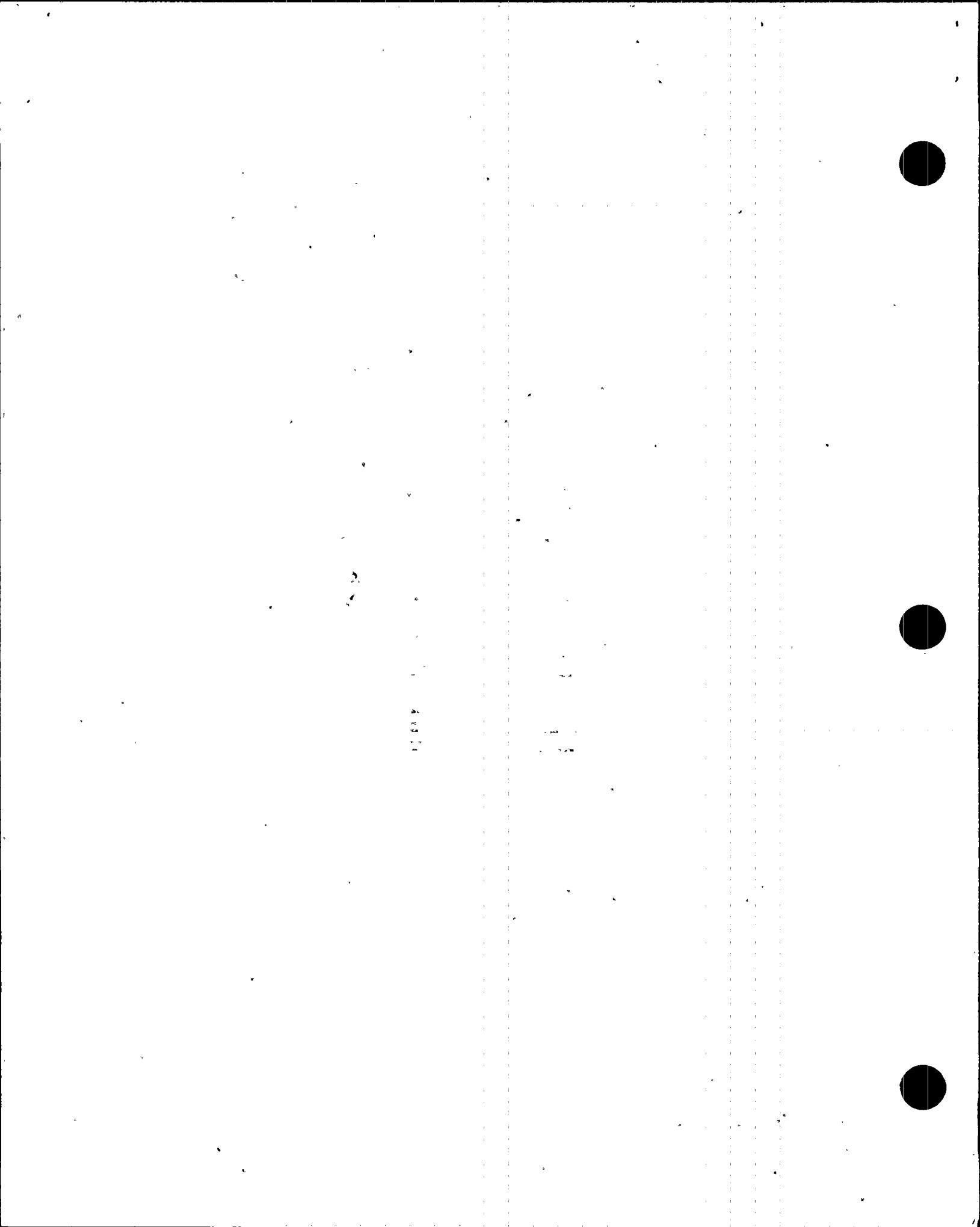
MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,



Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK.

By: _____
Senior Trust Officer .

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo

SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are, as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with UCU PROPERTIES, INC., and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

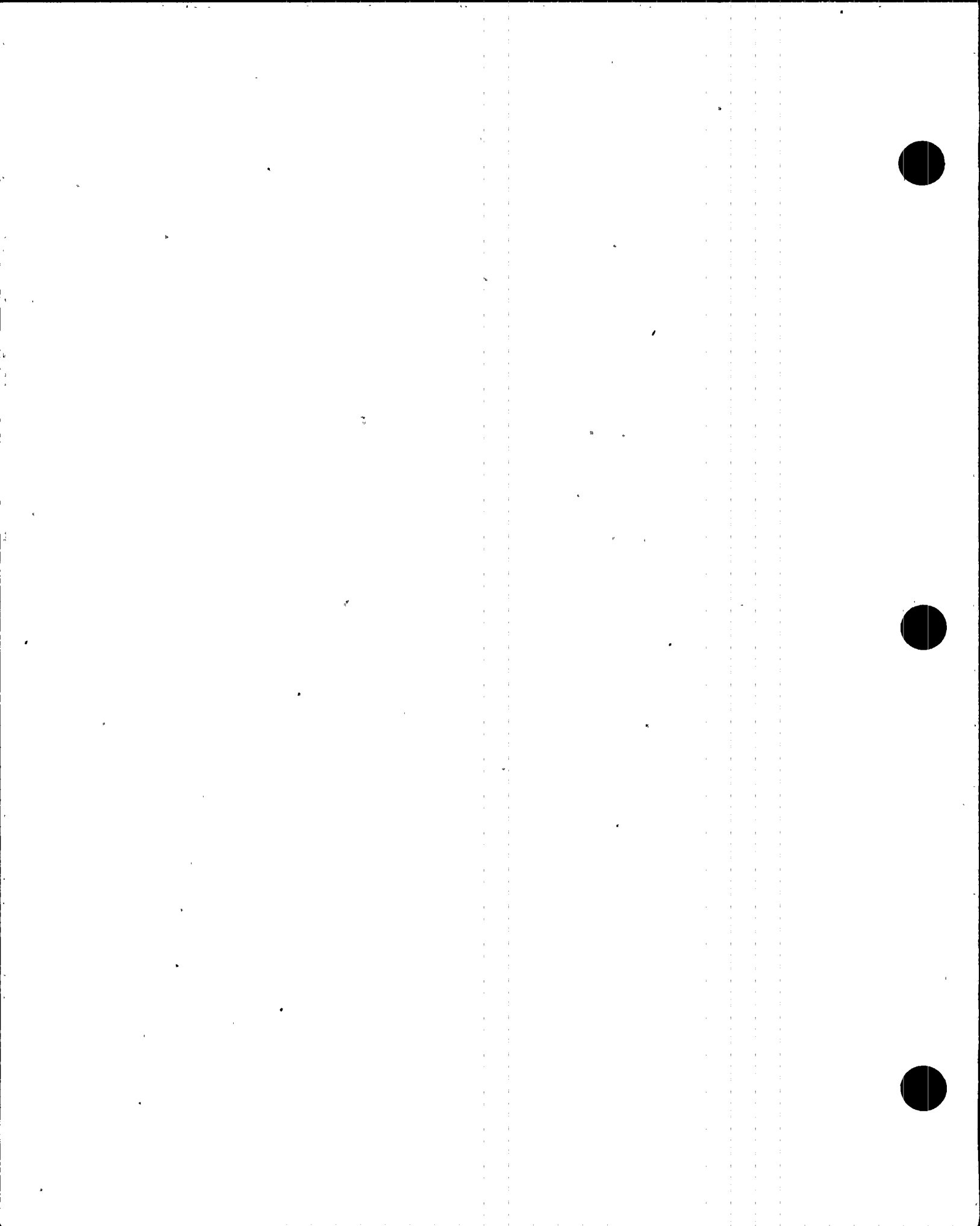
The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent



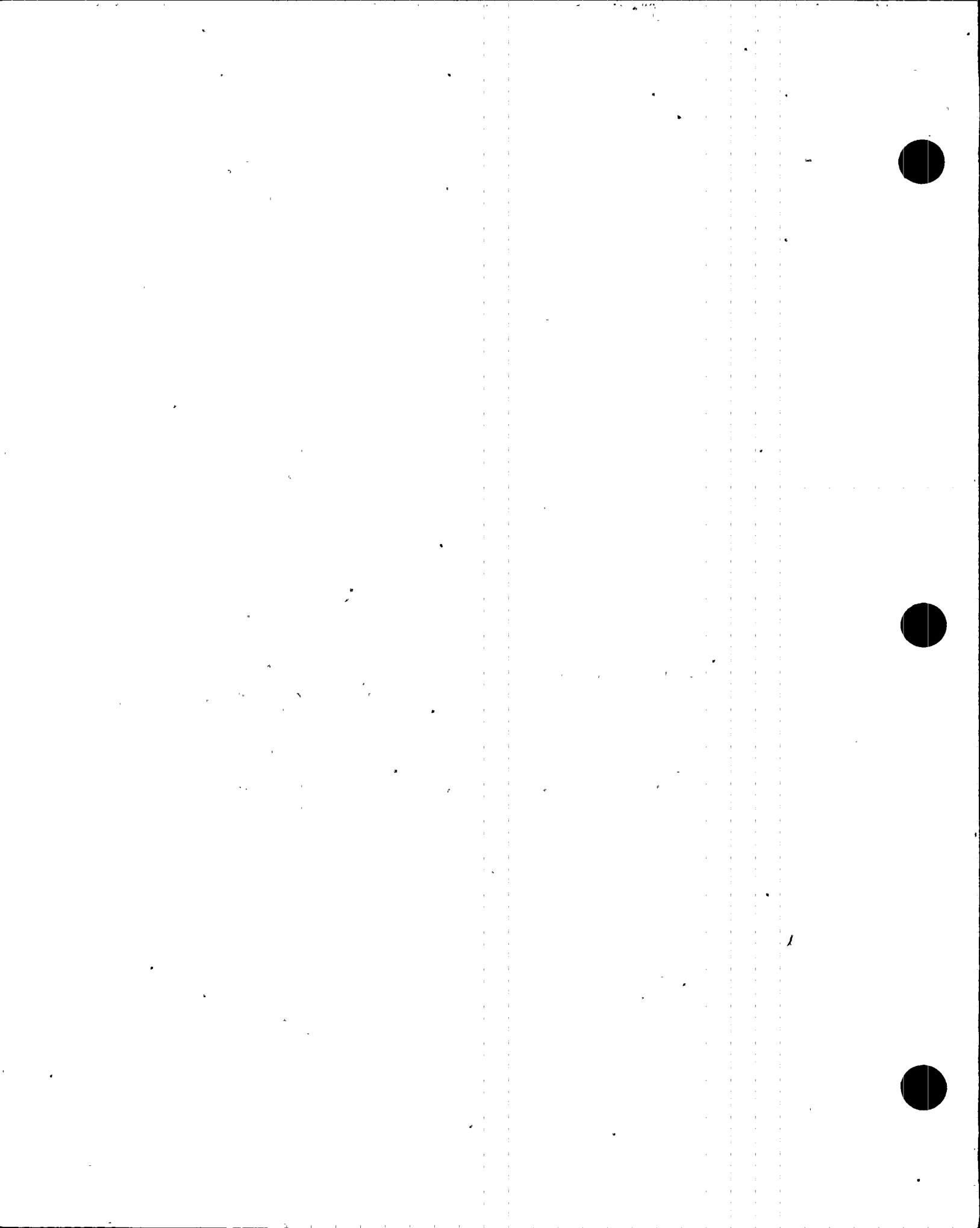
Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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;

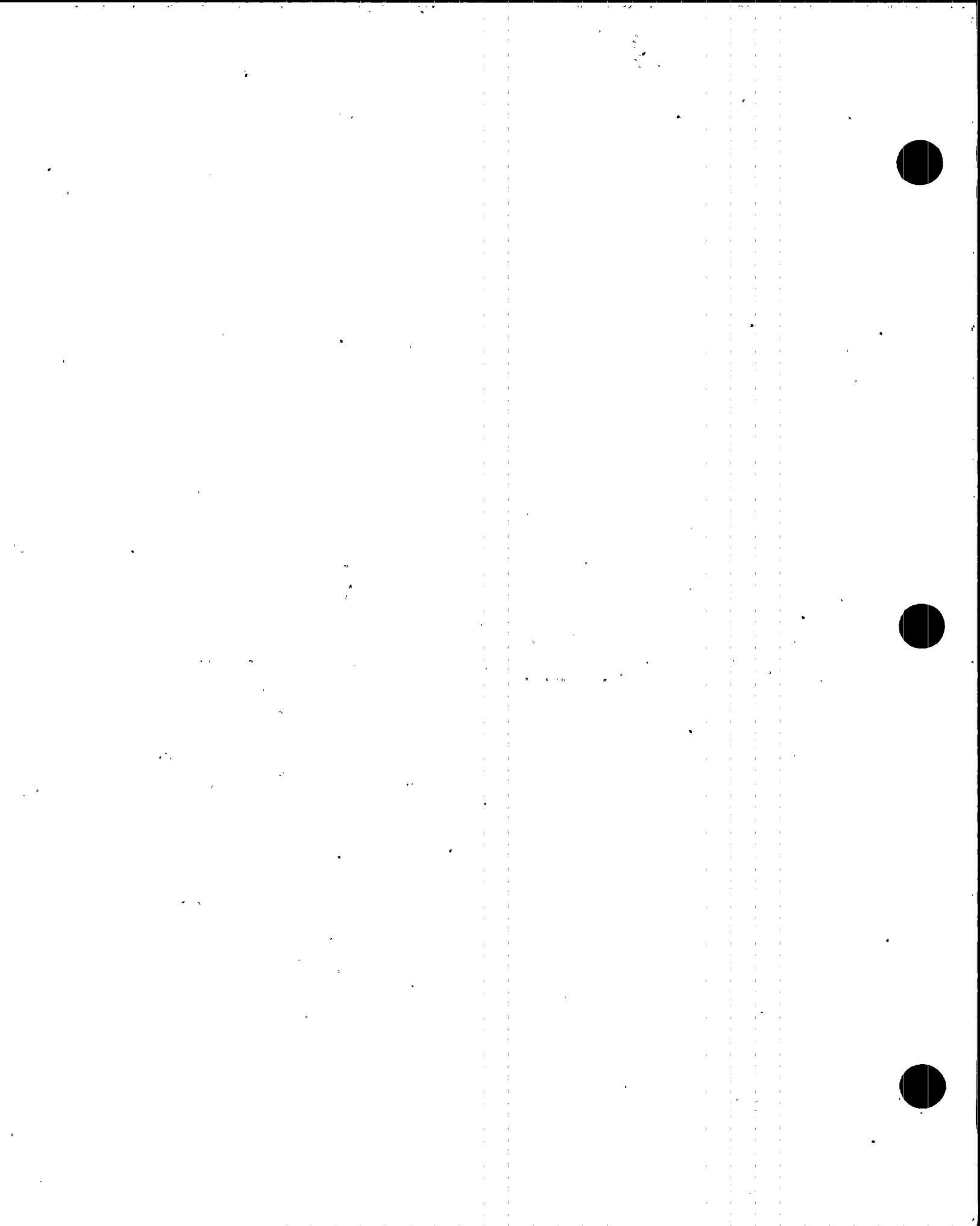
(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) **Incurrence of Debt.** Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

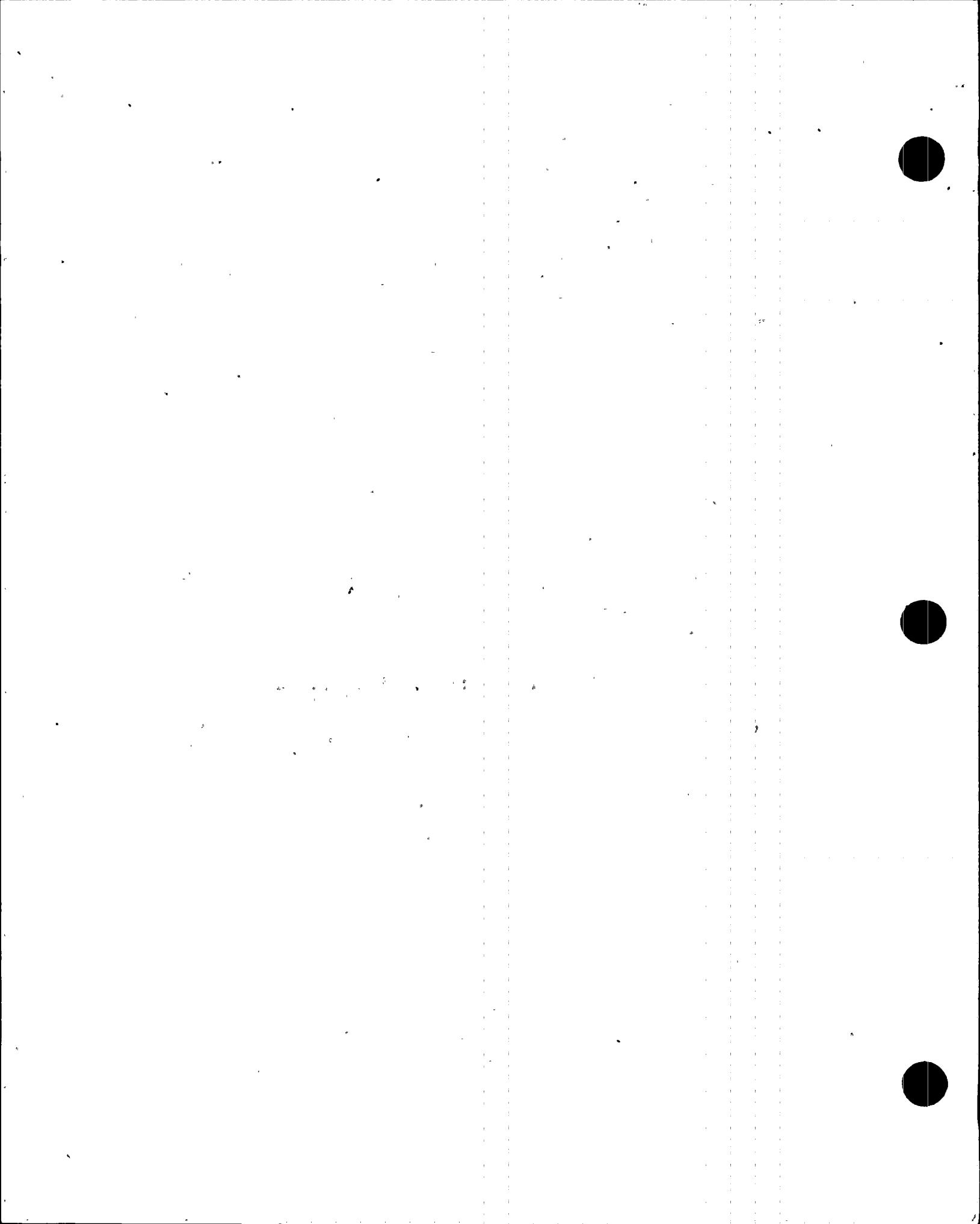


date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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.

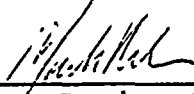
(c) **Governing Law.** This Amendment No. 2 has been negotiated and delivered in the State of New York and shall be governed by and be construed in accordance with the laws of the State of New York, except to the extent that pursuant to the law of the State of Arizona such law is mandatorily applicable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

(d) **Disclosure.** Pursuant to Arizona Revised Statutes Section 33-404, the beneficiary of the Trust Agreement is UCU Properties, Inc., a corporation. The address of the beneficiary is Suite 2000 Commercial Tower, Kansas City, Missouri 64105, Attention: Donald Claar. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Energy
Investments, Inc.,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President

STATE OF TEXAS

COUNTY OF EL PASO

)
)
)

ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this
__ day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 August 1, 1986 with Burnham Leasing
Corporation.

Notary Public

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with PALATINE HILLS LEASING, INC., and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

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Undivided Interest), (iv) 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);

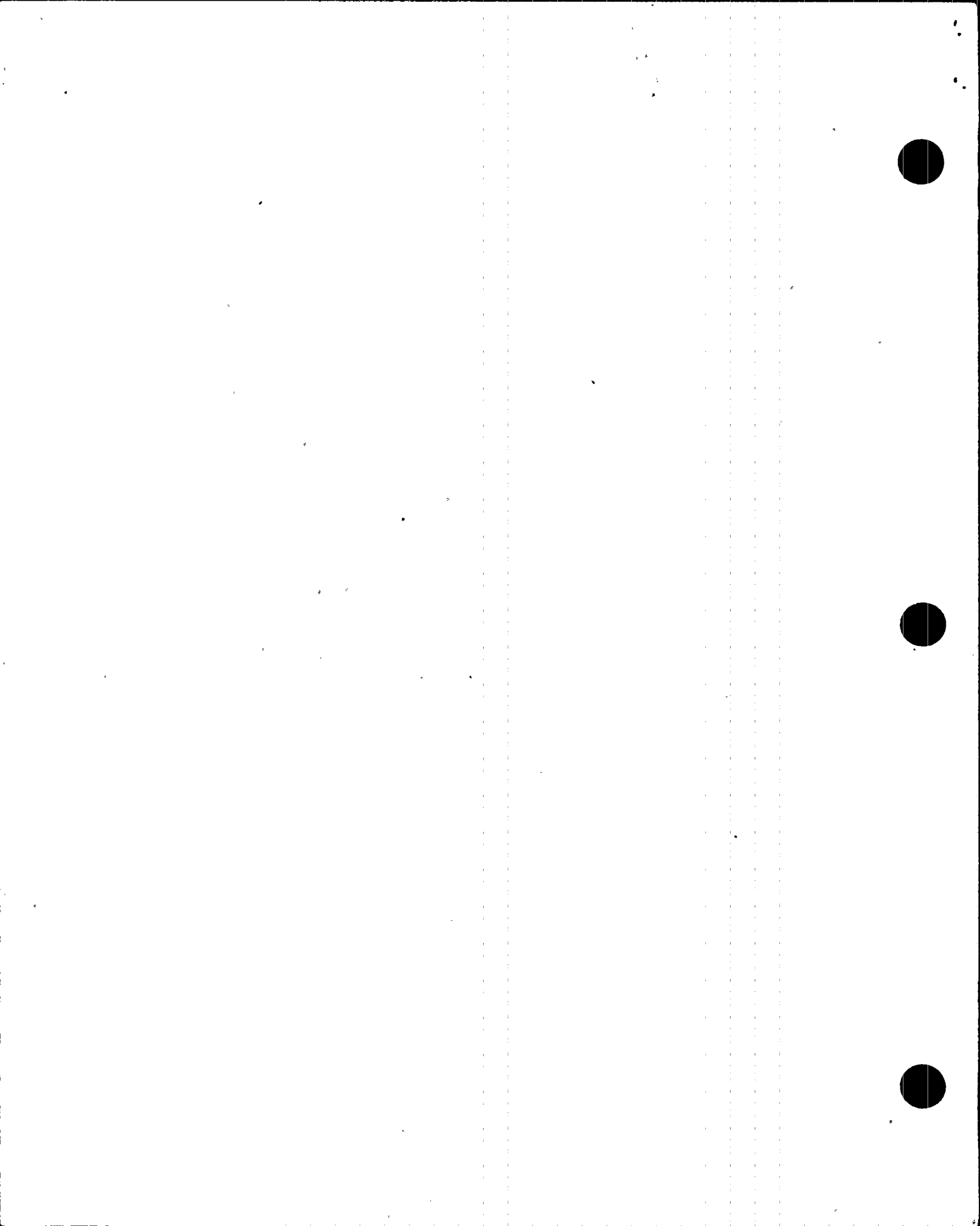
(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net

income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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 33-404, the beneficiary of the Trust Agreement is Palatine Hills Leasing, Inc., a corporation. The address of the beneficiary is 1415 S. Roselle Rd., Palatine, IL 60067, Attention: President. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Palatine
Hills Leasing, Inc.,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President

STATE OF TEXAS

COUNTY OF EL PASO

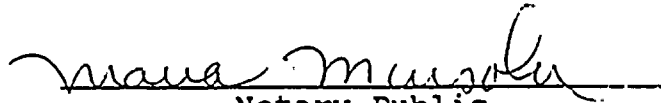
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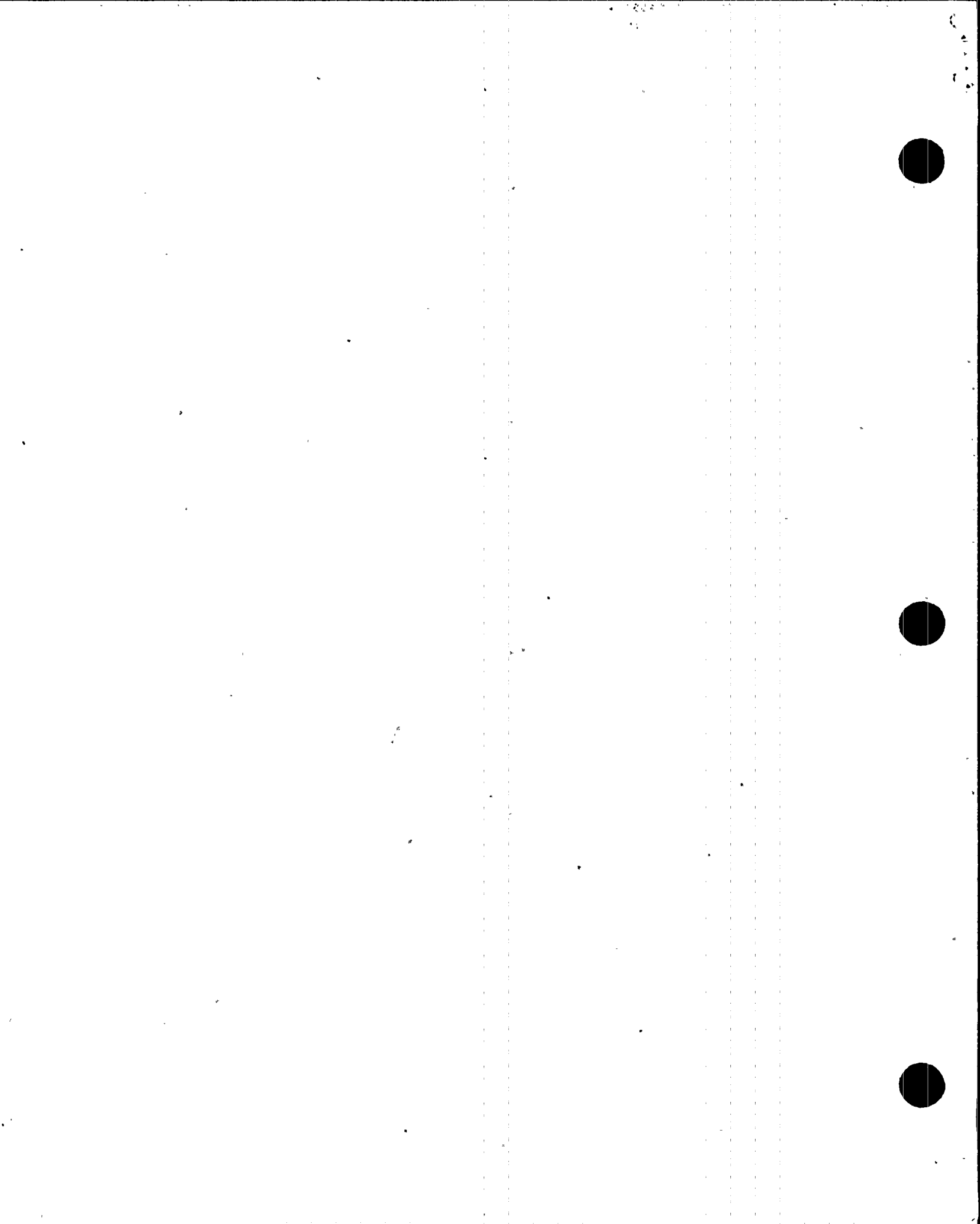
The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

Janet A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

21 The foregoing instrument was acknowledged before me this day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Palatine Hills Leasing, Inc.


Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994



SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AGREEMENT dated as of December 31, 1987 among PALATINE HILLS LEASING, INC. ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

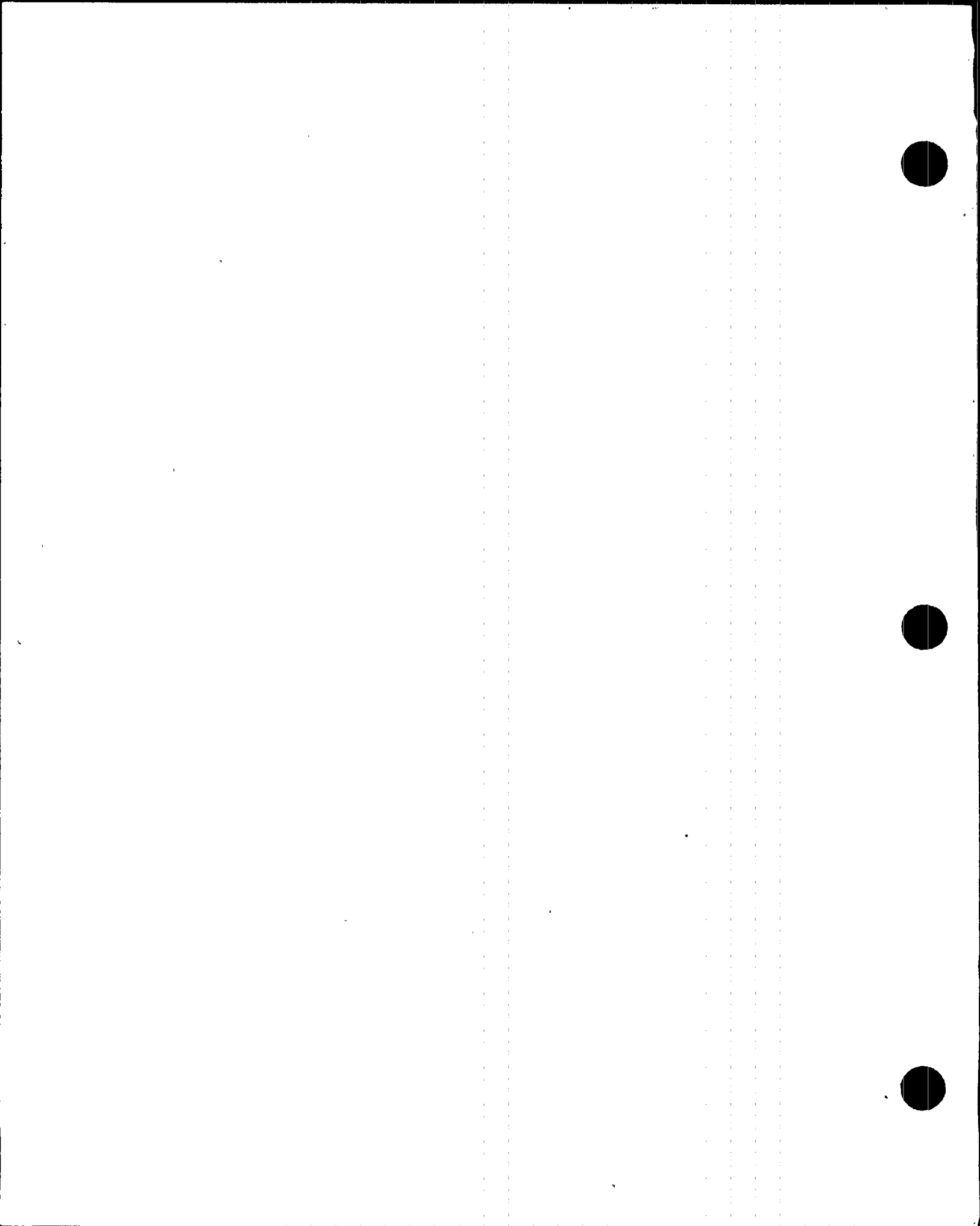
Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.



C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

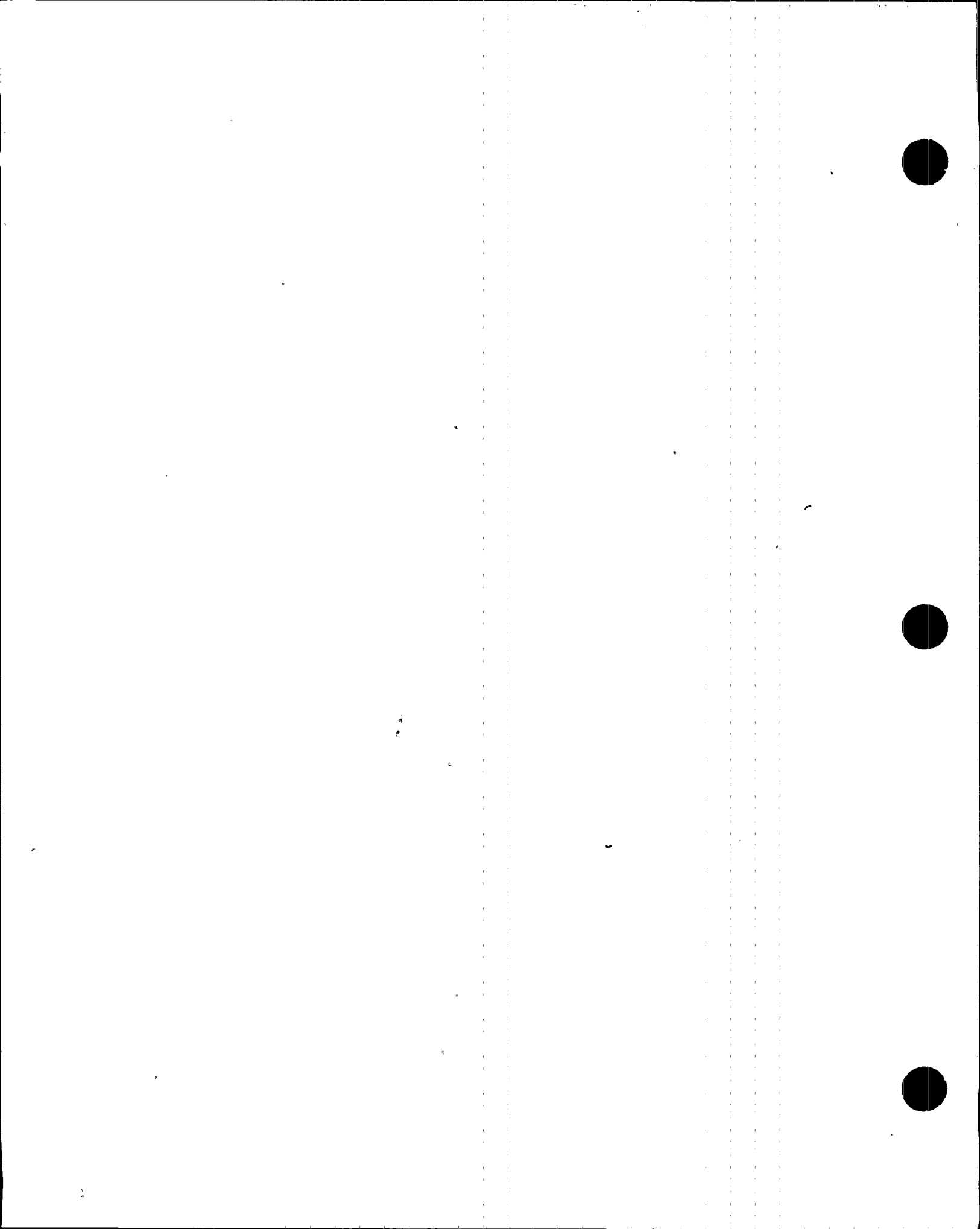
E. The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee

shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss



Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing IC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

PATATINE HILLS LEASING, INC.

By: *Ed Wyatt*

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By: *Mark Miller*
Senior Manager

THE PAEO ELECTRIC COMPANY

By: *W. J. John*
Vice President

ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

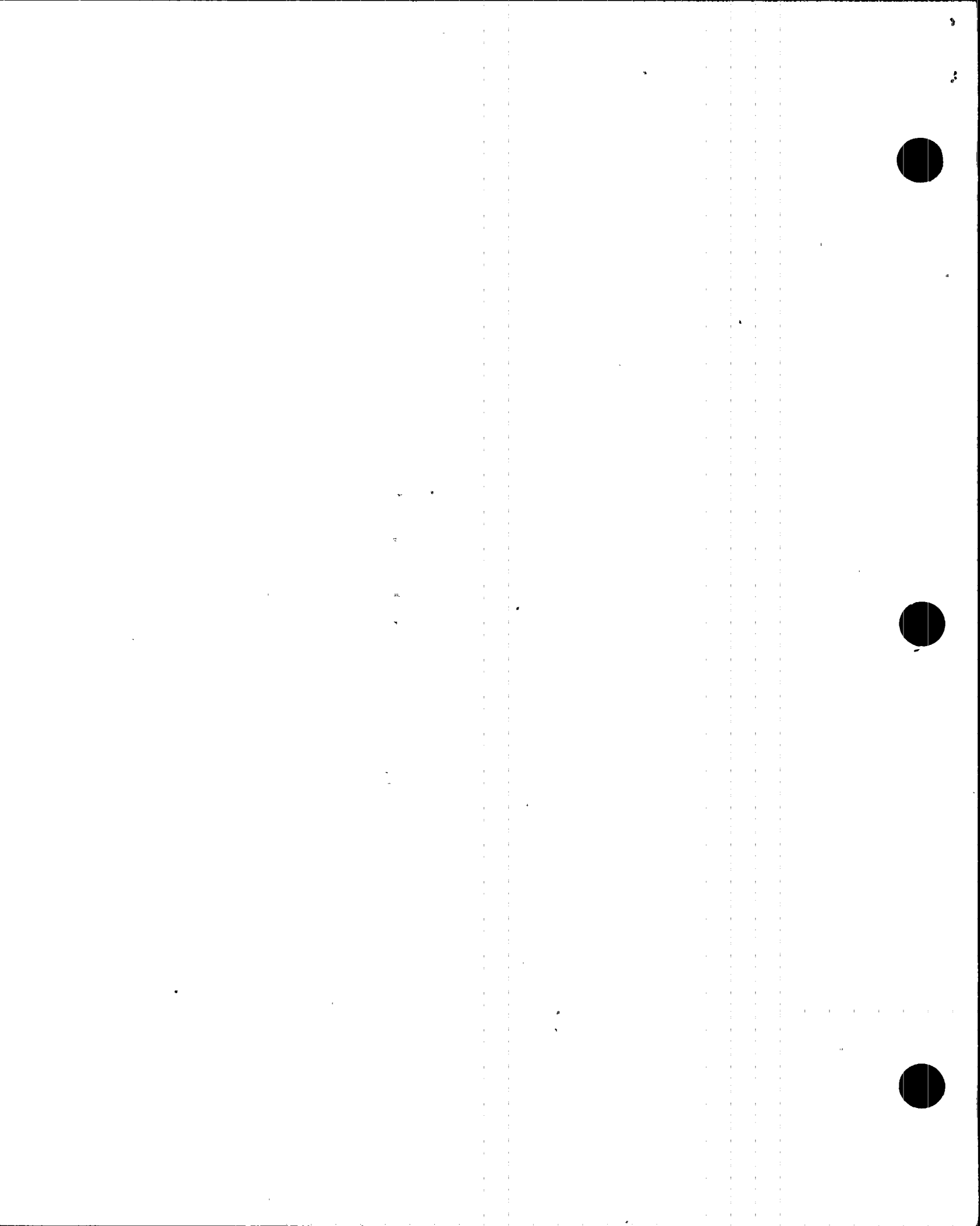


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H:

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in

the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

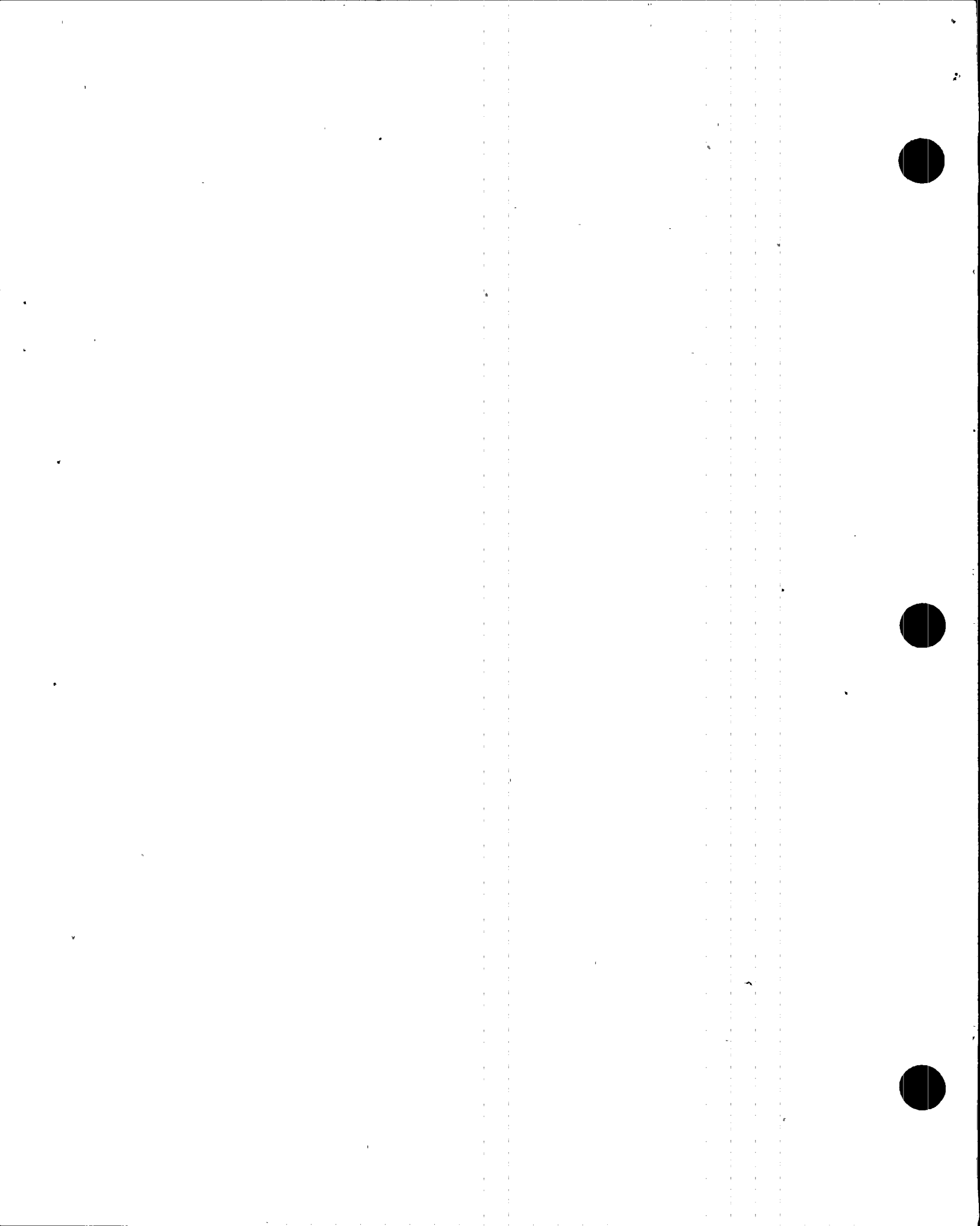
Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and



Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited



Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the

market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

1988 (quarter)	Reduction (millions of Dollars)
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,

Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

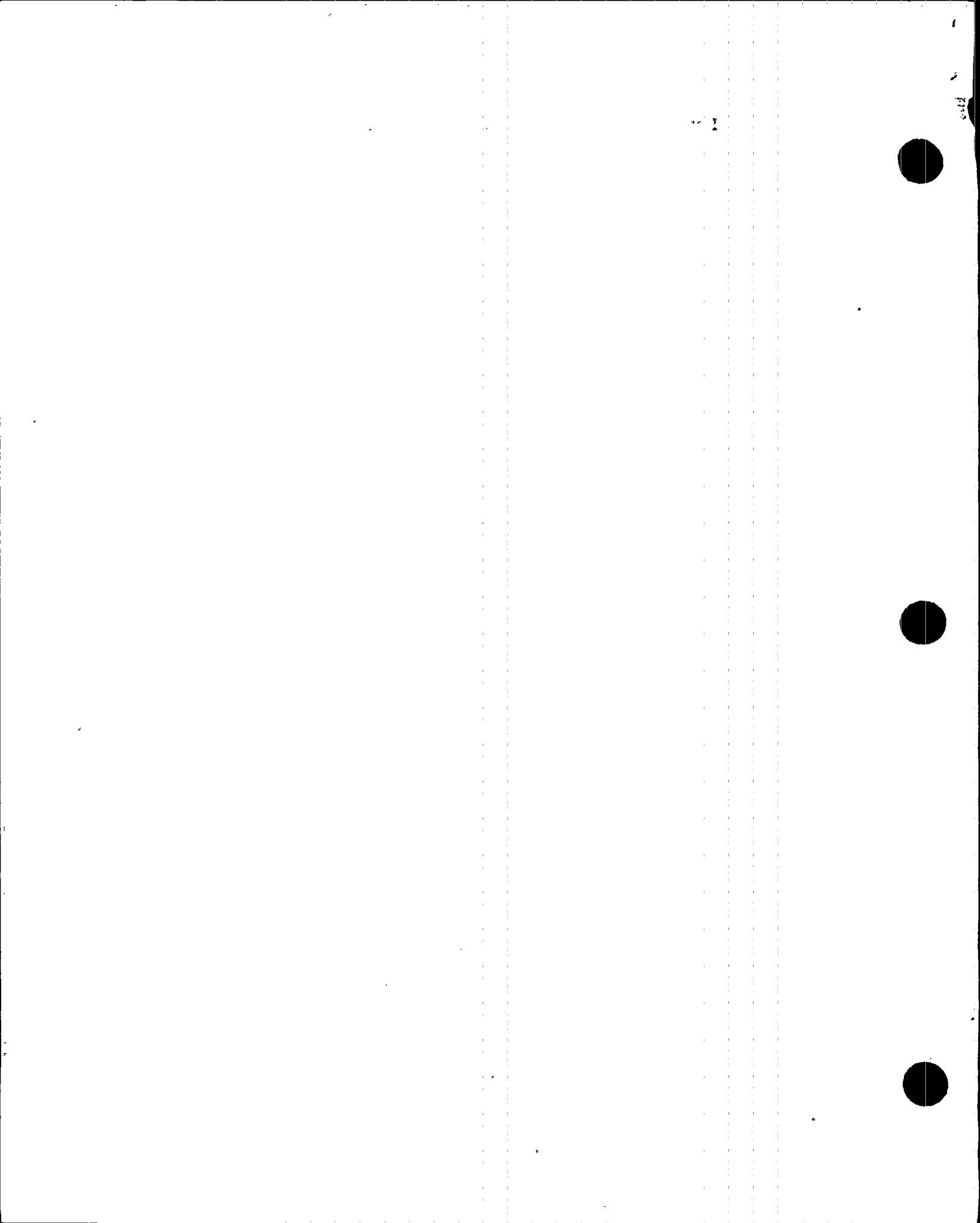
Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo

SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

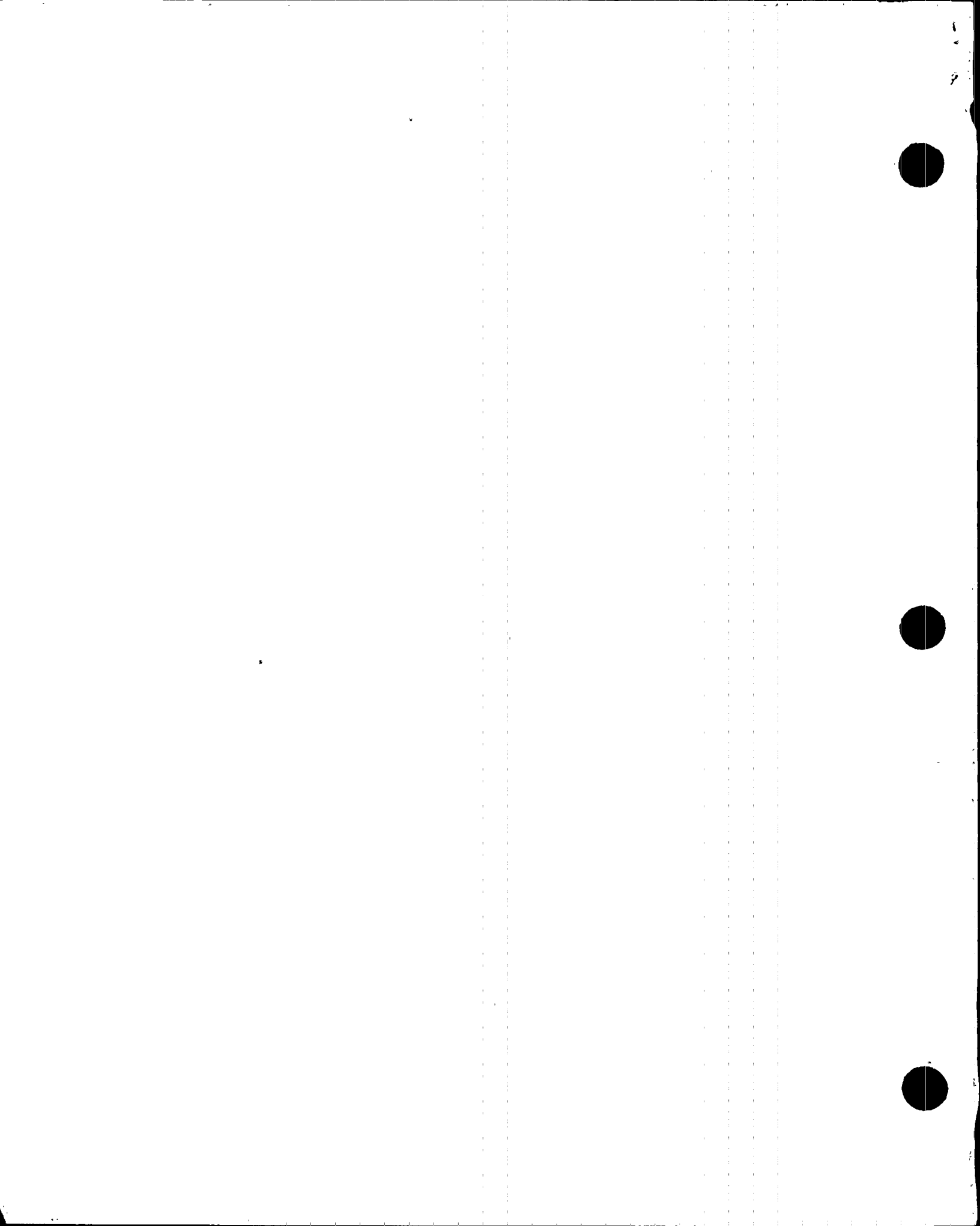


"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with PALATINE HILLS LEASING, INC., and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

Undivided Interest), (iv) 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);

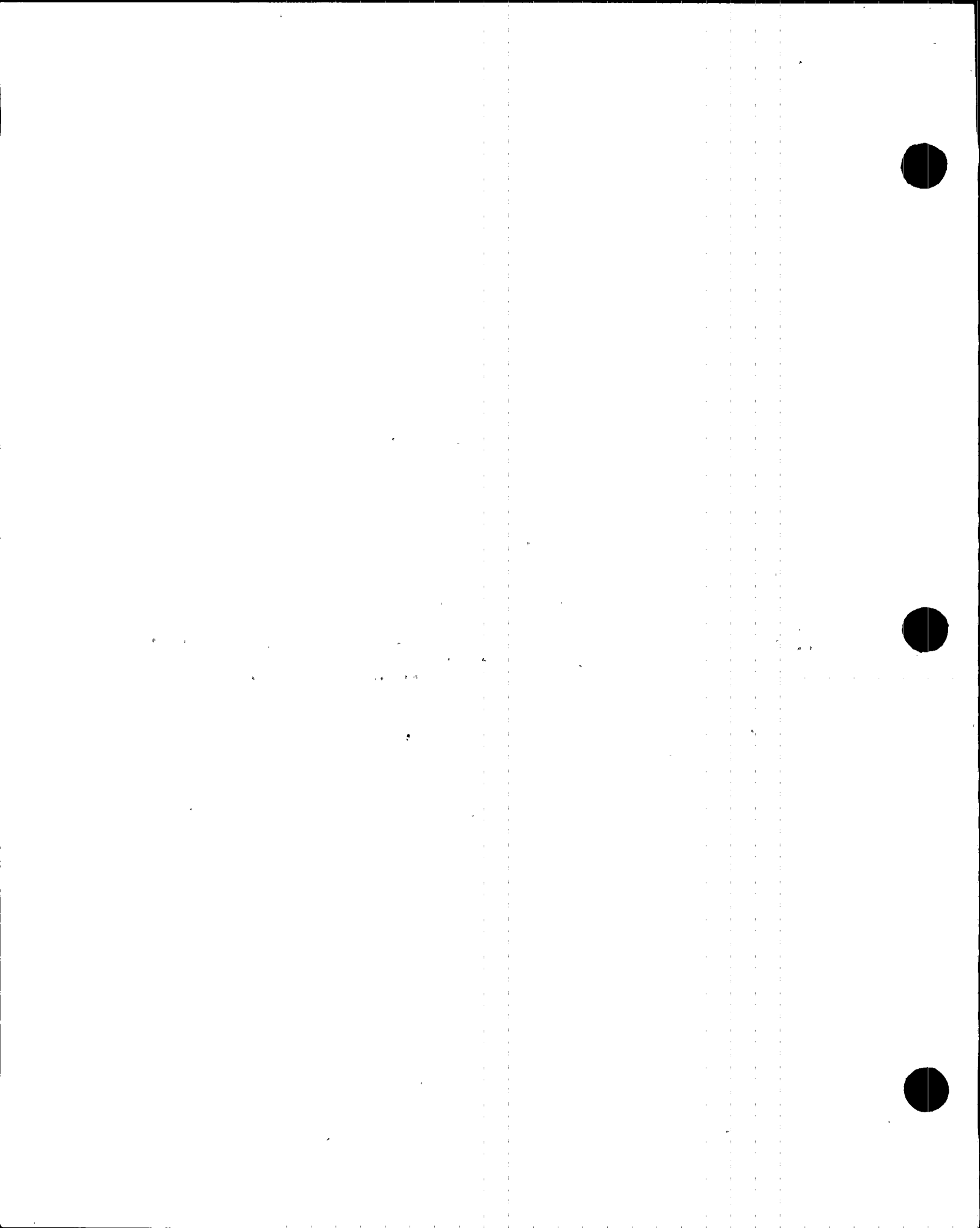
(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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;

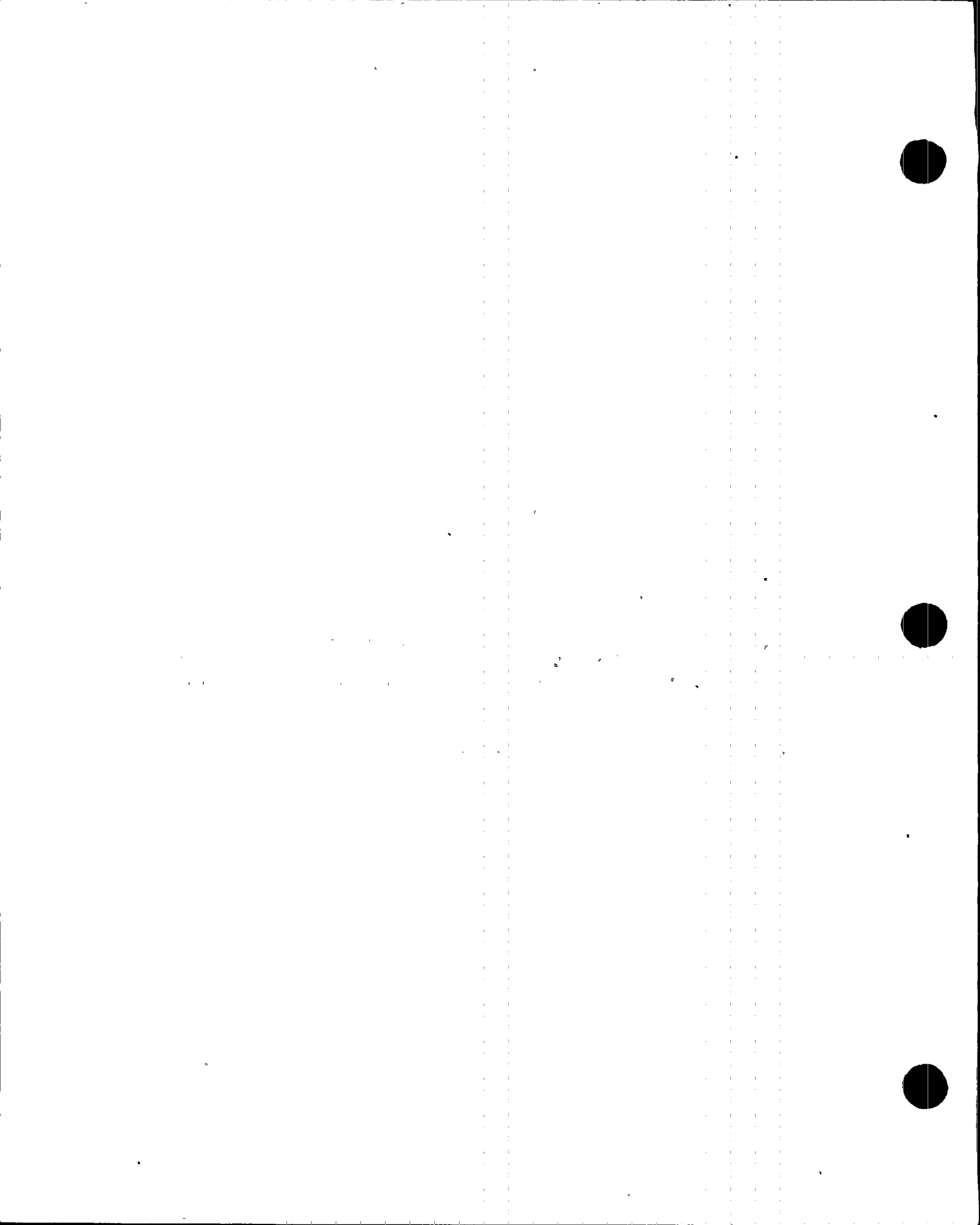
(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the



date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

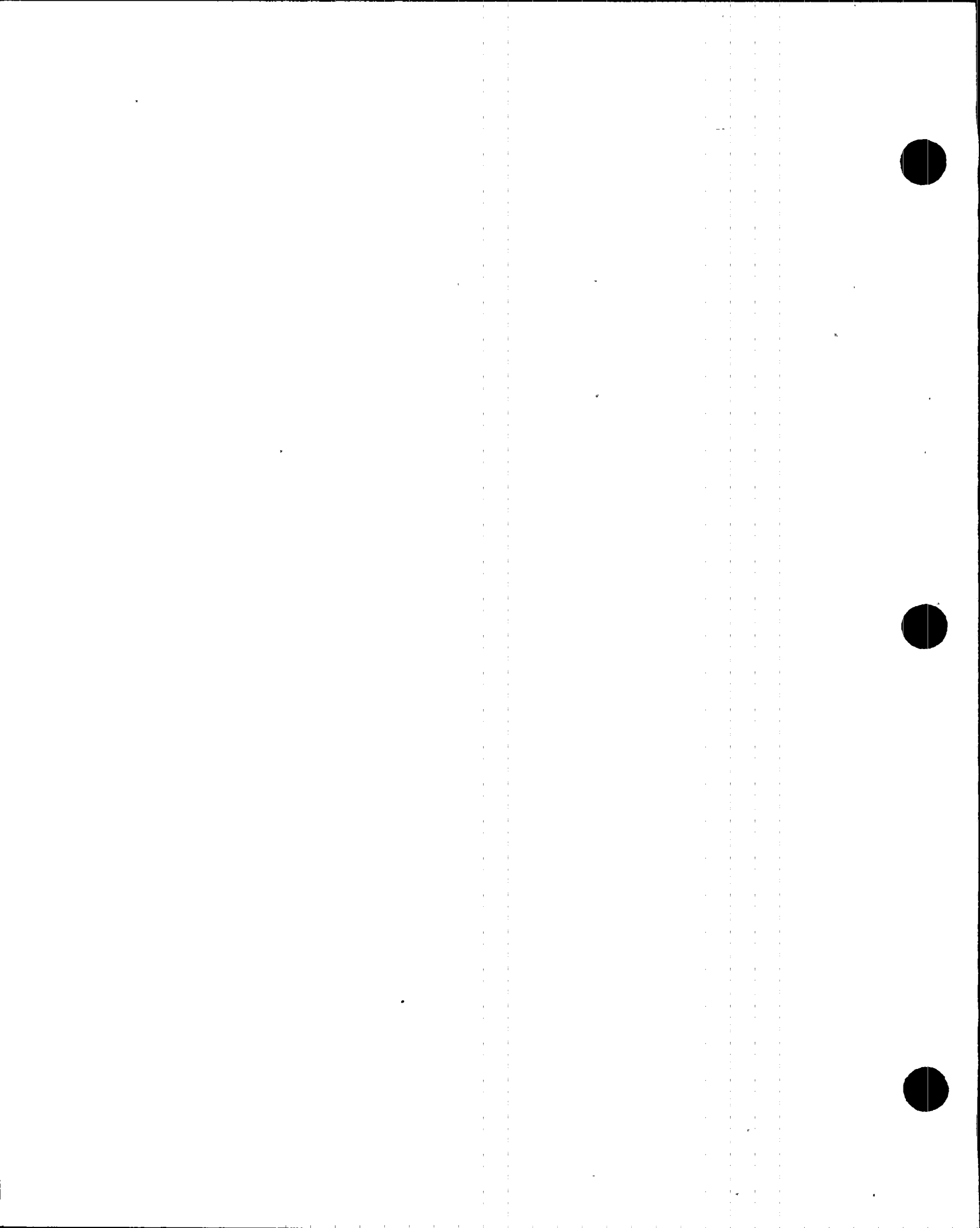
(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net

income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.



