

Arizona Public Service Company

P.O. BOX 53999 • PHOENIX, ARIZONA 85072-3999

WILLIAM F. CONWAY
EXECUTIVE VICE PRESIDENT
NUCLEAR

161-03357-WFC/JRP
July 25, 1990

181

Docket Nos. STN 50-528

U.S. Nuclear Regulatory Commission
Mail Station P1-1.
Attn: Document Control Desk
Washington, D. C. 20555

Dear Sirs:

Subject: Palo Verde Nuclear Generating Station (PVNGS)
Unit 1
Decommissioning Financial Assurance Certification
File: 90-032-419; 90-056-026

This letter is being submitted by Arizona Public Service Company (APS), the licensee authorized to use and operate Palo Verde Nuclear Generating Station ("PVNGS") Unit 1 ("PVNGS Unit 1") under Facility Operating License No. NPF-41, as amended (the "License"), on behalf of APS, Salt River Project Agricultural Improvement and Power District ("SRP"), El Paso Electric Company ("EPE"), Southern California Edison Company ("SCE"), Public Service Company of New Mexico ("PSNM"), City of Los Angeles Department of Water and Power ("LADWP"), and Southern California Public Power Authority ("SCPPA"), licensees (each hereinafter referred to as a "Licensee" and collectively as "Licensees") authorized to possess PVNGS Unit 1. This letter and attached certificates constitute the decommissioning financial assurance certification report (the "Report") required by the United States Nuclear Regulatory Commission ("NRC") regulations 10 CFR §50.33(k)(2) and 10 CFR §50.75(b) for PVNGS Unit 1.

Pursuant to the Arizona Nuclear Power Project ("ANPP") Participation Agreement dated as of August 23, 1973, as amended by Amendment Nos. 1-12, which agreement and amendments have been previously filed with the NRC, the Licensees own, or in the case of PSNM, lease pursuant to sale and leaseback transactions approved by the NRC, ^{1/} 100% of PVNGS Unit 1 in the following percentages: APS (29.1%); SRP (17.49%); EPE (15.8%); SCE (15.8%); PSNM (10.2%); LADWP (5.7%); and SCPPA (5.91%). Unit 1 is a pressurized water reactor capable of producing greater than 3400 MWt. ^{2/} Pursuant to the ANPP Participation Agreement, each Licensee is

-
- 1/ See Amendment Nos. 3, 6 and 11 to the License, dated December 26, 1985, June 2, 1986, and December 11, 1986, respectively.
 - 2/ The License specifies that Unit 1 may be operated at reactor core power levels not in excess of 3800 megawatts thermal (100% power).

9008010152 900725
PDR ADOCK 05000528
I PDC

A001

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Page 2

161-03357-WFC/JRP
July 25, 1990

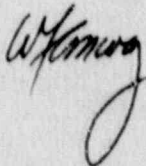
contractually responsible for the funding and payment of its pro rata share (equal to its ownership and leased share, if any) of the funds necessary to decommission each PVNGS unit.

Attachment PVNGS Unit 1 hereto is a statement setting forth the certification amount applicable to Unit 1, as provided in 10 CFR §50.75(c)(1), as adjusted in accordance with 10 CFR §50.75(c)(2) to December 31, 1989. Attachment PVNGS Unit 1 also shows each Licensee's share of the adjusted certification amount.

Also attached hereto is (i) the certificate of each Licensee as required by 10 CFR §50.75(b), (ii) the Statement of each Licensee respecting its share of the adjusted certification amount for Unit 1, status of its external funds for Unit 1, and proposed periodic payments thereto in accordance with Regulatory Position 1.1.1 of the Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, and (iii) a copy of the trust agreement, and investment management agreement, if any, of such Licensee pursuant to which the requirements of 10 CFR §50.75(e) have been satisfied.

If you should have any questions regarding the matters discussed above, please contact the undersigned at (602) 250-3900 or (602) 393-2522. Questions regarding matters relating to the certificate of each individual Licensee, the trust agreement of each individual Licensee, or the accumulation of funds pursuant thereto at any particular time should be addressed to the signatory of the certificate of such Licensee at the address or telephone number stated therein.

Sincerely,



WFC/JRP/jle

Attachments

cc: S. R. Peterson
J. B. Martin
D. H. Coe
A. C. Gehr
A. H. Gutterman

TABLE OF CONTENTS

Attachment PVNGS Unit 1	Statement of APS as operating agent respecting the certification amount and inflation adjustment applicable to PVNGS Unit 1.
Attachment APS - 1	Certificate of APS respecting Decommissioning Funds for PVNGS Unit 1
Attachment APS - 2	Statement of APS respecting its share of adjusted certification amount -Unit 1
Attachment APS - 3	Decommissioning Trust Fund Agreement - Unit 1
Attachment APS - 4	Investment Management Agreement
Attachment SRP - 1	Certification of SRP respecting Decommissioning Funds for PVNGS Unit 1
Attachment SRP - 2	Statement of SRP respecting its share of adjusted certification amount -Unit 1
Attachment SRP - 3	Decommissioning Trust Fund Agreement
Attachment EPE - 1	Certificate of EPE respecting Decommissioning Funds for PVNGS Unit 1
Attachment EPE - 2	Statement of EPE respecting its share of adjusted certification amount -Unit 1
Attachment EPE - 3	Decommissioning Trust Fund Agreement
Enclosure SCE-1.A.1	SCE certificate respecting Decommissioning Funds for PVNGS Unit 1
Enclosure SCE-1.A.ii	SCE Oath of Affirmation
Enclosure SCE-1.B.i.a	Decommissioning Trust Agreement (Qualified)
Enclosure SCE-1.B.i.b	Decommissioning Trust Agreement (Non-Qualified)
Enclosure SCE-1.B.ii.a	Investment Management Agreement (Qualified)
Enclosure SCE-1.B.ii.b	Investment Management Agreement (Non-Qualified)
Enclosure SCE-1.B.ii.c	Investment Management Agreement
Attachment PSNM - 1	Certificate of PSNM respecting Decommissioning Funds for PVNGS Unit 1

TABLE OF CONTENTS
(Continued)

Attachment PSNM - 2	Statement of PSNM respecting its share of adjusted certification amount -Unit 1
Attachment PSNM - 3	Decommissioning Trust Fund Agreement
Attachment PSNM - 4	Service Agreement
Attachment LADWP - 1	Certificate of LADWP respecting Decommissioning Funds for PVNGS Unit 1
Attachment LADWP - 2	Statement of LADWP respecting its share of adjusted certification amount -Unit 1
Attachment LADWP - 3	Decommissioning Trust Fund Agreement
Attachment SCPPA - 1	Certificate of SCPPA respecting Decommissioning Funds for PVNGS Unit 1
Attachment SCPPA - 2	Statement of SCPPA respecting its share of adjusted certification amount -Unit 1
Attachment SCPPA - 3	Decommissioning Trust Fund Agreement

ATTACHMENT PVNGS UNIT 1

STATEMENT OF ARIZONA PUBLIC SERVICE (APS) AS OPERATING AGENT
RESPECTING THE CERTIFICATION AMOUNT AND INFLATION ADJUSTMENT
APPLICABLE TO PALO VERDE NUCLEAR GENERATING STATION (PVNGS) UNIT 1

<u>ITEM</u>	<u>Designator</u>	<u>Source or Formula</u>	<u>Factor</u>	<u>Amount (\$)</u>
1. <u>Initial Certification Amount</u>	BA	10 CFR 50.75(e)(1)		105,000,000
2. <u>Escalation Adjustment</u>				
a. <u>Labor Adjustment</u>	LA			
1/1/86 Value - Western Region	(1)	BLS Monthly Labor Rev. Table 24 (now Table 25)	130.1	
12/31/89 Value - Western Region	(1')	"	147.5	
Labor Escalation Factor	(L)	$(1') \div (1)$	1.1337	
Weighted Labor Factor	(L')	10 CFR 50.75(c)(2) $0.65 \times (L)$	0.7369	
Labor Adjustment	LA	$(L') \times \$105M$		77,380,000
b. <u>Energy Adjustment</u>	EA			
(1) <u>Power Factors</u>				
1/1/86 Value - Mountain Region	(p)	BLS Prod. Price Index Table 6-Com. Code 0543	119.3	
12/31/89 Value - Mountain Region	(p')		107.2	
Power Escalation Factor	(P)	$(p') \div (p)$	0.8986	
Weighted Power Factor	(P')	Regulatory Guide $0.58 \times (P)$	0.5212	

<u>ITEM</u>	<u>Designator</u>	<u>Source or Formula</u>	<u>Factor</u>	<u>Amount (\$)</u>
(2) Fuel Factors				
1/1/86 Value	(f)	BLS Prod. Price Ind. Table 6 - Com. Code 0573	82	
12/31/89 Value	(f')	"	68.1	
Fuel Escalation Factor	(F)	$(f') \div (f)$	0.8305	
Weighted Fuel Factor	(F')	Regulatory Guide $0.42 \times (F)$	0.3488	
(3) Energy Factor	(E)	Regulatory Guide $[(P') + (F')]$	0.8700	
(4) Weighted Energy Factor	(E')	10 CFR 50.75(c)(2) $0.13 \times (E)$	0.1131	
(5) Energy Adjust- ment	EA	$(E') \times \$105M$		11,880,000
c. <u>Waste Burial Adjustment</u>	WBA			
1/1/86 Value - Washington	(w)	NUREG-1307 (Rev. 1)	1.0	
1/1/88 Value - Washington	(w')	"	1.183	
Waste Burial Factor	(W)	$(w') \div (w)$	1.183	
Weighted Waste Factor	(W')	10 CFR 50.75(c)(2) $0.22 \times (W)$	0.2603	
Waste Burial Adjustment	WBA	$(W') \times \$105M$		27,330,000

<u>ITEM</u>	<u>Designator</u>	<u>Source or Formula</u>	<u>Factor</u>	<u>Amount (\$)</u>
d. <u>Total Escalation Adjustment</u>				
Labor Adjustment	(LA)	10 CFR 50.75(c)(2)		77,380,000
Energy Adjustment	(EA)	10 CFR 50.75(c)(2)		11,880,000
Waste Burial Adjusamt	(WBA)	10 CFR 50.75(c)(2)		<u>27,330,000</u>
Total Escalation Adjustment	(TEA)	10 CFR 50.75(c)(2)		116,590,000
3. <u>Adjusted Certification Amount</u>	(CA)	10 CFR 50.75(c)		116,590,000
4. <u>Licensees' Shares of Adjusted Certification Amount</u>				
Arizona Public Service Company			29.10%	33,928,000
Salt River Project Agricultural Improvement and Power District			17.49%	20,392,000
Southern California Edison Company			15.80%	18,421,000
El Paso Electric Company			15.80%	18,421,000
Public Service Company of New Mexico			10.20%	11,892,000
Southern California Public Power Authority			5.91%	6,890,000
Los Angeles Department of Water and Power			<u>5.70%</u>	<u>6,646,000</u>
		Total	100.00%	116,590,000

3743c

ATTACHMENT APS-1

CERTIFICATE OF ARIZONA PUBLIC SERVICE COMPANY
RESPECTING DECOMMISSIONING FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION PVNGS UNIT 1

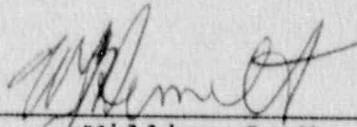
Arizona Public Service Company ("APS") hereby certifies that financial assurance for decommissioning APS' 29.1% interest in Unit 1 of the Palo Verde Nuclear Generating Station will be provided in an amount which may be more but not less than 29.1% of the amount stated in the table in paragraph (c)(1) of 10 C.F.R. § 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c)(2) of 10 C.F.R. § 50.75. Such amounts will be accumulated in accordance with 10 C.F.R. § 50.75(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

APS has entered into a Decommissioning Trust Agreement (PVNGS Unit 1) dated as of September 1, 1988 with Harris Trust and Savings Bank, as Trustee, as amended by Amendment No. 1 thereto dated as of April 28, 1989 (the "Trust Agreement"). [See Attachment APS-3.] Pursuant to the Trust Agreement, APS has also entered into an Investment Management Agreement, dated as of April 28, 1989 with RCM Capital Management, as amended by Amendment No. 1 thereto dated as of April 28, 1990. [See Attachment APS-4.]

APS further certifies that it will make periodic deposits into the trust funds established pursuant to the Trust

Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of each calendar year in an amount not less than 29.1% of (A) \$105 million (January 1986 dollars) (amount required by 10 C.F.R. § 50.75(c)(1)), adjusted annually in accordance with 10 C.F.R. §50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990 to the end of the calendar year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990 to the expiration of the term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

ARIZONA PUBLIC SERVICE COMPANY

By: 
William J. Hemelt
Title: Treasurer & Asst. Secretary
Address: 400 North Fifth Street
Phoenix, Arizona 85004
Telephone No. (602) 250-2909

9950B

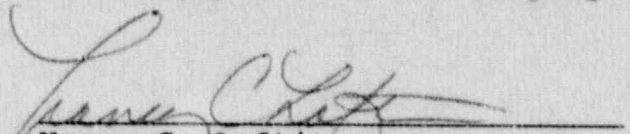
ATTACHMENT APS-2

STATEMENT OF ARIZONA PUBLIC SERVICE COMPANY (APS)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUNDS AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUNDS FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

1.	Adjusted Certification Amount for PVNGS Unit 1 [See Attachment PVNGS Unit 1]	\$116,590,000
2.	APS's Share (29.10%) of Adjusted Certification Amount for PVNGS Unit 1	\$ 33,928,000
3.	Status of APS's External Funds for PVNGS Unit 1 as of March 31, 1990	\$ 3,676,368
4.	Currently Proposed Quarterly Payments into its External Funds, Including Earnings on Investments	Not less than \$217,638

CERTIFICATE

I, Nancy C. Loftin, Secretary of Arizona Public Service Company, an Arizona corporation (the "Company"), do hereby certify that each of (i) the attached Decommissioning Trust Agreement (PVNGS Unit 1) dated as of September 1, 1988 between Harris Trust and Savings Bank, as Trustee, and the Company, (ii) the attached Amendment No. 1 thereto dated as of April 28, 1989, and (iii) the attached Investment Management Agreement, dated as of April 28, 1989, and Amendment No. 1 thereto dated as of April 28, 1990, between RCM Capital Management and the Company, is a true and correct photocopy of the original of such document, and that each such document was executed by William J. Hemelt, the duly elected Treasurer and Assistant Secretary of the Company pursuant to authority granted to him, as Treasurer, in the Bylaws of the Company.


Nancy C. Loftin
Secretary
Arizona Public Service Company

**DECOMMISSIONING TRUST AGREEMENT
(PVNGS UNIT 1)**

Dated as of September 1, 1988

between

ARIZONA PUBLIC SERVICE COMPANY

and

**HARRIS TRUST AND SAVINGS BANK,
as Decommissioning Trustee**

DECOMMISSIONING TRUST AGREEMENT

DECOMMISSIONING TRUST AGREEMENT dated as of September 1, 1988, between HARRIS TRUST AND SAVINGS BANK, an Illinois corporation having trust powers ("Decommissioning Trustee"), and ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation ("APS").

APS is required by governmental agencies having ratemaking authority over APS, as a condition to including amounts for future decommissioning of Unit 1 of PVNGS in APS's rates for electric power, to place such amounts in a trust fund or funds for such purpose as the amounts are collected.

APS desires to establish a decommissioning trust fund (the "Decommissioning Trust Fund") and a second fund (the "Second Fund") to satisfy its obligation to the regulatory agencies to place amounts collected for the Decommissioning of Unit 1 into a trust fund or funds for such purpose. APS desires that the Second Fund qualify as a "Nuclear Decommissioning Reserve Fund" under Section 468A of the Code and consequently desires to establish a single Decommissioning Trust Fund and a single Second Fund for the foregoing purposes.

In consideration of the premises, of the acceptance by Decommissioning Trustee of the trusts created and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. References to Sections. All capitalized terms used herein and not otherwise defined herein shall have the meanings as set forth in Exhibit A hereto. Unless otherwise stated, references to a Section are to a section of this Agreement.

Section 2. Creation of Trust Funds. Two funds, each to be held and maintained as a separate trust, are hereby established, the first to be known as the Decommissioning Trust Fund, and the second, as the Second Fund. (Either fund is sometimes referred to herein as a "Fund" and collectively as the "Funds"). Each Fund shall include (i) all cash and investments thereof, as more specifically described in Section 7, (ii) all dividends, interest, cash, instruments, and other property from time to time received, receivable, or otherwise distributed or distributable in respect of or in exchange for any or all such investments, (iii) all rights and privileges with respect to such investments and (iv) all proceeds of any of the foregoing and any property of any

character whatsoever into which any of the foregoing may be converted.

Section 3. Purpose of Trust Funds; Tax Qualification. The Funds are solely for the accumulation and funding of amounts that are sufficient in the aggregate to pay costs, liabilities, and expenses of Decommissioning and the establishment, management, and maintenance of the Funds. The Second Fund, but not the Decommissioning Trust Fund, is intended to qualify as a "Nuclear Decommissioning Reserve Fund" referred to in Section 468A of the Code. The assets of the Second Fund shall be used exclusively to pay, in whole or in part, (a) such costs, liabilities, and expenses of Decommissioning as qualify as "decommissioning costs" under Section 468A of the Code and the regulations promulgated thereunder, and (b) such expenses, fees, and other costs described in Section 8 as qualify for payment from such Fund under Section 468A(e)(4)(B) of the Code and the regulations promulgated thereunder.

Section 4. Declaration and Acceptance of Trust. Decommissioning Trustee accepts the trusts created hereby and declares that it will hold all estate, right, title, and interest in and to the Funds upon the trusts set forth herein, but only on the terms of this Agreement, and agrees to receive and disburse all moneys and investments constituting any part of the Funds in accordance with this Agreement.

Section 5. Ownership of Funds; Beneficial Interests. Each Fund is being created by APS, and the beneficial interest in both Funds shall be in APS. Legal title to any and all property held in the Funds shall be held by Decommissioning Trustee in its name as owner of record or its nominee name, or street name or any other title holding device without the necessity of indicating the trust relationship. Decommissioning Trustee shall at all times, however, maintain a separate and distinct record of securities owned by the Funds. Subject to the authority of an Investment Manager as provided in Section 7(c), Decommissioning Trustee shall exercise the following powers in a fiduciary capacity and in the best interests of the Funds and the beneficiaries thereof:

(a) To incur and pay any and all charges, taxes, and expenses upon or connected with the Funds in the discharge of Decommissioning Trustee's fiduciary obligations under this Agreement, but only to the extent that such amount may be incurred and paid from the Second Fund without causing the Second Fund to become disqualified from the application of Section 468A of the Code.

(b) To renew or extend the time of payment of any obligation, secured or unsecured, payable to or by the Funds, for as long a period or periods of time and on such terms as Decommissioning Trustee shall determine, and to adjust, settle, compromise, litigate, and arbitrate claims or demands in favor of or against the Funds, including claims for taxes, upon such terms as Decommissioning Trustee may deem advisable, subject to the limitations contained in this Agreement.

(c) To keep any property belonging to the Funds at any place in the United States.

(d) To delegate to other persons such ministerial powers and duties as Decommissioning Trustee may deem to be advisable and to employ agents, experts and counsel on reasonable terms to obtain services, information, and advice reasonably required in the discharge of Decommissioning Trustee's duties.

(e) To exercise any of such powers after the date on which the principal and income of the Funds shall have become distributable and until such time as the entire principal of, and income from, the Funds shall have been actually distributed by Decommissioning Trustee. It is intended that distribution of the Funds will occur as soon as possible upon termination of the Funds, subject, however, to the limitations contained in Sections 17 and 18.

(f) To do any and all other acts that Decommissioning Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement; provided, however, that Decommissioning Trustee may not do any act or participate in any transaction that would:

(i) Disqualify the Second Fund from the application of Section 468A of the Code;

(ii) Contravene any provision of this Agreement, including the investment parameters referenced in Section 7(a); or

(iii) Violate the terms and conditions of Applicable Law.

Section 6. Payments into the Funds; Transfers Between Funds. From time to time APS may make, and Decommissioning Trustee shall accept, contributions of money into the Funds to satisfy the purposes set forth in Section 3, which contributions may be made, subject to the condition in the last

paragraph of this Section 6, entirely into the Decommissioning Trust Fund, entirely into the Second Fund, or partly into each in whatever proportion APS shall determine in its discretion. In addition, but subject to the condition in the last paragraph of this Section 6, at any time and from time to time, APS may, in writing, direct Decommissioning Trustee to, and upon receipt of such direction Decommissioning Trustee shall, transfer any amount in the Decommissioning Trust Fund to the Second Fund or any amount in the Second Fund to the Decommissioning Trust Fund.

APS shall not (a) make any payment or require any transfer into the Second Fund unless such payment or transfer is within the limitation imposed by Section 468A(b) of the Code and a deduction pursuant to Section 468A of the Code is allowed for the entire payment or transfer; or (b) require any transfer from the Second Fund to the Decommissioning Trust Fund unless such transfer is permitted under Section 1.468A-5(c)(2) of the United States Treasury Regulations. Any transfer from the Decommissioning Trust Fund to the Second Fund shall be made only in cash and, to the extent necessary to carry out the purpose of this sentence, Decommissioning Trustee is authorized to sell such investments as, in its discretion, may be necessary to accomplish such purpose, unless an opinion of counsel selected by APS and satisfactory to Decommissioning Trustee is provided to Decommissioning Trustee to the effect that such transfers are not required to be made in cash pursuant to Section 468A of the Code, in which event such transfer will be made in the manner directed by APS. Upon making any payment or requiring any transfer described in this Section, APS shall deliver, and Decommissioning Trustee shall be entitled to rely on, a certificate of APS stating that such payment or transfer satisfies the conditions of this Section.

Section 7. Investment Powers; Investment Manager(s). Subject to Section 7(c), Decommissioning Trustee shall exercise the following investment powers, all of which are in a fiduciary capacity and in the best interest of the Funds and the beneficiaries thereof:

(a) To hold, manage, invest, and reinvest the assets of the Funds in a manner designed to maximize and preserve the income and principal of the Funds for the purposes hereof; and at all times to invest and reinvest in accordance with the investment parameters for the Decommissioning Trust Fund and the Second Fund attached hereto and incorporated herein as Exhibits B-1 and B-2, respectively; provided, however, that no such investment or reinvestment of the assets of the Funds shall be made by Decommissioning Trustee:

(i) in the case of the Second Fund only, unless such investment is a permitted investment for a Nuclear Decommissioning Reserve Fund under Section 468A of the Code and the United States Treasury Regulations issued thereunder; or

(ii) if APS has delivered to Decommissioning Trustee a copy of an order of a state or Federal regulatory agency that APS certifies is binding on APS, limiting the obligations or securities in which all or a part of either Fund may be invested, unless such investment is in accordance with such order and Decommissioning Trustee shall be entitled to rely on such order until notified in writing to the contrary by APS; or

(iii) in any bank, savings and loan association, or other financial institution whose deposits are not insured by the Federal Deposit Insurance Corporation, the Federal Savings & Loan Insurance Corporation, or other comparable federal agency.

In all cases, however, Decommissioning Trustee shall, at the close of business on each day, without prior approval or direction from the Investment Manager(s), have the power, right, and responsibility, notwithstanding the provisions of Section 7(c), to invest cash balances, including those held as part of an account of the Investment Manager(s), in Permitted Investments. Nothing in this Section shall be construed as authorizing Decommissioning Trustee to carry on any business or to divide the gains therefrom.

(b) To sell, exchange, partition, or otherwise dispose of all or any part of the assets of the Funds at public or private sale, without prior application to or approval by or order of any court, upon such terms and in such manner and at such prices as Decommissioning Trustee shall determine; to modify, renew, or extend mortgages, bonds, notes, or other obligations, or any installment of principal thereof, or any interest due thereon, and to waive any defaults in the performance of the terms and conditions thereof; and to execute and deliver any and all bills of sale, assignments, bonds, or other instruments in connection with these powers, all at such times, in such manner, and upon such terms and conditions as Decommissioning Trustee may deem expedient to accomplish the purposes of the Funds.

(c) (i) APS may appoint and remove one or more Investment Managers to direct the investment of all or any part of the assets of the Funds. In the event such appointment is made, APS shall

certify to Decommissioning Trustee in writing that such appointment has been made and shall specify the portion of the assets of the Funds with respect to which the Investment Manager(s) has (have) been designated. Each Investment Manager shall certify in writing to Decommissioning Trustee that such Investment Manager has accepted the appointment as Investment Manager and shall certify the identity of the person or persons authorized to give instructions or directions to Decommissioning Trustee on its behalf, including specimen signatures. Decommissioning Trustee may continue to rely upon all such certifications unless otherwise notified in writing by APS or the Investment Manager(s), as the case may be.

(ii) The Investment Manager(s) will be authorized to invest assets of the Funds only in Permitted Investments. The Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time, and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. Decommissioning Trustee, upon proper notification from the Investment Manager(s), shall execute and deliver instruments in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to Decommissioning Trustee by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to Decommissioning Trustee by the broker or dealer. Such notification shall be proper authority for Decommissioning Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

(iii) The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of APS, and Decommissioning Trustee shall not be deemed to be a party to or to have any responsibilities or obligations under any agreement between APS and the Investment

Manager(s). Any duty of supervision or review of the acts, omissions, or overall performance of the Investment Manager(s) shall be the exclusive responsibility of APS and Decommissioning Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), except as otherwise provided herein, or to make suggestions to the Investment Manager(s) or to APS with respect to the exercise or non-exercise of any power by the Investment Manager(s).

(iv) Unless Decommissioning Trustee participates knowingly in, or knowingly undertakes to conceal an act or omission of the Investment Manager(s) knowing such act or omission to be a breach of the fiduciary responsibility of the Investment Manager(s), Decommissioning Trustee shall be under no liability for any loss of any kind that may result by reason of any action taken by it, or omitted to be taken by it, in accordance with any direction, or lack of direction, of the Investment Manager(s).

(d) Notwithstanding anything contained in this Agreement to the contrary, Decommissioning Trustee may not authorize or carry out any sale, exchange, or other transaction that would constitute an act of "self-dealing" within the meaning of Section 4951 of the Code, as such Section is made applicable to the Second Fund by Section 468A(e)(5) of the Code, any regulations thereunder, and any applicable successor provision.

Section 8. Expenses; Compensation and Reimbursement; Indemnification. Except to the extent payments into a Fund have included amounts for the payment of such expenses (including taxes), fees, and other costs, which costs APS shall direct Decommissioning Trustee in writing to pay out of the Funds, APS shall pay all reasonable expenses (including taxes), fees and other costs incurred by Decommissioning Trustee in such capacity.

APS shall (i) pay to Decommissioning Trustee reasonable compensation for all services rendered by it hereunder as agreed to by APS and Decommissioning Trustee from time to time, the current compensation arrangement being attached hereto and incorporated herein as Exhibit C, and (ii) assume liability for, and indemnify and hold harmless Decommissioning Trustee from and against, all claims that may

be imposed on, incurred by, or asserted against Decommissioning Trustee relating to or arising from the administration of the Funds pursuant to this Agreement, except for any liability of Decommissioning Trustee pursuant to Section 22. The indebtedness contained in this Section shall survive the termination of this Agreement.

Section 9. Payments from the Fund. In addition to the payments authorized to be made pursuant to Section 7, Decommissioning Trustee shall make payments out of the Funds (i) for expenses, fees, and other costs as provided in Section 8 and (ii) upon presentation by APS to Decommissioning Trustee of a certificate signed by APS certifying that the payments are required to pay costs, liabilities, and expenses of Decommissioning and instructing Decommissioning Trustee of the total amount of the payment, the amount to be paid out of each Fund, and the person to whom and the manner in which the payment is to be made. In addition, APS may, in a written direction from APS to Decommissioning Trustee stating that the Second Fund has terminated under Section 468A of the Code, direct Decommissioning Trustee to transfer all property remaining in the Second Fund to Decommissioning Trust Fund unless both Funds are then to end as provided in Section 17.

Section 10. Limitations on Transfer and Assignment. APS may not, in whole or in part, transfer, assign, pledge, encumber, or grant any security interest in its beneficial interest under this Agreement or in either of the Funds, whether voluntary or involuntary, except as required or allowed by Applicable Law.

Section 11. Further Assurances. APS agrees that it will do all such further acts and things and execute and deliver all such additional conveyances, assignments, agreements, and instruments, all at its expense, as Decommissioning Trustee may at any time reasonably request in connection with the administration and enforcement of this Agreement, or relative to either Fund or any part thereof, or in order to assure and confirm unto Decommissioning Trustee its rights, powers, and remedies hereunder.

Section 12. Modification. This Agreement may not be amended or modified except by a writing signed by the parties hereto. The parties agree that they will execute any amendments requested by APS that are necessary to secure and maintain the qualification of the Second Fund as a "Nuclear Decommissioning Reserve Fund" under Section 468A of the Code and the deduction of contributions to such Fund as provided by such Section, or to comply with Applicable Law.

Section 13. Governing Law. This Agreement shall be deemed to be a contract made in the State of Arizona for all purposes and shall be construed in accordance with and governed by the laws of such State.

Section 14. Resignation and Replacement of Decommissioning Trustee.

(a) Decommissioning Trustee may resign at any time with or without cause by giving at least 60 days' prior written notice to APS, and APS may remove Decommissioning Trustee at any time with or without cause, by giving written notice to Decommissioning Trustee, such resignation or removal to be effective on the acceptance of appointment by a successor Decommissioning Trustee under this Section 14. In case of the resignation or removal of Decommissioning Trustee, APS may appoint a successor Decommissioning Trustee by an instrument signed by APS. If a successor Decommissioning Trustee shall not have been appointed within 60 days after the giving of the written notice of such resignation or removal, Decommissioning Trustee or APS may apply to any court of competent jurisdiction to appoint a successor Decommissioning Trustee to act until such time, if any, as a successor shall have been appointed and shall have accepted its appointment as above provided. Any successor Decommissioning Trustee so appointed by such court shall immediately and without further act be superseded by any successor Decommissioning Trustee appointed as above provided.

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

(c) Any corporation into which Decommissioning Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion, or consolidation to which Decommissioning Trustee shall be a party, or any corporation to which substantially all of the corporate trust business of Decommissioning Trustee may be transferred, shall be Decommissioning Trustee under this Agreement without further act; provided, however, that any such successor Decommissioning Trustee shall be a bank or trust company incorporated and doing business in the United States of America and having a combined capital stock, surplus, and undivided profits of at least \$250,000,000.

Section 15. Transactions with Third Parties. Decommissioning Trustee may rely and shall be protected in acting or refraining from acting upon any certificate, statement, notice, or other writing believed by it to be genuine and to have been signed or presented by the proper party or parties, and Decommissioning Trustee shall not be bound to make any investigation into the facts or matters stated in any certificate, statement, notice, or other writing received by it.

Section 16. Successors and Assigns; Additional Parties. This Agreement shall be binding upon and inure to the benefit of each party and its successors and permitted assigns.

Section 17. Termination of Funds in General. Unless the Funds are required to be maintained in accordance with Applicable Law, the Funds will terminate (in whole or in part) upon the earlier of:

- (1) Receipt by Decommissioning Trustee of a certificate from APS stating that substantial completion of the nuclear decommissioning of Unit 1 has occurred (as defined in Treasury Regulations promulgated under Code Section 468A) and that all costs and expenses relating or allocable to, or incurred in connection with, such decommissioning have been paid in full; or
- (2) Receipt by Decommissioning Trustee of a certificate from APS stating that the Funds may be terminated as required or permitted by Applicable Law.

Section 18. Termination of Second Fund. The Second Fund shall terminate upon the earlier of:

(i) its disqualification from the application of Section 468A of the Code, whether pursuant to an administrative action on the part of the Internal Revenue Service or the decision of any court of competent jurisdiction, but in no event earlier than the date on which all available appeals have been either prosecuted or abandoned and the period of time for making any further appeals has elapsed; or

(ii) the disposition by APS of any interest in Unit 1, to the extent provided in Treasury Regulations promulgated under Code Section 468A.

Section 19. Distribution of Funds Upon Termination. Upon termination of any of the Funds, Decommissioning Trustee shall assist the Investment Manager(s) in liquidating the assets of the Fund(s) and thereupon distributing the then-existing assets of the Fund(s) to APS.

Section 20. Accounting. Decommissioning Trustee shall separately account for the contributions, earnings, expenses, and distributions of the Decommissioning Trust Fund and the Second Fund. Decommissioning Trustee shall keep books and records for the Funds so as to show separately (a) the earnings and expenses apportioned to each Fund and the manner in which such apportionment is made; and (b) the investments purchased, sold, converted, and held by each Fund.

Decommissioning Trustee shall, within 30 days after the end of each calendar quarter, furnish to APS financial statements showing, separately for each Fund, the financial condition of such Fund including, without limitation, the income, expenses, transactions, contributions, distributions, balance, and investments of each Fund for such quarter.

APS may request Decommissioning Trustee to furnish a performance measurement report with respect to each of the Funds within 45 days after the end of each calendar quarter. Such report shall include, without limitation, comparative index performance information as is reasonably requested by APS.

On a monthly basis, Decommissioning Trustee shall furnish a report setting forth all investments purchased by each Investment Manager during the previous month.

Decommissioning Trustee shall promptly advise APS if any of the investments, in Decommissioning Trustee's opinion, do not constitute Permitted Investments.

At the request of APS, Decommissioning Trustee shall periodically employ independent certified public accountants to audit the financial statements, which independent certified public accountants shall be approved by APS prior to such employment. APS shall have the right to object to any transaction disclosed by Decommissioning Trustee's audited financial statements by delivering notice of its objections to Decommissioning Trustee in writing within three years from the day Decommissioning Trustee shall mail or deliver such audited financial statements to APS. If no written objection is made within that time, the presentation of the audited financial statements shall release and discharge Decommissioning Trustee from liability with respect to all acts or omissions to the date of said financial statements except to the extent provided in Section 22 hereof.

Section 21. Tax Returns and Other Reports.

Decommissioning Trustee shall, with the cooperation of APS, prepare and file, after review and approval of APS, such tax returns or other reports as may be required from time to time under Applicable Law and shall pay from Fund assets any taxes (including estimated tax), imposts or other levies at the time prescribed by law; provided, however, that Decommissioning Trustee shall undertake to contest any such tax, impost, or levy that APS directs Decommissioning Trustee in writing to contest in good faith and through proper procedures. Any such contest shall be conducted at the sole expense of APS.

Section 22. Liability. Decommissioning Trustee shall not be liable for any acts, omissions, or defaults of any agent (other than its officers and employees) or depositary, provided such agent or depositary was selected with reasonable care and the performance and status of such agent or depositary is monitored with reasonable care. Decommissioning Trustee shall be liable only for such Decommissioning Trustee's own acts or omissions (and those of its officers and employees) occasioned by the willfulness or negligence of Decommissioning Trustee and its officers and employees. Except as otherwise provided herein, Decommissioning Trustee shall not be liable in regard to the exercise or nonexercise of any powers and discretions properly delegated pursuant to the provisions of this Agreement.

Notwithstanding the foregoing, Decommissioning Trustee, and not the Funds, shall be liable for (a) any tax imposed pursuant to Section 4951 of the Code (or any applicable

successor provision) as such section is made applicable to Funds or the Trustee, and/or (b) any consequences flowing from violation of the restrictions on the investment of Fund assets under Section 7(a) where the act giving rise to the imposition of any tax pursuant to Section 4951 of the Code or the decision to invest Fund assets in investments not meeting such restrictions was made by or was in the power and control of Decommissioning Trustee as provided in this Agreement and/or (c) any tax imposed with respect to any fees payable to Decommissioning Trustee under this Agreement.

Section 23. Form and Content of Certifications. When written certifications or approvals are required or are to be provided to Decommissioning Trustee by APS under this Agreement, the President, any Vice President, the Treasurer or the Secretary of APS shall be authorized to execute such certifications or approvals. Until appropriate written evidence to the contrary is received by Decommissioning Trustee, it shall be fully protected in relying or acting in accordance with any such written certification or approval believed by it to be genuine and to be signed and/or certified by any proper person, and Decommissioning Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement.

