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May 15, 2001

BY HAND DELIVERY

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D.C. 20555

Re: Palo Verde Nuclear Generating Station, Units 1, 2 and 3 (Docket Nos. STN 50-528/529/530, Facility Operating License Nos. NPF-41, NPF-51, NPF-74)--Application By Public Service Company of New Mexico for Consent to Indirect Transfers of Control

Ladies and Gentlemen:

This is a follow-up to our letter of March 20, 2001 in the above captioned proceeding, in which we advised the Commission, on behalf of our client Public Service Company of New Mexico ("PNM"), of certain developments relating to the application submitted by PNM under Section 184 of the Atomic Energy Act as amended, 22 U.S.C. § 2234, and 10 C.F.R. § 50.80 ("Application") for NRC's consent to the indirect transfer of control of PNM's licenses to hold minority interests (both owned and leased) in the Palo Verde Nuclear Generating Station, Units 1, 2 and 3 ("PVNGS") to a holding company created to implement the public utility restructuring requirements of the New Mexico Electric Utility Industry Restructuring Act of 1999, NMSA 1978, §§ 62-3A-1 through 23 (1999) ("the Restructuring Act"). The NRC granted its consent to the transfer, subject to specified conditions, on September 29, 2000. See 65 F.R. 60,222 (October 10, 2000).

As indicated in the March 20, 2001 letter, the indirect transfer for which NRC consent was obtained was based on a plan to form a holding company that would have indirect control over PNM's licenses, to be followed by the separation of PNM into a generation company and a transmission and distribution company.¹ However, in March 2001 the New Mexico legislature enacted, and the Governor of the state signed into law, Senate Bill 266 ("An Act Relating to Electric Utilities; Delaying Customer Choice Provisions and Implementation of

¹ This separation was ordained by the Restructuring Act, which directed the opening of New Mexico's retail electric power market to customer choice beginning on January 1, 2001. Pursuant to authority granted under the Restructuring Act, the New Mexico Public Regulation Commission ("NMPRC") had previously delayed the start of customer choice by one year, to January 1, 2002.

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the Electric Utility Industry Restructuring Act of 1999”) (“SB 266”). SB 266 requires the NMPRC to approve by July 1, 2001 any application for the creation of a holding company for an electric utility operating in the state pending in its filed transition plan, subject to terms and conditions in the public interest. In addition, SB 266 delays by five years, until January 1, 2007, the start of the opening of New Mexico’s retail electric power market to customer choice.

The following additional information may be helpful in assisting the Commission in assessing the impact of this legislative development on the consent granted last year by the NRC to PNM’s restructuring.

First, the company that is proposed to become the holding company has already been incorporated. The holding company has been named “PNM Resources, Inc.” (“PNM Resources”), which represents a change from the former proposed name for the holding company of “Manzano Corporation.” The name change was made pursuant to the Articles of Amendment to the Articles of Incorporation of Manzano Corporation, dated April 10, 2001. PNM Resources is currently a wholly-owned subsidiary of PNM, but will become PNM’s parent upon approval by the regulatory agencies with jurisdiction over the proposed restructuring, and upon completion of the mandatory share exchange between PNM and PNM Resources previously approved by PNM’s shareholders.

Second, the following table summarizes PNM’s total electric revenue requirements for the year 2000, broken down into generation, transmission and distribution:

| | Cost of Service | | Total | | | | | |
|--|--|---------|-------------------------------|------------|--------------|--------------|----|---------|
| | Revenue Requirements | | Electric | Generation | Transmission | Distribution | | |
| | (includes both FERC and NM Jurisdiction) | | (all dollars are in millions) | | | | | |
| Total | \$ | 815,123 | \$ | 620,094 | \$ | 51,300 | \$ | 143,730 |
| Total Excluded Generation (a) | | | \$ | 52,908 | | | | |
| Excluded % of Total Rev. Req. | | | | 6.5% | | | | |
| Total Less Excluded Generation | \$ | 762,215 | \$ | 567,185 | \$ | 51,300 | \$ | 143,730 |
| % of Revenue Requirements by Category | | 93.5% | | 91.5% | | 100.0% | | 100.0% |

(a) Excluded Generation reflects certain generating assets that have been excluded from New Mexico jurisdictional rate base. The power and energy generated by the excluded assets is sold at wholesale.

The table shows that the total electric revenue requirements for PNM in 2000 were approximately \$815 million, of which \$620 million corresponded to generation, \$144 million

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to distribution, and \$51 million to transmission. Most of those requirements (91.5% of generation, and 100% of distribution and transmission requirements, for an overall average of 93.5%) were subject to rate recovery under NMPRC or FERC's jurisdiction.

Third, based on the above cited results, in calendar year 2000 PNM was an "electric utility" as defined in 10 CFR 50.2, since it was an entity "that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority." PNM anticipates that it will continue to meet the definition of an "electric utility" at the time of consummation of the indirect transfer of control to PNM Resources over PNM's licenses to hold minority interests in PVNGS. This transfer is expected as soon as practicable following regulatory approvals, with the NMPRC being required by law to act by July 1, 2001.

Fourth, because of the above referenced SB 266 delay, PNM expects to continue to meet the above definition of "electric utility" until at least the start of deregulation in 2007.

Fifth, the establishment of a holding company and the indirect transfer of control over PNM's PVNGS licenses to such a company will have no effect on the current decommissioning arrangements for PNM's share of the decommissioning costs of the PVNGS units. Such arrangements, which are based on annual contributions to sinking fund trusts established in accordance with 10 CFR § 50.75, will not be modified in any way as a result of the transfer.

Sixth, the technical qualifications of Arizona Public Service Company, the licensed operator of PVNGS, will not in any way be affected by the transfer.

Seventh, the information submitted in PNM's March 3, 2000 application for NRC approval of the indirect transfer of its PVNGS licenses with respect to the nationality of the holding company, its directors, officers and principal shareholders remains as stated in that application. PNM Resources is a domestic corporation, and all its officers, directors and principal shareholders are U.S. citizens.

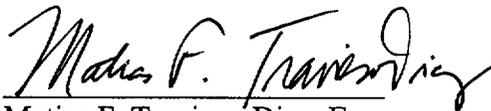
Eighth, since a separate transmission and distribution utility is not to be created for at least five years, PNM does not intend to change its name, thus no conforming amendments to the PVNGS operating licenses are required at this time.

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We will advise the NRC of any other relevant developments regarding this transfer. If the NRC requires additional information concerning this Application, please contact the undersigned or Terry R. Horn, Vice President and Treasurer, (505) 241-2119.

Very truly yours,



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