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 33-404, the beneficiary of the Trust Agreement is Palatine Hills Leasing, Inc., a corporation. The address of the beneficiary is 1415 S. Roselle Rd., Palatine, IL 60067, Attention: President. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Palatine
Hills Leasing, Inc.,

By


Senior Manager

EL PASO ELECTRIC COMPANY,

By


Vice President

STATE OF TEXAS

COUNTY OF EL PASO

)
)
)
ss.:

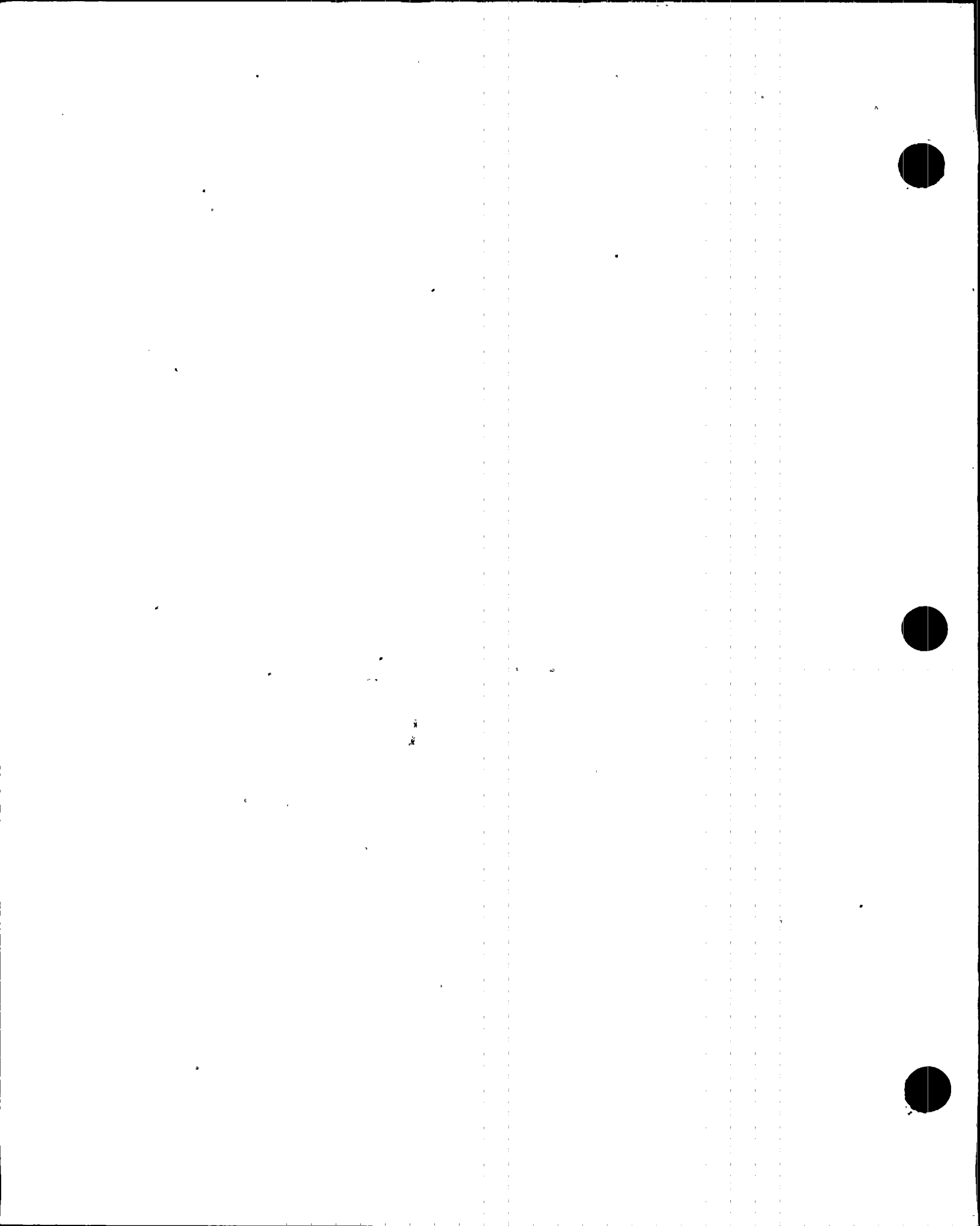
The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

Jane A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this
____ day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 August 1, 1986 with Burnham Leasing
Corporation.

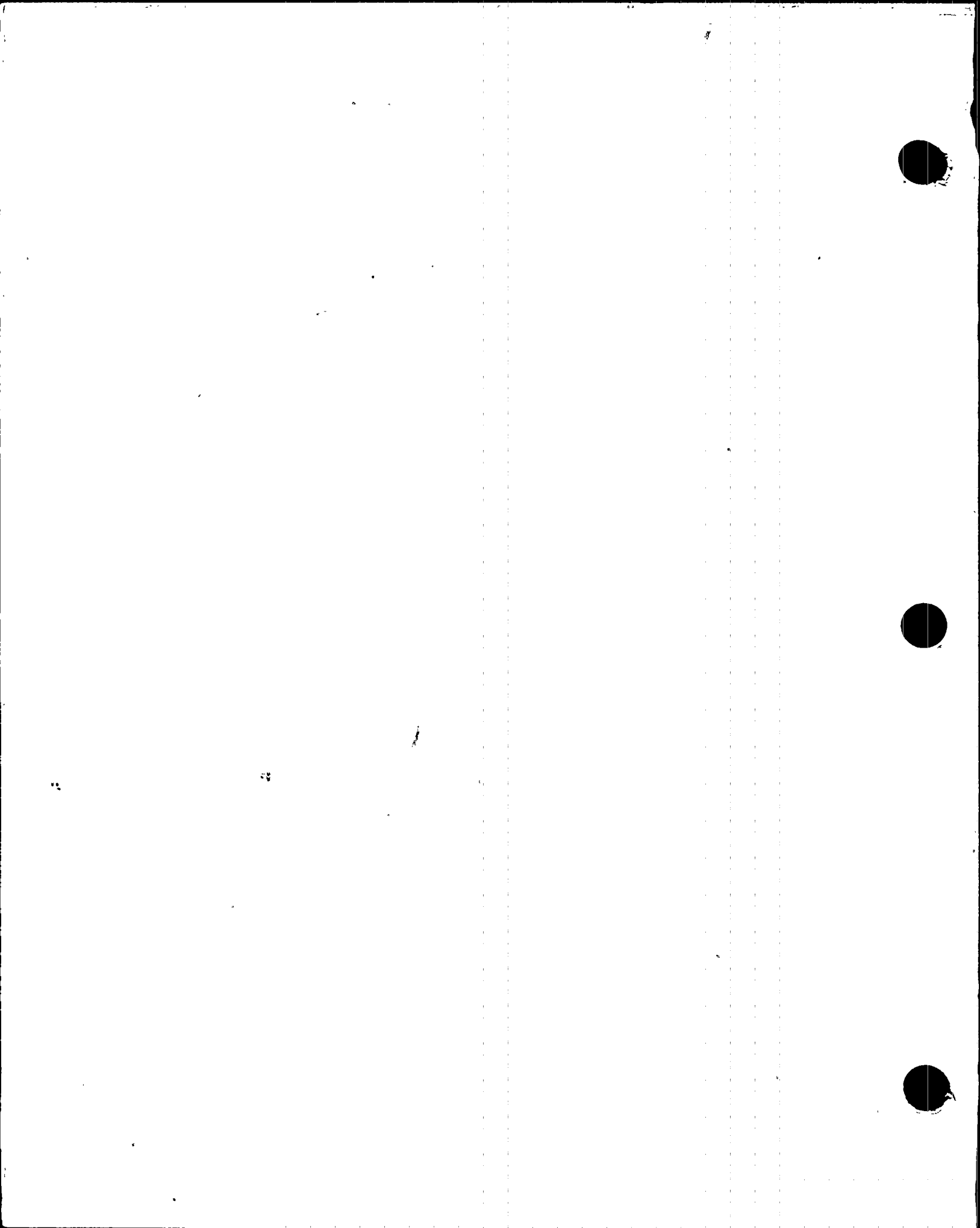
Notary Public



SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with CHRYSLER FINANCIAL CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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;

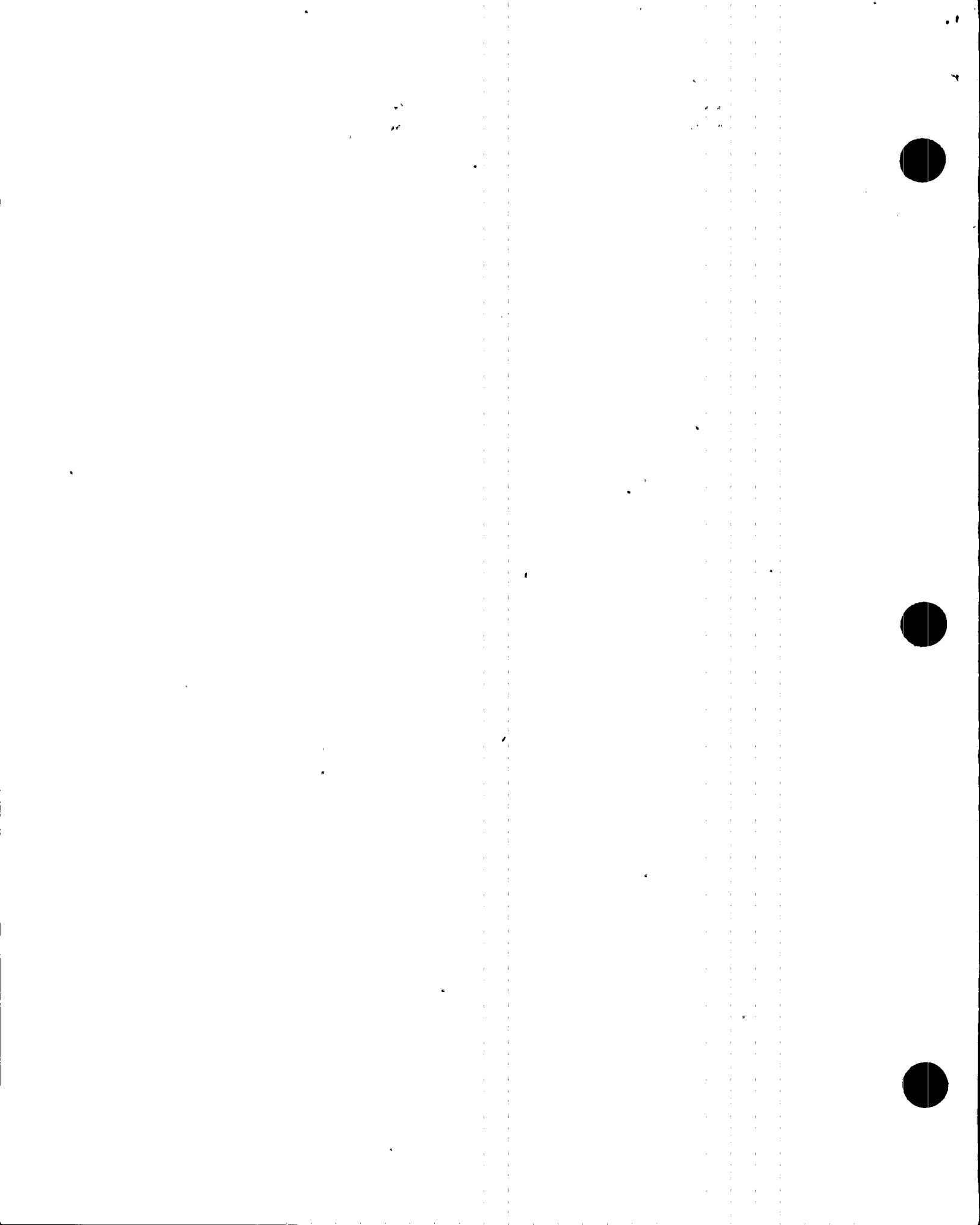
(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

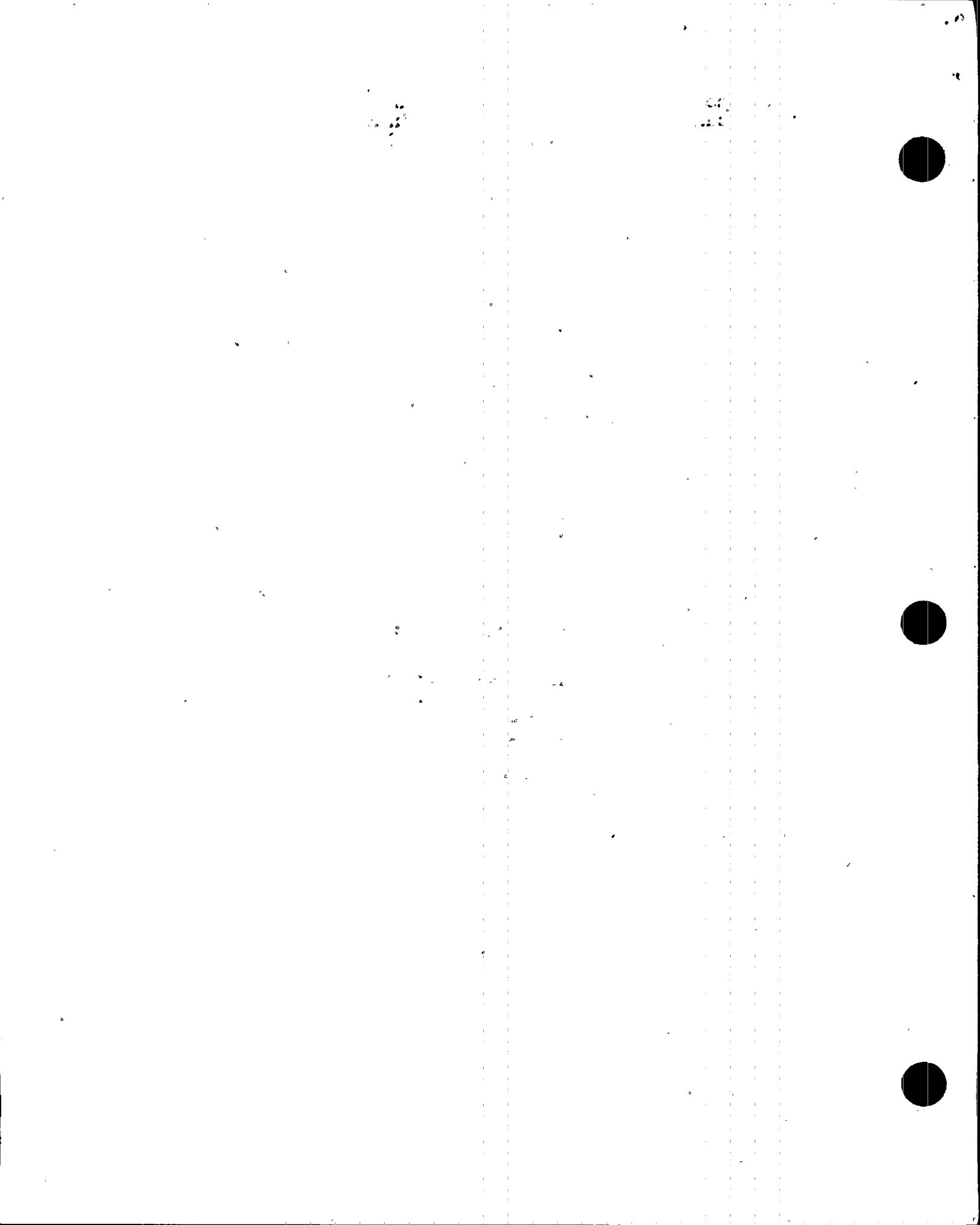


date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

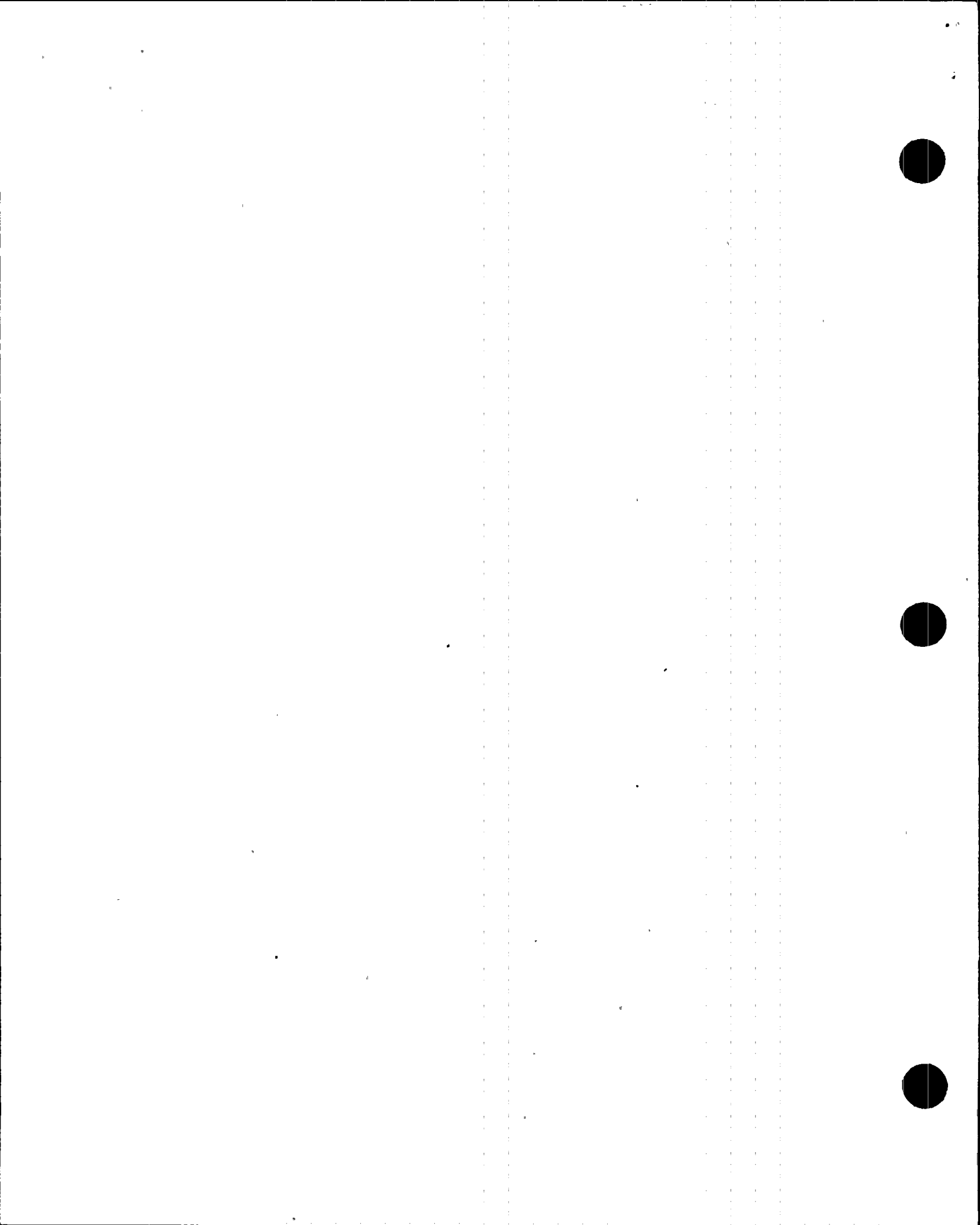
(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.



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 33-404, the beneficiary of the Trust Agreement is Chrysler Financial Corporation, a corporation. The address of the beneficiary is Greenwich Office Park I, Greenwich, Connecticut 06836, Leasing and Investment Services, Attention: Mike Abandon. 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.



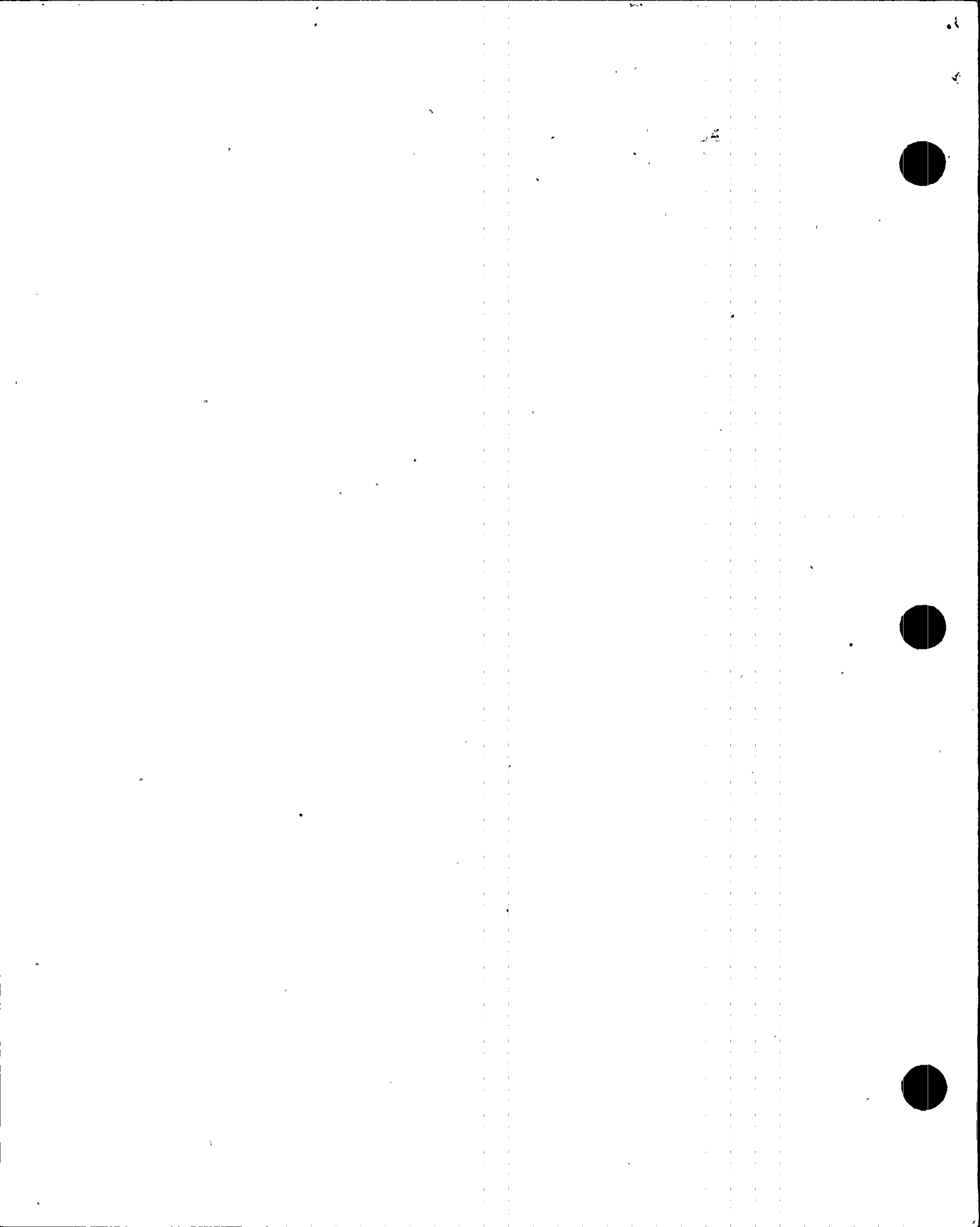
IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Chrysler
Financial Corporation,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President



STATE OF TEXAS

COUNTY OF EL PASO

)
)
) ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

Jane A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

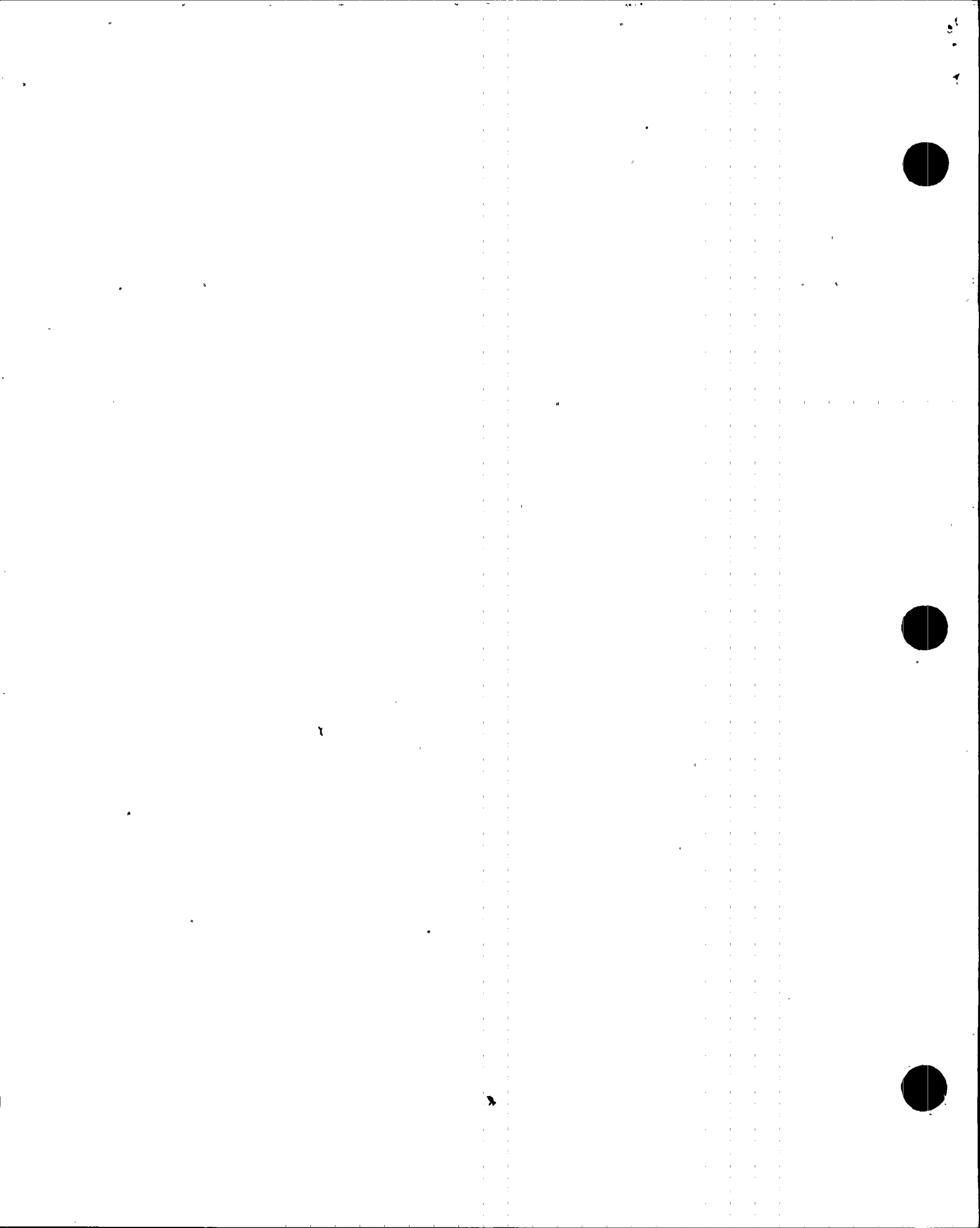
The foregoing instrument was acknowledged before me this 21 day of January, 1988, by Mark Nelson, a Senior Manager of THE FIRST NATIONAL BANK OF BOSTON, a national banking association, on behalf of the banking association as trustee under that certain Trust Agreement dated as of August 1, 1986 with Chrysler Financial Corporation.

Maria Mirisola

Notary Public

MARIA MIRISOLA

My Commission Expires
September 30, 1994



SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AGREEMENT dated as of December 31, 1987 among CHRYSLER FINANCIAL CORPORATION ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.

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C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

E. The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee

shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss

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Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing LC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

CHRYSLER FINANCIAL CORPORATION

BY: CHRYSLER CAPITAL CORPORATION
ATTORNEY-IN-FACT

BY:

Richard H. Furman
RICHARD H. FURMAN
ASSISTANT SECRETARY

THE FIRST NATIONAL BANK OF
BOSTON, not in its
individual capacity
but solely as Owner
Trustee

BY:

Arthur M. Mearns
Arthur Mearns

EL PASO ELECTRIC COMPANY

BY:

W. J. Johnson
W. J. Johnson

ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY



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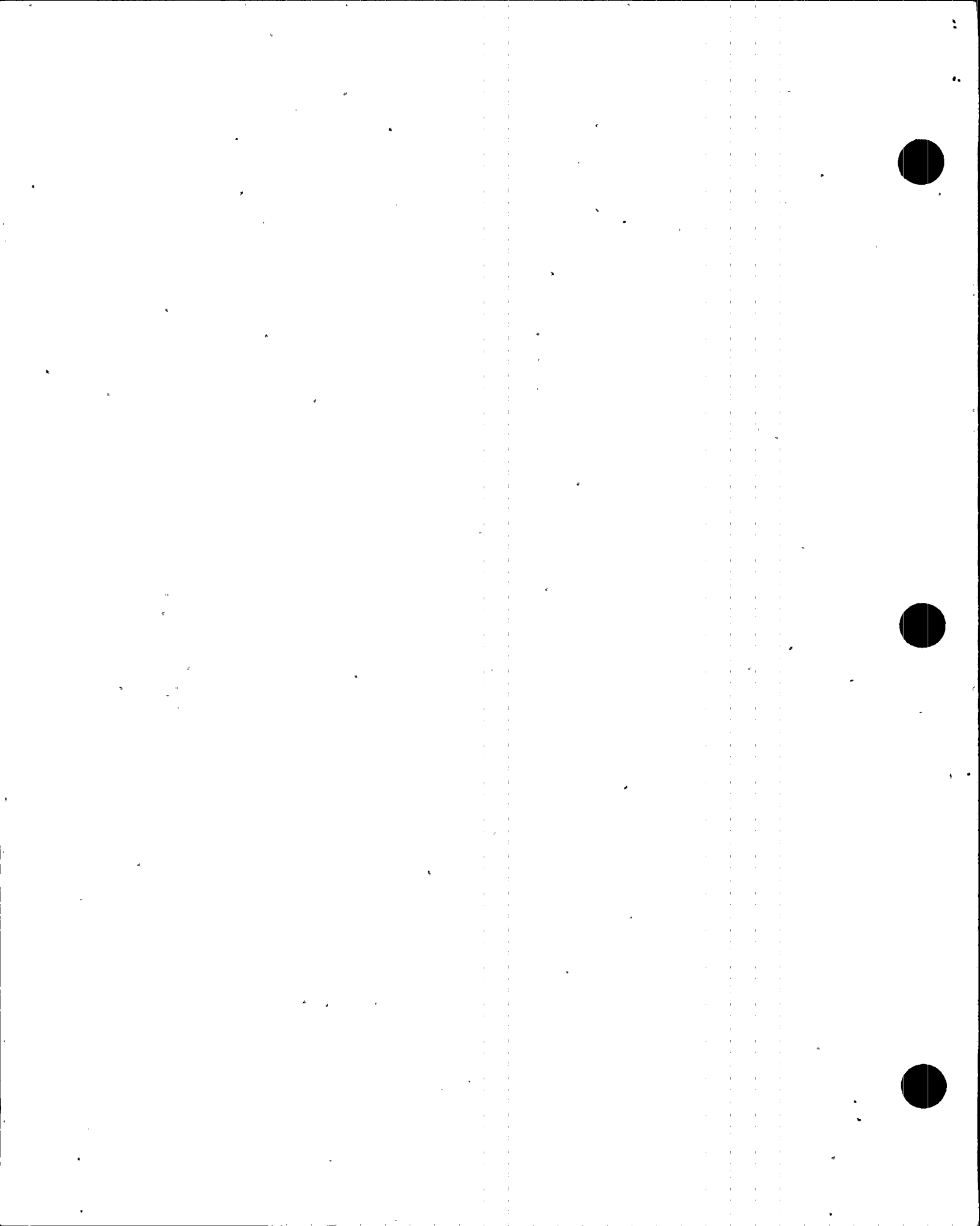
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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H:

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in

the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and

Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited

Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

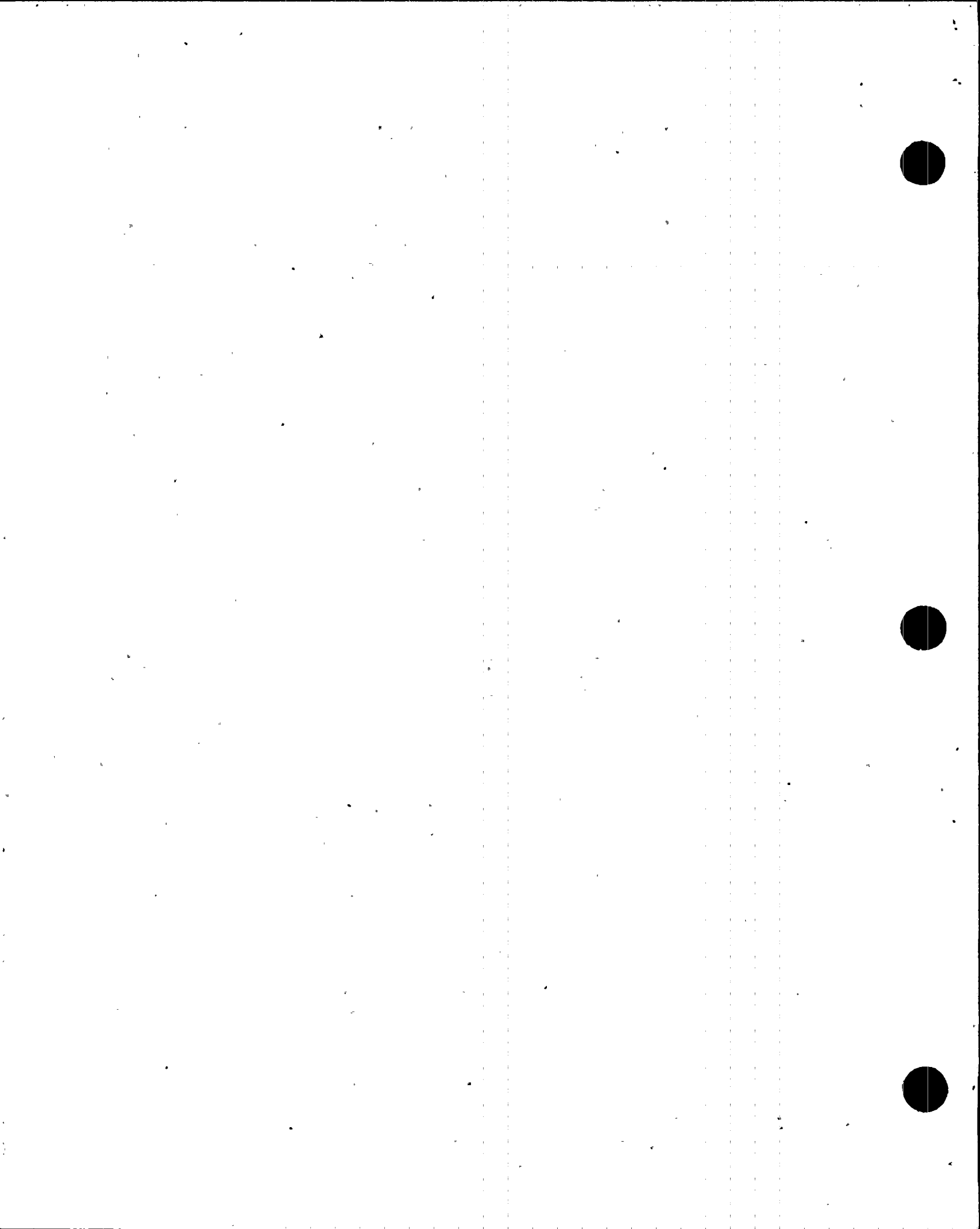
The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which



payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

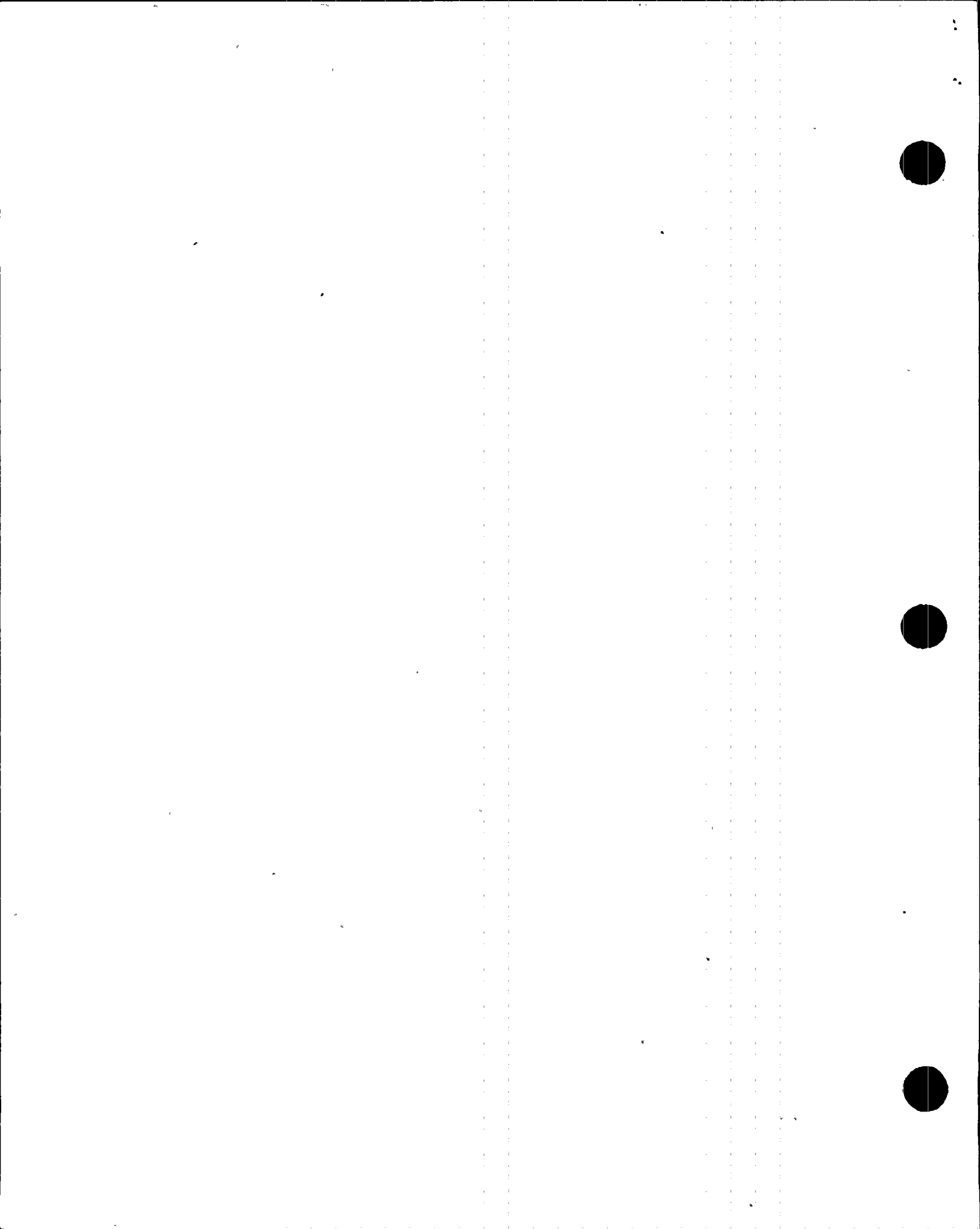
SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the



market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

<u>1988</u> <u>(quarter)</u>	<u>Reduction</u> <u>(millions of Dollars)</u>
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

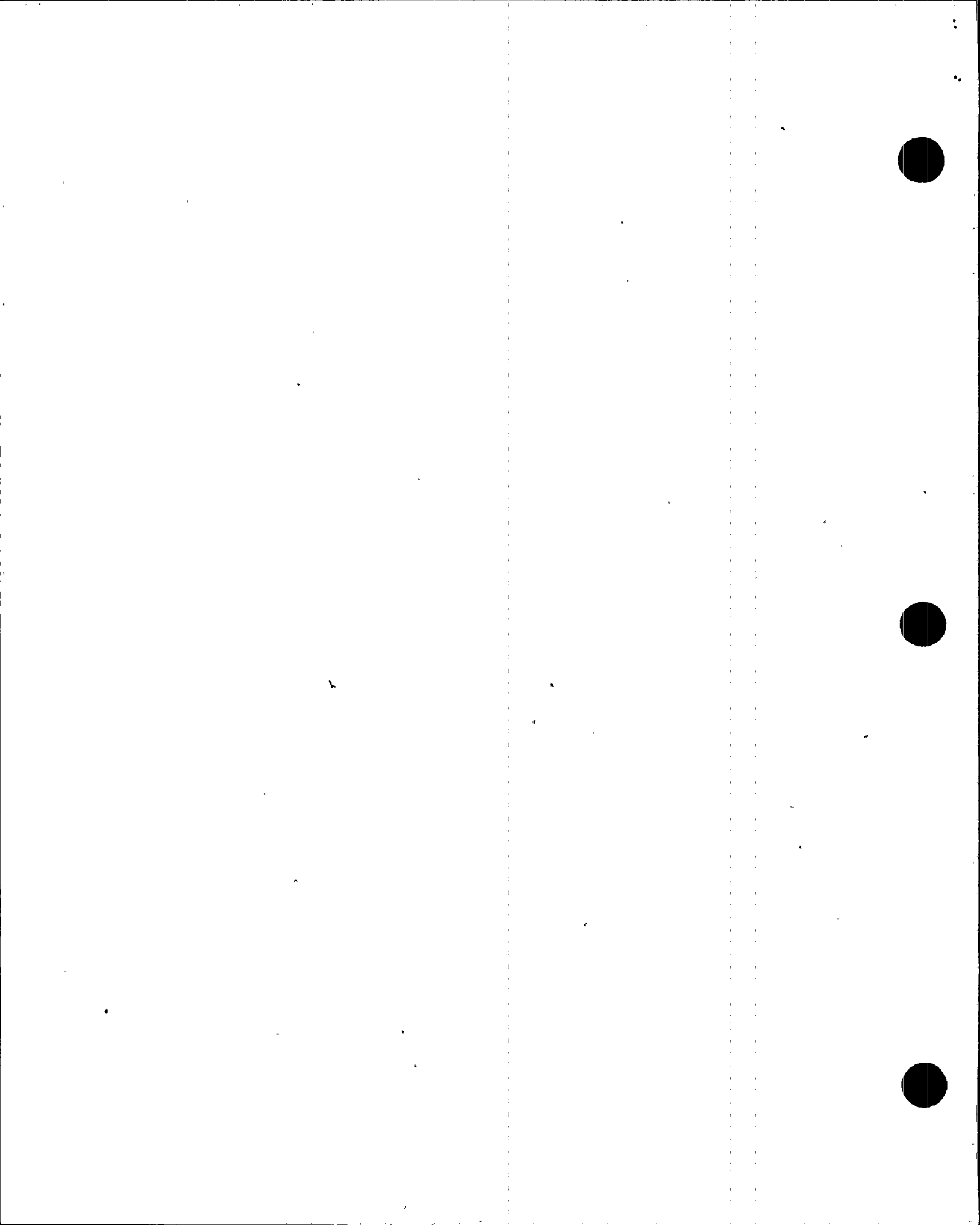
ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to.



evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,

Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo

SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with CHRYSLER FINANCIAL CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the

Undivided Interest), (iv) 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);

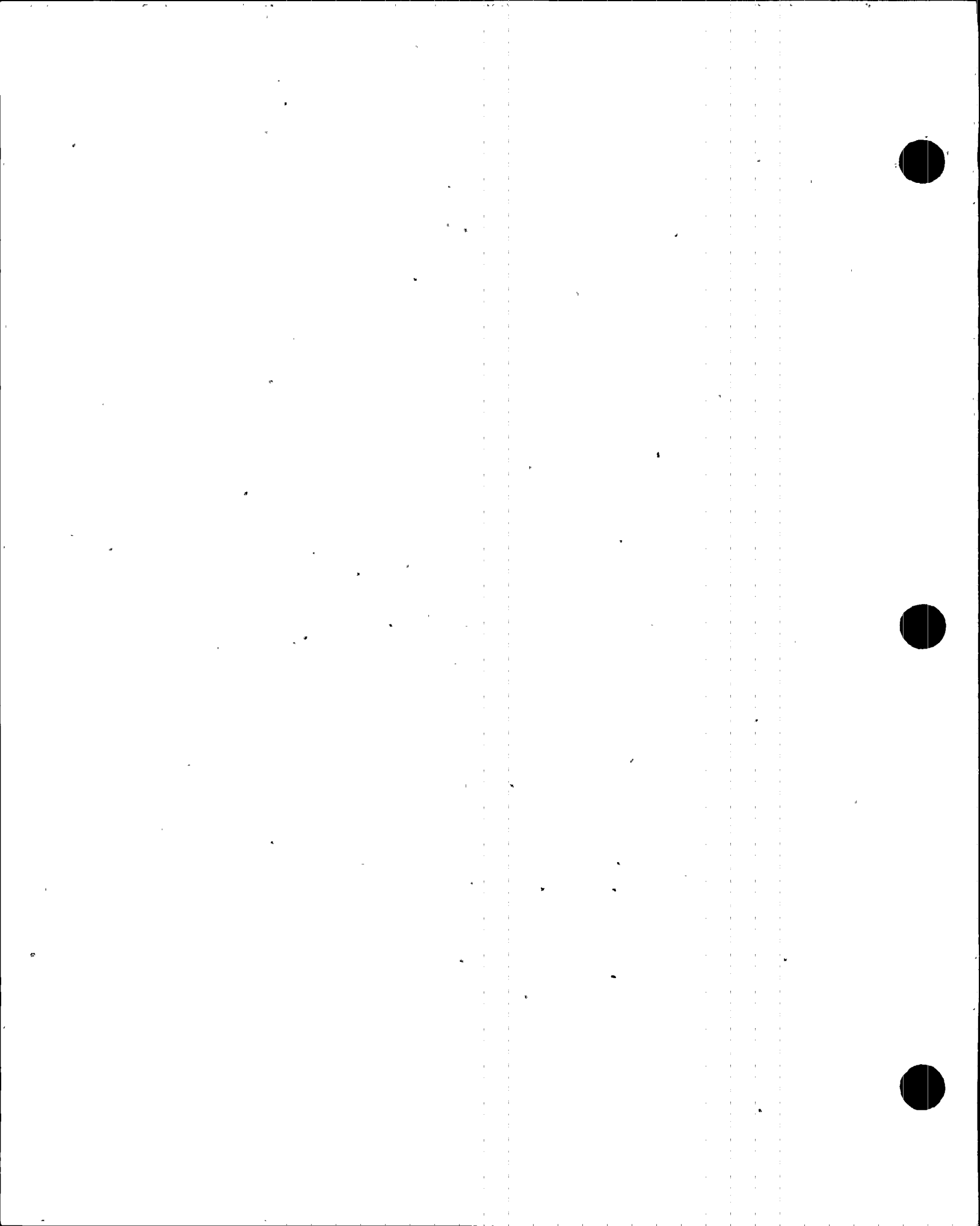
(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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;

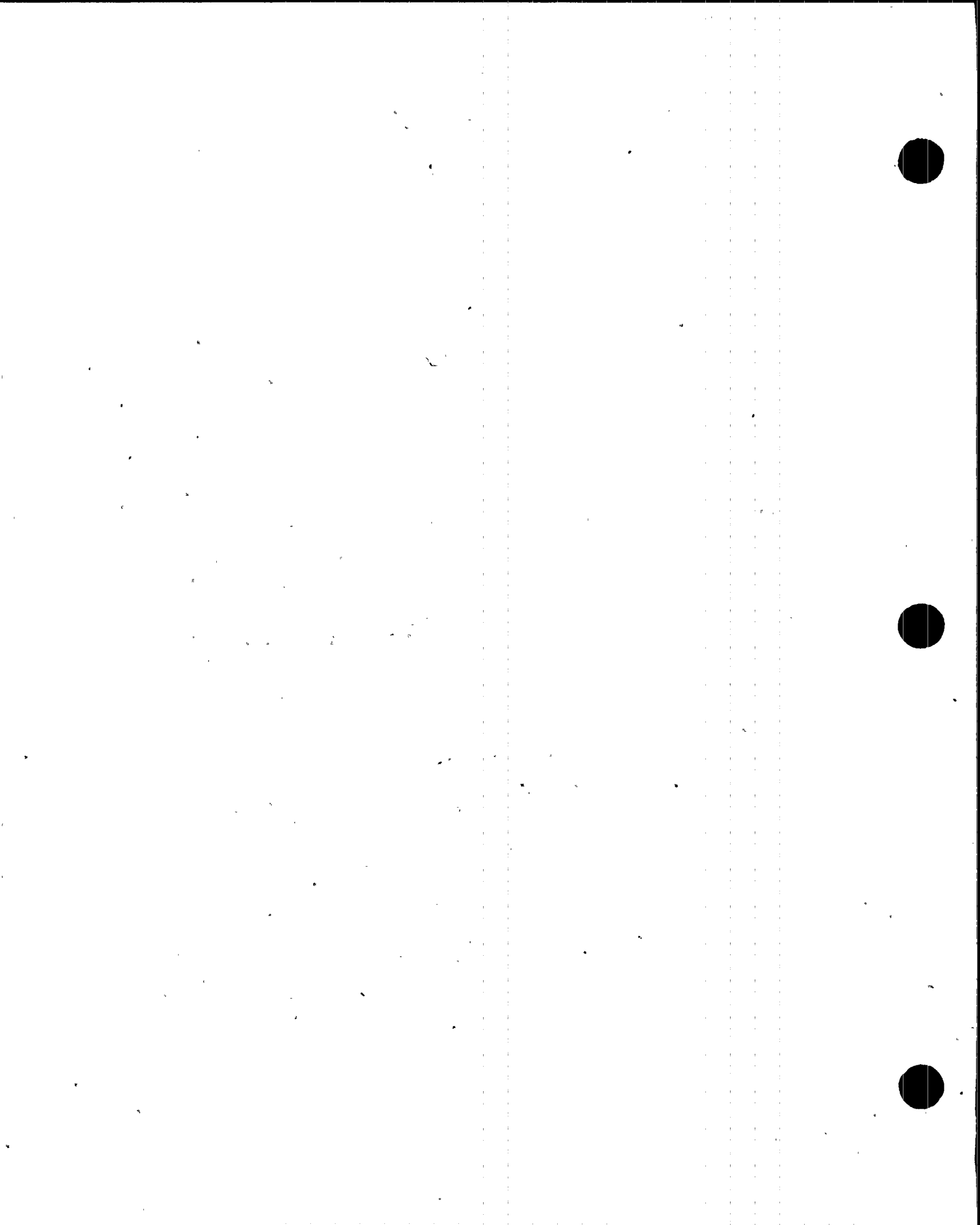
(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

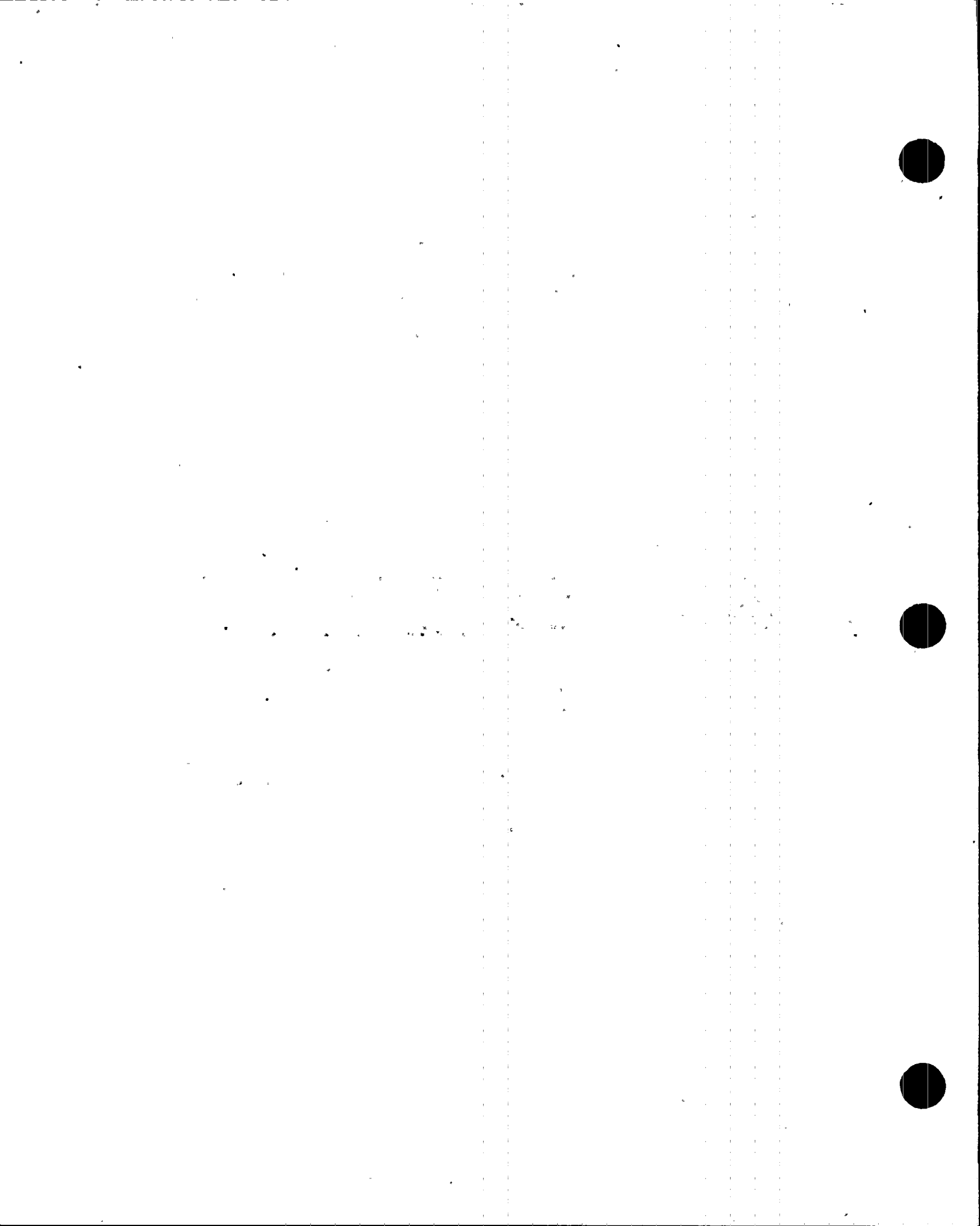


date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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 33-404, the beneficiary of the Trust Agreement is Chrysler Financial Corporation, a corporation. The address of the beneficiary is Greenwich Office Park I, Greenwich, Connecticut 06836, Leasing and Investment Services, Attention: Mike Abandon. 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.