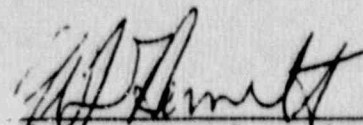
Section 24. Notices. All communications, notices, and consents provided for herein shall be in writing, including telex, telecopy, or other wire transmission containing a request for assurance of receipt in a manner typical with respect to communications of that type, or mailed by registered or certified mail and shall be addressed (i) if to Decommissioning Trustee, at 111 West Monroe Street, Chicago, Illinois 60603; (ii) if to APS, at Arizona Public Service Company, Post Office Box 53999, Phoenix, Arizona 85072, Attention: Treasurer; or such other address as any party hereto may from time to time designate by notice duly given in accordance with the provisions of this Section to the other party hereto. All such communications, notices, and consents given in the manner provided above shall be effective on the date of receipt of such communication, notice, or consent.

Section 25. Accounting Year. The Funds shall operate on an accounting year that coincides with the calendar year, January 1 through December 31.

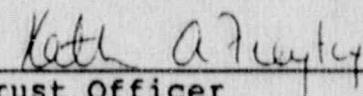
Section 26. Counterpart Execution. This Agreement may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

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

ARIZONA PUBLIC SERVICE
COMPANY

By 
Treasurer and Assistant
Secretary

HARRIS TRUST AND SAVINGS BANK,
as Decommissioning Trustee

By 
Trust Officer

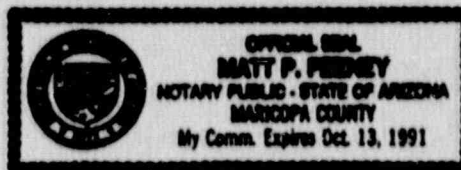
STATE OF ARIZONA)
)
County of Maricopa) ss;

The foregoing instrument was acknowledged before me this 26th day of September, 1988, by William Joseph Hemelt, the Treasurer and Assistant Secretary of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of said corporation.

Matthew P. Henry
Notary Public

My commission expires:

October 13, 1991



STATE OF ILLINOIS)
)
County of Cook) ss;

The foregoing instrument was acknowledged before me this 28th day of September, 1988, by Katherine Freytag, a Trust Officer of HARRIS TRUST AND SAVINGS BANK, an Illinois corporation having trust powers, as Decommissioning Trustee, on behalf of said corporation.

Frankie Offert
Notary Public

My commission expires:

June 26, 1990

Exhibit A

DEFINITION OF TERMS

ANPP Participation Agreement shall mean the Arizona Nuclear Power Project Participation Agreement dated as of August 23, 1973, as now or hereafter amended, among APS, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, Southern California Public Power Authority, and Department of Water and Power of the City of Los Angeles.

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

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

Decommissioning shall mean the decommissioning and, whether or not occurring simultaneously therewith, retirement from service of Unit 1, and the related possession, maintenance, removal, and disposal of material, radioactive or otherwise, used in or produced by or relating to Unit 1, including, without limitation, as appropriate, (i) placement and maintenance in a state of protective storage, (ii) in-place entombment and maintenance, (iii) dismantlement, (iv) proper and permanent removal, decontamination, disposition and disposal of all radioactive material (other than nuclear fuel) and all equipment and fixtures, (v) razing, (vi) removal and disposition of debris related to Unit 1 from the PVNGS site, (vii) restoration, and release by all Governmental Authorities having jurisdiction, of the PNVGS site related to Unit 1 for unrestricted use, (viii) any other actions related to decommissioning and retirement from service required by the NRC, and (ix) all activities undertaken incident to the implementation thereof.

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

Investment Manager(s) shall mean any investment manager(s) appointed by APS pursuant to Section 7(c)(1) hereof.

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

Permitted Investments shall mean investments for the Decommissioning Trust Fund and the Second Fund that comply with the investment parameters set forth in Exhibits B-1 and B-2 hereto, respectively.

PVNGS shall mean the Palo Verde Nuclear Generating Station.

Unit 1 shall mean the 1,270 megawatt unit, commonly known as Unit 1, at the Palo Verde Nuclear Generating Station.

Unit 2 Trust Agreement shall mean that certain Decommissioning Trust Agreement (PVNGS Unit 2), dated as of September 1, 1988 between APS and Decommissioning Trustee.

Unit 3 Trust Agreement shall mean that certain Decommissioning Trust Agreement (PVNGS Unit 3), dated as of September 1, 1988 between APS and Decommissioning Trustee.

Exhibit B-1

PERMITTED INVESTMENTS FOR THE DECOMMISSIONING TRUST FUND

The following is the only Permitted Investment for the Decommissioning Trust Fund:

A certificate of deposit from a domestic bank (as defined in Section 581 of the Code) whose long-term unsecured debt securities are rated at least Aa by Moody's Investors Service, Inc. or AA by Standard & Poors Corporation (any such certificate of deposit being hereinafter referred to as a "Qualified Certificate of Deposit"); provided, however, that:

(1) The Qualified Certificate of Deposit purchased with APS' initial contribution to the Decommissioning Trust Fund shall be invested in a Qualified Certificate of Deposit with a ninety (90) day maturity, or a maturity as close to ninety (90) days as is reasonably practicable;

(2) Every other Qualified Certificate of Deposit shall have a thirty (30) day maturity, or a maturity as close to thirty (30) days as is reasonably practicable;

(3) Decommissioning Trustee shall not invest in any Qualified Certificate of Deposit issued by Decommissioning Trustee or any affiliate of Decommissioning Trustee, APS, or Pinnacle West Capital Corporation; and

(4) To the extent allowed by Applicable Law, Decommissioning Trustee shall collectively invest all assets in the Funds as well as all assets in the Funds created pursuant to the Unit 2 Trust Agreement and the Unit 3 Trust Agreement in as few Qualified Certificates of Deposit as is reasonably practicable.

Exhibit B-2

PERMITTED INVESTMENTS FOR THE SECOND FUND

The following is the only Permitted Investment for the Second Fund:

A certificate of deposit from a domestic bank (as defined in Section 581 of the Code) whose long-term unsecured debt securities are rated at least Aa by Moody's Investor Service, Inc. or AA by Standard & Poors Corporation (any such certificate of deposit being hereinafter referred to as a "Qualified Certificate of Deposit"); provided, however, that:

(1) The Qualified Certificate of Deposit purchased with APS' initial contribution to the Second Fund shall be invested in a Qualified Certificate of Deposit with a ninety (90) day maturity, or a maturity as close to ninety (90) days as is reasonably practicable;

(2) Every other Qualified Certificate of Deposit shall have a thirty (30) day maturity, or a maturity as close to thirty (30) days as is reasonably practicable;

(3) Decommissioning Trustee shall not invest in any Qualified Certificate of Deposit issued by Decommissioning Trustee or any affiliate of Decommissioning Trustee, APS, or Pinnacle West Capital Corporation; and

(4) To the extent allowed by Applicable Law, Decommissioning Trustee shall collectively invest all assets in the Funds as well as all assets in the Funds created pursuant to the Unit 2 Trust Agreement and the Unit 3 Trust Agreement in as few Qualified Certificates of Deposit as is reasonably practicable.

Exhibit C

DECOMMISSIONING TRUSTEE FEE SCHEDULE *

A. Base Charge:

(1) \$1,500 per annum for the Decommissioning Trust Funds, which for this purpose means the Decommissioning Trust Fund hereunder and the Decommissioning Trust Fund under the Unit 2 Trust Agreement and the Unit 3 Trust Agreement, collectively;

(2) \$1,500 per annum for the Second Funds, which for this purpose means the Second Fund hereunder and the Second Fund under the Unit 2 Trust Agreement and the Unit 3 Trust Agreement, collectively.

The Base Charge will be payable in arrears every March 30, June 30, September 30, and December 30, beginning December 30, 1988. The Base Charge payable on December 30, 1988 for both the Decommissioning Trust Funds and the Second Funds will be \$750.

B. Asset Charge:

(1) The first \$50 million of all assets held by Decommissioning Trustee in the Funds, which for this purpose means the Funds hereunder and the Funds under the Unit 2 Trust Agreement and the Unit 3 Trust Agreement: .04% per annum.

(2) The next \$50 million: .02% per annum.

The Asset Charge will be payable in arrears each March 30, June 30, September 30, and December 30, beginning December 30, 1988. For purposes of computing the Asset Charge, the amount of assets in the Funds during each calendar quarter will be determined as of the last day of such calendar quarter.

C. Transaction Charge: \$15 per Transaction, which means each purchase, sale, redemption, or maturity of any securities held in or on account of, or acquired for, the Funds, excluding, however, any stock splits, interest payments, dividends or other distributions in respect of such securities, and the "cash sweeps" referenced in the second to last sentence of Section 7(a):

The Transaction Charges will be payable in arrears every March 30, June 30, September 30, and December 30, beginning December 30, 1988.

D. Cash Sweep Charge: Computed at a rate of .05% of the cash balances invested pursuant to the second to last sentence of Section 7(a). Interest earned on cash sweeps will be returned to the Funds net of the Cash Sweep Charge payable to Decommissioning Trustee.

E. Performance Measurement Charge: \$750 per annum for quarterly and annual performance measurement reports for the Decommissioning Trust Fund and the Second Fund hereunder and the Decommissioning Trust Fund and the Second Fund under the Unit 2 Trust Agreement and the Unit 3 Trust Agreement. The annual Performance Measurement Charge covers the performance measurement reports for all of the Funds described in the preceding sentence.

The Performance Measurement Charge will be payable in arrears every March 30, June 30, September 30, and December 30, beginning December 30, 1988. The Performance Measurement Charge payable on December 30, 1988 will be \$187.50.

F. Unit Accounting Charge:

(1) \$250 per annum for the Decommissioning Trust Fund; and

(2) \$250 per annum for the Second Fund.

The Unit Accounting Charge will be payable in arrears every March 30, June 30, September 30, and December 30, beginning December 30, 1988. The Unit Accounting Charge payable on December 30, 1988 for both the Decommissioning Trust Fund and the Second Fund will be \$125.

* Unless otherwise agreed by APS and Decommissioning Trustee in writing, this fee schedule is effective until September 28, 1990.

This Amendment No. 1, dated as of April 28, 1989, to the Decommissioning Trust Agreement (PVNGS Unit 1), dated as of September 1, 1988, is entered into between Arizona Public Service Company ("APS") and Harris Trust and Savings Bank, as Decommissioning Trustee ("Decommissioning Trustee").

R E C I T A L S:

WHEREAS, APS and Decommissioning Trustee entered into a Decommissioning Trust Agreement (PVNGS Unit 1), dated as of September 1, 1988 (the "Decommissioning Trust Agreement"); and

WHEREAS, the parties hereto wish to amend Exhibits B-1 and B-2 of the Decommissioning Trust Agreement;

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

A G R E E M E N T S:

SECTION 1. Amendment to Exhibits B-1 and B-2.

Effective as provided in Section 2 hereof, Exhibits B-1 and B-2 of the Decommissioning Trust Agreement are hereby replaced with Exhibits B-1 and B-2 hereto.

SECTION 2. Effectiveness.

This Amendment No. 1 and the amendment to Exhibits B-1 and B-2 set forth in Section 1 hereof shall become effective as of the date hereof upon the execution and delivery of a counterpart of this Amendment No. 1 by APS and Decommissioning Trustee.

SECTION 3. Miscellaneous.

(a) Full Force and Effect.

Except as expressly provided herein, the Decommissioning Trust Agreement shall remain unchanged and in full force and effect. Each reference in the Decommissioning Trust Agreement and in any exhibit or schedule thereto to "this Agreement," "hereto," "hereof" and terms of similar import shall be deemed to refer to the Decommissioning Trust Agreement as amended hereby.

(b) Counterparts.

This Amendment No. 1 may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Amendment No. 1 by signing any such counterpart.

(c) Arizona Law.

This Amendment No. 1 shall be construed in accordance with and governed by the law of the State of Arizona.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to the Decommissioning Trust Agreement to be duly executed as of the day and year first above written.

ARIZONA PUBLIC SERVICE COMPANY

By

Title

William J. Hemelt
TREASURER

HARRIS TRUST AND SAVINGS BANK, as
Decommissioning Trustee

By

Title

Kath A Freytag
ASSISTANT VICE PRESIDENT

STATE OF ARIZONA)
) ss:
County of Maricopa

The foregoing instrument was acknowledged before me this 27 day of April, 1989, by WILLIAM J. HEMELT, the TREASURER of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of said corporation.

Gina Davis Ball
Notary Public

My commission expires:

1-14-91



STATE OF ILLINOIS)
) ss:
County of Cook)

The foregoing instrument was acknowledged before me this 30 day of April, 1989, by Katherine A. Freytag, a Trust Office of HARRIS TRUST AND SAVINGS BANK, an Illinois corporation having trust powers, as Decommissioning Trustee, on behalf of said corporation.

Janice Q. Hunt

Notary Public

My commission expires:

11/24/90

5229B

EXHIBIT B-1

PERMITTED INVESTMENTS FOR THE DECOMMISSIONING TRUST FUND

The following restrictions are placed on the investment of the assets of the Decommissioning Trust Fund:

1. Securities of APS, APS's parent corporation, Pinnacle West Capital Corporation, or its affiliates, are not permitted.
2. Securities issued by Maricopa County, Arizona Pollution Control Corporation in connection with the financing of certain facilities at the Palo Verde Nuclear Generation Station are not permitted.
3. Securities issued by or on behalf of any participant in the Palo Verde Nuclear Generating Station are not permitted.
4. There shall be no short-selling, securities lending, options trading, financial futures, or other specialized investment activity.
5. No investment shall be made which would cause the holding of any one issue (excluding obligations of the United States Government and agencies of or guaranteed by the United States Government), to exceed ten percent (10%) of the aggregate assets held under this Decommissioning Trust Agreement, the Unit 2 Trust Agreement, and the Unit 3 Trust Agreement, valued at cost.
6. Bank certificates of deposits must be at banks with a minimum of one billion dollars (\$1,000,000,000) in assets.
7. Short-term taxable and non-taxable debt securities are not permitted unless such securities have a rating of at least P-1 by Moody's Investors Services, Inc. ("Moody's") and at least A-1 by Standard & Poors Corporation ("S&P").
8. Long-term taxable and non-taxable debt securities are not permitted unless such securities have a rating of at least "A" by Moody's and S&P.
9. No investment shall be made which would cause sixty percent (60%) or more of the aggregate assets held under this Decommissioning Trust Agreement and the Unit 2 Trust Agreement and the Unit 3 Trust Agreement to be invested in equity securities.

EXHIBIT B-2

PERMITTED INVESTMENTS FOR THE SECOND FUND

The Second Fund must meet all applicable requirements of the Code, and applicable rules and regulations promulgated by the Internal Revenue Service with respect to a Nuclear Decommissioning Reserve Fund.

Qualified Investments

The assets of the Second Fund shall be invested, without distinction between principal and income, directly in:

1. Treasury bills, Treasury notes, Treasury Bonds and Savings Bonds which are obligations of the United States and any other obligations of the United States which are taken into account for purposes of the public debt limit.
2. Obligations of a State or local governmental unit the interest on which is exempt from tax under Section 103(a) of the Code which are not in default as to principal or interest.
3. Time or demand deposits in a bank (as defined in Section 581 of the Code) or an insured credit union (within the meaning of Section 101(6) of the Federal Credit Union Act, 12 U.S.C. 1752(7) (1982)). For the purposes of this paragraph, "time or demand deposits" shall include checking accounts, savings accounts, certificates of deposit, and other time or demand deposits but shall not include common or collective trust funds.

Investment Restrictions

In addition to the investment requirements listed above, the following restrictions are also placed on the investment of the assets of the Second Fund:

1. Securities of APS, APS's parent corporation, Pinnacle West Capital Corporation, or its affiliates, are not permitted.
2. Securities issued by Maricopa County, Arizona Pollution Control Corporation in connection with the financing of certain facilities at the Palo Verde Nuclear Generation Station are not permitted.
3. Securities issued by or on behalf of any participant in the Palo Verde Nuclear Generating Station are not permitted.

4. There shall be no short-selling, securities lending, options trading, financial futures, or other specialized investment activity.

5. No investment shall be made which would cause the holding of any one issue (excluding obligations of the United States Government and agencies of or guaranteed by the United States Government), to exceed ten percent (10%) of the aggregate assets held under this Decommissioning Trust Agreement, the Unit 2 Trust Agreement, and the Unit 3 Trust Agreement, valued at cost.

6. Bank certificates of deposits must be at banks with a minimum of one billion dollars (\$1,000,000,000) in assets.

7. Short-term taxable and non-taxable debt securities are not permitted unless such securities have a rating of at least P-1 by Moody's Investors Services, Inc. ("Moody's") and at least A-1 by Standard & Poors Corporation ("S&P").

8. Long-term taxable and non-taxable debt securities are not permitted unless such securities have a rating of at least "A" by Moody's and S&P.

5235B

INVESTMENT MANAGEMENT AGREEMENT
Dated as of April 28, 1989

between

ARIZONA PUBLIC SERVICE COMPANY

and

RCM CAPITAL MANAGEMENT

INVESTMENT MANAGEMENT AGREEMENT

INVESTMENT MANAGEMENT AGREEMENT (the "Agreement") dated as of April 28, 1989, between RCM CAPITAL MANAGEMENT, a California Limited Partnership (the "Manager"), and ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation ("APS").

APS has entered into those certain Decommissioning Trust Agreements for PVNGS Unit 1, PVNGS Unit 2, and PVNGS Unit 3, respectively, dated as of September 1, 1988, as each has been amended by Amendment No. 1 thereto dated as of April 28, 1989 (as so amended, the "Decommissioning Trust Agreements"), between Harris Trust and Savings Bank ("Decommissioning Trustee") and APS.

Pursuant to the Decommissioning Trust Agreements, APS has established a separate decommissioning trust fund (a "Decommissioning Trust Fund") and a separate second fund (a "Second Fund") for each of PVNGS Unit 1, PVNGS Unit 2, and PVNGS Unit 3, for the accumulation and funding of amounts and expenses of Decommissioning and the establishment, management, and maintenance of such funds. (Each fund is sometimes herein referred to as a "Fund" and collectively as the "Funds.") Each of the Second Funds, but not the Decommissioning Trust Funds, is intended to qualify as a "Nuclear Decommissioning Reserve Fund," as referred to in Section 468A of the Code.

Section 7(c) of each of the Decommissioning Trust Agreements authorizes APS to appoint one or more investment managers to direct the investment of all or any part of the assets of the Funds, and APS desires to employ the Manager pursuant to this authority.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, the parties hereby agree as follows:

Section 1. Definitions; References to Sections. All capitalized terms used herein and not otherwise defined herein shall have the meanings as set forth in Exhibit A hereto. Unless otherwise stated, references to a section are to a section of this Agreement.

Section 2. Employment of Manager. APS hereby employs the Manager to direct the investment and reinvestment of those assets of the Funds specified in Exhibit B hereto and/or such other assets as APS may designate in writing from time to time, including all

dividends, interest, cash, instruments, and other property from time to time received, receivable, or otherwise distributed or distributable in respect of or in exchange for any or all such assets, all proceeds of any of the foregoing and any property of any character whatsoever into which any of the foregoing may be converted (the "Portfolio"). Manager acknowledges that Exhibit B may be revised from time to time by APS in its sole discretion (subject to approval of the ACC, FERC, and/or any other Governmental Authority, when deemed necessary by APS, provided, however, that the provisions of this parenthetical shall not be deemed to impose upon the Manager any duty or responsibility for determining whether any such approval is required or has been obtained) upon written notice to the Manager. APS acknowledges that it has received copies of what the Manager represents is Part II of the Manager's Form ADV as amended to date, or a separate brochure which the Manager represents contains the same information as is in such Part II.

Section 3. Acceptance of Appointment. The Manager hereby accepts the appointment as investment manager and agrees to supervise and direct the investment and reinvestment of the Portfolio in accordance with this Agreement. Concurrent with the execution of this Agreement, the Manager shall certify in writing, by telecopy or similar means, to Decommissioning Trustee, with a copy to APS, (i) that it has accepted the appointment as Manager, provided, however, that the execution by the Manager of this Agreement and the transmittal of an executed copy hereof to the Decommissioning Trustee by telecopy or other means shall constitute adequate acceptance of the appointment by Manager, and (ii) the identity of the person or persons authorized to give instructions or directions to Decommissioning Trustee on its behalf, including specimen signatures. A hard copy of each of (i) the executed Agreement and (ii) the list of persons authorized to give instructions or directions to the Decommissioning Trustee shall be transmitted to the Decommissioning Trustee, with a copy to APS of the list described in (ii) of this sentence, promptly after the execution hereof, provided, that, the receipt by the Decommissioning Trustee and/or APS, as the case may be, of a hard copy of the documents listed in (i) and/or (ii) of this sentence shall not be a prerequisite to the effectiveness of this Agreement. The Manager acknowledges that Decommissioning Trustee may continue to rely upon such certifications unless otherwise notified in writing by the Manager. The Manager shall provide to APS a copy of any such notification to the Decommissioning Trustee.

Section 4. The Portfolio. On a continuing basis and upon reasonable request of the Manager, APS shall provide, or shall request the Decommissioned Trustee to provide, such information concerning security transactions and the status of the Portfolio as it may have in its possession. Payments from the Funds that are chargeable against the Portfolio, and transfers of assets to or from a Fund and allocable to the Portfolio, may be made from time to time as provided herein and in the Decommissioning Trust Agreements. APS shall promptly notify, or shall cause the Decommissioning Trustee to promptly notify, the Manager of any such payment or allocation.

Section 5. Investment Powers. The Manager shall exercise the following investment powers over the Portfolio in a fiduciary capacity and in the best interest of the Funds that constitute a portion of the Portfolio and the beneficiaries thereof:

5.1 (a) Subject to the provisions of this Agreement, the Manager shall have discretion in the investment and reinvestment of the assets held in the Portfolio and shall determine what securities or other property shall be acquired, held, or disposed of for the Portfolio, and what portion of the assets held in the Portfolio shall be held in cash or cash equivalents, provided, however, that APS shall give, or shall cause the Decommissioning Trustee to give, the Manager reasonable advance notice of any cash requirements, and the Manager shall maintain in cash or cash equivalents sufficient assets to meet such cash requirements. Subject to the provision of Section 5.1(c), the Manager shall have authority to invest and reinvest the assets of the Portfolio in a manner designed to maximize and preserve the income and principal thereof for the purposes stated herein and in the Decommissioning Trust Agreements. In determining the potential liability of the Manager for failure to maximize and preserve the income and principal of the Portfolio, the provisions of Section 6 hereof shall control.

(b) The Manager shall not be required to take any action with respect to the voting of proxies solicited by or with respect to the issues of securities in which assets of the Portfolio may be invested but, upon the request of APS, shall consult with APS concerning the voting of such proxies. The Manager shall exercise its power and carry out its duties hereunder at all times in a manner which conforms to the terms of this Agreement and Applicable Law. In construing the responsibility of the Manager under the immediately preceding sentence, APS

shall be responsible for advising the Manager as to any Applicable Law of the ACC, FERC, and the NRC as it pertains to the Portfolio and this Agreement. The provisions of Section 6 hereof shall control in determining the liability of the Manager for failure to carry out its duties hereunder in a manner that conforms to the particular sections of the Code that are cited in Section 6.

(c) Notwithstanding anything to the contrary in this Agreement, the Manager shall at all times invest and reinvest in accordance with the investment parameters for each of the Decommissioning Trust Funds and the Second Funds attached hereto and incorporated herein as Exhibits C-1 and C-2, respectively, as the same may be revised from time to time by APS in its sole discretion (subject to approval of the ACC, FERC, and/or any other Governmental Authority, when deemed necessary by APS, provided, however, that the provisions of this parenthetical shall not be deemed to impose upon the Manager any duty or responsibility for determining whether any such approval is required or has been obtained) upon written notice to the Manager; provided, however, that no such investment or reinvestment of the assets of the Portfolio shall be made by the Manager:

(i) in the case of assets allocable to any of the Second Funds only, unless such investment is a permitted investment for a Nuclear Decommissioning Reserve Fund under Section 468A of the Code and the United States Treasury Regulations issued thereunder; or

(ii) if APS has delivered to the Manager a copy of an order of a state or Federal regulatory agency that APS certifies is binding on APS, limiting the obligations or securities in which all or a part of any Fund may be invested, unless such investment is in accordance with such order, and the Manager shall be entitled to rely on such order until notified in writing to the contrary by APS; or

(iii) in any bank, savings and loan association, or other financial institution whose deposits are not insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or other comparable federal agency.

In determining the potential liability of the Manager under this Section 5.1(c) the provisions of Section 6 shall control.

5.2 The Manager may not authorize or direct any sale, exchange, or other transaction that would constitute an act of "self-dealing" within the meaning of Section 4951 of the Code, as such Section is made applicable to any of the Second Funds by Section 468A(e)(5) of the Code, any regulations thereunder, and any applicable successor provision, provided, however, that for the purpose of determining those persons who are affiliates of APS, the Manager may rely on the most current list provided by APS to the Manager for that purpose. APS may also provide the Manager with, and the Manager may rely upon, the most current list of those persons who are affiliates of the Decommissioning Trustee. In determining the potential liability of the Manager under the immediately preceding sentence, the provisions of Section 6 shall control.

5.3 Nothing in this Agreement shall be deemed to authorize the Manager to take or receive custody or physical possession or control of any assets held in the Portfolio, it being intended that the Decommissioning Trustee, pursuant to the terms of the Decommissioning Trust Agreements, shall have sole responsibility for the safekeeping thereof and the physical consummation of all transactions made pursuant to the direction of the Manager or otherwise.

5.4 The Manager is hereby empowered and authorized to issue and place orders for the purchase or sale of securities for the Portfolio directly with qualified brokers or dealers. The Manager shall promptly, and in any event within two business days of the order or authorization, provide to the Decommissioning Trustee written notification of each such order and of the issuance of appropriate trading authorizations. The Manager shall also instruct the broker or dealer concerned to forward a copy of the confirmation of the execution of any such order to the Decommissioning Trustee and, if APS so requests, to APS and other interested parties.

5.5 Unless otherwise specified in writing to the Manager by APS, all orders for the purchase and sale of securities for the Portfolio shall be placed in such markets and through such brokers or dealers as in the Manager's best judgment offer the most favorable price and market for the execution of such transactions. In selecting a broker or dealer for any transaction or series of transactions, the Manager may consider a number of

factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, order of call, and other matters ordinarily involved in the receipt of brokerage services generally. In no event shall the Manager be under any duty to obtain the lowest commission, dealer spread, or best net price for the Portfolio on any particular transaction, provided that the Manager determines in good faith that a particular commission, dealer spread, or net price is reasonable. Nor is the Manager under any duty to execute any order in a fashion either preferential to the Portfolio relative to other like accounts managed by the Manager or otherwise materially adverse to such other accounts. Brokerage fees, commissions, and dealer spreads shall be evaluated in relation to the value of brokerage and research services provided by such broker or dealer, viewed in terms of either the specific transaction or the Manager's overall responsibilities for the Portfolio and for other similar accounts for which the Manager exercises investment discretion. APS also understands that the receipt and use of such services will not reduce the Manager's customary and normal research activities.

5.6 Provided that the restrictions of this Agreement and the investment objectives of the Portfolio are adhered to, APS agrees that the Manager may aggregate sales and purchase orders of securities held in the Portfolio with similar orders being made simultaneously for other portfolios managed by the Manager if, in the Manager's judgment, such aggregation shall result in an overall economic benefit to the Portfolio, taking into consideration the advantageous selling or purchase price, brokerage commission and other expenses, and trading requirements. In accounting for any such aggregated order, price, commission and dealer discount or spread shall be averaged on a per bond or per share basis daily. APS acknowledges that the Manager's determination of such economic benefit to the Portfolio is based on an evaluation that the Portfolio is benefited by relatively better purchase or sales prices, lower commission expenses and beneficial timing of transactions, or a combination of these and other like or unlike factors.

Section 6. Liability and Indemnification

6.1 The Manager shall be liable for, and shall indemnify and keep harmless the Portfolio, the Funds, and

APS from, any costs and liabilities (including, e.g. attorneys' fees and disbursements) arising from the Manager's own acts or omissions (and those of its officers, employees, and agents) occasioned by the willful misconduct or negligence of the Manager, and/or its officers, employees, or agents; provided, however, that the Manager shall not be liable for the acts, omissions, or defaults of an agent (other than its own officers or employees) acting in its capacity as a broker/dealer, provided that such agent (1) is a widely recognized bank or broker/dealer that commonly engages in similar investment transactions with institutional investors, and (2) was selected with reasonable care and the performance and status of the agent is monitored throughout the duration of the agency relationship. This Section 6.1 shall not apply to liability of the Manager under Section 6.2 hereof.

6.2 Notwithstanding the provisions of Sections 6.1 and 6.3, the Manager (and not the Portfolio, the Funds, or APS) shall be liable with respect to its actions hereunder as Manager, for (a) any tax imposed under Section 4951 of the Code (or any applicable successor provision) as such section is made applicable to any of the Second Funds and/or (b) any tax liability resulting from disqualification by the IRS of any of the Second Funds as a result of a violation of the restrictions on the investment of Portfolio assets as set forth in Section 5 and Exhibits C-1 and C-2 hereof, provided, however, any liability to the Manager under Section 6.2(b) is limited to the tax liability resulting from the deemed distribution of the balance of any such disqualified Second Fund on the date of such deemed distribution. This Section 6.2 shall be in effect for a period of one year from the effective date of this Agreement and shall be extended by further written agreement between the Manager and APS.

6.3 Except as otherwise provided in this Section 6, APS agrees (i) not to hold Manager, or any of its partners or employees (collectively, the "Covered Parties") liable for, and (ii) to indemnify or insure the Covered Parties against, any costs and liabilities (including, e.g., attorneys' fees and disbursements) the Covered Parties may incur as a result of: (a) any claim against any of the Covered Parties arising out of an investment decision or other action taken or omitted by the Manager in good faith exercise of its powers hereunder, or otherwise related to this Agreement,

excepting matters as to which the Manager shall be finally adjudged to have been guilty of willful misconduct or negligence; (b) except as provided in Section 6.2 hereof.

6.4 APS shall furnish to the Manager and keep current a list of persons constituting "disqualified persons" with respect to APS and its affiliates (within the meaning of Code Section 4951(e)(4)) and in connection with the Second Funds. APS may also include on such list or on a separate list persons constituting "disqualified persons" with respect to the Decommissioning Trustee and its affiliates. For the purpose of determining those persons who are affiliates of APS and/or the Decommissioning Trustee under the provisions of Code Section 4951, the Manager may rely on the most current lists provided for in this Section 6.4.

6.5 In the event that the Manager authorizes the purchase of a security for any of the Second Funds, which, on the date the security was purchased, is not a permitted investment under Code Sections 501(c)(21)(B)(ii) and/or 468A(e)(4)(C) as such Sections are applicable to any of the Second Funds (an "Impermissible Purchase"):

(a) at the time any such Impermissible Purchase is identified as such, the Manager shall promptly seek to have the trade reversed and/or direct the Decommissioning Trustee of the Second Fund(s) that have been affected to sell the security and to replace it with a permissible securities investment of equal value; and

(b) the Manager will reimburse the Second Fund(s) so affected for any investment loss incurred as a result thereof.

6.6 Should a security or securities purchased for any of the Second Funds cease to be described by either of Sections 501(c)(21)(B)(ii) and/or 468A(e)(4)(C) of the Code (because of a change in Applicable Law or a change in such security or the issuer thereof), at the time this is ascertained the Manager will direct the Decommissioning Trustee to sell the security or securities and use the proceeds to purchase securities which are permissible investments under such Sections.

6.7 APS shall promptly notify the Manager upon the discovery by APS of any security purchased by the

Manager for any of the Second Funds which, in the opinion of APS, may not meet the investment restrictions set forth in Sections 501(c)(21)(B)(ii) and/or 468A(e)(4)(C) of the Code as such Sections are applicable to any of the Second Funds. The provisions of Section 5.7, however, shall not be deemed to relieve the Manager from any cost or liability otherwise imposed upon it under the provisions of Section 6 hereof.

6.8 Should any action of the Manager cause or result in an assertion by the IRS that any of the Second Funds fail to qualify under Section 468A of the Code, and APS determines to defend its qualified status, the Manager shall cooperate with APS in every reasonable manner, including providing its investment and trading professionals as expert witnesses at no cost to APS, the Portfolio, or any of the Second Funds.

Section 7. Information and Reports.

7.1 Within forty-five days after the close of each calendar quarter, the Manager shall submit a written report to APS and the Decommissioning Trustee detailing the actions taken by the Manager under this Agreement during such calendar quarter. Such reports shall contain an asset summary, the Portfolio investments' cost and market values, before and after-tax rate of return measurements computed on a time-weighted basis, along with other selected measures and characteristics as may reasonably be requested by APS. Available twelve-month and market cycle period results shall also be provided.

7.2 The Decommissioning Trustee, in performing its duties under the Decommissioning Trust Agreements, and/or APS may from time to time request the Manager to furnish the Decommissioning Trustee and/or APS with reports of the valuation of particular assets held in the Portfolio and copies or summaries of any report of the Manager containing reasonably current information as to the valuation or factors affecting the valuation of such assets. The Manager shall provide such reports as the Decommissioning Trustee and/or APS reasonably requests.

7.3 The Manager shall keep accurate and detailed records and accounts of all investments of the Portfolio and of all receipts, disbursements, and other transactions hereunder affecting the Portfolio. All such records and accounts, and all documents relating thereto, shall be open at all reasonable times and under reasonable

conditions to inspection and audit by any person or persons designated by APS.

7.4 APS and the Manager agree to provide to each other such information as the Manager or APS, as the case may be, may reasonably request to enable it to carry out its duties, obligations, and responsibilities under this Agreement, the Decommissioning Trust Agreements, and Applicable Law.

Section 8. Representations and Covenants of the Manager.

8.1 The Manager represents and warrants that it is duly registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and agrees to use its best efforts to maintain such registration or status in full force and effect throughout the term of this Agreement. The Manager agrees that as soon as it knows or has reason to know that such registration status may terminate, it shall notify APS promptly, and in any event within two business days thereof. The Manager further represents and warrants that the execution and performance of this Agreement do not contravene the provisions of the Investment Advisers Act of 1940, as amended, and that if the continued performance of this Agreement shall at any time hereafter be prohibited by or in contravention of such Act, whether as a result of amendment of such Act or otherwise, the Manager shall promptly notify APS of such fact.

8.2 The Manager agrees to notify APS in writing of any (i) change in the partnership membership of Manager and (ii) change in the personnel of the Manager having management or supervisory responsibility for the Portfolio, in advance, if possible, and otherwise promptly, and in any event within two business days, after any such change occurs.

8.3 The Manager acknowledges and agrees that it shall be a "fiduciary" with respect to the Portfolio and that it shall discharge its duties hereunder at all times with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Manager agrees to exercise its power and to discharge its duties hereunder in accordance with the provisions hereof and of the Decommissioning Trust

Agreements. The Manager acknowledges that it has received copies of the Decommissioning Trust Agreements.

8.4 The Manager agrees to notify APS promptly, and in any event within two business days, in writing of (i) the commencement of any proceeding, suit, or action, whether civil or criminal, or the commencement by any state or federal administrative authority of any administrative proceeding, if such proceeding, suit, action, or administrative proceeding arises out of the conduct by the Manager or its principals, or employees, or arises out of a violation or alleged violation by any such person of any state or federal securities law, rule, or regulation, and (ii) the commencement of any other proceeding, suit, or action, whether civil or criminal, against the Manager or any of its principals, affiliates or employees if an unfavorable determination in such proceeding, suit, or action against any such person would, in the reasonable opinion of the Manager, have a material adverse effect on the Manager's financial position or stability or otherwise interfere with the performance of its duties hereunder.

Section 9. Fees. In consideration of the services performed by the Manager hereunder, APS will pay or cause to be paid to the Manager, as they become due and payable, reasonable fees for all services rendered by it hereunder as agreed to by APS and Manager from time to time, the current compensation arrangement being determined in accordance with the Schedule of Fees attached hereto as Exhibit D. Until such time as APS shall otherwise advise the Manager in writing, APS hereby authorizes the Manager to charge the Portfolio for the full amount of such fees as they become due and payable, provided that a copy of each fee statement sent to the Decommissioning Trustee is at the same time sent to APS. In the event of termination of this Agreement, any management fees paid in advance pursuant to such fee schedule will be prorated as of the date of termination and the unearned portion thereof will be returned to the Funds.

Section 10. Amendment and Termination.

10.1 Except as otherwise provided in this Agreement, this Agreement may not be amended or modified except by a writing signed by the parties hereto. The parties agree that they will execute any amendments

requested by APS that are necessary to secure and maintain the qualification of each of the Second Funds as a "Nuclear Decommissioning Reserve Fund" under Section 468A of the Code and the deduction of contributions to each of such Funds as provided by such Section, or to comply with Applicable Law.

10.2 This Agreement shall be effective as of the date of its execution by all parties.

10.3 APS may terminate this Agreement with or without cause at any time (subject to the approval of the ACC, FERC, and/or any other Governmental Authority, when deemed necessary by APS; provided, however, that the provisions of this parenthetical shall not be deemed to impose upon the Manager any duty or responsibility for determining whether any such approval is required or has been obtained) by written notice to the Manager, which shall be effective upon receipt or upon such other time as is stated in the notice, provided, however, that all rights and obligations under Section 6 of this Agreement shall survive such termination. If at any time the representation contained in the first sentence of Section 8.1 hereof ceases to be true, this Agreement shall terminate immediately and the Manager shall cooperate with APS in the delivery of any of the assets, books, or records pertaining to the Funds or the Portfolio that are then in the possession or control of the Manager.

10.4 The Manager may terminate this Agreement with or without cause at any time upon sixty days' prior written notice to APS, provided, however, that all rights and obligations under Section 6 of this Agreement shall survive such termination.

Section 11. Miscellaneous.

11.1 This Agreement shall be binding upon and inure to the benefit of each party and its successors and permitted assigns.

11.2 No assignment of this Agreement or any rights or duties hereunder shall be made by Manager without the prior written consent of APS. As used in this Section 11.2, the term "assignment" shall have the meaning given in the Investment Advisers Act of 1940 and the rules and regulations thereunder.

11.3 Any notice, direction, report or other communication to APS, the Manager, or the Decommissioning Trustee shall be addressed as follows (or to such other address as any such person may from time to time designate by notice in writing to each other such person):

(a) To APS:

Arizona Public Service Company
P.O. Box 53999
Phoenix, Arizona 85072
Attention: Treasurer

(b) To the Manager:

RCM Capital Management
Four Embarcadero Center, Suite 2900
San Francisco, California 94111

Attention: E. Rust Muirhead

(c) To the Decommissioning Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60603
Attention: Katherine Freytag

11.4 Any notice, direction, consent or communication to the Manager by APS under Section 2, 4.2, 5.1(a), 9, 10.1, 10.3, or 11.2 may be given only by the President, any Vice-President, the Treasurer, or the Secretary of APS.

11.5 In the event that any of the Decommissioning Trust Agreements is amended after the execution of this Agreement, APS shall furnish the Manager with a copy of such amendment promptly after such amendment is adopted, and the parties agree to execute any amendment(s) to this Agreement made necessary or advisable thereby, for the purpose of conforming this Agreement to changes made by amendment of any of the Decommissioning Trust Agreements.

11.6 This Agreement shall be deemed to be a contract made in the State of Arizona for all purposes and shall be construed in accordance with and governed by the laws of the such State.

11.7 In case any provision of this Agreement shall be held invalid or illegal for any reason, such

invalidity or illegality shall not affect the remaining provisions of the Agreement, but shall be fully severable, and the Agreement shall be construed as if such illegal or invalid provisions had not been included herein.

11.8 The titles to sections of this Agreement are intended solely as a convenience and shall not be used as an aid in construction of any of the provisions hereof.

11.9 This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

11.10 Each of the individuals whose signature appears below warrants that he or she has full authority to execute this Agreement on behalf of the party on whose behalf he or she has affixed his or her signature to this Agreement.

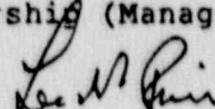
In recognition of their acceptance of the terms and conditions of this Agreement, APS and the Manager hereby execute this Agreement by their duly authorized representatives, as of the 28th day of April, 1989.

ARIZONA PUBLIC SERVICE,
COMPANY, an Arizona
corporation

By: 

Title: TREASURER

RCM CAPITAL MANAGEMENT, a
California Limited
Partnership (Manager)

By:  Lee N. Price

Title: General Partner of RCM General
its General Partner

EXHIBIT A

ACC shall mean the Arizona Corporation Commission or any successor agency.

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

Code shall mean the Internal Revenue Code of 1986, including any amendments thereto, any regulations thereunder, and any applicable successor provisions.

Decommissioning shall mean the decommissioning and, whether or not occurring simultaneously therewith, retirement from service of Unit 1, Unit 2, and/or Unit 3, and the related possession, maintenance, removal, and disposal of material, radioactive or otherwise, used in or produced by or relating to Unit 1, Unit 2, and/or Unit 3, including, without limitation, as appropriate, (i) placement and maintenance in a state of protective storage, (ii) in-place entombment and maintenance, (iii) dismantlement, (iv) proper and permanent removal, decontamination, disposition and disposal of all radioactive material (other than nuclear fuel) and all equipment and fixtures, (v) razing, (vi) removal and disposition of debris related to Unit 1, Unit 2, and/or Unit 3, from the PVNGS site, (vii) restoration, and release by all Governmental Authorities having jurisdiction, of the PVNGS site related to Unit 1, Unit 2, and/or Unit 3, for unrestricted use, (viii) any other actions related to decommissioning and retirement from service required by the NRC, and (ix) all activities undertaken incident to the implementation thereof.

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

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

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

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

Permitted Investments shall mean investments for the Decommissioning Trust Funds and the Second Funds that comply with the investment parameters set forth in Exhibits C-1 and C-2 hereto, respectively, as revised from time to time.

PVNGS shall mean the Palo Verde Nuclear Generating Station.

Unit 1 shall mean the 1,270 megawatt unit, commonly known as Unit 1, at PVNGS.

Unit 1 Trust Agreement shall mean that certain Decommissioning Trust Agreement (PVNGS Unit 1), dated as of September 1, 1988, as amended by Amendment No. 1 thereto, dated as of April 28, 1989, between APS and Decommissioning Trustee.

Unit 2 shall mean the 1,270 megawatt unit, commonly known as Unit 2, at PVNGS.

Unit 2 Trust Agreement shall mean that certain Decommissioning Trust Agreement (PVNGS Unit 2), dated as of September 1, 1988, as amended by Amendment No. 1 thereto, dated as of April 28, 1989, between APS and Decommissioning Trustee.

Unit 3 shall mean the 1,270 megawatt unit, commonly known as Unit 3, at PVNGS.

Unit 3 Trust Agreement shall mean that certain Decommissioning Trust Agreement (PVNGS Unit 3), dated as of September 1, 1988, as amended by Amendment No. 1 thereto, dated as of April 28, 1989, between APS and Decommissioning Trustee.

Dated: April 28, 1989

EXHIBIT B

Description of the Portfolio

All assets held in the Decommissioning Trust Fund and the Second Fund at April 28, 1989 for each of (i) PVNGS Unit 1 pursuant to the Unit 1 Trust Agreement, (ii) PVNGS Unit 2 pursuant to the Unit 2 Trust Agreement, and (iii) PVNGS Unit 3 pursuant to the Unit 3 Trust Agreement.

Dated: April 28, 1989

EXHIBIT C-1

PERMITTED INVESTMENTS FOR THE DECOMMISSIONING TRUST FUNDS

The following restrictions are placed on the investment of the assets of any of the Decommissioning Trust Funds:

1. Securities of APS, APS's parent corporation, Pinnacle West Capital Corporation, or its affiliates, are not permitted.

2. Securities issued by Maricopa County, Arizona Pollution Control Corporation in connection with the financing of certain facilities at the Palo Verde Nuclear Generation Station are not permitted.

3. Securities issued by or on behalf of any participant in the Palo Verde Nuclear Generating Station are not permitted.

4. There shall be no short-selling, securities lending, options trading, financial futures, or other specialized investment activity.

5. No investment shall be made which would cause the holding of any one issue (excluding obligations of the United States Government and agencies of or guaranteed by the United States Government), to exceed ten percent (10%) of the aggregate assets held under the Unit 1 Trust Agreement, the Unit 2 Trust Agreement, and the Unit 3 Trust Agreement, valued at cost.

6. Bank certificates of deposits must be at least \$1 billion with a minimum of one billion dollars (\$1,000,000,000) in assets.

7. Short-term taxable and nontaxable debt securities are not permitted unless such securities have a rating of at least P-1 by Moody's Investors Services, Inc. ("Moody's") and at least A-1 by Standard & Poors Corporation ("S&P").

8. Long-term taxable and nontaxable debt securities are not permitted unless such securities have a rating of at least "A" by Moody's and S&P.

9. No investment shall be made which would cause sixty percent (60%) or more of the aggregate assets held under the Unit 1 Trust Agreement and the Unit 2 Trust Agreement and the Unit 3 Trust Agreement to be invested in equity securities.

Dated: April 28, 1989

EXHIBIT C-2

PERMITTED INVESTMENTS FOR THE SECOND FUNDS

Each of the Second Funds must meet all applicable requirements of the Code, and applicable rules and regulations promulgated by the Internal Revenue Service with respect to a Nuclear Decommissioning Reserve Fund.

Qualified Investments

The assets of each of the Second Funds shall be invested, without distinction between principal and income, directly in:

1. Treasury bills, Treasury notes, Treasury Bonds and Savings Bonds which are obligations of the United States and any other obligations of the United States which are taken into account for purposes of the public debt limit.
2. Obligations of a State or local governmental unit the interest on which is exempt from tax under Section 103(a) of the Code which are not in default as to principal or interest.
3. Time or demand deposits in a bank (as defined in Section 581 of the Code) or an insured credit union (within the meaning of Section 101(6) of the Federal Credit Union Act, 12 U.S.C. 1752(7) (1982)). For the purposes of this paragraph, "time or demand deposits" shall include checking accounts, savings accounts, certificates of deposit, and other time or demand deposits but shall not include common or collective trust funds.

Investment Restrictions

In addition to the investment requirements listed above, the following restrictions are also placed on the investment of the assets of each of the Second Funds:

1. Securities of APS, APS's parent corporation, Pinnacle West Capital Corporation, or its affiliates, are not permitted.
2. Securities issued by Maricopa County, Arizona Pollution Control Corporation in connection with the financing of certain facilities at the Palo Verde Nuclear Generation Station are not permitted.

3. Securities issued by or on behalf of any participant in the Palo Verde Nuclear Generating Station are not permitted.

4. There shall be no short-selling, securities lending, options trading, financial futures, or other specialized investment activity.

5. No investment shall be made which would cause the holding of any one issue (excluding obligations of the United States Government and agencies of or guaranteed by the United States Government), to exceed ten percent (10%) of the aggregate assets held under the Unit 1 Trust Agreement, the Unit 2 Trust Agreement, and the Unit 3 Trust Agreement, valued at cost.

6. Bank certificates of deposits must be at banks with a minimum of one billion dollars (\$1,000,000,000) in assets.

7. Short-term taxable and nontaxable debt securities are not permitted unless such securities have a rating of at least P-1 by Moody's Investors Services, Inc. ("Moody's") and at least A-1 by Standard & Poors Corporation ("S&P").

8. Long-term taxable and nontaxable debt securities are not permitted unless such securities have a rating of at least "A" by Moody's and S&P.

Dated: April 28, 1989

EXHIBIT D

SCHEDULE OF FEES
FIXED-INCOME ACCOUNTS NUCLEAR DECOMMISSIONING TRUST ACCOUNTS
AVERAGED MONTH-END ASSETS
ARREARS

(a) For each of the first two (2) years after the effective date of the Agreement, the fee payable by APS to the Manager for services rendered under the Agreement shall be the lesser of (i) .30% of the value of securities and cash held in the Portfolio, computed as in subparagraph (b) below for the initial calendar quarter, and as in subparagraph (c) below for each additional quarterly period or (ii) \$25,000 per year, payable quarterly in arrears upon receipt of a fee statement from the Manager.

(b) the value of securities and cash held in the Portfolio for the period from the effective date of the Agreement to the end of the initial calendar quarter shall be determined by computing the average market value of cash and securities in the Portfolio as of the close of business on the last day (subsequent to the effective date referred to above) of each month of the initial calendar quarter and multiplying the resultant average market value by one-fourth of the applicable annual fee rate indicated in clause (i) of subparagraph (a) above, prorated for the percentage of the current calendar quarter for which the Portfolio is under management.

(c) The value of securities and cash held in the Portfolio for subsequent three-month periods through the quarterly period ending on June 31, 1991 shall be determined by computing the average market value of cash and securities in the Portfolio as of the close of business on the last day of each month of the three month period and multiplying the resultant average market value by one-fourth of the annual applicable fee rate indicated in clause (i) of subparagraph (a) above.

(d) The fee for subsequent three-month periods after June 31, 1991 shall be the amount obtained by computing the average market value of cash and securities in the Portfolio as of the close of business on the last day of each month of the three-month period and multiplying the resultant average market value by one-fourth of the annual applicable fee rate(s) indicated below. This fee shall be payable upon receipt of a fee statement.

<u>Value of Securities and Cash</u>	<u>Fee</u>
On the first \$25,000,000 or fraction thereof	.30% annually
On the next \$50,000,000 or fraction thereof	.25% annually
On the next \$100,000,000 or fraction thereof	.20% annually
On the next \$75,000,000 or fraction thereof	.15% annually
On sums exceeding \$250,000,000	.10% annually

2863C

This Amendment No. 1, dated as of April 28, 1990, to the Investment Management Agreement, dated as of April 28, 1989, is entered into between Arizona Public Service Company ("APS") and RCM Capital Management (the "Manager").

R E C I T A L S:

WHEREAS, APS and the Manager entered into an Investment Management Agreement, dated as of April 28, 1989 (the "Investment Management Agreement");

WHEREAS, the last sentence of Section 6.2 of the Investment Management Agreement specifies that Section 6.2 shall be in effect for a period of one year from the effective date of the Investment Management Agreement and shall be extended by further written agreement between the Manager and APS; and

WHEREAS, the parties hereto wish to amend the Investment Management Agreement to further extend the effectiveness of Section 6.2 thereof.

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

A G R E E M E N T S:

SECTION 1. Amendment to Section 6.2.

Effective as provided in Section 2 hereof, the effectiveness of Section 6.2 of the Investment Management Agreement is hereby extended for an additional period from April 28, 1990 to and including April 28, 1991, and the last sentence of Section 6.2 of the Investment Management Agreement is hereby amended in its entirety to read as follows:

This Section 6.2 shall be in effect from April 28, 1989 to and including April 28, 1991 and shall be extended by further written agreement between the Manager and APS.

SECTION 2. Effectiveness.

This Amendment No. 1 shall become effective as of the date hereof upon the execution and delivery of a counterpart of this Amendment No. 1 by APS and the Manager.

SECTION 3. Miscellaneous.

(a) Full Force and Effect.

Except as expressly provided herein, the Investment Management Agreement, including but not limited to Section 6.2 thereof, shall remain unchanged and in full force and effect. Each reference in the Investment Management Agreement and in any exhibit or schedule thereto to "this Agreement," "hereto," "hereof" and terms of similar import shall be deemed to refer to the Investment Management Agreement as amended hereby.

(b) Counterparts.

This Amendment No. 1 may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Amendment No. 1 by signing any such counterpart.

(c) Arizona Law.

This Amendment No. 1 shall be construed in accordance with and governed by the law of the State of Arizona.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to the Investment Management Agreement to be duly executed as of the day and year first above written.

ARIZONA PUBLIC SERVICE COMPANY,
an Arizona corporation

By _____

Title _____

RCM CAPITAL MANAGEMENT, a
California Limited Partnership
(Manager)

By _____

Title General Partner of RCM General
its General Partner

9349B

ATTACHMENT SRP-1

CERTIFICATE OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT RESPECTING DECOMMISSIONING FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION PVNGS UNIT 1

Salt River Project Agricultural Improvement and Power District ("SRP") hereby certifies that financial assurance for decommissioning SRP's 17.49% interest in Unit 1 of the Palo Verde Nuclear Generating Station will be provided in an amount which may be more but not less than 17.49% of the amount stated in the table in paragraph (c)(i) of 10 C.F.R. Section 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c)(2) of 10 C.F.R. Section 50.75. Such amounts will be accumulated in accordance with 10 C.F.R. Section 50.75(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

SRP has entered into a Decommissioning Trust Fund Agreement dated as of July 6, 1990 with M&I Marshall & Ilsley Trust Company of Arizona, as Trustee (the "Trust Agreement"). (See Attachment SRP-3.)

SRP further certifies that it will make periodic deposits into the trust fund established pursuant to the Trust Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of each calendar year in an amount not less than 17.49% of (A) \$105 million (January 1986 dollars) (amount required by 10 C.F.R. Section 50.75(c)(1)), adjusted annually in accordance with 10 C.F.R. Section 50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990 to the end of the calendar year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990 to the expiration of the term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By: 

Mark B. Bonsall

Title: Assistant General Manager,
Financial Services &
Corporate Treasurer

Address: P. C. Box 52025
Phoenix, AZ 85072-2025

Telephone: (602) 236-5702

ATTACHMENT SRP-2

STATEMENT OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT (SRP)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUND AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUND FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

1. Total Certification Amount, Including Escalation to 12/31/89, for PVNGS Unit 1 (See Attachment PVNGS-1)	\$116,590,000
2. SRP's Share (17.49%) of Adjusted Certification Amount for PVNGS Unit 1	\$ 20,392,000
3. Status of SRP's External Fund for PVNGS Unit 1 as of June 30, 1990*	\$ 3,216,000
4. Currently Proposed Annual Payments into its External Fund, Including Earnings on Investments	Not less Than \$ 2,000,000

- * The assets of an internal fund are being transferred to the Decommissioning Trust Fund on July 9, 1990.



SALT RIVER PROJECT

POST OFFICE BOX 52025
PHOENIX, ARIZONA
85072-2025
(602) 236-5900

July 9, 1990

CERTIFICATE

I, William K. O'Neal, Assistant Secretary of Salt River Project Agricultural Improvement and Power District, an agricultural improvement district organized under the laws of the State of Arizona (the "District"), do hereby certify that the attached Decommissioning Trust Fund Agreement dated as of July 6, 1990 between M&I Marshall & Ilsley Trust Company of Arizona, as Trustee, and the District is a true and correct conformed copy of the original of such document, and that such document was executed by John R. Lassen, the duly elected President of the District pursuant to authority granted to him, as President, by the Board of Directors of the District, in the State of Arizona.

William K. O'Neal

SEAL

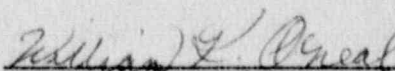
CERTIFICATE OF INCUMBENCY

I, WILLIAM K. O'NEAL, the duly appointed, qualified and acting Assistant Secretary of the Salt River Project Agricultural Improvement and Power District (the "District"), DO HEREBY CERTIFY that:

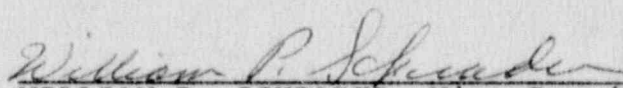
The following is now, and has continuously been since the date of beginning of his term shown below, the duly elected, qualified and acting indicated officer and official of the District; and the beginning and expiration dates of his current term as such officer or official is correctly set forth below:

Name ----	Title -----	Date of Beginning of Current Term ----	Date of Expiration of Current Term ----
Mark B. Bonsall	Asst. General Manager-Financial Services & Treasurer	March 1, 1985	Indefinite

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District this 5th day of July, 1990.


WILLIAM K. O'NEAL, Assistant Secretary

I, WILLIAM P. SCHRADER, Vice President of the Salt River Project Agricultural Improvement and Power District, DO HEREBY CERTIFY that William K. O'Neal is the duly appointed, qualified and acting Assistant Secretary of the Salt River Project Agricultural Improvement and Power District.


WILLIAM P. SCHRADER, Vice President

SALT RIVER PROJECT
AGRICULTURAL IMPROVEMENT
AND
POWER DISTRICT

DECOMMISSIONING TRUST FUND AGREEMENT

Table of Contents

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT DECOMMISSIONING TRUST FUND AGREEMENT

	PAGE
ARTICLE I: DEFINITIONS, PURPOSE, REPRESENTATIONS AND ACCEPTANCE	
1.01 Definitions.....	2
1.02 Authorization.....	3
1.03 Trust Purpose.....	3
1.04 Establishment of Decommissioning Trust Fund.....	3
1.05 Trustee Representations.....	4
1.06 Trustee Acceptance.....	4
ARTICLE II: DISPOSITIVE PROVISIONS	
2.01 Payment of Decommissioning Costs.....	4
2.02 Additions to Trust.....	5
2.03 Adjustments for Excess Contributions.....	5
2.04 No Transferability of Interest in Trust.....	5
2.05 Termination of Trust.....	6
2.06 Distribution of Trust Upon Termination.....	6
2.07 Alterations and Amendments.....	6
ARTICLE III: THE GRANTOR	
3.01 Duties of the Grantor.....	7
3.02 Grantor May Limit Trustee Actions.....	7
ARTICLE IV: TRUSTEE	
4.01 Compensation.....	7
4.02 Accounts.....	8
4.03 Tax Returns.....	8
4.04 Liability.....	8
4.05 Appointment of Successor Trustee(s).....	9
4.06 Resignation.....	10
4.07 Notice of Change in Trustee.....	10
4.08 Indemnity of Trustee.....	10
ARTICLE V: INVESTMENT MANAGER(S)	
5.01 Appointment of Investment Manager(s).....	10
5.02 Direction of Investment Manager(s).....	11

ARTICLE VI: TRUSTEE'S GENERAL POWERS

6.01	Payment of Expenses of Administration.....	12
6.02	Extension of Obligations and Negotiation of Claims.....	13
6.03	Registration of Securities.....	14
6.04	Exercise of Voting Rights.....	14
6.05	Location of Assets.....	14
6.06	Retention of Professional Services.....	14
6.07	Discretion in Exercise of Powers.....	14

ARTICLE VII: INVESTMENT POWERS

7.01	Preservation of Principal.....	15
7.02	Investment of Funds.....	15
7.03	Disposition of Investments.....	16

ARTICLE VIII: MISCELLANEOUS

8.01	Headings.....	16
8.02	Particular Words.....	17
8.03	Parties Interested Herein.....	17
8.04	Severability of Provisions.....	17
8.05	Form and Content of Communications.....	17
8.06	Delivery of Notices Under Agreement.....	18
8.07	Successors and Assigns.....	18
8.08	Governing Jurisdiction.....	18
8.09	Accounting Year.....	18
8.10	Counterparts.....	18

DECOMMISSIONING TRUST FUND AGREEMENT

THIS DECOMMISSIONING TRUST FUND AGREEMENT is entered into as of this 674 day of JULY, 1990, by and between SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized under the laws of the State of Arizona ("Grantor"), and M & I MARSHALL & ILSLEY TRUST COMPANY OF ARIZONA, a banking corporation having trust powers and organized under the laws of the State of Arizona ("Trustee").

RECITALS

A. The Grantor holds an operating license for the Palo Verde Nuclear Generating Station, located in Maricopa County, Arizona, approximately 36 miles west of the City of Phoenix, and owns: (i) a 17.49 percent undivided interest in Unit One of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 1"); (ii) a 17.49 percent undivided interest in Unit Two of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 2"); and (iii) a 17.49 percent undivided interest in Unit Three of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 3"). The Grantor also has an option to acquire an additional 5.7 percent undivided interest in Palo Verde Units Nos. 1, 2 and 3; and

B. The United States Nuclear Regulatory Commission ("NRC") has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 50, as may be amended from time to time (the "Regulations"), which require that the Grantor provide assurance that funds will be available when needed for required decommissioning activities; and

C. The Grantor is a party to that certain Arizona Nuclear Power Project Participation Agreement dated as of August 23, 1973, as amended and as may be further amended from time to time (the "ANPPPA"), which, subject to all applicable Regulations, governs the administration of the Units, including but not limited to the preparation and submission to the NRC of a Termination Plan, the establishment of Termination Funds for Decommissioning and the payment of Termination Costs, as such capitalized terms are defined in the ANPPPA; and

D. The Grantor has elected to use a trust fund to provide all financial assurance required under the Regulations and/or under the ANPPPA for the Units;

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Grantor and the Trustee hereby enter into this Agreement upon the terms and conditions herein set forth.

AGREEMENT

I

DEFINITIONS, PURPOSE, REPRESENTATIONS AND ACCEPTANCE

1.01 Definitions. As used in this Decommissioning Trust Fund Agreement, the following terms shall have the meanings indicated:

- (1) "Agreement" shall mean this Decommissioning Trust Fund Agreement as the same may from time to time be amended, modified, or supplemented.
- (2) "Authorized Representative" shall mean, the President, Vice President, Treasurer or Assistant Treasurer of the Grantor, or any other person designated as an Authorized Representative by a Certificate filed with the Trustee.
- (3) "Certificate" or "Certification" shall mean a written Certificate signed by an Authorized Representative of the Grantor.
- (4) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.
- (5) "Decommissioning Costs" shall mean the costs incurred by Grantor in connection with the Decommissioning Plan. The estimated costs and schedule for decommissioning the Units shall be reviewed periodically and updated pursuant to the provisions of the Regulations and of the ANPPPA.
- (6) "Decommissioning Plan" shall mean the plan, as approved by the NRC, of decommissioning activities for the Units, including without limitation the retirement from service of the Units, as such plan may be amended from time to time with the approval of the NRC.
- (7) "Investment Manager(s)" shall mean the fiduciary (which may be the Trustee) specified in the Investment Manager Agreement(s), if any, which has been retained by the

Grantor to manage, acquire, invest or dispose of any asset belonging to the Trust.

- (8) "Investment Manager Agreement(s)" shall mean the agreement(s), if any, between the Grantor and the Investment Manager(s) selected by the Grantor, which agreement governs the management of some or all of the assets of the Trust.
- (9) "Trust Fund(s)" shall consist of all contributions to the Trust established herein, together with investments and reinvestments thereof and any income earnings and appreciation thereon.
- (10) "Units" shall mean Palo Verde Unit No. 1, Palo Verde Unit No. 2, Palo Verde Unit No. 3, and all auxiliary structures, system facilities and equipment comprising the Palo Verde Nuclear Generating Station, collectively. If during the term of this Agreement any additional nuclear generating unit in which Grantor has an interest is constructed at and as part of the Palo Verde Nuclear Generating Station, then at the election of Grantor, in writing delivered to the Trustee, the NRC and as may be required under the ANPPPA, such unit shall be deemed part of the Units.

1.02 Authorization. The Trustee and the Grantor each hereby represent and warrant to the other that it has full legal authority and is duly empowered to enter into this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing on its behalf.

1.03 Trust Purpose. The exclusive purposes of the trust established by this Agreement are to provide the Decommissioning Costs in satisfaction of Grantor's obligations under the Regulations and under the 'NPPPA.

1.04 Establishment of Decommissioning Trust Fund. The SRP Decommissioning Trust Fund is hereby created and established with the Trustee to provide Decommissioning Costs for the benefit of the Grantor. The Trust Fund shall consist of such monies and assets as the Trustee may accept for the Trust Fund and also shall include all investments and reinvestments thereof, and all earnings and appreciation thereon; provided, however, that the Trustee shall accept all cash and securities delivered to it for the Trust Fund. All other assets shall be deemed accepted by the Trustee

unless the Trustee provides written notice of rejection to the Grantor within ten (10) days after delivery of the asset to the Trustee. The Trust Fund shall be held in the custody of the Trustee and accounted for separate and apart from other funds of the Grantor and the Trustee. No third party shall have access to the Trust Fund except as may be provided herein.

1.05 Trustee Representations. The Trustee hereby represents and warrants that it is (a) a corporation organized and existing under and by virtue of the laws of the State of Arizona, (b) authorized under such laws to exercise corporate trust powers, (c) subject to supervision or examination by federal or state banking or trust authorities; and (d) not owned by or subject to the control, except as provided in this Agreement, of the State of Arizona, the Grantor, or any other Participant under and as defined in the ANPPPA.

1.06 Trustee Acceptance. By its execution of this Agreement, the Trustee accepts the terms and conditions hereof and agrees to perform all the duties and accept all the obligations herein imposed.

II

DISPOSITIVE PROVISIONS

After payment of the expenses described in Section 6.01 hereof, the Trustee shall apply the Trust Fund as follows:

2.01 Payment of Decommissioning Costs. The Trustee shall make payments of the Decommissioning Costs in accordance with the following procedures:

(1) Authorized Representative. The Grantor shall promptly notify the Trustee in writing of (a) the identity of its Authorized Representatives, and (b) the termination of any Authorized Representative's authority. The Trustee shall have no duty to inquire into or investigate the continued authority of such persons to act as the Authorized Representatives.

(2) Disbursements. The Trustee shall apply amounts on deposit in the Trust Fund to the payment or reimbursement of Decommissioning Costs upon receipt by the Trustee of a Certificate stating with respect to each application for payment:

- (a) the name and address of the person to whom payment is due (which may be the Grantor);
- (b) the amount of money to be paid;
- (c) that the obligation to be paid is a Decommissioning Cost; and
- (d) that such payment is in accordance with the Decommissioning Plan.

2.02 Additions to Trust. From time to time but at least annually (unless such deposits have been prepaid) after the initial contribution to the Trust Fund and prior to the termination of this Trust, the Grantor shall make, and, subject only to the provisions set forth in Section 1.04, the Trustee shall accept, additional contributions of money or other assets to the Trust Fund to satisfy the purpose of this Trust as set forth in Section 1.03.

2.03 Adjustments for Excess Contributions. The Trustee and the Grantor understand and agree that the value of the assets in the Trust Fund, including earnings thereon, from time to time may exceed the greater of the minimum amount then required to be maintained under the Regulations or under the ANPPPA (such excess is hereinafter referred to as the "Excess Contribution"). Upon Certification of the amount of any Excess Contribution, the Trustee shall pay the amount requested in the Certificate to the person or persons specified (which may be the Grantor). In no event shall the amount so paid exceed the amount of the Excess Contribution specified by the Certificate.

2.04 No Transferability of Interest in Trust. The interest of the Grantor in the Trust Fund is not transferable by the Grantor, whether voluntarily or involuntarily, nor subject to the claims of creditors of the Grantor, provided, however, that any creditor of the Grantor as to which a Certificate for payment has been properly completed and submitted to the Trustee may assert a claim directly against the Trust Fund in an amount not to exceed the amount specified on such Certificate. Nothing herein shall be construed to prohibit a transfer of the Grantor's interest in the Trust Fund upon sale of all or part of the Grantor's ownership interest in any Unit or Units; provided, however, that if the Grantor retains any vested ownership interest in the Units, the Trust Fund assets remaining for the benefit of Grantor shall be valued on the effective date of the

transfer at an amount at least equal to the greater of the minimum amount then required to be held by Grantor for decommissioning under the Regulations or under the ANPPPA.

- 2.05 Termination of Trust. Grantor may revoke this Trust by written notice to the Trustee at any time if, at the time of revocation, (a) another trust, or other form of financial assurance, satisfying the applicable requirements of the Regulations and of the ANPPPA, has been established by the Grantor for the same purposes as described in Section 1.03, and (b) notice of such revocation is provided both to the NRC and as may be required pursuant to the ANPPPA. Other than as provided above, this Trust shall be irrevocable.

This Trust shall terminate upon the first to occur of:

- (1) Revocation by the Grantor, as provided above;
- (2) Receipt by the Trustee of a Certificate from the Grantor stating that all Decommissioning Costs have been paid; or
- (3) Written agreement by the Grantor and the Trustee to terminate the Trust, consented to by the NRC and the appropriate committee established under the ANPPPA.

- 2.06 Distribution of Trust Upon Termination. Upon the termination of this Trust, the Trustee shall, at the written election of the Grantor, (a) immediately transfer all or any portion of the remaining monies and assets in the Trust Fund to or as directed by the Grantor, or (b) liquidate all or any portion of the assets of the Trust Fund not managed by Investment Manager(s), and, as to any portion of the Trust Fund managed by Investment Manager(s), assist the Investment Manager(s) in liquidating such assets, and immediately distribute the proceeds of such liquidation(s) to or as directed by the Grantor.

- 2.07 Alterations and Amendments. The Trustee and the Grantor understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of this Trust. The Grantor shall provide notice of any such modifications or amendments both to the NRC and as may be required under the ANPPPA.

III

THE GRANTOR

- 3.01 Duties of the Grantor. The Grantor shall appoint the Investment Manager(s), if any, and the Trustee, and shall perform all other duties required of Grantor under this Agreement. The Grantor may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities hereunder. The fees and/or compensation of any such assistance the Grantor may desire to retain shall be payable from the Trust Fund and regarded as appropriate Trust administration expenses or, at the election of the Grantor, shall be payable directly by the Grantor.
- 3.02 Grantor May Limit Trustee Actions. The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions provided by a Certificate so long as the terms and conditions of the Certificate are consistent with the terms and conditions of this Agreement.

IV

TRUSTEE

- 4.01 Compensation. The Trustee shall be entitled to payment and/or reimbursement for reasonable fees and for its services rendered hereunder and all reasonable advances, attorneys' fees, and other expenses reasonably made or incurred by the Trustee in connection with such services, as shall first be agreed upon in writing by the Grantor and the Trustee; provided, however, that the Trustee only shall be entitled to payment and/or reimbursement of attorneys' fees if it has obtained Grantor's prior written approval of the attorney selected by Trustee. The Trustee shall have no lien, security interest or right of set-off whatsoever upon the Trust Fund(s) for the payment of fees and expenses for services rendered by the Trustee under this Agreement; provided, however, that in the event dissolution or bankruptcy of the Grantor prevents or prohibits payment by the Grantor of the Trustee's fees and expenses, then the Trustee shall be entitled to payment therefor from the Trust Fund(s).

- 4.02 Accounts. The Trustee shall furnish financial statements to the Grantor on a monthly basis (within thirty (30) days following the last calendar day of each month), or at such other frequency as the Grantor shall from time to time reasonably require. The financial statements (a) shall value the assets comprising the Trust Fund and indicate, without limitation, (i) income and expenses of the Trust, and (ii) all investments sold or purchased by the Trustee or by the Investment Managers, if any, for the reported period, and (b) shall include such other matters in respect of the Trust Fund, and be in such form and detail, as the Grantor shall require. Any securities in the Trust Fund shall be valued at market value as of the date of valuation. The Grantor shall employ independent certified public accountants of its choice to audit the financial statements not less frequently than annually.

The Grantor shall have the right to object to any of the monthly or annual financial statements by delivering written notice of its objection to the Trustee within one hundred eighty (180) days from the day it receives such financial statements. If no written objection is made within that time, the Grantor shall be deemed to have released and discharged the Trustee with respect to all acts or omissions to the date of said financial statements; provided, however, that nothing contained herein shall be deemed to relieve the Trustee of any liability which may be imposed pursuant to Section 4.04. Trustee shall maintain and keep, and upon reasonable notice shall permit Grantor's representatives to examine, all records and documentation in respect of contributions, investments, disbursements and earnings of the Trust Fund for at least five (5) years.

- 4.03 Tax Returns. Although it is the intent of the Grantor that any and all income earnings and appreciation on Trust Funds shall be exempt from taxation under the Code, the Trustee and the Grantor shall cooperate in the preparation of income tax returns or other reports, if any, as may be required from time to time and may employ independent certified public accountants or other tax counsel to prepare or review such returns and reports.

- 4.04 Liability. The Trustee shall be liable for any negligence, misconduct, breach of fiduciary duty or breach of any provision of this Agreement by the Trustee, its officers, employees or agents. The Trustee shall not be liable for the acts, omissions or defaults of independent contractors, if any, provided that the duties of such contractor are

delegable pursuant to the provisions of this Agreement and that any such contractor was selected, and the performance and status of the contractor is monitored, with reasonable care. The Trustee shall not be liable for the failure or default of any bank or depository, provided any such bank or depository was selected, and its performance and status is monitored, with reasonable care. The Trustee shall not be liable for the acts or omissions of any Investment Manager(s) acting hereunder except (i) where the Trustee exercises its investment discretion as provided in this Agreement, or (ii) if and to the extent the Trustee is retained under an Investment Manager Agreement.