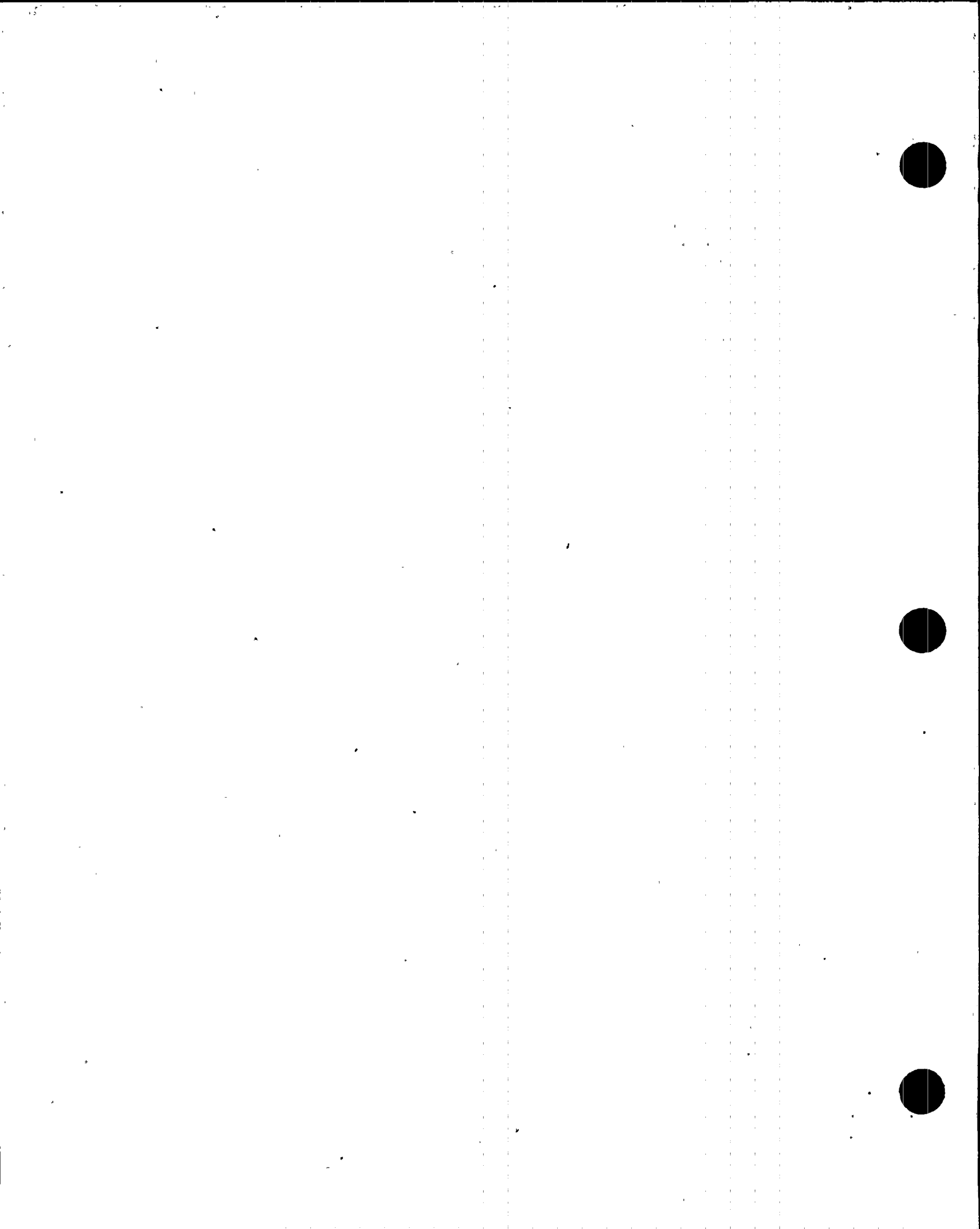
IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Chrysler
Financial Corporation,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President



STATE OF TEXAS

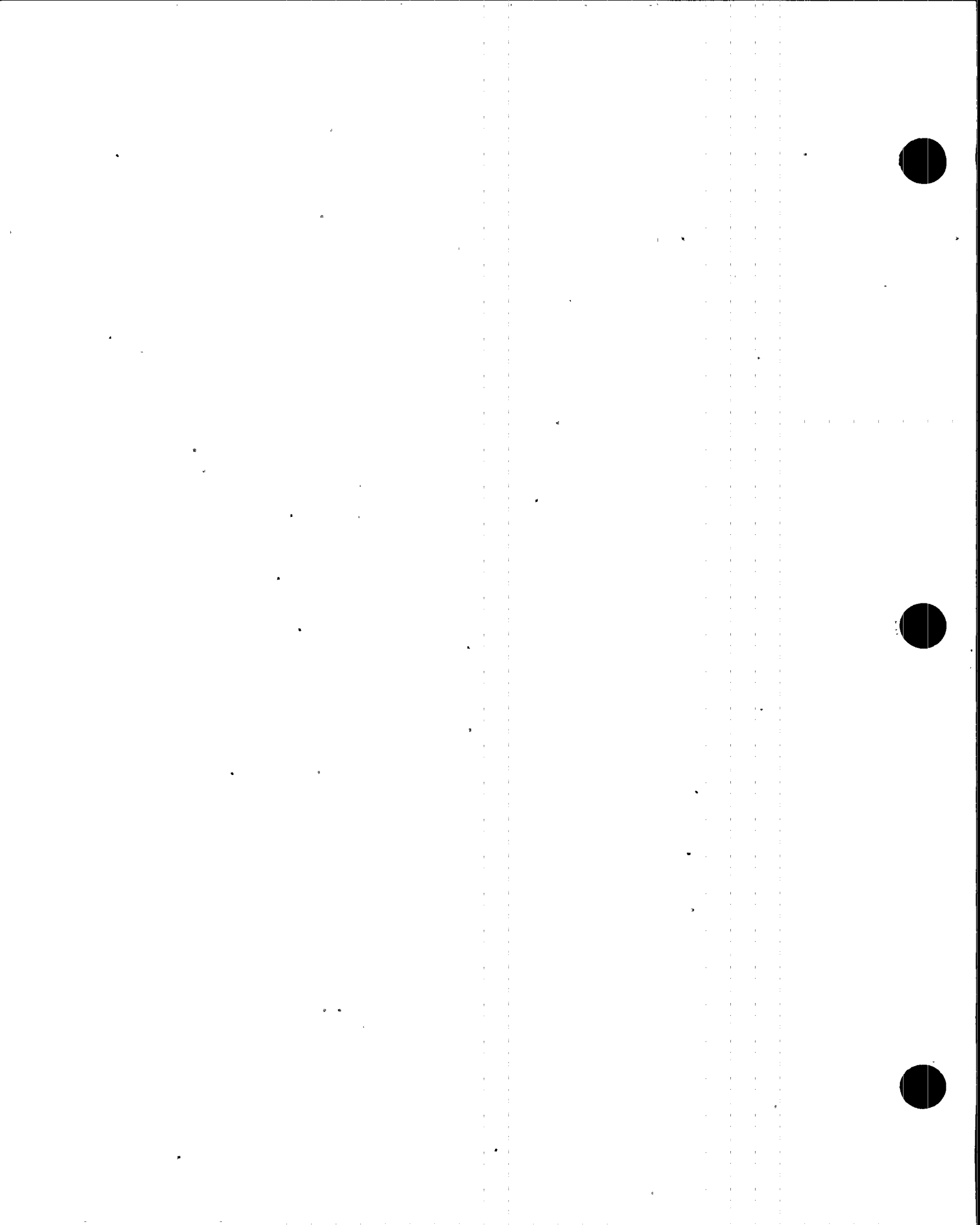
COUNTY OF EL PASO

)
)
)

ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public



COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this
21 day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 August 1, 1986 with Palatine Hills Leasing,
Inc.



Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994.

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 1, dated as of December 31, 1987, to Facility Lease dated as of December 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of December 1, 1986 with CHRYSLER FINANCIAL CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

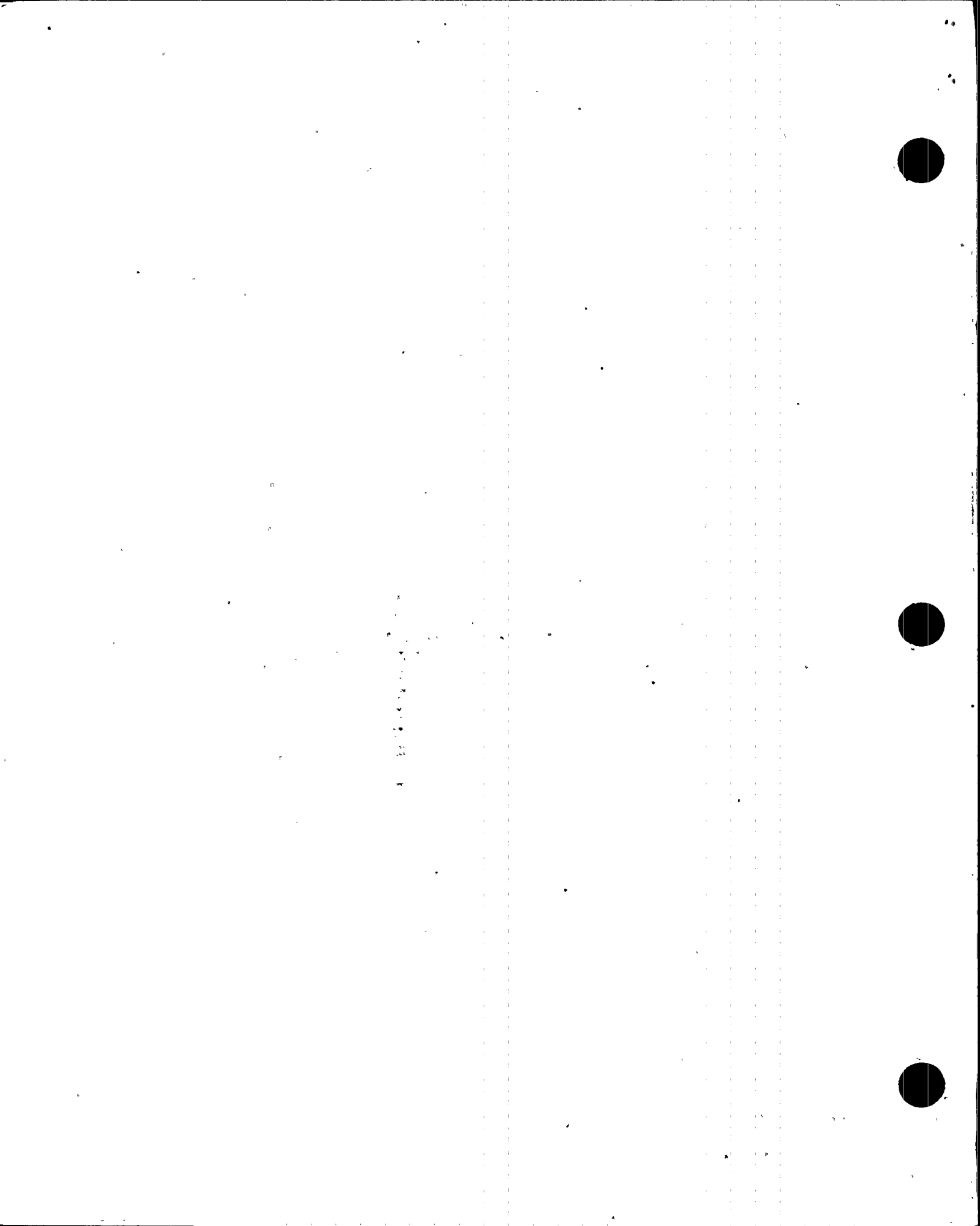
NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 7 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related



transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New Coverage Ratio of the Surviving Lessee shall be at least 16 to 1; and

(J) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall have provided a Letter of Credit which meets the requirements set forth in Section 10(b)(3)(xvii) of the Participation Agreement to the Owner Participant in the same amount as was available immediately prior to such transaction.

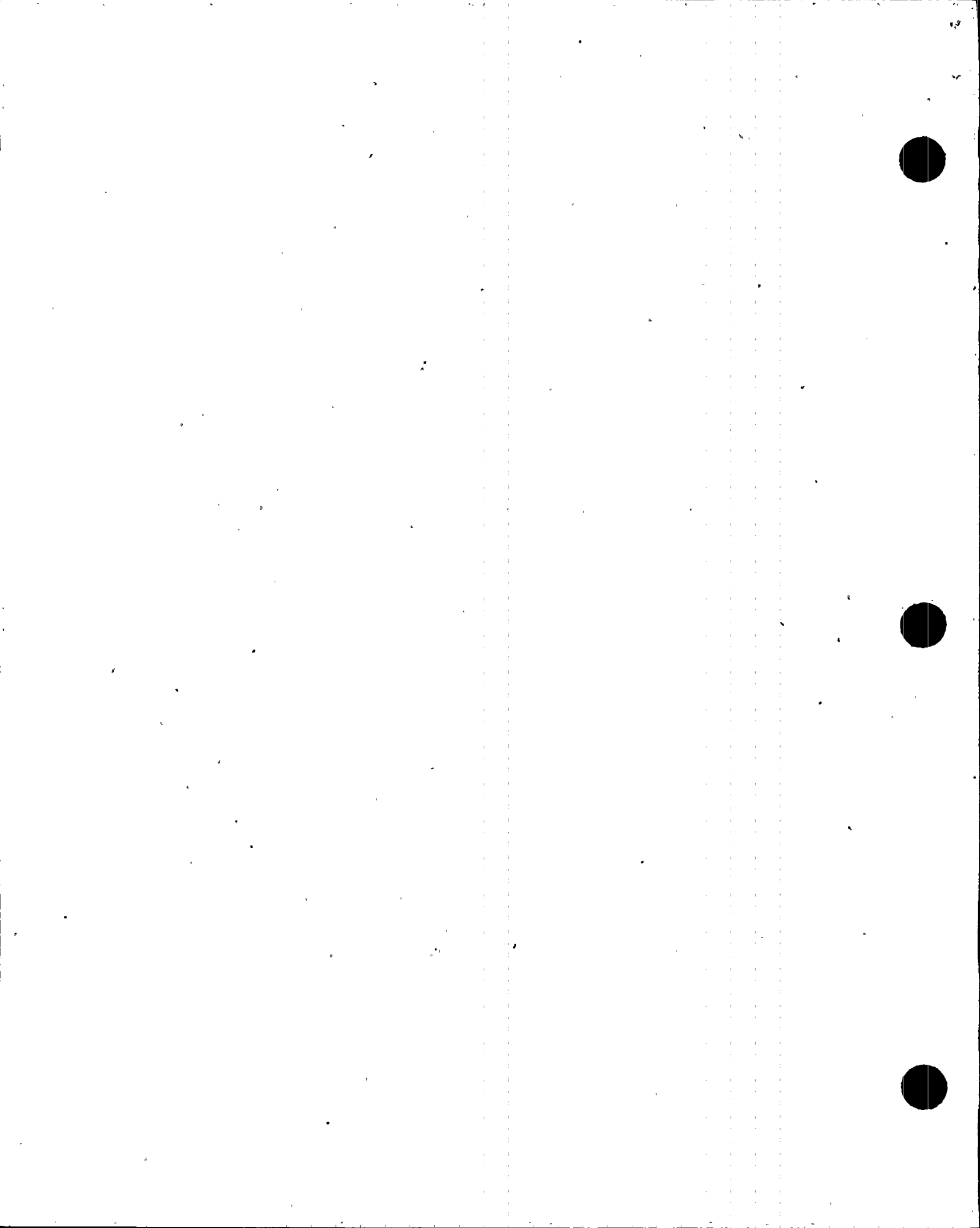
Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there shall not have been delivered and in effect a written election by Owner Participant to permit Lessee to defer compliance with the Tests as defined in subclause (f) hereof, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and lease-back transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable

in respect of any Debt within the meaning of this subclause (d).

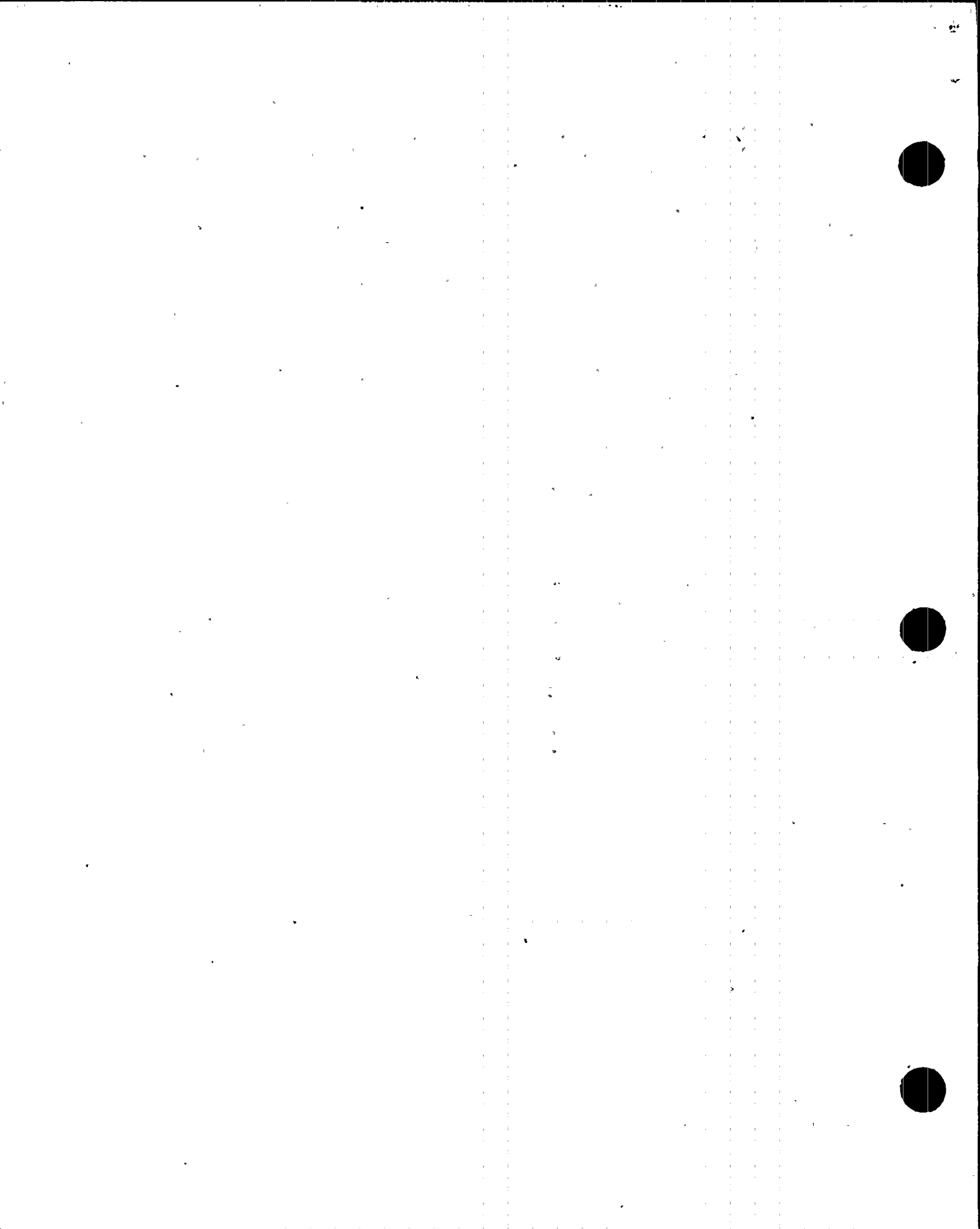
(e) Escrow Agreement. Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations and agreements under such Agreement within 15 days after notice from the Owner Participant.

(f) Financial Ratios. Unless the Owner Participant shall otherwise consent (which consent may be in the form of a deferral of compliance in the manner set forth below), Lessee agrees that as of December 31, 1991 (i) all of the Debt listed on Schedule 7 to the Facility Lease shall be retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, shall be not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, by written notice to Lessee, elect to defer requiring Lessee to comply with the Tests for one year. If Owner Participant makes such election, Lessee's failure to meet the Tests shall not constitute an Event of Default hereunder. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until Owner Participant ceases to be entitled to make such election of deferral.



(g) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.



(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(b) Schedule 7. Schedule 7 hereto is hereby added as Schedule 7 to the Facility Lease.

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. 1 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. 1 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 33-404, the beneficiary of the Trust Agreement is Chrysler Financial Corporation, a Michigan corporation. The address of the beneficiary is Greenwich Office Park I, Greenwich CT 06836, Attention: Leasing and Investment Services. 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, each of the parties hereto has caused this Amendment No. 1 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
December 1, 1986 with
Chrysler Financial
Corporation,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President

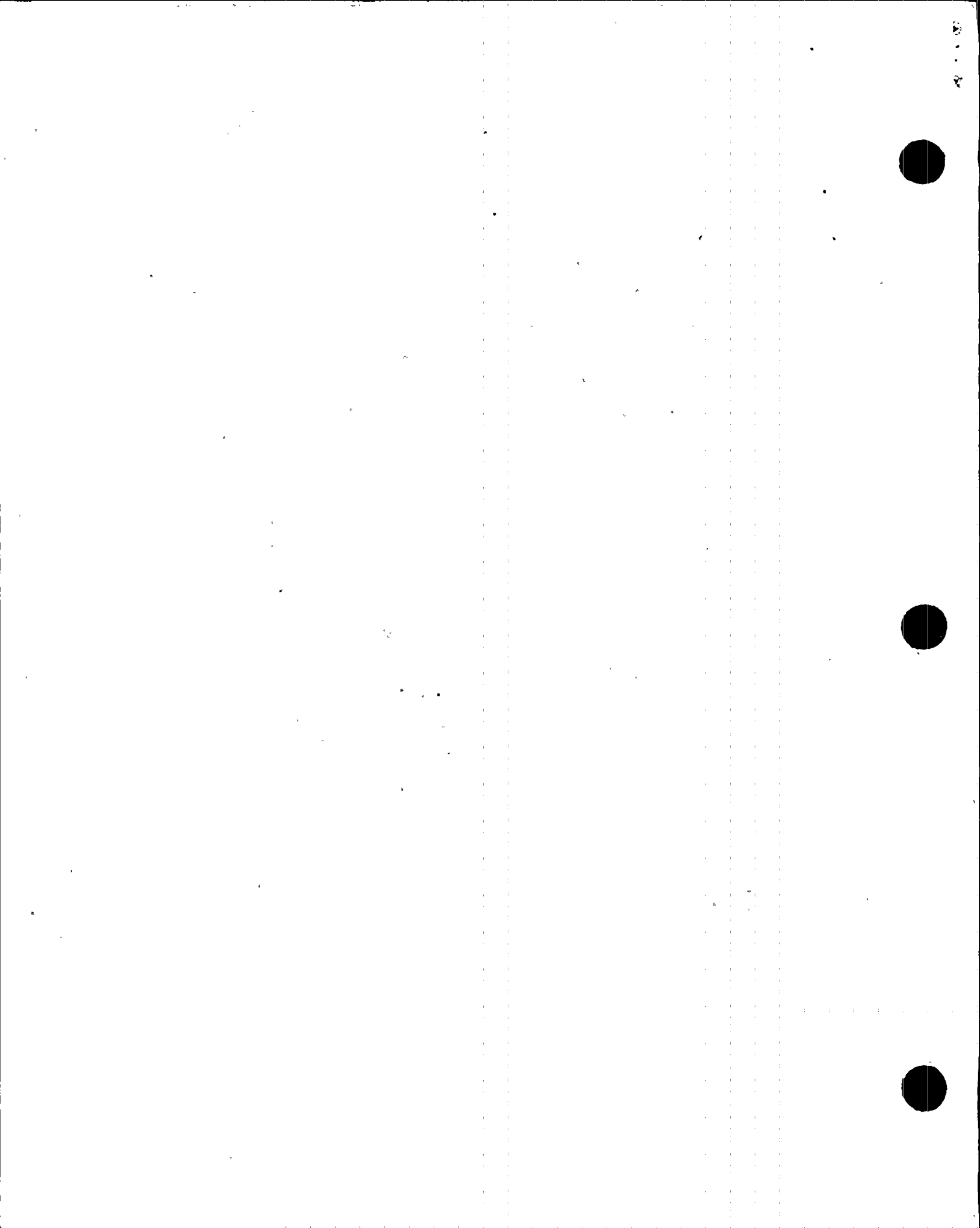
STATE OF TEXAS

COUNTY OF EL PASO

)
) ss.:
)

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public



**SCHEDULE 7
TO FACILITY LEASE**

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AGREEMENT dated as of December 31, 1987 among CHRYSLER FINANCIAL CORPORATION ("Owner Participant"), 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 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of December 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, and to provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Financial Tests. Lessee agrees that as of December 31, 1991 (i) all the Debt listed on Schedule 7 to the Facility Lease shall be retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, shall be not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the Letter of Credit), draw on the Letter of Credit or by written notice to Lessee elect to defer requiring Lessee to comply with the Tests for one year, and in the event of such election by Owner Participant to defer compliance, Lessee's failure to comply with the Tests shall not constitute an Event of Default under the Facility Lease. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization

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from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until the Owner Participant ceases to be entitled to such option.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon execution and delivery of the amendments required by Section 4 hereof, it shall deliver to the escrow agent the notice of termination required by clause (i) of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 1 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. The parties will, subject to obtaining any required consents of third parties to the Transaction Documents, amend the Facility Lease and other Transaction Documents in order to implement the Lessee's obligation to comply with the Tests and Owner Participant's right to defer such compliance and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the Letter of Credit when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing Letter of Credit, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest. All such amendments will be entered into no later than the date of the issuance and delivery of the letter of credit to Chrysler Financial Corporation pursuant to that certain Agreement, dated as of December 31, 1987, among Chrysler Financial Corporation, The First National Bank of Boston, not in its individual capacity but solely as Owner Trustee under a Trust Agreement dated as of August 1, 1986, and El Paso Electric Company.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 1 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 1.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since December 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

CHRYSLER FINANCIAL CORPORATION

BY: CHRYSLER CAPITAL CORPORATION
ATTORNEY-IN-FACT

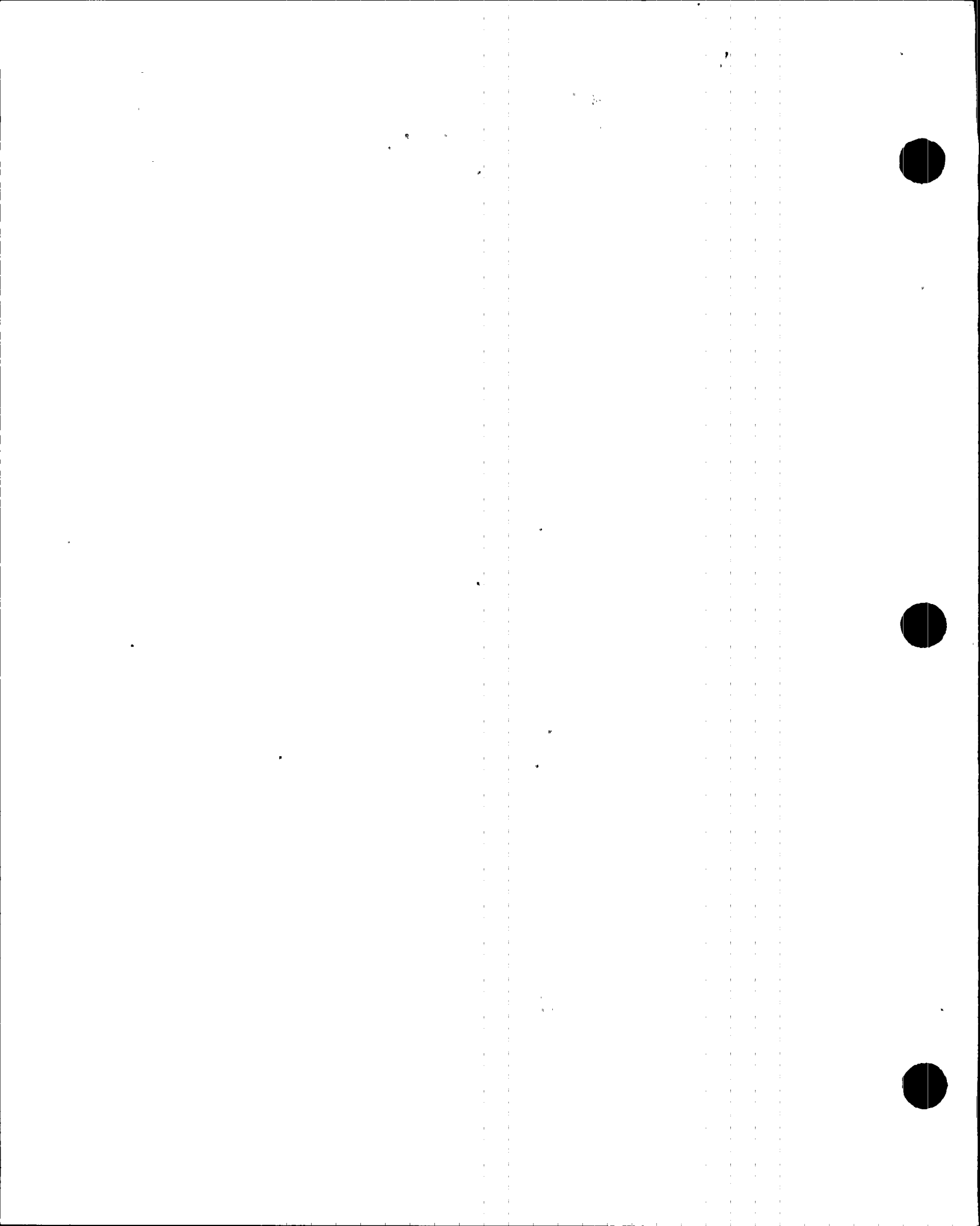
BY: *Richard H. Furman*
RICHARD H. FURMAN
ASSISTANT SECRETARY

THE FIRST NATIONAL BANK OF
BOSTON, not in its
individual capacity
but solely as Owner
Trustee

BY: *Amir Manasse*

EL PASO ELECTRIC COMPANY

BY: *W. J. John*
W. J. John



ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

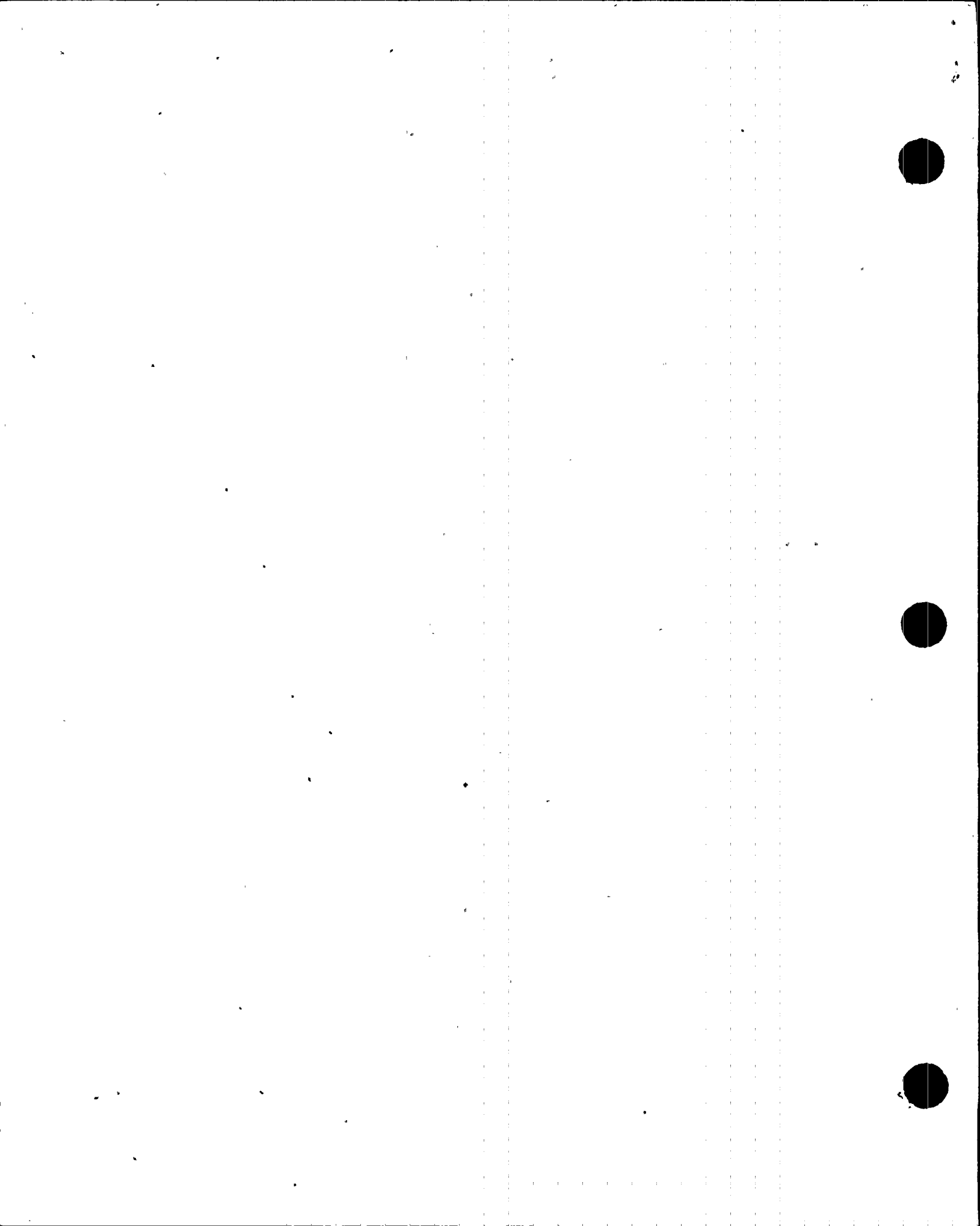


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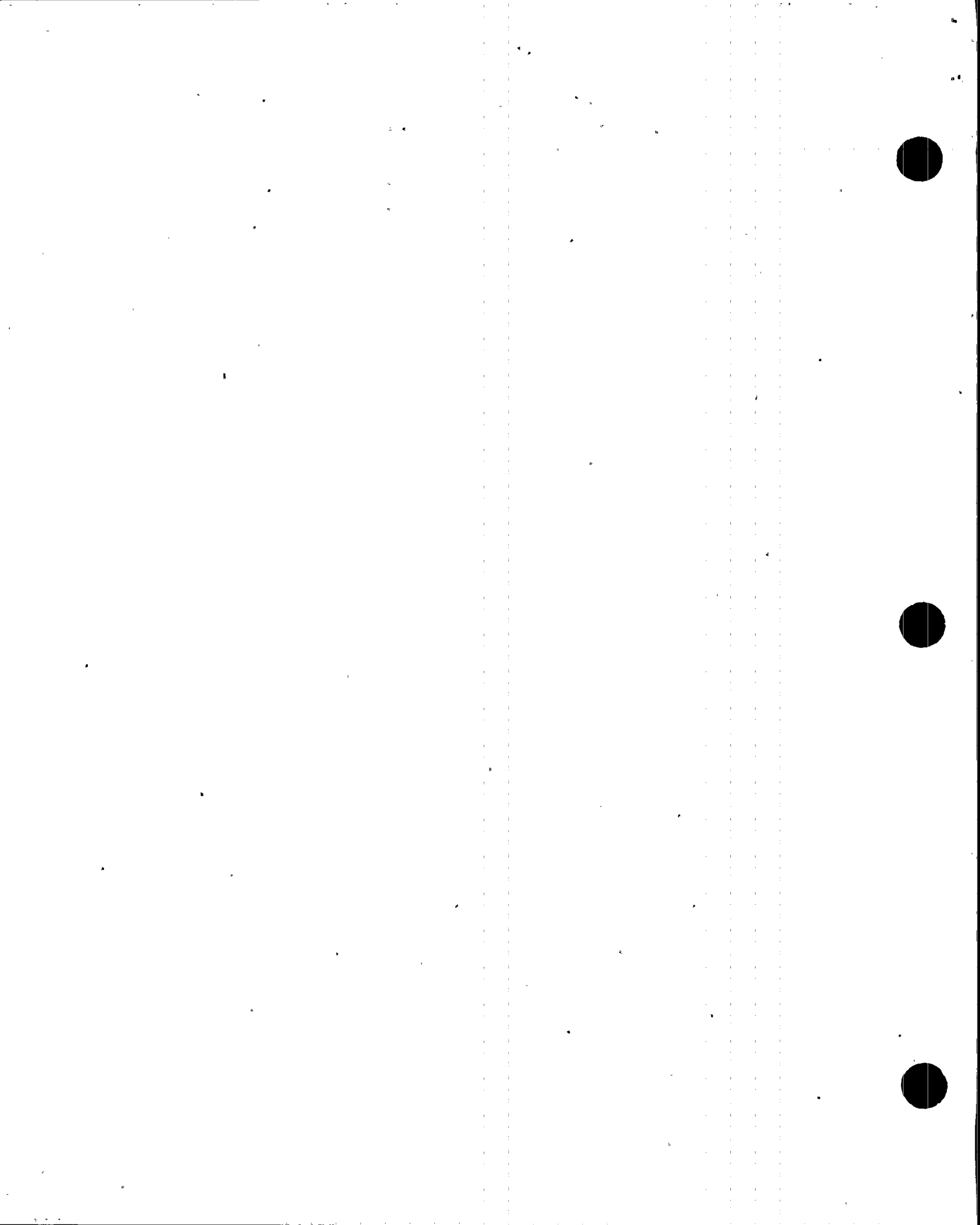


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H:

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in

the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

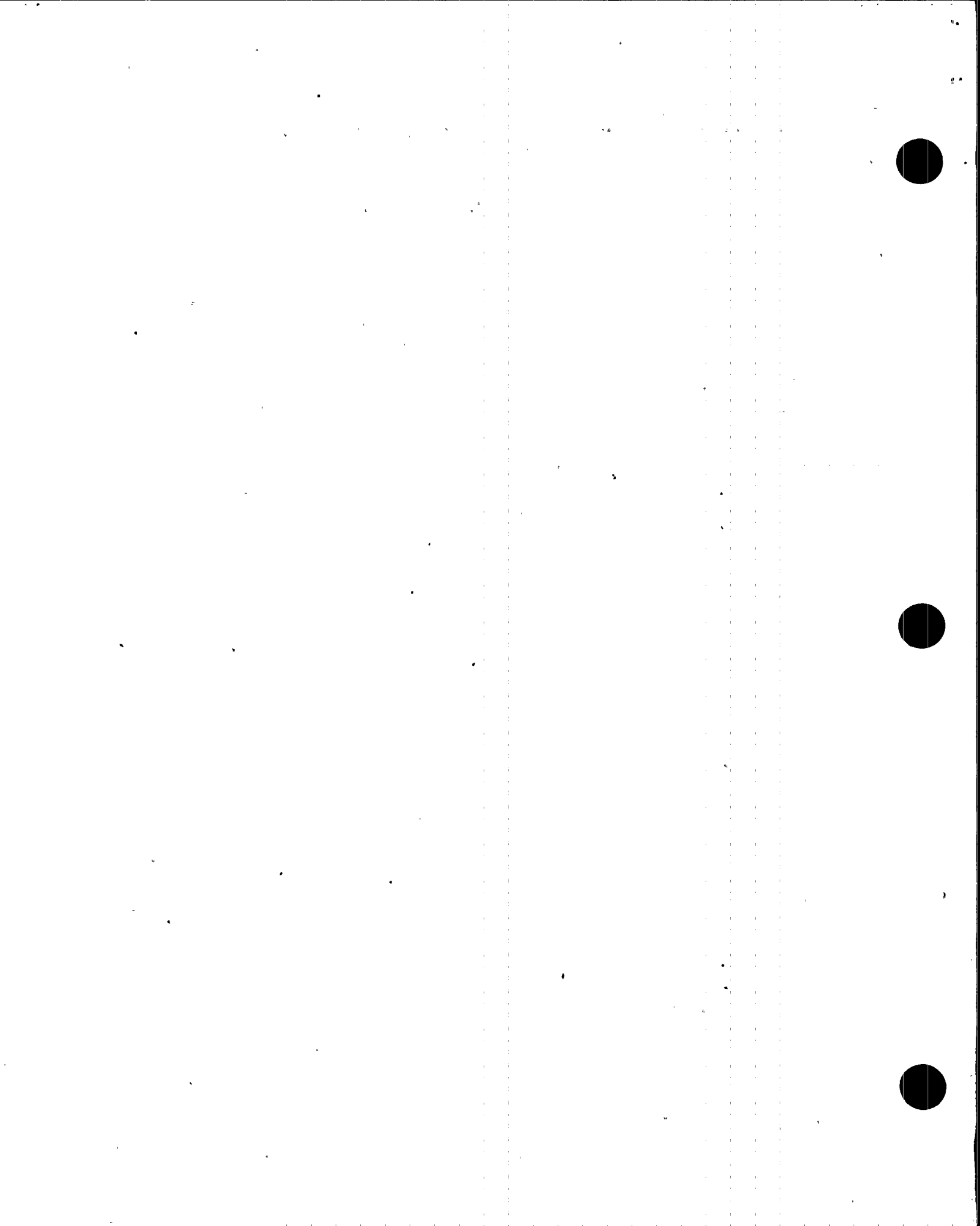
Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and



Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

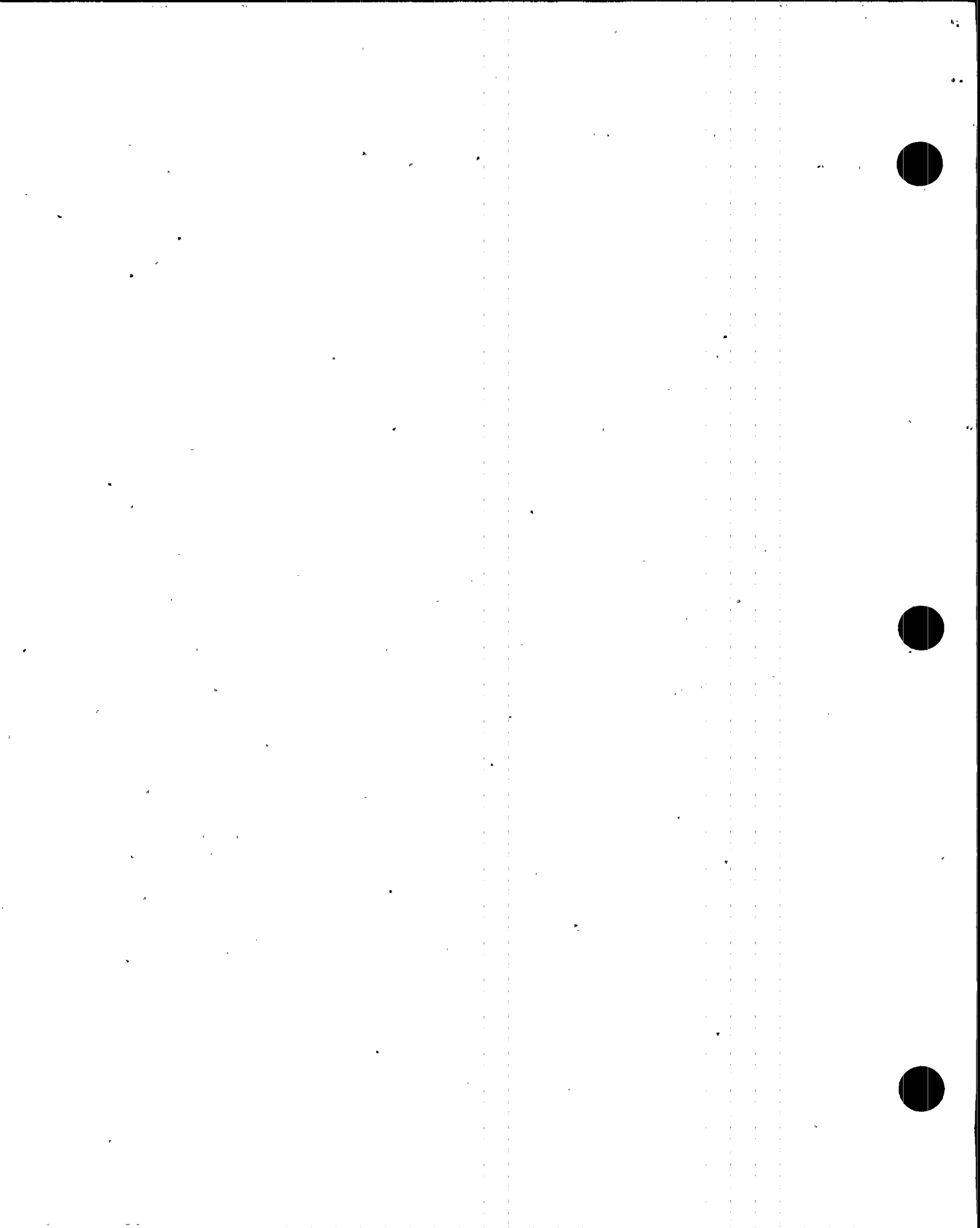
ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited



Partnership I, obtained on November 13, 1986 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

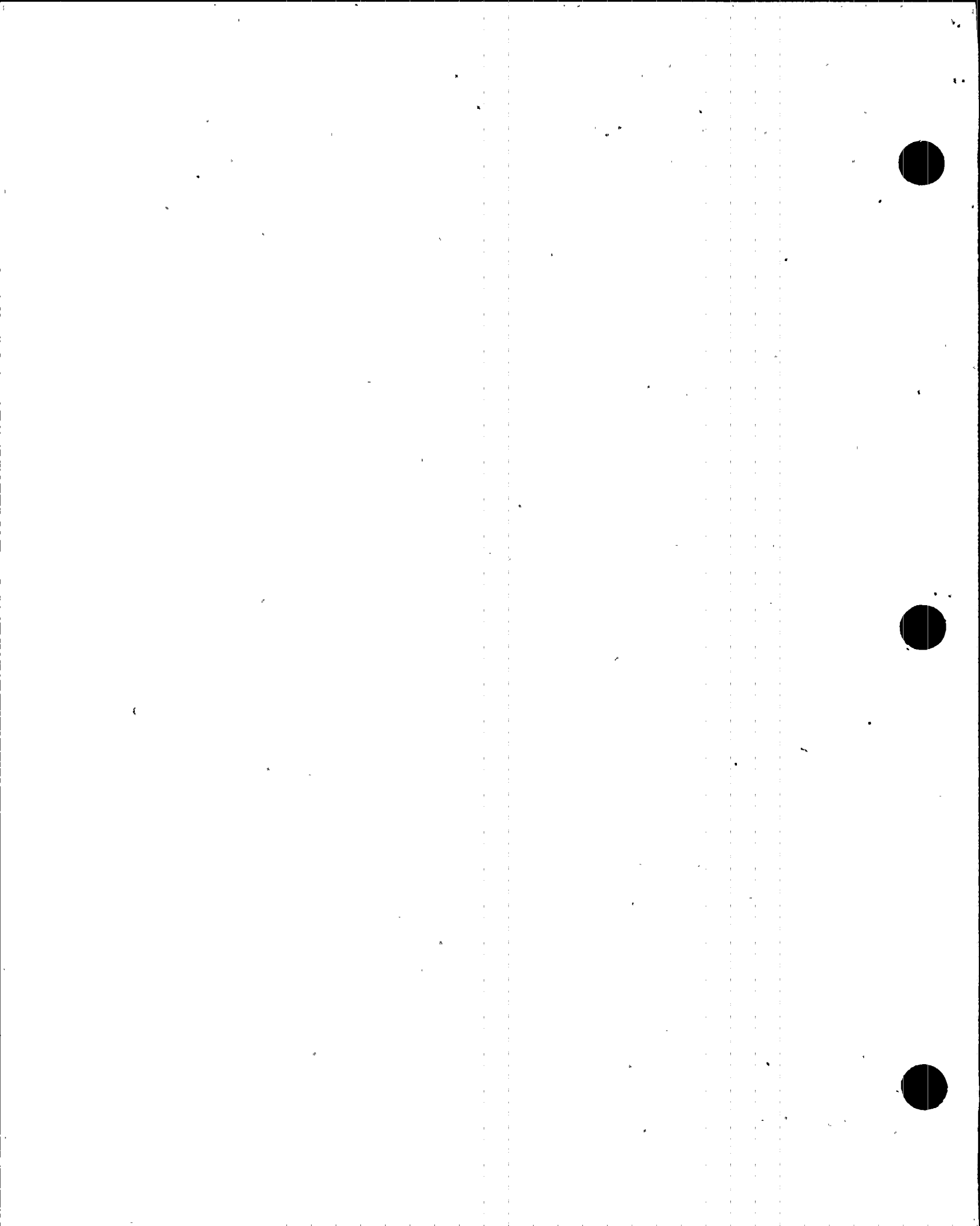
SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the



market value of the amounts then on deposit in the Escrow Account;

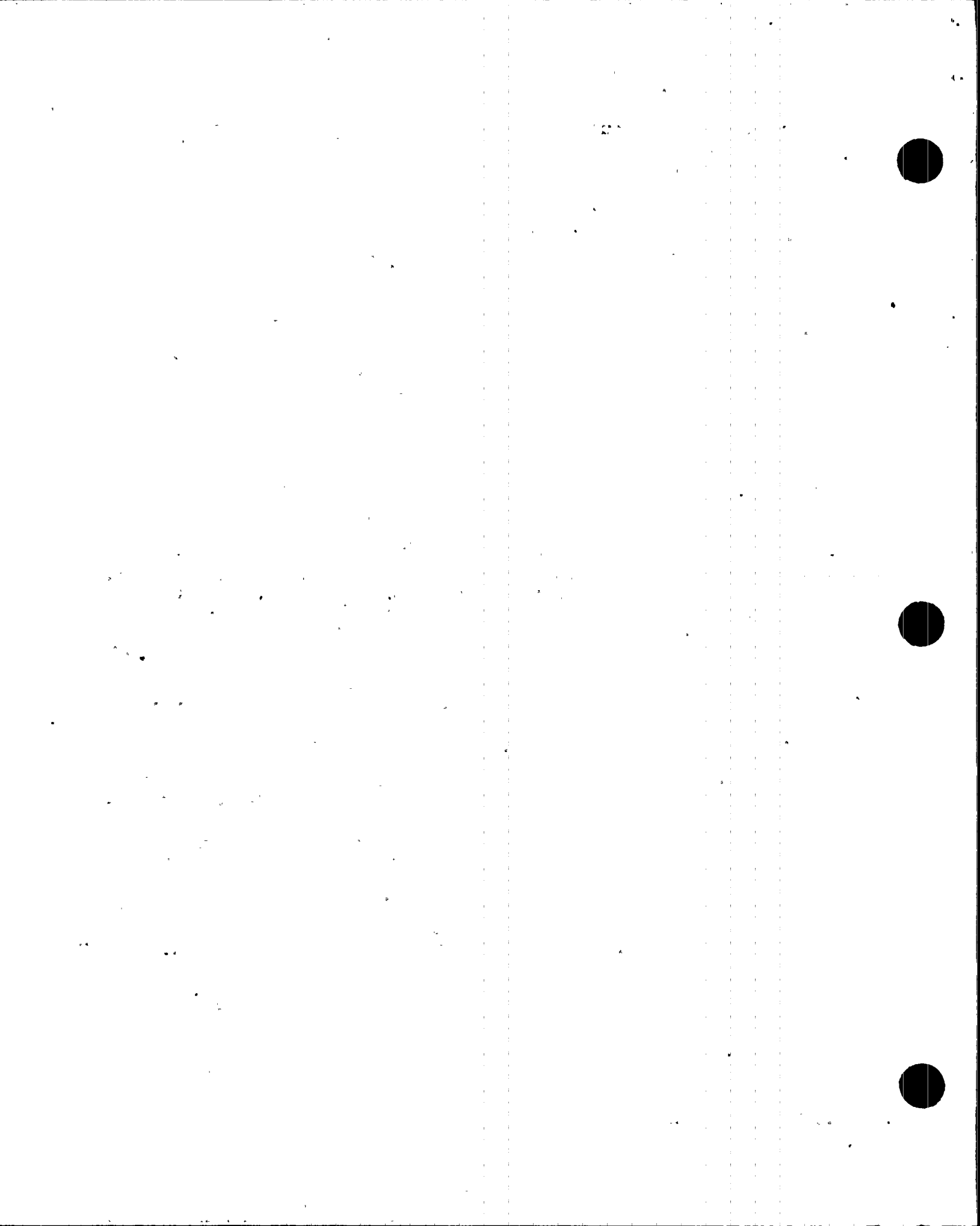
(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

1988 (quarter)	Reduction (millions of Dollars)
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the



investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts.

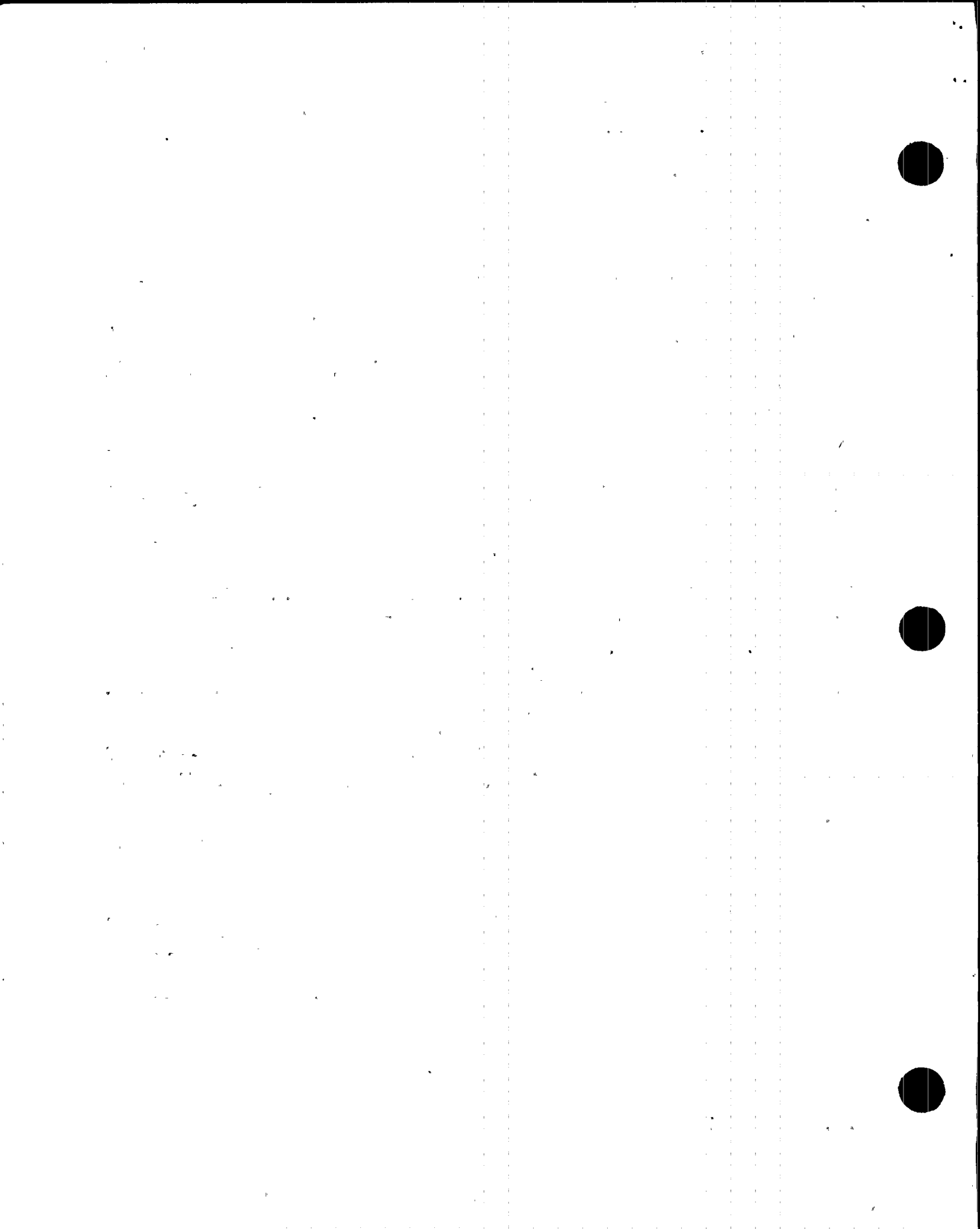
From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and



all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

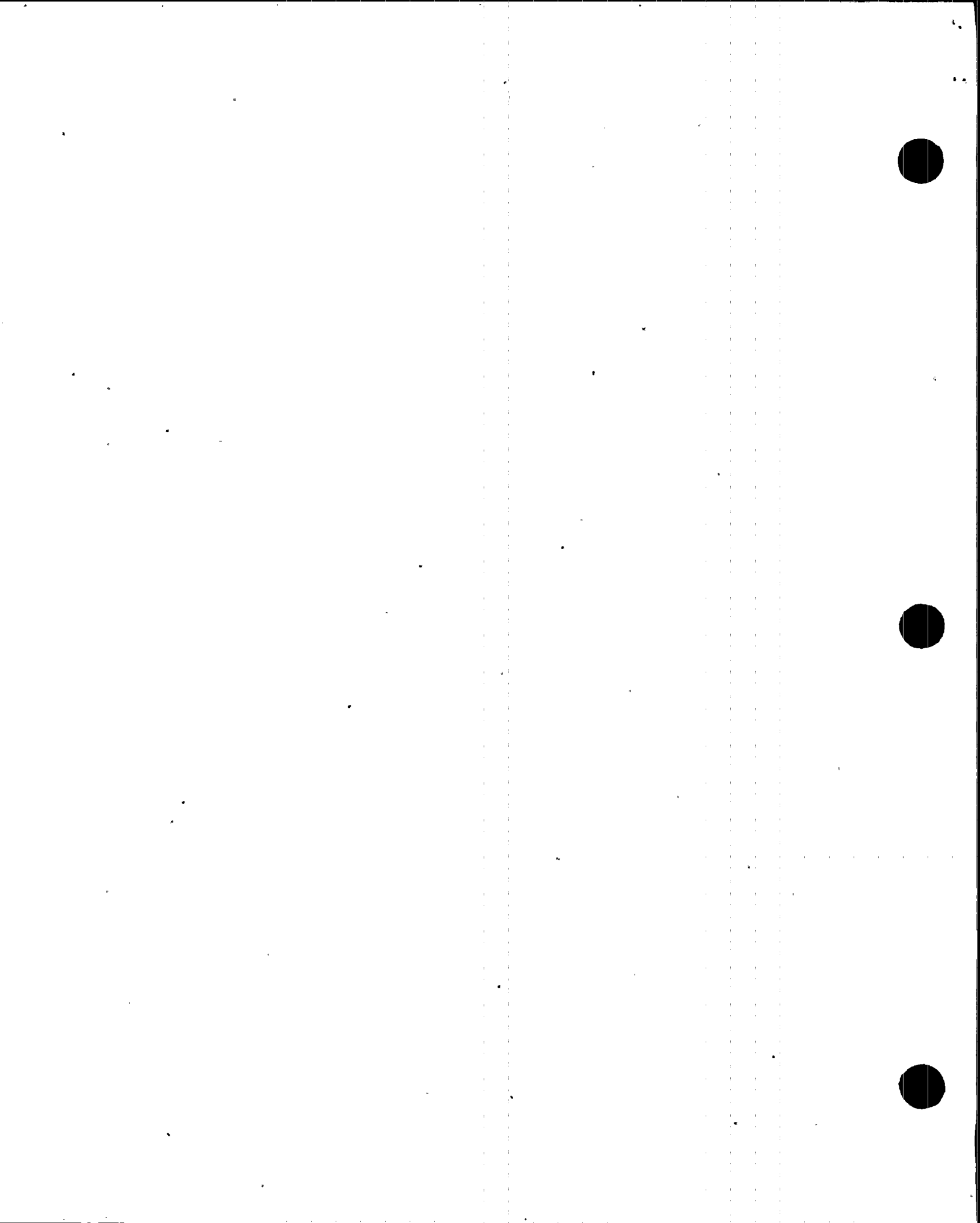
MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,



Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

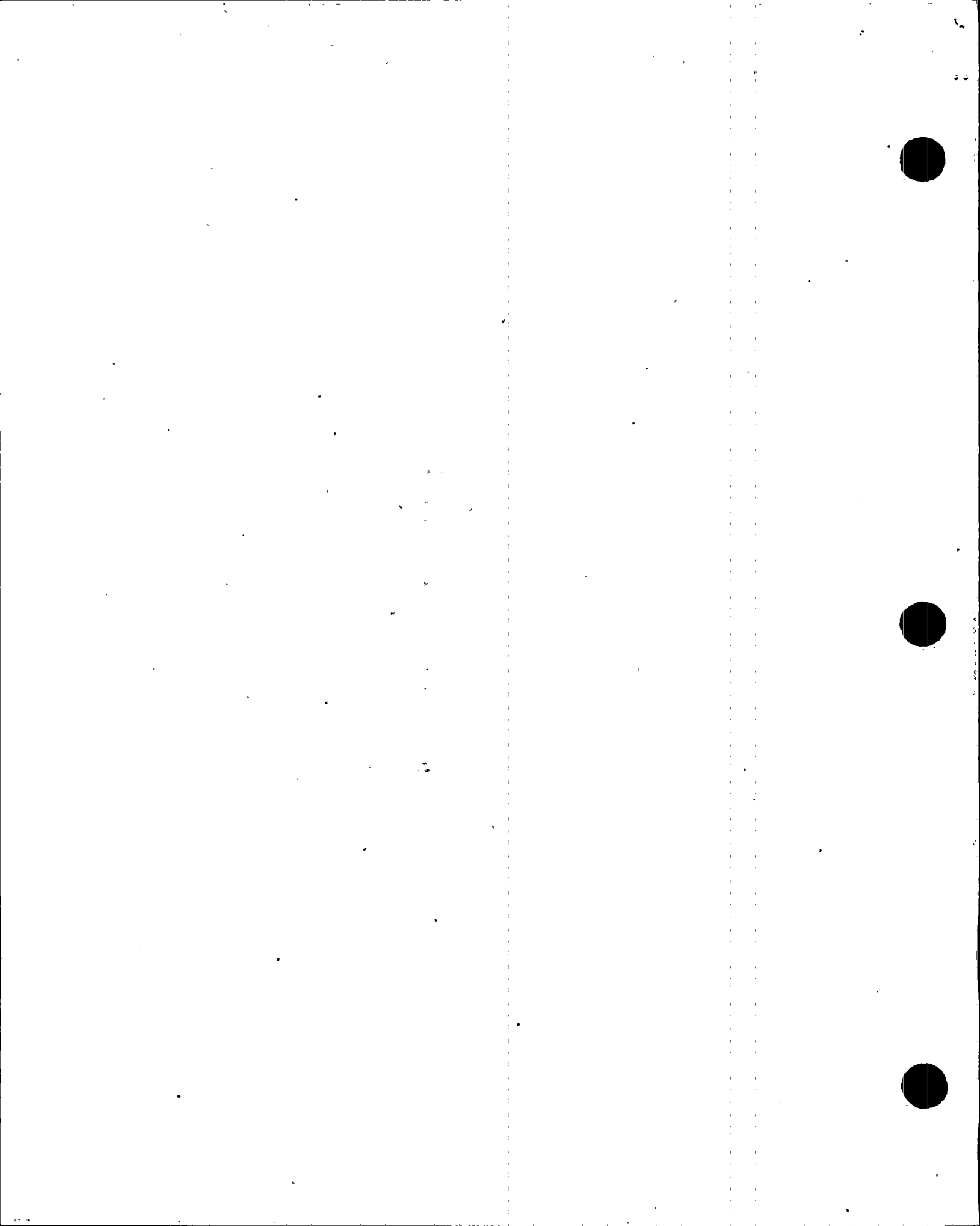
Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

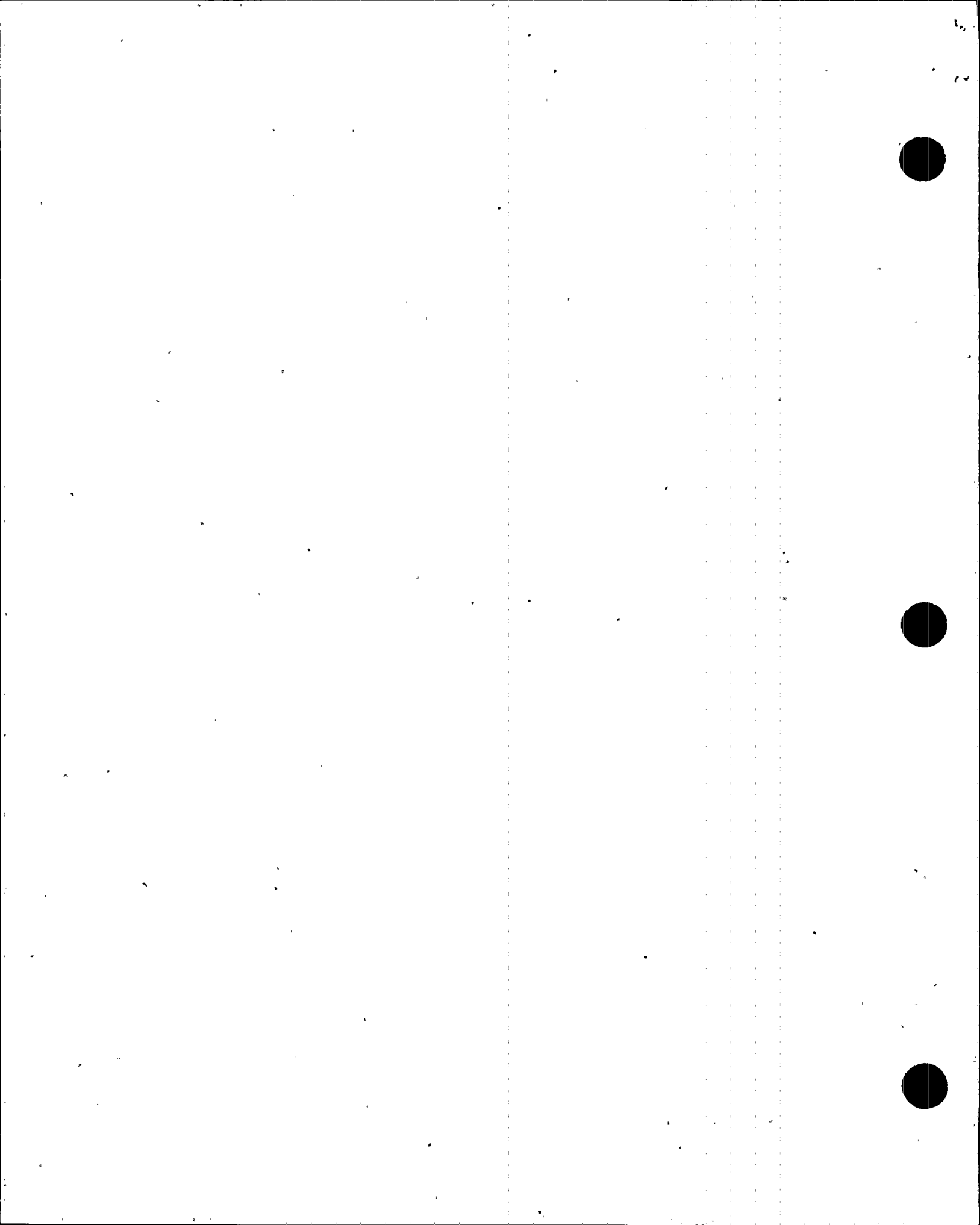
Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo



SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.



SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America.



AMENDMENT No. 1, dated as of December 31, 1987, to Facility Lease dated as of December 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of December 1, 1986 with CHRYSLER FINANCIAL CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

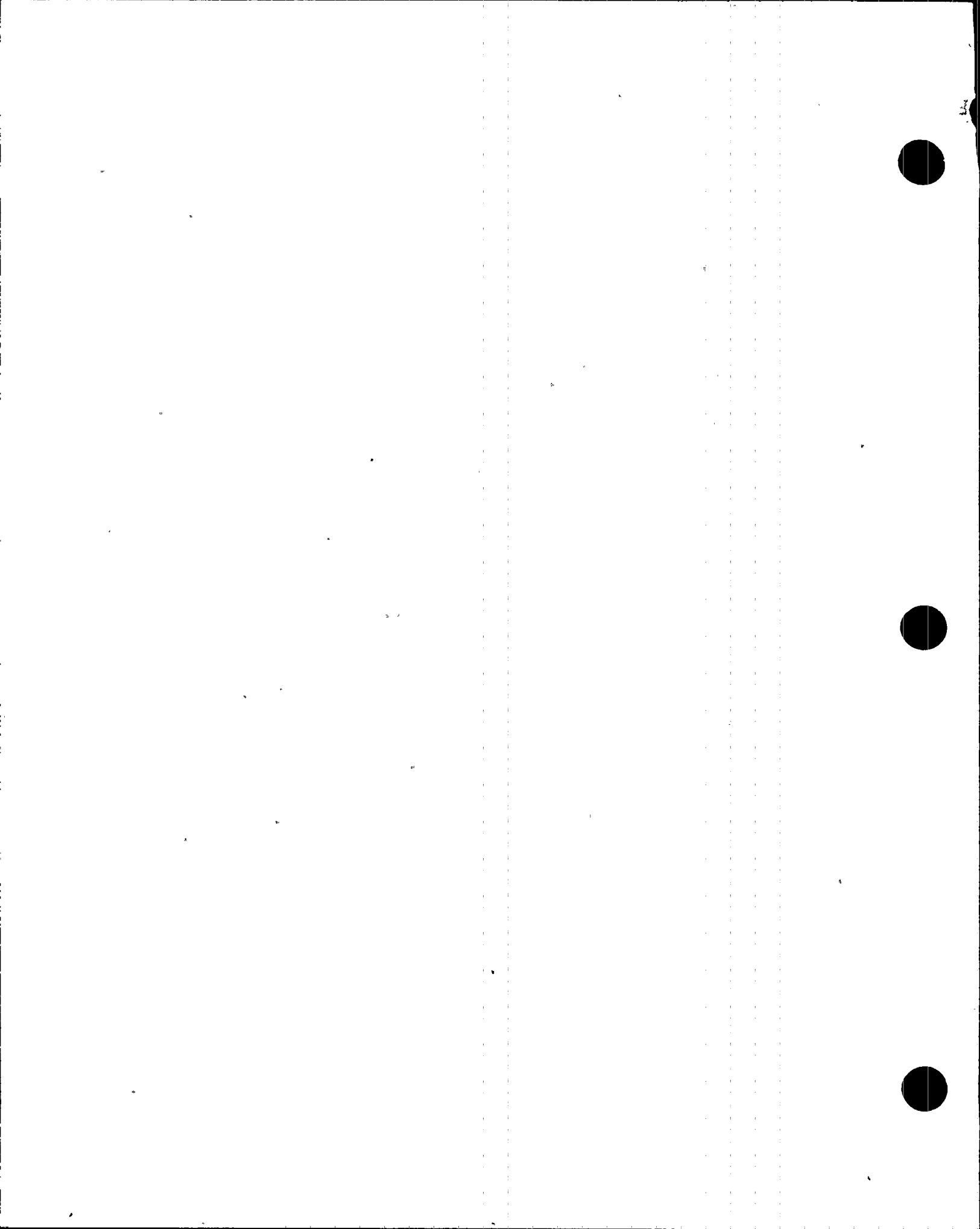
NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 7 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related



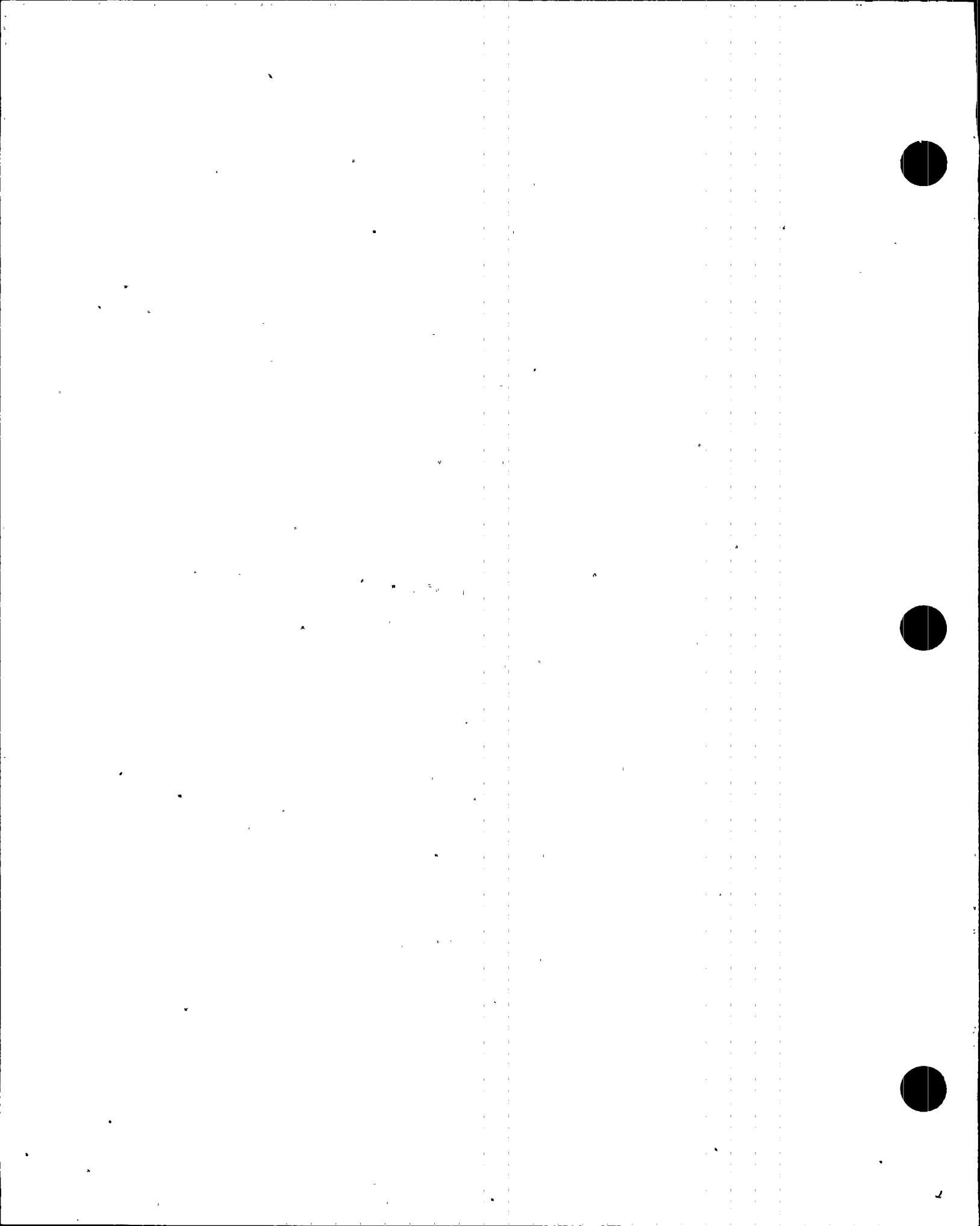
transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

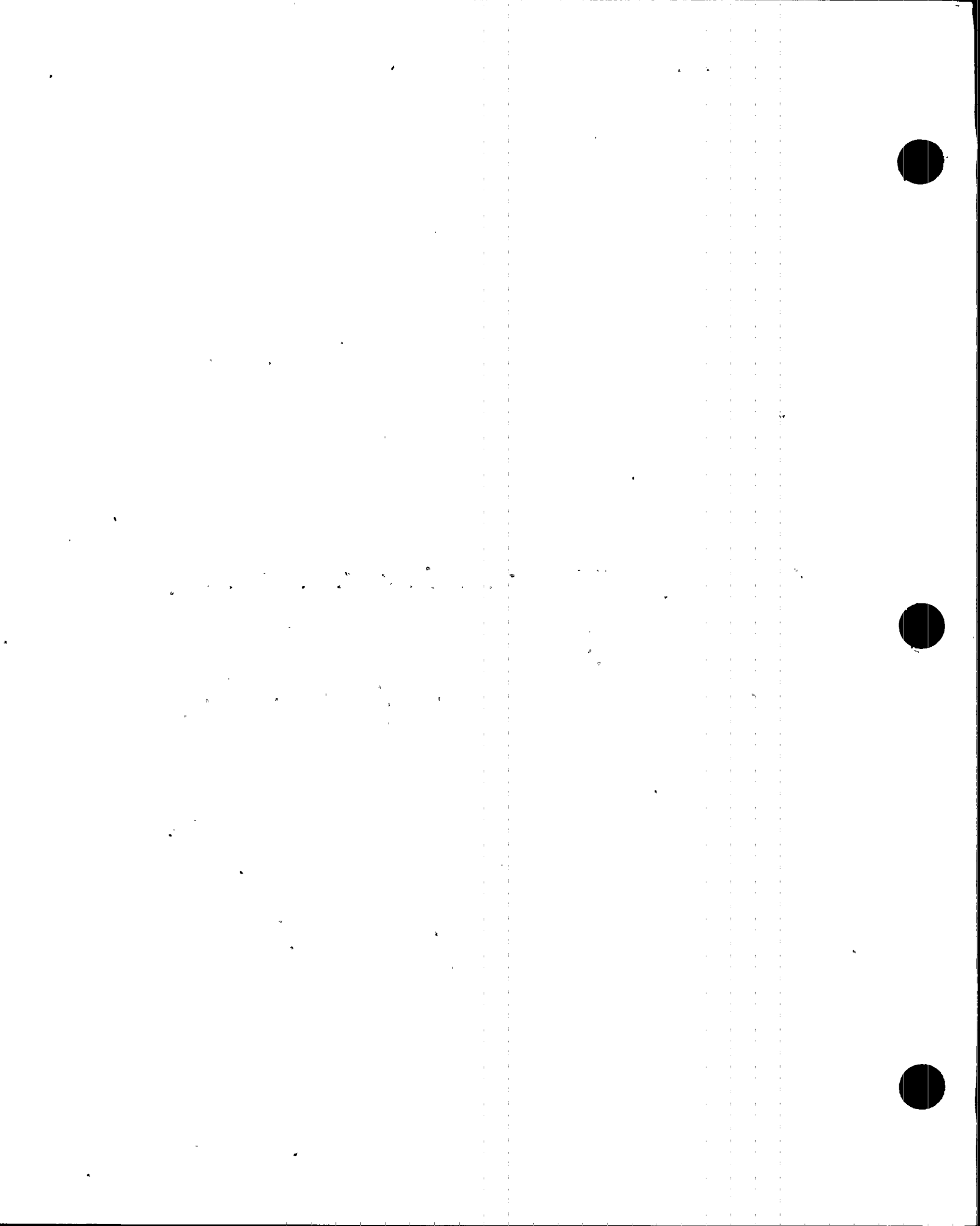
(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an Officers' Certificate and an opinion, reasonably satisfactory to the Owner Participant, of counsel to the Surviving Lessee, each stating that (1) such transaction complies with this subclause (c) and (2) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New Coverage Ratio of the Surviving Lessee shall be at least 16 to 1; and

(J) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall have provided a Letter of Credit which meets the requirements set forth in Section 10(b)(3)(xvii) of the Participation Agreement to the Owner Participant in the same amount as was available immediately prior to such transaction.



Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there shall not have been delivered and in effect a written election by Owner Participant to permit Lessee to defer compliance with the Tests as defined in subclause (f) hereof, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and lease-back transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable

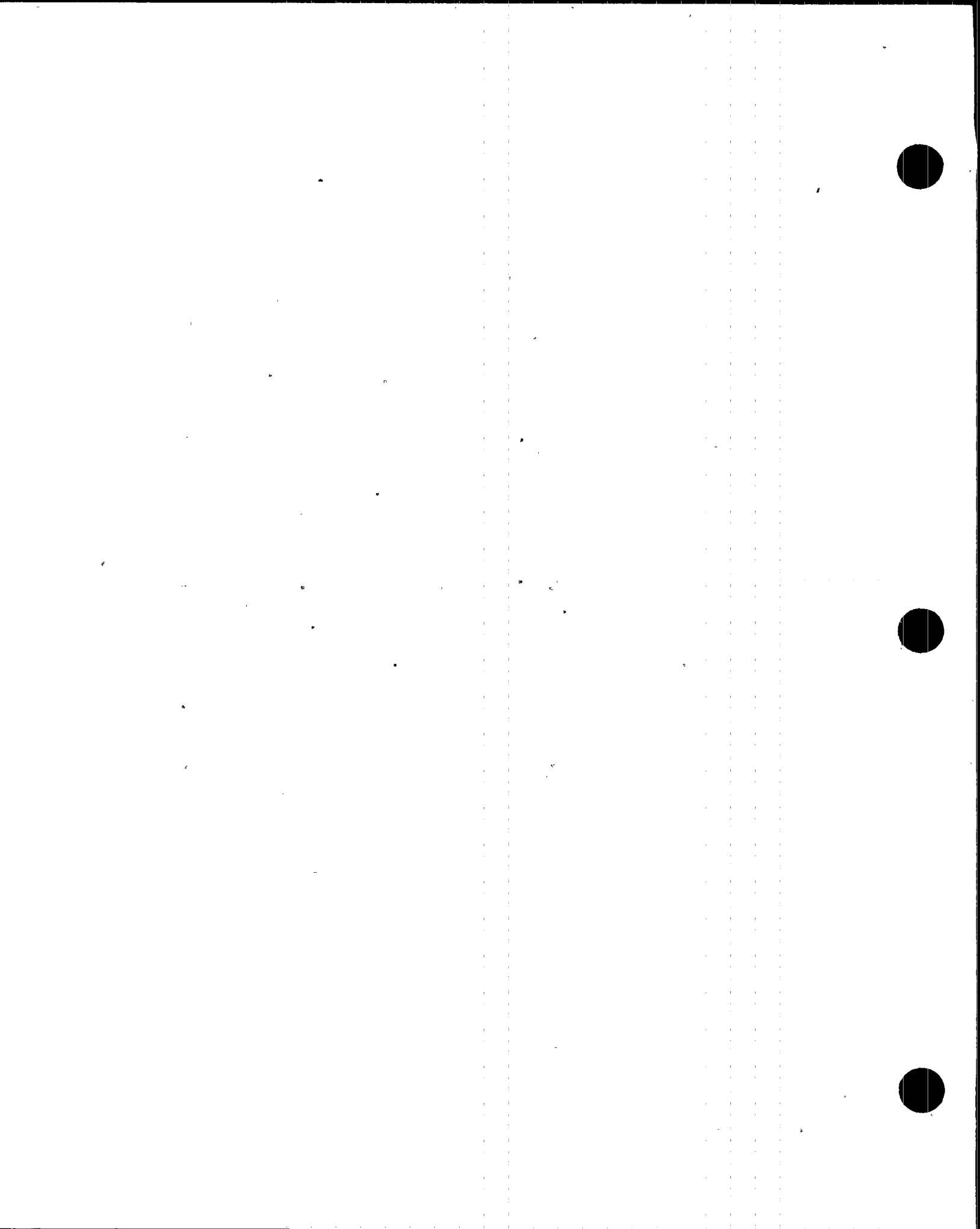
in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations and agreements under such Agreement within 15 days after notice from the Owner Participant.

(f) Financial Ratios. Unless the Owner Participant shall otherwise consent (which consent may be in the form of a deferral of compliance in the manner set forth below), Lessee agrees that as of December 31, 1991 (i) all of the Debt listed on Schedule 7 to the Facility Lease shall be retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, shall be not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, by written notice to Lessee, elect to defer requiring Lessee to comply with the Tests for one year. If Owner Participant makes such election, Lessee's failure to meet the Tests shall not constitute an Event of Default hereunder. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until Owner Participant ceases to be entitled to make such election of deferral.

(g) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.



(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(b) Schedule 7. Schedule 7 hereto is hereby added as Schedule 7 to the Facility Lease.

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. 1 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.

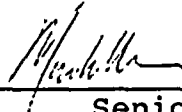
(c) Governing Law. This Amendment No. 1 has been negotiated and delivered in the State of New York and shall be governed by and be construed in accordance with the laws of the State of New York, except to the extent that pursuant to the law of the State of Arizona such law is mandatorily applicable hereto.

(d) Disclosure. Pursuant to Arizona Revised Statutes Section 33-404, the beneficiary of the Trust Agreement is Chrysler Financial Corporation, a Michigan corporation. The address of the beneficiary is Greenwich Office Park I, Greenwich CT 06836, Attention: Leasing and Investment Services. 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, each of the parties hereto has caused this Amendment No. 1 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner,
Trustee under a Trust
December 1, 1986 with
Chrysler Financial
Corporation,

By



Senior Manager

EL PASO ELECTRIC COMPANY,

By



Vice President

STATE OF TEXAS

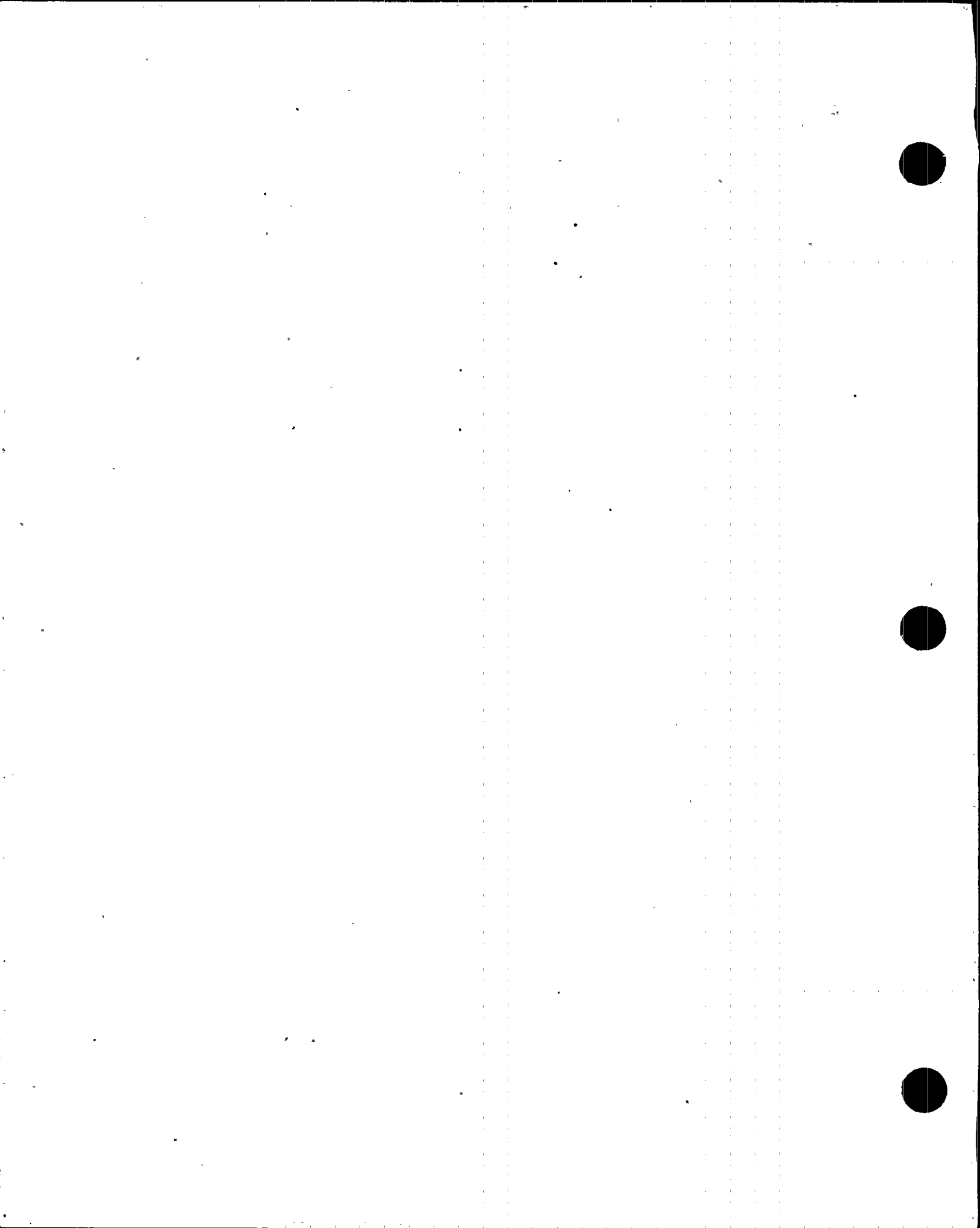
COUNTY OF EL PASO

)
)
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ss.:

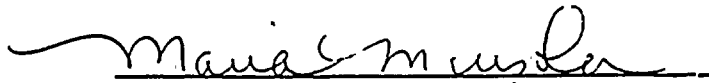
The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James G. Perkins
Notary Public

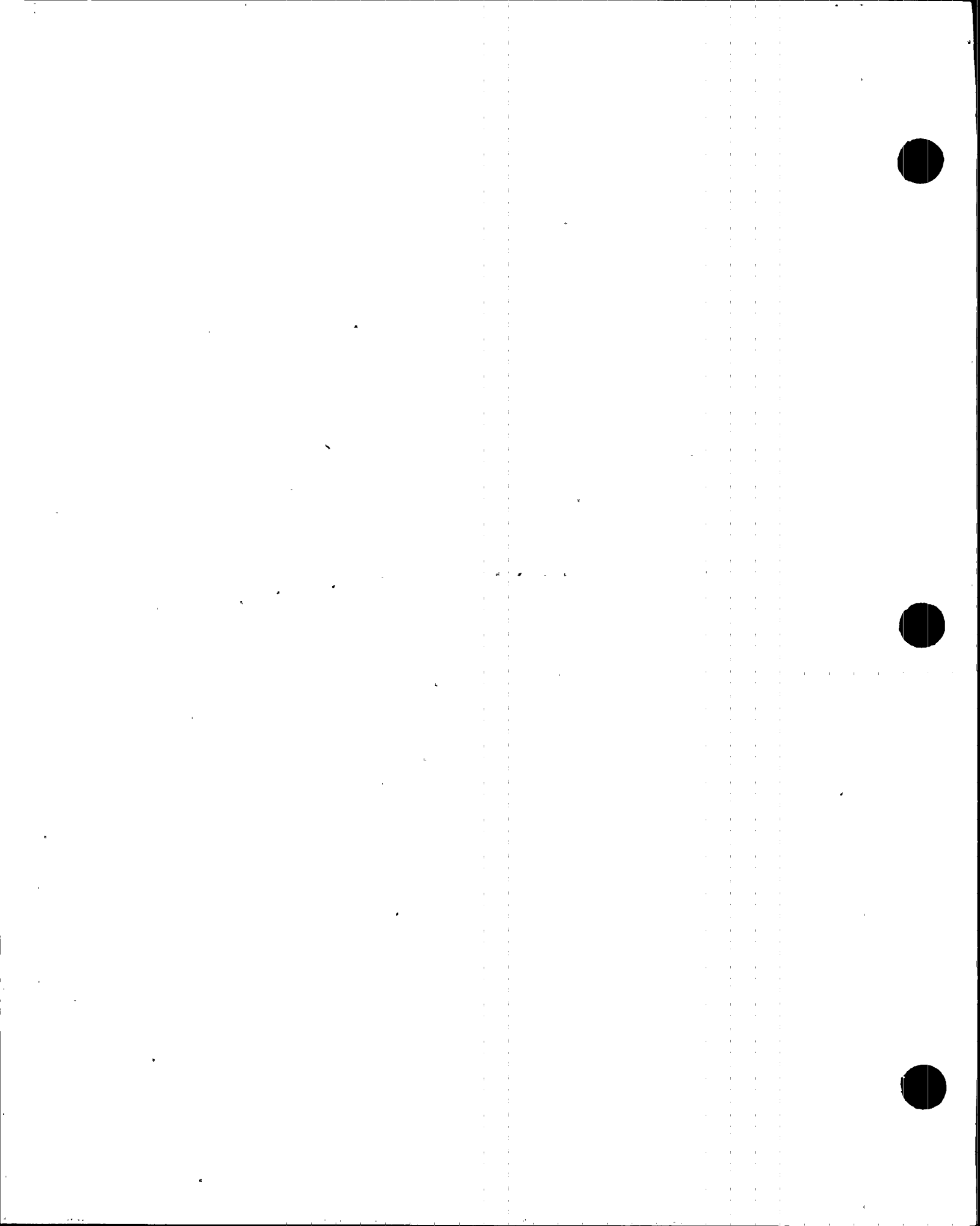


COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this 21 day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Palatine Hills Leasing, Inc.


Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994

1021.7500.2754.06A:1



**SCHEDULE 7
TO FACILITY LEASE**

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with BURNHAM LEASING CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

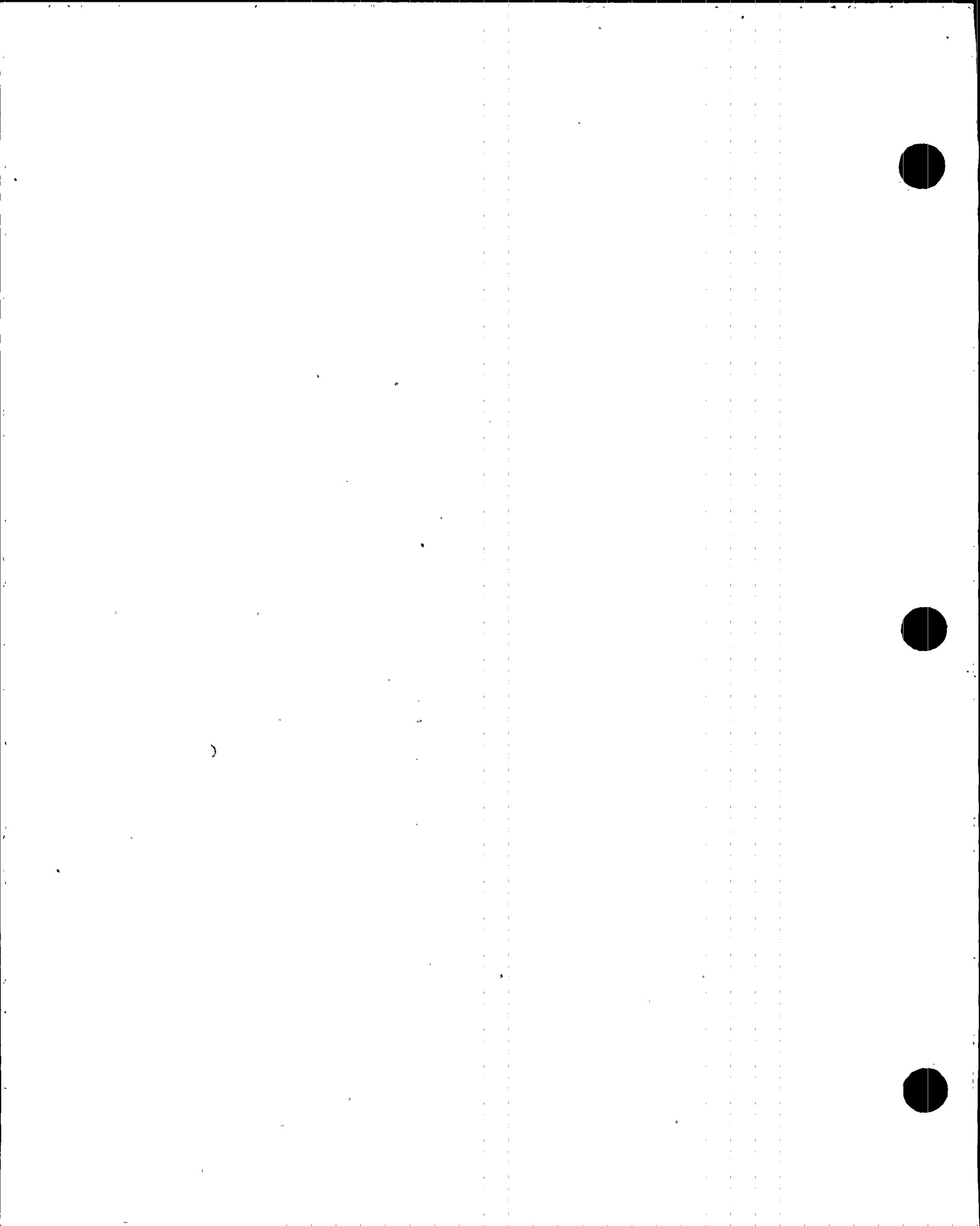
(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

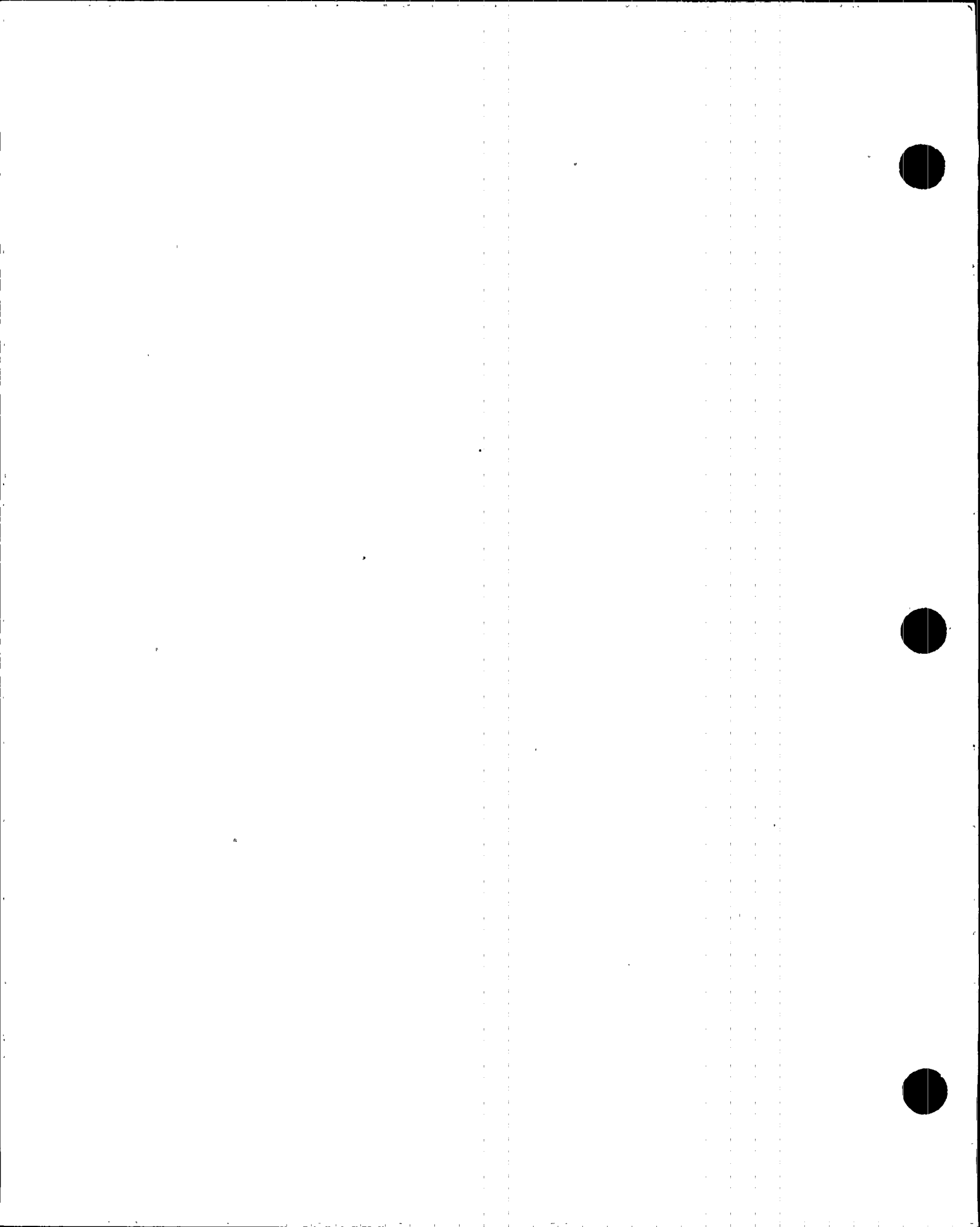
SECTION 3. Miscellaneous

(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 33-404, the beneficiary of the Trust Agreement is Burnham Leasing Corporation, a corporation. The address of the beneficiary is 55 Broad Street, New York, New York, Attention: Dianne Rudo. 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.



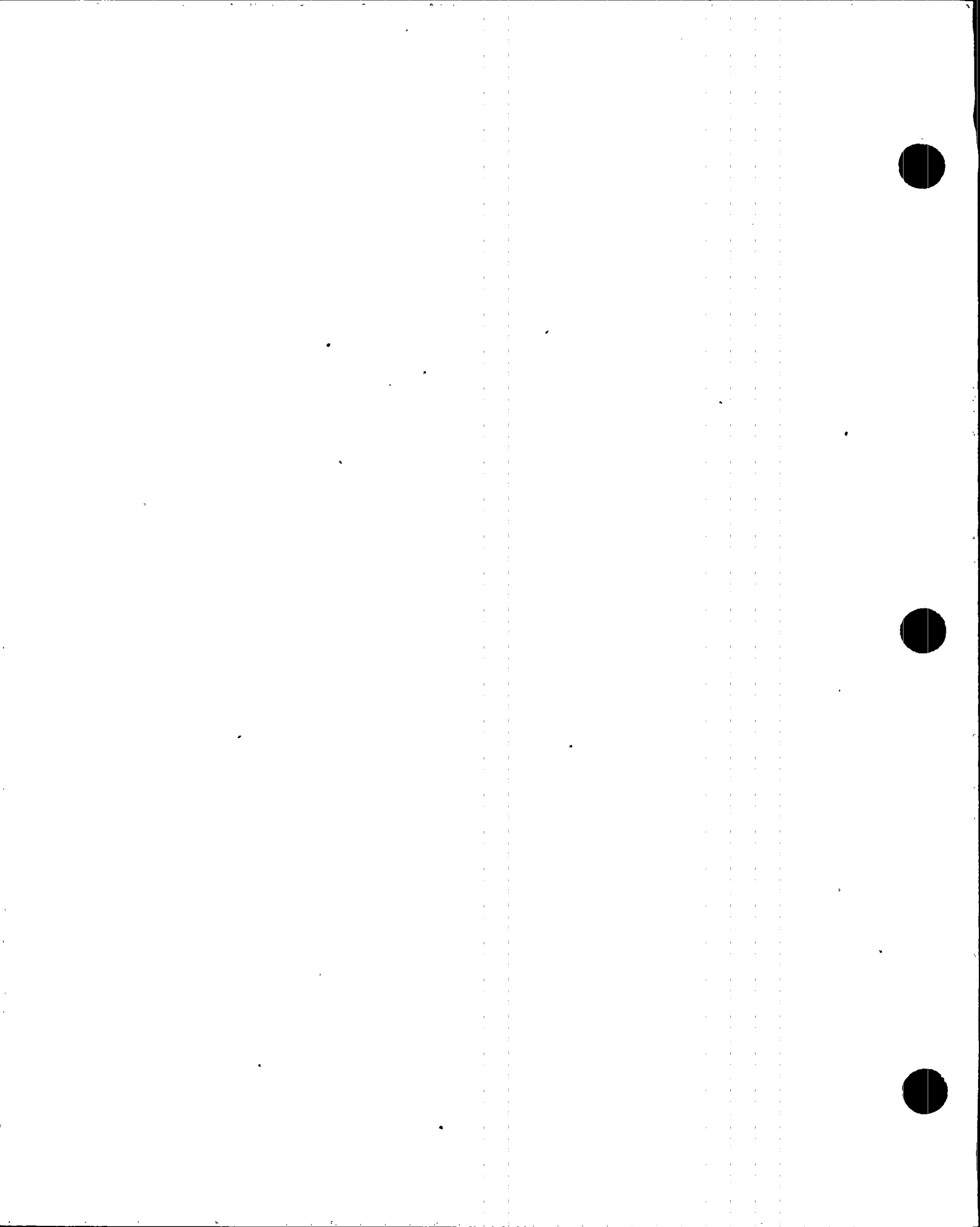
IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Burnham
Leasing Corporation,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President



STATE OF TEXAS

COUNTY OF EL PASO

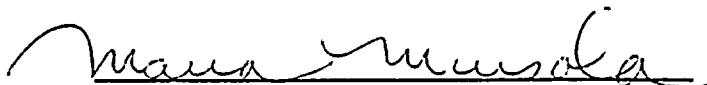
)
) ss.:
)

The foregoing instrument was acknowledged before me this 6th day of January, 1988, by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

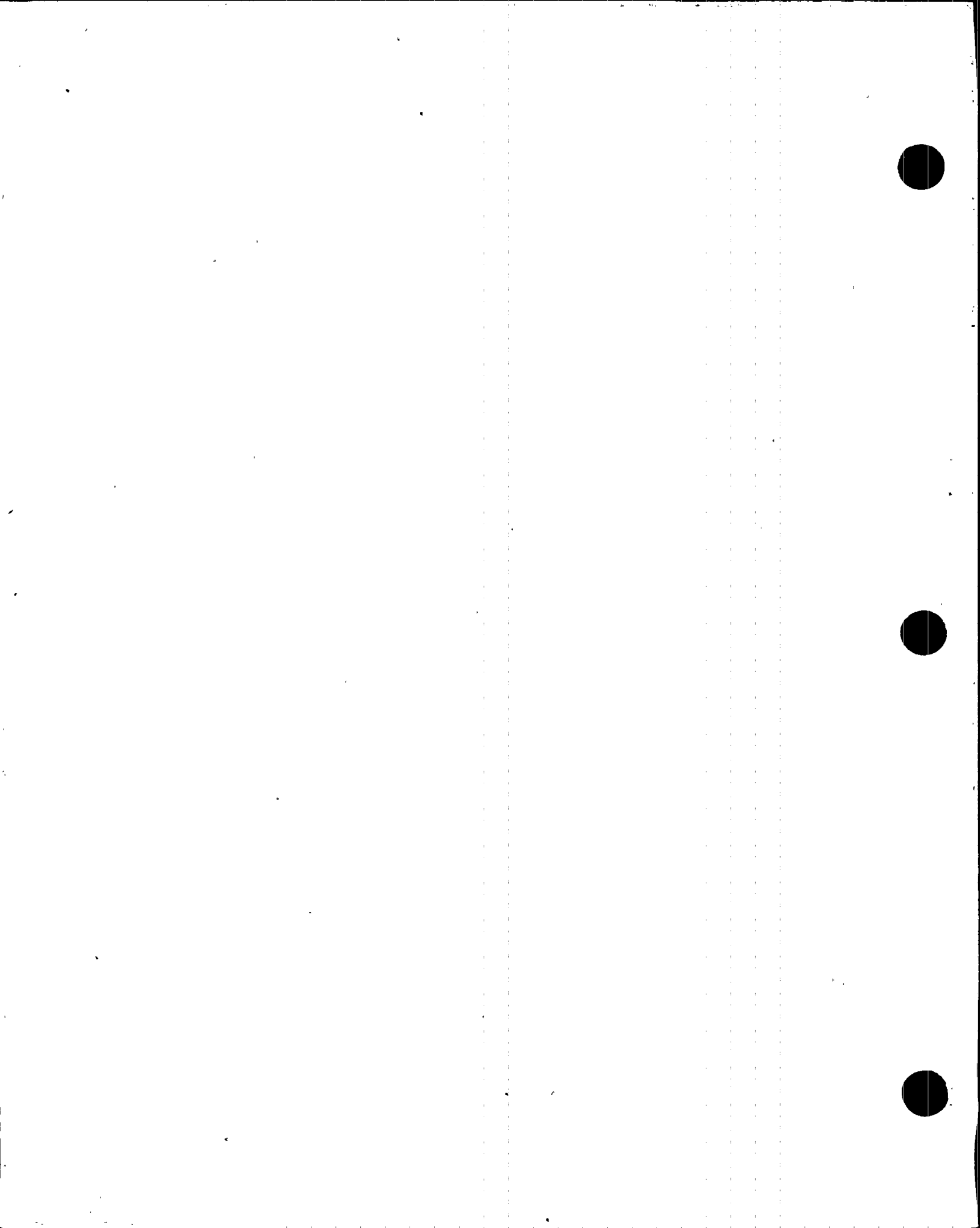
James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this 21 day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Palatine Hills Leasing, Inc.



Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994



SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

Figure 6

1



AGREEMENT dated as of December 31, 1987 among BURNHAM LEASING CORPORATION ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

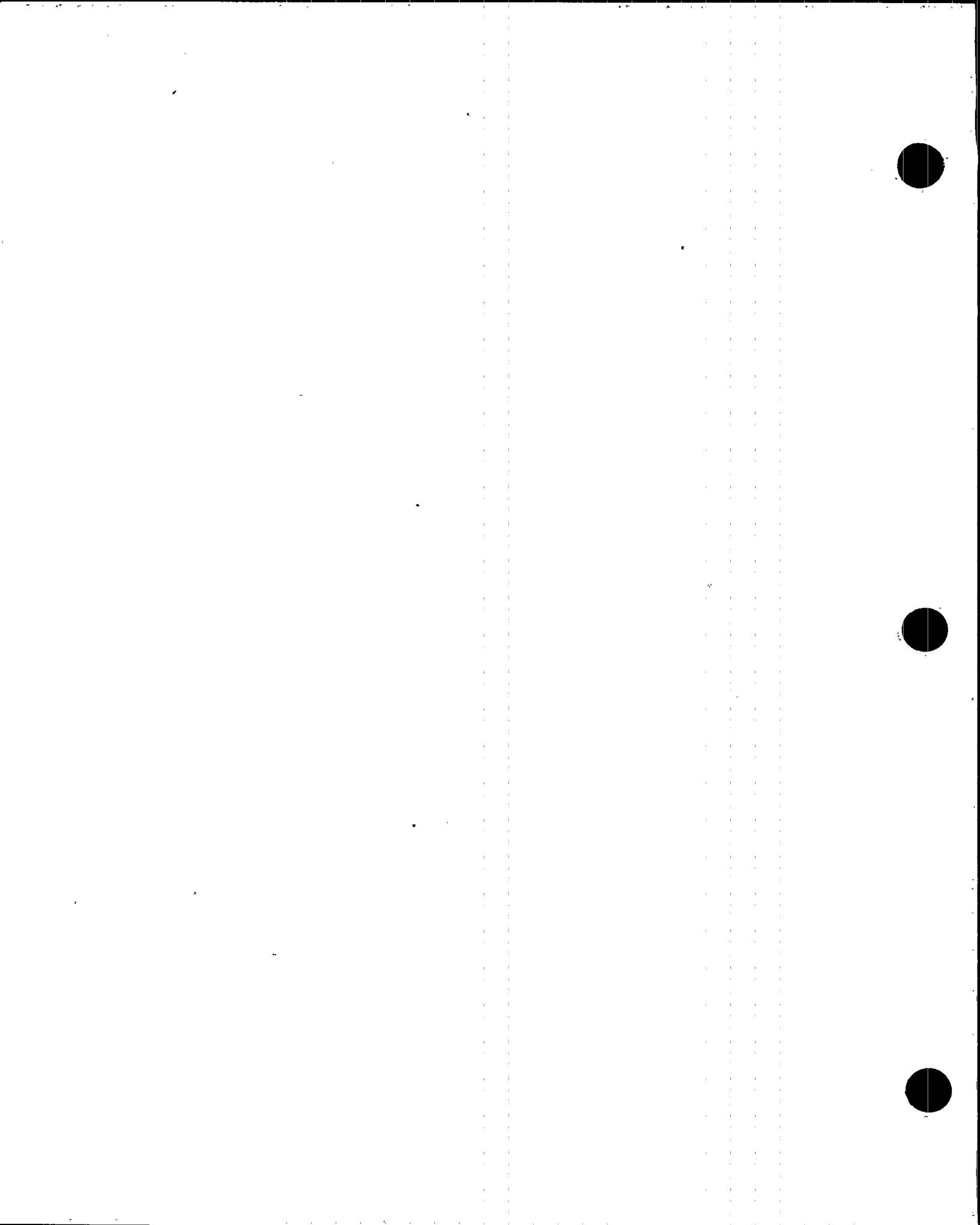
A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.

C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

E. The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee



shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss

Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing LC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.

IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

BURNHAM LEASING CORPORATION

By: *Elizabeth W. Howell*
VP

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By: *[Signature]*
Senior Manager

EL PASO ELECTRIC COMPANY

By: *W. J. John*
Vice President

ESCROW AGREEMENT

Dated as of December 31, 1987

between

**CHEMICAL BANK,
Escrow Agent**

and

EL PASO ELECTRIC COMPANY

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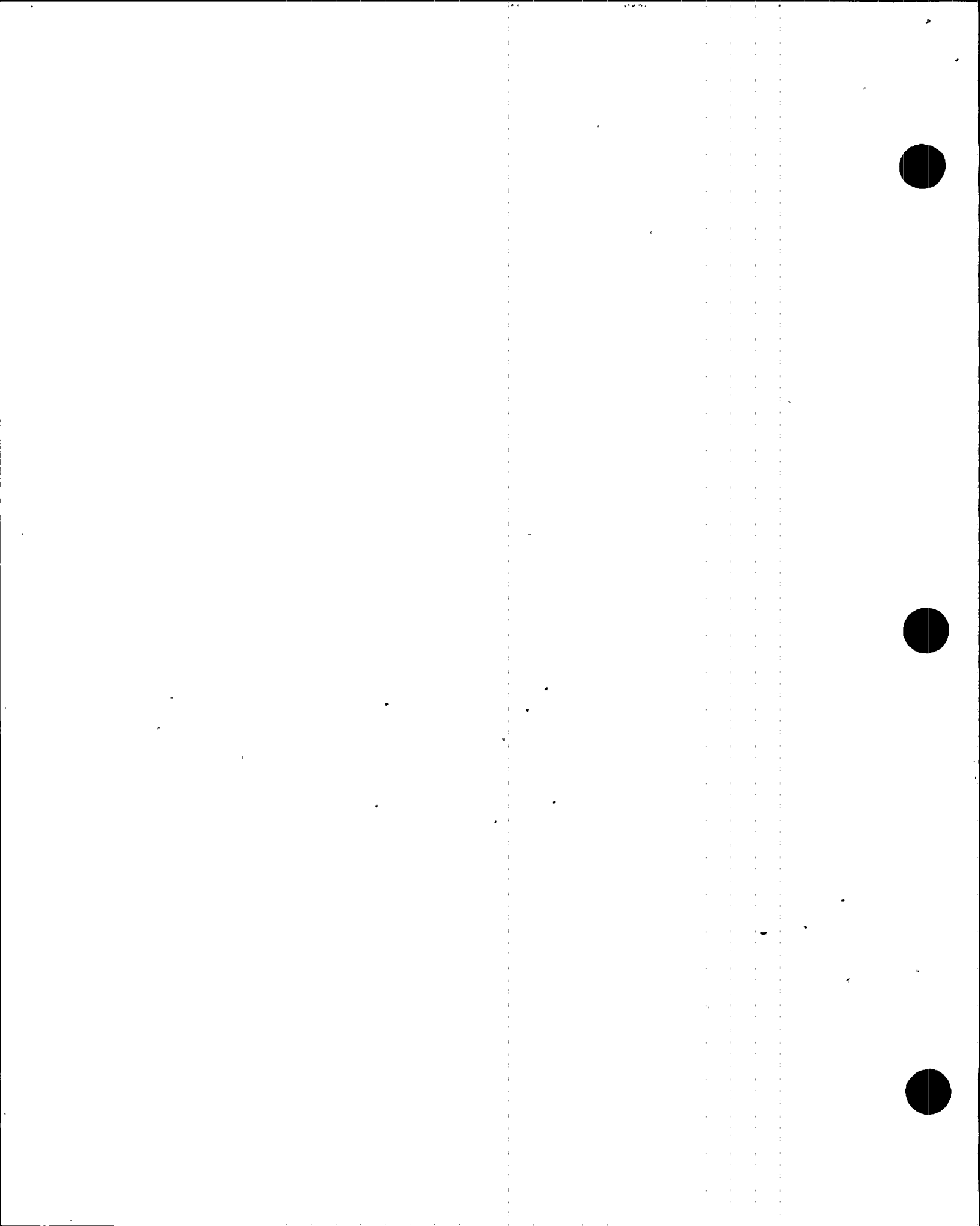


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H :

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

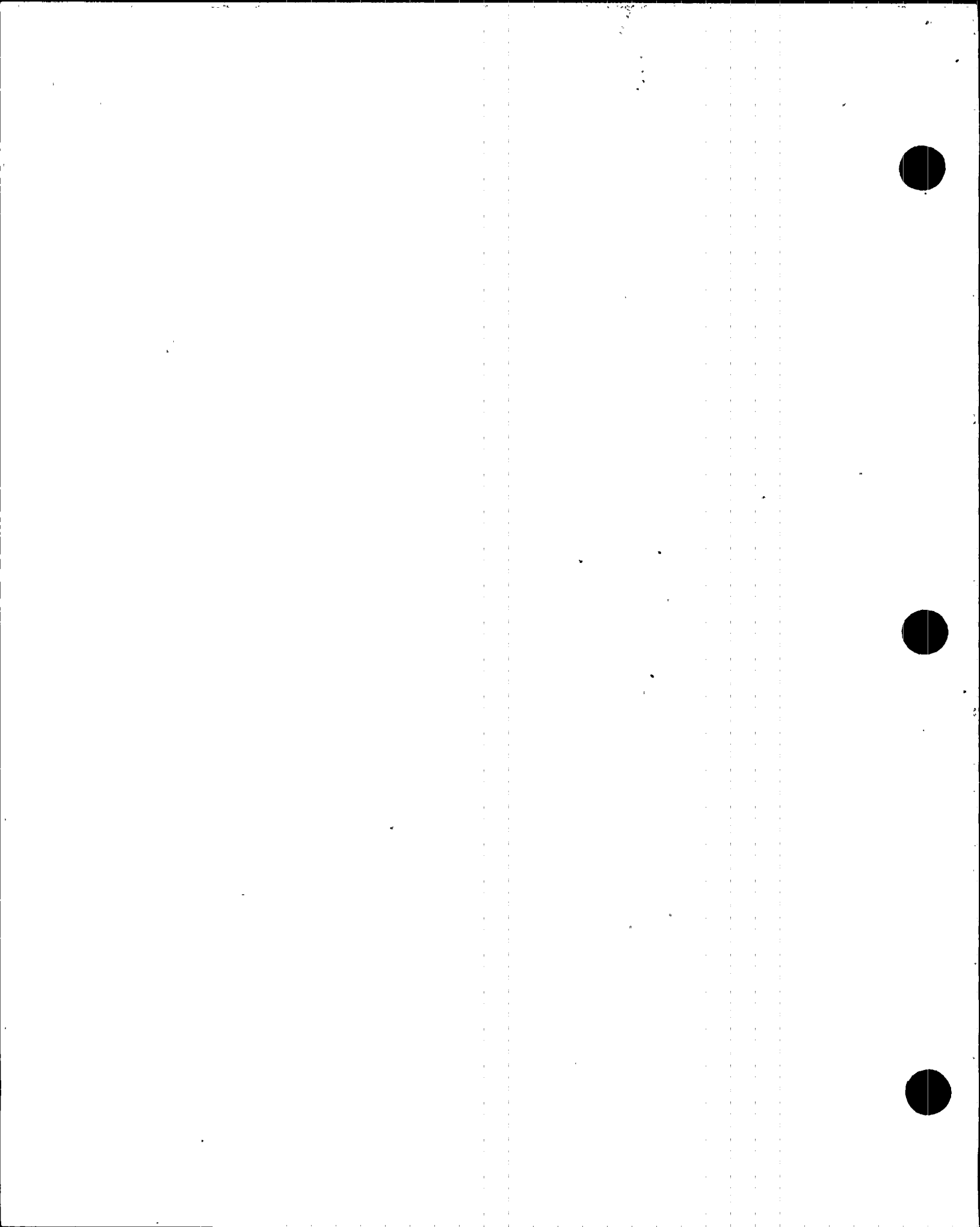
DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in



the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

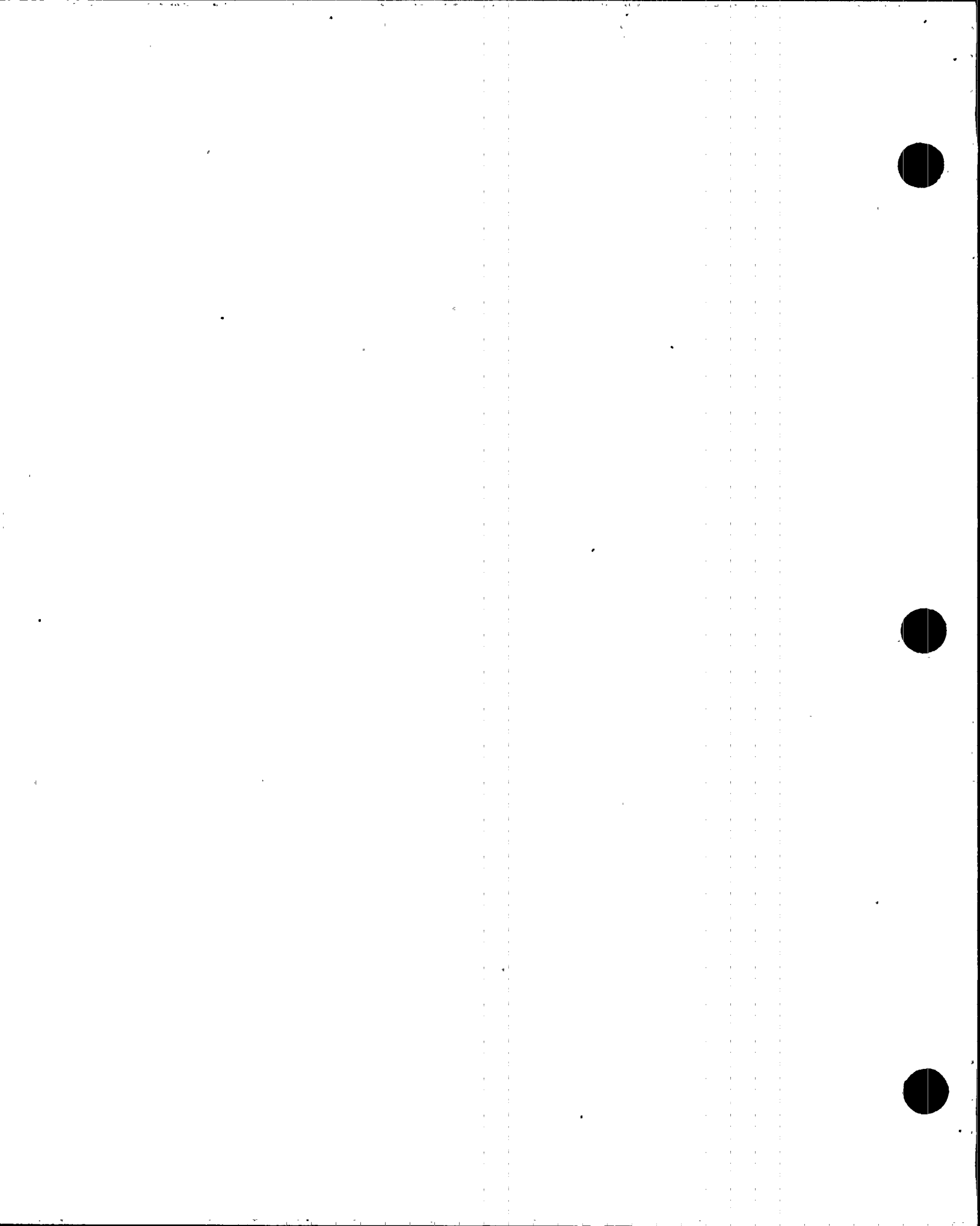
Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and



Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

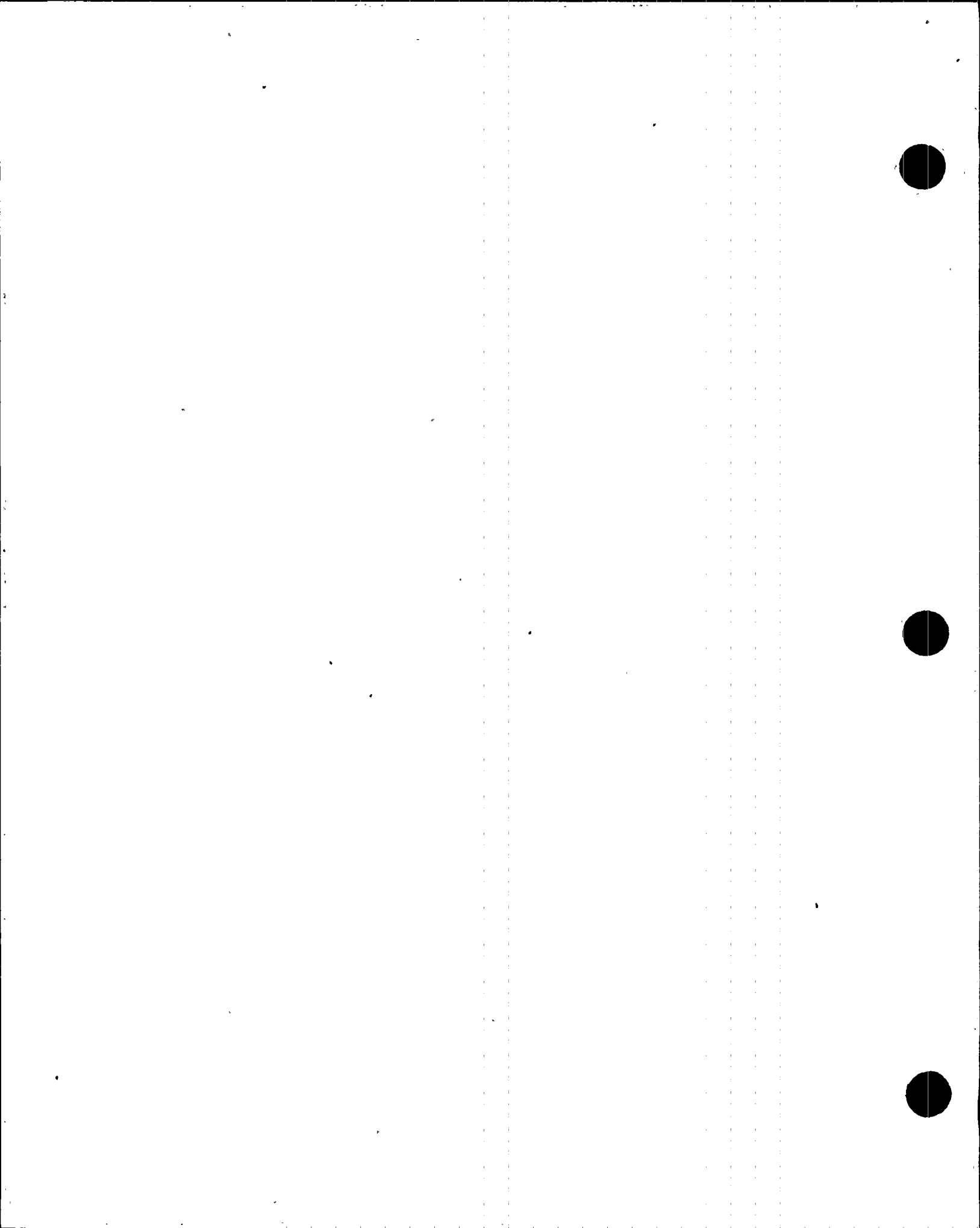
(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for



credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

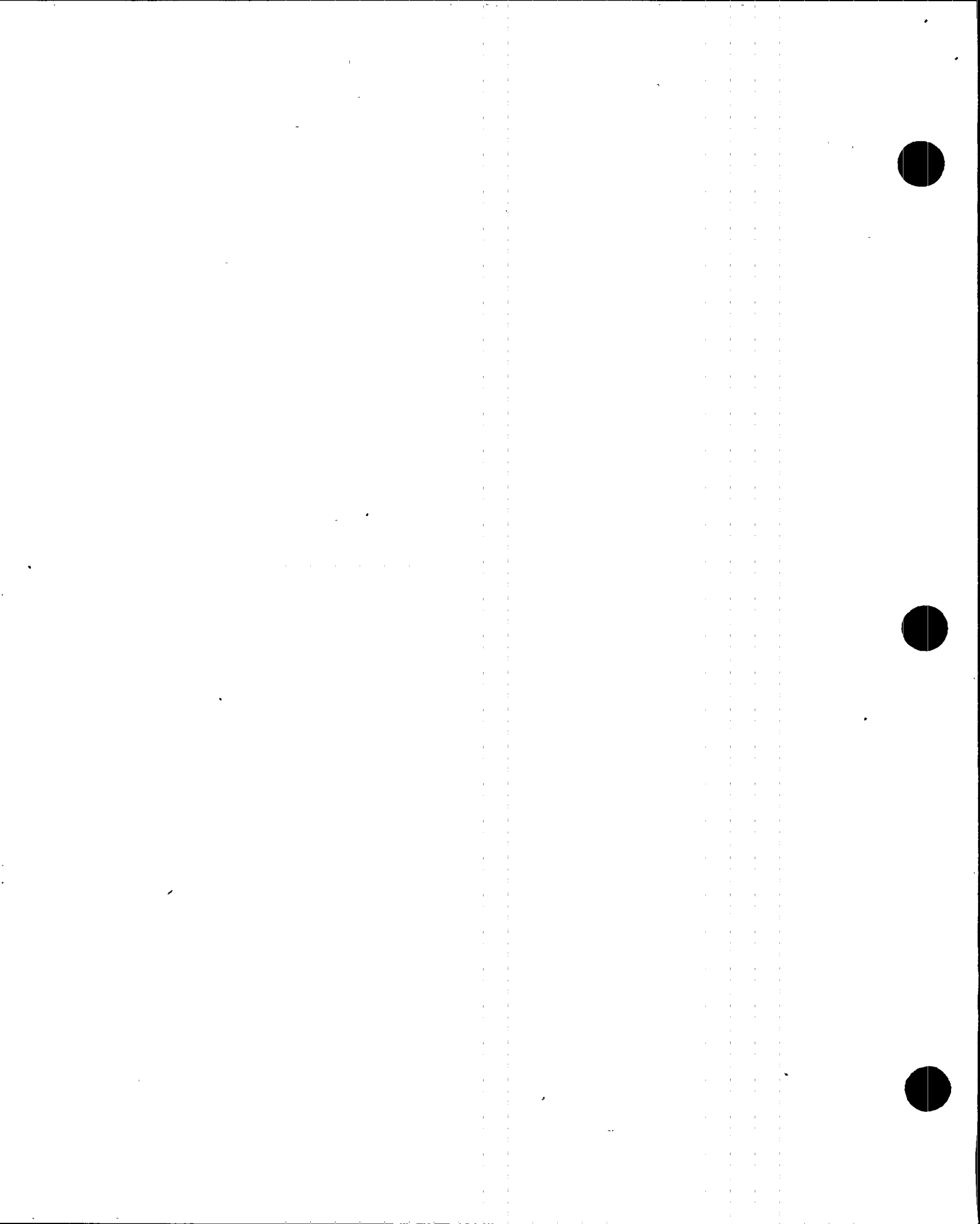
ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited



Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the

market value of the amounts then on deposit in the Escrow Account;

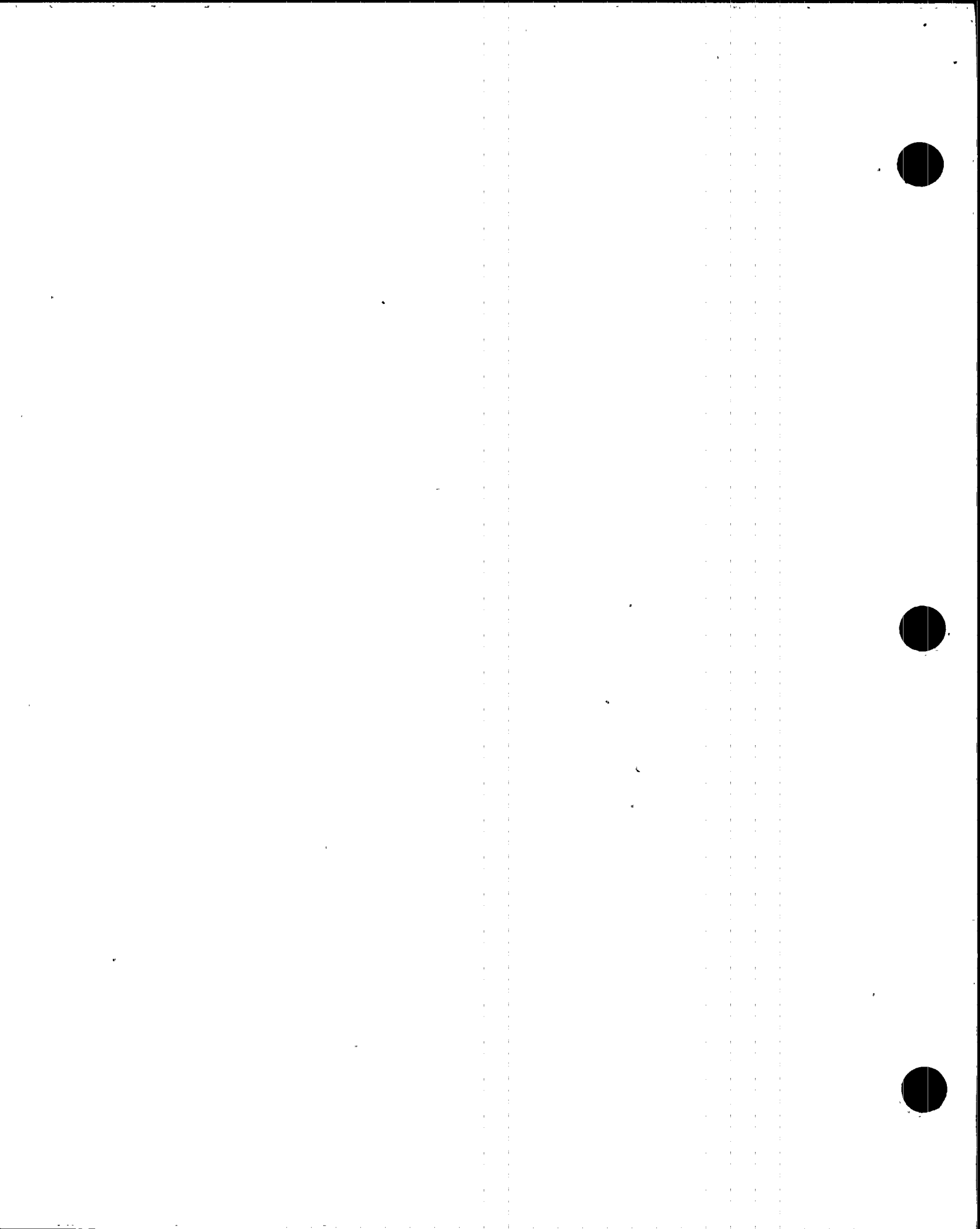
(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

<u>1988</u> <u>(quarter)</u>	<u>Reduction</u> <u>(millions of Dollars)</u>
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	38 to 13
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the



investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

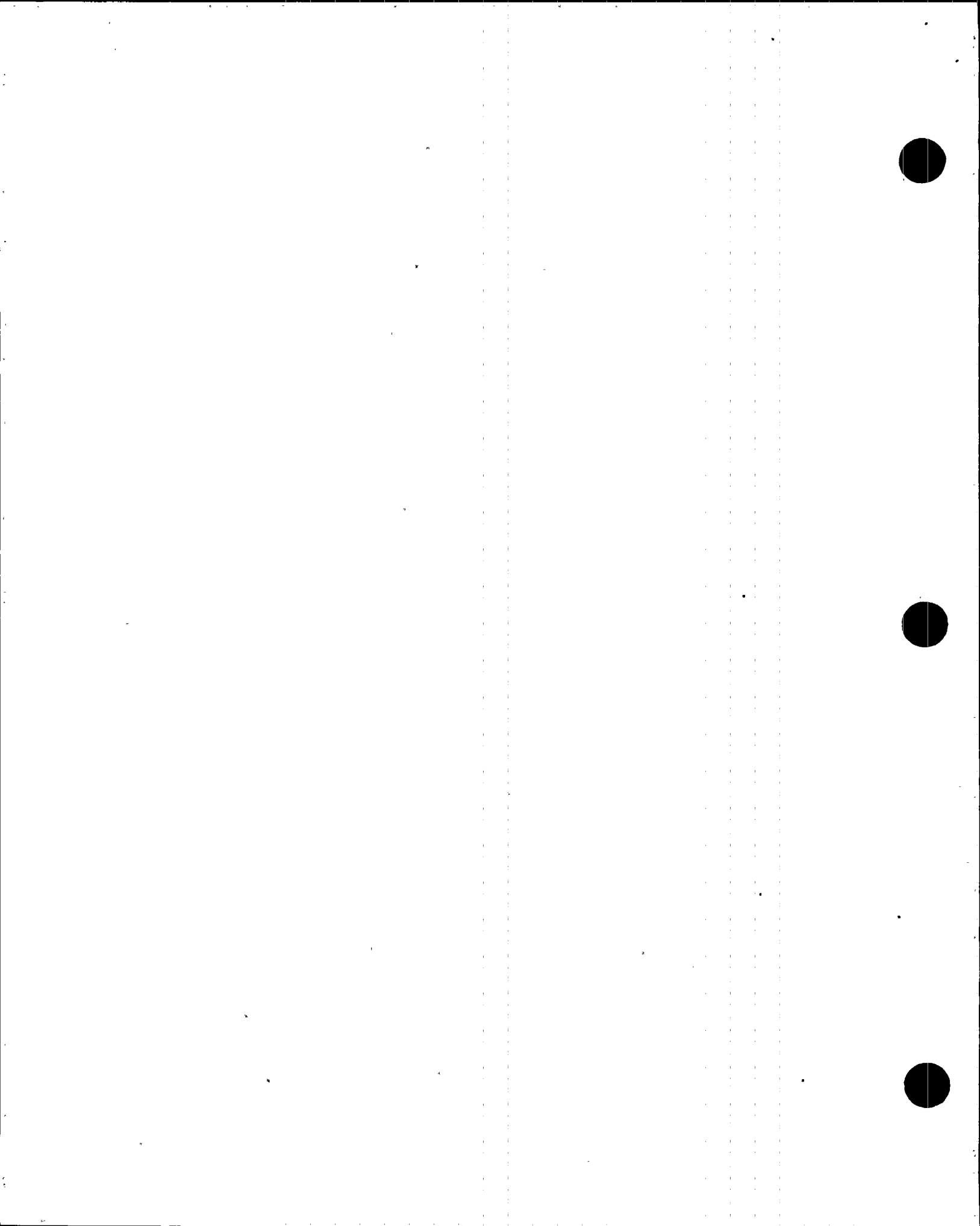
ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to



evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

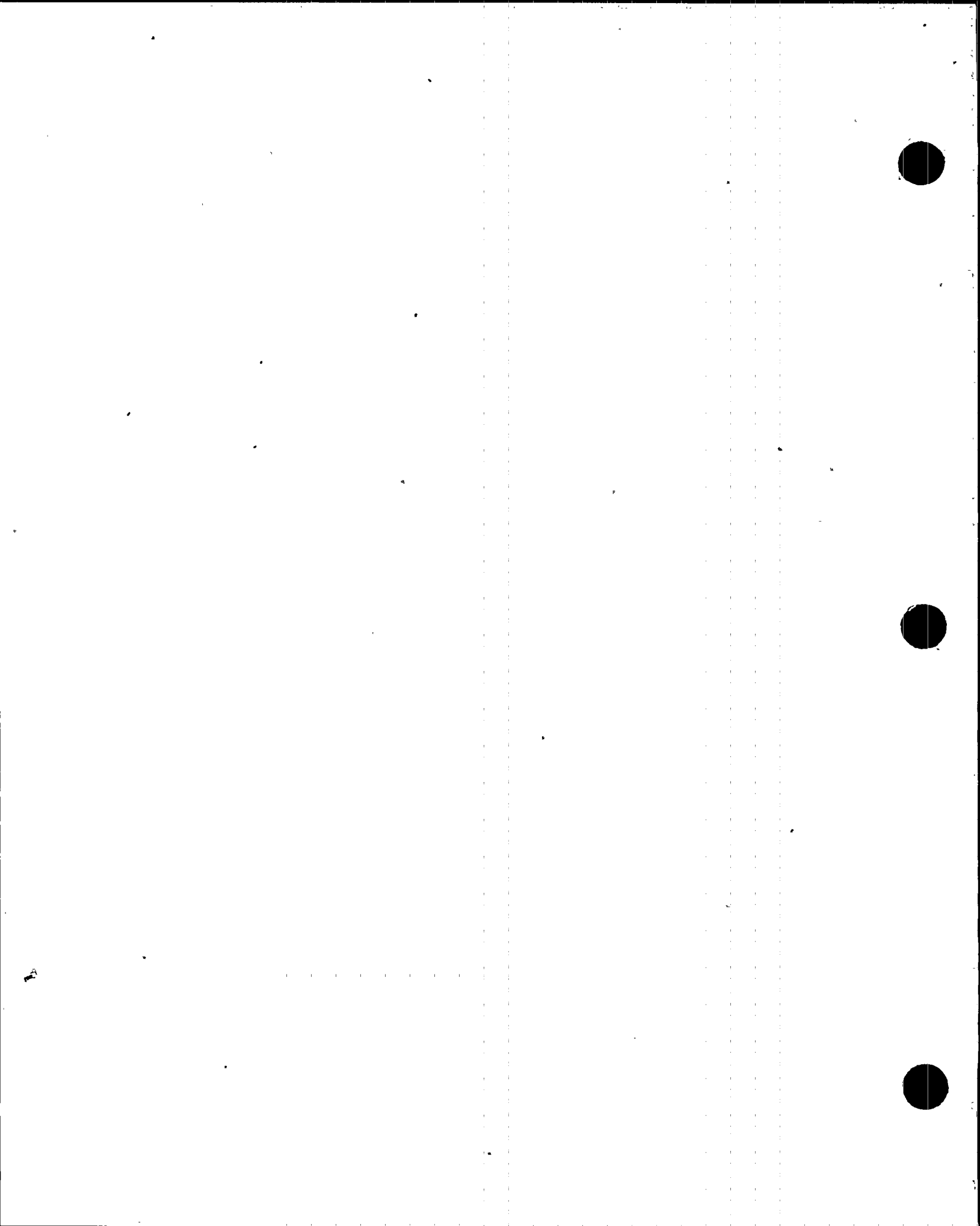
MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,



Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

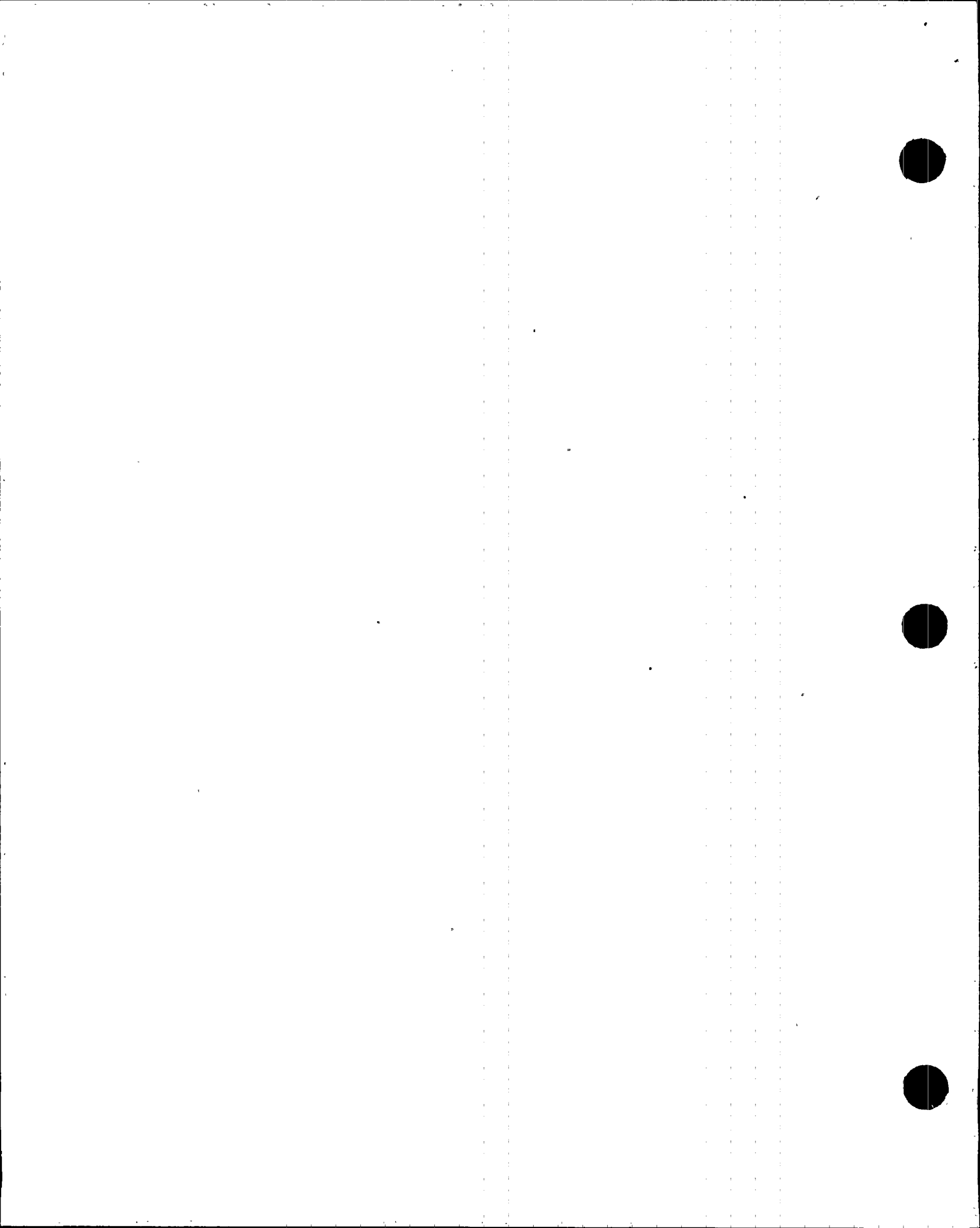
Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070



UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

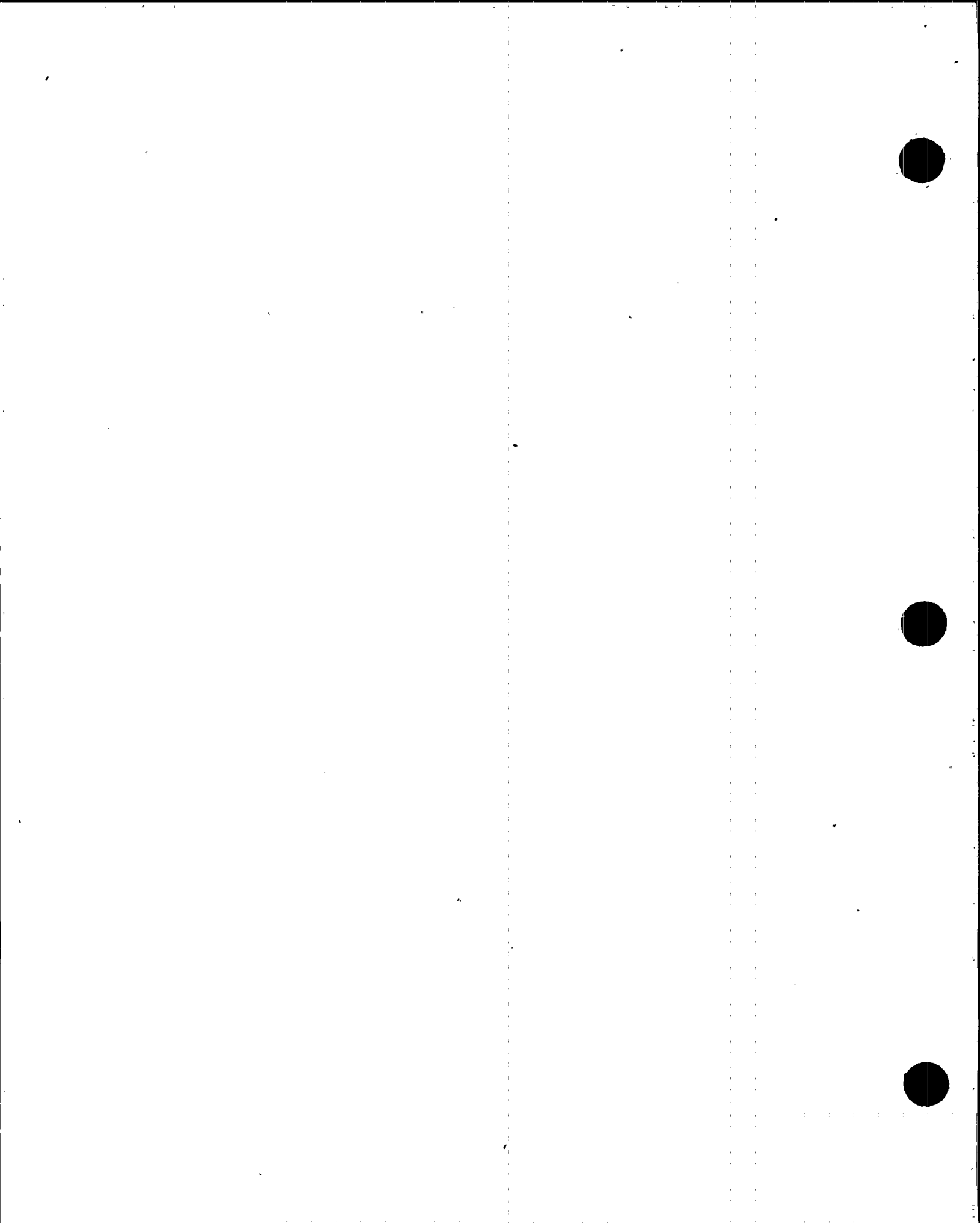
Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo



SCHEDULE II

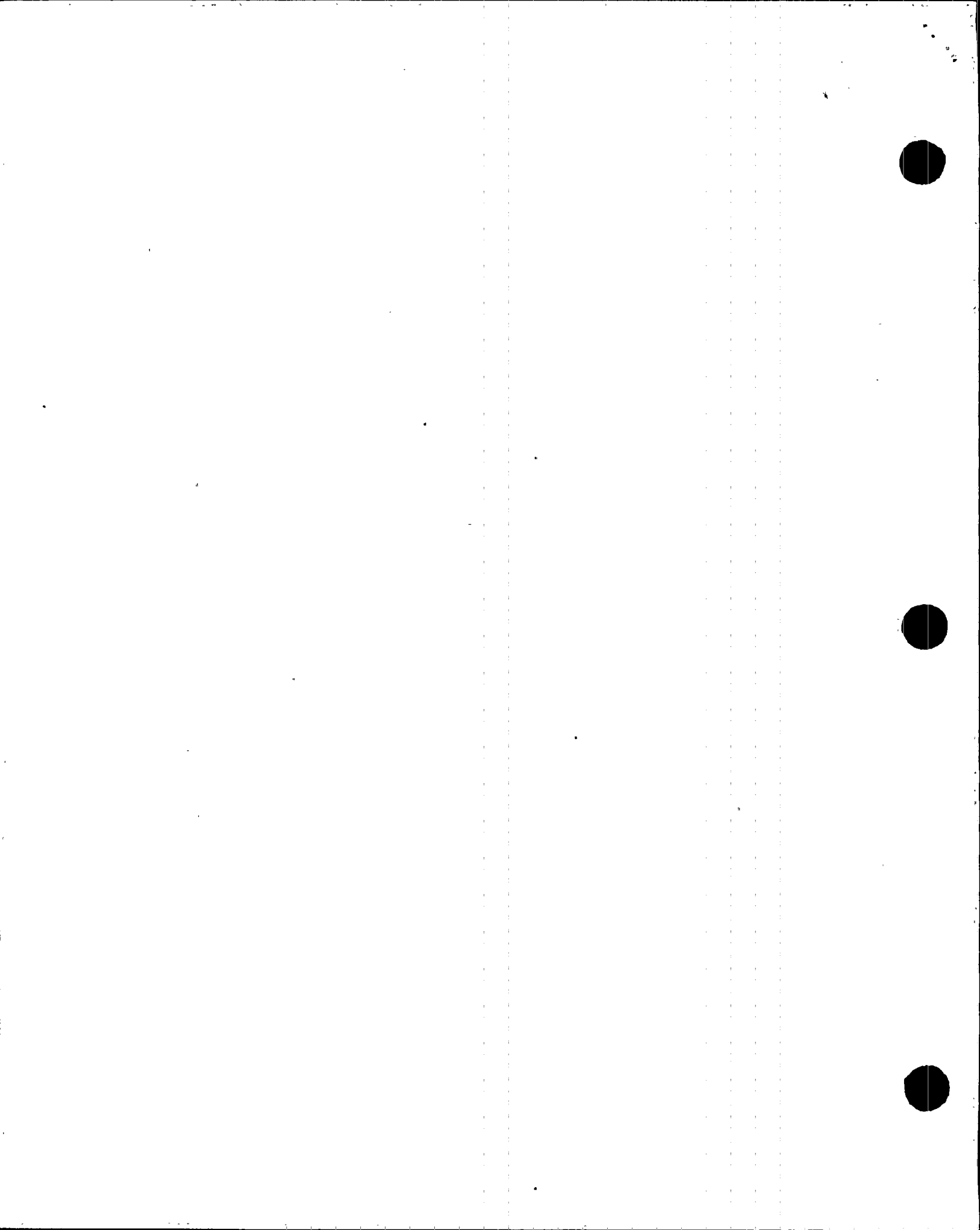
1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with BURNHAM LEASING CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

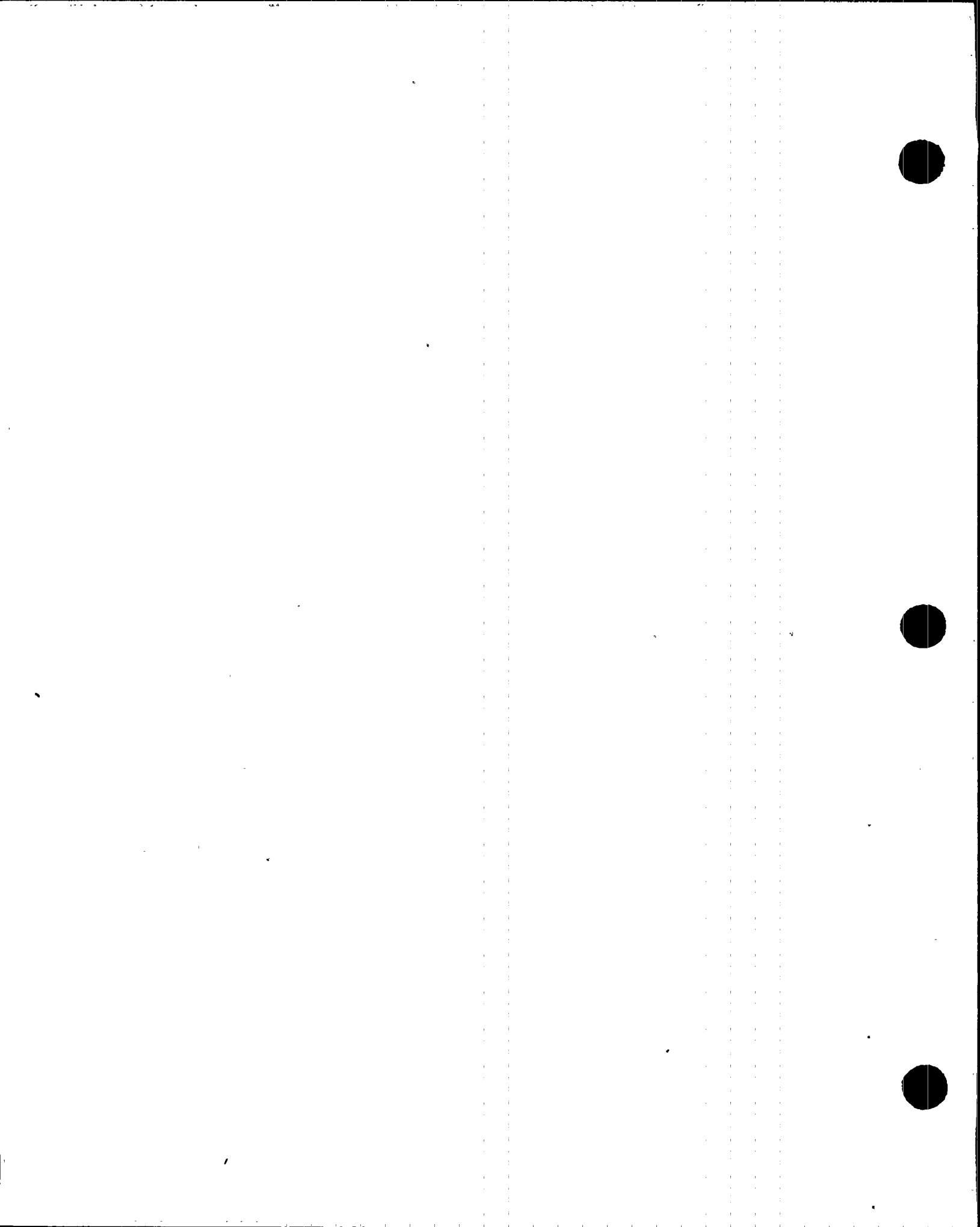
The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent



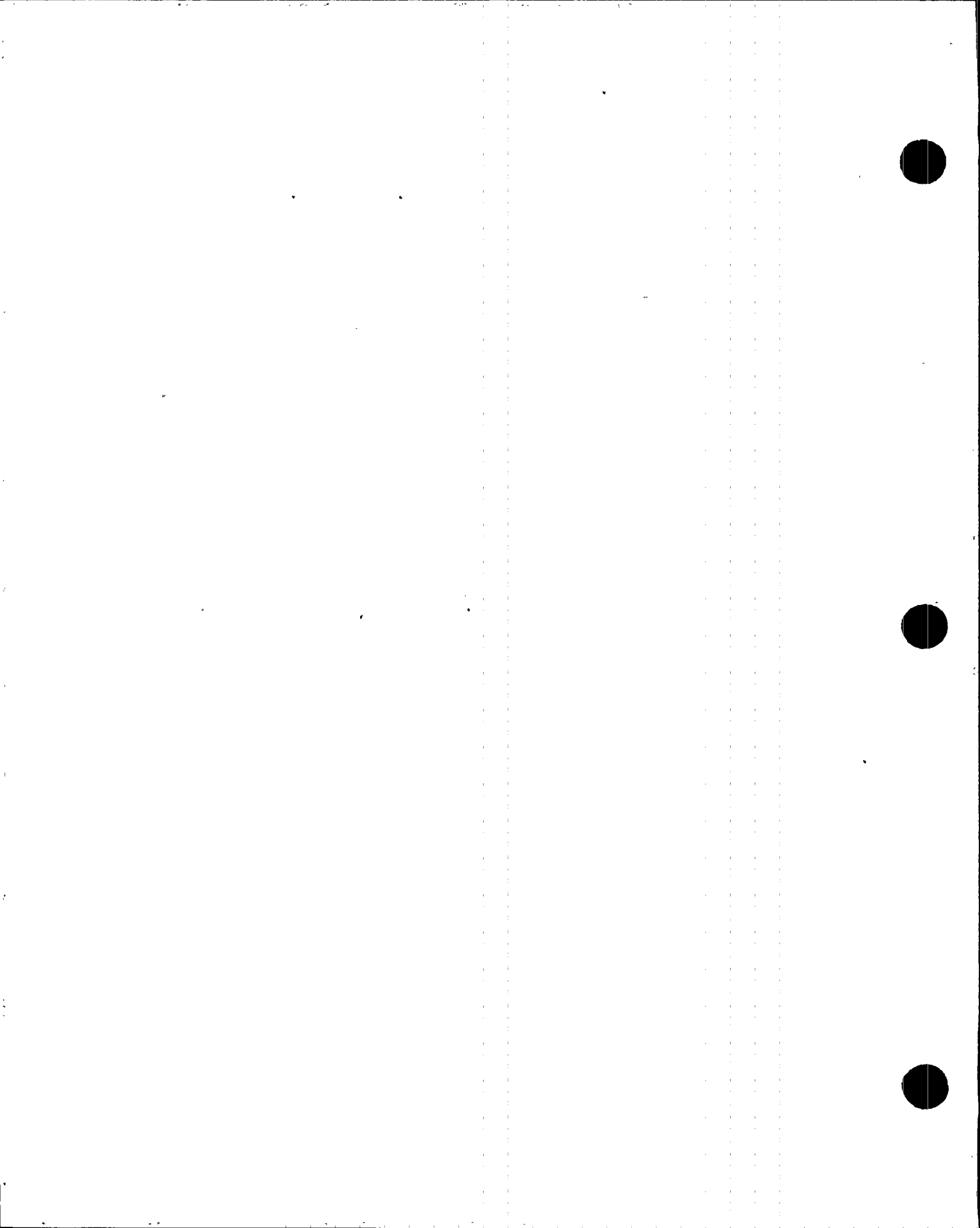
Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

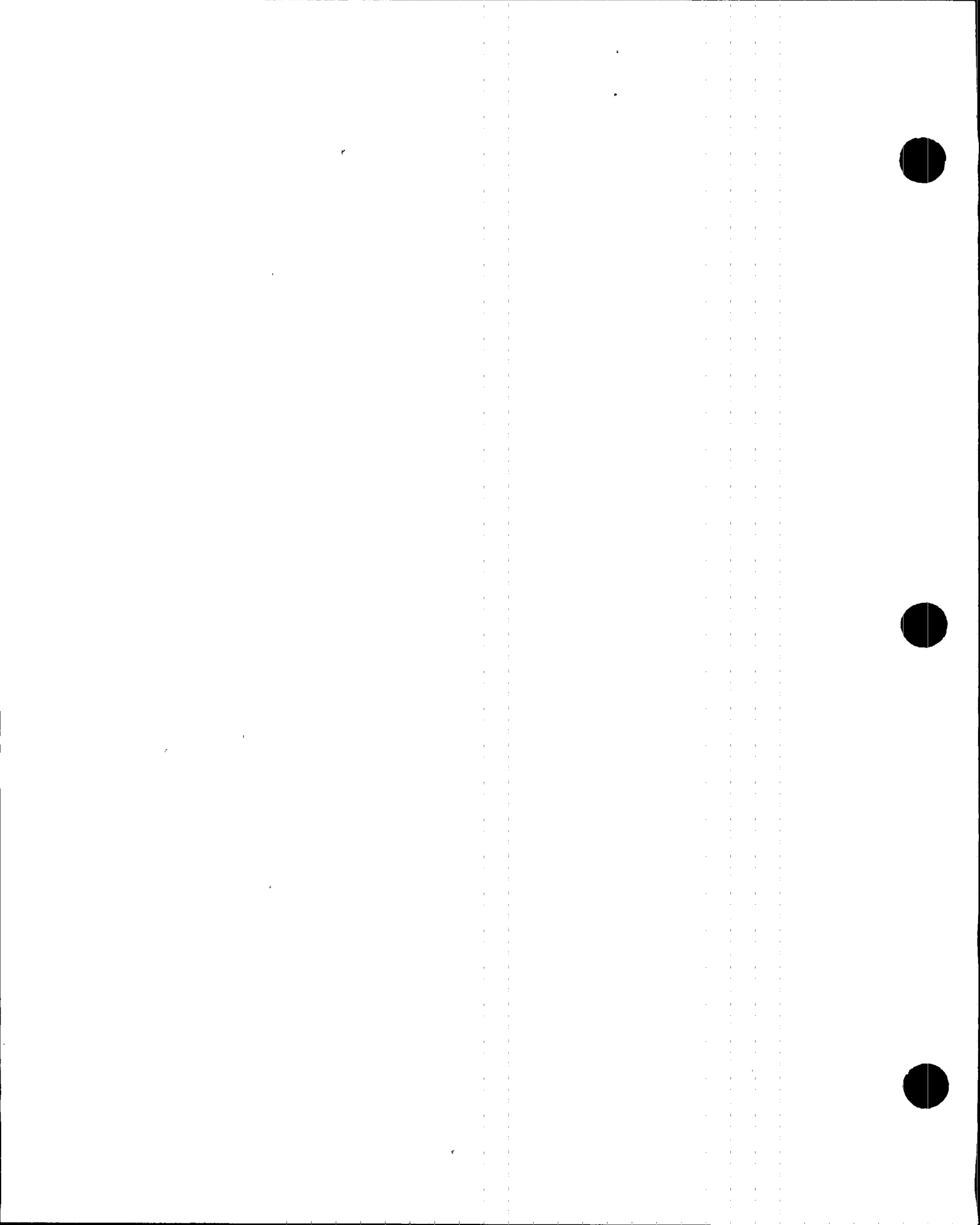
(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

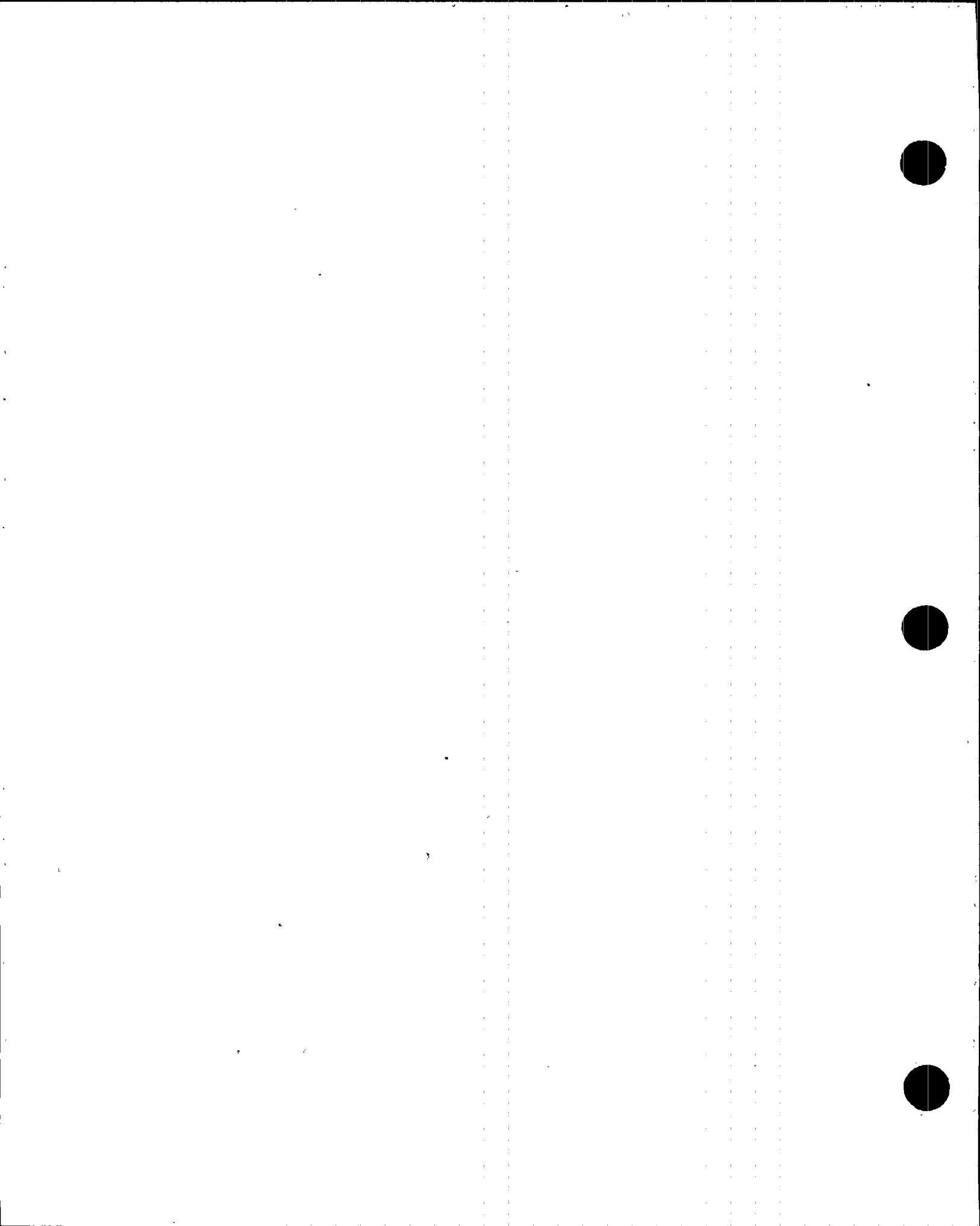
(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.



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 33-404, the beneficiary of the Trust Agreement is Burnham Leasing Corporation, a corporation. The address of the beneficiary is 55 Broad Street, New York, New York, Attention: Dianne Rudo. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with Burnham
Leasing Corporation,

By


Senior Manager

EL PASO ELECTRIC COMPANY,

By


Vice President

STATE OF TEXAS

COUNTY OF EL PASO

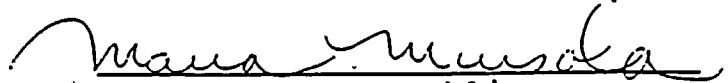
)
) ss.:
)

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this 21 day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Palatine Hills Leasing, Inc.



Notary Public
MARIA MORISOLA
My Commission Expires
September 30, 1994

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 1, dated as of December 31, 1987, to Facility Lease dated as of December 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of December 1, 1986 with COMMERCIAL FEDERAL INVESTMENT CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 7 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on



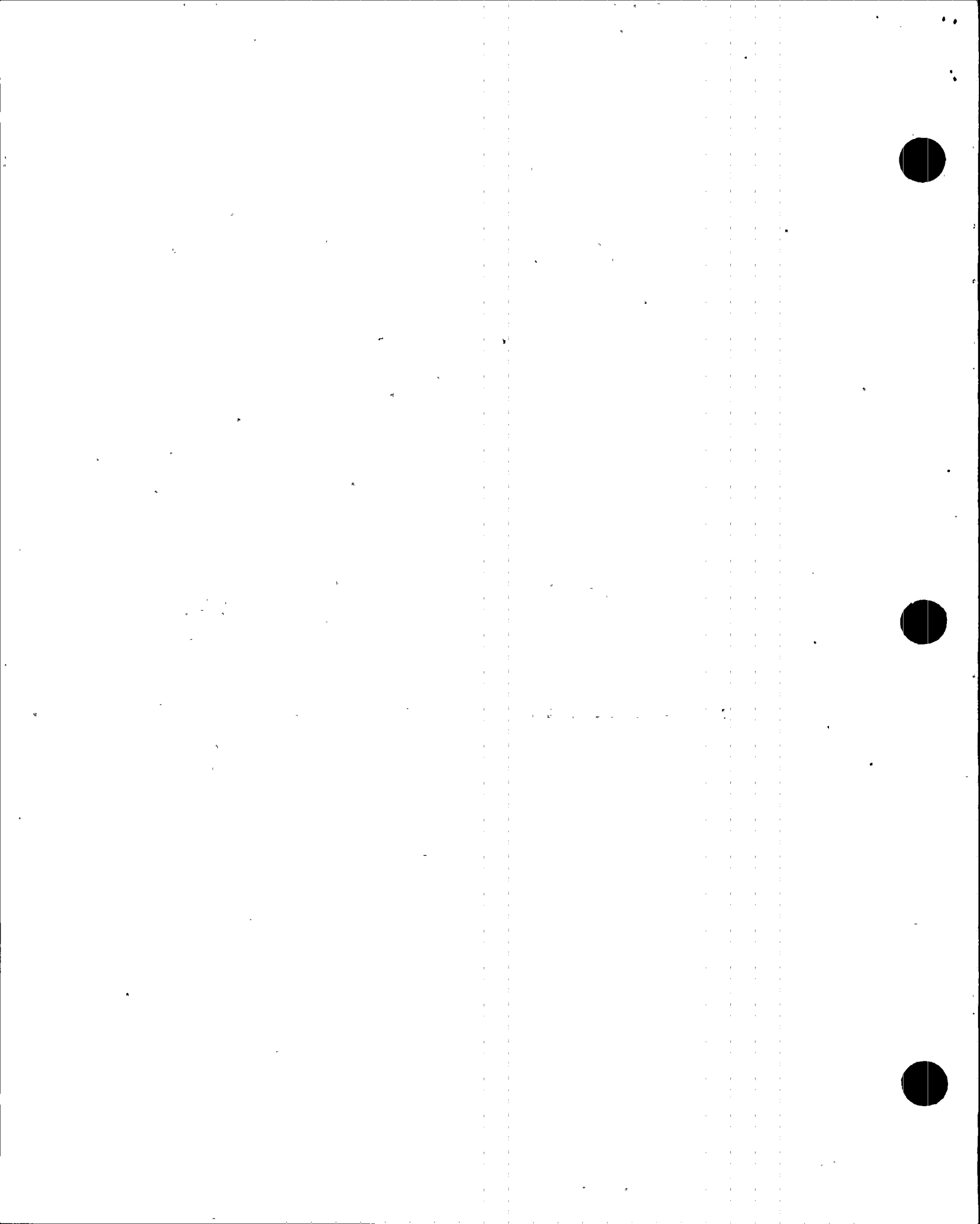
the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

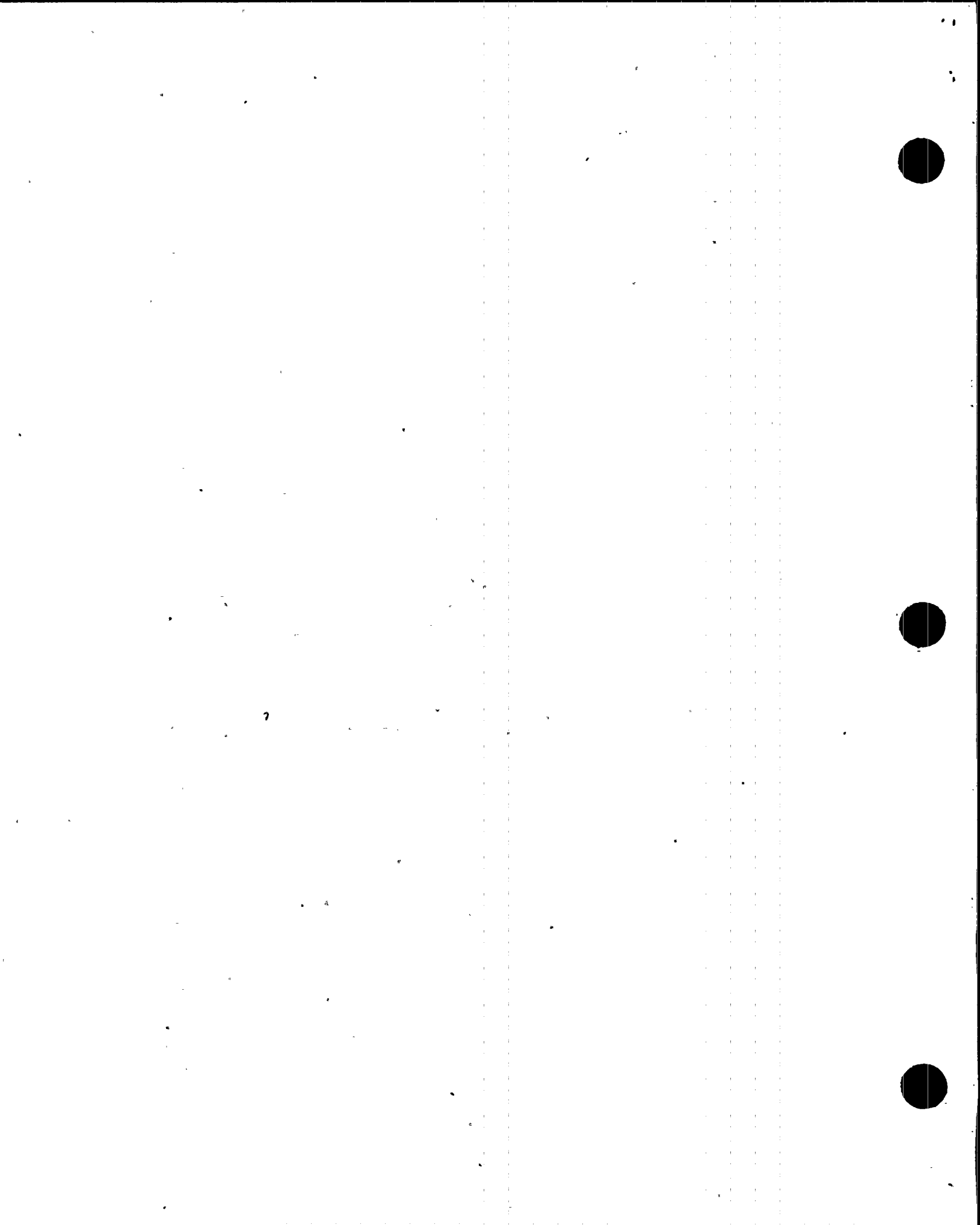
(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an Officers' Certificate and an opinion, reasonably satisfactory to the Owner Participant, of counsel to the Surviving Lessee, each stating that (1) such transaction complies with this subclause (c) and (2) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

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

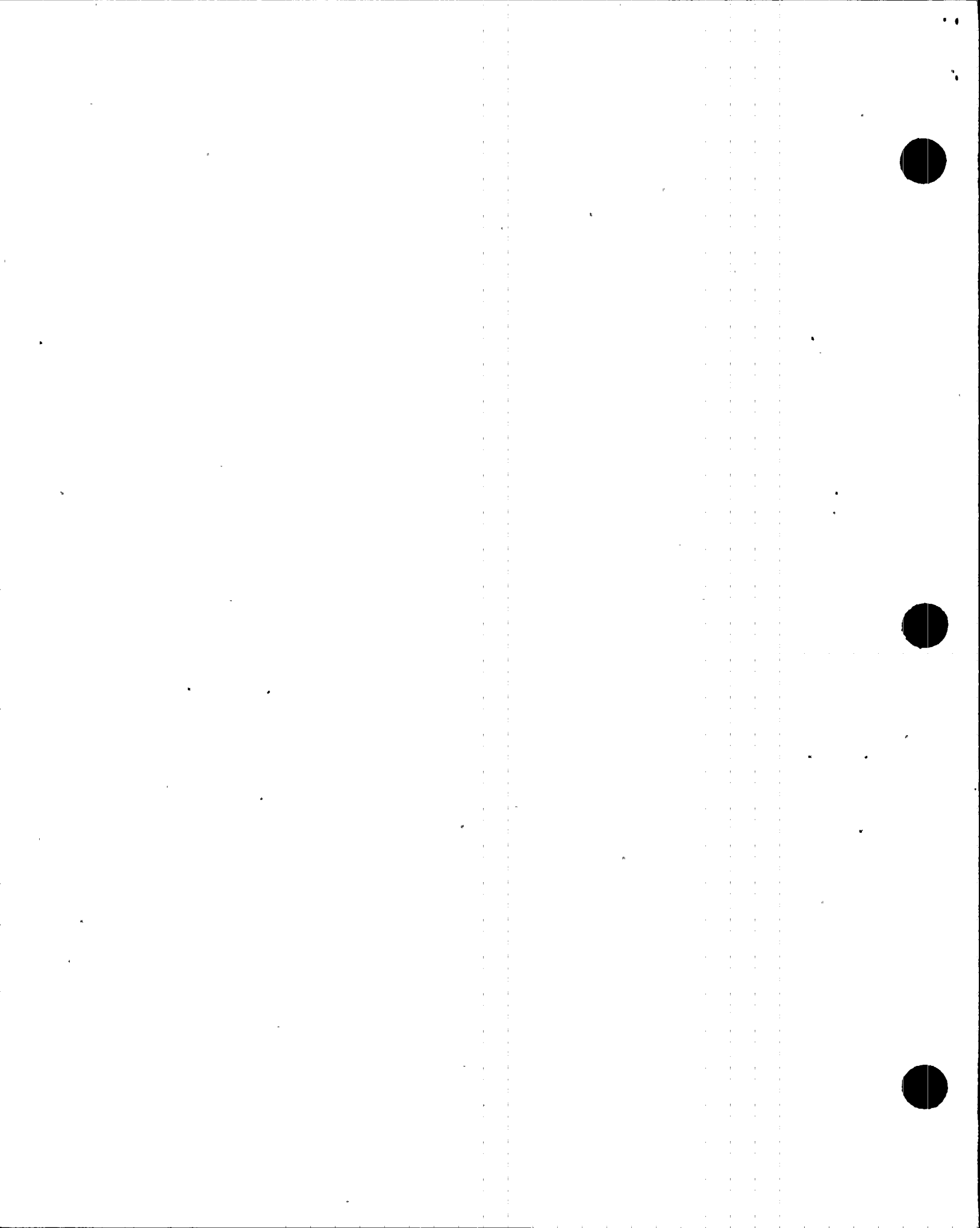
(J) such transaction does not affect the term or coverage of the Letter of Credit, if in effect at the time, or, if such term or coverage is affected, the Lessee, or the Surviving Lessee if other than the Lessee immediately prior to such transaction, shall have provided to the Owner Participant a Letter of Credit, if required by Section 10(b)(3)(xvii) of the Participation Agreement, which meets the requirements set forth in such Section 10(b)(3)(xvii) and is in the same amount as the Letter of Credit in effect immediately prior to such transaction; unless the term or coverage of the Letter of Credit affected is that of a Letter of Credit which has been delivered to the Owner Participant pursuant to the Agreement, dated as of December 31, 1987, among the Lessee, the Lessor and



the Owner Participant (the "Commitment Agreement"), a copy of which is annexed hereto, in which event such Lessee or Surviving Lessee, as the case may be, shall have provided to the Owner Participant a Letter of Credit which meets the requirements set forth in the Participation Agreement and the Commitment Agreement and is in the same amount as the Letter of Credit in effect immediately prior to such transaction.

Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 2, 1992 when there is not in effect a Letter of Credit complying in all respects with the Participation Agreement and the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which



funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and lease-back transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations and agreements under such Agreement within 15 days after notice from the Owner Participant.

(f) Financial Ratios. Unless the Owner Participant shall otherwise consent (which may be by way of acceptance of delivery of a letter of credit which complies with the requirements of the Participation Agreement and the Commitment Agreement, Lessee agrees that as of January 2, 1992 (i) all the Debt listed on Schedule 7 to the Facility Lease shall be retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, shall be not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, by written notice to Lessee, require that Lessee provide, at its expense, a renewal or replacement Letter of Credit complying in all respects with the Commitment Agreement and the Participant Agreement and, if such Letter of Credit is in effect on or prior to January 2, 1992 (or with respect to any subsequent year, January 2 of such year), Lessee's failure to meet the Tests shall not constitute an Event of

Default hereunder. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no such renewal or replacement Letter of Credit is required under the Commitment Agreement or the Participation Agreement.

(g) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause

(y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(b) Schedule 7. Schedule 7 hereto is hereby added as Schedule 7 to the Facility Lease.

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.