The Trustee is prohibited from doing any act or knowingly engaging in any transaction that would violate the terms and conditions of any instructions provided by Certificate, or from contravening any provision of this Agreement. Upon receipt of a Certificate giving the Trustee notice either of instructions to the Trustee or of acts or transactions believed to constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow such instructions and/or cease and desist from the acts identified in the Certificate as violating the provisions of this Agreement. To the extent the Trustee fails to follow such instructions, or continues with any act identified in the Certificate as violating the provisions of this Agreement, the Trustee (and not the Trust) shall be liable for all consequences arising in connection therewith. Notwithstanding the foregoing, the Trustee (and not the Trust) shall be liable for all consequences flowing from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by Certificate. In the event of any inconsistency between the instructions in a Certificate and the provisions of this Agreement, the provisions of this Agreement shall prevail.

- 4.05 Appointment of Successor Trustee(s). At any time during the term of this Trust, the Grantor shall have the right to remove the Trustee and appoint another qualified corporation as a successor trustee upon not less than sixty (60) days' written notice to the Trustee, or upon such shorter notice as may be acceptable to the Trustee.

Any successor trustee shall qualify by a duly acknowledged acceptance of this Trust, delivered to the Grantor and the NRC. Upon acceptance of such appointment by the successor trustee, the Trustee shall assign, transfer and pay over in trust to such successor trustee the monies and properties

then constituting the Trust Fund. Any successor trustee shall be vested with all the rights, powers, trusts, duties and obligations of its predecessor and shall be deemed to have made all representations herein made by the initial Trustee.

- 4.06 Resignation. The Trustee may resign and be relieved as trustee hereunder at any time by a duly acknowledged instrument, which shall be delivered to the Grantor by the Trustee not less than sixty (60) days prior to the effective date of the Trustee's resignation or upon such shorter notice as may be acceptable to the Grantor; provided, however, that no such resignation shall take effect unless and until a successor trustee shall have been appointed by the Grantor and shall have accepted this Trust as provided above.
- 4.07 Notice of Change In Trustee. The Grantor promptly shall send notice of any change in the Trustee both to the NRC and as may be required under the ANPPPA.
- 4.08 Indemnity of Trustee. Subject to Section 4.04, the Grantor shall indemnify and hold harmless the Trustee from any and all claims, losses, actions or liabilities, including reasonable attorneys' fees, which it may incur in acting in accordance with the terms of this Agreement or with a proper Certificate. The provisions of this Section shall not apply in the event of the negligence, willful misconduct, breach of fiduciary duty or breach of any provision of this Agreement by the Trustee or by its employees or agents.

V

INVESTMENT MANAGER(S)

- 5.01 Appointment of Investment Manager(s). The Grantor may appoint one or more Investment Managers, which may be the Trustee, to direct the investment of all or part of the Trust Fund; provided, however, that such Investment Manager(s) may not be owned by or subject to the control, except as provided in this Agreement, of the State of Arizona, the Grantor, or any other Participant under and as defined in the ANPPPA. The Grantor also shall have the right to remove any Investment Manager. The Grantor shall provide notice of any such appointment by Certification to the Trustee, specifying the portion of the Trust Fund with respect to which the Investment Manager(s) has been designated. The Investment Manager(s) shall certify in

writing to the Trustee that it is qualified to act in the capacity provided under the Investment Manager Agreement, shall accept its appointment as such Investment Manager(s), shall certify the identity of the person or persons authorized to give instructions or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under the Investment Manager Agreement. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by the Grantor or the Investment Manager(s), as the case may be.

- 5.02 Direction by Investment Manager(s). The Investment Manager(s) shall have authority to manage, acquire and dispose of the assets of any portion of the Trust Fund designated by Certification, or a portion thereof as the case may be, subject to the limitations specified in Section 7. The Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. The Trustee, upon proper notification from an Investment Manager, shall execute and deliver instruments in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to the Trustee and the Grantor by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee and to the Grantor by the broker or dealer. Such notification shall be proper authority for the Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

The Investment Manager(s) shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund with respect to which the Investment Manager(s) has by Certification been designated; provided, however, that on or about the date of its appointment as Investment Manager in respect of any part of the Trust Fund and prior to or on each yearly anniversary date of such appointment, the Investment Manager(s) shall provide written notification to the Grantor, in form and substance satisfactory to the Grantor, of its policies with respect to the exercise of such rights.

The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of the Grantor, and the Trustee shall not be deemed to be a party to or to have any obligations under any agreement with the Investment Manager(s) unless and to the extent the Trustee is retained under an Investment Manager Agreement. Any duty of supervision or review of the acts, omissions or overall performance of the Investment Manager(s) shall be the exclusive responsibility of the Grantor, and, except as provided in Section 4.04 or to the extent the Trustee is retained under an Investment Manager Agreement, the Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), or to make suggestions to the Investment Manager(s) or to the Grantor with respect to the exercise or nonexercise of any power by the Investment Manager(s).

Unless the Trustee participates in an act or omission of an Investment Manager, or undertakes to conceal such act or omission, knowing such act or omission to be a breach of the fiduciary responsibility of the Investment Manager(s), or except to the extent the Trustee is retained under an Investment Manager Agreement, the Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken or not taken by it in accordance with any direction of the Investment Manager(s). In any event, except as provided in any Investment Manager Agreement pursuant to which the Trustee is retained as an Investment Manager, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the investments purchased, sold, or retained by the Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments, nor for any other aspect of a portfolio for which an Investment Manager(s) has been appointed.

VI

TRUSTEE'S GENERAL POWERS

The Trustee shall have the following powers, all of which are to be exercised in a fiduciary capacity and in the best interests of this Trust and the beneficiary thereof:

- 6.01 Payment of Expenses of Administration. Subject to the terms and conditions of this Agreement and unless otherwise instructed in a Certificate, to pay all ordinary and

necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and the reasonable fees and/or compensation of any professional advisors, brokers, legal counsel, accountants, actuaries or administrative support hired by the Grantor as provided in Section 3.01, and expenses incurred in the discharge of the Trustee's fiduciary obligations under this Agreement.

- 6.02 Extension of Obligations and Negotiation of Claims.** To renew or extend the time of payment of any obligation payable to or by this Trust for as long a period of time and on such terms as the Trustee shall determine, and to adjust, settle, compromise, and arbitrate claims, actions or demands in favor of or against this Trust, except claims for taxes, upon such terms as the Trustee may deem advisable, subject to the procedures contained in Section 2.01, and provided that (a) the Trustee promptly notifies the Grantor of such claims or demands, and informs the Grantor of the status thereof, and (b) such actions do not result in any penalty being imposed upon the Trust Funds.

It is the intention that all income earned by Trust Funds shall be exempt from taxation pursuant to applicable provisions of the Code. If, however, any tax is imposed or threatened against the Trust, the Trustee promptly shall so notify the Grantor. If the Grantor, at its discretion, in writing directs the Trustee to challenge such tax, to pay such tax under protest, and/or to withhold payment of such tax until a binding and final ruling of a court of competent jurisdiction orders such payment, the Trustee shall comply with such direction. All legal fees and expenses arising from a challenge or protest shall be payable directly by the Grantor. Any tax or fine imposed upon the Trust Fund shall be payable, at the Grantor's election, by the Trust or by the Grantor. Notice of such election shall be in writing, executed by an Authorized Representative, and shall be provided to the Trustee prior to the expiration of any period of time in which payment is required by a final, binding court order.

Notwithstanding anything herein to the contrary, if the Trustee fails to notify the Grantor of any claim, action, threat or demand or fails to take action in connection therewith as provided above, and the Grantor loses the right or opportunity to challenge, contest, protest, appeal or respond to the claim, action, threat or demand, then the Trustee (and not the Trust) shall be responsible to pay the amount of such claim, action, or demand, including any

penalties or interest chargeable against the Grantor in connection therewith, to the Grantor promptly after Grantor's request therefor.

- 6.03 Registration of Securities. To hold any stocks, bonds, securities, and/or other property in the name of a nominee, in a street name, or by other title-holding device, without indication of trust.
- 6.04 Exercise of Voting Rights. Except with respect to any securities or other property which pursuant to Section 5.02 any Investment Manager(s) other than the Trustee has been designated, the Trustee shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund; provided, however, that on or about the date hereof and prior to or on each yearly anniversary date thereof, the Trustee shall provide written notification to the Grantor, in form and substance satisfactory to the Grantor, of its policies with respect to the exercise of such rights.
- 6.05 Location of Assets. To keep any property belonging to the Trust at any place in the United States.
- 6.06 Retention of Professional Services. To execute any of the powers hereof and perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers, all in accordance with the terms and conditions of this Agreement.
- 6.07 Discretion in Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would:
- (1) Disqualify the income accrued to the Trust Fund from tax exempt status under the Code; or
 - (2) Contravene any provision of this Agreement; or
 - (3) Violate the terms and conditions of any instructions provided by written Certificate.

VII

INVESTMENT POWERS

The Trustee recognizes the authority of the Investment Manager(s), if any, to manage, invest and reinvest all or part of the Trust Funds pursuant to the Investment Manager Agreement and as provided in Section 5.02 of this Agreement, and the Trustee agrees to cooperate with the Investment Manager(s) to accomplish these tasks. Notwithstanding the foregoing, the Trustee shall, without the written authorization of the Grantor, invest all cash balances in an investment account on a daily basis to the extent reasonable. The Trustee and the Investment Manager(s), if any, shall have the following investment powers, all of which are to be executed in a fiduciary capacity and in the best interest of this Trust and the beneficiary thereof:

- 7.01 Preservation of Principal. In its exercise of investment discretion as authorized by the Grantor, the Trustee and the Investment Manager(s), if any, shall exercise the judgment and care, under the circumstances then prevailing, that persons of prudence, discretion and intelligence exercise and shall hold, manage, invest and reinvest the assets of this Trust in a manner designed to maximize and preserve the income and principal of the Trust Fund for the purposes of this Trust, except as provided in Sections 7.02 and 7.03;
- 7.02 Investment of Funds. Within the foregoing limitations, and with respect to any Investment Manager, within the further limitations of any applicable Investment Manager Agreement, the Trustee and the Investment Manager(s), if any, are authorized to acquire every kind of property, real, personal, or mixed, and to make every type of investment, specifically including, but not limited to, corporate obligations and securities of every kind, preferred or common stocks, and interests in investment trusts and mutual funds, that persons of prudence, discretion and intelligence acquire for their own account, so long as such investments are not prohibited under applicable laws of the United States or of the State of Arizona; provided, however, that no such investment or reinvestment of the Trust Funds may be made by the Trustee or the Investment Manager(s):
- (1) In securities or other obligations of the Grantor, or of any other owner or operator of the Units, or of any of their affiliates as defined in the Investment Company Act of 1940, as amended (15 U.S.C. 80a-2(a)),

unless they are securities or other obligations of the Federal or state government; or

- (2) In any securities that the Trustee may issue or from which the Trustee or the Investment Manager(s), if any, may derive any benefit, except with the written authorization of the Grantor; or
- (3) In real property unless and until (a) a qualified, independent consultant experienced in performing environmental assessments has inspected such property and issued an environmental assessment reasonably satisfactory to the Trustee and to the Grantor, and (b) arrangements have been made for periodic monitoring of such property for compliance with applicable environmental laws, rules or regulations.
- (4) Which would contravene any provision of this Agreement, or in the case of any Investment Manager, the Investment Manager Agreement between the Grantor and that Investment Manager.

In all cases, however, the total investments by the Trustee and/or the Investment Manager(s) must be sufficiently liquid to enable the Trust to fulfill the purposes of the Trust and to satisfy obligations as such obligations become due.

- 7.03 Disposition of Investments. When required and necessary to make any payments under Sections 2.01 or 6.01 hereof, the Trustee and the Investment Manager(s), if any, shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only upon written direction from the Grantor. The Trustee shall have no liability, except for its own negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by the Grantor or an Investment Manager or made by an Investment Manager through a broker-dealer.

VIII

MISCELLANEOUS

- 8.01 Headings. The section headings set forth in this Agreement are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.

- 8.02 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.
- 8.03 Parties Interested Herein. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the Grantor and the Trustee, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained here. The Grantor shall be entitled to receive payments for Decommissioning Costs and administrative expenses of the Trust which the Grantor may incur in carrying out the purpose set forth in Section 1.03 of this Agreement. It is intended by the parties hereto that the Grantor be the ultimate beneficiary of this Agreement in that the decommissioning activities contemplated by this Agreement, which are to be performed by or on behalf of the Grantor, will inure to the benefit of the Grantor by the satisfaction of its obligations under the Regulations and the ANPPPA.
- 8.04 Severability of Provisions. If any provision of this Agreement, or its application to any person, shall be invalid and unenforceable, the other provisions of this Agreement shall remain in effect.
- 8.05 Form and Content of Communications. The names of any person authorized to act on behalf of the Grantor shall be certified, with the specimen signature of such person provided to the Trustee by the Grantor. Until appropriate written evidence to the contrary is received by the Trustee, it shall be fully protected in relying upon or acting in accordance with any written notice, instruction, direction, certificate, resolution, or other communication believed by it to be genuine and to be signed and/or certified by any proper person, and the Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement contained therein. Until notified in writing to the contrary, the Trustee shall have the right to assume that there has been no change in the identity or authority of any person previously certified to it hereunder.

8.06 Delivery of Notices Under Agreement. Any notice required by this Agreement to be given to the Grantor or the Trustee shall be personally delivered, sent by overnight courier, telecommunicated, or mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to the Grantor:

Salt River Project Agricultural Improvement & Power District
P.O. Box 52025
Phoenix, Arizona 85072-2025
Attention: Timothy M. Roberts
Fax #: (602) 236-5608

If to the Trustee:

M & I Marshall & Ilsley Trust Company of Arizona
One East Camelback Road, Suite 340
Phoenix, Arizona 85012
Attention: Jon M. Rudolph
Fax #: (602) 263-3808

The Grantor or the Trustee may change that address by delivering notice thereof in writing to the other party.

8.07 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Grantor, the Trustee and their respective successors, assigns, personal representatives, executors and heirs.

8.08 Governing Jurisdiction. This Trust is an Arizona trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of Arizona as if it was executed in and is to be wholly performed within the State of Arizona.

8.09 Accounting Year. The Trust shall operate on an accounting year which coincides with the calendar year, January 1 through December 31.

8.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, with the same effect as if the signatures were upon the same instrument.

IN WITNESS WHEREOF, the Grantor and the Trustee have set their hands and seals to this Agreement as of the day and year first above written.

GRANTOR:

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

APPROVED AS TO FORM
SALT RIVER PROJECT LAW DEPARTMENT
BY Alfred R. Linn
DATE 7/5/90

By: John R. Lessen

John R. Lessen

Its: President

Attest: William K. O'Neal

William K. O'Neal

Its: Assistant Secretary

TRUSTEE:

M & I MARSHALL & ILSLEY TRUST
COMPANY OF ARIZONA

By: Jim Rudolph

Its: Vice President

Attest: Skarraker

ATTACHMENT EPE-1

CERTIFICATE OF EL PASO ELECTRIC COMPANY
RESPECTING DECOMMISSIONING FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION PVNGS UNIT 1

El Paso Electric Company ("EPE") hereby certifies that financial assurance for decommissioning EPE's 15.8% interest in Unit 1 of the Palo Verde Nuclear Generating Station will be provided in an amount which may be more but not less than 15.8% of the amount stated in the table in paragraph (c)(1) of 10 C.F.R. § 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c)(2) of 10 C.F.R. § 50.75. Such amounts will be accumulated in accordance with 10 C.F.R. § 50.75(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

EPE has entered into a Decommissioning Trust Agreement for Unit 1, dated as of April 1, 1986, with First City, Texas-El Paso, N.A., as Trustee (the "Trust Agreement"). [See Attachment EPE-3.]

EPE further certifies that it will make periodic deposits into the trust funds established pursuant to the Trust Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of each calendar year in an amount not less than 15.8% of (A) \$105 million (January 1986 dollars) (amount required by 10 C.F.R. § 50.75(c)(1)), adjusted annually in accordance with 10 C.F.R. § 50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990, to the end of the calendar year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990, to the expiration of the term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

EL PASO ELECTRIC COMPANY

By: 

Title: Treasurer

Address: P.O. Box 982

El Paso, Texas 79960

Telephone No. (915) 543-4020

ATTACHMENT EPE-2

STATEMENT OF EL PASO ELECTRIC COMPANY (EPE)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUNDS AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUNDS FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

1. Adjusted Certification Amount for PVNGS Unit 1 [See Attachment PVNGS Unit 1]	\$116,590,000
2. EPE's Share (15.8%) for Adjusted Certification Amount of PVNGS Unit 1	\$ 18,421,000
3. Status of EPE's External Funds for PVNGS Unit 1 as of June 30, 1990	\$ 957,135
4. Currently Proposed Payments into its External Funds, Including Earnings on Investments	Not less than \$ 506,199 per year

A7061COA.CSA



El Paso Electric Company
P.O. Box 982
El Paso, Texas 79960
(915) 543-5711

CERTIFICATE

I, Eduardo A. Rodriguez, Secretary of El Paso Electric Company, a Texas corporation (the "Company"), do hereby certify that the attached Decommissioning Trust Agreement dated as of April 1, 1986 between First City, Texas - El Paso, N.A., as Trustee, and the Company, is a true and correct conformed copy of the original of such document, and that each such document was executed by W. J. Johnson, the duly elected Senior Vice President and Chief Financial Officer of the Company pursuant to authority granted to him, as an officer, by the El Paso Electric Company Board of Directors.

A handwritten signature in cursive script, reading "Eduardo A. Rodriguez". The signature is written in black ink and is positioned above a horizontal line that serves as a baseline for the signature.

ATTACHMENT EPE-3

DECOMMISSIONING TRUST AGREEMENT

Dated as of April 1, 1986

between

EL PASO ELECTRIC COMPANY

and

FIRST CITY, TEXAS - EL PASO, N.A.
as Decommissioning Trustee

for

Palo Verde Unit 1

(Amending and restating
Decommissioning Trust
Agreement for Unit 1 entered
into on April 1, 1986)

DECOMMISSIONING TRUST AGREEMENT, dated as of April 1, 1986, between FIRST CITY, TEXAS - EL PASO, N.A., a national banking association ("Decommissioning Trustee") and EL PASO ELECTRIC COMPANY, a Texas corporation ("El Paso").

On April 1, 1986, Decommissioning Trustee and El Paso entered into a Decommissioning Trust Agreement which they amended by Amendment No. 1 dated as of the same date (the "Original Agreement") creating a Decommissioning Trust Fund to provide external funds for Decommissioning. This Agreement amends and restates the Original Agreement nunc pro tunc to read in its entirety as follows and continues the Fund created by the Original Agreement as the Decommissioning Trust Fund referred to herein.

El Paso and others entered into an Arizona Nuclear Power Project Participation Agreement executed as of August 23, 1973 (the "Participation Agreement"). Amendment 13 to the Participation Agreement requires El Paso to establish and maintain funds for the accumulation, over a period not in excess of the remaining term of the operating license for Unit 1 and the period thereafter until completion of termination work for such unit, funds sufficient to pay Decommissioning Cost.

In addition, El Paso is required by the Public Utility Commission of Texas, The New Mexico Public Service Commission, the Federal Energy Regulatory Commission and the NRC to establish an external source of funds to pay for Decommissioning Cost.

In order to satisfy its obligations under the Participation Agreement and to comply with the requirements of the governmental authorities referred to above, El Paso desires to establish the Decommissioning Trust Fund and the Second Fund.

El Paso further desires that the Decommissioning Trust Fund qualify as a "Nuclear Decommissioning Reserve Fund" under Applicable Tax Law.

Therefore, in consideration of the premises, of the acceptance by Decommissioning Trustee of the trusts created and of other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions; References to Sections. All capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in Appendix A hereto. Unless otherwise stated, references to a Section are to a section of this Agreement.

SECTION 2. Creation of Trust Funds. El Paso hereby establishes with Decommissioning Trustee the Decommissioning Trust Fund and the Second Fund (each a "Fund" and together the "Funds"). Each Fund shall include (i) all cash and investments thereof, as more specifically described in Section 7, (ii) all dividends, interest, cash, instruments and other property from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all such investments, (iii) all rights and privileges with respect to such investments and (iv) all proceeds of any of the foregoing and any property of any character whatsoever into which any of the foregoing may be converted.

SECTION 3. Purpose of Trust Funds; Tax Qualification. The Funds are for the accumulation and funding of amounts to pay costs, liabilities and expenses of Decommissioning, including the accumulation, over a period not in excess of the remaining term of the operating license for Unit 1 and the period thereafter until completion of Decommissioning, of amounts which are sufficient to pay Decommissioning Cost. The Decommissioning Trust Fund, but not the Second Fund, is intended to qualify as a "Nuclear Decommissioning Reserve Fund" under Applicable Tax Law. The assets of the Decommissioning Trust Fund shall be used exclusively:

(a) subject to the conditions of Section 9, to satisfy, in whole or in part, El Paso's obligation to pay for Decommissioning;

(b) subject to the limitations and conditions of Section 8, to pay Expenses; and

(c) to the extent not currently required for the uses described in (a) and (b) above, and subject to the limitations and conditions of Section 7, for investment in Investment Securities.

SECTION 4. Declaration and Acceptance of Trust. Decommissioning Trustee accepts the trust created hereby and declares that it will hold all estate, right, title and interest in and to each Fund upon the trust set forth herein, but only on the terms of this Agreement, and agrees to receive and disburse all moneys and investments constituting any part of each Fund in accordance with this Agreement. No implied duties or obligations shall be read into this Agreement against Decommissioning Trustee, except that Decommissioning Trustee shall not commit any act, enter into any transaction or permit any act or transaction to occur, that is an "act of self dealing" between the Decommissioning Trust Fund and "a disqualified person" as those terms are defined by Applicable Tax Law, and if such an act occurs, Decommissioning Trustee shall promptly take all necessary steps to correct it as

soon as it has knowledge of the occurrence. Decommissioning Trustee shall not be liable for claims arising out of actions taken pursuant to the terms of this Agreement, except for its own willful misconduct or gross negligence.

SECTION 5. Ownership of Funds. Title to any and all property held in each Fund shall be held by Decommissioning Trustee in its name as owner of record. At all times, Decommissioning Trustee shall be entitled to exercise in its discretion any and all voting, consensual and other rights and powers accruing to the owner of the investments or any part thereof. Without limiting the generality of the foregoing, Decommissioning Trustee shall have the right, in its name, to settle, compromise, prosecute or defend any action, claim or proceeding with respect to any of the investments and to sell, assign, endorse, pledge, transfer and make any agreement respecting, or otherwise deal with, the same; provided, however, that nothing herein contained shall be construed as requiring or obligating Decommissioning Trustee to make any inquiry as to the nature or sufficiency of any payment received by it, to present or file any claim or notice, or except as required by Section 7, to take any action with respect to any of the investments.

SECTION 6. Payments into the Funds. From time to time El Paso shall pay amounts into the Funds. In addition, at any time and from time to time, El Paso may, in writing, direct Decommissioning Trustee to, and upon receipt of such direction Decommissioning Trustee shall, transfer any amount in the Second Fund to the Decommissioning Trust Fund, or any Excess Contribution or Deemed Distribution Amount in the Decommissioning Trust Fund to the Second Fund, provided, in the case of the transfer of any Excess Contribution, the transfer is made within the time permitted for withdrawal of the Excess Contribution by Applicable Tax Law. El Paso may deposit all or any part of any payment entirely into the Decommissioning Trust Fund, entirely into the Second Fund, or partly into each in whatever proportion El Paso shall determine in its discretion; except that if a deduction is allowed under Applicable Tax Law for payments into the Decommissioning Trust Fund, El Paso shall not make, and Decommissioning Trustee shall not accept, any payment into such Fund unless such payment (a) is in cash, to the extent Applicable Tax Law requires the payment to be in cash, and (b) complies with the amount limitation imposed by Applicable Tax Law and a deduction pursuant to Applicable Tax Law is allowed for the entire payment. Decommissioning Trustee may accept from El Paso, as proof that these conditions are satisfied, a certificate executed by El Paso as to compliance with the amount limitation and deductibility of such payment, and Decommissioning Trustee shall be fully protected in relying upon any such certificate.

SECTION 7. Investment of Funds. Any amounts held by Decommissioning Trustee in the Fund shall be invested and reinvested by it from time to time, but in the case of the Decommissioning Trust Fund, only in Investment Securities; provided, however, if El Paso has delivered to Decommissioning Trustee a copy of an order of a state or federal regulatory agency that El Paso certifies is binding on El Paso and limits the investments in which all or a part of a Fund may be invested, the investment of such Fund shall not violate such order. El Paso or an investment advisor appointed by it may direct investments and reinvestments of the Funds by written direction which, in the case of the Decommissioning Trust Fund, shall certify that the directed investment qualifies as an investment in Investment Securities and is within the limitation set forth in the preceding sentence. Decommissioning Trustee may rely upon such direction and certification unless it is evident that the directed investment does not satisfy the conditions and limitation of this Section 7.

SECTION 8. Expenses; Indemnity. El Paso shall pay all expenses, including taxes (other than taxes on or with respect to fees paid to Decommissioning Trustee and taxes that Code Section 4951 requires be paid by Decommissioning Trustee), fees and other costs incurred by Decommissioning Trustee in such capacity, whether in the administration of each Fund or otherwise. El Paso may direct Decommissioning Trustee, in writing, to pay specified Expenses of a Fund from such Fund. Upon request of Decommissioning Trustee, El Paso shall certify in writing to Decommissioning Trustee whether and the extent to which an item is an Expense of a specified Fund and whether Applicable Tax Law permits its payment out of the assets of the Fund; and Decommissioning Trustee may rely upon such certification.

El Paso agrees to indemnify and hold harmless Decommissioning Trustee, its successors and assigns, from and against any and all costs, expenses or liabilities (including attorneys' fees) which may be incurred by or assessed against Decommissioning Trustee, acting pursuant to the terms of this Agreement (and whether or not incurred while acting as Decommissioning Trustee), except for such costs, expenses and liabilities arising from Decommissioning Trustee's gross negligence or willful misconduct.

SECTION 9. Payments from the Fund. Decommissioning Trustee shall make payments out of the Funds upon presentation by El Paso to Decommissioning Trustee of a certificate signed by El Paso, instructing Decommissioning Trustee to dispose of amounts in the Funds in a manner designated in such certificate for purposes of paying Decommissioning Cost; provided, however, that only the

costs, liabilities and expenses of Decommissioning that qualify as "nuclear decommissioning costs" under Applicable Tax Law shall be paid from assets in the Decommissioning Trust Fund; and provided further that El Paso provides Decommissioning Trustee with documentation reasonably acceptable to Decommissioning Trustee that such Decommissioning Cost is due and payable.

Upon termination of the Decommissioning Trust Fund under Applicable Tax Law, El Paso may direct Decommissioning Trustee to transfer all property remaining in the Decommissioning Trust Fund to El Paso. In addition, when Decommissioning has been completed under Applicable Law and all Decommissioning Cost has been paid in full, all property then held in both Funds shall be paid by Decommissioning Trustee to El Paso and the Funds shall terminate. In addition, Decommissioning Trustee shall distribute to El Paso any Deemed Distribution Amount or Excess Contribution that El Paso certifies in writing to Decommissioning Trustee is deemed distributed or has occurred under Applicable Tax Law and directs be distributed to El Paso, as well as any amount that El Paso certifies in writing to Decommissioning Trustee may be distributed to El Paso in accordance with Applicable Law and Applicable Tax Law by reason of the disposition of all or a part of El Paso's interest in or license to possess Unit 1.

Decommissioning Trustee shall be fully protected in relying upon any certificate described in Section 9.

SECTION 10. Further Assurances. El Paso agrees that it will, all at its expense, do all such further acts and things and execute and deliver all such additional conveyances, assignments, agreements and instruments, as may be necessary or desirable or as Decommissioning Trustee may at any time reasonably request in connection with the administration and enforcement of this Agreement, or relative to the Funds or any part thereof, or in order to assure and confirm unto Decommissioning Trustee its rights, powers and remedies hereunder.

SECTION 11. Modification. This Agreement may not be amended or modified except by a writing signed by the parties hereto. The parties agree that they will execute any amendments requested by El Paso that are necessary to secure and maintain the qualification of the Decommissioning Trust Fund as a "Nuclear Decommissioning Reserve Fund" under Applicable Tax Law and the deduction of contributions to such Fund as provided by such law, or to comply with Applicable Law.

SECTION 12. Obligation for Decommissioning. Nothing in this Agreement and no act or omission relating to the Fund shall be read construed, understood or interpreted to place any obligation

whatsoever on Decommissioning Trustee relating to Decommissioning or any Decommissioning Cost, all of which shall at all times remain the sole obligation of El Paso.

SECTION 13. Governing Law. This Agreement shall be deemed to be a contract made in Texas for all purposes and shall be construed in accordance with and governed by the laws of such State, including all matters of construction, validity and performance.

SECTION 14. Resignation and Replacement of Decommissioning Trustee.

(a) Decommissioning Trustee may resign at any time without cause by giving at least 30 days' prior written notice to El Paso, and El Paso may remove Decommissioning Trustee at any time with or without cause by giving written notice to Decommissioning Trustee, such resignation or removal to be effective on the acceptance of appointment by a successor Decommissioning Trustee under this Section 14. In case of the resignation or removal of Decommissioning Trustee, El Paso may appoint a successor Decommissioning Trustee by an instrument signed by El Paso. If a successor Decommissioning Trustee shall not have been appointed within 30 days after the giving of the written notice of such resignation or removal, Decommissioning Trustee or El Paso may apply to any court of competent jurisdiction to appoint a successor Decommissioning Trustee to act until such time, if any, as a successor shall have been appointed and shall have accepted its appointment as above provided. Any successor Decommissioning Trustee so appointed by such court shall immediately and without further act be superseded by any successor Decommissioning Trustee appointed as above provided within one year from the date of the appointment by such court.

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

moneys or other property then held by such predecessor Decommissioning Trustee upon the trusts herein expressed.

(c) Any successor Decommissioning Trustee, however appointed, shall be a bank or trust company incorporated and doing business in the United States of America and having a combined capital stock, surplus and undivided profits of at least \$250,000,000, if there be such an institution willing, able and legally qualified to perform the duties of Decommissioning Trustee hereunder upon reasonable or customary terms.

(d) Any corporation into which Decommissioning Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which Decommissioning Trustee shall be a party, or any corporation to which substantially all the corporate trust business of Decommissioning Trustee may be transferred, shall, subject to the terms of Section 14(c), be Decommissioning Trustee under this Agreement without further act.

(e) No successor Decommissioning Trustee (other than a successor by reason of an event described in Section 14(d)) shall be liable for any act, omission or breach of trust by a predecessor Decommissioning Trustee, whether or not the successor knows or should have known thereof, and shall have no duty to compel redress of any breach of trust by a predecessor. Any such successor Decommissioning Trustee shall accept as correct the accounting statements rendered by any predecessor and that such statements cover all of the assets of the Funds, and shall have no duty to inquire into the administration of the Funds by any predecessor.

SECTION 15. Successors and Assigns; Additional Parties. This Agreement shall be binding upon and inure to the benefit of each party and its successors and permitted assigns.

SECTION 16. Term of Funds. If not otherwise terminated sooner in accordance with the terms of this Agreement, each Fund shall end on the earlier of (i) the date specified in a written agreement between El Paso and the Decommissioning Trustee and (ii) the date that is 21 years less one day after the death of the last survivor of the descendants living on the date of this Agreement of Joseph P. Kennedy, the father of president John F. Kennedy, and upon such termination, all of the assets of the Fund shall be distributed to El Paso; but if a Fund shall be or become valid under Applicable Law for a period subsequent to the 21st anniversary of the death of such last survivor (or, without limiting the generality of the foregoing, if legislation shall become effective providing for the validity or permitting the creation of such a fund for a period in gross exceeding the period

for which the Fund is hereinabove stated to extend and be valid), then the Fund shall not terminate as aforesaid but shall extend to and continue in effect, but only if such nontermination and extension shall then be valid under Applicable Law, until such time as the same shall, under Applicable Law, cease to be valid.

SECTION 17. Accountings; Tax Returns and Reports. Within 30 days after the end of each calendar quarter, Decommissioning Trustee shall furnish to El Paso an accounting for the preceding calendar quarter, showing all receipts, disbursements and transactions during, and the fair market value of all assets on hand at the end of, such quarter. In addition, upon the written request of El Paso, which may be at any time and from time to time, Decommissioning Trustee shall provide El Paso with the fair market value of the assets in a Fund as of a date other than the last day of a calendar quarter. El Paso shall, with the cooperation of Decommissioning Trustee, prepare such tax returns and other reports for or with respect to each Fund as may be required from time to time by Applicable Law.

SECTION 18. Limitations on Transfer and Assignment. El Paso may transfer, assign, pledge, encumber or grant any security interest in, all or any part of its interests under this Agreement.

SECTION 19. Notices. All communications, notices and consents provided for herein shall be in writing, including telex, telecopy or other wire transmission containing a request for assurance of receipt in a manner typical with respect to communications of that type, or mailed by registered or certified mail and shall be addressed (i) if to Decommissioning Trustee, at First City, Texas-El Paso, N.A., P. O. Box 1572, El Paso, Texas 79948, Attention: Corporate Trust Department; and (ii) if to El Paso, at 303 North Oregon Street, P. O. Box 982, El Paso, Texas 79960, Attention: Secretary; or at such other address as either party hereto may from time to time designate by notice duly given in accordance with the provisions of this Section to the other party hereto. All such communications, notices and consents given in the manner provided above shall be effective on the date of receipt of such communication, notice or consent.

SECTION 20. Counterpart Execution. This Agreement may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

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

EL PASO ELECTRIC COMPANY

By W. J. Johnson
Title Sr. Vice President

FIRST CITY, TEXAS -EL PASO, N.A.
as Decommissioning Trustee,

By _____
Title _____

STATE OF TEXAS)
) ss.
COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this 29th
day of June, by W. J. Johnson,
Sr. Vice President of EL PASO ELECTRIC COMPANY, a Texas
corporation, on behalf of said corporation.

Hilda Vargas
Notary Public

My commission expires:

6/26/93

EL PASO ELECTRIC COMPANY

By _____
Title _____

FIRST CITY, TEXAS - EL PASO, N.A.
as Decommissioning Trustee,

By [Signature]
Title EL PASO ELECTRIC COMPANY - TRUST OFF

STATE OF TEXAS)
) ss.
COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this _____
day of _____, by _____,
_____ of EL PASO ELECTRIC COMPANY, a Texas
corporation, on behalf of said corporation.

Notary Public

My commission expires:

STATE OF TEXAS)

) ss.

COUNTY OF EL PASO)

The foregoing instrument was acknowledged before me this 6th
day of JULY, by Charles E. Horn
SVP & TO of FIRST CITY, TEXAS - EL PASO, N.A., a
national banking association, on behalf of said association.



Guadalupe Estrella
Notary Public

My commission expires

10/24/92

A1765TAA.CSA

Appendix A
to
Decommissioning Trust Agreement

DEFINITION OF TERMS

Applicable Law shall mean all applicable laws, statutes, treaties, rules, codes, ordinances, regulations, permits, certificates, orders, interpretations, licenses and permits of any Federal, state, county, municipal, foreign, international, regional or other governmental authority, agency, board, body, instrumentality or court, and judgments, decrees, injunctions, writs orders or like action of any court, arbitrator or other judicial or quasi judicial tribunal (including those pertaining to health, safety, the environment or otherwise).

Applicable Tax Law shall mean Code Section 468A, any comparable subsequent provisions of the Code, the United States Treasury regulations promulgated under such section or provisions and other provisions of the Code relating to the Federal taxation of the Funds.

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

Decommissioning shall mean Termination Work (as that term is defined by the Participation Agreement) with respect to Unit 1.

Decommissioning Cost shall mean El Paso's pro-rata share, under the Participation Agreement, of the greater of (i) the latest estimate of Termination Costs (as that term is defined by the Participation Agreement) for Unit 1 or (ii) the minimum amount required by the NRC to be funded for Unit 1.

Deemed Distribution Amount shall mean an amount in the Decommissioning Trust Fund that is treated by Applicable Tax Law as having been distributed by reason of the disqualification of all or a part of such Fund.

Excess Contribution shall mean the amount by which cash payments made (or deemed made) by El Paso into the Decommissioning Trust Fund during any taxable year of El Paso exceed the payment limitation imposed by Applicable Tax Law.

Expenses shall mean: (i) the tax imposed by Code Section 468A(e)(2), (ii) any state or local tax imposed on the income or the assets of such Fund and (iii) legal, accounting and actuarial

expenses, trustee's fees and expenses, and all other ordinary and necessary expenses, incurred by Decommissioning Trustee in connection with the operation of the Fund, but in the case of the Decommissioning Trust Fund only to the extent permitted by Applicable Tax Law to be paid from the assets of a "Nuclear Decommissioning Reserve Fund", as that term is used in Applicable Tax law.

Investment Securities shall mean the following obligations or securities on which the obligor is not El Paso, Decommissioning Trustee or another "disqualified person" as defined in Section 4951(e) of the Code, maturing at such time or times as to enable payments or transfers to be made from the Fund or which shall be readily marketable prior to the final maturity thereof:

(a) obligations of the United States of America taken into consideration for purposes of determining the public debt limit of the United States of America;

(b) time or demand deposits (which may be represented by certificates of deposit) in a domestic bank or trust company, a substantial part of the business of which consists of receiving deposits and making loans and discounts or of exercising fiduciary powers similar to those permitted to national banks under authority of the Comptroller of the Currency, and which is subject by law to supervision and examination by State or Federal authority having supervision over banking institutions, or a domestic building and loan association as defined in Section 7701 of the Code, or a domestic insured credit union within the meaning of Section 101(6) of the Federal Credit Union Act (12 U.S.C. 1752(7)(1982)) (limited, however, if the bank or trust company is Decommissioning Trustee, to checking accounts for which the bank or trust company does not charge interest on any overdrafts and savings accounts from which the Fund may withdraw amounts on no more than 30 days' notice without subjecting itself to a loss of interest on its money for the time during which the money was on deposit); and

(c) obligations of a State, a possession of the United States of America, the District of Columbia or any political subdivision of the foregoing, the interest on which is exempt from tax under Section 103(a) of the Code that are not in default as to principal or interest; and

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

PVNGS shall mean the Palo Verde Nuclear Generating Station.

Undivided Interest shall mean El Paso's 15.8% undivided interest in Unit 1.

Unit 1 shall mean the 1,270 megawatt unit, commonly known as Unit 1, at PVNGS and one-third of the common facilities associated therewith.

A1765TAA.CSA

ENCLOSURE 1.A.1

SOUTHERN CALIFORNIA EDISON COMPANY
CERTIFICATE OF FINANCIAL ASSURANCE FOR
DECOMMISSIONING PALO VERDE UNIT 1

**SOUTHERN CALIFORNIA EDISON COMPANY
CERTIFICATE OF FINANCIAL ASSURANCE FOR
DECOMMISSIONING PALO VERDE UNIT 1
10 C.F.R. § 50.75 (b)**

Southern California Edison Company (SCE) hereby certifies that financial assurance for decommissioning SCE's 15.80% interest in Unit 1 of the Palo Verde Nuclear Generating Station will be provided in an amount which may be more but not less than 15.80% of the amount stated in 10 C.F.R. § 50.75(c)(1)(i), adjusted annually using a rate at least equal to that stated in 10 C.F.R. § 50.75(c)(2). Such amounts will be accumulated in accordance with 10 C.F.R. § 50.75(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid.

SCE entered into a Decommissioning Trust Agreements dated November 25, 1987 with Harris Trust and Savings Bank, as Trustee, and the California Public Utilities Commission. [See Enclosure 1.B.i.a and Enclosure 1.B.i.b]. Pursuant to the Trust Agreement, SCE has also entered into Investment Management Agreements, dated January 25, 1988 with RCM Capital Management and January 26, 1988 with STW Fixed Income Management. [See Enclosure 1.B.ii.a, Enclosure 1.B.ii.b, and Enclosure 1.B.ii.c].

Palo Verde Unit 1 is a Pressurized Water Reactor licensed to operate at a maximum reactor power of 3800 megawatts-thermal (MWt). Therefore, Palo Verde Unit 1 is subject to the 10 C.F.R. § 50.75(c)(1)(i) minimum funding requirements for a pressurized water reactor producing more than 3400 MWt. Accordingly, the minimum value required in January 1986 dollars is equal to \$105 million. As required, this amount is adjusted annually at a rate which is at least equal to the rate determined by the formula stated in 10 C.F.R. § 50.75(c)(2) when the latest information available is used.

SCE further certifies that deposits will continue to be made into the trust fund in an amount or amounts which are necessary to maintain a calendar year funding level at or above 15.80% of the multiplicative product of (A) and (B); where: (A) is the latest adjusted/escalated value for the required NRC minimum amount; and (B) is the fractional result obtained by dividing (C) by (D); where (C) is the number of years, and any portion thereof, between June 1, 1985 (issuance date of the License) and the end of the calendar year for which the amount is being calculated, and (D) is the number of years, and any portion thereof, between June 1, 1985 and December 31, 2024 (expiration date of the License).

Signed: Michael L. Noel

Name: Michael L. Noel
Title: Vice President & Treasurer
Address: 2244 Walnut Grove Avenue
City: Rosemead, California 91770
Telephone No.: (818) 302-1086

ENCLOSURE 1.A.11

SOUTHERN CALIFORNIA EDISON COMPANY
OATH OF AFFIRMATION

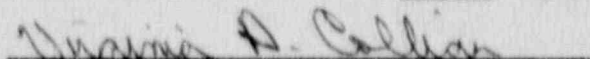
STATE OF CALIFORNIA

COUNTY OF LOS ANGELES

I, MICHAEL L. NOEL, represent that I am Vice President and Treasurer, that the foregoing certification regarding decommissioning funds for Palo Verde Unit 1 has been signed by me on behalf of the Southern California Edison Company with full authority to do so, that I have read such certification and know its contents, and that to the best of my knowledge and belief, the statements made therein are true and correct.

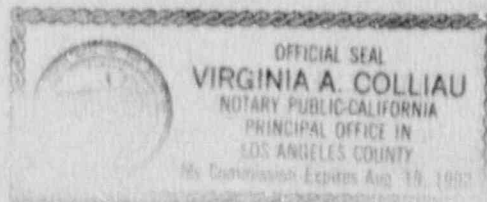

MICHAEL L. NOEL

Sworn To Before Me This 23rd Day of July, 1990.


Notary Public

My Commission Expires

Aug. 19, 1992



ENCLOSURE 1.B.1.a

**SOUTHERN CALIFORNIA EDISON COMPANY -
NUCLEAR FACILITIES QUALIFIED CPUC DECOMMISSIONING MASTER
TRUST AGREEMENT FOR SAN ONOFRE AND PALO VERDE
NUCLEAR GENERATING STATIONS**

SOUTHERN CALIFORNIA EDISON COMPANY

NUCLEAR FACILITIES QUALIFIED CPUC DECOMMISSIONING MASTER TRUST AGREEMENT

FOR SAN ONOFRE AND PALO VERDE

NUCLEAR GENERATING STATIONS

SOUTHERN CALIFORNIA EDISON COMPANY

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
ARTICLE I:	DEFINITIONS, PURPOSE, AND NAME	3
1.01	Definitions	3
1.02	Authorization	9
1.03	Master Trust Purpose	9
1.04	Establishment of Master Trust	10
1.05	Name of Master Trust	10
ARTICLE II:	DISPOSITIVE PROVISIONS	12
2.01	Payment of Nuclear Decommissioning Costs	12
2.02	Additions to Master Trust	15
2.03	Adjustments For Excess Contributions	15
2.04	No Transfers Between Fund Accounts	15
2.05	Designation of Funds	16
2.06	Distribution of Income	16
2.07	No Transferability of Interest in Master Trust	17
2.08	Resolution of Disagreements	17
2.09	Termination of Master Trust	18
2.10	Termination of Funds of Master Trust	18
2.11	Distribution of Master Trust Upon Termination	19
2.12	Alterations and Amendments	20
2.13	No Authority to Conduct Business	20
ARTICLE III:	THE COMMITTEE	22
3.01	Members	22
3.02	Term	23
3.03	Acts of Committee	23
3.04	Duties of Committee	24
3.05	Committee Reports	24
3.06	Compensation	25
3.07	Committee May Limit Trustee Actions	26
ARTICLE IV:	TRUSTEES	27
4.01	Designation and Qualification of Successor Trustee(s)	27
4.02	Resignation	28
4.03	Compensation	28
4.04	Establish Fund Accounts	30
4.05	Accounts	30
4.06	Tax Returns and Other Reports	31
4.07	Liability	32
4.08	Indemnity of Trustee	34
ARTICLE V:	INVESTMENTS	35
5.01	Appointment of Investment Manager(s)	35
5.02	Direction by Investment Manager(s)	35

TABLE OF CONTENTS
(Continued)

<u>Article</u>	<u>Title</u>	<u>Page</u>
ARTICLE VI:	TRUSTEE'S GENERAL POWERS	38
6.01	Payment of Expenses of Administration	38
6.02	Extension of Obligations and Negotiation of Claims ..	38
6.03	Registration of Securities	39
6.04	Location of Assets	39
6.05	Retention of Professional Services	39
6.06	Delegation of Ministerial Powers	39
6.07	Powers of Trustee to Continue Until Final Distribution	39
6.08	Discretion in Exercise of Powers	40
ARTICLE VII:	TRUSTEE'S INVESTMENT POWERS	41
7.01	Preservation of Principal	41
7.02	Investment of Funds	41
7.03	Management of Master Trust	42
7.04	Disposition of Investments	43
ARTICLE VIII:	MISCELLANEOUS	44
8.01	Headings	44
8.02	Particular Words	44
8.03	Parties Interested Herein	44
8.04	Severability of Provisions	45
8.05	Form and Content of Communications	45
8.06	Delivery of Notices Under Agreement	45
8.07	Successors and Assigns	46
8.08	Governing Jurisdiction	47
8.09	Accounting Year	47
8.10	Counterparts	47
8.11	Disbursement/Withdrawal Certificate	47
8.12	Approval.....	48
EXHIBIT A:	DISBURSEMENT CERTIFICATE	49
EXHIBIT B:	WITHDRAWAL CERTIFICATE	50

NUCLEAR FACILITIES QUALIFIED CPUC DECOMMISSIONING MASTER TRUST AGREEMENT

AGREEMENT made this 25 day of November, 1987, by and between Southern California Edison Company, a California corporation ("Company"), and Harris Trust and Savings Bank, an Illinois banking corporation having trust powers ("Trustee").

WHEREAS, the Company is the owner of: (1) an 80 percent undivided interest in Unit One of the San Onofre Nuclear Generating Station ("SONGS Unit No. 1"); (2) a 75.05 percent undivided interest in Unit Two of the San Onofre Nuclear Generating Station ("SONGS Unit No. 2"); (3) a 75.05 percent undivided interest in Unit Three of the San Onofre Nuclear Generating Station ("SONGS Unit No. 3"); (4) a 15.80 percent undivided interest in Unit One of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 1"); (5) a 15.80 percent undivided interest in Unit Two of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 2"); and (6) a 15.80 percent undivided interest in Unit Three of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 3"); and

WHEREAS, the Company is subject to regulation by the California Public Utilities Commission ("CPUC"), an agency of the State of California created and existing pursuant to California Constitution Article XII, §1, and by the Nuclear Regulatory Commission ("NRC"), an agency of the United States government created and existing pursuant to 42 U.S.C. §5841; and

WHEREAS, pursuant to Section 468A of the Internal Revenue Code of 1986, 26 U.S.C. §1 et seq., certain Federal income tax benefits are available to the Company by creating and funding qualified decommissioning funds

associated with the San Onofre Nuclear Generating Station ("SONGS") and the Palo Verde Nuclear Generating Station ("Palo Verde"); and

WHEREAS, the CPUC has permitted the Company to include in its cost of service for ratemaking purposes certain amounts to be contributed by the Company to qualified decommissioning funds in order to provide adequate monies for the Company's share of decommissioning costs with respect to SONGS and Palo Verde:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company hereby agrees to deliver to the Trustee and the Trustee hereby agrees to receive the initial contribution of monies to the Master Trust on or before March 1, 198⁸; and

TO HAVE AND TO HOLD, such monies and such additional monies as may from time to time be added thereto as provided herein, together with the proceeds and reinvestments thereof (hereinafter collectively called the "Master Trust") unto the Trustee:

IN TRUST NEVERTHELESS, for the uses and purposes and upon the terms and conditions hereinafter set forth:

/

/

/

/

/

/

/

DEFINITIONS, PURPOSE, AND NAME

1.01 Definitions. As used in this Decommissioning Master Trust Agreement, the following terms shall have the following meanings:

- (1) "Act" shall mean the Uniform Principal and Income Act from time to time in effect in the State of California, and on the date hereof set forth in California Probate Code §16300 et seq.
- (2) "Agreement" shall mean and include this Decommissioning Master Trust Agreement as the same may from time to time be amended, modified, or supplemented.
- (3) "Authorized Representative" shall mean, with respect to the Company, the Chief Executive Officer, President, or any Vice President of the Company; and with respect to the Committee, the members of the Committee, or any other person designated as an Authorized Representative of the Committee by a Certificate filed with the Trustee.
- (4) "Board of Directors" shall mean the Board of Directors of the Company, as duly elected from time to time.
- (5) "Certificate" or "Certification" shall mean a written Certificate signed by two Authorized Representatives of the Company for a Certificate of the Company, or two Authorized Representatives of the Committee for a Certificate of the Committee.

- (6) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.
- (7) "Committee" shall mean the Nuclear Facilities Decommissioning Master Trust Committee established pursuant to Article III.
- (8) "CPUC" shall mean the California Public Utilities Commission, as defined and set forth in Section I of Article XII of the California Constitution, or its successor.
- (9) "CPUC Order" shall mean an order or resolution issued by the CPUC after the Company, the Committee, the CPUC Staff, the Trustee, and other interested parties have been given notice and an opportunity to be heard. The order may be issued with or without hearing or by the CPUC Advice Letter procedure or comparable procedure.
- (10) "Decommissioning Contributions" shall mean all amounts for decommissioning expenses of the Plants reflected in the Company's adopted annualized cost of service in and for the CPUC jurisdiction and contributed to the Funds for decommissioning expenses of the Plants.
- (11) "Decommissioning Costs" shall mean the costs incurred in decommissioning the Plants, to the extent that such costs may be paid out of the Funds pursuant to Section 468A of the Code, and any regulations or rulings of the Service issued thereunder.
- (12) "Disbursement Certificate" shall mean a document properly completed

and executed by two Authorized Representatives of the Company and substantially in the form of Exhibit A hereto.

(13) "Excess Contribution" shall have the meaning set forth in Section 2.03 hereof.

(14) "Funds" shall mean the SONGS Unit No. 1 Qualified Fund, the SONGS Unit No. 2 Qualified Fund, the SONGS Unit No. 3 Qualified Fund, the Palo Verde Unit No. 1 Qualified Fund, the Palo Verde Unit No. 2 Qualified Fund, and the Palo Verde Unit No. 3 Qualified Fund, collectively.

(15) "Fund Account" shall mean a separate account established by this Agreement and maintained by the Trustee for each Fund to account for all Decommissioning Contributions (or other contributions as described in Section 2.02) made to each Fund, all income and other increments to each Fund and all disbursements from each Fund.

(16) "Final Disbursements" shall have the meaning set forth in Section 2.01(6) hereof.

(17) "Interim Disbursements" shall have the meaning set forth in Section 2.01(5) hereof.

(18) "Investment Manager(s)" shall mean the fiduciary specified in the Investment Manager Agreement(s):

(a) Which has been retained by the Committee to manage, acquire,

or dispose of any asset belonging to the Master Trust; and

(b) Which is:

(i) registered as an investment adviser under the Investment Advisers Act of 1940, or

(ii) a bank, as defined in that Act, or

(iii) An insurance company qualified to perform services described in subsection (a) above, under the laws of more than one state, and

(c) Which has acknowledged, in writing, that it is a fiduciary with respect to the Master Trust, that it is qualified to act under subsection (b) above, and has agreed to be bound by all of the terms, provisions, and covenants of this Agreement.

(19) "Investment Manager Agreement(s)" shall mean the agreement(s) between the Committee and an investment manager(s) selected by the Committee which agreement governs the management of the assets of the Master Trust and is confirmed by the CPUC.

(20) "Master Trust" shall consist of all contributions to any Fund together with investments and reinvestments thereof and any income earnings and appreciation thereon.

(21) "Plants" shall mean the San Onofre Nuclear Generating Station Unit

Nos. 1, 2 and 3 and the Palo Verde Nuclear Generating Station Unit Nos. 1, 2, and 3, collectively.

(22) "Palo Verde Unit No. 1" shall mean Unit One of the Palo Verde Nuclear Generating Station.

(23) "Palo Verde Unit No. 1 Qualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 1 to which monies are contributed subject to the conditions and limitations of Section 468A of the Code.

(24) "Palo Verde Unit No. 2" shall mean Unit Two of the Palo Verde Nuclear Generating Station.

(25) "Palo Verde Unit No. 2 Qualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 2 to which monies are contributed subject to the conditions and limitations of Section 468A of the Code.

(26) "Palo Verde Unit No. 3" shall mean Unit Three of the Palo Verde Nuclear Generating Station.

(27) "Palo Verde Unit No. 3 Qualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 3 to which monies are

contributed subject to the conditions and limitations of Section 468A of the Code.

- (28) "Ratepayers" shall mean those customers of the Company receiving electric service in accordance with CPUC approved tariff schedules.
- (29) "Schedule of Ruling Amounts" shall have the meaning set forth in Section 468A(d) of the Code.
- (30) "Service" shall mean the Internal Revenue Service.
- (31) "SONGS Unit No. 1" shall mean Unit One of the San Onofre Nuclear Generating Station.
- (32) "SONGS Unit No. 1 Qualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning SONGS Unit No. 1 to which monies are contributed subject to the conditions and limitations of Section 468A of the Code.
- (33) "SONGS Unit No. 2" shall mean Unit Two of the San Onofre Nuclear Generating Station.
- (34) "SONGS Unit No. 2 Qualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning SONGS Unit No. 2 to which monies are contributed subject to the conditions and limitations of Section 468A of the Code.

(35) "SONGS Unit No. 3" shall mean Unit Three of the San Onofre Nuclear Generating Station.

(36) "SONGS Unit No. 3 Qualified Fund" shall mean the Fund established and maintained for decommissioning SONGS Unit No. 3 to which monies are contributed subject to the conditions and limitations of Section 468A of the Code.

(37) "Trustee" shall have the meaning set forth in the first paragraph of this Agreement.

(38) "Units" shall mean SONGS Unit No. 1, SONGS Unit No. 2, SONGS Unit No. 3, Palo Verde Unit No. 1, Palo Verde Unit No. 2, and Palo Verde Unit No. 3, collectively.

(39) "Withdrawal Certificate" shall mean a document properly completed and executed by two Authorized Representatives of the Company and substantially in the form of Exhibit B hereto.

1.02 Authorization. The Trustee and the Company hereby represent and warrant that each has full legal authority and is duly empowered to enter into this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing it.

1.03 Master Trust Purpose. The exclusive purposes of this Master Trust are to provide monies for the decommissioning of the Plants; and to constitute qualified nuclear decommissioning funds for the Units within the meaning of Section 468A of the Code, any applicable successor

provision and the regulations thereunder.

1.04 Establishment of Master Trust. By execution of this Agreement, the Company:

(a) establishes the Master Trust which shall consist of such Decommissioning Contributions (or other contributions as described in Section 2.02) as may be delivered to the Trustee by the Company for the Funds. The Master Trust also shall include additional Decommissioning Contributions (or other contributions as described in Section 2.02), investments and reinvestments thereof, and earnings and appreciation thereon;

(b) establishes the Funds, each of which shall constitute a trust consisting of such Decommissioning Contributions (or other contributions as described in Section 2.02) as may be delivered to the Trustee by the Company designated for such Fund. Each Fund shall also include additional Decommissioning Contributions (or other contributions as described in Section 2.02) designated for such Fund, together with investments and reinvestments thereon; and

(c) appoints Harris Trust and Savings Bank as Trustee of the Master Trust and each of the Funds.

1.05 Name of Master Trust. The monies received by the Trustee from the Company (together with any additional monies contributed by the Company and the proceeds and reinvestments thereof) shall constitute the "Southern California Edison Company Nuclear Facilities Qualified CPUC

Decommissioning Master Trust for San Onofre and Palo Verde Nuclear
Generating Stations".

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

II

DISPOSITIVE PROVISIONS

After payment of the expenses described in Section 6.01 hereof, the Trustee shall distribute the Master Trust as follows:

- 2.01 Payment of Nuclear Decommissioning Costs. The Trustee shall make payments of the Decommissioning Costs in accordance with the following procedures:
- (1) Authorized Representative. The Committee shall promptly notify the Trustee of the selection and appointment of any Authorized Representative of the Committee. The Trustee shall have no duty to inquire into or investigate the continued authority of such person to act as the Authorized Representative. The Committee shall provide the Trustee with written notice of the termination of any Authorized Representative's authority.
 - (2) Disbursements to Third Parties. Requests for payments of Decommissioning Costs to any person (other than the Company) for goods provided or labor or other services rendered to the Company in connection with the decommissioning of the Plants shall be submitted to the Trustee on a Disbursement Certificate.
 - (3) Reimbursement to the Company. Requests for payments to the Company in reimbursement of Decommissioning Costs actually incurred by the Company and paid by the Company to any other person shall be submitted to the Trustee on a Withdrawal Certificate.

- (4) Payment of Decommissioning Costs. The Trustee shall pay Decommissioning Costs when a Disbursement Certificate or Withdrawal Certificate is filed with the Trustee, showing with respect to each withdrawal of money:
- (a) the name and address of the person or entity to whom payment is due (which may be the Company);
 - (b) the amount of money to be paid;
 - (c) the purpose for which the obligation to be paid was incurred; and
 - (d) a CPUC Order authorizing either Interim Disbursements or Final Disbursements. A copy of such order shall accompany the Disbursement Certificate or Withdrawal Certificate.

Each Disbursement Certificate or Withdrawal Certificate must certify that the expenses to be paid constitute Decommissioning Costs and shall provide satisfactory evidence to the Trustee of same.

- (5) Interim Disbursements. The estimated costs and schedule for decommissioning each of the Plants shall be reviewed periodically and updated when the revenue requirement for decommissioning is reviewed by the CPUC in the Company's general rate cases. Two years prior to the time decommissioning of a Plant or Plants is

estimated to begin, the Company shall apply for CPUC approval of the estimated cost and schedule for decommissioning each Plant or Plants. Upon approval of the cost and schedule for decommissioning each Plant or Plants, the CPUC shall authorize Interim Disbursements from the applicable Fund to pay Decommissioning Costs. Upon the occurrence of changed circumstances the Company may apply to the CPUC for approval of amendments to the cost and schedule for decommissioning each Plant. Interim Disbursements shall be limited to 90% of the forecast of Decommissioning Costs approved by the CPUC. Final payment from the applicable Fund for all Decommissioning costs shall be made pursuant to Section 2.01(6).

- (6) Final Disbursements. The Company shall apply for and acquire CPUC approval of the estimated final cost for decommissioning each Plant or Plants. Such application shall be made one year in advance of the time the Company estimates use of funds exceeding 90% of the forecast of Decommissioning Costs approved by the CPUC will be required. Upon approval of the final cost of decommissioning each Plant or Plants, the CPUC shall authorize Final Disbursements from the applicable Fund to pay Decommissioning Costs. The Trustee shall make a Final Disbursement when a CPUC Order and a Disbursement Certificate or Withdrawal Certificate is filed with the Trustee to show:

- (a) the name and address of the person or entity to whom payment is due, including reimbursement to the Company;

(b) the amount of money to be paid; and

(c) the purpose for which the obligation to be paid was incurred.

- 2.02 Additions to Master Trust. From time to time after the initial contribution to the Master Trust and prior to the termination of this Trust, the Company may make, and the Trustee shall accept, additional contributions of money to the Master Trust to satisfy the purpose of this Master Trust as set forth in Section 1.03, which contributions may be made to the applicable Fund Account(s).
- 2.03 Adjustments for Excess Contributions. The Trustee and the Company understand and agree that the contributions made by the Company to any of the Funds from time to time may exceed the amount permitted to be paid into such fund(s) pursuant to Section 468A of the Code and any regulations thereunder based upon changes in estimates, subsequent developments, or any other event or occurrence which could not reasonably have been foreseen by the Company at the time such contribution was made (Excess Contribution). Upon Certification of the Company, setting forth the amount of the Excess Contribution, the amount of any Excess Contribution (together with any income accrued thereon) shall be paid to the person or persons specified by the Company in a Certification to the Trustee.
- 2.04 No Transfers Between Fund Accounts. The Trustee and the Company further understand and agree that it is of the essence that no transfer of monies is to occur between Fund Accounts except when explicitly indicated by Certificate of the Company that such transfer is necessary

to effectuate the purposes of this Master Trust and is not contrary to the requirements of Section 468A of the Code.

2.05 Designation of Funds. Upon: (a) the initial contribution to the Master Trust; (b) any withdrawal from the Master Trust for Decommissioning Costs pursuant to Section 2.01 or for administrative expenses pursuant to Section 6.01; (c) any addition to the Master Trust pursuant to Section 2.02; or (d) any adjustment to the Funds pursuant to Section 2.03, the Company shall designate, by Certificate, the appropriate Fund Account(s) which are to be credited or debited by such contribution, withdrawal, addition, or adjustment, and the Trustee shall credit or debit the appropriate Fund Account(s) in accordance with such designation.

2.06 Distribution of Income.

- (1) Generally. The Trustee shall not be precluded from pooling Decommissioning Contributions (or other contributions as described in Section 2.02) with respect to each of the Fund Accounts for investment purposes, and may treat each Fund Account's Decommissioning Contributions (or other contributions as described in Section 2.02) as having received or accrued a ratable portion of the Master Trust income in any year.
- (2) Principal and Income. All questions relating to the ascertainment of income and principal and the allocation of receipts and disbursements between income and principal shall be resolved by the Trustee in accordance with the terms of the Act.

(3) Income on Current Collections. As of the end of each accounting period of the Trust, the income of the Master Trust shall, for purposes of all subsequent accounting periods, be treated as Master Trust principal.

2.07 No Transferability of Interest in Trust. The interest of the Company in the Master Trust is not transferable by the Company, whether voluntarily or involuntarily, nor subject to the claims of creditors of the Company, provided, however, that any creditor of the Company as to which a Disbursement Certificate has been properly completed and submitted to the Trustee may assert a claim directly against the Master Trust in an amount not to exceed the amount specified on such Disbursement Certificate. Nothing herein shall be construed to prohibit a transfer of the Company's interest in the Master Trust upon sale of all or part of the Company's ownership interest in any Plant or Plants; provided, however, that any such transfer shall be subject to the prior approval of the CPUC.

2.08 Resolution of Disagreements. If any disagreement arises between the Company, the Committee, and/or the CPUC Staff regarding the Master Trust, the disagreement shall be submitted to the CPUC for resolution by issuance of a CPUC Order after notice and an opportunity to be heard, as provided in the California Public Utilities Code, has been given to the Company, the Committee, the CPUC Staff, the Trustee, and any interested parties. The CPUC, on its own motion, may raise and consider any issue with regard to the Master Trust, and any such issue raised on the CPUC's own motion shall be resolved as provided above. Pending resolution of the disagreement, the Trustee shall act in

accordance with the Committee's direction. Nothing in this Agreement shall be construed to limit the rights of the Company, the Committee, the CPUC Staff, the Trustee or any other interested party under the California Public Utilities Code or the California Constitution or other applicable laws or regulations.

2.09 Termination of Master Trust. This Master Trust shall be irrevocable and will terminate (in whole or in part) upon the earlier of:

- (1) Receipt by the Trustee of a Certificate from the Committee stating that substantial completion of the nuclear decommissioning of the Plants has occurred (as defined in Treasury Regulations promulgated under Code Section 468A);
- (2) The twentieth anniversary of the date of the death of the survivor from among a class consisting of all of the descendants of John D. Rockefeller, late of New York, New York, born on or prior to January 1, 1987; or
- (3) At such earlier time as the CPUC may order the Committee to terminate all or a portion of this Master Trust.

2.10 Termination of Funds of Master Trust. One or more of the Funds shall terminate upon the earlier of:

- (1) Its disqualification from the application of Section 468A of the Code, whether pursuant to an administrative action on the part of the Service or the decision of any court of competent jurisdiction.

but in no event earlier than the date on which all available appeals have been either prosecuted or abandoned and the period of time for making any further appeals has elapsed; or

- (2) The disposition by the Company of any interest in the Plants, to the extent provided in regulations by the Service promulgated under Code Section 468A.

2.11 Distribution of Master Trust Upon Termination. Upon termination of this Master Trust, or of any one or more of the Fund(s), the Trustee shall assist the Investment Manager in liquidating the assets of the Master Trust, or Fund(s), and thereupon distributing the then-existing assets of the Master Trust, or Fund(s) (including accrued, accumulated, and undistributed net income) less final Master Trust administrative expenses (including accrued taxes) to the Company; provided, however, that no such distribution shall be made unless the Committee provides a Certificate to the Trustee stating that a CPUC Order has been issued which specifically authorizes such payment to the Company for distribution to the Company's then current Ratepayers, or as otherwise provided in the order. In the event the Funds are no longer needed for Decommissioning Costs and/or Master Trust administration expenses, they shall be returned to Ratepayers in a manner to be prescribed in an Order of the CPUC. In the event the CPUC or a successor no longer exists, the Trustee shall make such distribution to the Company upon receipt of an opinion of legal counsel to the Company accompanying a Certificate of the Company stating that no CPUC Order is necessary to authorize such distribution.

2.12 Alterations and Amendments. The Trustee and the Company understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of this Trust.

The CPUC by Order may direct the Company to amend, in whole or in part, any or all of the provisions of this Agreement; provided that the CPUC shall not cause the Company to amend this Agreement if such action would defeat the purpose of the Master Trust or the Company's right to elect a current income tax deduction under Code Section 468A and the regulations promulgated thereunder. The Committee may also amend this Agreement thirty days after filing a copy of the proposed amendment with the CPUC. No proposed amendment may be made if written objections to the proposed amendment are filed within the thirty-day period. Any party making written objections to a proposed amendment shall serve the written objections with a certificate of service on the Company, the Committee, the Trustee, and the CPUC Staff on the same day the written objections are filed with the CPUC. Any written objections which cannot be settled shall be resolved in accordance with Section 2.08. Proposed amendments filed with the CPUC shall include in the transmittal letter a reference to the foregoing procedure for making written objection to such proposed amendments. Notwithstanding anything herein to the contrary, no amendment which affects the specific rights, duties, responsibilities, or liabilities of the Trustee, shall be made without its consent and no amendment shall be effective prior to the Trustee receiving reasonable notice thereof.

2.13 No Authority to Conduct Business. The purpose of this Master Trust is limited to the matters set forth in Section 1.03 above, specifically,

[illegible]

THE COMMITTEE

3.01 Members. The Committee shall consist of five (5) members. The members shall be nominated by the management of the Company, and their nomination shall be confirmed by the Board of Directors of the Company. No more than two (2) of the members of the Committee shall be employees, officers, or directors of the Company, or otherwise be agents of the Company in any capacity except as members of the Committee. The names of the nominees shall be furnished to the CPUC in writing within ten (10) days of their nomination. The Company shall furnish the CPUC with a resume of their background and qualifications. The three (3) nominees who are not affiliated with the Company shall be confirmed by the CPUC within 60 days of their submittal. For these three nominees, the Company shall furnish to the CPUC a statement in writing affirming that such nominees are not employees, officers, directors, or otherwise agents of the Company and providing sufficient additional information to determine the existence of any conflict or potential conflict of interest. The three (3) nominees who are not affiliated with the Company shall furnish the CPUC with a declaration that the nominee has no financial or other interest that would conflict with the discharge of their responsibilities as Committee members. Ownership of minor amounts of the Company's stock and/or being a customer of the Company, and/or having routine business relationships such as providing normal banking services shall not be regarded as creating such a conflict or an agency relationship.

If at any time and for any reason there are insufficient members of the

Committee not affiliated with the Company to permit the Committee to obtain a quorum, the CPUC, at the request of the Company, may issue an Order allowing the Committee to function for a limited period of time with more than two (2) members who are employees, officers and/or directors of the Company. Should the CPUC issue such an Order, it shall prescribe in that Order the limited period of time during which the Committee may be composed of more than two (2) members who are officers, employees and/or directors of the Company, and it shall prescribe a time by which the Company must submit the names of new nominees for confirmation by the CPUC. The Committee shall not function with more than two (2) members who are officers, employees and/or directors of the Company except upon such Order of the CPUC, and then only within the period of time prescribed in the Order of the CPUC.

3.02 Term. The term of each member shall be five (5) years; however, any member may be removed by the CPUC for reasonable cause at any time. The Company shall notify the Trustee and the Investment Manager(s) of all appointments and replacements of Committee members in writing signed by an Authorized Representative. Initial appointments of Committee members may be for less than a five-year term in order to establish staggered membership terms among the members of the Committee.

3.03 Acts of Committee. Each member of the Committee shall have one vote and the Committee shall act by majority decision. It shall require a minimum of four (4) members of the Committee to constitute a quorum in order for the Committee to act. Votes of members of the Committee shall be recorded on all matters voted on or decided by the Committee. Full minutes of Committee meetings shall be maintained. The Committee

shall be subject to the jurisdiction of the CPUC.

3.04 Duties of Committee. The Committee shall direct and manage the Master Trust and perform all duties attendant thereto, including the appointment of trustees and investment managers and the execution of whatever contracts, agreements, or other documents it deems necessary to manage and invest such assets. The Committee may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities hereunder. The reasonable fees and/or compensation of any such assistance the Committee may desire to retain shall be regarded as appropriate Master Trust administration expenses.

3.05 Committee Reports. The Committee shall evaluate the performance of the Trustee and Investment Manager(s) annually and submit a written report to the CPUC. The report shall be confidential and submitted to the CPUC by the Company under the provisions of Section 583 of the Public Utilities Code or applicable successor provision. The report shall include, at a minimum:

- (a) A finding, with supporting analysis, as to whether the current Trustee and Investment Manager(s) should be retained or replaced;
- (b) In the case where more than one investment manager is used, a justification therefor;
- (c) The voting record of the Committee members and the minutes of all Committee meetings; and

- (d) An itemized accounting of the Master Trust administration expenses and the basis therefor.

At least once every three years the Committee shall evaluate potential substitute trustees and investment managers and submit a report thereon to the CPUC. The report shall be confidential and submitted to the CPUC by the Company under the provisions of Section 583 of the Public Utilities Code or applicable successor provision. This report may be combined with the annual report described above, and shall include, at a minimum:

- (a) A description of the Committee's attempts to solicit proposals from other firms which can perform the trust and investment management duties;
- (b) Evaluation of at least three firms which could potentially replace the current Trustee and/or Investment Manager(s); and
- (c) A justification of the continued use of investment manager(s) on a retainer basis, as opposed to the Trustee's employment of an "in house" investment advisor.

The Committee shall not be required to solicit proposals to replace a Trustee(s) or Investment Manager(s) who, in the judgment of the Committee, are performing adequately and have served as a Trustee and/or Investment Manager hereunder for less than three years.

3.06 Compensation. Each Committee member who is not an employee, officer,

director, or otherwise an agent of the Company shall be entitled to reasonable fees and/or compensation for their services hereunder. At the time a nominee's name is furnished to the CPUC, the Company shall furnish to the CPUC a statement in writing setting forth all proposed fee and/or compensation arrangements with such nominee. The fee and/or compensation arrangements shall be subject to the approval of the CPUC. If the fee and/or compensation arrangements with any member should be changed for any reason whatsoever, within ten (10) days of such change, the Company shall furnish to the CPUC a statement in writing fully describing the new fee and/or compensation arrangements, and such changes shall be subject to the approval of the CPUC. Each Committee member shall be reimbursed for all reasonable expenses incurred in connection with the performance of his duties under this Agreement. Fees and/or compensation paid to members of the Committee, reasonable expenses of the members of the Committee, including premiums for liability insurance if applicable, shall be regarded as appropriate Master Trust administration expenses.