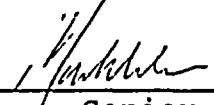
(b) Counterpart Execution. This Amendment No. 1 may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

(c) Governing Law. This Amendment No. 1 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 33-404, the beneficiary of the Trust Agreement is Commercial Federal Investment Corporation, a corporation. The address of the beneficiary is Commercial Federal Tower, 2120 South 72nd Street, Omaha, Nebraska 68124, Attention: Jeff Bainbridge. 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, each of the parties hereto has caused this Amendment No. 1 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
December 1, 1986 with
Commercial Federal Investment
Corporation,

By 
Senior Manager

EL PASO ELECTRIC COMPANY,

By 
Vice President

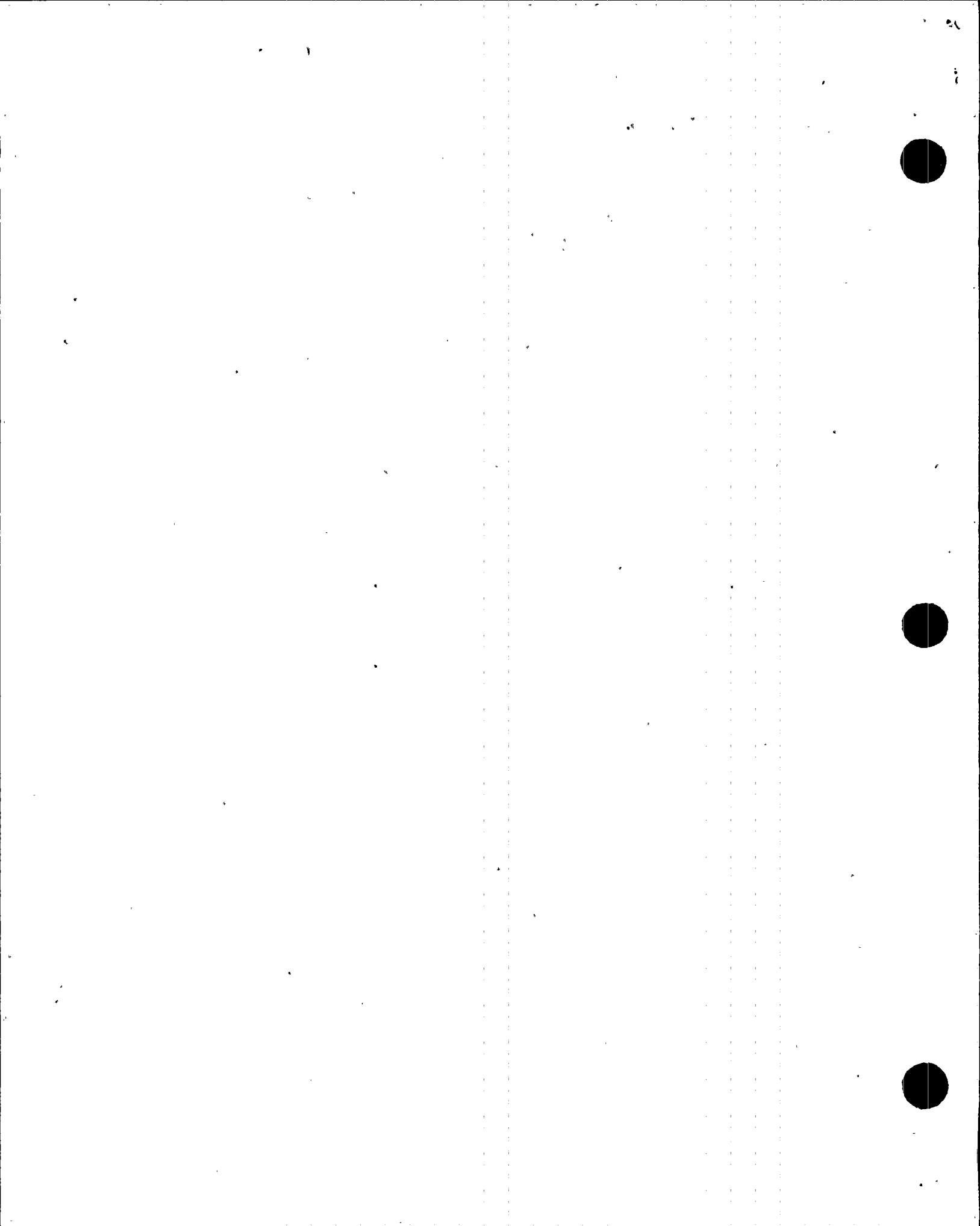
STATE OF TEXAS

COUNTY OF EL PASO

)
)
)
ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

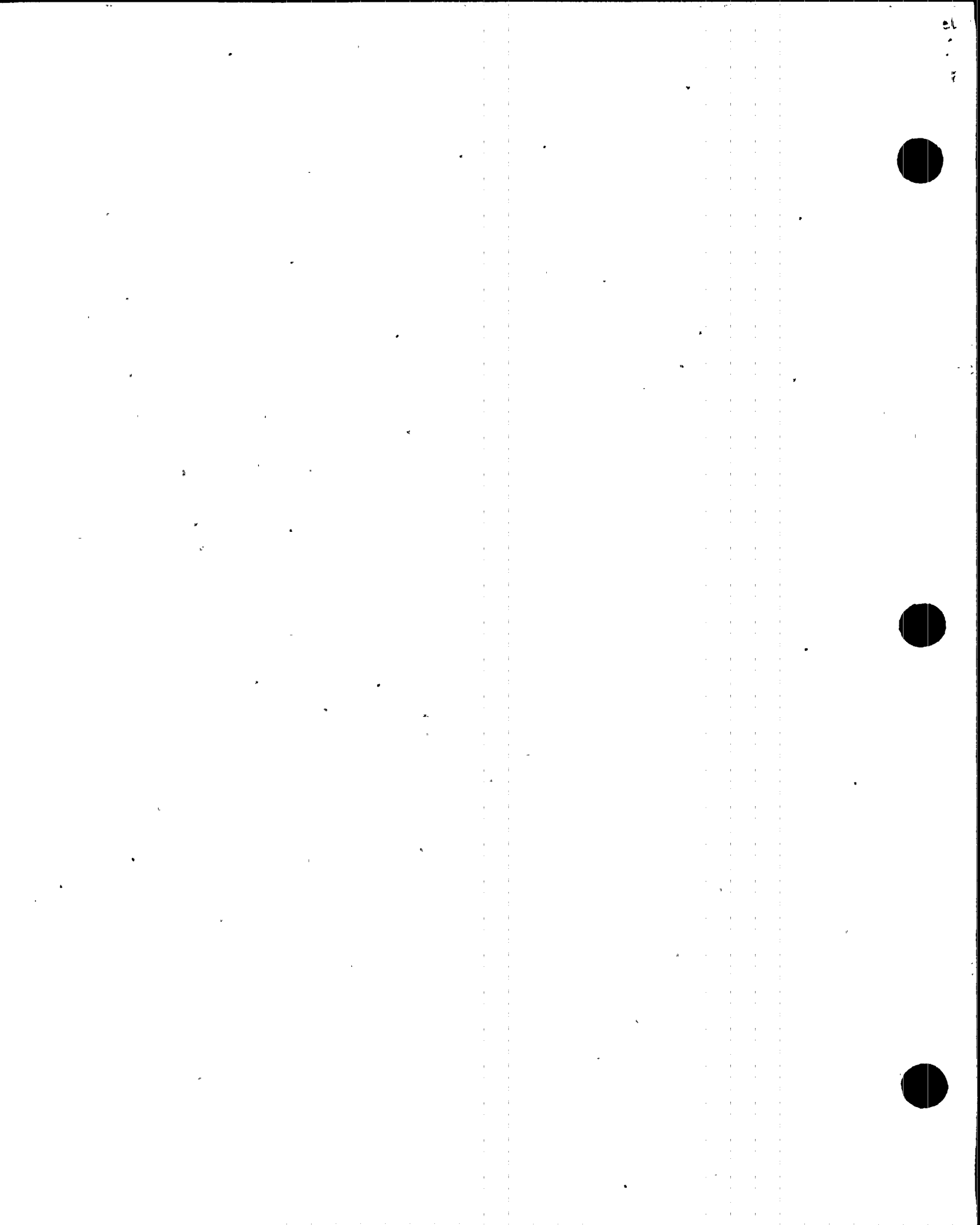


COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

21 The foregoing instrument was acknowledged before me this
day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 1, 1986 with Commercial Federal
Investment Corporation.



Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994



SCHEDULE 7
TO FACILITY LEASE

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

2
6



AGREEMENT dated as of December 31, 1987 among COMMERCIAL FEDERAL INVESTMENT CORPORATION ("Owner Participant"), 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 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

Owner Trustee and Lessee are parties to the Facility Lease dated as of December 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, and to provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Renewal or Replacement of Letter of Credit. The existing Letter of Credit shall be renewed or replaced as of January 2, 1992, if (i) all of the Debt listed on Schedule 7 to the Facility Lease has not been retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, or (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the Letter of Credit), draw on the Letter of Credit or require that Lessee provide, at Lessee's expense, a renewal or replacement Letter of Credit or itself obtain for Lessee, at Lessee's expense, a renewal or replacement Letter of Credit on substantially the same terms as the existing Letter of Credit (other than with respect to any fees and expenses incurred which shall be, in each case, at Lessee's expense), except that the annual fee payable under such renewal or replacement Letter of Credit shall not be more than 100 basis points greater than the annual fee of the existing Letter of Credit. If Owner Participant requires such renewal or replacement

Letter of Credit and if such Letter of Credit is in effect on or prior to January 2, 1992, Lessee's failure to meet the Tests shall not constitute an Event of Default under the Facility Lease. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement Letter of Credit shall have a term commencing not later than the expiry date of the existing Letter of Credit and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing Letter of Credit and reimbursement agreement. Such renewal or replacement Letter of Credit may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement Letter of Credit is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon execution and delivery of the amendments required by Section 4 hereof, it shall deliver to the escrow agent the notice of termination required by clause (i) of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 1 to the Facility Lease substantially in the form of Exhibit B hereto..

4. Further Changes. The parties will, subject to obtaining any required consents of third parties to the Transaction Documents, amend the Facility Lease and other Transaction Documents in order to implement the Lessee's obligation to comply with the Tests, Owner Participant's right to require, as herein provided, a renewal or replacement Letter of Credit as a result of Lessee's failure to satisfy the Tests, to implement the obtaining of and reflect the existence of such a renewal or replacement Letter of Credit should one be so required and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the Letter of Credit when Lessee has failed to satisfy the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the then existing Letter of Credit, for an amount based on the greater of (i) Enhanced Casualty Value,

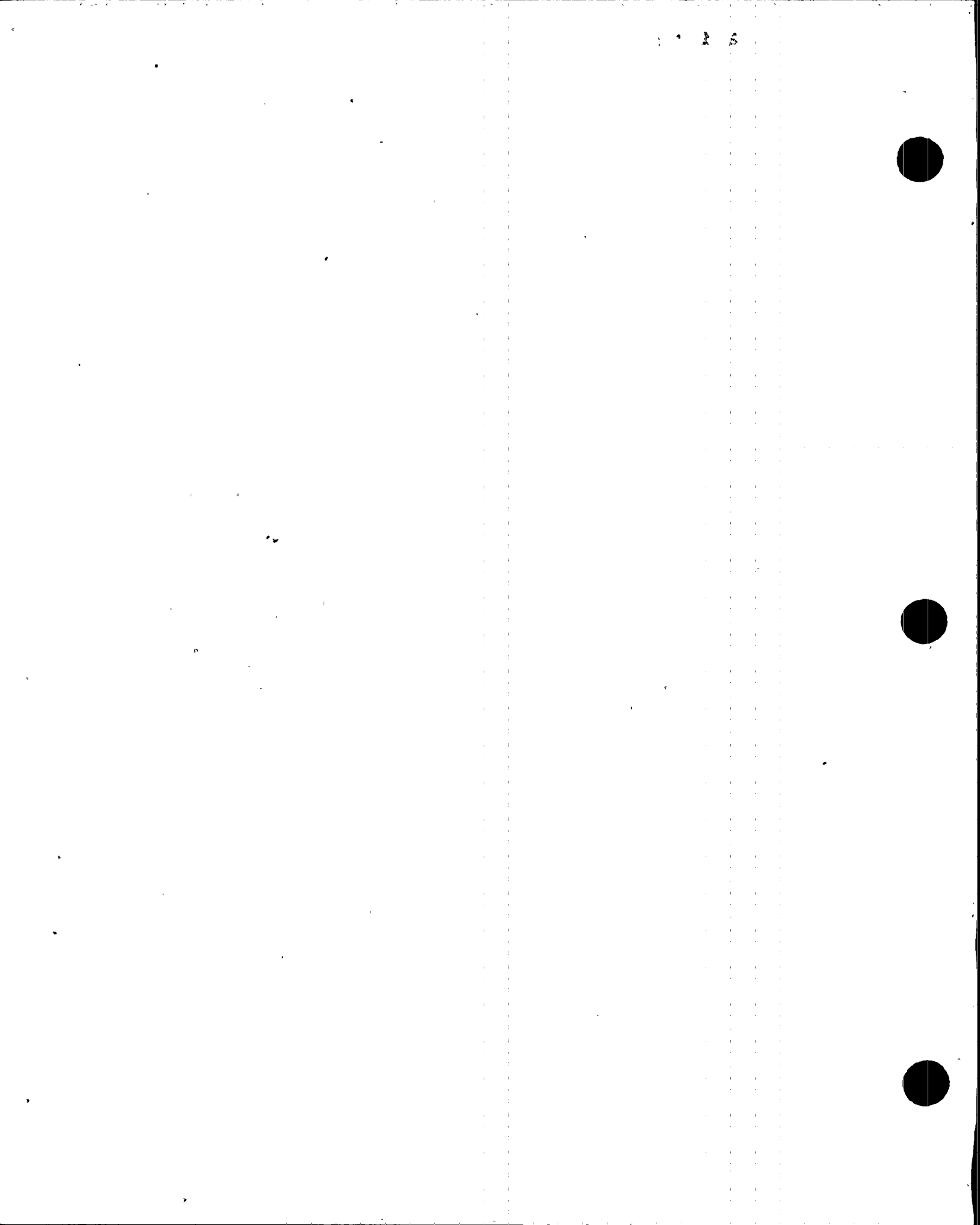
which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest. All such amendments will be entered into no later than the date of the issuance and delivery of the letter of credit to Commercial Federal Investment Corporation pursuant to that certain Agreement, dated as of December 31, 1987, among Commercial Federal Investment Corporation, The First National Bank of Boston, not in its individual capacity but solely as Owner Trustee under a Trust Agreement dated as of August 1, 1986, and El Paso Electric Company.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 1 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 1.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto), had been included in the Transaction Documents at all times since December 18, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.



IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

COMMERCIAL FEDERAL INVESTMENT
CORPORATION

By: Ronald P. Cheffer

Ronald P. Cheffer, Assistant Vice President

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By: James M. Munn
James M. Munn

EL PASO ELECTRIC COMPANY

By: W. L. Johnson
W. L. Johnson
Vice President

ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

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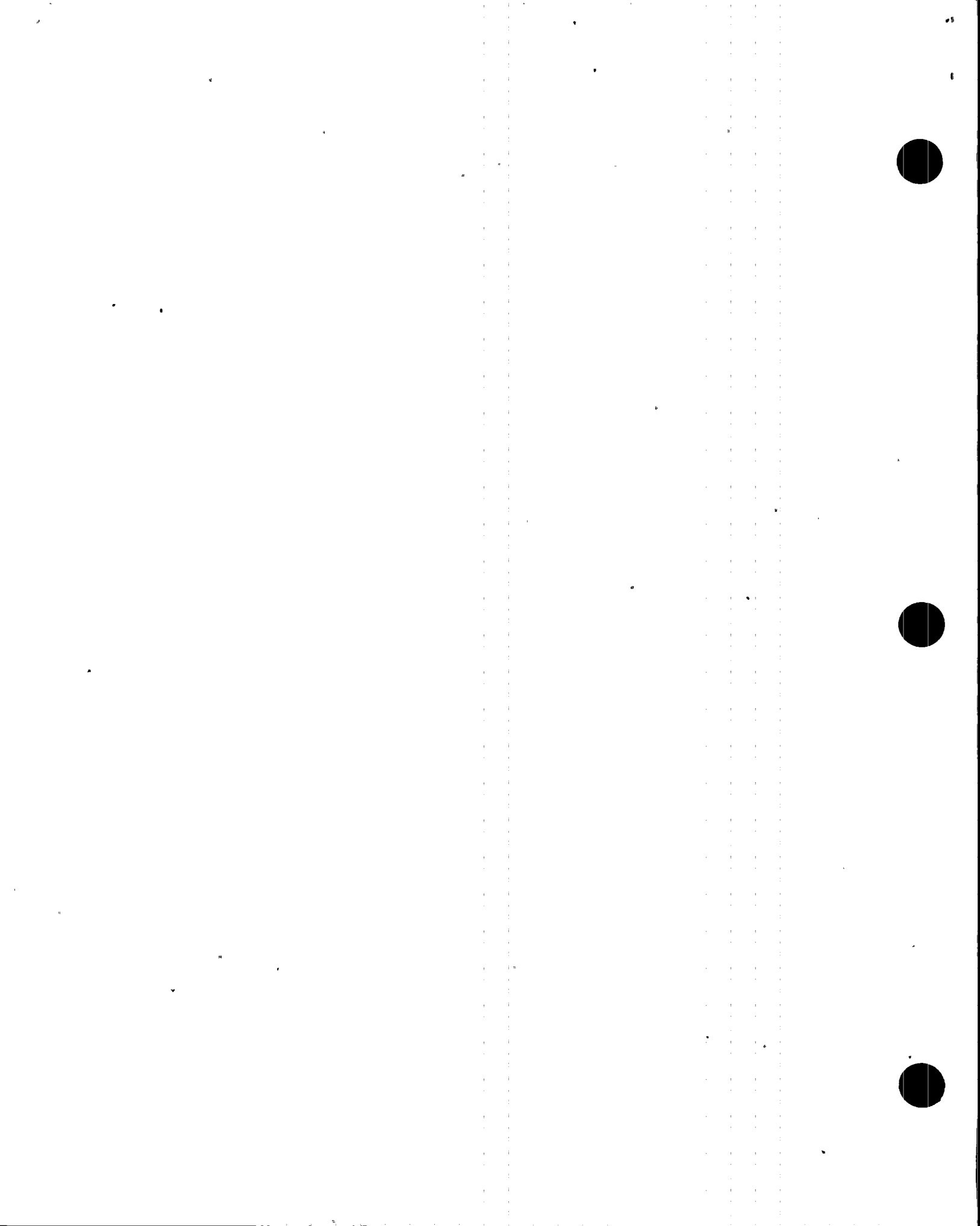


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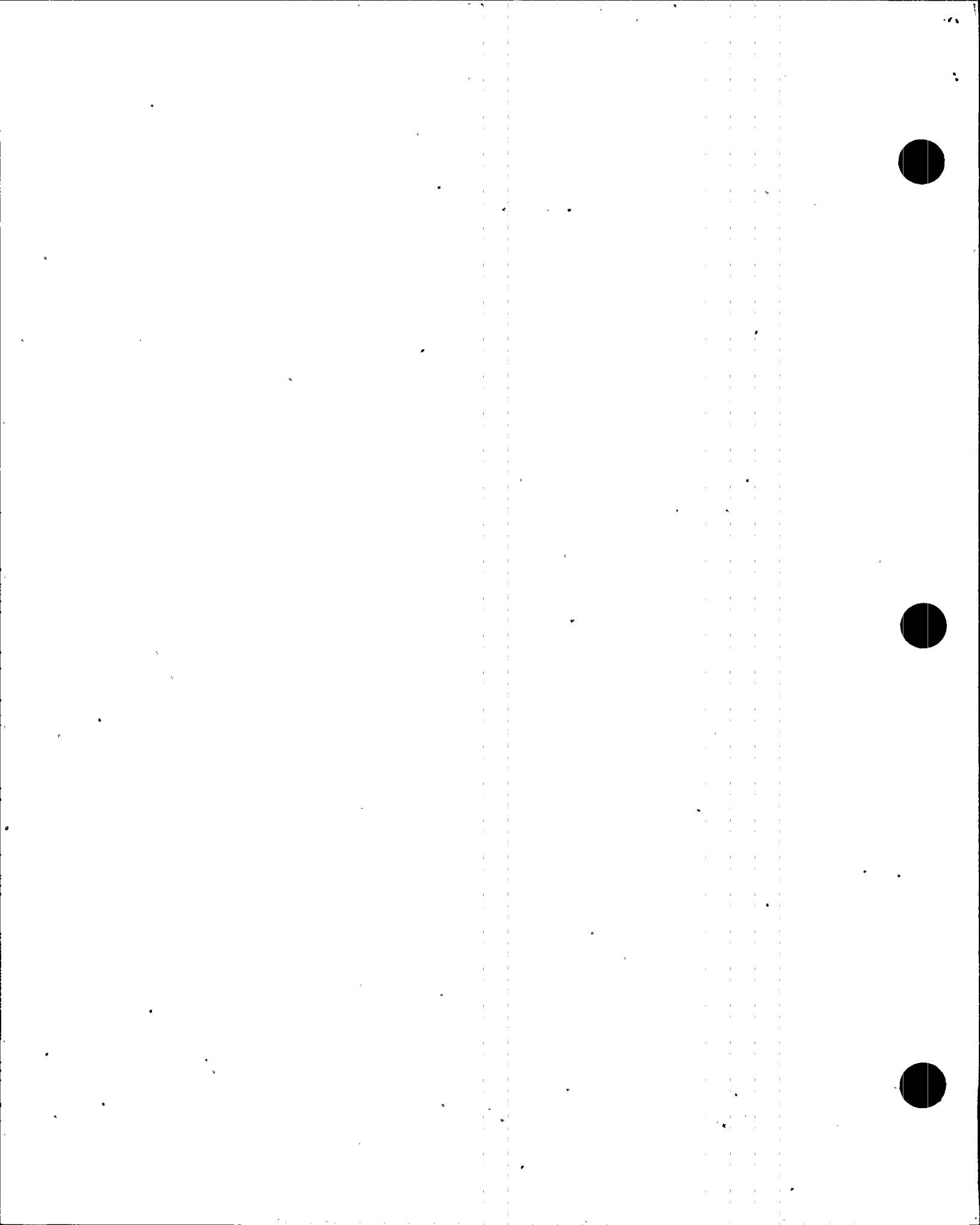


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H: .

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

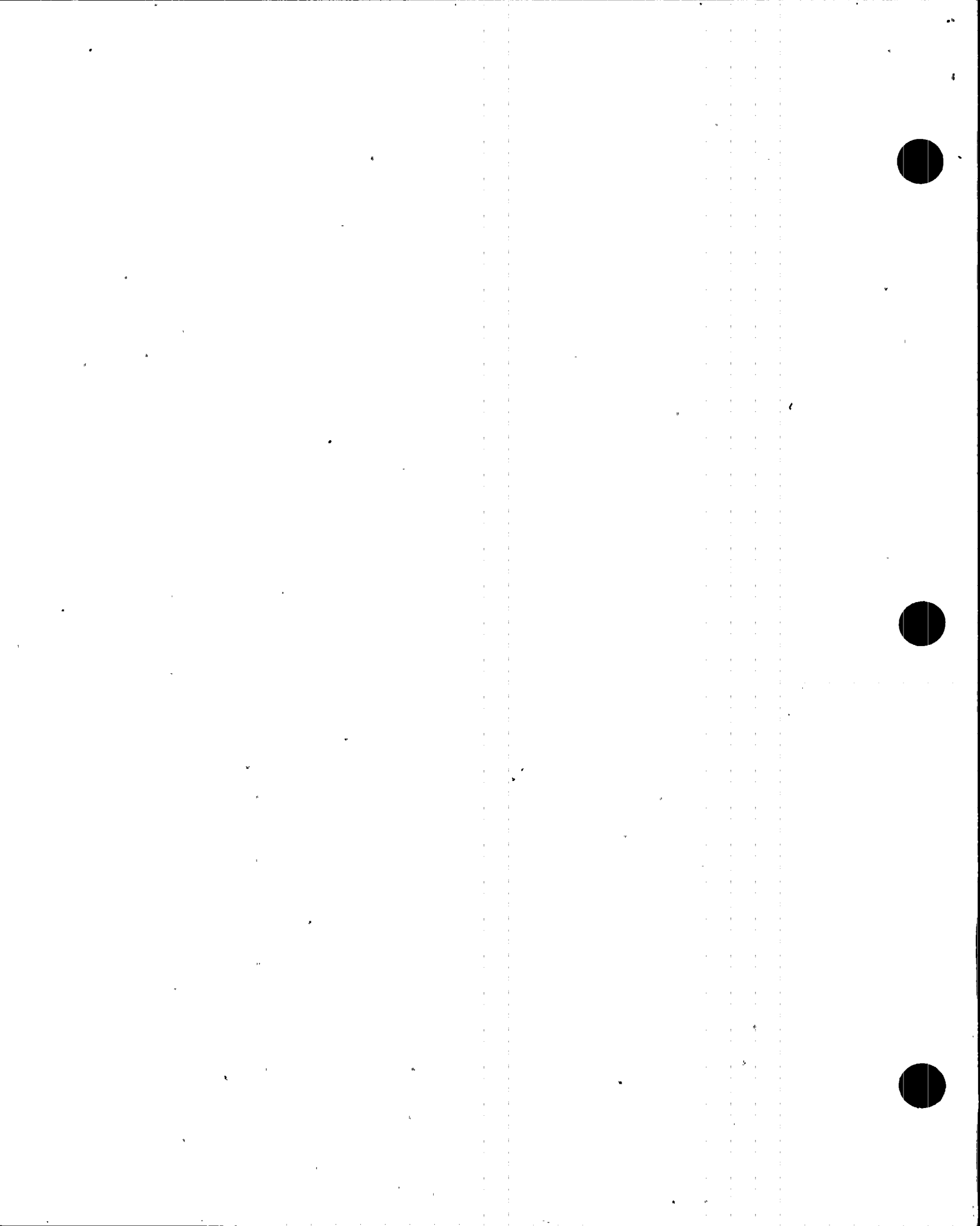
DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in



the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

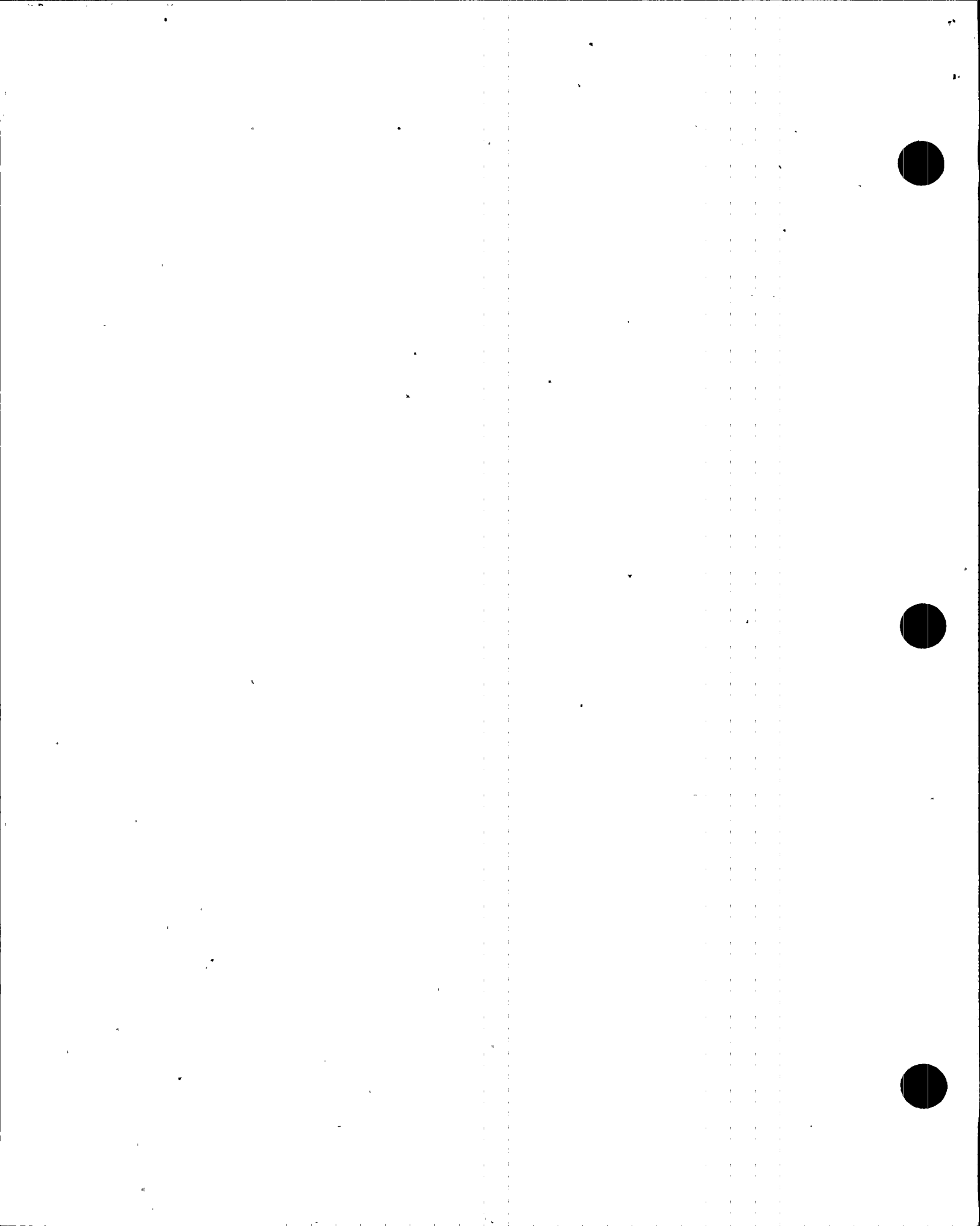
Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and



Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited

Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B Z0009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

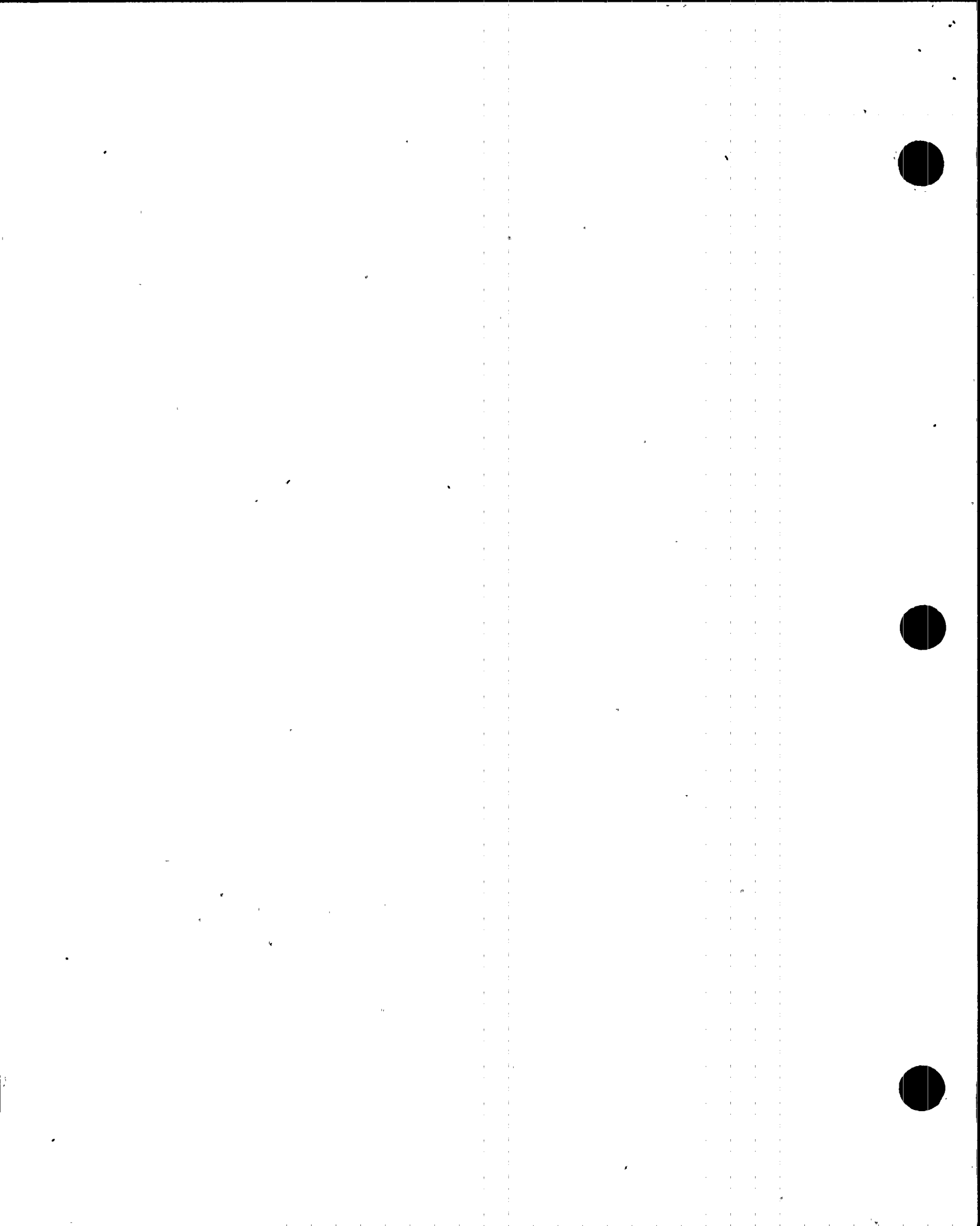
SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

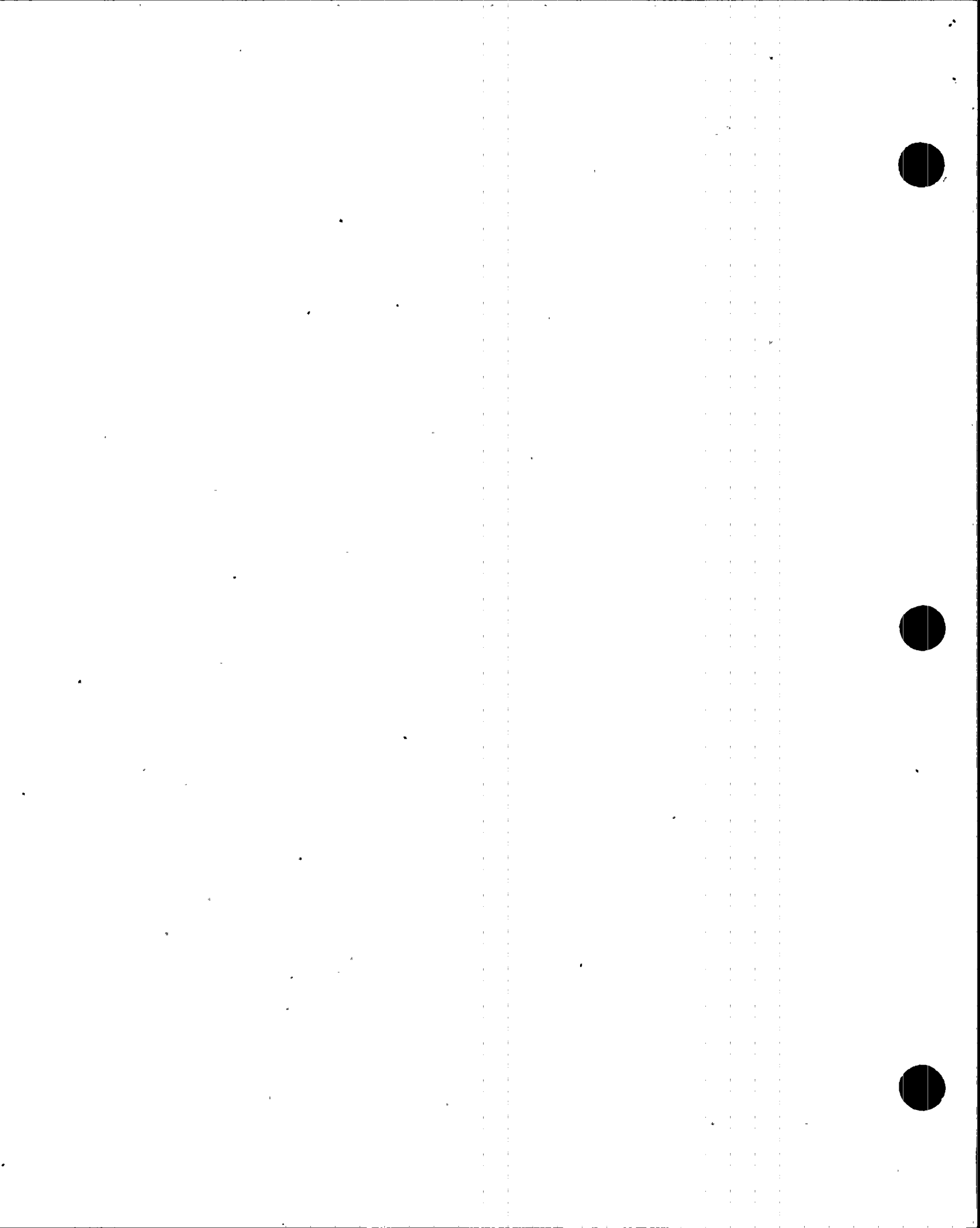
Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso



Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the



market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

1988 (quarter)	Reduction (millions of Dollars)
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts. From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

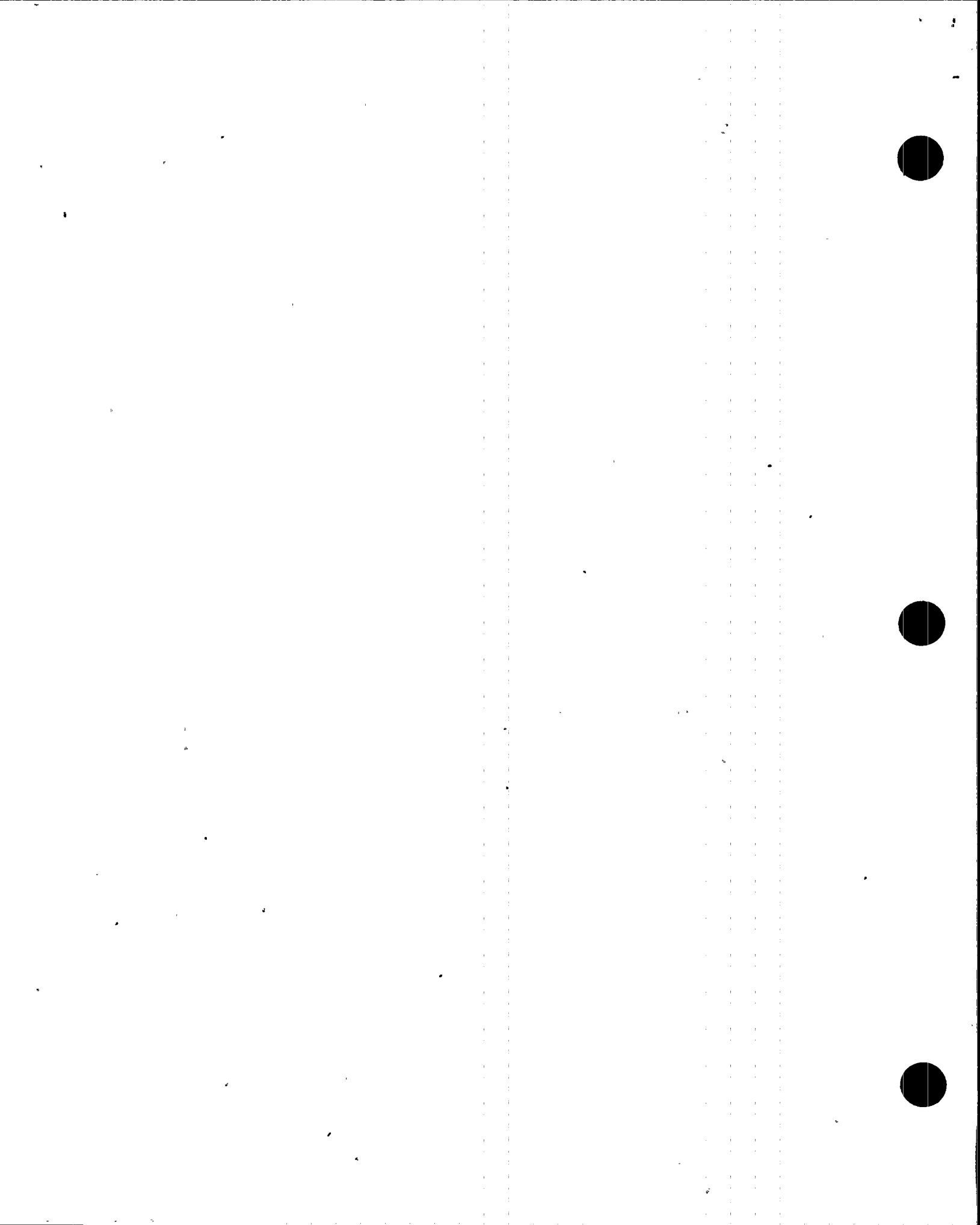
MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,



Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

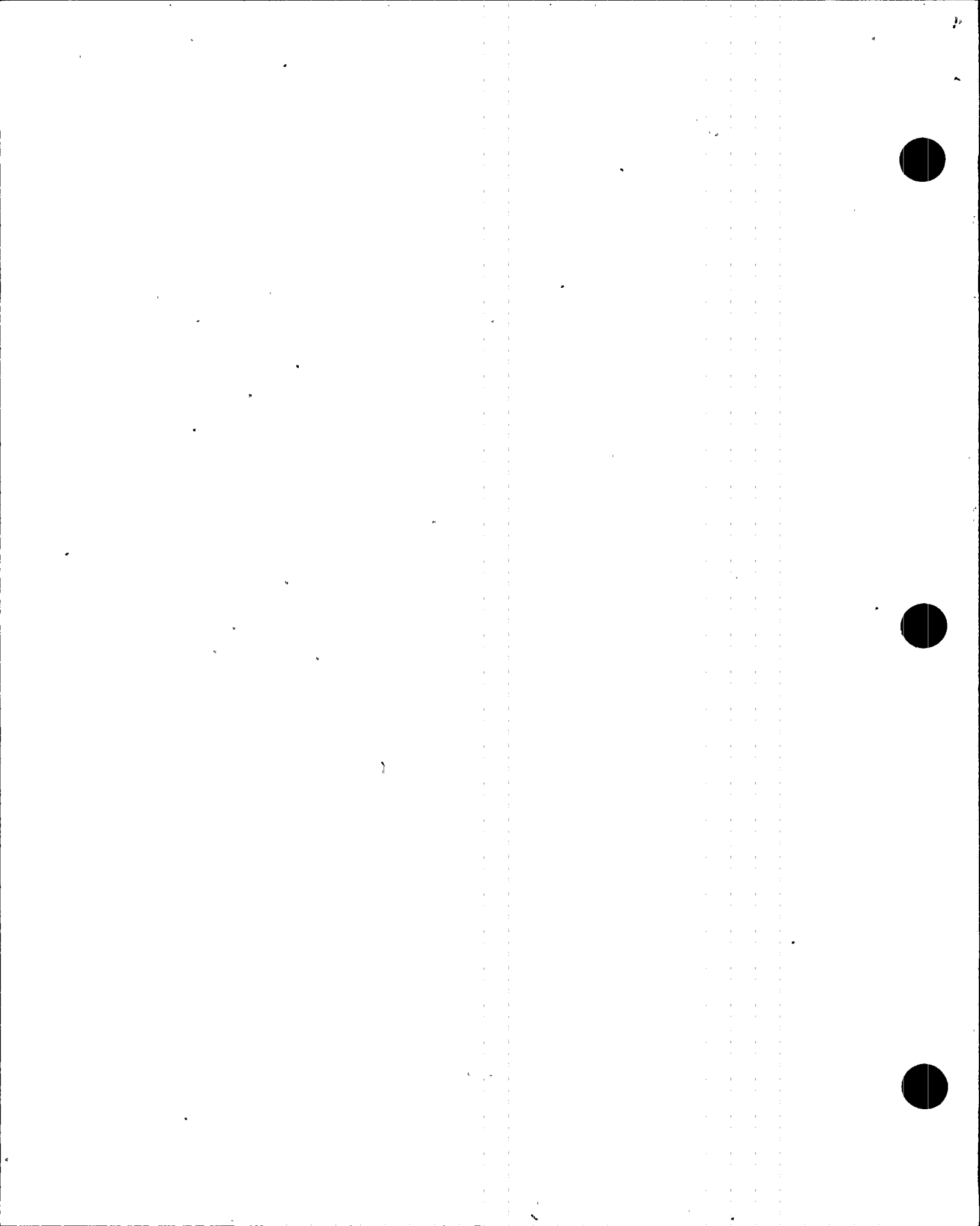
SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

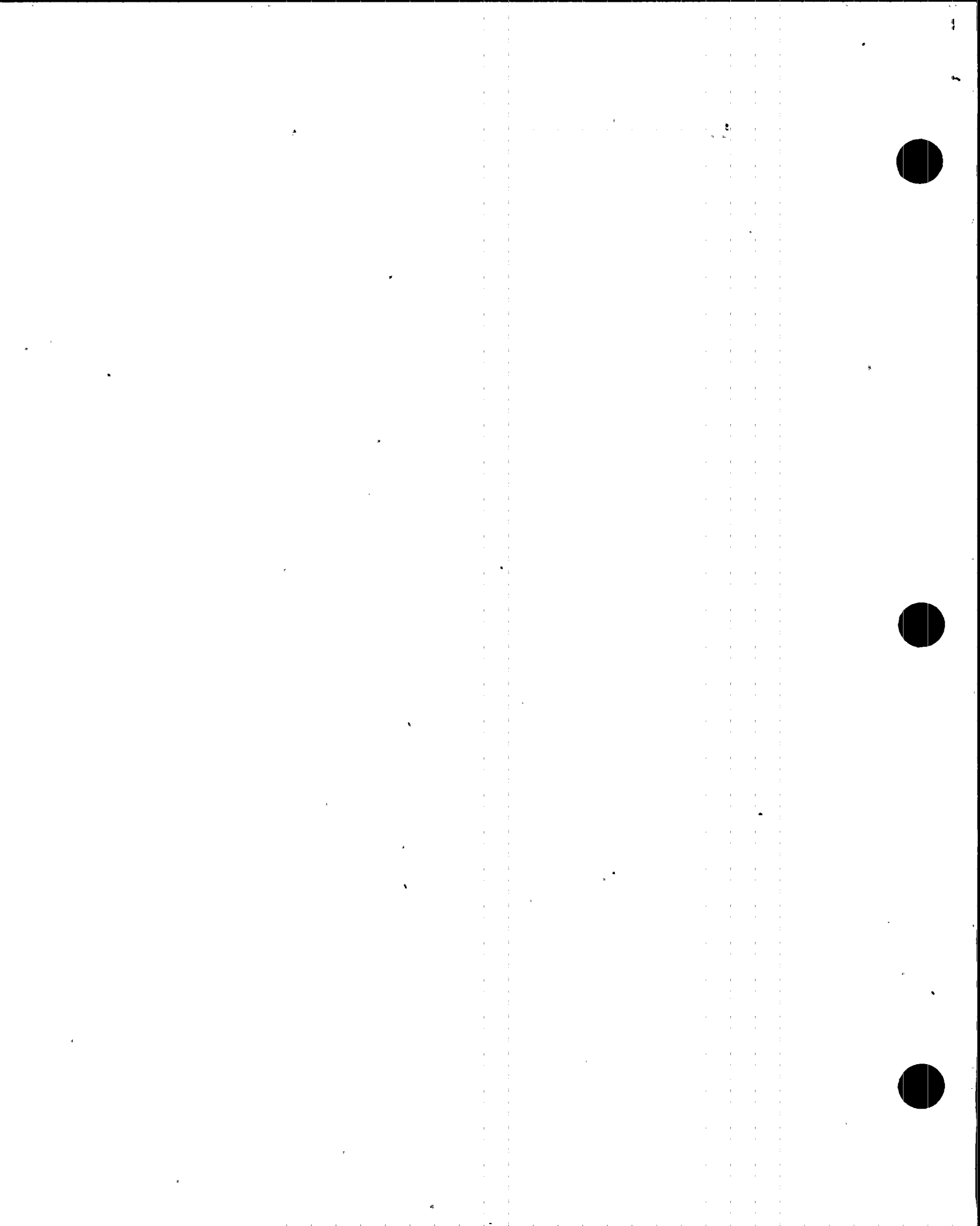
Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070



UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

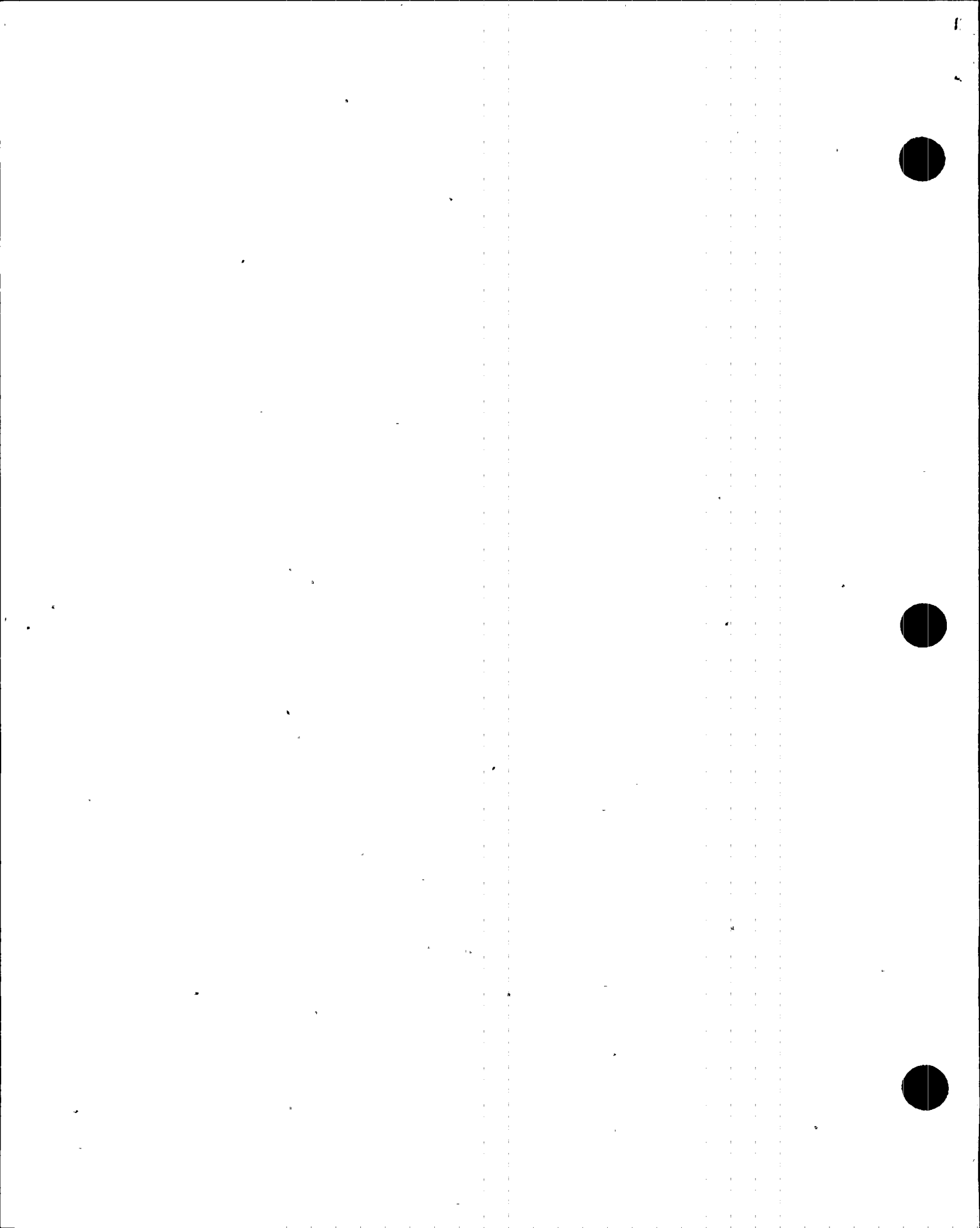
Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

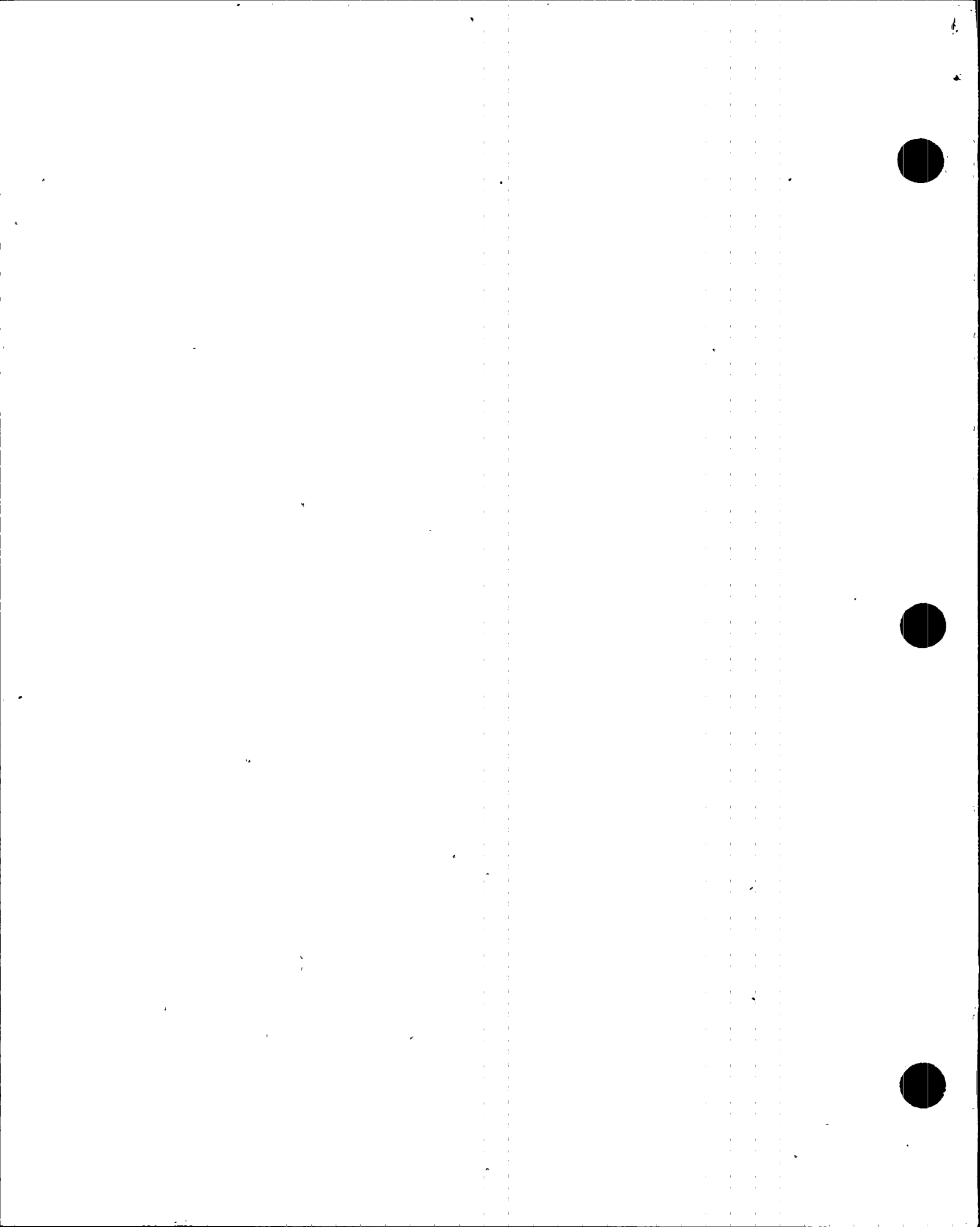
Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo

SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
10. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.



"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.



SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 1, dated as of December 31, 1987, to Facility Lease dated as of December 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of December 1, 1986 with COMMERCIAL FEDERAL INVESTMENT CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

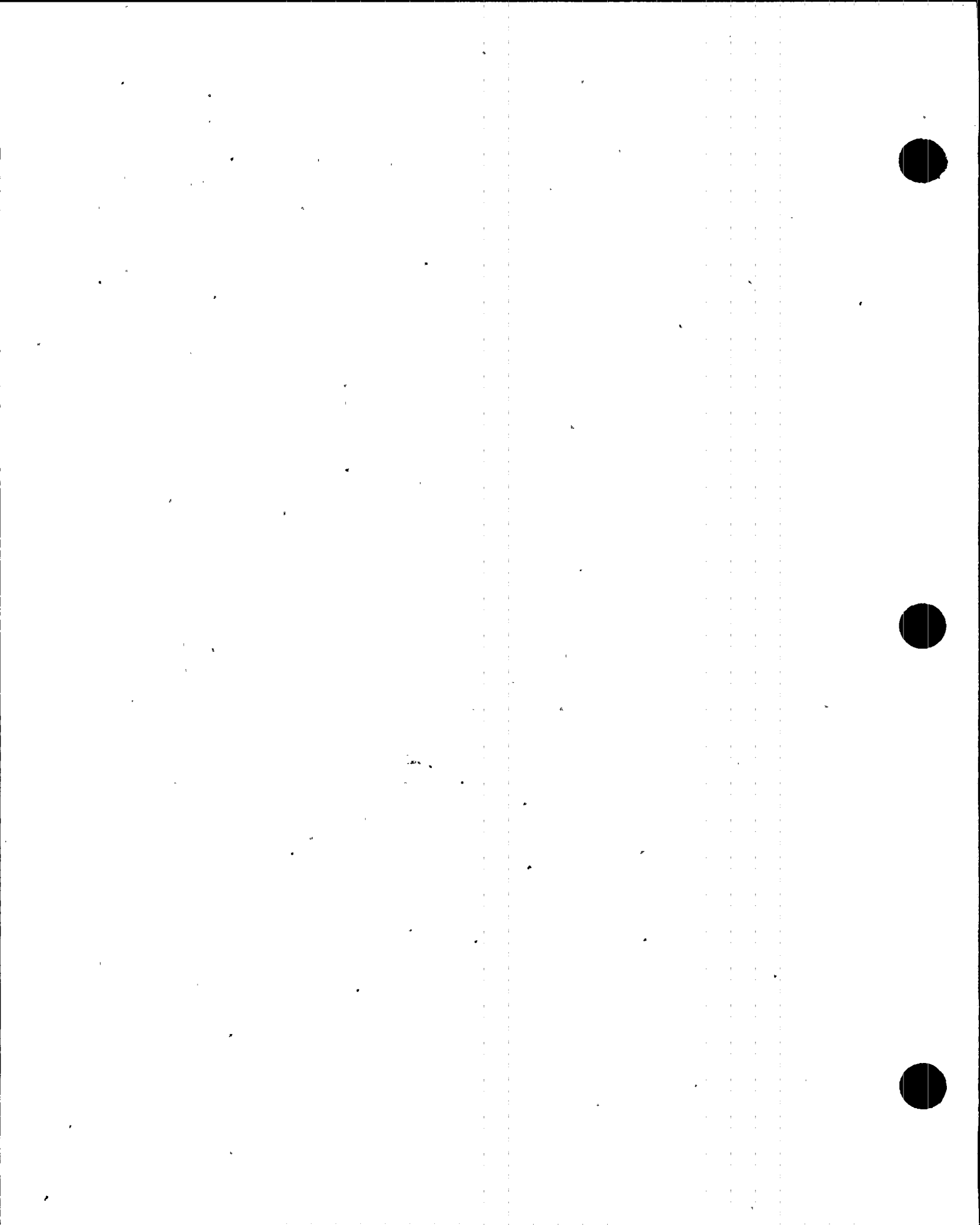
NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 7 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on



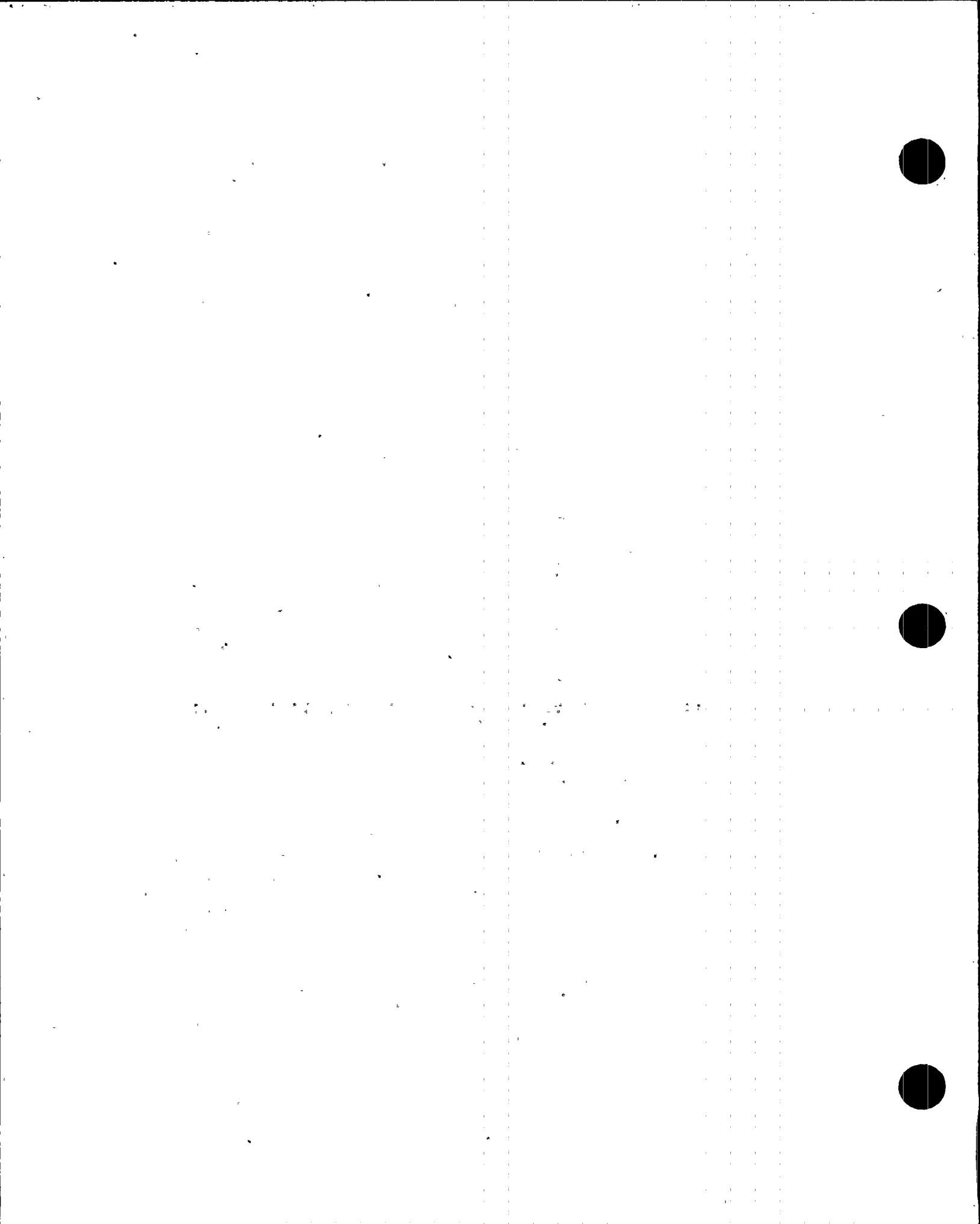
the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

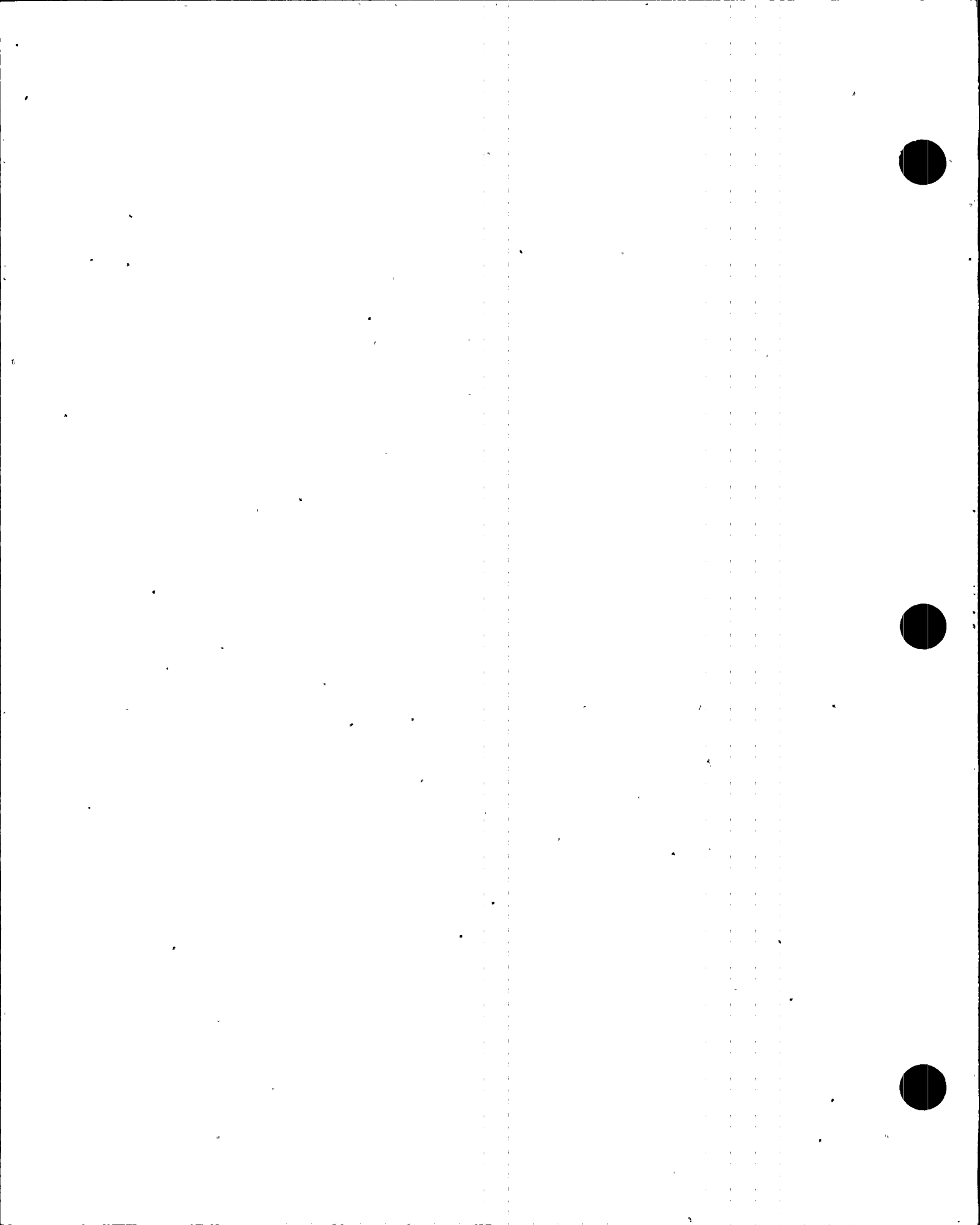
(F) the Surviving Lessee shall have delivered to the Owner Participant and the Indenture Trustee an Officers' Certificate and an opinion, reasonably satisfactory to the Owner Participant, of counsel to the Surviving Lessee, each stating that (1) such transaction complies with this subclause (c) and (2) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

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

(J) such transaction does not affect the term or coverage of the Letter of Credit, if in effect at the time, or, if such term or coverage is affected, the Lessee, or the Surviving Lessee if other than the Lessee immediately prior to such transaction, shall have provided to the Owner Participant a Letter of Credit, if required by Section 10(b)(3)(xvii) of the Participation Agreement, which meets the requirements set forth in such Section 10(b)(3)(xvii) and is in the same amount as the Letter of Credit in effect immediately prior to such transaction; unless the term or coverage of the Letter of Credit affected is that of a Letter of Credit which has been delivered to the Owner Participant pursuant to the Agreement, dated as of December 31, 1987, among the Lessee, the Lessor and



the Owner Participant (the "Commitment Agreement"), a copy of which is annexed hereto, in which event such Lessee or Surviving Lessee, as the case may be, shall have provided to the Owner Participant a Letter of Credit which meets the requirements set forth in the Participation Agreement and the Commitment Agreement and is in the same amount as the Letter of Credit in effect immediately prior to such transaction.

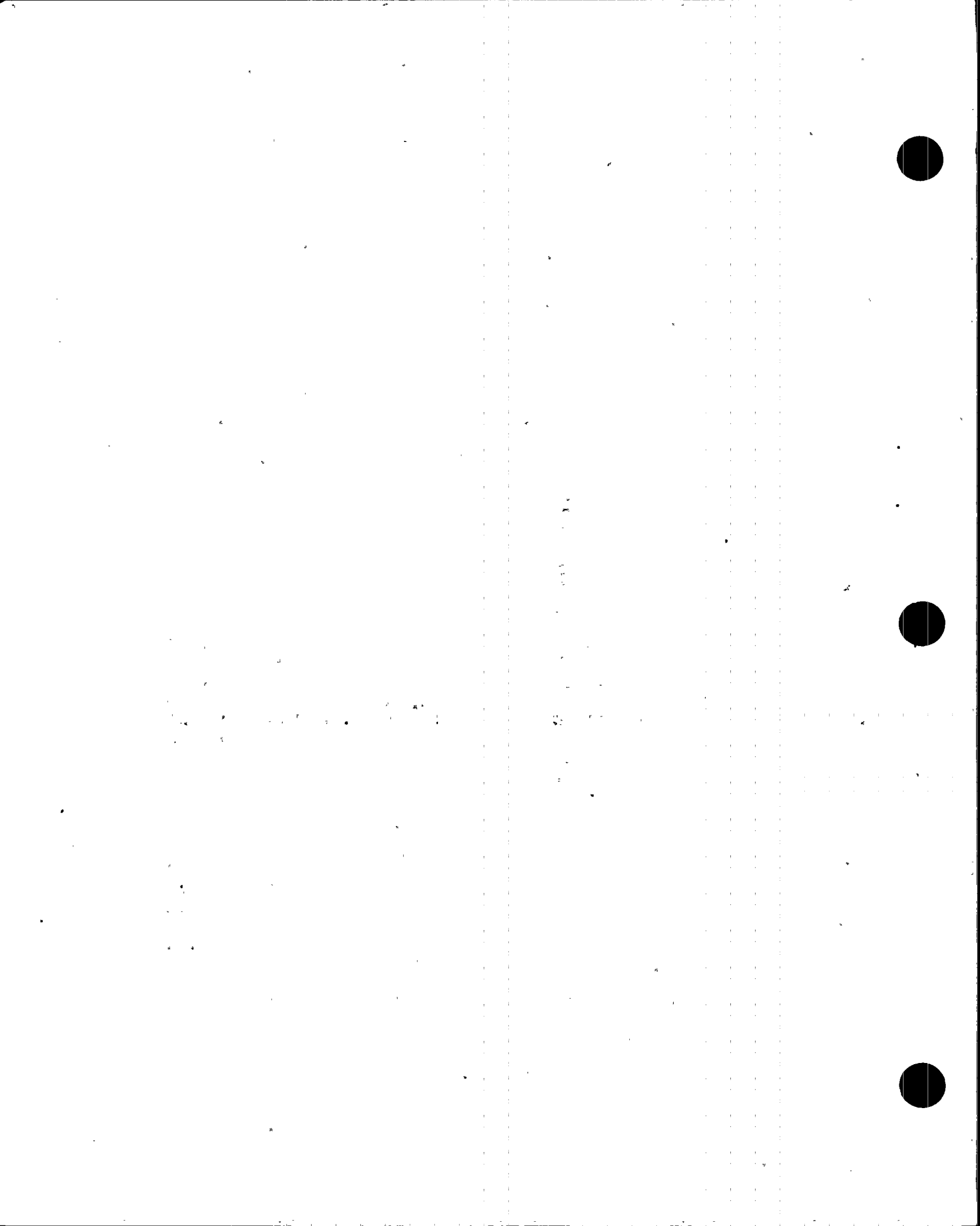
Upon the consummation of such transaction the Surviving Lessee, if other than the Lessee, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 2, 1992 when there is not in effect a Letter of Credit complying in all respects with the Participation Agreement and the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which

funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and lease-back transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations and agreements under such Agreement within 15 days after notice from the Owner Participant.

(f) Financial Ratios. Unless the Owner Participant shall otherwise consent (which may be by way of acceptance of delivery of a letter of credit which complies with the requirements of the Participation Agreement and the Commitment Agreement, Lessee agrees that as of January 2, 1992 (i) all the Debt listed on Schedule 7 to the Facility Lease shall be retired in accordance with such Schedule 7, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, shall be not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, by written notice to Lessee, require that Lessee provide, at its expense, a renewal or replacement Letter of Credit complying in all respects with the Commitment Agreement and the Participant Agreement and, if such Letter of Credit is in effect on or prior to January 2, 1992 (or with respect to any subsequent year, January 2 of such year), Lessee's failure to meet the Tests shall not constitute an Event of



Default hereunder. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no such renewal or replacement Letter of Credit is required under the Commitment Agreement or the Participation Agreement.

(g) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause

(y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(b) Schedule 7. Schedule 7 hereto is hereby added as Schedule 7 to the Facility Lease.

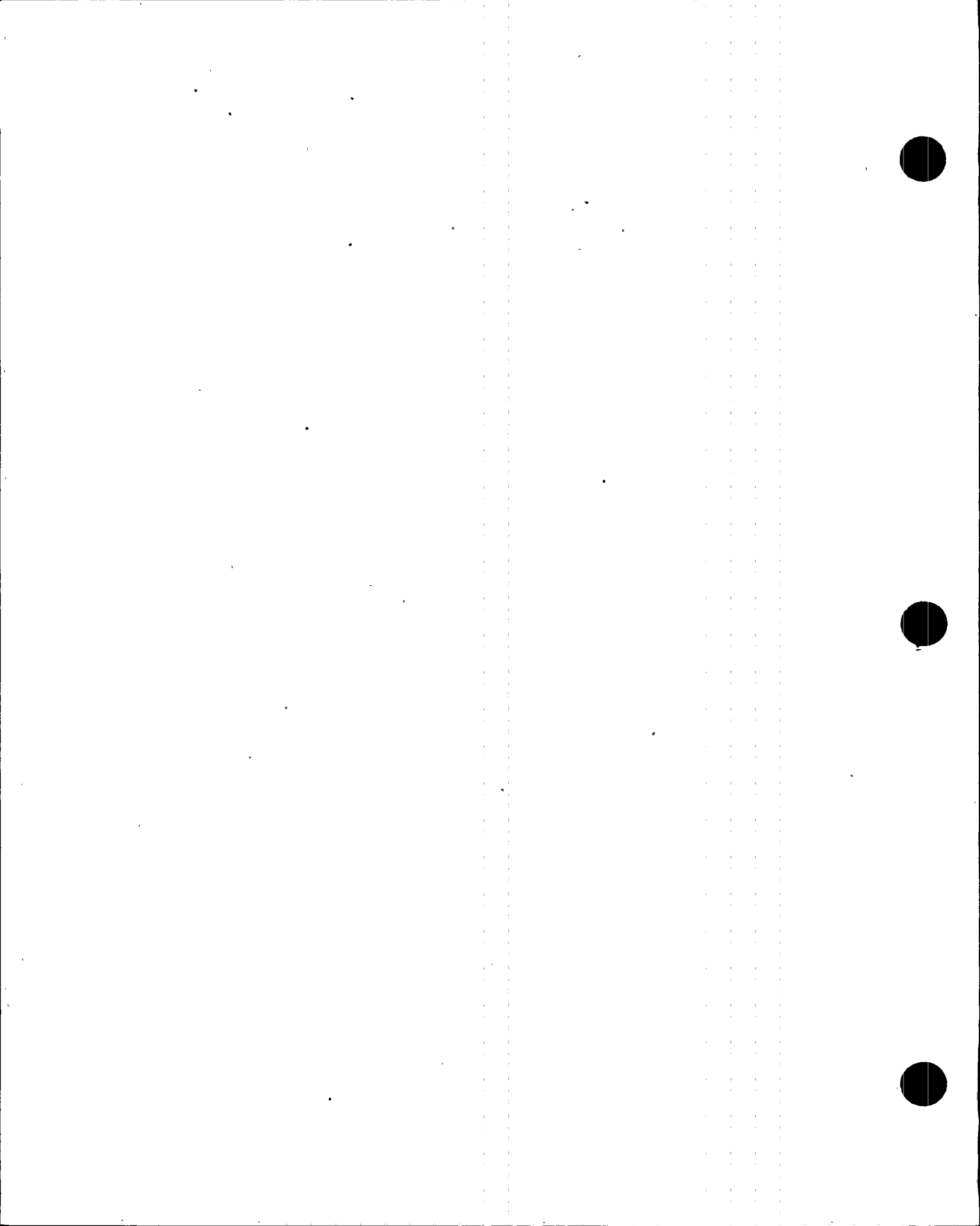
SECTION 3. Miscellaneous

(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. 1 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. 1 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 33-404, the beneficiary of the Trust Agreement is Commercial Federal Investment Corporation, a corporation. The address of the beneficiary is Commercial Federal Tower, 2120 South 72nd Street, Omaha, Nebraska 68124, Attention: Jeff Bainbridge. 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, each of the parties hereto has caused this Amendment No. 1 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
December 1, 1986 with
Commercial Federal Investment
Corporation,

By



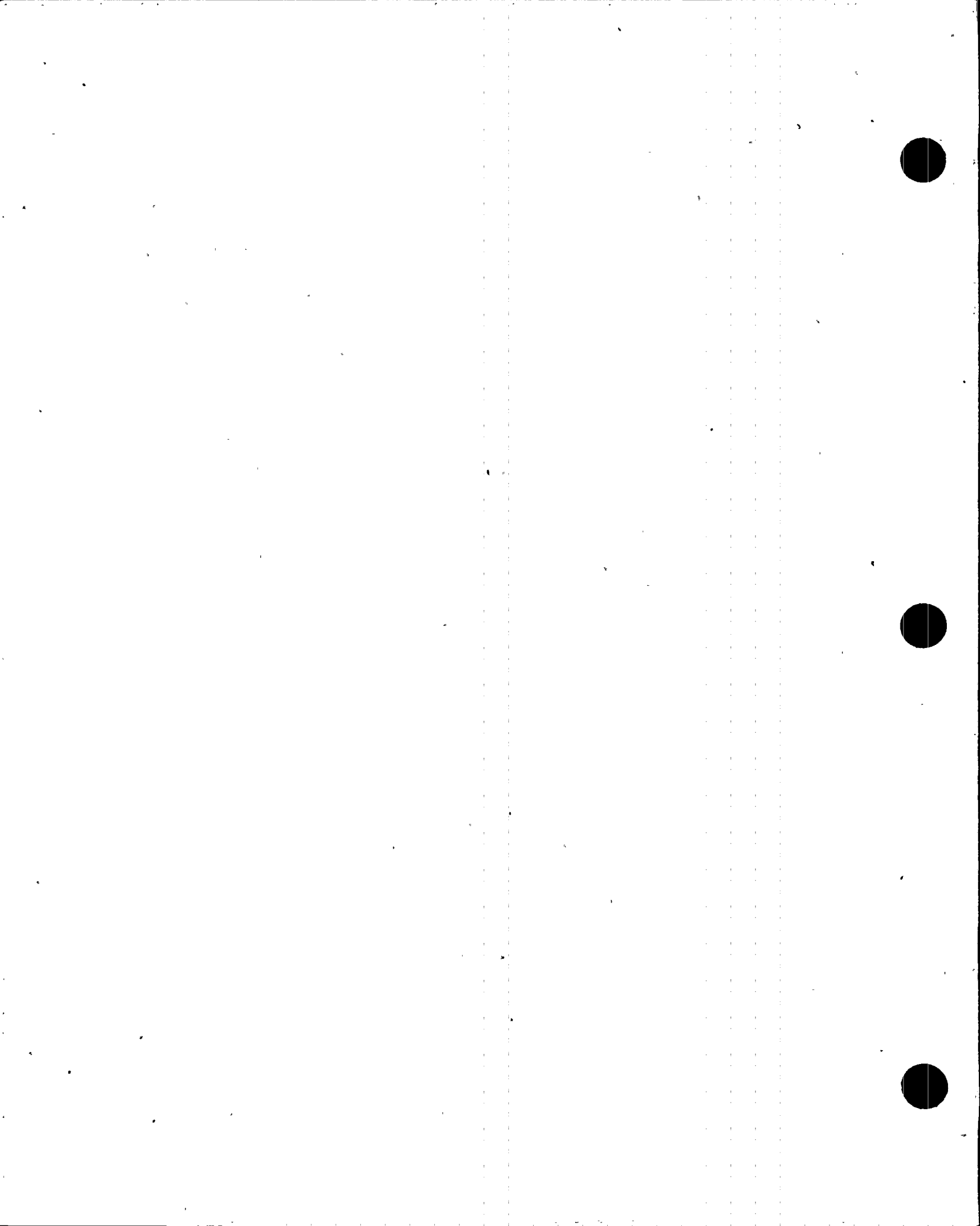
Senior Manager

EL PASO ELECTRIC COMPANY,

By



Vice President



STATE OF TEXAS

COUNTY OF EL PASO

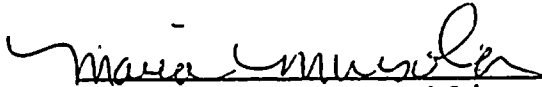
)
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SS.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

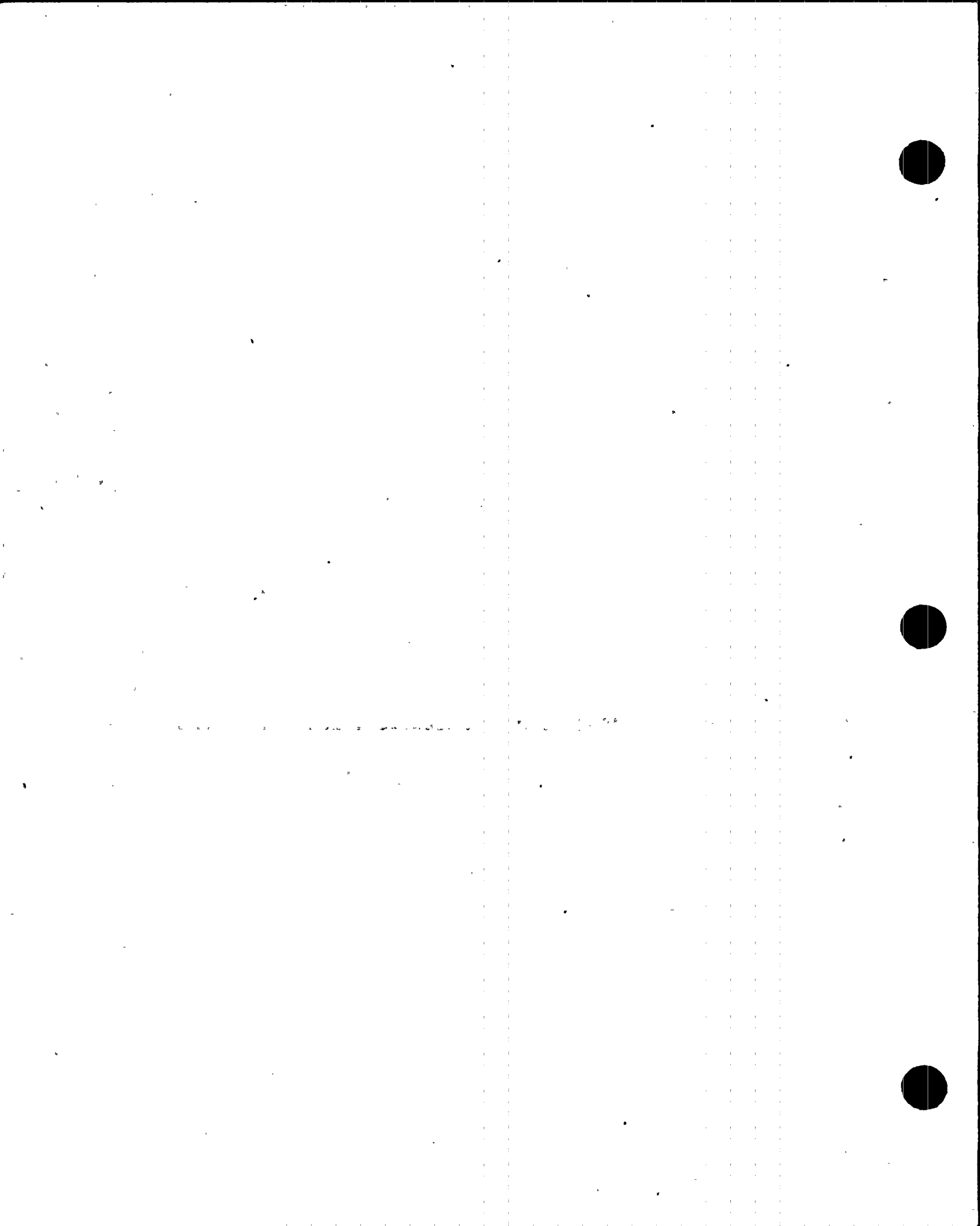
James A. Perkins
Notary Public

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

21 The foregoing instrument was acknowledged before me this
day of January, 1988, by Mark Nelson, a Senior Manager of THE
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 August 1, 1986 with Palatine Hills Leasing,
Inc.



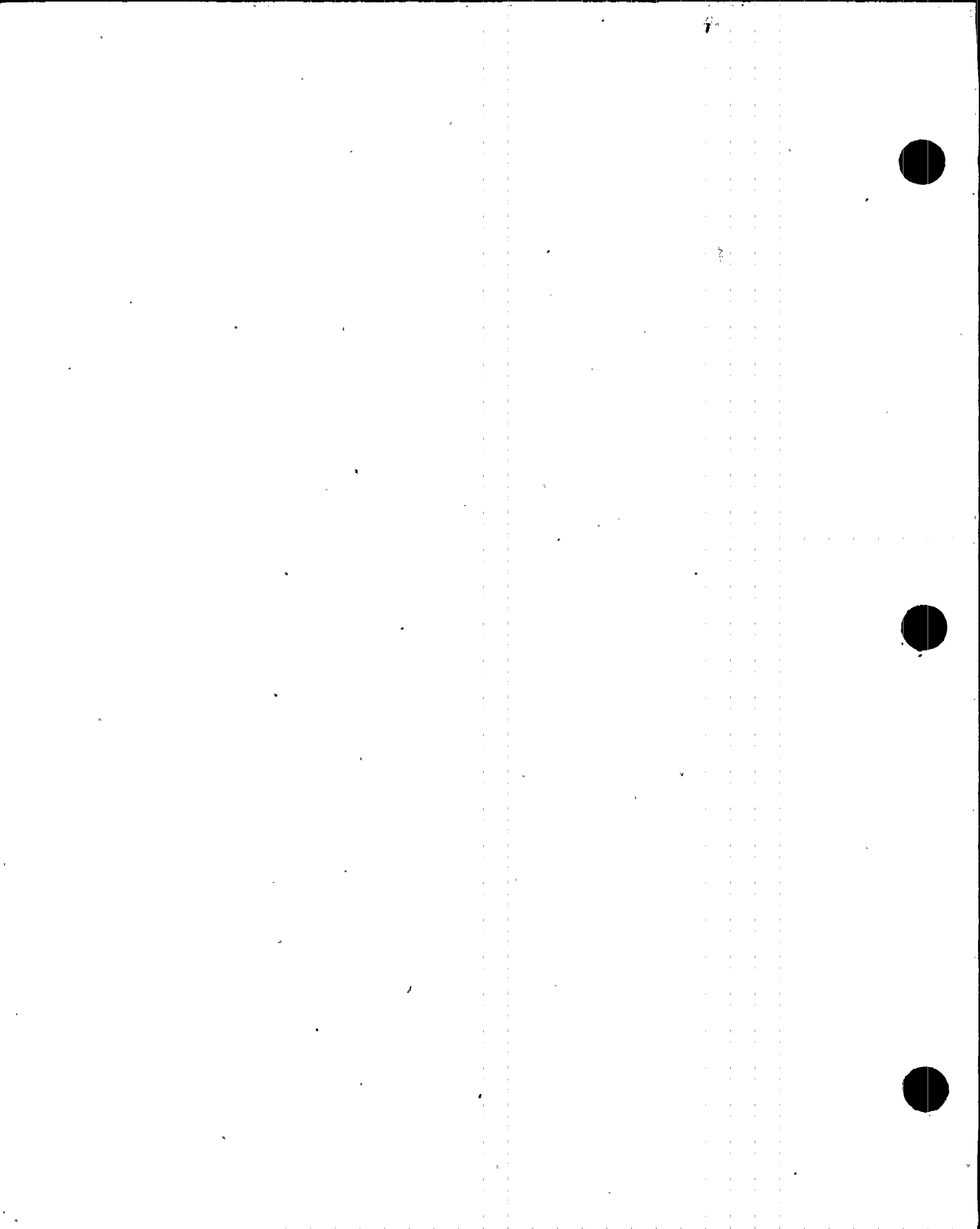
Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994



SCHEDULE 7
TO FACILITY LEASE

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with COMMERCIAL FEDERAL INVESTMENT CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

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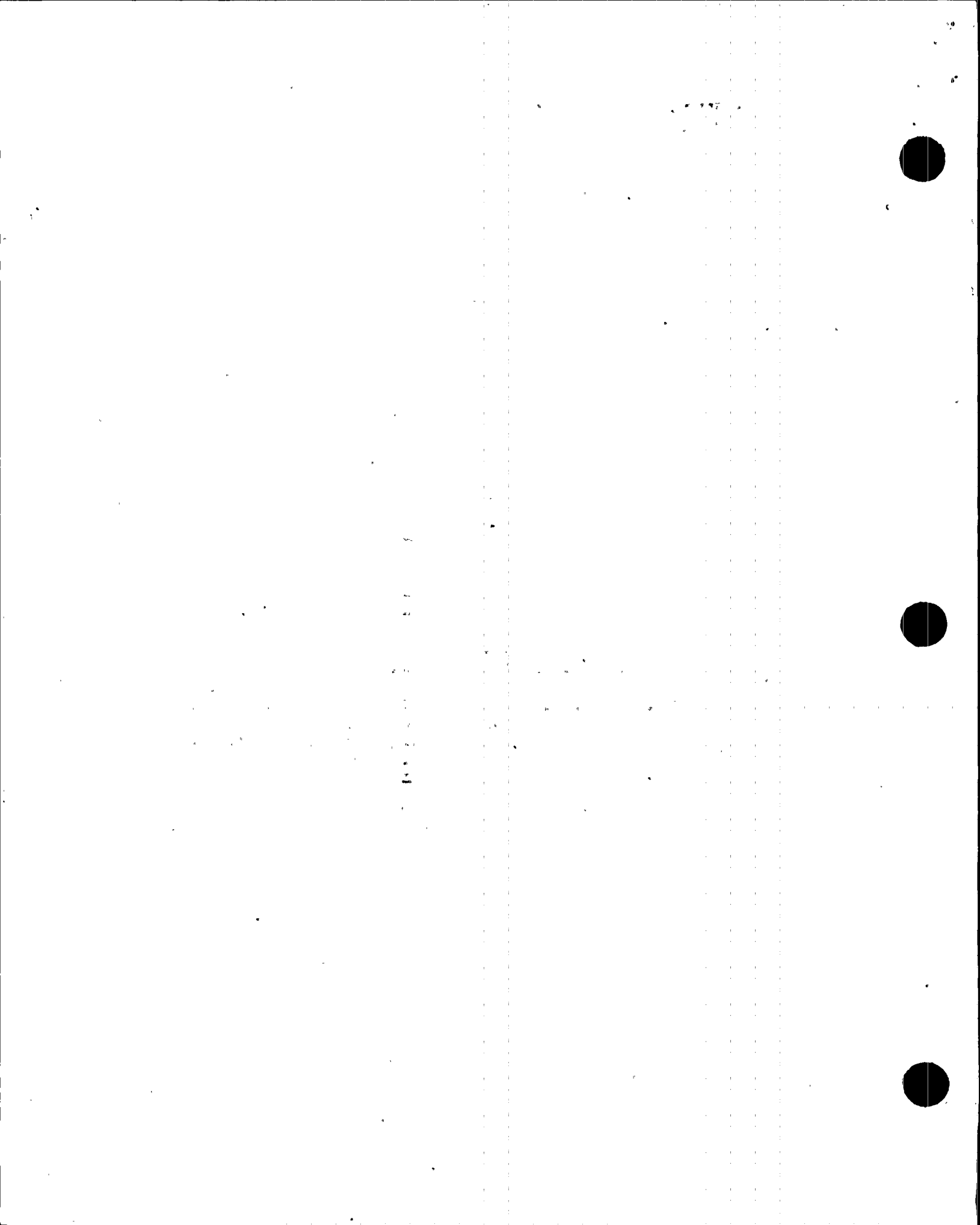
Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

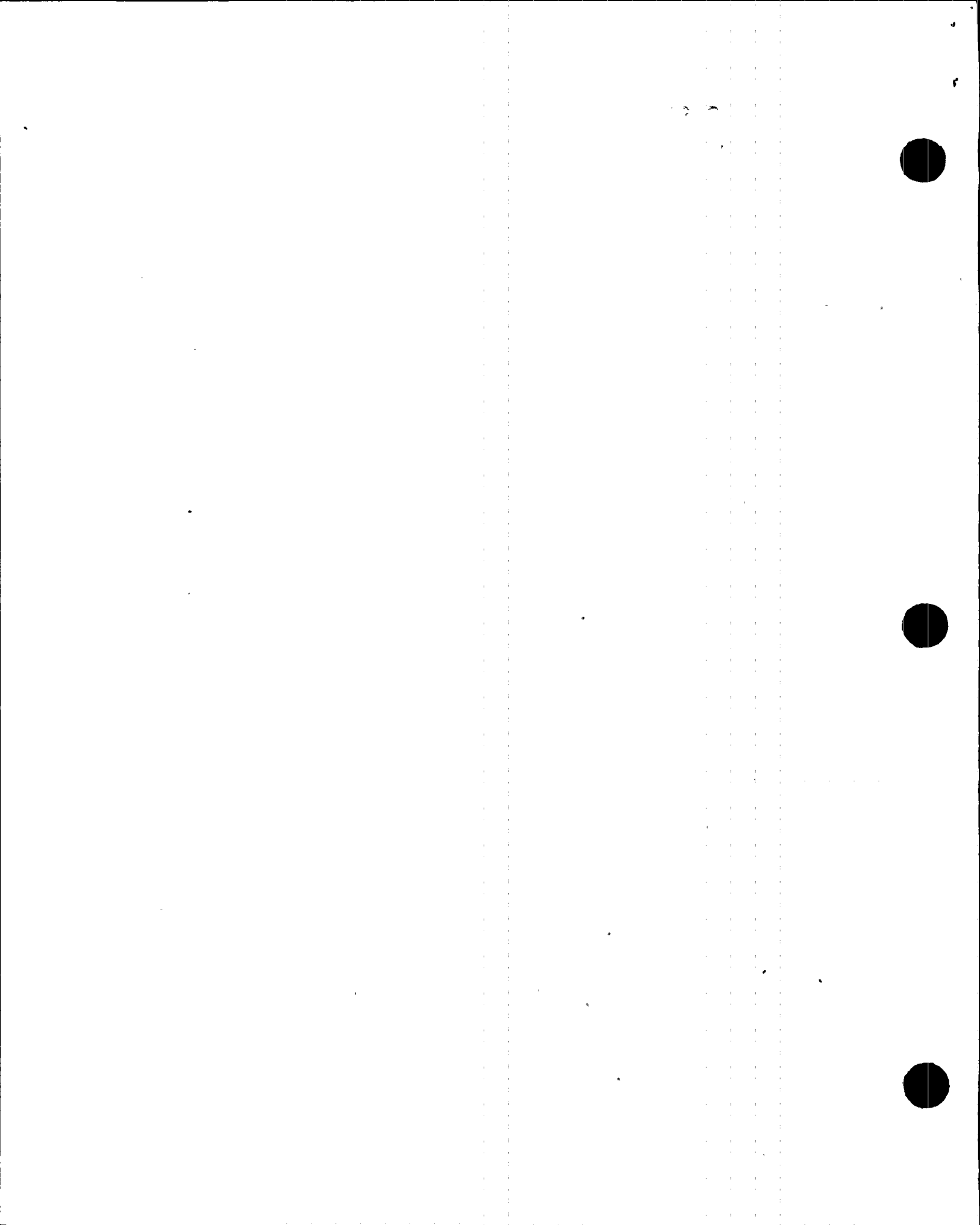
(B) the Surviving Lessee, if other than the Lessee immediately prior to such transaction, shall execute and deliver to the Owner Participant an agreement, in form and substance reasonably satisfactory to the Owner Participant, containing the assumption by the Surviving Lessee of each covenant and condition of this Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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 to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) Incurrence of Debt. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net

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income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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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 33-404, the beneficiary of the Trust Agreement is Commercial Federal Investment Corporation, a corporation. The address of the beneficiary is 1300 Commercial Federal Tower, 2120 South 72nd Street, Omaha, Nebraska 68124, Attention: Jeff Bainbridge. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with
Commercial Federal Investment
Corporation,

By



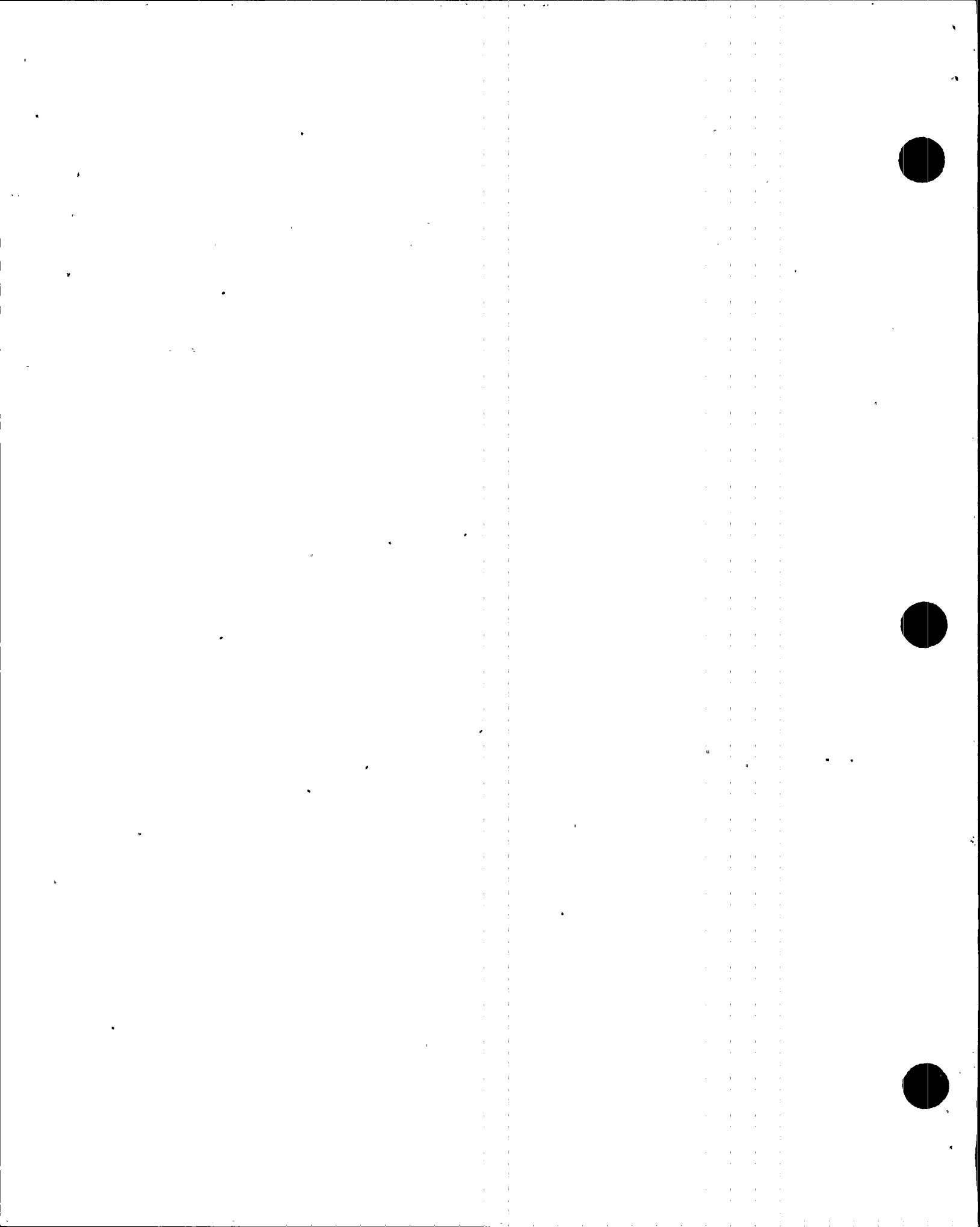
Senior Manager

EL PASO ELECTRIC COMPANY,

By



Vice President



STATE OF TEXAS

COUNTY OF EL PASO

)
)
) ss.:

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

James A. Perkins
Notary Public

1. 30

COMMONWEALTH OF MASSACHUSETTS)
) ss.:
COUNTY OF SUFFOLK)

21 The foregoing instrument was acknowledged before me this day of January, 1988, by Mark Nelson, a Senior Manager of THE 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 August 1, 1986 with Commercial Federal Investment Corporation.

Maria Mirisola

Notary Public
MARIA MIRISOLA
My Commission Expires
September 30, 1994

1021.7500.2754.06A:1

SCHEDULE 8

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America



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AGREEMENT dated as of December 31, 1987 among COMMERCIAL FEDERAL INVESTMENT CORPORATION ("Owner Participant"), 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 August 1, 1986 with Owner Participant, and EL PASO ELECTRIC COMPANY ("Lessee").

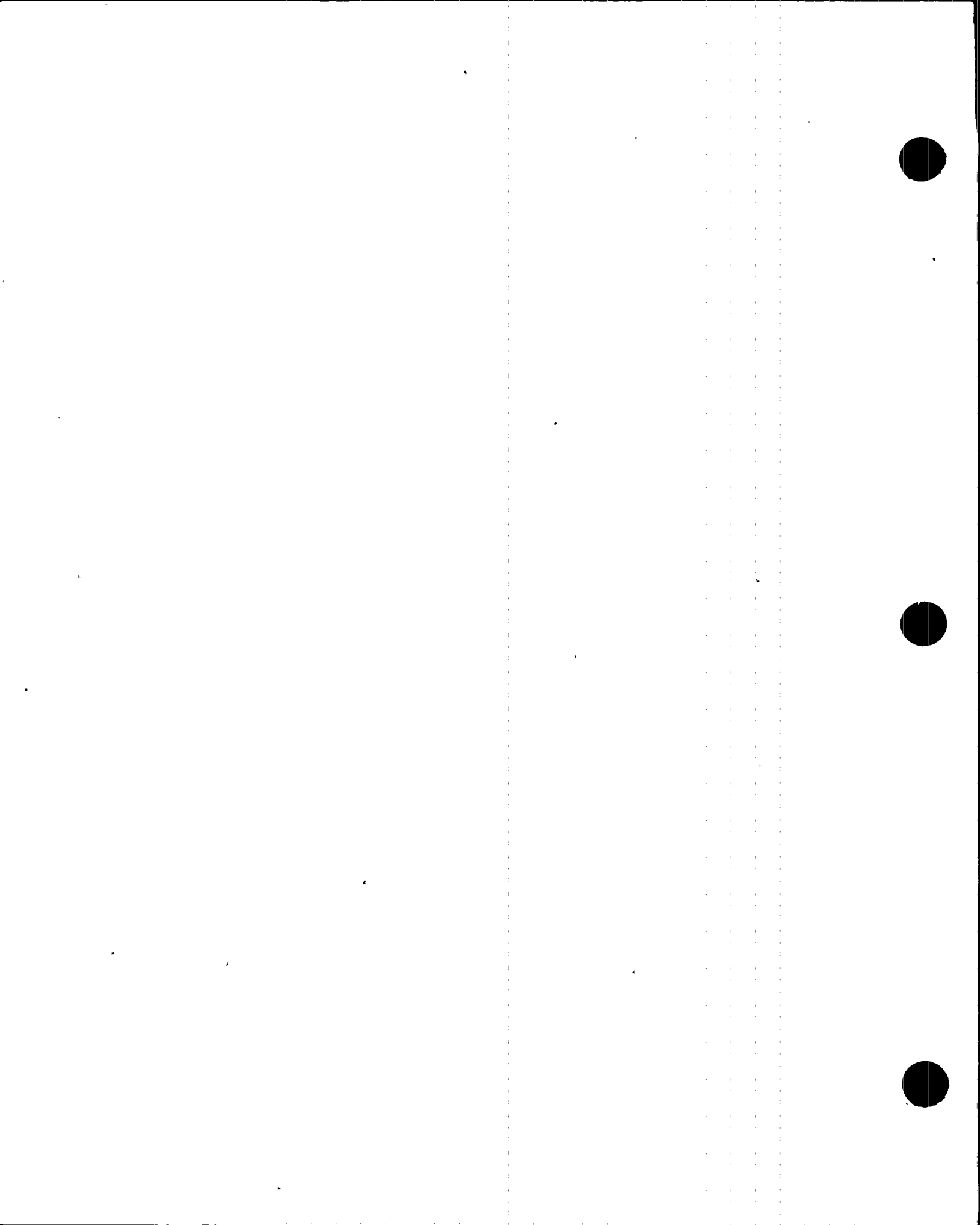
Owner Trustee and Lessee are parties to the Facility Lease dated as of August 1, 1986, as amended (the "Facility Lease"). All terms used but not defined herein have the meanings ascribed to them in Appendix A to the Facility Lease.

Lessee, Owner Trustee and Owner Participant desire to modify certain provisions of the Facility Lease, provide credit enhancement for the benefit of Owner Participant in the form of a letter of credit to support the payment of rent and, until such time as a letter of credit has been delivered, provide for the creation of an escrow account into which Lessee will deposit funds to be held for the retirement of certain of its outstanding Debt. Accordingly, the parties hereto agree as follows:

1. Letter of Credit.

A. Lessee shall cause to be delivered to Owner Participant a letter of credit (the "LC") with drawing amounts not less than Special Casualty Value from time to time during the period the LC is outstanding less the principal amount of and accrued interest on the Notes Outstanding from time to time. If the Lessee shall fail to cause the LC to be delivered by April 30, 1988 in accordance with the terms hereof, the Escrow Agreement (as defined in Section 2) shall continue in full force and effect, and the Lessee shall pay to the Owner Trustee all amounts set forth in Section 3(b)(iv) of the Facility Lease in accordance with the terms thereof, but such failure shall not constitute an Event of Default.

B. The unsecured long-term debt securities of the bank issuing the LC shall be rated by Moody's not less than A2, in the case of a United States bank, or Aa3, in the case of a United States branch or agency of a foreign bank, and such bank shall be otherwise acceptable to Owner Participant. Owner Participant will be reasonable in determining such acceptability, but may consider such matters as (i) legal or regulatory constraints on the issuance to or holding by Owner Participant of letters of credit from such bank and (ii) policy constraints in effect for Owner Participant on the issuance to or holding by Owner Participant of letters of credit from such bank, so long as such policy constraints are then applicable by Owner Participant generally to such bank and have been applied by Owner Participant without regard to the nature of PVNGS or the Unit 2 sale and leaseback transactions or the identity or credit of Lessee.



C. The LC (1) shall have an expiry date of December 31, 1991, (2) may be drawn upon if an Event of Loss occurs, a Deemed Loss Event is declared, an Event of Default occurs and is continuing or in any and all events prior to termination of the LC should a termination event under the LC occur, (3) shall permit partial drawings, (4) shall permit Owner Participant to assign all of its interest therein to a successor Owner Participant without the issuing bank's or Lessee's consent (5) shall provide for reinstatement upon reimbursement in respect of a draw thereunder for Supplemental Rent and (6) shall be otherwise satisfactory in form and substance to Owner Participant in its reasonable judgment. Appropriate provision will be made for replacing the LC if there is a decline in the rating by Moody's of the unsecured long-term debt securities of the issuing bank below A3.

D. The reimbursement agreement between Lessee and the issuing bank relating to the LC shall (1) not contain any default or termination provisions that are less favorable to Lessee or Owner Participant than those contained in Lessee's Reimbursement Agreement dated as of December 1, 1987, with The Fuji Bank Limited, (2) require the issuing bank to pay any draws on the LC from its general funds, (3) not permit the issuing bank to exercise any right of set off during the pendency of any bankruptcy proceeding of Lessee, (4) not permit Lessee's reimbursement obligation to be collateralized at any time by the grant of a security interest in Lessee's interest in the Undivided Interest or the Real Property Interest or in any other property unless a subordinate (to the security interest of the issuing bank) security interest in such property is also granted to Owner Participant, (5) not permit amendment of any provision of the LC or the reimbursement agreement in a manner which is materially adverse to the interest of Owner Participant without its prior written consent and (6) otherwise be satisfactory in form and substance to Owner Participant in its reasonable judgment.

E: The LC need not be renewed or replaced as of December 31, 1991, if (i) all the Debt listed on Schedule 8 to the Facility Lease has been retired in accordance with such Schedule 8, (ii) the New Coverage Ratio of Lessee, determined as of June 30, 1991, is not less than 1.6 to 1, (iii) the aggregate Debt maturing more than one year after the date of issuance, assumption or liability (including current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 65% of New Consolidated Capitalization, all as derived from the Lessee's financial books and records as of June 30, 1991, and (iv) the aggregate Debt maturing one year or less after the date of such issuance, assumption or liability (excluding current maturities of Debt with an original maturity in excess of one year) of Lessee shall not be in excess of 12.5% of such New Consolidated Capitalization (clauses (i) through (iv) above being herein called the "Tests"). Lessee

shall prepare for and provide to Owner Participant not later than October 1, 1991 (and October 1 of succeeding years under the circumstances set forth below) calculations showing whether Lessee has satisfied the Tests and the financial data upon which such calculations were based. If Lessee has failed to meet the Tests, Owner Participant may, at its option (and without affecting any other rights of Owner Participant to draw on the LC), draw on the LC or require that Lessee provide a renewal or replacement LC or itself obtain for Lessee, at Lessee's expense, a renewal or replacement LC on substantially the same terms as the existing LC, except that the annual fee payable under such renewal or replacement LC shall not be more than 100 basis points greater than the annual fee to Lessee of the existing LC. The Owner Participant shall exercise such option within a period of time to be determined but not more than thirty (30) days after the Lessee shall furnish the Owner Participant the aforesaid calculations and financial data. Such renewal or replacement LC shall have a term commencing not later than the expiry date of the existing LC and ending not earlier than one year after such expiry date, and shall have terms (including the terms of the related reimbursement agreement) not less favorable to Owner Participant than the terms contained in the existing LC and reimbursement agreement. Such renewal or replacement LC may provide for its early expiration not earlier than December 31 of the year during which Lessee meets the Tests. The procedures set forth above (the New Coverage Ratio being determined, and deriving New Consolidated Capitalization from the Lessee's financial books and records, as of June 30 in each such year) shall be repeated each year until no renewal or replacement LC is required.

2. Escrow Agreement. Lessee shall enter into an Escrow Agreement with Chemical Bank substantially in the form of Exhibit A hereto. The Owner Participant agrees that, upon delivery and acceptance of the LC, it shall deliver the notice required by clause (i) of Section 7.2 of the Escrow Agreement.

3. Amendment to Lease. Owner Trustee and Lessee shall execute Amendment No. 2 to the Facility Lease substantially in the form of Exhibit B hereto.

4. Further Changes. Concurrent with the procurement of the LC, and subject to obtaining any required consents of third parties to the Transaction Documents, the parties will amend the Facility Lease and other Transaction Documents to implement the obtaining of and to reflect the existence of the LC and to further implement the terms of this Agreement. Such amendments will include provisions affording Lessee, in the event Owner Participant has determined to draw on the LC when Lessee has failed to meet the Tests and unless an Event of Default shall have otherwise occurred and be continuing or an Event of Loss shall have occurred or Deemed Loss

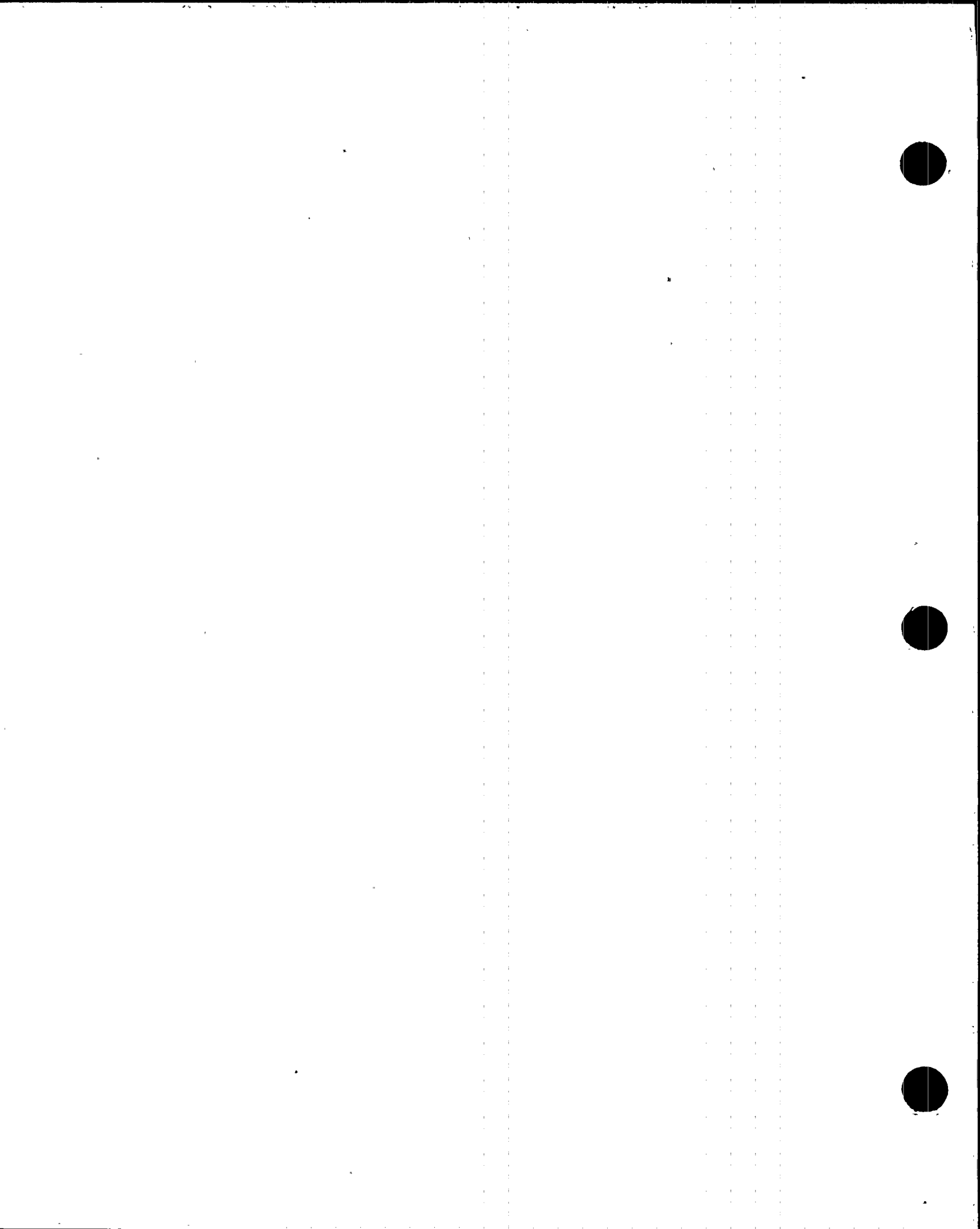
Event shall have been declared, the right to purchase the Undivided Interest and the Real Property Interest on or before some period prior to the expiration or termination date of the existing LC, for an amount based on the greater of (i) Enhanced Casualty Value, which will be calculated on an assumed 25% residual, and (ii) Fair Market Sales Value of the Undivided Interest and the Real Property Interest.

5. Consent. Owner Participant irrevocably consents to any and all transactions which would require its consent under Section 10(b)(3)(ii) or 10(b)(3)(v) of the Participation Agreement.

6. Owner Trustee Directive. Owner Participant hereby authorizes and directs Owner Trustee to execute this Agreement, Amendment No. 2 to the Facility Lease and such other agreements, documents and certificates as shall be required in order to facilitate the execution and delivery of this Agreement and such Amendment No. 2.

7. Taxes. All the provisions of Sections 13(b) and (c) of the Participation Agreement shall be applicable as though the matters set forth in this Agreement (including the exhibits hereto) had been included in the Transaction Documents at all times since August 22, 1986 except that the execution and delivery of this Agreement, as opposed to its provisions, shall not be considered to be the execution and delivery of a Transaction Document or a Financing Document or an act specifically required or expressly permitted to be performed by the Lessee for the purposes of Section 13(c)(4)(i)(B) of the Participation Agreement.

8. Miscellaneous. This Agreement may be executed by the parties hereto in separate counterparts, and it shall not be necessary for the signatures of all parties to appear on any one counterpart. The headings of the various sections of this Agreement are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof. This Agreement may not be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing signed by the party against whom enforcement of such transaction, amendment, supplement, waiver or modification is sought. This Agreement in all respects shall be governed by and construed in accordance with the laws of the State of New York, including all matters of construction, validity and performance.



IN WITNESS WHEREOF each of the parties hereto has caused this Agreement to be duly executed as of the day and year first above written.