- 3.07 Committee May Limit Trustee Actions. The Trustee shall not take any act or participate in any transaction which would violate the terms and conditions of any instructions provided by a Certificate of the Committee so long as the terms and conditions of the Certificate are consistent with this Agreement.

/

/

/

/

/

TRUSTEES

- 4.01 Designation and Qualification of Successor Trustee(s). The Company by this Agreement has appointed the corporate fiduciary named herein having all requisite corporate power and authority to act as the sole original Trustee. The Trustee shall act in accordance with the directions provided to it by the Committee under the terms of this Agreement. At any time during the term of this Trust, the Committee shall have the right to remove the Trustee acting hereunder and appoint another qualified corporation as a Successor Trustee upon thirty (30) days' notice in writing to the Trustee, or upon such shorter notice as may be acceptable to the Trustee. In the event that the Trustee or any Successor Trustee shall: (a) become insolvent or admit in writing its insolvency; (b) be unable or admit in writing its inability to pay its debts as such debts mature; (c) make a general assignment for the benefit of creditors; (d) have an involuntary petition in bankruptcy filed against it; (e) commence a case under or otherwise seek to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law, statute, or proceeding; or (f) resign, the Trustee or Successor Trustee shall cease to act as a fiduciary of this Master Trust and the Committee shall appoint a Successor Trustee. In the event of any such removal or resignation, the Trustee or Successor Trustee shall have the right to have its accounts settled as provided in Section 4.05 hereof. Any successor to the Committee, as provided herein, shall have the same right to remove and to appoint any Trustee or Successor Trustee.

Any Successor Trustee shall qualify by a duly acknowledged acceptance of this Master Trust, delivered to the Company, the Committee, and the CPUC. Upon acceptance of such appointment by the Successor Trustee, the Trustee shall assign, transfer and pay over to such Successor Trustee the monies and properties then constituting the Master Trust. Any Successor Trustee shall have all the rights, powers, duties and obligations herein granted to the original Trustee.

If for any reason the Committee cannot or does not act in the event of the resignation or removal of the Trustee, as provided above, the Trustee may apply to the CPUC for the appointment of a Successor Trustee. Any expenses incurred by the Trustee in connection therewith shall be deemed to be an expense of administration payable in accordance with Section 6.01 hereof.

4.02 Resignation. The Trustee or any Successor Trustee hereof may resign and be relieved as Trustee at any time without prior application to or approval by or order of the CPUC or of any court by a duly acknowledged instrument, which shall be delivered to the Company and the Committee by the Trustee not less than sixty (60) days prior to the effective date of the Trustee's resignation or upon such shorter notice as may be acceptable to the Company and the Committee.

4.03 Compensation. The Trustee shall be entitled to compensation from the Master Trust as follows:

Fee Schedule

Base Fee: \$500 per investment manager

Transaction Charge: \$15 per transaction

Combined Asset Charge (applied to the total of all assets held by the Trustee in the Company's nuclear decommissioning trusts):

20¢ per \$1,000 on the first \$50 million

12¢ per \$1,000 on the next \$150 million

7¢ per \$1,000 on the next \$100 million

5¢ per \$1,000 on the excess

This fee schedule is effective for the first six years from the date assets are initially contributed to the Company's nuclear decommissioning Master Trust. Nothing herein shall preclude renegotiation of the foregoing fee schedule due to significantly changed circumstances, provided, however, that any change in the fee schedule shall require the approval of the CPUC prior to becoming effective.

Whenever the Trustee exercises its investment discretion as provided in Article VII, it shall be entitled to compensation from the Master Trust as follows:

Investment Management

Fee Schedule

Combined Asset Charge (applied to the total market value of the assets placed under the Trustee's investment discretion):

\$1.00 per \$1,000 on the first \$50 million

\$0.80 per \$1,000 on the next \$150 million

\$0.70 per \$1,000 on the excess

This fee schedule shall be effective through 1995 for all assets placed under the Trustee's investment discretion prior to January 1, 1990.

The fee schedule for assets placed under the Trustee's investment discretion on or after January 1, 1990 shall be subject to renegotiation. The renegotiated fee schedule shall require the approval of the CPUC prior to becoming effective.

4.04 Establish Fund Accounts. The Trustee shall maintain separate Fund Accounts for each Fund established by this Agreement to account for Decommissioning Contributions (or other contributions as described in Section 2.02) made to each Fund, and all income and other increments to each Fund, and disbursements from each Fund subject to the provisions of Section 2.05 above.

4.05 Accounts. The Trustee shall present financial statements to the Company and the Committee on a quarterly basis (within forty-five (45) days following the close of each quarter), or at such other frequency as the Committee shall from time to time require. The

financial statements shall show the financial condition of the Master Trust, including, without limitation, income and expenses of the Master Trust for the period. The Trustee shall assume responsibility for employing independent certified public accountants to audit the financial statements not less frequently than annually, subject to the provisions contained in Section 6.05. The Company and the Committee shall have the right to object to any of the Trustee's audited financial statements. If either the Company or the Committee desires to object to the Trustee's audited financial statements it shall deliver notice of its objection to the Trustee in writing within three years from the day the Trustee shall mail or deliver such audited financial statements to the Company and the Committee. If no written objection is made within that time, the presentation of the audited financial statements to the Company and the Committee shall release and discharge the Trustee with respect to all acts or omissions to the date of said audited financial statements; provided, however, that nothing contained herein shall be deemed to relieve the Trustee of any liability which may be imposed pursuant to Section 4.07 hereof.

- 4.06 Tax Returns and Other Reports. The Trustee, the Committee, and the Company shall cooperate in the preparation of income or franchise tax returns or other reports as may be required from time to time and, subject to the limitations contained in Section 6.05, may employ independent certified public accountants or other tax counsel to prepare or review such returns and reports. The Trustee shall present to the Company and the Committee on a monthly basis a report setting forth all investments purchased by the Investment Manager(s) during the previous month. The Trustee shall advise the Company and the Committee

if any of the investments, in the Trustee's opinion, may constitute a violation of the restrictions on investment of trust assets outlined in Code Section 501(c)(21), or successor provision, as applicable to the Master Trust.

- 4.07 Liability. The Trustee shall be liable for the acts, omissions or defaults of its own officers and employees. The Trustee shall not be liable for the acts, omissions or defaults of its agents, provided any such agents were selected with reasonable care and the performance and status of the agent is monitored with reasonable care throughout the duration of the agency relationship. The Trustee shall not be liable for the failure or default of any bank or depository, provided any such bank or depository was selected with reasonable care and its performance and status is monitored with reasonable care. Except where the Trustee exercises its investment discretion as provided in this Agreement, the Trustee shall not be liable for the acts or omissions of any Investment Manager(s) acting hereunder. Except as provided in Section 4.05, the Trustee shall not be liable in regard to the exercise or nonexercise of any powers and discretions properly delegated pursuant to the provisions of this Agreement.

Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for (a) any tax imposed pursuant to Section 4951 of the Code (or any applicable successor provision) as such section is made applicable to the Master Trust or the Trustee, and/or (b) any consequences flowing from violation of the restrictions on the investment of trust assets outlined in Code Section 501(c)(21) (or applicable successor Code sections) where the act giving rise to the

imposition of any tax pursuant to Section 4951 of the Code or the decision to invest trust assets in investments not meeting the restrictions outlined in Code Section 501(c)(21) was made by or was in the power and control of the Trustee as provided in this Agreement.

Pursuant to Section 6.08 of this Agreement, the Trustee is prohibited from doing any act or knowingly engaging in any transaction that would violate the terms and conditions of any instructions provided by written Certificate of the Committee, or contravening any provision of this Agreement. Upon receipt of a Certificate of the Committee giving the Trustee notice of either (a) instructions of the Committee to the Trustee, or (b) acts or transactions the Committee believes constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow the instructions of the Committee, and/or cease and desist from the acts identified in the Certificate as violating the provisions of this Agreement. To the extent the Trustee fails to follow the instructions of the Committee, or continues with any act identified in the Certificate as violating the provisions of this Agreement, from the date of receipt of the Certificate providing the instructions and/or notice of violation of the provisions of this Agreement, the Trustee (and not the Master Trust) shall be liable for all consequences flowing from any failure to follow the Committee's instructions, and/or flowing from any violation by the Trustee of the provisions of this Agreement. Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for all consequences flowing from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by the Committee.

4.08 Indemnity of Trustee. The Trustee shall be held harmless from any and all liability in acting in accordance with a proper Certificate or Certification of the Company or the Committee.

1

1

1

4

1

1

1

1

1

1

1

1

INVESTMENTS

5.01 Appointment of Investment Manager(s). The Committee may appoint one or more Investment Managers to direct the investment of all or part of the Master Trust. The Committee shall also have the right to remove any such Investment Manager. The appointment of the Investment Manager(s) shall be made in accordance with any procedures specified by the Committee. The Committee shall provide notice of any such appointment by Certification to the Trustee which shall specify the portion of the Master Trust with respect to which the Investment Manager(s) has been designated. The Investment Manager(s) shall certify in writing to the Trustee that it is qualified to act in the capacity provided under the Investment Manager Agreement, shall accept its appointment as such Investment Manager(s), shall certify the identity of the person or persons authorized to give instructions or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under the Investment Manager Agreement. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by the Committee or the Investment Manager(s), as the case may be.

5.02 Direction by Investment Manager(s). Notwithstanding Section 7.04, the Investment Manager(s) designated by the Committee to manage any portion of the Master Trust shall have authority to manage, acquire, and dispose of the assets of the Master Trust, or a portion thereof as the case may be. The Investment Manager(s) is authorized to invest in the securities specified in Section 7.02. The Investment Manager(s) shall

have the power and authority, exercisable in its sole discretion at any time and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. The Trustee, upon proper notification from an Investment Manager, shall execute and deliver in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to the Trustee by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee by the broker or dealer. Such notification shall be proper authority for the Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of the Committee, and the Trustee shall not be deemed to be a party to or to have any obligations under any agreement with the Investment Manager(s). Any duty of supervision or review of the acts, omissions or overall performance of the Investment Manager(s), shall be the exclusive responsibility of the Committee, and, except as provided in Section 4.06, the Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), or to make suggestions to the Investment Manager(s) or to the Committee with respect to the exercise or nonexercise of any power by the Investment Manager(s).

Unless the Trustee participates knowingly in, or knowingly undertakes to conceal an act or omission of an Investment Manager(s) knowing such act

[illegible]

VI

TRUSTEE'S GENERAL POWERS

The Trustee shall have, with respect to the Master Trust, the following powers, all of which powers are fiduciary powers to be exercised in a fiduciary capacity and in the best interests of this Master Trust and the beneficiaries thereof, and which are to be exercised as the Trustee, acting in such fiduciary capacity, in its discretion, shall determine and, except as otherwise provided, which are intended in no way to limit the powers of the office, namely:

- 6.01 Payment of Expenses of Administration. To pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and Committee member(s) fees, the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by the Committee as provided in Section 3.04, expenses and insurance policy premiums as provided in Section 3.06 incurred in connection with this Master Trust or the Master Trust in the discharge of the Trustee's fiduciary obligations under this Agreement, but only to the extent that such amount may be incurred and paid from the Master Trust without causing the Funds to become disqualified from the application of Section 468A of the Code or any applicable successor provisions.
- 6.02 Extension of Obligations and Negotiation of Claims. To renew or extend the time of payment of any obligation, secured or unsecured, payable to or by this Trust, for as long a period or periods of time and on such terms as the Trustee shall determine, and to adjust, settle, compromise,

and arbitrate claims or demands in favor of or against this Trust, including claims for taxes, upon such terms as the Trustee may deem advisable, subject to the limitations contained in Section 7.03 (regarding self-dealing), and the procedures contained in Section 2.01.

- 6.03 Registration of Securities. To hold any stocks, bonds, securities, and/or other property in the name of a nominee, in a street name, or by other title-holding device, without indication of trust.
- 6.04 Location of Assets. To keep any property belonging to the Master Trust at any place in the United States.
- 6.05 Retention of Professional Services. To execute any of the powers hereof and perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers.
- 6.06 Delegation of Ministerial Powers. To delegate to other persons such ministerial powers and duties as the Trustee may deem to be advisable.
- 6.07 Powers of Trustee to Continue Until Final Distribution. To exercise any of such powers after the date on which the principal and income of the Master Trust shall have become distributable and until such time as the entire principal of, and income from, the Master Trust shall have been actually distributed by the Trustee. It is intended that distribution of the Master Trust will occur as soon as possible upon termination of the Trust, subject, however, to the limitations contained in Sections 2.09, 2.10, and 2.11 hereof.

6.08 Discretion in Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Master Trust Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would:

- (1) Disqualify the Funds from the application of Section 468A (or any applicable successor provision) of the Code;
- (2) Contravene any provision of this Agreement; or
- (3) Violate the terms and conditions of any instructions provided by written Certificate by the Committee.

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

VII

TRUSTEE'S INVESTMENT POWERS

The Trustee recognizes the authority of the Investment Manager(s) to manage, invest, and reinvest the assets of the Master Trust pursuant to the Investment Manager Agreement and as provided in Section 5.02 of this Agreement, and the Trustee agrees to cooperate with the Investment Manager(s) as deemed necessary to accomplish these tasks. Notwithstanding the foregoing, the Trustee shall without the written authorization of the Committee invest cash balances in an investment account on a daily basis to the extent reasonable. Upon the written authorization of the Committee from time to time, the Trustee shall have the following investment powers, all of which are fiduciary powers to be executed in a fiduciary capacity and in the best interest of this Master Trust and the beneficiaries thereof, and which are to be exercised by the Trustee in its discretion, acting in such fiduciary capacity:

- 7.01 Preservation of Principal. The Trustee in its exercise of investment discretion as authorized by the Committee shall hold, manage, and invest the assets of this Master Trust in a manner designed to maximize and preserve the income and principal of this Master Trust for the purposes of this Trust, except as provided in Sections 7.02 and 7.03;
- 7.02 Investment of Funds. To invest and reinvest all or part of the Funds, including any undistributed income therefrom; provided, however, that no such investment or reinvestment of the Funds may be made by the Trustee:

- (1) Unless such investment is permitted to be made by Code.

Sections 501(c)(2)(B)(ii) and 468A(e)(4)(C), the regulations thereunder, and any applicable successor provisions; or

(2) Which would contravene any instructions issued by the Committee.

In all cases, however, the total investments by the Trustee must be sufficiently liquid to enable the Master Trust to fulfill the purposes of the Master Trust and to satisfy obligations as such obligations become due. Nothing in this Section 7.02 shall be construed as authorizing the Trustee to carry on any business or to divide the gains therefrom.

7.03 Management of Master Trust. To sell, exchange, partition, or otherwise dispose of all or any part of the Master Trust at public or private sale, without prior application to, or approval by, or order of any court, upon such terms and in such manner and at such prices as the Trustee shall determine; to modify, renew or extend bonds, notes or other obligations or any installment of principal thereof or any interest due thereon and to waive any defaults in the performance of the terms and conditions thereof; and to execute and deliver any and all bills of sale, assignments, bonds or other instruments in connection with these powers, all at such times, in such manner and upon such terms and conditions as the Trustee may deem expedient to accomplish the purposes of this Master Trust as set forth in Section 1.03.

Notwithstanding anything contained in this Agreement to the contrary, the Trustee may not authorize or carry out (a) any sale, exchange or

other transaction which would constitute an act of "self-dealing" within the meaning of Section 4951 of the Code, as such section is made applicable to the Funds by Section 468A(e)(5) of the Code, any regulations thereunder, and any applicable successor provision, or (b) any investment which would violate the restrictions on investment of trust assets outlined in Code Section 501(c)(21) and any applicable successor provision.

- 7.04 Disposition of Investments. When required to make any payments under Sections 2.01 or 6.01 hereof, the Trustee shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only upon written direction from the Committee. The Trustee shall have no liability, except for its own negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by the Committee or an Investment Manager or made by an Investment Manager through a broker-dealer.

/

/

/

/

/

/

/

/

/

/

/

/

/

/

VIII

MISCELLANEOUS

- 8.01 Headings. The section headings set forth in this Agreement and the Table of Contents are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.
- 8.02 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.
- 8.03 Parties Interested Herein. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or to give to, any person or corporation, other than the Company, the Committee, the Trustee and the CPUC any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein. The Company shall be entitled to receive payments for Decommissioning Costs and administrative expenses of the Master Trust which the Company may incur in carrying out the purpose set forth in Section 1.03 of this Agreement. It is intended by all parties hereto that the Company's Ratepayers, who shall be represented solely by the CPUC, be the ultimate beneficiary of this Agreement in that the decommissioning activities contemplated by this Agreement, which are to be performed by the Company will inure to the benefit of the Company's

Ratepayers and the General Public.

- 8.04 Severability of Provisions. If any provision of this Agreement or its application to any person or entity or in any circumstances shall be invalid and unenforceable, the application of such provision to persons and in circumstances other than those as to which it is invalid or unenforceable and the other provisions of this Agreement, shall not be affected by such invalidity or unenforceability.
- 8.05 Form and Content of Communications. The names of any person authorized to act on behalf of the Company and/or the Committee shall be certified, with the specimen signature of such person, to the Trustee by the Company and the Committee. Until appropriate written evidence to the contrary is received by the Trustee, it shall be fully protected in relying upon or acting in accordance with any written notice, instruction, direction, certificate, resolution, or other communication believed by it to be genuine and to be signed and/or certified by any proper person, and the Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement contained therein. Until notified in writing to the contrary, the Trustee shall have the right to assume that there has been no change in the identity or authority of any person previously certified to it hereunder.
- 8.06 Delivery of Notices Under Agreement. Any notice required by this Agreement to be given to the Company or the Trustee shall be deemed to have been properly given when mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to the Company:

SOUTHERN CALIFORNIA EDISON COMPANY
P.O. Box 800
2244 Walnut Grove Avenue
Rosemead, California 91770

Attention: Nuclear Facilities Decommissioning
Trust Committee

If to the Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
P.O. Box 755
Chicago, Illinois 60690

Attention: Southern California Edison Company
Nuclear Facilities Decommissioning
Master Trust(s)

If to the CPUC:

California Public Utilities Commission
505 Van Ness Avenue, Room 5025
San Francisco, California 94102

Attention: Executive Director

If to the CPUC Staff:

California Public Utilities Commission
505 Van Ness Avenue, Room _____
San Francisco, California 94102

Attention: Director of the Commission
Advisory and Compliance Division
(or its successor division)

The Company or the Trustee may change that address by delivering notice thereof in writing to the other party.

8.07 Successors and Assigns. Subject to the provisions of Sections 2.07 and 4.01, this Agreement shall be binding upon and inure to the benefit of

the Company, the Trustee and their respective successors, assigns, personal representatives, executors and heirs.

- 8.08 Governing Jurisdiction. This Master Trust is a California trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of California as if executed in and to be wholly performed within the State of California.
- 8.09 Accounting Year. The Master Trust shall operate on an accounting year which coincides with the calendar year, January 1 through December 31.
- 8.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.
- 8.11 Disbursement/Withdrawal Certificate. No provision of this Agreement shall be construed or applied so as to require the preparation of a Disbursement Certificate or a Withdrawal Certificate to authorize the payment of compensation to the Trustee under Section 4.03 or of the expenses of administration under Section 6.01.

/

/

/

/

/

/

/

8.12 Approval. This agreement shall be effective when approved by the CPUC and signed by all parties.

IN WITNESS WHEREOF, the Company and the Trustee have set their hands and seals to this Agreement as of the day and year first above written.

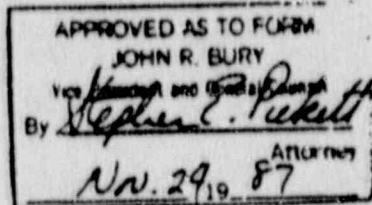
CALIFORNIA PUBLIC UTILITIES COMMISSION

By

Title:

Attest:

Title:



SOUTHERN CALIFORNIA EDISON COMPANY

By

Title: EXEC. V.P.

Attest:

Title:

SECY.

HARRIS TRUST AND SAVINGS BANK

By

Title:

Vice President

Attest:

Title:

Trust Officer

DISBURSEMENT CERTIFICATE

The undersigned, being Authorized Representatives of Southern California Edison Company ("Company"), a California corporation, and, in such capacity, being authorized and empowered to execute and deliver this certificate, hereby certifies to the Trustee of the Southern California Edison Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust for San Onofre and Palo Verde Nuclear Generating Stations, pursuant to Section 2.01 of that certain Master Trust Agreement, dated _____, 1987, between the Trustee and Company as follows:

- (1) there is due and owing to each payee ("Payees") [all]-or-[a portion of] the invoiced cost to the Company for goods or services provided in connection with the decommissioning of [SONGS/Palo Verde] as evidenced by the Invoice Schedule (with supporting exhibits) attached as Exhibit 1 hereto;
- (2) all such amounts due and owing to the Payees constitute Decommissioning Costs; and
- (3) all conditions precedent to the making of this withdrawal and disbursement set forth in any agreement between such Payee and the Company have been fulfilled.

Accordingly, you are hereby authorized to withdraw \$_____ from the [SONGS Unit No. 1/SONGS Unit No. 2/SONGS Unit No. 3/ Palo Verde Unit No. 1/Palo Verde Unit No. 2/Palo Verde Unit No. 3] Qualified Fund of the Master Trust in order to permit payment of such sum to be made to Payees for such purpose. You are further authorized to disburse such sum, once withdrawn, directly to such Payees in the following manner: [DESCRIBE: JOINT PAYEE CHECK, WIRE TRANSFER, ETC.] on or before _____, 19__.

Executed this ____ day of _____, 19__.

By _____
Authorized Representative

By _____
Authorized Representative

WITHDRAWAL CERTIFICATE

The undersigned, Authorized Representatives of Southern California Edison Company ("Company"), a California corporation, and _____, a _____ corporation and, in such capacity, being duly authorized and empowered to execute and deliver this certificate, hereby certify to the Trustee of the Southern California Edison Company Nuclear Facilities Qualified CPUC Decommissioning Master Trust for San Onofre and Palo Verde Nuclear Generating Stations, pursuant to Section 2.01 of that certain Master Trust Agreement, dated _____, 1987, as follows:

- (1) there is due and owing to the Company [all] or [a portion of] the invoiced cost to the Company for goods or services provided in connection with the decommissioning of [SONGS/Palo Verde] as evidenced by the Invoice Schedule with supporting exhibits attached as Exhibit 1 hereto;
- (2) all such amounts have been paid by the Company and constitute Decommissioning Costs; and
- (3) all conditions precedent to the making of this withdrawal and disbursement and the payment by the Company of the Decommissioning Costs set forth in any agreement between such payee of the Company and the Company have been fulfilled.

Accordingly, you are hereby authorized to withdraw \$_____ from the [SONGS Unit No. 1/SONGS Unit No. 2/SONGS Unit No. 3/ Palo Verde Unit No. 1/Palo Verde Unit No. 2/Palo Verde Unit No. 3] Qualified Fund of the Master Trust in order to permit payment of such sum to be made to the Company for such purpose. You are further authorized to disburse such sum, once withdrawn, directly to the Company in the following manner: [DESCRIBE: CHECK, WIRE TRANSFER, ETC.] on or before _____, 19__.

Executed this ____ day of _____, 19__.

SOUTHERN CALIFORNIA EDISON COMPANY

By _____
Authorized Representative

By _____
Authorized Representative

ENCLOSURE 1.B.1.b

SOUTHERN CALIFORNIA EDISON COMPANY -
NUCLEAR FACILITIES NON-QUALIFIED CPUC DECOMMISSIONING MASTER
TRUST AGREEMENT FOR SAN ONOFRE AND PALO VERDE
NUCLEAR GENERATING STATIONS

SOUTHERN CALIFORNIA EDISON COMPANY

NUCLEAR FACILITIES NONQUALIFIED CPUC DECOMMISSIONING MASTER TRUST AGREEMENT

FOR SAN ONOFRE AND PALO VERDE

NUCLEAR GENERATING STATIONS

SOUTHERN CALIFORNIA EDISON COMPANY

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
ARTICLE I:	DEFINITIONS, PURPOSE, AND NAME	3
1.01	Definitions	3
1.02	Authorization	9
1.03	Master Trust Purpose	9
1.04	Establishment of Master Trust	9
1.05	Name of Master Trust	10
ARTICLE II:	DISPOSITIVE PROVISIONS	11
2.01	Payment of Nuclear Decommissioning Costs	11
2.02	Contributions to Master Trust	14
2.03	No Transfers Between Fund Accounts	14
2.04	Designation of Funds	14
2.05	Distribution of Income	14
2.06	No Transferability of Interest in Master Trust	15
2.07	Resolution of Disagreements	16
2.08	Termination of Master Trust	16
2.09	Distribution of Master Trust Upon Termination	17
2.10	Alterations and Amendments	17
2.11	No Authority to Conduct Business	18
ARTICLE III:	THE COMMITTEE	19
3.01	Members	19
3.02	Term	20
3.03	Acts of Committee	20
3.04	Duties of Committee	21
3.05	Committee Reports	21
3.06	Compensation	22
3.07	Committee May Limit Trustee Actions	23
ARTICLE IV:	TRUSTEES	24
4.01	Designation and Qualification of Successor Trustee(s)	24
4.02	Resignation	25
4.03	Compensation	25
4.04	Establish Fund Accounts	27
4.05	Accounts	27
4.06	Tax Returns and Other Reports	28
4.07	Liability	29
4.08	Indemnity of Trustee	30
ARTICLE V:	INVESTMENTS	31
5.01	Appointment of Investment Manager(s)	31
5.02	Direction by Investment Manager(s)	31

TABLE OF CONTENTS
(Continued)

<u>Article</u>	<u>Title</u>	<u>Page</u>
ARTICLE VI:	TRUSTEE'S GENERAL POWERS	34
6.01	Payment of Expenses of Administration	34
6.02	Extension of Obligations and Negotiation of Claims	34
6.03	Registration of Securities	35
6.04	Location of Assets	35
6.05	Retention of Professional Services	35
6.06	Delegation of Ministerial Powers	35
6.07	Powers of Trustee to Continue Until Final Distribution	35
6.08	Discretion in Exercise of Powers	35
ARTICLE VII:	TRUSTEE'S INVESTMENT POWERS	37
7.01	Preservation of Principal	37
7.02	Investment of Funds	37
7.03	Management of Master Trust	38
7.04	Disposition of Investments	39
ARTICLE VIII:	MISCELLANEOUS	40
8.01	Headings	40
8.02	Particular Words	40
8.03	Parties Interested Herein	40
8.04	Severability of Provisions	41
8.05	Form and Content of Communications	41
8.06	Delivery of Notices Under Agreement	41
8.07	Successors and Assigns	42
8.08	Governing Jurisdiction	43
8.09	Accounting Year	43
8.10	Counterparts	43
8.11	Disbursement/Withdrawal Certificate	43
8.12	Approval	44
EXHIBIT A:	DISBURSEMENT CERTIFICATE	45
EXHIBIT B:	WITHDRAWAL CERTIFICATE	46

NUCLEAR FACILITIES NONQUALIFIED CPUC DECOMMISSIONING MASTER TRUST AGREEMENT

AGREEMENT made this 25 day of November, 1987, by and between Southern California Edison Company, a California corporation ("Company"), and Harris Trust and Savings Bank, an Illinois banking corporation having trust powers ("Trustee").

WHEREAS, the Company is the owner of: (1) an 80 percent undivided interest in Unit One of the San Onofre Nuclear Generating Station ("SONGS Unit No. 1"); (2) a 75.05 percent undivided interest in Unit Two of the San Onofre Nuclear Generating Station ("SONGS Unit No. 2"); (3) a 75.05 percent undivided interest in Unit Three of the San Onofre Nuclear Generating Station ("SONGS Unit No. 3"); (4) a 15.80 percent undivided interest in Unit One of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 1"); (5) a 15.80 percent undivided interest in Unit Two of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 2"); and (6) a 15.80 percent undivided interest in Unit Three of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 3"); and

WHEREAS, the Company is subject to regulation by the California Public Utilities Commission ("CPUC"), an agency of the State of California created and existing pursuant to California Constitution Article XII, §1, and by the Nuclear Regulatory Commission ("NRC"), an agency of the United States government created and existing pursuant to 42 U.S.C. §5841; and

WHEREAS, the CPUC has permitted the Company to include in its cost of service for ratemaking purposes certain amounts to be contributed by the Company to decommissioning funds which are not qualified under Section 468A of

the Internal Revenue Code of 1986, 26 U.S.C. §1 et seq. in order to provide adequate monies for the Company's share of decommissioning costs with respect to SONGS and Palo Verde:

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Company hereby agrees to deliver to the Trustee and the Trustee hereby agrees to receive the initial contribution of monies to the Master Trust on or before March 1, 198⁸; and

TO HAVE AND TO HOLD, such monies and such additional monies as may from time to time be added thereto as provided herein, together with the proceeds and reinvestments thereof (hereinafter collectively called the "Master Trust") unto the Trustee:

IN TRUST NEVERTHELESS, for the uses and purposes and upon the terms and conditions hereinafter set forth:

/

/

/

/

/

/

/

/

/

/

/

/

/

/

DEFINITIONS, PURPOSE, AND NAME

1.01 Definitions. As used in this Decommissioning Master Trust Agreement, the following terms shall have the following meanings:

- (1) "Act" shall mean the Uniform Principal and Income Act from time to time in effect in the State of California, and on the date hereof set forth in California Probate Code §16300 et seq.
- (2) "Agreement" shall mean and include this Decommissioning Master Trust Agreement as the same may from time to time be amended, modified, or supplemented.
- (3) "Authorized Representative" shall mean, with respect to the Company, the Chief Executive Officer, President, or any Vice President of the Company; and with respect to the Committee, the members of the Committee, or any other person designated as an Authorized Representative of the Committee by a Certificate filed with the Trustee.
- (4) "Board of Directors" shall mean the Board of Directors of the Company, as duly elected from time to time.
- (5) "Certificate" or "Certification" shall mean a written Certificate signed by two Authorized Representatives of the Company for a Certificate of the Company, or two Authorized Representatives of the Committee for a Certificate of the Committee.

- (6) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.
- (7) "Committee" shall mean the Nuclear Facilities Decommissioning Master Trust Committee established pursuant to Article III.
- (8) "CPUC" shall mean the California Public Utilities Commission, as defined and set forth in Section I of Article XII of the California Constitution, or its successor.
- (9) "CPUC Order" shall mean an order or resolution issued by the CPUC after the Company, the Committee, the CPUC Staff, the Trustee, and other interested parties have been given notice and an opportunity to be heard. The order may be issued with or without hearing or by the CPUC Advice Letter procedure or comparable procedure.
- (10) "Decommissioning Contributions" shall mean all amounts for decommissioning expenses of the Plants reflected in the Company's adopted annualized cost of service in and for the CPUC jurisdiction and contributed to the Funds for decommissioning expenses of the Plants.
- (11) "Decommissioning Costs" shall mean the costs incurred in decommissioning the Plants.
- (12) "Disbursement Certificate" shall mean a document properly completed and executed by two Authorized Representatives of the Company and substantially in the form of Exhibit A hereto.

- (13) "Funds" shall mean the SONGS Unit No. 1 Nonqualified Fund, the SONGS Unit No. 2 Nonqualified Fund, the SONGS Unit No. 3 Nonqualified Fund, the Palo Verde Unit No. 1 Nonqualified Fund, the Palo Verde Unit No. 2 Nonqualified Fund, and the Palo Verde Unit No. 3 Nonqualified Fund, collectively.
- (14) "Fund Account" shall mean a separate account established by this Agreement and maintained by the Trustee for each Fund to account for all Decommissioning Contributions (or other contributions as described in Section 2.02) made to each Fund, all income and other increments to each Fund and all disbursements from each Fund.
- (15) "Final Disbursements" shall have the meaning set forth in Section 2.01(6) hereof.
- (16) "Interim Disbursements" shall have the meaning set forth in Section 2.01(5) hereof.
- (17) "Investment Manager(s)" shall mean the fiduciary specified in the Investment Manager Agreement(s):
- (a) Which has been retained by the Committee to manage, acquire, or dispose of any asset belonging to the Master Trust; and
 - (b) Which is:
 - (i) registered as an investment adviser under the Investment Advisers Act of 1940, or

(11) a bank, as defined in that Act, or

(111) An insurance company qualified to perform services described in subsection (a) above, under the laws of more than one state, and

(c) which has acknowledged, in writing, that it is a fiduciary with respect to the Master Trust, that it is qualified to act under subsection (b) above, and has agreed to be bound by all of the terms, provisions, and covenants of this Agreement.

(18) "Investment Manager Agreement(s)" shall mean the agreement(s) between the Committee and an investment manager(s) selected by the Committee which agreement governs the management of the assets of the Master Trust and is confirmed by the CPUC.

(19) "Master Trust" shall consist of all contributions to any Fund together with investments and reinvestments thereof and any income, earnings and appreciation thereon.

(20) "Plants" shall mean the San Onofre Nuclear Generating Station Unit Nos. 1, 2 and 3 and the Palo Verde Nuclear Generating Station Unit Nos. 1, 2, and 3, collectively.

(21) "Palo Verde Unit No. 1" shall mean Unit One of the Palo Verde Nuclear Generating Station.

(22) "Palo Verde Unit No. 1 Nonqualified Fund" shall mean the Fund

established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 1 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.

(23) "Palo Verde Unit No. 2" shall mean Unit Two of the Palo Verde Nuclear Generating Station.

(24) "Palo Verde Unit No. 2 Nonqualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 2 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.

(25) "Palo Verde Unit No. 3" shall mean Unit Three of the Palo Verde Nuclear Generating Station.

(26) "Palo Verde Unit No. 3 Nonqualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning Palo Verde Unit No. 3 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.

(27) "Ratepayers" shall mean those customers of the Company receiving electric service in accordance with CPUC approved tariff schedules.

(28) "Service" shall mean the Internal Revenue Service

- (29) "SONGS Unit No. 1" shall mean Unit One of the San Onofre Nuclear Generating Station.
- (30) "SONGS Unit No. 1 Nonqualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning SONGS Unit No. 1 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.
- (31) "SONGS Unit No. 2" shall mean Unit Two of the San Onofre Nuclear Generating Station.
- (32) "SONGS Unit No. 2 Nonqualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning SONGS Unit No. 2 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.
- (33) "SONGS Unit No. 3" shall mean Unit Three of the San Onofre Nuclear Generating Station.
- (34) "SONGS Unit No. 3 Nonqualified Fund" shall mean the Fund established and maintained under the Master Trust for decommissioning SONGS Unit No. 3 to which monies are contributed which are not subject to the conditions and limitations of Section 468A of the Code.
- (35) "Trustee" shall have the meaning set forth in the first paragraph of this Agreement.

(36) "Units" shall mean SONGS Unit No. 1, SONGS Unit No. 2, SONGS Unit No. 3, Palo Verde Unit No. 1, Palo Verde Unit No. 2, and Palo Verde Unit No. 3, collectively.

(37) "Withdrawal Certificate" shall mean a document properly completed and executed by two Authorized Representatives of the Company and substantially in the form of Exhibit B hereto.

1.02 Authorization. The Trustee and the Company hereby represent and warrant that each has full legal authority and is duly empowered to enter into this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing it.

1.03 Master Trust Purpose. The exclusive purposes of this Master Trust are to provide monies for the contemplated decommissioning of the Plants.

1.04 Establishment of Master Trust. By execution of this Agreement, the Company:

(a) establishes the Master Trust which shall consist of such Decommissioning Contributions (or other contributions as described in Section 2.02) as may be delivered to the Trustee by the Company for the Funds. The Master Trust also shall include additional Decommissioning Contributions (or other contributions as described in Section 2.02), investments and reinvestments thereof, and earnings and appreciation thereon;

(b) establishes the Funds, each of which shall constitute a trust

consisting of such Decommissioning Contributions (or other contributions as described in Section 2.02) as may be delivered to the Trustee by the Company designated for such Fund. Each Fund shall also include additional Decommissioning Contributions (or other contributions as described in Section 2.02) designated for such Fund, together with investments and reinvestments thereon; and

(c) appoints Harris Trust and Savings Bank as Trustee of the Master Trust and each of the Funds.

1.05 Name of Master Trust. The monies received by the Trustee from the Company (together with any additional monies contributed by the Company and the proceeds and reinvestments thereof) shall constitute the "Southern California Edison Company Nuclear Facilities Nonqualified CPUC Decommissioning Master Trust for San Onofre and Palo Verde Nuclear Generating Stations".

/

/

/

/

/

/

/

/

/

/

/

/

II

DISPOSITIVE PROVISIONS

After payment of the expenses described in Section 6.01 hereof, the Trustee shall distribute the Master Trust as follows:

2.01 Payment of Nuclear Decommissioning Costs. The Trustee shall make payments of the Decommissioning Costs in accordance with the following procedures:

- (1) Authorized Representative. The Committee shall promptly notify the Trustee of the selection and appointment of any Authorized Representative of the Committee. The Trustee shall have no duty to inquire into or investigate the continued authority of such person to act as the Authorized Representative. The Committee shall provide the Trustee with written notice of the termination of any Authorized Representative's authority.
- (2) Disbursements to Third Parties. Requests for payments of Decommissioning Costs to any person (other than the Company) for goods provided or labor or other services rendered to the Company in connection with the decommissioning of the Plants shall be submitted to the Trustee on a Disbursement Certificate.
- (3) Reimbursement to the Company. Requests for payments to the Company in reimbursement of Decommissioning Costs actually incurred by the Company and paid by the Company to any other person shall be submitted to the Trustee on a Withdrawal Certificate.

(4) Payment of Decommissioning Costs. The Trustee shall pay Decommissioning Costs when a Disbursement Certificate or Withdrawal Certificate is filed with the Trustee, showing with respect to each withdrawal of money:

- (a) the name and address of the person or entity to whom payment is due (which may be the Company);
- (b) the amount of money to be paid;
- (c) the purpose for which the obligation to be paid was incurred; and
- (d) a CPUC Order authorizing either Interim Disbursements or Final Disbursements. A copy of such order shall accompany the Disbursement Certificate or Withdrawal Certificate.

Each Disbursement Certificate or Withdrawal Certificate must certify that the expenses to be paid constitute Decommissioning Costs and shall provide satisfactory evidence to the Trustee of same.

(5) Interim Disbursements. The estimated costs and schedule for decommissioning each of the Plants shall be reviewed periodically and updated when the revenue requirement for decommissioning is reviewed by the CPUC in the Company's general rate cases. Two years prior to the time decommissioning of a Plant or Plants is estimated to begin, the Company shall apply for CPUC approval of

the estimated cost and schedule for decommissioning each Plant or Plants. Upon approval of the cost and schedule for decommissioning each Plant or Plants, the CPUC shall authorize Interim Disbursements from the applicable Fund to pay Decommissioning Costs. Upon the occurrence of changed circumstances the Company may apply to the CPUC for approval of amendments to the cost and schedule for decommissioning each Plant. Interim Disbursements shall be limited to 90% of the forecast of Decommissioning Costs approved by the CPUC. Final payment from the applicable Fund for all Decommissioning costs shall be made pursuant to Section 2.01(6).

- (6) Final Disbursements. The Company shall apply for and acquire CPUC approval of the estimated final cost for decommissioning each Plant or Plants. Such application shall be made one year in advance of the time the Company estimates use of funds exceeding 90% of the forecast of Decommissioning Costs approved by the CPUC will be required. Upon approval of the final cost of decommissioning each Plant or Plants, the CPUC shall authorize Final Disbursements from the applicable Fund to pay Decommissioning Costs. The Trustee shall make a Final Disbursement when a CPUC Order and a Disbursement Certificate or Withdrawal Certificate is filed with the Trustee to show:

(a) the name and address of the person or entity to whom payment is due, including reimbursement to the Company;

(b) the amount of money to be paid; and

(c) the purpose for which the obligation to be paid was incurred.

2.02 Additions to Master Trust. From time to time after the initial contribution to the Master Trust and prior to the termination of this Trust, the Company may make, and the Trustee shall accept, additional contributions of money to the Master Trust to satisfy the purpose of this Master Trust as set forth in Section 1.03, which contributions may be made to the applicable Fund Account(s).

2.03 No Transfers Between Fund Accounts. The Trustee and the Company understand and agree that it is of the essence that no transfer of monies is to occur between Fund Accounts except when explicitly indicated by Certificate of the Company that such transfer is necessary to effectuate the purposes of this Master Trust.

2.04 Designation of Funds. Upon: (a) the initial contribution to the Master Trust; (b) any withdrawal from the Master Trust for Decommissioning Costs pursuant to Section 2.01 or for administrative expenses pursuant to Section 6.01; or (c) any addition to the Master Trust pursuant to Section 2.02, the Company shall designate, by Certificate, the appropriate Fund Account(s) which are to be credited or debited by such contribution, withdrawal, addition, or adjustment, and the Trustee shall credit or debit the appropriate Fund Account(s) in accordance with such designation.

2.05 Distribution of Income.

(1) Generally. The Trustee shall not be precluded from pooling

Decommissioning Contributions (or other contributions as described in Section 2.02) with respect to each of the Fund Accounts for investment purposes, and may treat each Fund Account's Decommissioning Contributions (or other contributions as described in Section 2.02) as having received or accrued a ratable portion of the Master Trust income in any year.

(2) Principal and Income. All questions relating to the ascertainment of income and principal and the allocation of receipts and disbursements between income and principal shall be resolved by the Trustee in accordance with the terms of the Act.

(3) Income on Current Collections. As of the end of each accounting period of the Trust, the income of the Master Trust shall, for purposes of all subsequent accounting periods, be treated as Master Trust principal.

2.06 No Transferability of Interest in Master Trust. The interest of the Company in the Master Trust is not transferable by the Company, whether voluntarily or involuntarily, nor subject to the claims of creditors of the Company, provided, however, that any creditor of the Company as to which a Disbursement Certificate has been properly completed and submitted to the Trustee may assert a claim directly against the Master Trust in an amount not to exceed the amount specified on such Disbursement Certificate. Nothing herein shall be construed to prohibit a transfer of the Company's interest in the Master Trust upon sale of all or part of the Company's ownership interest in any Plant(s); provided, however, that any such transfer shall be subject to the prior approval of the CPJC.

2.07 Resolution of Disagreements. If any disagreement arises between the Company, the Committee and/or the CPUC Staff regarding the Master Trust, the disagreement shall be submitted to the CPUC for resolution by issuance of a CPUC Order after notice and an opportunity to be heard, as provided in the California Public Utilities Code, has been given to the Company, the Committee, the CPUC Staff, the Trustee, and any interested parties. The CPUC, on its own motion, may raise and consider any issue with regard to the Master Trust, and any such issue raised on the CPUC's own motion shall be resolved as provided above. Pending resolution of the disagreement, the Trustee shall act in accordance with the Committee's direction. Nothing in this Agreement shall be construed to limit the rights of the Company, the Committee, the CPUC Staff, the Trustee or any other interested party under the California Public Utilities Code or the California Constitution or other applicable laws or regulations.

2.08 Termination of Master Trust. This Master Trust shall be irrevocable and will terminate (in whole or in part) upon the earlier of:

- (1) Receipt by the Trustee of a Certificate from the Committee stating that substantial completion of the nuclear decommissioning of the Plants has occurred (as defined in Treasury Regulations promulgated under Code Section 468A);
- (2) The twentieth anniversary of the date of the death of the survivor from among a class consisting of all of the descendants of John D. Rockefeller, late of New York, New York, born on or prior to January 1, 1987; or

(3) At such earlier time as the CPUC may order the Committee to terminate all or a portion of this Master Trust.

2.09 Distribution of Master Trust Upon Termination. Upon termination of this Master Trust, the Trustee shall assist the Investment Manager in liquidating the assets of the Master Trust, and thereupon distributing the then-existing assets of the Master Trust, (including accrued, accumulated, and undistributed net income) less final Master Trust administrative expenses (including accrued taxes) to the Company; provided, however, that no such distribution shall be made unless the Committee provides a Certificate to the Trustee stating that a CPUC Order has been issued which specifically authorizes such payment to the Company for distribution to the Company's then current Ratepayers, or as otherwise provided in the order. In the event the Funds are no longer needed for Decommissioning Costs and/or Master Trust administration expenses, they shall be returned to Ratepayers in a manner to be prescribed in an Order of the CPUC. In the event the CPUC or a successor no longer exists, the Trustee shall make such distribution to the Company upon receipt of an opinion of legal counsel to the Company accompanying a Certificate of the Company stating that no such CPUC Order is necessary to authorize such distribution.

2.10 Alterations and Amendments. The Trustee and the Company understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of this Trust.

The CPUC by Order may direct the Company to amend, in whole or in part, any or all of the provisions of this Agreement; provided that the CPUC

shall not cause the Company to amend this Agreement if such action would defeat the purpose of the Master Trust. The Committee may also amend this Agreement thirty days after filing a copy of the proposed amendment with the CPUC. No proposed amendment may be made if written objections to the proposed amendment are filed within the thirty-day period. Any party making written objections to a proposed amendment shall serve the written objections with a certificate of service on the Company, the Committee, the Trustee, and the CPUC Staff on the same day the written objections are filed with the CPUC. Any written objections which cannot be settled shall be resolved in accordance with Section 2.07. Proposed amendments filed with the CPUC shall include in the transmittal letter a reference to the foregoing procedure for making written objection to such proposed amendments. Notwithstanding anything herein to the contrary, no amendment which affects the specific rights, duties, responsibilities, or liabilities of the Trustee, shall be made without its consent and no amendment shall be effective prior to the Trustee receiving reasonable notice thereof.

- 2.11 No Authority to Conduct Business. The purpose of this Master Trust is limited to the matters set forth in Section 1.03 above, specifically, and there is no objective to carry on any business unrelated to the Master Trust purposes set forth in Section 1.03 hereof, or divide the gains therefrom.

/

/

/

/

/

III

THE COMMITTEE

3.01 Members. The Committee shall consist of five (5) members. The members shall be nominated by the management of the Company, and their nomination shall be confirmed by the Board of Directors of the Company. No more than two (2) of the members of the Committee shall be employees, officers, or directors of the Company, or otherwise be agents of the Company in any capacity except as members of the Committee. The names of the nominees shall be furnished to the CPUC in writing within ten (10) days of their nomination. The Company shall furnish the CPUC with a resume of their background and qualifications. The three (3) nominees who are not affiliated with the Company shall be confirmed by the CPUC within 60 days of their submittal. For these three nominees, the Company shall furnish to the CPUC a statement in writing affirming that such nominees are not employees, officers, directors, or otherwise agents of the Company and providing sufficient additional information to determine the existence of any conflict or potential conflict of interest. The three (3) nominees who are not affiliated with the Company shall furnish the CPUC with a declaration that the nominee has no financial or other interest that would conflict with the discharge of their responsibilities as Committee members. Ownership of minor amounts of the Company's stock and/or being a customer of the Company, and/or having routine business relationships, such as providing normal banking services shall not be regarded as creating such a conflict or an agency relationship.

If at any time and for any reason there are insufficient members of the

Committee not affiliated with the Company to permit the Committee to obtain a quorum, the CPUC, at the request of the Company, may issue an Order allowing the Committee to function for a limited period of time with more than two (2) members who are employees, officers and/or directors of the Company. Should the CPUC issue such an Order, it shall prescribe in that Order the limited period of time during which the Committee may be composed of more than two (2) members who are officers, employees and/or directors of the Company, and it shall prescribe a time by which the Company must submit the names of new nominees for confirmation by the CPUC. The Committee shall not function with more than two (2) members who are officers, employees and/or directors of the Company except upon such Order of the CPUC, and then only within the period of time prescribed in the Order of the CPUC.

3.02 Term. The term of each member shall be five (5) years; however, any member may be removed by the CPUC for reasonable cause at any time. The Company shall notify the Trustee and the Investment Manager(s) of all appointments and replacements of Committee members in writing signed by an Authorized Representative. Initial appointments of Committee members may be for less than a five-year term in order to establish staggered membership terms among the members of the Committee.

3.03 Acts of Committee. Each member of the Committee shall have one vote and the Committee shall act by majority decision. It shall require a minimum of four (4) members of the Committee to constitute a quorum in order for the Committee to act. Votes of members of the Committee shall be recorded on all matters voted on or decided by the Committee. Full minutes of Committee meetings shall be maintained. The Committee

shall be subject to the jurisdiction of the CPUC.

3.04 Duties of Committee. The Committee shall direct and manage the Master Trust and perform all duties attendant thereto, including the appointment of trustees and investment managers and the execution of whatever contracts, agreements, or other documents it deems necessary to manage and invest such assets. The Committee may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities hereunder. The reasonable fees and/or compensation of any such assistance the Committee may desire to retain shall be regarded as appropriate Master Trust administration expenses.

3.05 Committee Reports. The Committee shall evaluate the performance of the Trustee and Investment Manager(s) annually and submit a written report to the CPUC. The report shall be confidential and submitted to the CPUC by the Company under the provisions of Section 583 of the Public Utilities Code or applicable successor provision. The report shall include, at a minimum:

- (a) A finding, with supporting analysis, as to whether the current Trustee and Investment Manager(s) should be retained or replaced;
- (b) In the case where more than one investment manager is used, a justification therefor;
- (c) The voting record of the Committee members and the minutes of all Committee meetings; and

- (d) An itemized accounting of the Master Trust administration expenses and the basis therefor.

At least once every three years the Committee shall evaluate potential substitute trustees and investment managers and submit a report thereon to the CPUC. The report shall be confidential and submitted to the CPUC by the Company under the provisions of Section 583 of the Public Utilities Code or applicable successor provision. This report may be combined with the annual report described above, and shall include, at a minimum:

- (a) A description of the Committee's attempts to solicit proposals from other firms which can perform the trust and investment management duties;
- (b) An evaluation of at least three firms which could potentially replace the current Trustee and/or Investment Manager(s); and
- (c) A justification of the continued use of investment manager(s) on a retainer basis, as opposed to the Trustee's employment of an "in house" investment advisor.

The Committee shall not be required to solicit proposals to replace a Trustee(s) or Investment Manager(s) who, in the judgment of the Committee, are performing adequately and have served as a Trustee and/or Investment Manager hereunder for less than three years.

3.06 Compensation. Each Committee member who is not an employee, officer,

director, or otherwise an agent of the Company shall be entitled to reasonable fees and/or compensation for their services hereunder. At the time a nominee's name is furnished to the CPUC, the Company shall furnish to the CPUC a statement in writing setting forth all proposed fee and/or compensation arrangements with such nominee. The fee and/or compensation arrangements shall be subject to the approval of the CPUC. If the fee and/or compensation arrangements with any member should be changed for any reason whatsoever, within ten (10) days of such change, the Company shall furnish to the CPUC a statement in writing fully describing the new fee and/or compensation arrangements, and such changes shall be subject to the approval of the CPUC. Each Committee member shall be reimbursed for all reasonable expenses incurred in connection with the performance of his duties under this Agreement. Fees and/or compensation paid to members of the Committee, reasonable expenses of the members of the Committee, including premiums for liability insurance if applicable, shall be regarded as appropriate Master Trust administration expenses.

- 3.07 Committee May Limit Trustee Actions. The Trustee shall not take any act or participate in any transaction which would violate the terms and conditions of any instructions provided by a Certificate of the Committee so long as the terms and conditions of the Certificate are consistent with this Agreement.

/

/

/

/

/

IV

TRUSTEES

4.01 Designation and Qualification of Successor Trustee(s). The Company by this Agreement has appointed the corporate fiduciary named herein having all requisite corporate power and authority to act as the sole original Trustee. The Trustee shall act in accordance with the directions provided to it by the Committee under the terms of this Agreement. At any time during the term of this Trust, the Committee shall have the right to remove the Trustee acting hereunder and appoint another qualified corporation as a Successor Trustee upon thirty (30) days' notice in writing to the Trustee, or upon such shorter notice as may be acceptable to the Trustee. In the event that the Trustee or any Successor Trustee shall: (a) become insolvent or admit in writing its insolvency; (b) be unable or admit in writing its inability to pay its debts as such debts mature; (c) make a general assignment for the benefit of creditors; (d) have an involuntary petition in bankruptcy filed against it; (e) commence a case under or otherwise seek to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law, statute, or proceeding; or (f) resign, the Trustee or Successor Trustee shall cease to act as a fiduciary of this Master Trust and the Committee shall appoint a Successor Trustee. In the event of any such removal or resignation, the Trustee or Successor Trustee shall have the right to have its accounts settled as provided in Section 4.05 hereof. Any successor to the Committee, as provided herein, shall have the same right to remove and to appoint any Trustee or Successor Trustee.

Any Successor Trustee shall qualify by a duly acknowledged acceptance of this Master Trust, delivered to the Company, the Committee and the CPUC. Upon acceptance of such appointment by the Successor Trustee, the Trustee shall assign, transfer and pay over to such Successor Trustee the monies and properties then constituting the Master Trust. Any Successor Trustee shall have all the rights, powers, duties and obligations herein granted to the original Trustee.

If for any reason the Committee cannot or does not act in the event of the resignation or removal of the Trustee, as provided above, the Trustee may apply to the CPUC for the appointment of a Successor Trustee. Any expenses incurred by the Trustee in connection therewith shall be deemed to be an expense of administration payable in accordance with Section 6.01 hereof.

4.02 Resignation. The Trustee or any Successor Trustee hereof may resign and be relieved as Trustee at any time without prior application to or approval by or order of the CPUC or of any court by a duly acknowledged instrument, which shall be delivered to the Company and the Committee by the Trustee not less than sixty (60) days prior to the effective date of the Trustee's resignation or upon such shorter notice as may be acceptable to the Company and the Committee.

4.03 Compensation. The Trustee shall be entitled to compensation from the Master Trust as follows:

Fee Schedule

Base Fee: \$500 per investment manager

Transaction Charge: \$15 per transaction

Combined Asset Charge (applied to the total of all assets held by the Trustee in the Company's nuclear decommissioning trusts):

20¢ per \$1,000 on the first \$50 million

12¢ per \$1,000 on the next \$150 million

7¢ per \$1,000 on the next \$100 million

5¢ per \$1,000 on the excess

This fee schedule is effective for the first six years from the date assets are initially contributed to the Company's nuclear decommissioning Master Trust. Nothing herein shall preclude renegotiation of the foregoing fee schedule due to significantly changed circumstances, provided, however, that any change in the fee schedule shall require the approval of the CPUC prior to becoming effective.

Whenever the Trustee exercises its investment discretion as provided in Article VII, it shall be entitled to compensation from the Master Trust as follows:

Investment Management

Fee Schedule

Combined Asset Charge (applied to the total market value of the assets placed under the Trustee's investment discretion):

\$1.00 per \$1,000 on the first \$50 million

\$0.80 per \$1,000 on the next \$150 million

\$0.70 per \$1,000 on the excess

This fee schedule shall be effective through 1995 for all assets placed under the Trustee's investment discretion prior to January 1, 1990. The fee schedule for assets placed under the Trustee's investment discretion on or after January 1, 1990 shall be subject to renegotiation. The renegotiated fee schedule shall require the approval of the CPUC prior to becoming effective.

4.04 Establish Fund Accounts. The Trustee shall maintain separate Fund Accounts for each Fund established by this Agreement to account for Decommissioning Contributions (or other contributions as described in Section 2.02) made to each Fund, and all income and other increments to each Fund, and disbursements from each Fund subject to the provisions of Section 2.04 above.

4.05 Accounts. The Trustee shall present financial statements to the Company and the Committee on a quarterly basis (within forty-five (45) days following the close of each quarter), or at such other frequency as the Committee shall from time to time require. The financial

statements shall show the financial condition of the Master Trust, including, without limitation, income and expenses of the Master Trust for the period. The Trustee shall assume responsibility for employing independent certified public accountants to audit the financial statements not less frequently than annually, subject to the provisions contained in Section 6.05. The Company and the Committee shall have the right to object to any of the Trustee's audited financial statements. If either the Company or the Committee desires to object to the Trustee's audited financial statements it shall deliver notice of its objection to the Trustee in writing within three years from the day the Trustee shall mail or deliver such audited financial statements to the Company and the Committee. If no written objection is made within that time, the presentation of the audited financial statements to the Company and the Committee shall release and discharge the Trustee with respect to all acts or omissions to the date of said audited financial statements; provided, however, that nothing contained herein shall be deemed to relieve the Trustee of any liability which may be imposed pursuant to Section 4.07 hereof.

- 4.06 Tax Returns and Other Reports. The Trustee, the Committee and the Company shall cooperate in the preparation of income or franchise tax returns or other reports as may be required from time to time and, subject to the limitations contained in Section 6.05, may employ independent certified public accountants or other tax counsel to prepare or review such returns and reports. The Trustee shall present to the Company and the Committee on a monthly basis a report setting forth all investments purchased by the Investment Manager(s) during the previous month. The Trustee shall advise the Company and the Committee

if any of the investments, in the Trustee's opinion, may constitute a violation of the restrictions on investment of trust assets outlined in Section 7.02 hereof.

4.07 Liability. The Trustee shall be liable for the acts, omissions or defaults of its own officers and employees. The Trustee shall not be liable for the acts, omissions or defaults of its agents, provided any such agents were selected with reasonable care and the performance and status of the agent is monitored with reasonable care throughout the duration of the agency relationship. The Trustee shall not be liable for the failure or default of any bank or depository, provided any such bank or depository was selected with reasonable care and its performance and status is monitored with reasonable care. Except where the Trustee exercises its investment discretion as provided in this Agreement, the Trustee shall not be liable for the acts or omissions of any Investment Manager(s) acting hereunder. Except as provided in Section 4.05, the Trustee shall not be liable in regard to the exercise or nonexercise of any powers and discretions properly delegated pursuant to the provisions of this Agreement.

Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for any losses, penalties or assessments flowing from violation of the restrictions on the investment of trust assets as set forth in Section 7.02 hereof where the decision to invest trust assets in investments not meeting the restrictions outlined in Section 7.02 hereof was made by or was in the power and control of the Trustee as provided in this Agreement.

Pursuant to Section 6.08 of this Agreement, the Trustee is prohibited from doing any act or knowingly engaging in any transaction that would violate the terms and conditions of any instructions provided by written Certificate of the Committee, or contravening any provision of this Agreement. Upon receipt of a Certificate of the Committee giving the Trustee notice of either (a) instructions of the Committee to the Trustee, or (b) acts or transactions the Committee believes constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow the instructions of the Committee, and/or cease and desist from the acts identified in the Certificate as violating the provisions of this Agreement. To the extent the Trustee fails to follow the instructions of the Committee, or continues with any act identified in the Certificate as violating the provisions of this Agreement, from the date of receipt of the Certificate providing the instructions and/or notice of violation of the provisions of this Agreement, the Trustee (and not the Master Trust) shall be liable for all consequences flowing from any failure to follow the Committee's instructions, and/or flowing from any violation by the Trustee of the provisions of this Agreement. Notwithstanding the foregoing, the Trustee (and not the Master Trust) shall be liable for all consequences flowing from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by the Committee.

4.08 Indemnity of Trustee. The Trustee shall be held harmless from any and all liability in acting in accordance with a proper Certificate or Certification of the Company or the Committee.

/

INVESTMENTS

5.01 Appointment of Investment Manager(s). The Committee may appoint one or more Investment Managers to direct the investment of all or part of the Master Trust. The Committee shall also have the right to remove any such Investment Manager. The appointment of the Investment Manager(s) shall be made in accordance with any procedures specified by the Committee. The Committee shall provide notice of any such appointment by Certification to the Trustee which shall specify the portion of the Master Trust with respect to which the Investment Manager(s) has been designated. The Investment Manager(s) shall certify in writing to the Trustee that it is qualified to act in the capacity provided under the Investment Manager Agreement, shall accept its appointment as such Investment Manager(s), shall certify the identity of the person or persons authorized to give instructions or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under the Investment Manager Agreement. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by the Committee or the Investment Manager(s), as the case may be.

5.02 Direction by Investment Manager(s). Notwithstanding Section 7.04, the Investment Manager(s) designated by the Committee to manage any portion of the Master Trust shall have authority to manage, acquire, and dispose of the assets of the Master Trust, or a portion thereof as the case may be. The Investment Manager(s) is authorized to invest in the securities specified in Section 7.02. The Investment Manager(s) shall

have the power and authority, exercisable in its sole discretion at any time, and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. The Trustee, upon proper notification from an Investment Manager, shall execute and deliver in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to the Trustee by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee by the broker or dealer. Such notification shall be proper authority for the Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of the Committee, and the Trustee shall not be deemed to be a party to or to have any obligations under any agreement with the Investment Manager(s). Any duty of supervision or review of the acts, omissions or overall performance of the Investment Manager(s), shall be the exclusive responsibility of the Committee, and except as provided in Section 4.06 herein, the Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), or to make suggestions to the Investment Manager(s) or to the Committee with respect to the exercise or nonexercise of any power by the Investment Manager(s).

Unless the Trustee participates knowingly in, or knowingly undertakes to

conceal an act or omission of an Investment Manager(s) knowing such act or omission to be a breach of the fiduciary responsibility of the Investment Manager(s), the Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken by it in accordance with any direction of the Investment Manager(s). In any event, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the investments purchased, sold, or retained by the Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments, nor for any other aspect of a portfolio for which an Investment Manager(s) has been appointed.

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

VI

TRUSTEE'S GENERAL POWERS

The Trustee shall have, with respect to the Master Trust, the following powers, all of which powers are fiduciary powers to be exercised in a fiduciary capacity and in the best interests of this Master Trust and the beneficiaries thereof, and which are to be exercised as the Trustee, acting in such fiduciary capacity, in its discretion, shall determine and, except as otherwise provided, which are intended in no way to limit the powers of the office, namely:

- 6.01 Payment of Expenses of Administration. To pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and Committee member(s) fees, the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by the Committee as provided in Section 3.04, expenses and insurance policy premiums as provided in Section 3.06, incurred in connection with this Master Trust or the Master Trust in the discharge of the Trustee's fiduciary obligations under this Agreement.
- 6.02 Extension of Obligations and Negotiation of Claims. To renew or extend the time of payment of any obligation, secured or unsecured, payable to or by this Trust, for as long a period or periods of time and on such terms as the Trustee shall determine, and to adjust, settle, compromise, and arbitrate claims or demands in favor of or against this Trust, including claims for taxes, upon such terms as the Trustee may deem advisable, subject to the procedures contained in Section 2.01.

- 6.03 Registration of Securities. To hold any stocks, bonds, securities, and/or other property in the name of a nominee, in a street name, or by other title-holding device, without indication of trust.
- 6.04 Location of Assets. To keep any property belonging to the Master Trust at any place in the United States.
- 6.05 Retention of Professional Services. To execute any of the powers hereof and perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers.
- 6.06 Delegation of Ministerial Powers. To delegate to other persons such ministerial powers and duties as the Trustee may deem to be advisable.
- 6.07 Powers of Trustee to Continue Until Final Distribution. To exercise any of such powers after the date on which the principal and income of the Master Trust shall have become distributable and until such time as the entire principal of, and income from, the Master Trust shall have been actually distributed by the Trustee. It is intended that distribution of the Master Trust will occur as soon as possible upon termination of the Trust, subject, however, to the limitations contained in Sections 2.08 and 2.09 hereof.
- 6.08 Discretion in Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Master Trust Agreement, provided, however, that the Trustee may not do any act or participate in any transaction which would:

(1) Contravene any provision of this Agreement; or

(2) Violate the terms and conditions of any instructions provided by
written Certificate by the Committee.

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

/

VII

TRUSTEE'S INVESTMENT POWERS

The Trustee recognizes the authority of the Investment Manager(s) to manage, invest, and reinvest the assets of the Master Trust pursuant to the Investment Manager Agreement and as provided in Section 5.02 of this Agreement, and the Trustee agrees to cooperate with the Investment Manager(s) as deemed necessary to accomplish these tasks. Notwithstanding the foregoing, the Trustee shall without the written authorization of the Committee invest cash balances in an investment account on a daily basis to the extent reasonable. Upon the written authorization of the Committee from time to time, the Trustee shall have the following investment powers, all of which are fiduciary powers to be executed in a fiduciary capacity and in the best interest of this Master Trust and the beneficiaries thereof, and which are to be exercised by the Trustee in its discretion, acting in such fiduciary capacity:

7.01 Preservation of Principal. The Trustee in its exercise of investment discretion as authorized by the Committee shall hold, manage, and invest the assets of this Master Trust in a manner designed to maximize and preserve the income and principal of this Master Trust for the purposes of this Trust, except as provided in Sections 7.02 and 7.03.

7.02 Investment of Funds. To invest and reinvest all or any part of the Funds, including any undistributed income therefrom, in:

- (1) Public debt securities of the United States, obligations of a state or local government that are not in default as to principal or interest, or time or demand deposits in a bank or insured credit union;

- (2) Guaranteed investment contracts, high-quality corporate bonds and equity securities as established by written guidelines of the Committee which shall be provided to the Trustee from time to time, and other securities guaranteed or secured by the U. S. government; provided however, that investments in high quality equity securities shall not exceed 60% of the Master Trust's fair market value;
- (3) Such other investments authorized by the CPUC as the Committee so notifies the Trustee by Certification; or
- (4) An investment fund whose underlying assets include the investments permitted in (1), (2) and (3) above.

The Trustee shall also have power to make loans of Master Trust securities to brokers, dealers and financial institutions provided that cash or other collateral having a market value of at least 102% of the market value of the securities loaned is deposited by the borrower with the Trustee and is maintained at a minimum of 100% of the market value of the loaned securities for each day the securities loan remains outstanding.

In all cases, however, the total investments must be sufficiently liquid to enable the Master Trust to fulfill the purposes of the Master Trust and to satisfy obligations as they become due. Nothing in this Section 7.02 shall be construed as authorizing the Trustee to carry on any business or to divide the gains therefrom.

7.03 Management of Master Trust. To sell, exchange, partition, or otherwise dispose of all or any part of the Master Trust at public or private sale, without prior application to, or approval by, or order of any court, upon such terms and in such manner and at such prices as the Trustee shall determine; to modify, renew or extend bonds, notes or other obligations or any installment of principal thereof or any interest due thereon and to waive any defaults in the performance of the terms and conditions thereof; and to execute and deliver any and all bills of sale, assignments, bonds or other instruments in connection with these powers, all at such times, in such manner and upon such terms and conditions as the Trustee may deem expedient to accomplish the purposes of this Master Trust as set forth in Section 1.03.

Notwithstanding anything contained in this Agreement to the contrary, the Trustee may not authorize or carry out any investment which would violate the restrictions on investment of trust assets as set forth in Section 7.02 herein.

7.04 Disposition of Investments. When required to make any payments under Sections 2.01 or 6.01 hereof, the Trustee shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only upon written direction from the Committee. The Trustee shall have no liability, except for its negligence or willful misconduct, with respect to any sale or prepayment of an investment directed by the Committee or an Investment Manager or made by an Investment Manager through a broker-dealer.

/

/

VIII

MISCELLANEOUS

- 8.01 Headings. The section headings set forth in this Agreement and the Table of Contents are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.
- 8.02 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.
- 8.03 Parties Interested Herein. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the Company, the Committee, the Trustee and the CPUC any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein. The Company shall be entitled to receive payments for Decommissioning Costs and administrative expenses of the Master Trust which the Company may incur in carrying out the purpose set forth in Section 1.03 of this Agreement. It is intended by all parties hereto that the Company's Ratepayers, who shall be represented solely by the CPUC, be the ultimate beneficiary of this Agreement in that the decommissioning activities contemplated by this Agreement, which are to be performed by the Company, will inure to the benefit of the Company's

Ratepayers and the General Public.

- 8.04 Severability of Provisions. If any provision of this Agreement or its application to any person or entity or in any circumstances shall be invalid and unenforceable, the application of such provision to persons and in circumstances other than those as to which it is invalid or unenforceable and the other provisions of this Agreement, shall not be affected by such invalidity or unenforceability.
- 8.05 Form and Content of Communications. The names of any person authorized to act on behalf of the Company and/or the Committee shall be certified, with the specimen signature of such person, to the Trustee by the Company and the Committee. Until appropriate written evidence to the contrary is received by the Trustee, it shall be fully protected in relying upon or acting in accordance with any written notice, instruction, direction, certificate, resolution, or other communication believed by it to be genuine and to be signed and/or certified by any proper person, and the Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement contained therein. Until notified in writing to the contrary, the Trustee shall have the right to assume that there has been no change in the identity or authority of any person previously certified to it hereunder.
- 8.06 Delivery of Notices Under Agreement. Any notice required by this Agreement to be given to the Company or the Trustee shall be deemed to have been properly given when mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to the Company:

SOUTHERN CALIFORNIA EDISON COMPANY
P.O. Box 800
2244 Walnut Grove Avenue
Rosemead, California 91770

Attention: Nuclear Facilities Decommissioning
Trust Committee

If to the Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
P.O. Box 755
Chicago, Illinois 60690

Attention: Southern California Edison Company
Nuclear Facilities Decommissioning
Master Trust(s)

If to the CPUC:

California Public Utilities Commission
505 Van Ness Avenue, Room 5025
San Francisco, California 94102

Attention: Executive Director

If to the CPUC Staff:

California Public Utilities Commission
505 Van Ness Avenue, Room _____
San Francisco, California 94102

Attention: Director of the Commission's
Evaluation and Compliance Division
(or its successor division)

The Company or the Trustee may change that address by delivering notice thereof in writing to the other party.

8.07 Successors and Assigns. Subject to the provisions of Sections 2.06 and 4.01, this Agreement shall be binding upon and inure to the benefit of the Company, the Trustee and their respective successors, assigns,

personal representatives, executors and heirs.

- 8.08 Governing Jurisdiction. This Master Trust is a California trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of California as if executed in and to be wholly performed within the State of California.
- 8.09 Accounting Year. The Master Trust shall operate on an accounting year which coincides with the calendar year, January 1 through December 31.
- 8.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.
- 8.11 Disbursement/Withdrawal Certificate. No provision of this Agreement shall be construed or applied so as to require the preparation of a Disbursement Certificate or a Withdrawal Certificate to authorize the payment of compensation to the Trustee under Section 4.03 or of the expenses of administration under Section 6.01.

/

/

/

/

/

/

/

/

8.12 Approval. This agreement shall be effective when approved by the CPUC and signed by all parties.

IN WITNESS WHEREOF, the Company and the Trustee have set their hands and seals to this Agreement as of the day and year first above written.

CALIFORNIA PUBLIC UTILITIES COMMISSION

By

Title:

Attest:

Title:

SOUTHERN CALIFORNIA EDISON COMPANY

By

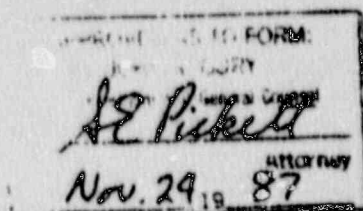
Title:

EXEC. V.P.

Attest:

Title:

SECY.



HARRIS TRUST AND SAVINGS BANK

By

Title:

President

Attest:

Title:

Vice President

DISBURSEMENT CERTIFICATE

The undersigned, being Authorized Representatives of Southern California Edison Company ("Company"), a California corporation, and, in such capacity, being authorized and empowered to execute and deliver this certificate, hereby certifies to the Trustee of the Southern California Edison Company Nuclear Facilities Nonqualified CPUC Decommissioning Master Trust for San Onofre and Palo Verde Nuclear Generating Stations, pursuant to Section 2.01 of that certain Master Trust Agreement, dated _____, 1987, between the Trustee and Company as follows:

- (1) there is due and owing to each payee ("Payees") [all]-or-[a portion of] the invoiced cost to the Company for goods or services provided in connection with the decommissioning of [SONGS/Palo Verde] as evidenced by the Invoice Schedule (with supporting exhibits) attached as Exhibit 1 hereto;
- (2) all such amounts due and owing to the Payees constitute Decommissioning Costs; and
- (3) all conditions precedent to the making of this withdrawal and disbursement set forth in any agreement between such Payee and the Company have been fulfilled.