COMMERCIAL FEDERAL INVESTMENT
CORPORATION

By: R. P. Cheffer

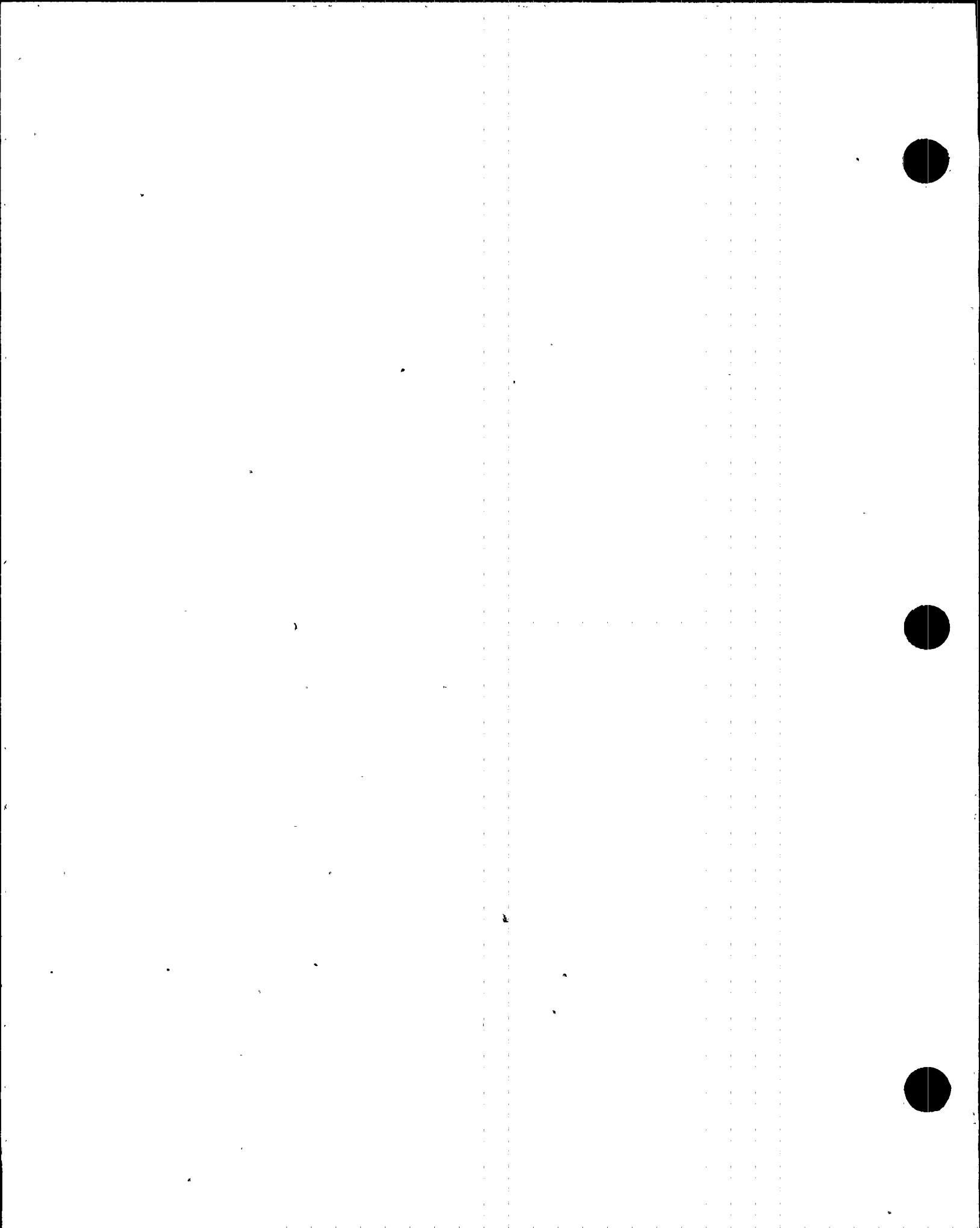
Ronald P. Cheffer, Assistant Vice President

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity but solely as Owner
Trustee

By: M. W. White
Senior Manager

EL PASO ELECTRIC COMPANY

By: W. L. John
Vice President



ESCROW AGREEMENT

Dated as of December 31, 1987

between

CHEMICAL BANK,
Escrow Agent

and

EL PASO ELECTRIC COMPANY

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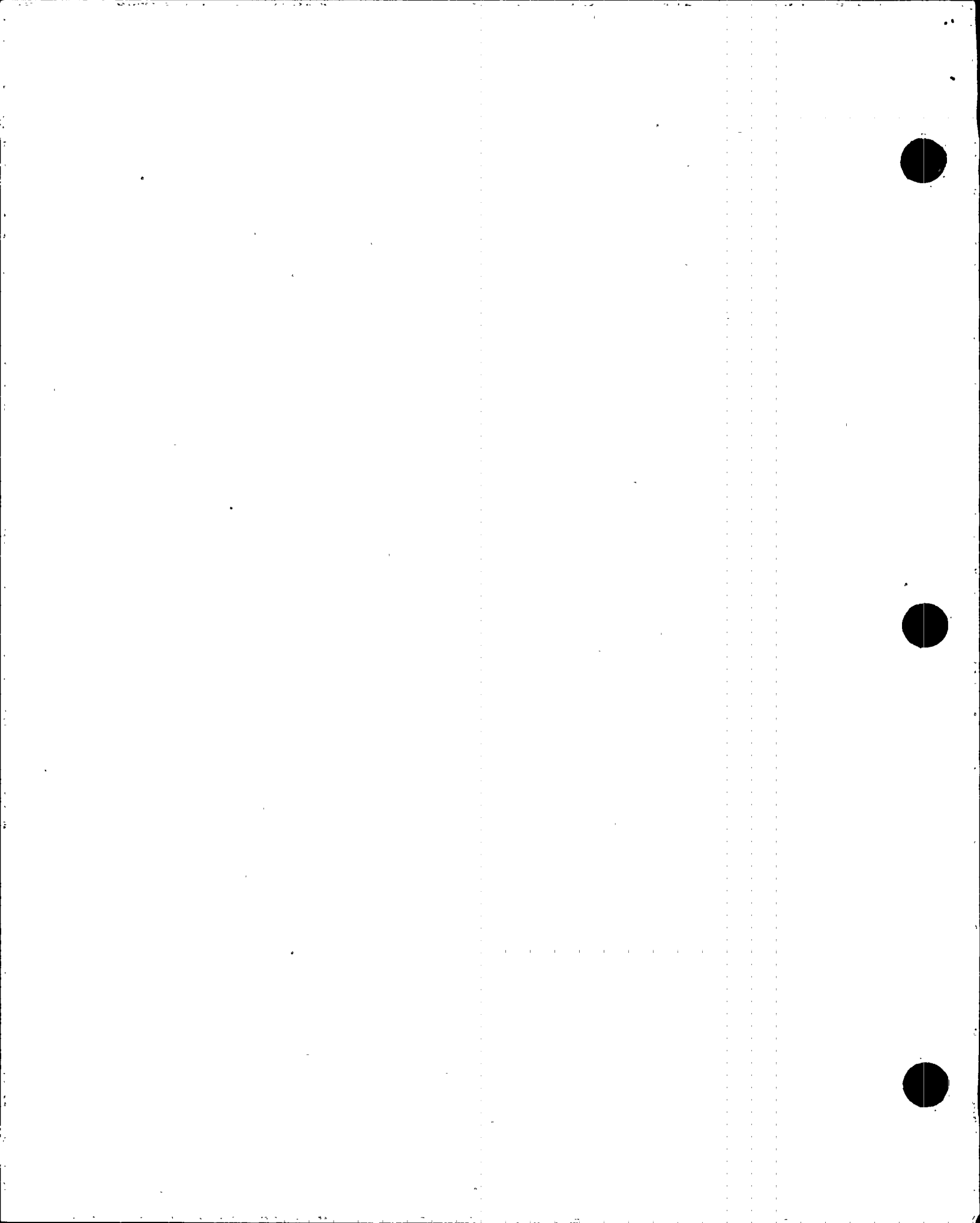


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ESCROW AGREEMENT

ESCROW AGREEMENT, dated as of December 31, 1987, among CHEMICAL BANK, a New York banking corporation (the Agent), and EL PASO ELECTRIC COMPANY, a Texas corporation (the Company).

W I T N E S S E T H: .

WHEREAS, pursuant to eight separate Commitment Agreements, dated as of December 31, 1987 with each of the Owner Participants (as described in Schedule I hereto) and the related Owner Trustee, the Company has agreed to establish and maintain an escrow account of certain moneys and securities (such terms and all other capitalized terms used herein having the meanings set forth or referred to in Section 1 hereof) until such time as Acceptable Letters of Credit are obtained; and

WHEREAS, the Commitment Agreements contemplate that certain moneys and securities are to be held in an escrow account to be established with the Agent and are to be disbursed by the Agent pursuant to directions from the Company until the occurrence of certain events, all in accordance with the terms and conditions set forth herein; and

WHEREAS, the Company desires that the Agent be appointed as escrow agent, and the Agent desires to accept such appointment, all in accordance with the terms and conditions set forth herein.

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

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement and unless otherwise expressly indicated, or unless the context clearly requires otherwise:

(a) The terms Agent and the Company have the meanings assigned in the caption of this Agreement.

(b) The following terms have the respective meanings set forth below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Acceptable Letter of Credit means a letter of credit complying with the requirements therefor as set forth in

the relevant Commitment Agreement, which the Company has agreed to provide to each August Owner Participant.

August Owner Participants means each of the six entities listed in Schedule I hereto, each as an owner participant under its related August Participation Agreement.

August Participation Agreement(s) means each of six separate Participation Agreements, dated as of August 1, 1986, as amended by Amendment No. 1, dated October 1, 1986 among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee, and each August Owner Participant.

Commitment Agreements means the eight separate Agreements, dated as of December 31, 1987, by and between El Paso, the related Owner Trustee and each of the Owner Participants.

December Participation Agreement(s) means the Participation Agreement dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Chrysler Financial Corporation and the Participation Agreement, dated as of December 1, 1986, among the Company, El Paso Funding Corporation, the Owner Trustee, First City National Bank of Houston, as Indenture Trustee and Commercial Federal Investment Corporation.

El Paso Obligations means the principal amount of the indebtedness of the Company set forth in Schedule III hereof.

Escrow Account means said term as defined in Section 2.2 hereof.

Escrow Sub-accounts means the Transferred Investments Escrow Sub-account and the Lease Proceeds Escrow Sub-account, collectively.

Lease Proceeds Escrow Deposit means said term as defined in Section 3.1 hereof.

Lease Proceeds Escrow Sub-Account means said term as defined in Section 2.2 hereof.

Owner Participant(s) means the August Owner Participants and Chrysler Financial Corporation and

Commercial Federal Investment Corporation, as Owner Participants under the December Participation Agreements.

Owner Trustee means The First National Bank of Boston, as trustee for an Owner Participant under each of six separate Trust Agreements, dated as of August 1, 1986 and two separate Trust Agreements, dated as of December 1, 1986.

Participation Agreements means the August Participation Agreements and the December Participation Agreements.

Permitted Investments means the certificates, obligations and investments set forth in Schedule II hereto, the investments constituting the Transferred Investments Escrow Deposit and reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof.

Transferred Investments Escrow Deposit means said term as defined in Section 2.2 hereof.

Transferred Investments Escrow Sub-account means said term as defined in Section 2.2 hereof.

(c) As used herein, any capitalized term not otherwise defined herein has the meaning assigned to such term in the respective Participation Agreements.

ARTICLE II

APPOINTMENT OF AGENT AND CREATION OF ESCROW ACCOUNT

SECTION 2.1. Appointment of Agent. For the purposes and subject to the terms and conditions set forth in this Agreement, the Company hereby appoints Chemical Bank as escrow agent, and Chemical Bank hereby accepts such appointment.

SECTION 2.2. The Escrow Account. The Agent shall establish and maintain for the benefit of the Owner Participants an Escrow Account (the Escrow Account), within which there shall be two separate sub-accounts to be known as the Lease Proceeds Escrow Sub-account (the Lease Proceeds Escrow Sub-account) and the Transferred Investments Escrow Sub-account (the Transferred Investments Escrow Sub-account). The Agent shall deposit in the Escrow Account (i) for

credit to the Lease Proceeds Escrow Sub-account, any Lease Proceeds Escrow Deposit made by the Company to the Agent pursuant to Section 3.1 hereof, and (ii) for credit to the Transferred Investments Escrow Sub-account, the Transferred Investments Escrow Deposit made by the Company to the Agent pursuant to Section 4.1 hereof. So long as any amounts remain in the Escrow Account, such amounts shall be considered as, and shall be and remain, the property of the Company. The Agent shall invest or re-invest any amounts in the Escrow Account and make applications thereof as provided in Article V hereof. The Escrow Account shall be funded by the deposits by the Company to the appropriate sub-accounts in the manner described herein.

SECTION 2.3. Statement of Purpose. The Company represents that the purpose of this Agreement and the creation and establishment of the Escrow Account is to pay or provide for the payment of the El Paso Obligations and certain short-term indebtedness of El Paso in accordance with Section 5.1(b) hereof.

ARTICLE III

LEASE PROCEEDS DEPOSIT BY THE COMPANY

SECTION 3.1. Lease Proceeds Escrow Deposit. The Company hereby represents that it has deposited with the Agent \$163,000,000 for deposit by the Agent in the Lease Proceeds Escrow Sub-account.

ARTICLE IV

TRANSFER AND DEPOSIT BY THE COMPANY OF EXISTING INVESTMENTS

SECTION 4.1. Transferred Investments Escrow Deposit. Subject to the terms and provisions of this Agreement, the Company hereby agrees that by February 1, 1988 it will cause to be deposited into the Transferred Investments Escrow Sub-Account by change of account reference to that of the Agent or assignment of all right, title and interest of the Company to the Agent (exclusive of any obligations or liabilities of the Company) as the case may be, of the following (collectively, the Transferred Investments Escrow Deposit):

(i) Account of El Paso Electric Co., Account No. 9-6191-03 01 at MBank Houston, P.O. Box 2629, Attn: Capital Markets Division, Houston, Texas;

(ii) The limited partnership interest of the Company in and to the Weiss Qualified Income Fund Limited

Partnership I, obtained on November 13, 1936 pursuant to the Weiss Qualified Income Fund Limited Partnership I Amended and Restated Agreement of Limited Partnership, dated as of September 9, 1986;

(iii) Account of El Paso Electric, Account No. 530-97061 at Merrill Lynch, Pierce, Fenner & Smith Incorporated, One Liberty Plaza, 165 Broadway, New York, NY 10080; and

(iv) Account of El Paso Electric Company, Account No. 30 B 20009 354 at Kidder, Peabody & Co., Incorporated, 20 Exchange Place, New York, NY 10005.

The Agent is hereby authorized by the Company to enter into any arrangement or agreement (including but not limited to, management agreements) as the Company may determine is necessary to evidence ownership of the foregoing investments by the Agent.

The Company represents that the aggregate "book value" as of the end of November, 1987 of the Transferred Investments Escrow Deposit was not less than \$135 million.

Notwithstanding the foregoing, if for any reason the Company fails to consummate any of the transfers, in whole or in part, to the Agent referred to in clauses (i) through (iv) of the first paragraph of this Section 4.1, such failure shall not constitute a breach of, or default under, this Agreement, so long as the Company shall have on deposit in the Transferred Investments Escrow Sub-Account with the Agent on February 1, 1988, moneys or securities having an aggregate "book value" as of the end of November, 1987 of not less than \$135 million.

ARTICLE V

INVESTMENTS AND PAYMENTS BY AGENT

SECTION 5.1. Payments by Agent to Company from Lease Proceeds Escrow Sub-Account. (a) In order to provide for the payment of the El Paso Obligation that is to be paid on or prior to January 31, 1988, and prior to the valuation of the money and securities in the Escrow Account, upon the receipt by the Agent (with copies to each Owner Participant) from the Company of a request in writing for disbursement, the Agent shall pay to the party indicated in the written request of the Company in immediately available funds, out of the funds then on deposit in the Lease Proceeds Escrow Sub-account, an amount equal to the amount that is due and owing to The Bank of New York as a prepayment of the El Paso Obligation for which

payment is due in January 1988. Such request by the Company to the Agent pursuant to this Section 5.1 shall specify (i) the applicable prepayment date and (ii) wire or transfer instructions.

(b) The Agent will prepare a market valuation of all moneys and securities on deposit in the Escrow Account in accordance with the requirements of Section 5.4 hereof within 10 calendar days following receipt by the Agent of all monthly closing valuations for the month of January 1988. Upon completion of such valuation, the Agent shall promptly provide a certificate to the Company and each of the Owner Participants setting forth the value of such moneys and securities. To the extent that the amount of such market valuation exceeds \$243,100,000, upon receipt of such certificate of valuation from the Agent, the Company shall deliver a written request to the Agent (with copies to each Owner Participant), directing release of such excess to the Company for payment of indebtedness of the Company having a maturity of one year or less specified in such request, and upon receipt of such request the Agent shall release such excess to the Company. To the extent that the amount of such market valuation is less than \$243,100,000, the Company shall provide the Agent, within five business days after receipt of the certificate of valuation from the Agent, with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency.

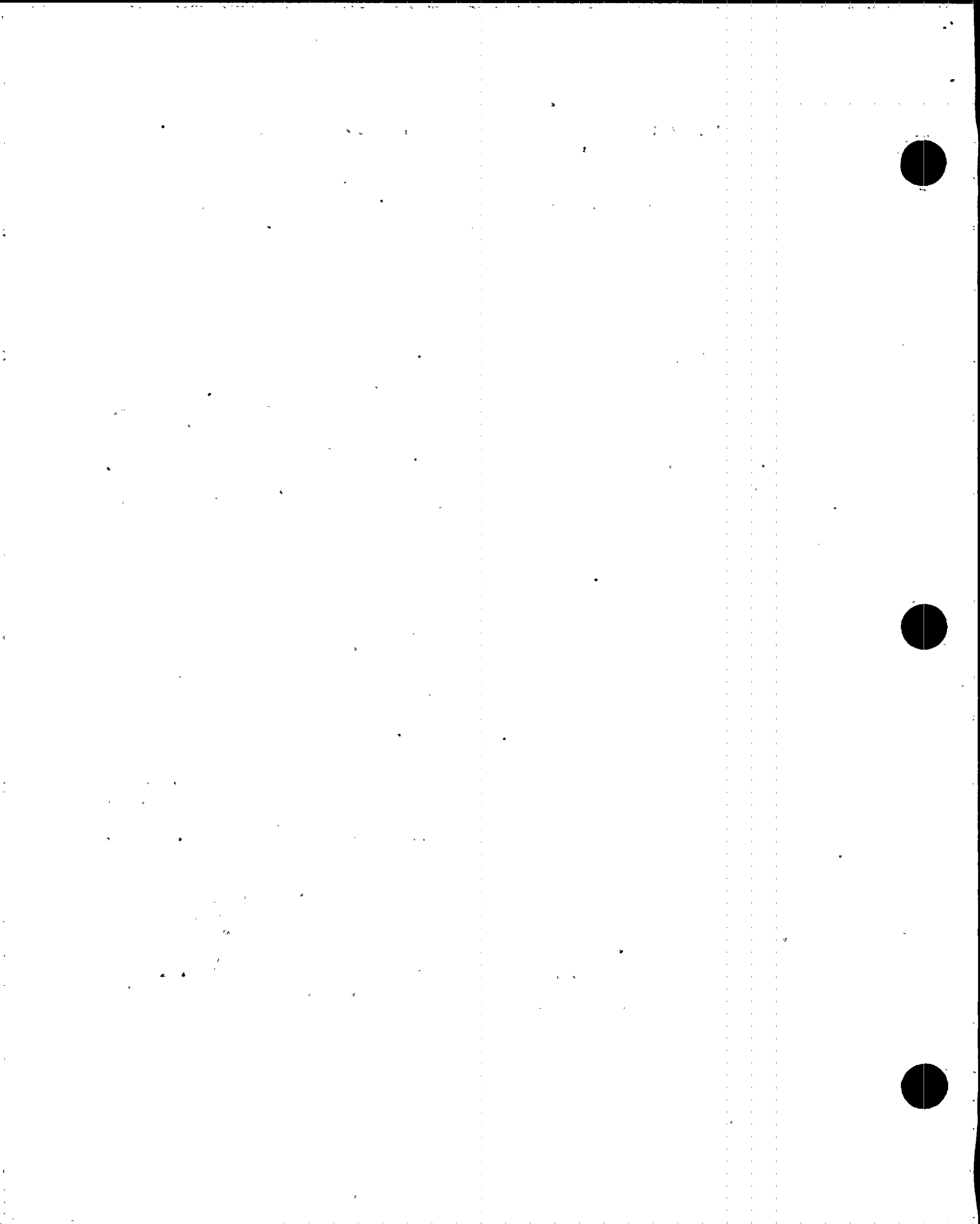
SECTION 5.2. Monthly Disbursement from both Sub-accounts. Except as specifically provided in Section 5.1 hereof, as soon as practicable following each monthly valuation pursuant to Section 5.4 hereof of the moneys and securities on deposit in the Escrow Account, amounts on deposit in the Escrow Account shall be disbursed monthly in accordance with and in amounts as set forth in a written certificate of the Company (with copies of such certificate delivered to each Owner Participant) specifying the applicable payment date, payee, sub-account and wire or transfer instructions: first, to the party named in such certificate of the amount as set forth therein in order to permit the payment of El Paso Obligations with a Payment Date as determined in accordance with Schedule III hereto within 45 days after the date as of which the Escrow Account is valued and then second to the Company all amounts on deposit in the Escrow Account in excess of the amount necessary to pay the principal amount of the remaining El Paso Obligations, determined by reference to Schedule III hereto and confirmed in the certificate of the Company requesting such disbursement.

Notwithstanding the foregoing the Company may direct the Agent to make a disbursement from the Escrow Account solely for the purposes of paying an El Paso Obligation if for any reason the valuation and disbursement procedure heretofore described does not provide for timely and adequate payment of any such El Paso

Obligation and such direction of the Company shall expressly so state. The Agent shall be entitled to liquidate any investments held in the Escrow Account in order to provide for payment of the El Paso Obligations or any other payments in accordance herewith. The Agent shall have no liability for losses resulting from the liquidation of securities on deposit in the Escrow Account.

SECTION 5.3. Investments; Agreement as to Value of Clauses 6, 7 and 8 on December 31, 1988. (a) The Agent shall invest and reinvest (which shall include the application of (A) the proceeds of maturing investments and (B) the sale of investments) the moneys in the Escrow Account only in Permitted Investments and shall sell investments in the Escrow Account, as specifically identified in a written direction of the Company which shall, in the case of any such investment or reinvestment expressly state that each such investment is a Permitted Investment and further that such Permitted Investment is in compliance with the limitations set forth in the next sentence, it being understood that the Agent shall have no duty to monitor such compliance; provided, however, that such identification of the investment or reinvestment and certification as to compliance with the limitations set forth in the next sentence shall not be applicable to the nondiscretionary reinvestment feature of the investments described in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. Any such investments and reinvestments shall be subject to the following limitations:

(i) no investment or reinvestment shall be made in any of clauses 6, 7 and 8 contained in Schedule II hereto if as a result of such investment or reinvestment (a) at the date thereof, but no later than December 31, 1988, the total aggregate amount invested pursuant to clauses 6, 7 and 8 contained in Schedule II hereto would exceed the lesser of (x) sixty percent (60%) of the market value of the amounts then on deposit in the Escrow Account and (y) the total so invested at any time immediately prior to such investment or reinvestment; provided, however, that for purposes of determining compliance with this subclause (y), there shall be excluded from the total aggregate amount invested pursuant to clauses (6), (7) and (8) of Schedule II hereto any amounts attributable to the investment and reinvestment of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 on deposit in the Transferred Investment Escrow Sub-Account and (b) at the date thereof, but only after December 31, 1988, the total aggregate amount invested pursuant to such clauses would exceed twenty-five percent (25%) of the



market value of the amounts then on deposit in the Escrow Account;

(ii) no investment or reinvestment in Permitted Investments shall be made if the result thereof would be to cause any of clauses 1, 3, 4, 5, 9 and 10 contained in Schedule II hereto to exceed twenty-five percent (25%) of the market value of the amounts on deposit in the Escrow Account; and

(iii) the average life of any investment (other than investments described in clause 2 contained in Schedule II hereto) shall not exceed seven years.

(b) The Company agrees that the market value as of December 31, 1988 of investments in the Escrow Account (including the Transferred Investments Escrow Deposit) in clauses 6, 7 and 8 contained in Schedule II hereto will not exceed \$45 million. The Company represents that it will attempt to undertake an orderly liquidation of the Transferred Investments Escrow Deposit so as to be in a position to comply with this Article V. The Company anticipates that, under current market conditions and recognizing that sale of investments will be designed to protect the Company from incurring any losses due to such investments, reductions, within the bands and for the quarters of calendar year 1988 indicated below, of the Transferred Investments Escrow Deposit would be achievable:

<u>1988</u> <u>(quarter)</u>	<u>Reduction</u> <u>(millions of Dollars)</u>
1st	20 to 45
2nd	20 to 30
3rd	30 to 20
4th	<u>38 to 13</u>
Total for 1988	<u>108</u>

SECTION 5.4. Valuation of Investments; Payment of Deficiency. The Agent shall cause a monthly fair market valuation of the Escrow Account to be undertaken. In undertaking its obligation to make a monthly valuation of the Escrow Account, (i) the Agent shall be entitled to assume that the monthly market valuations furnished to the Agent of the investments held in the Transferred Investments Escrow Sub-Account shall constitute the market value of any such investments and (ii) to the extent the Agent is unable to value any Permitted Investments in accordance with its customary practice as a corporate trustee, the Company hereby agrees to promptly provide the Agent with, and the Agent shall be entitled to rely upon, an independent market valuation of any such investment. The Company agrees to cause the monthly market valuations of the

investments constituting the Transferred Investments Escrow Sub-Account to be sent directly to the Agent. Copies of all such valuations by the Agent shall be sent to the Owner Participants and the Company.

The Agent shall undertake such valuation of the Escrow Account monthly, commencing in February, 1988, such valuation to be as of the end of the immediately preceding month and in no event shall such valuation be completed later than ten calendar days after receipt by the Agent of the monthly valuation report for all such Permitted Investments on deposit in the Transferred Investments Escrow Subaccount (including any monthly valuation report provided pursuant to the second sentence of the first paragraph of Section 5.4 hereof). In connection with its valuation of the Escrow Account, the Agent shall deduct from the valuation of the investments on deposit in the Transferred Investments Escrow Sub-Account that amount which represents the aggregate value attributable (determined on a cumulative basis, i.e., including the month of valuation and preceding months) to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof. For purposes of the monthly valuation only, any proceeds derived from a sale or upon maturity (other than pursuant to the nondiscretionary reinvestment feature of any of the investments listed in clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof) of any investment made pursuant to clauses (ii), (iii) and (iv) of the first paragraph of Section 4.1 hereof shall be allocated to reducing the aggregate value, if any, of the investments in the Transferred Investments Escrow Sub-Account attributable to reinvestments of income, dividends and capital gains resulting from the nondiscretionary reinvestment feature of any such investment, which aggregate value was deducted from the valuation of investments on deposit in the Transferred Investments Escrow Sub-Account pursuant to the preceding sentence (it being understood that an amount equal to any such reduction, except to the extent that such amount was otherwise withdrawn from the Escrow Account pursuant to Section 5.2 hereof, shall be included in the Transferred Investments Escrow Sub-Account for purposes of the monthly valuation thereof). The Agent shall derive the amount attributable to each month representing such reinvestment from the monthly market valuations furnished to the Agent with respect to such investments and if such amount cannot be derived from such valuations, the amount attributable to such month and the aggregate to be so deducted shall be as directed in writing by the Company to the Agent, copies of which shall be furnished to the Owner Participants, together with the calculations and data upon which such direction is based, all as certified by the Chief Financial Officer of the Company. To the extent the amount of such valuation of the Escrow Account, as adjusted for the amount, if any, to be deducted from such monthly valuation as

provided in this paragraph, is less than the principal amount of the remaining El Paso Obligations which are scheduled to come due more than forty-five (45) days subsequent to such valuation, the Company shall provide the Agent within five business days after receipt from the Agent of such monthly valuation with money or Permitted Investments (with a market value as of the date of such valuation) sufficient to cover the deficiency. The Agent shall notify the Owner Participants in writing of the date and receipt by the Agent of any money or Permitted Investments provided to meet such deficiency.

ARTICLE VI

CONCERNING THE AGENT

SECTION 6.1. Duties of Agent. The Agent shall have no duties or responsibilities other than those expressly set forth in this Agreement and shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act or to perform any calculations except as herein expressly set forth. In addition, the Agent shall have no duty to make any payment under this Agreement from its own funds.

SECTION 6.2. Liability. The Agent shall not be liable for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, excepting only its own willful misconduct or gross negligence, and may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion and advice of counsel (including counsel selected by the Agent), statement, instrument, report or other instrument or document (not only as to its due execution and the validity and effectiveness thereof, but also as to the truth and acceptability of any information therein contained) which is believed by the Agent to be genuine and to be signed (or in the case of oral communication, given) by the proper person or persons. The Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms hereof, unless expressly provided for herein and delivered as provided in this Agreement.

SECTION 6.3. Delivery of Documents and Further Acts.

From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Agent such further documents and instruments and shall do and cause to be done such further acts as the Agent may reasonably request (it being understood that the Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to

evidence compliance herewith or to assure itself that it is protected in acting hereunder.

SECTION 6.4. Legal Proceedings. The Agent shall not be required to defend any legal proceedings which may be instituted against it in respect of the subject matter of this Agreement unless requested to do so by the Company and indemnified to its satisfaction against the cost and expenses of such defense (including counsel and investigatory fees) by the Company and shall not be required to institute legal proceedings of any kind.

SECTION 6.5. Resignation; Appointment of Successor. The Agent (or any successor escrow and paying agent) may resign at any time and be discharged from its duties as escrow and paying agent under this Agreement by giving to the Company and the Owner Participants at least 30 days' notice thereof, such resignation to be effective on the date of appointment of a successor escrow and paying agent as hereinafter provided. As soon as practicable after any such resignation, the Agent shall turn over to a successor escrow and paying agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing such successor escrow and paying agent and its acceptance of such appointment. If no successor escrow and paying agent is so appointed within the sixty-day period following such notice of resignation, the Agent shall deposit all monies and funds held hereunder with the Supreme Court of the State of New York for the County of New York (together with a petition to said Court for the appointment of a successor to act until such time, if any, as a successor shall have been appointed as hereinbefore provided). Upon turning over to the successor escrow and paying agent or to the Supreme Court of the State of New York as aforesaid, all monies and property held hereunder, the predecessor escrow and paying agent shall be released of any further responsibility hereunder. Any successor escrow and paying agent 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 \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Agent hereunder upon reasonable or customary terms.

SECTION 6.6. Indemnification. The Company agrees that the Agent shall not be liable for any matter or thing arising out of the performance by the Agent of its obligations under this Agreement, except as provided in Section 6.2 hereof. The Company agrees to indemnify the Agent, and to hold the Agent harmless, from and against any and all liability, loss, damage or expense (including reasonable attorneys' fees and actual out-of-pocket expenses) which the Agent may or might incur by reason of this Agreement, or for any action taken by the Agent hereunder, or by reason or in defense of any and

all claims and demands whatsoever which may be asserted against the Agent arising out of this Agreement.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Payments. Payments to or upon the direction of the Company by the Agent pursuant to Article V hereof shall be made in accordance with such written instructions as the Company may provide to the Agent (with copies to the Owner Participants) from time to time for such purposes. Whenever any payment to be made pursuant hereto shall be required to be made on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day.

SECTION 7.2. Termination. This Agreement shall terminate upon the earliest to occur of (i) receipt by the Agent of written notice from each Owner Participant that as to such Owner Participant this Agreement is terminated, (ii) disbursement by the Agent of all of the payments to be made by the Agent under Article V hereof with respect to the El Paso Obligations and (iii) receipt by the Agent of joint notice from the Company and each of the Owner Participants with respect to such termination. Upon the termination of this Agreement as aforesaid, any securities and moneys on deposit in the Escrow Account shall be applied at the direction of the Company.

SECTION 7.3. Amendments, Etc. No amendment to this Agreement shall be made or be effective without the written consent of the Owner Participants. No amendment, modification, termination or waiver of any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any other agreement or instrument shall affect the Agent or its duties hereunder. No notice to or demand on any party hereto in any case shall entitle such party to any other or further notice or demand in similar or other circumstances unless herein otherwise provided.

SECTION 7.4. Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing and mailed (postage prepaid), hand delivered or sent by overnight courier, if to the Company, c/o William J. Johnson at its address at 303 North Oregon Street, P.O. Box 982, El Paso, Texas 79960, with a copy similarly delivered to Kemp, Smith, Duncan & Hammond, 2000 MBank Plaza, P.O. Drawer 2800, El Paso, Texas 79999, Attention: Dane George,

Esq., and if to the Agent, at its address at 55 Water Street, New York, New York 10041, Attention: Corporate Trustee Administration, with a copy similarly delivered to Willkie Farr & Gallagher, 153 East 53rd Street, New York, New York 10022, Attention: Brian O'Brien, Esq., and, if to the Company or the Agent, with copies to each of the Owner Participants at its address specified in Schedule I hereto, with a copy similarly delivered to Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, N.Y. 10005, Attention: Richard M. Allen, Esq., or, as to any of the foregoing, at such other address as shall be designated by such person in a written notice to the others. All such written notices and communications shall be effective when received at the address specified as aforesaid.

SECTION 7.5. Successors and Assigns. All of the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement other than to a permitted transferee under the Participation Agreements. Upon such assignment or transfer, the Company shall notify the Agent, whereupon the Agent shall recognize such assignment or transfer.

SECTION 7.6. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in the State of New York or in any jurisdiction in the United States which shall be applicable to this Agreement shall, as to the State of New York or such jurisdiction in the United States, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.7. Headings, etc. The headings of various Articles and Sections of this Agreement are for convenience of reference only and shall not define or limit any of the terms and provisions hereof.

SECTION 7.8. Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

SECTION 7.9. Counterpart Execution. This Agreement and any amendment to this Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which taken together shall constitute a single instrument, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their officers thereunto duly authorized as of the day and year first above written.

CHEMICAL BANK

By: _____
Senior Trust Officer

EL PASO ELECTRIC COMPANY

By: _____
Vice President

SCHEDULE I

Commercial Federal Investment Corporation

Jeff Bainbridge
Commercial Federal Investment
Corporation
1300 Commercial Federal Tower
2120 South 72nd Street
Omaha, Nebraska 68124

Chrysler Financial Corporation

Chrysler Financial Corporation
Greenwich Office Park I
Greenwich, Connecticut 06836
Leasing and Investment Services
Attention: Mike Abandon

Palantine Hills Leasing, Inc.

Palantine Hills Leasing, Inc.
1415 S. Roselle Road
Palantine, IL 60067
Attention: President,
with copies to

Household Commercial Financial Services
Attention: Lee Wyatt and Julia Sarron, Esq.
2700 Sanders Road
Prospect Heights, IL 60070

UCU Properties, Inc.
(Formerly, Energy Investments, Inc.)

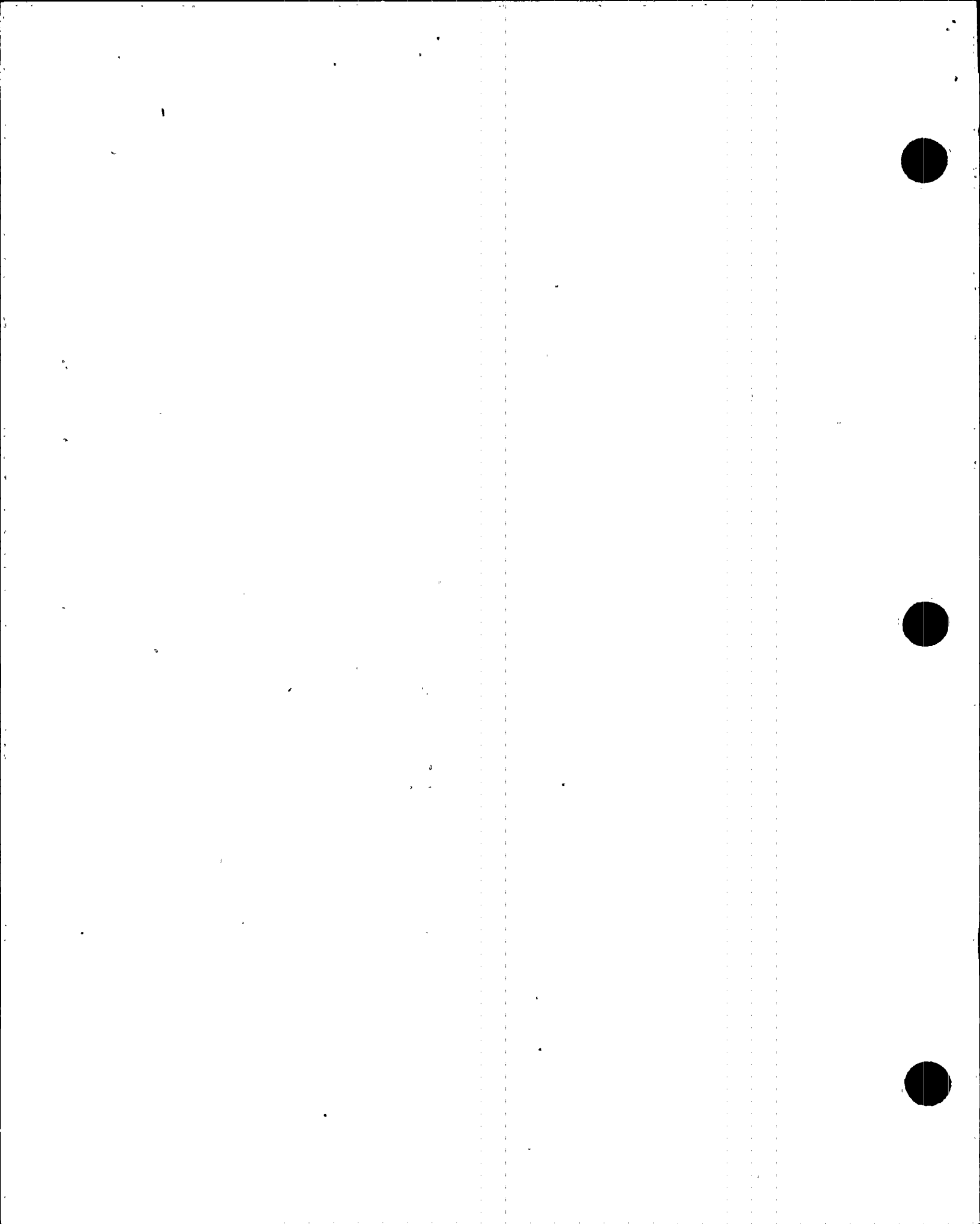
Donald Claar
Suite 2000 Commercial Tower
Kansas City, Missouri 64105

Alexander Hamilton Life Insurance Company of America

Richard Egan, General Counsel
Alexander Hamilton Life
Insurance Company of America
33045 Hamilton Boulevard
Farmington Hills, Michigan

Burnham Leasing Corporation

Burnham Leasing Corporation
55 Broad Street
New York, New York
Attention: Dianne Rudo



SCHEDULE II

1. Certificates of deposit maturing within 180 days and issued by any Federally insured commercial bank; provided, however, that if the face amount of any such Certificate of Deposit shall be \$1,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
2. Readily marketable obligations issued or guaranteed by the United States Government or issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;
3. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any Federally insured commercial bank; provided, however, that if the face amount of such repurchase obligation is \$10,000,000 or more, the issuing bank shall have a capital and surplus exceeding \$500,000,000 and a senior debt rating of not Below the Level of Investment Grade;
4. Repurchase obligations maturing within 30 days with respect to obligations of the type described in Clause 2 above issued by any nationally recognized dealer which reports to the Market Reports Division of the Federal Reserve Bank of New York;
5. Investments in readily marketable money market funds managed by a nationally recognized fund manager, the assets of which fund (or the issuers thereof) are as described in Clauses 1, 2, 3, 4, or 9 herein;
6. Investments in readily marketable bonds, which are not Below the Level of Investment Grade, or bond funds managed by a nationally recognized fund manager, the assets of which (or the issuers thereof) are not Below the Level of Investment Grade;
7. Investments in stock or stock funds managed by a nationally recognized fund manager;
8. Mortgage backed securities;
9. Commercial paper maturing within 180 days and having a rating of P-1 or better by Moody's Investors Service or A-1 or better by Standard & Poor's Corporation; or
- 10.. Investments in municipal obligations, the issuers of which are not rated Below the Level of Investment Grade, or the obligations of which are backed by a Letter of Credit from a commercial bank as described in Clause 1 above.

"Below the Level of Investment Grade" means (i) in the case of Moody's Investors Service, a rating of less than Baa3 or the current equivalent, (ii) in the case of Standard & Poors Corporation, a rating of less than BBB- or current equivalent and (iii) in the case of Duff and Phelps, a rating greater than ten or the current equivalent.

SCHEDULE III

EL PASO OBLIGATIONS

<u>Principal Amount</u>	<u>Payment Date</u>	<u>Description</u>
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

AMENDMENT No. 2, dated as of December 31, 1987, to Facility Lease dated as of August 1, 1986, between THE FIRST NATIONAL BANK OF BOSTON, not in its individual capacity but solely as Owner Trustee ("Lessor") under a Trust Agreement, dated as of August 1, 1986 with COMMERCIAL FEDERAL INVESTMENT CORPORATION, and EL PASO ELECTRIC COMPANY, as Lessee ("Lessee").

The parties hereto have previously entered into the Facility Lease (as heretofore amended, modified or supplemented, the "Facility Lease") providing for the lease by Lessor to Lessee of the Undivided Interest and the Real Property Interest. The parties now desire to make certain amendments to the Facility Lease.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree as follows:

SECTION 1. Definitions. For purposes hereof, capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in Appendix A to the Facility Lease.

SECTION 2. Amendments. (a) Section 3(b). Section 3(b) is hereby amended by inserting at the end of a clause (iii), in lieu of ".", "; and" and by inserting thereafter and before the next to last sentence of Section 3(c) a new clause (iv) reading as follows:

(iv) in the event that the Lessee shall fail to provide on or before April 30, 1988, a letter of credit which complies with the terms of the Agreement dated as of December 31, 1987 (the "Commitment Agreement"), among the Lessee, the Lessor and the Owner Participant, a copy of which is annexed hereto, on each Basic Rent Payment Date, commencing October 1, 1988 and ending on the Basic Rent Payment Date next following the earlier to occur of (A) the providing by the Lessee of such letter of credit and (B) the date as of which such letter of credit would have expired had it been in effect as required by the terms of the Commitment Agreement, an amount equal to .35% of Facility Cost multiplied by a fraction the numerator of which is the number of days from and including the preceding Basic Rent Payment Date (or, in the case of the Basic Rent Payment Date occurring on October 1, 1988, from and including April 30, 1988) to but excluding such Basic Rent Payment Date (or, if earlier, to the date on which such letter of credit is provided or the date such letter of credit would have so expired), and the denominator of which is the number of days from and including the preceding Basic Rent

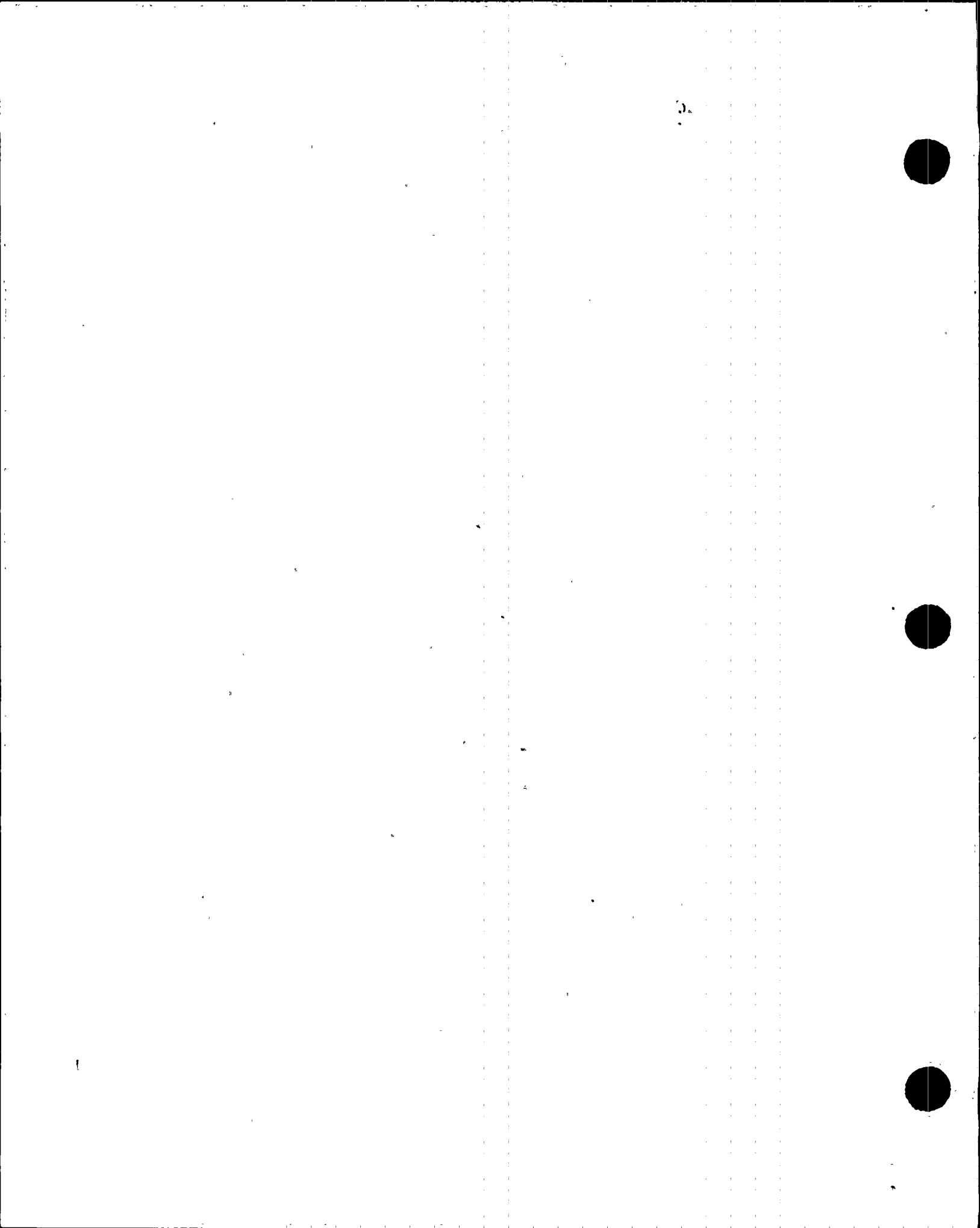
Payment Date to but excluding such Basic Rent Payment Date.

(b) Section 7. Section 7 of the Facility Lease is hereby amended by inserting "(a) Liens." prior to the existing paragraph and inserting the following at the end thereof:

(b) Retirement of Debt. Unless the Owner Participant shall otherwise consent, on or before each date set forth in Schedule 8 hereto, the Lessee shall retire, legally defease or deposit with the lender or its trustee funds sufficient to retire the principal amount of the Debt set forth opposite the reference to such date on such Schedule.

(c) Merger, Sale, etc. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, convey, transfer or lease to any Person any asset except for fair value. Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries to, (1) consolidate with any Person, (2) merge with or into any Person or (3) except for (i) payments, in accordance with normal dividend policy of the Lessee, of cash dividends to holders of common stock and preferred stock, (ii) exchanges of fixed assets for other fixed assets whose fair value is equal to or greater than the fair value of the fixed assets exchanged or (iii) conveyances, transfers or leases of assets for cash where such cash is to be recorded by the Lessee, convey, transfer, lease or dividend to any Person, in any single transaction or series of related transactions, any asset or assets if the book value of such asset or assets exceeds 5% of its total assets as shown on the most recent consolidated balance sheet of the Lessee delivered to the Owner Participant pursuant to Section 10(b)(1)(i)(A) of the Participation Agreement; unless immediately after giving effect to such transaction:

(A) the Person who is the "Lessee" under the Facility Lease immediately following such consolidation, merger, conveyance, transfer, lease or dividend (the "Surviving Lessee") shall be a corporation 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 law, (iii) is an ANPP Participant under the ANPP Participation Agreement with respect to Unit 2 (including the



Undivided Interest), (iv) 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);

(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 Facility Lease, 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) of the Participation Agreement) and no Event of Default shall have occurred and be continuing, no Event of Loss shall have occurred and no Deemed Loss Event shall have been declared;

(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 Net Worth equal to or greater than the Net Worth of the Lessee immediately prior to such transactions and equal to or greater than \$500,000,000;

(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 subclause (c) 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;

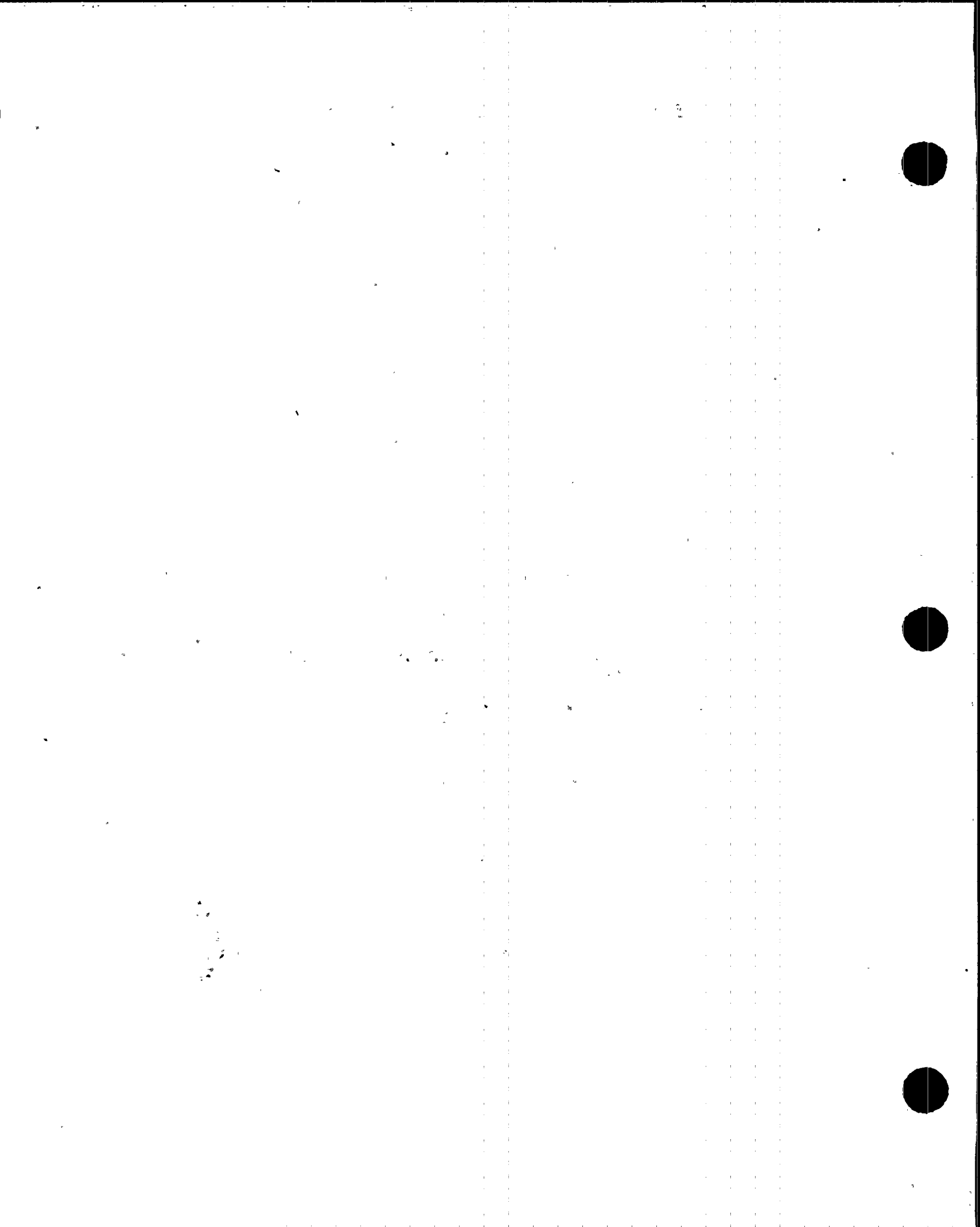
(G) the Surviving Lessee shall have delivered to the Owner Participant an opinion, reasonably satisfactory to the Owner Participant, of independent counsel to the Surviving Lessee stating that such transaction would not result in a loss of any of the tax benefits described in Section 13(c)(1) of the Participation Agreement;

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

(I) the New 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, shall succeed to, and be substituted for, and may exercise every right and power of, the Lessee immediately prior to such transaction under this Lease, each other Transaction Document and each Financing Document to which the Lessee immediately prior to such transaction was a party immediately prior to such transaction, with the same effect as if the Surviving Lessee had been named herein and therein.

(d) **Incurrence of Debt.** Without the consent of the Owner Participant, the Lessee shall not, and shall not permit any of its subsidiaries (whether consolidated or unconsolidated) to, issue, assume or become liable in respect of (A) any Debt maturing more than one year after the date of such issuance, assumption or liability (including current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, (i) the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing more than one year after the date of such issuance, assumption or becoming liable (reduced by Cash Available for Investment) shall exceed 70% (or, at any time after January 1, 1992 when there is not in effect a letter of credit complying in all respects with the Commitment Agreement, 65%) of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the

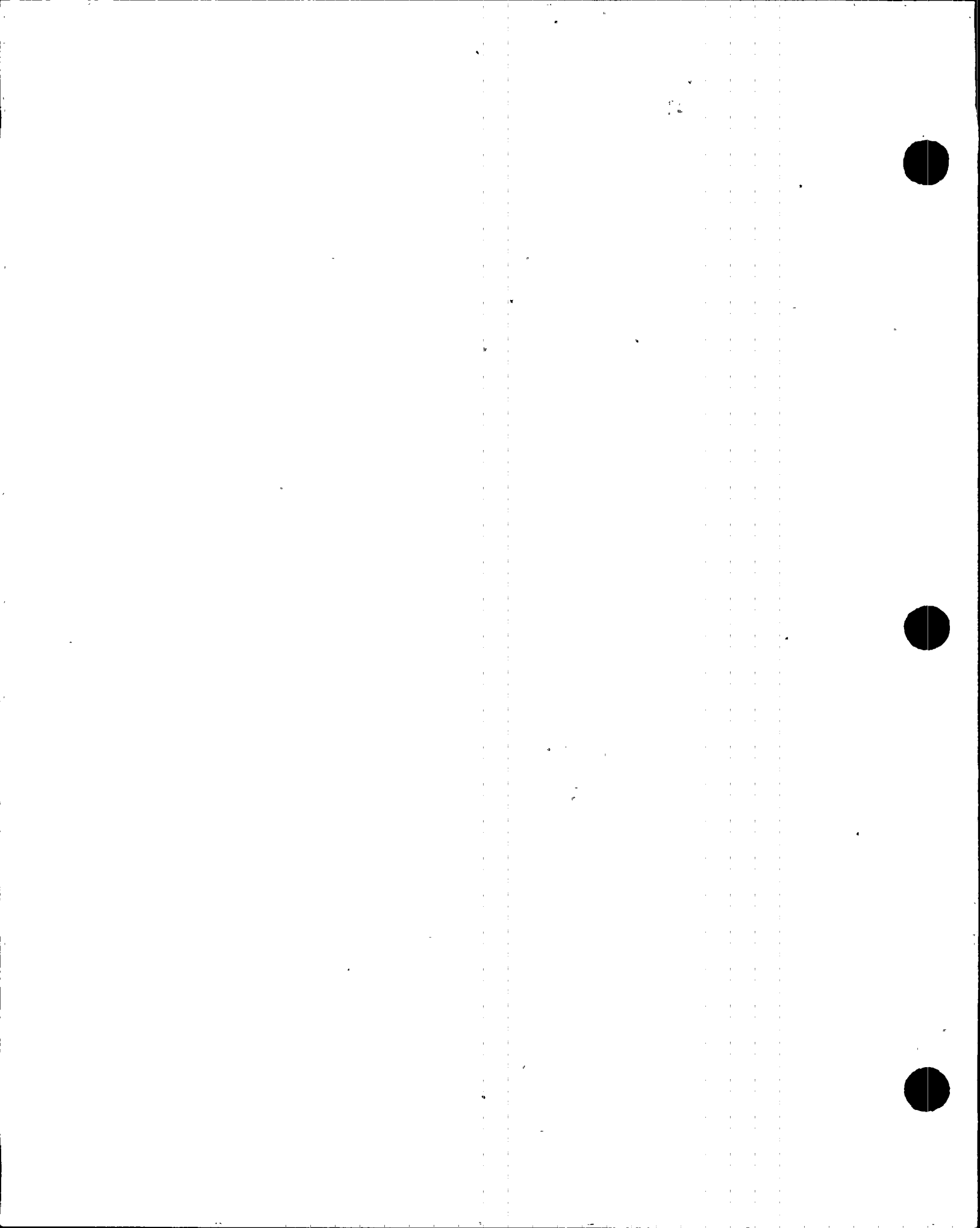


date of such issuance, assumption or becoming liable, or (ii) the New Coverage Ratio of the Lessee would be less than 1.6 to 1 or (B) any Debt maturing one year or less after the date of such issuance, assumption or becoming liable (excluding current maturities of Debt with an original maturity of more than one year) if, immediately thereafter, the total amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) maturing one year or less after the date of such issuance, assumption or becoming liable shall exceed 12.5% of New Consolidated Capitalization, in each case as shown on a pro forma consolidated balance sheet on and as of the date of such issuance, assumption or becoming liable. For purposes of the foregoing clause (A), there shall be excluded any Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow and any refunding of the debt issued on December 31, 1987 by the lessors in the sale and leaseback transactions relating to Unit 3 at PVNGS shall not constitute the Lessee issuing, assuming, or becoming liable in respect of any Debt within the meaning of this subclause (d).

(e) Escrow Agreement. The Lessee shall deposit with Chemical Bank as escrow agent (the "Agent") any amount required to be deposited under the Escrow Agreement dated as of December 31, 1987 between the Lessee and the Agent within 5 Business Days after notice from the Owner Participant and shall otherwise comply with its other obligations under such Agreement within 15 days after notice from the Owner Participant.

(f) Definitions. For purposes of this Section 7, the terms New Consolidated Capitalization and New Coverage Ratio shall be defined as follows:

(A) "New Coverage Ratio" shall mean the ratio of (x) the sum of (a) consolidated net income of the Lessee for the twelve-month period ending on a date no later than 135 days prior to the date as of which New Coverage Ratio is being determined plus (or minus) (b) all extraordinary items deducted (or added) in determining said net income (for purposes of this definition of New Coverage Ratio, any charge against income resulting from a write-off of utility plant pursuant to (i) an order of any governmental authority having jurisdiction or (ii) a provision for an estimated regulatory disallowance shall be deemed to be an extraordinary item deducted in determining said net



income) plus (or minus) (c) all income taxes deducted (or tax credits added) in determining said net income minus (d) for all or any portion of such period ending on or prior to December 31, 1990, 50% of "allowance for funds used during construction" (net of deferred taxes) as such item is referred to in the consolidated income statement of the Lessee and its subsidiaries) and, for all or any portion of such period ending after December 31, 1990, 100% of such item plus (e) the sum of all interest and lease payments paid by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during such twelve-month period to (y) total interest and lease payments that will be payable by the Lessee and its subsidiaries (whether consolidated or unconsolidated) during the twelve-month period following the date as of which New Coverage Ratio is being determined. There shall be excluded from interest and lease payments included under clauses (x) and (y) above (i) lease payments to the Rio Grande Resources Trust, (ii) lease payments under any operating lease of computers, office equipment or the like, the original term of which (including options to renew) is less than five years and (iii) interest on Debt maturing one year or less from the date of incurrence thereof. There shall be excluded from interest and lease payments included under clause (y) above interest on Debt which has been legally defeased or for the payment of which funds equal to the principal amount of such Debt have been segregated in escrow.

(B) "New Consolidated Capitalization" shall mean the total of consolidated capital and surplus of the Lessee plus the principal amount of all Debt of the Lessee and its subsidiaries (whether consolidated or unconsolidated) which matures more than one year after the date as of which New Consolidated Capitalization is being determined.

(c) Schedule 8. Schedule 8 hereto is hereby added as Schedule 8 to the Facility Lease.

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 33-404, the beneficiary of the Trust Agreement is Commercial Federal Investment Corporation, a corporation. The address of the beneficiary is 1300 Commercial Federal Tower, 2120 South 72nd Street, Omaha, Nebraska 68124, Attention: Jeff Bainbridge. 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, each of the parties hereto has caused this Amendment No. 2 to be duly executed in New York, New York on December 31, 1987.

THE FIRST NATIONAL BANK OF
BOSTON, not in its individual
capacity, but solely as Owner
Trustee under a Trust
Agreement, dated as of
August 1, 1986 with
Commercial Federal Investment
Corporation,

By



Senior Manager

EL PASO ELECTRIC COMPANY,

By



Vice President

STATE OF TEXAS

COUNTY OF EL PASO

)
) ss.:
)

The foregoing instrument was acknowledged before me this 6th day of January, 1988 by William J. Johnson, a Vice President of EL PASO ELECTRIC COMPANY, a Texas corporation, on behalf of the corporation.

Jane A. Perkins
Notary Public

SCHEDULE 8

EL PASO OBLIGATIONS

Principal Amount	Payment Date	Description
\$60,000,000	Jan. 31, 1988	16.20% First mortgage bonds due 2012
\$25,000,000	Jan. 31, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$50,000,000	June 30, 1988	Second mortgage bonds - The Bank of New York due June 1988
\$ 6,100,000	July 20, 1988	4.25% First mortgage bonds due July 1988
\$22,000,000	May 20, 1989	12.75% First mortgage bonds due May 1989
\$25,000,000	Aug. 15, 1989	14.5% First mortgage bonds due August 1989
\$50,000,000	Nov. 20, 1989	14% First mortgage bonds due November 1989
\$20,000,000	Dec. 1, 1990	Long-term notes - unsecured - The Bank of America
\$70,000,000	Mar. 1, 1991	Second mortgage bonds - The Bank of America