Accordingly, you are hereby authorized to withdraw \$_____ from the [SONGS Unit No. 1/SONGS Unit No. 2/SONGS Unit No. 3/ Palo Verde Unit No. 1/Palo Verde Unit No. 2/Palo Verde Unit No. 3] Nonqualified Fund of the Master Trust in order to permit payment of such sum to be made to Payees for such purpose. You are further authorized to disburse such sum, once withdrawn, directly to such Payees in the following manner: [DESCRIBE: JOINT PAYEE CHECK, WIRE TRANSFER, ETC.] on or before _____, 19__.

Executed this ____ day of _____, 19__.

By _____
Authorized Representative

By _____
Authorized Representative

WITHDRAWAL CERTIFICATE

The undersigned, Authorized Representatives of Southern California Edison Company ("Company"), a California corporation, and _____, a _____ corporation and, in such capacity, being duly authorized and empowered to execute and deliver this certificate, hereby certify to the Trustee of the Southern California Edison Company Nuclear Facilities Nonqualified CPUC Decommissioning Master Trust for San Onofre and Palo Verde Nuclear Generating Stations, pursuant to Section 2.01 of that certain Master Trust Agreement, dated _____, 1987, as follows:

- (1) there is due and owing to the Company [all] or [a portion of] the invoiced cost to the Company for goods or services provided in connection with the decommissioning of [SONGS/Palo Verde] as evidenced by the Invoice Schedule with supporting exhibits attached as Exhibit 1 hereto;
- (2) all such amounts have been paid by the Company and constitute Decommissioning Costs; and
- (3) all conditions precedent to the making of this withdrawal and disbursement and the payment by the Company of the Decommissioning Costs set forth in any agreement between such payee of the Company and the Company have been fulfilled.

Accordingly, you are hereby authorized to withdraw \$_____ from the [SONGS Unit No. 1/SONGS Unit No. 2/SONGS Unit No. 3/ Palo Verde Unit No. 1/Palo Verde Unit No. 2/Palo Verde Unit No. 3] Nonqualified Fund of the Master Trust in order to permit payment of such sum to be made to the Company for such purpose. You are further authorized to disburse such sum, once withdrawn, directly to the Company in the following manner: [DESCRIBE: CHECK, WIRE TRANSFER, ETC.] on or before _____, 19__.

Executed this ____ day of _____, 19__.

SOUTHERN CALIFORNIA EDISON COMPANY

By _____
Authorized Representative

By _____
Authorized Representative

Amendment No. 1 To The Nonqualified

CPUC Master Trust Agreement

1. Southern California Edison Company ("Edison") hereby amends Article 6.01 of its Non-tax Qualified Nuclear Decommissioning Trust to allow for reimbursement from the Trustee of the trust, Harris Trust and Savings Bank, for the taxes Edison must pay on the Nonqualified Trust earnings.
2. Article 6.01 is hereby amended as follows:

Page Amendment (Additions are italicized)

34 Shown as:

6.01 Payment of Expenses of Administration. To pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and Committee member(s) fees, the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by the Committee as provided in Section 3.04, expenses and insurance policy premiums as provided in Section 3.06, incurred in connection with this Master Trust or the Master Trust in the discharge of the Trustee's fiduciary obligations under this Agreement.

Amended to:

6.01 Payment of Expenses of Administration. To pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and Committee member(s) fees, *reimbursement to the Company for taxes paid on trust earnings,* the fees and/or compensation of any professional advisors, legal counsel or administrative support hired by the Committee as provided in Section 3.04, expenses and insurance policy premiums as provided in Section 3.06, incurred in connection with this Master Trust or the Master Trust in the discharge of the Trustee's fiduciary obligations under this Agreement.

3. This amendment shall be effective as of November 25, 1987, the date the Non-tax Qualified Nuclear Decommissioning Trust was originally executed.

4. IN WITNESS WHEREOF, Edison, the Trustee, and the California Public Utilities Commission have set their hands and seals to this Amendment as of the day and year below written.

Dated: February 6, 1989

CALIFORNIA PUBLIC UTILITIES COMMISSION

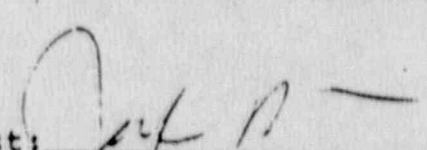
By: 

Victor Weiss
Executive Director

SOUTHERN CALIFORNIA EDISON COMPANY

By: 

John E. Bryson
Executive Vice President

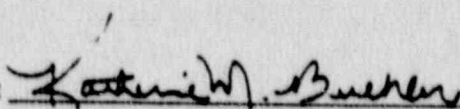
Attest: 

Jennifer Moran
Corporate Secretary

HARRIS TRUST AND SAVINGS BANK

By: 

Katherine A. Freytag
Assistant Vice President

Attest: 

Katherine M. Bueker
Assistant Secretary

ENCLOSURE 1.B.ii.a

SOUTHERN CALIFORNIA EDISON COMPANY -
INVESTMENT MANAGEMENT AGREEMENT BETWEEN RCM CAPITAL MANAGEMENT
AND THE NUCLEAR FACILITIES DECOMMISSIONING MASTER TRUST
COMMITTEE FOR THE CPUC QUALIFIED MASTER TRUST

INVESTMENT MANAGEMENT AGREEMENT

BETWEEN

RCM CAPITAL MANAGEMENT

AND

THE NUCLEAR FACILITIES DECOMMISSIONING

MASTER TRUST COMMITTEE

FOR THE

CPUC QUALIFIED MASTER TRUST

SOUTHERN CALIFORNIA EDISON COMPANY

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
1.	PARTIES	1
2.	RECITALS	1
3.	AGREEMENT	2
4.	EMPLOYMENT	2
5.	THE COMMITTEE	3
6.	THE INVESTMENT ACCOUNT	4
7.	MANAGEMENT OF INVESTMENT ACCOUNT	4
8.	STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER	8
9.	INFORMATION AND REPORTS	9
10.	LIABILITY	13
11.	COMPENSATION	16
12.	AMENDMENT AND TERMINATION	16
13.	MISCELLANEOUS	17
	APPENDIX A	21
	APPENDIX B	22

INVESTMENT MANAGEMENT AGREEMENT

1. PARTIES

The Parties to this INVESTMENT MANAGEMENT AGREEMENT ("Agreement") are RCM Capital Management ("Investment Manager") and the Nuclear Facilities Decommissioning Master Trust Committee ("Committee") created pursuant to Article III of that certain Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement, dated November 25, 1987 ("CPUC Qualified Master Trust").

2. RECITALS

- 2.1 Southern California Edison Company ("Company") is a public utility subject to regulation by the California Public Utilities Commission ("CPUC").
- 2.2 Pursuant to Section 468A of the Internal Revenue Code of 1986 ("IRC") (all references to the IRC shall include any amendments thereto, any regulations thereunder and any applicable successor provisions) certain Federal income tax benefits are available to the Company by creating and funding qualified decommissioning funds associated with the San Onofre Nuclear Generating Station ("SONGS") and the Palo Verde Nuclear Generating Station ("Palo Verde").
- 2.3 The Company has established the CPUC Qualified Master Trust with Harris Trust and Savings Bank ("Trustee"), in order to provide adequate monies for the Company's

CPUC jurisdictional share of decommissioning costs associated with SONGS and Palo Verde.

2.4 The Committee has been created to direct and manage all assets of the CPUC Qualified Master Trust and to perform all duties attendant thereto, including the appointment of investment managers and the execution of whatever contracts, agreements, or other documents it deems necessary to manage and invest such assets.

2.5 The Committee desires to employ the Investment Manager to manage a portion of the CPUC Qualified Master Trust.

3. AGREEMENT

In consideration of the promises and mutual covenants contained herein, the Committee and the Investment Manager hereby mutually covenant and agree as follows:

4. EMPLOYMENT

4.1 The Committee hereby employs the Investment Manager to manage the CPUC Qualified Master Trust assets ("Investment Account") shown on Appendix A, attached hereto and made a part hereof, and such other assets as the Committee may, from time to time, designate in writing.

4.2 By execution of this Agreement the Investment Manager accepts the appointment as investment manager and agrees to supervise and direct the investments of the Investment Account in accordance with Section 7.4 hereof.

4.3 The Investment Manager shall not under any circumstances have custody or physical control of any assets of the Investment Account, it being intended that the Trustee, pursuant to the terms of the CPUC Qualified Master Trust, shall be responsible for the safekeeping thereof and for the physical consummation of all transactions made pursuant to the directions of the Investment Manager or otherwise.

5. THE COMMITTEE

In this Agreement certain powers (including, without limitation, the right to give certain directions, notices, instructions and consents) are reserved to the Committee. The Committee shall have authority to delegate the right to exercise such powers, or any one or more of them, and any responsibilities in connection therewith, to such person or persons, as the Committee may from time to time determine. The Committee shall give the Investment Manager written notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of delegation until given written notice of any revocation of any such delegation.

6. THE INVESTMENT ACCOUNT

The Committee shall provide, or shall cause the Trustee to provide, to the Investment Manager on a continuing basis such information concerning security transactions and the status of the Investment Account as the Investment Manager may reasonably request. Payments from the CPUC Qualified Master Trust which are chargeable against the Investment Account, and allocations of assets to or from the Investment Account, may be made from time to time as provided in the CPUC Qualified Master Trust agreement. The Committee shall promptly notify, or shall cause the Trustee promptly to notify, the Investment Manager of any such payment or allocation. The Committee shall give the Investment Manager reasonable advance notice of any cash requirements, and the Investment Manager shall maintain in cash or cash equivalents sufficient assets to meet such cash requirements.

7. MANAGEMENT OF INVESTMENT ACCOUNT

7.1 The Investment Manager shall, subject to the provisions of Section 7.4 hereof, have complete discretion in the investment and reinvestment of the assets held in the Investment Account and shall determine what securities or other property shall be acquired, held or disposed of for the Investment Account and, subject to the provisions of Section 6 hereof, what portion of the assets held in the Investment Account shall be held in cash or cash equivalents.

- 7.2 The Investment Manager shall have authority as provided in Section 5.02 of the CPUC Qualified Master Trust agreement to direct the Trustee with respect to the investment and management of the assets held in the Investment Account. The Investment Manager shall exercise its power and carry out its duties hereunder at all times in a manner which conforms to the terms of this Agreement, the CPUC Qualified Master Trust agreement, and applicable law.
- 7.3 Unless otherwise specified in writing to the Investment Manager by the Committee, all orders for the purchase and sale of securities for the Investment Account shall be placed in such markets and through such brokers or dealers as in the Investment Manager's best judgment offer the most favorable price and market for the execution of such transactions. The Committee understands and agrees that the Investment Manager may effect securities transactions which cause the Investment Account to pay an amount of commission in excess of the amount of commission another broker or dealer would have charged, provided, however, that the Investment Manager determines in good faith that such amount of commission is reasonable. Brokerage fees or commissions shall be evaluated in relation to the value of brokerage and research services provided by such broker or dealer, viewed in terms of either the

specific transaction or the Investment Manager's overall responsibilities for the Investment Accounts for which the Investment Manager exercises investment discretion. The Committee also understands that the receipt and use of such services will not reduce the Investment Manager's customary and normal research activities.

7.4 The Investment Account shall be invested in conformity with the provisions of IRC Section 468A. Specifically, investments for the Investment Account shall be limited to:

- (A) Public debt securities of the United States (Obligations that are taken into consideration for purposes of the public debt limit);
- (B) Obligations of a state or local government that are not in default as to principal or interest (Obligations of a State or local government means the obligations of a State or local governmental unit the interest on which is exempt from tax under IRC Section 103(a)); and
- (C) Time or demand deposits in a bank (as defined in IRC Section 581) or an insured credit union (within the meaning of Section 101(6) of the Federal Credit Union Act, 12 U.S.C. 1752(7)),

located in the United States. The term "time or demand deposits" includes checking accounts, savings accounts, certificates of deposit or other time or demand deposits. The term does not include common or collective trust funds, such as a common trust fund as defined in IRC Section 584.

The Investment Account may not be invested in any investment which would violate the provisions against self-dealing contained in IRC Section 4951 as made applicable to the CPUC Qualified Master Trust by IRC Section 468A(e)(5) any regulations thereunder, and any successor provision. The Committee agrees to cooperate with the Investment Manager in identifying and/or ascertaining any conduct, act or transaction which may constitute "self-dealing" under IRC Section 4951.

- 7.5 The Investment Manager is hereby empowered to issue orders for the purchase or sale of securities for the Investment Account directly to a broker or dealer. The Investment Manager shall give the Trustee prompt written notification of each such order unless the Trustee settles such orders through a securities depository using an institutional delivery system, in which case the Trustee may deliver or receive securities in accordance with appropriate trade reports or statements given the Trustee by such depository without having received communications or instructions from the Investment Manager. In any event, the Investment

Manager shall instruct the broker or dealer concerned to forward a copy of the confirmation of the execution of such order to the Trustee and, if the Committee so requests, to the Committee and other interested parties.

8. STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER

- 8.1 The Investment Manager represents and warrants that it is (a) duly registered as an investment adviser under the Investment Advisers Act of 1940 or (b) a bank, as defined in that Act, or (c) an insurance company qualified to perform investment advisory services under the laws of more than one state. The Investment Manager agrees to maintain such registration or status in full force and effect. The Investment Manager agrees that as soon as it knows or has reason to know that such registration or status may terminate it shall notify the Committee forthwith.
- 8.2 The Investment Manager acknowledges that it shall be a "fiduciary" with respect to the CPUC Qualified Master Trust and that it shall discharge its duties hereunder at all times with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Investment Manager agrees to exercise its powers and to discharge its duties hereunder in accordance with the provisions of the CPUC

Qualified Master Trust agreement. The Investment Manager acknowledges that it has received copies of the CPUC Qualified Master Trust agreement.

9. INFORMATION AND REPORTS

9.1 Within 45 days after the close of each calendar quarter, the Investment Manager shall submit a written report to the Committee detailing the actions taken by the Investment Manager under this Agreement during such calendar quarter. Such reports shall be furnished to the Committee containing an asset summary, the Investment Account investments' cost and market values, before and after-tax rate of return measurements computed on a time-weighted basis, along with other selected measures and characteristics as may be requested by the Committee. Available twelve-month and market cycle period results shall also be provided.

9.2 The Trustee in performing its duties under Section 4.05 of the CPUC Qualified Master Trust agreement may from time to time request the Investment Manager to furnish the Trustee with reports of the valuation of particular assets held in the Investment Account and copies or summaries of any reports of the Investment Manager containing reasonably current information as to the valuation or factors affecting the valuation of such assets. The

Investment Manager shall provide such reports as the Trustee reasonably requests.

- 9.3 The Investment Manager shall keep accurate and detailed records and accounts of all investments of the Investment Account and of all receipts, disbursements and other transactions hereunder affecting the Investment Account. All such records and accounts and all documents relating thereto shall be open at all reasonable times and under reasonable conditions to inspection and audit by any person or persons designated by the Committee.
- 9.4 The Committee and the Investment Manager agree to provide to each other such information as the Investment Manager, or the Committee, as the case may be, may reasonably request to enable it to carry out its duties, obligations and responsibilities under this Agreement, the CPUC Qualified Master Trust agreement and applicable law. The Investment Manager agrees to notify the Committee promptly in writing of (i) the commencement of any proceeding, suit or action, whether civil or criminal, or the commencement by any state or federal administrative authority of any investigation or other administrative proceeding, if such proceeding, suit, action or investigation arises out of the conduct by the Investment Manager or its principals, or employees, or arises out of a violation or alleged

violation by any such person of any state or federal securities law, rule or regulation, and (ii) the commencement of any other proceeding, suit or action, whether civil or criminal, against the Investment Manager or any of its principals, affiliates or employees if an unfavorable determination in such proceeding, suit or action against any such person would have a material adverse effect on the Investment Manager's financial position or stability or otherwise interfere with performance of its duties hereunder.

- 9.5 All information and advice furnished to or obtained by the Committee, the Investment Manager, the Trustee or the CPUC under or in connection with this Agreement shall be treated as confidential and shall not be disclosed to third parties except as required by law.
- 9.6 As provided in the CPUC Qualified Master Trust agreement, the Committee shall evaluate the performance of the Investment Manager annually and submit a written report to the CPUC. The report shall be confidential and submitted to the CPUC under the provisions of Section 583 of the Public Utilities Code or an applicable successor provision. Also, as provided in the CPUC Qualified Master Trust agreement, the Committee shall evaluate potential substitute investment managers at least once every

three years and shall submit a report to the CPUC. The report may be combined with the annual report described above and shall be subject to the same confidentiality provisions.

The following factors may necessitate a formal reconsideration of the retention of the Investment Manager or the allocation of funds to the Investment Manager at any time:

- (A) A change in investment philosophy and/or style of the Investment Manager as discerned by the Committee;
- (B) A substantive change, as defined by the Committee, in the management of the Investment Manager, including a significant change of professional staff, a change in ownership of the Investment Manager's firm, or other significant organizational changes; or
- (C) Any violation of permitted investment strategies as defined by IRC Sections 501(c)(21)(B)(ii) and 468A(e)(4)(C), or this Agreement.

10. LIABILITY

- 10.1 The Investment Manager shall be liable for any acts, omissions or defaults of its own officers and agents; provided, however, that the Investment Manager shall not be liable for the acts, omissions or defaults of an agent acting in its capacity as a broker/dealer provided that such agent (1) is a widely recognized bank or broker/dealer that commonly engages in similar investment transactions with institutional investors, and (2) was selected with reasonable care and the performance and status of the agent is monitored with reasonable care throughout the duration of the agency relationship. This Section 10.1 shall not apply to any liabilities imposed under the IRC.
- 10.2 The Investment Manager shall be liable for any tax imposed pursuant to IRC Section 4951 (or any applicable successor provision) with respect only to investment transactions authorized by the Investment Manager for the CPUC Qualified Master Trust provided, however, that in determining the applicability of Section 4951, the Investment Manager may rely on a list provided and maintained by the Committee of "disqualified persons" as defined in Section 4951(e)(4) of the IRC.
- 10.3 Except as provided in Sections 10.1, 10.2, 10.4, and 10.5, the Investment Manager shall not be responsible

for, and shall be held harmless from, any and all liability to the Company, the Committee, or the CPUC Qualified Master Trust, including, but not limited to, any and all liability resulting from disqualification of the CPUC Qualified Master Trust by the Internal Revenue Service or taxes imposed on the CPUC Qualified Master Trust, the Committee, or the Company.

- 10.4 In the event the Investment Manager authorizes purchase of a security for the CPUC Qualified Master Trust which, on the date the security was purchased, violates the investment restrictions set forth in IRC Sections 501 (c)(21)(B)(ii) and 468 A (e)(4)(c), the Investment Manager will purchase the security from the CPUC Qualified Master Trust at its cost to the trust and will replace it with a qualifying security of equal value. The cost of the replacement security will be determined by the applicable prevailing yields or prices on the date the restricted security was purchased. Should a security or securities subsequently become restricted, at the time this is ascertained, the Investment Manager will sell the security or securities and use the proceeds to purchase qualifying securities.

In the event the Investment Manager authorizes purchase of a security for the CPUC Qualified Master

Trust which, on the date the security was purchased, violates the investment restrictions set forth in IRC Sections 501(c)(21)(B)(ii) and 468 A(e)(4)(C) and the Internal Revenue Service imposes a tax on that transaction under IRC Section 4952(a)(1), the Investment Manager shall be liable for that tax. However, the Investment Manager, shall not be liable for, and shall be held harmless from, any tax imposed on the Trustee pursuant to IRC Section 4952(a)(2), or any other tax resulting from the nonqualifying transaction.

Should the Internal Revenue Service disqualify the CPUC Qualified Master Trust and the Committee determines to defend its qualified status, the Investment Manager shall cooperate with the Committee and the Company in every reasonable manner, including providing its investment and trading professionals as expert witnesses at no cost to the Committee, the CPUC Qualified Master Trust or the Company.

The Committee shall promptly notify the Investment Manager upon its discovery of any security purchased by the Investment Manager for the CPUC Qualified Master Trust which, in the opinion of the Committee or the Trustee, may not meet the investment restrictions set forth in IRC Sections 501(c)(21)(B)(ii) and 468 A(e)(4)(c).

10.5 Should the Investment Manager, knowingly and willfully, with scienter violate the restrictions on the investment of trust assets set forth in IRC Sections 501 (c)(21)(B)(ii) and 468 A (e)(4)(c) with respect to the CPUC Qualified Master Trust the Investment Manager shall be liable for any consequences flowing from such violation(s).

11. COMPENSATION

The Investment Manager's fee rates are set forth on Appendix B which is attached hereto and by this reference made a part hereof.

12. AMENDMENT AND TERMINATION

12.1 This Agreement may be amended by written agreement of the Committee and the Investment Manager. Any amendments, however, shall not be effective until approved by the CPUC.

12.2 Except as noted below, this Agreement shall continue in force until termination by the Committee or the Investment Manager upon 30 days prior written notice to the other party. Fees paid in advance will be prorated to the date of termination and any unearned portion thereof will be refunded. If at any time the representation contained in the first sentence of Section 8.1 hereof ceases to be true, this Agreement

shall terminate immediately and the Investment Manager shall cooperate with the Committee and the Trustee in the delivery of any of the assets, books or records pertaining to the CPUC Qualified Master Trust which are then in the possession, or control, of the Investment Manager.

13. MISCELLANEOUS

13.1 No assignment of this Agreement or any rights or duties hereunder shall be made by the Investment Manager without the written consent of the Committee. As used herein, the term "assignment" shall have the meaning given in the Investment Advisers Act of 1940 and the rules and regulations adopted thereunder.

13.2 The Investment Manager shall promptly notify the Committee in writing of any significant change in the management of the Investment Manager, including a change in professional staff, ownership, or other significant organizational changes.

13.3 Any notice, direction, report or other communication to the Committee, the Investment Manager or the Trustee shall be addressed as follows:

(a) To the Committee:

Southern California Edison Company
2244 Walnut Grove Avenue, G.O. 1, Room 235
Rosemead, CA 91770

Attention: Nuclear Facilities Decommissioning
Master Trust Committee

(b) To the Investment Manager:

RCM Capital Management
Four Embarcadero Center, Suite 2900
San Francisco, CA 94111

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

(c) To the Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
P.O. Box 755
Chicago, IL 60690

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

13.4 In the event that the CPUC Qualified Master Trust agreement is amended after the execution of this Agreement, the Committee shall furnish the Investment Manager with a copy of such amendment promptly after such amendment is adopted.

13.5 This Agreement and its performance shall be governed by and construed in accordance with the laws of the State of California as if this Agreement were executed in and were to be wholly performed within the State of California. In case any provision of this Agreement shall be held to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Agreement but shall be fully severable, and the Agreement shall

be construed and enforced as if such illegal or invalid provisions had not been included herein.

13.6 The titles to sections of this Agreement are intended solely as a convenience and shall not be used as an aid in construction of any of the provisions hereof.

13.7 This Agreement may be executed in three (3) counterparts, and any such counterpart shall be deemed an original if it has been signed and delivered by the parties hereto.

13.8 This Agreement shall be effective when approved by the CPUC and signed by all parties.

In recognition of their acceptance of the terms and conditions of this Agreement, the Committee and the Investment Manager hereby execute this Agreement by their duly authorized representatives, as of the 25th day of January, 1988.

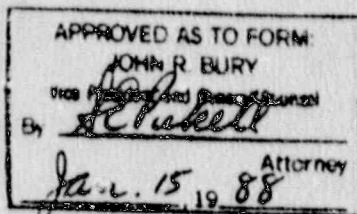
APPROVED BY:
PUBLIC UTILITIES COMMISSION

By: [Signature]
Executive Director

Date: _____

NUCLEAR FACILITIES
DECOMMISSIONING MASTER TRUST
COMMITTEE FOR THE SOUTHERN
CALIFORNIA EDISON COMPANY
NUCLEAR FACILITIES QUALIFIED
CPUC DECOMMISSIONING MASTER
TRUST AGREEMENT, DATED
NOVEMBER 25, 1987

By: [Signature]
Authorized Representative



By: [Signature]
Authorized Representative

RCM CAPITAL MANAGEMENT

By: [Signature]
Title: [illegible]

By: [Signature]
Title: [illegible]

ENCLOSURE 1.8.11.b

SOUTHERN CALIFORNIA EDISON COMPANY -
INVESTMENT MANAGEMENT AGREEMENT BETWEEN RCM CAPITAL MANAGEMENT
AND THE NUCLEAR FACILITIES DECOMMISSIONING MASTER TRUST
COMMITTEE FOR THE CPUC NON-QUALIFIED MASTER TRUST

INVESTMENT MANAGEMENT AGREEMENT
BETWEEN
RCM CAPITAL MANAGEMENT

AND

THE NUCLEAR FACILITIES DECOMMISSIONING
MASTER TRUST COMMITTEE
FOR THE
CPUC NON-QUALIFIED MASTER TRUST

SOUTHERN CALIFORNIA EDISON COMPANY

TABLE OF CONTENTS

Article	Title	Page
1.	PARTIES	1
2.	RECITALS	1
3.	AGREEMENT	2
4.	EMPLOYMENT	2
5.	THE COMMITTEE	3
6.	THE INVESTMENT ACCOUNT	4
7.	MANAGEMENT OF INVESTMENT ACCOUNT	5
8.	STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER	8
9.	INFORMATION AND REPORTS	9
10.	LIABILITY	13
11.	COMPENSATION	15
12.	AMENDMENT AND TERMINATION	15
13.	MISCELLANEOUS	16
APPENDIX A		20
APPENDIX B		21

INVESTMENT MANAGEMENT AGREEMENT

1. PARTIES

The Parties to this INVESTMENT MANAGEMENT AGREEMENT ("Agreement") are RCM Capital Management ("Investment Manager") and the Nuclear Facilities Decommissioning Master Trust Committee ("Committee") created pursuant to Article III of that certain Nuclear Facilities Non-Qualified CPUC Decommissioning Master Trust Agreement, dated November 25, 1987 ("CPUC Non-Qualified Master Trust").

2. RECITALS

- 2.1 Southern California Edison Company ("Company") is a public utility subject to regulation by the California Public Utilities Commission ("CPUC").
- 2.2 The CPUC has permitted the Company to include in its cost of service for ratemaking purposes certain amounts to be contributed by the Company to decommissioning funds which are not tax qualified under Section 468A of the Internal Revenue Code of 1986 ("IRC") (all references to the IRC shall include any amendments thereto, any regulations thereunder and any applicable successor provisions) in order to provide adequate monies for the Company's share of decommissioning costs with respect to the San Onofre Nuclear Generating Station ("SONGS") and the Palo Verde Nuclear Generating Station ("Palo Verde").

2.3 The Company has established the CPUC Non-Qualified Master Trust with Harris Trust and Savings Bank ("Trustee"), in order to provide adequate monies for the Company's CPUC jurisdictional share of decommissioning costs associated with SONGS and Palo Verde.

2.4 The Committee has been created to direct and manage all assets of the CPUC Non-Qualified Master Trust and to perform all duties attendant thereto, including the appointment of investment managers and the execution of whatever contracts, agreements, or other documents it deems necessary to manage and invest such assets.

2.5 The Committee desires to employ the Investment Manager to manage a portion of the CPUC Non-Qualified Master Trust.

3. AGREEMENT

In consideration of the promises and mutual covenants contained herein, the Committee and the Investment Manager hereby mutually covenant and agree as follows:

4. EMPLOYMENT

4.1 The Committee hereby employs the Investment Manager to manage the CPUC Non-Qualified Master Trust assets ("Investment Account") shown on Appendix A, attached

hereto and made a part hereof, and such other assets as the Committee may, from time to time, designate in writing.

4.2 By execution of this Agreement the Investment Manager accepts the appointment as investment manager and agrees to supervise and direct the investments of the Investment Account in accordance with Section 7.4 hereof.

4.3 The Investment Manager shall not under any circumstances have custody or physical control of any assets of the Investment Account, it being intended that the Trustee, pursuant to the terms of the CPUC Non-Qualified Master Trust, shall be responsible for the safekeeping thereof and for the physical consummation of all transactions made pursuant to the directions of the Investment Manager or otherwise.

5. THE COMMITTEE

In this Agreement certain powers (including, without limitation, the right to give certain directions, notices, instructions and consents) are reserved to the Committee. The Committee shall have authority to delegate the right to exercise such powers, or any one or more of them, and any responsibilities in connection therewith, to such person or persons, as the Committee may from time to time determine. The Committee shall give the Investment Manager written

notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of delegation until given written notice of any revocation of any such delegation.

6. THE INVESTMENT ACCOUNT

The Committee shall provide, or shall cause the Trustee to provide, to the Investment Manager on a continuing basis such information concerning security transactions and the status of the Investment Account as the Investment Manager may reasonably request. Payments from the CPUC Non-Qualified Master Trust which are chargeable against the Investment Account, and allocations of assets to or from the Investment Account, may be made from time to time as provided in the CPUC Non-Qualified Master Trust agreement. The Committee shall promptly notify, or shall cause the Trustee promptly to notify, the Investment Manager of any such payment or allocation. The Committee shall give the Investment Manager reasonable advance notice of any cash requirements, and the Investment Manager shall maintain in cash or cash equivalents sufficient assets to meet such cash requirements.

7. MANAGEMENT OF INVESTMENT ACCOUNT

- 7.1 The Investment Manager shall, subject to the provisions of Section 7.4 hereof, have complete discretion in the investment and reinvestment of the assets held in the Investment Account and shall determine what securities or other property shall be acquired, held or disposed of for the Investment Account and, subject to the provisions of Section 6 hereof, what portion of the assets held in the Investment Account shall be held in cash or cash equivalents.
- 7.2 The Investment Manager shall have authority as provided in Section 5.02 of the CPUC Non-Qualified Master Trust agreement to direct the Trustee with respect to the investment and management of the assets held in the Investment Account. The Investment Manager shall exercise its power and carry out its duties hereunder at all times in a manner which conforms to the terms of this Agreement, the CPUC Non-Qualified Master Trust agreement, and applicable law.
- 7.3 Unless otherwise specified in writing to the Investment Manager by the Committee, all orders for the purchase and sale of securities for the Investment Account shall be placed in such markets and through such brokers or dealers as in the

Investment Manager's best judgment offer the most favorable price and market for the execution of such transactions. The Committee understands and agrees that the Investment Manager may effect securities transactions which cause the Investment Account to pay an amount of commission in excess of the amount of commission another broker or dealer would have charged, provided, however, that the Investment Manager determines in good faith that such amount of commission is reasonable. Brokerage fees or commissions shall be evaluated in relation to the value of brokerage and research services provided by such broker or dealer, viewed in terms of either the specific transaction or the Investment Manager's overall responsibilities for the Investment Accounts for which the Investment Manager exercises investment discretion. The Committee also understands that the receipt and use of such services will not reduce the Investment Manager's customary and normal research activities.

7.4 Investments for the Investment Account shall be limited to:

- (A) Public debt securities of the United States (Obligations that are taken into consideration for purposes of the public debt limit);

- (B) Obligations of a state or local government that are not in default as to principal or interest (Obligations of a State or local government means the obligations of a State or local governmental unit the interest on which is exempt from tax under IRC Section 103(a));
- (C) Time or demand deposits in a bank (as defined in IRC Section 581) or an insured credit union (within the meaning of Section 101(6) of the Federal Credit Union Act, 12 U.S.C. 1752(7)), located in the United States. The term "time or demand deposits" includes checking accounts, savings accounts, certificates of deposit or other time or demand deposits. The term does not include common or collective trust funds, such as a common trust fund as defined in IRC Section 584;
- (D) Guaranteed investment contracts, high-quality corporate bonds and equity securities as established by written guidelines of the Committee which shall be provided to the Investment Manager from time to time by the Committee, and other securities guaranteed or secured by the U.S. government; provided however, that investments in high quality equity securities shall not exceed 60 percent of the CPUC Non-Qualified Master Trust's fair market value;

(E) Such other investments authorized by the CPUC as the Committee so notifies the Investment Manager; or

(F) An investment fund whose underlying assets include the investments permitted in (A), (B), (C), (D) and (E) above.

7.6 The Investment Manager is hereby empowered to issue orders for the purchase or sale of securities for the Investment Account directly to a broker or dealer. The Investment Manager shall give the Trustee prompt written notification of each such order unless the Trustee settles such orders through a securities depository using an institutional delivery system, in which case the Trustee may deliver or receive securities in accordance with appropriate trade reports or statements given the Trustee by such depository without having received communications or instructions from the Investment Manager. In any event, the Investment Manager shall instruct the broker or dealer concerned to forward a copy of the confirmation of the execution of such order to the Trustee and, if the Committee so requests, to the Committee and other interested parties.

8. STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER

8.1 The Investment Manager represents and warrants that it is (a) duly registered as an investment adviser under the

Investment Advisers Act of 1940 or (b) a bank, as defined in that Act, or (c) an insurance company qualified to perform investment advisory services under the laws of more than one state. The Investment Manager agrees to maintain such registration or status in full force and effect. The Investment Manager agrees that as soon as it knows or has reason to know that such registration or status may terminate it shall notify the Committee forthwith.

- 8.2 The Investment Manager acknowledges that it shall be a "fiduciary" with respect to the CPUC Non-Qualified Master Trust and that it shall discharge its duties hereunder at all times with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Investment Manager agrees to exercise its powers and to discharge its duties hereunder in accordance with the provisions of the CPUC Non-Qualified Master Trust agreement. The Investment Manager acknowledges that it has received copies of the CPUC Non-Qualified Master Trust agreement.

9. INFORMATION AND REPORTS

- 9.1 Within 45 days after the close of each calendar quarter, the Investment Manager shall submit a

written report to the Committee detailing the actions taken by the Investment Manager under this Agreement during such calendar quarter. Such reports shall be furnished to the Committee containing an asset summary, the Investment Account investments' cost and market values, before and after-tax rate of return measurements computed on a time-weighted basis, along with other selected measures and characteristics as may be requested by the Committee. Available twelve-month and market cycle period results shall also be provided.

9.2 The Trustee in performing its duties under Section 4.05 of the CPUC Non-Qualified Master Trust agreement may from time to time request the Investment Manager to furnish the Trustee with reports of the valuation of particular assets held in the Investment Account and copies or summaries of any reports of the Investment Manager containing reasonably current information as to the valuation or factors affecting the valuation of such assets. The Investment Manager shall provide such reports as the Trustee reasonably requests.

9.3 The Investment Manager shall keep accurate and detailed records and accounts of all investments of the Investment Account and of all receipts, disbursements and other transactions hereunder affecting the Investment Account. All such records

and accounts and all documents relating thereto shall be open at all reasonable times and under reasonable conditions to inspection and audit by any person or persons designated by the Committee.

- 9.4 The Committee and the Investment Manager agree to provide to each other such information as the Investment Manager, or the Committee, as the case may be, may reasonably request to enable it to carry out its duties, obligations and responsibilities under this Agreement, the CPUC Non-Qualified Master Trust agreement and applicable law. The Investment Manager agrees to notify the Committee promptly in writing of (i) the commencement of any proceeding, suit or action, whether civil or criminal, or the commencement by any state or federal administrative authority of any investigation or other administrative proceeding, if such proceeding, suit, action or investigation arises out of the conduct by the Investment Manager or its principals, or employees, or arises out of a violation or alleged violation by any such person of any state or federal securities law, rule or regulation, and (ii) the commencement of any other proceeding, suit or action, whether civil or criminal, against the Investment Manager or any of its principals, affiliates or employees if an unfavorable determination in such proceeding, suit or action against any such person

would have a material adverse effect on the Investment Manager's financial position or stability or otherwise interfere with performance of its duties hereunder.

9.5 All information and advice furnished to or obtained by the Committee, the Investment Manager, the Trustee or the CPUC under or in connection with this Agreement shall be treated as confidential and shall not be disclosed to third parties except as required by law.

9.6 As provided in the CPUC Non-Qualified Master Trust agreement, the Committee shall evaluate the performance of the Investment Manager annually and submit a written report to the CPUC. The report shall be confidential and submitted to the CPUC under the provisions of Section 583 of the Public Utilities Code or an applicable successor provision. Also, as provided in the CPUC Non-Qualified Master Trust agreement, the Committee shall evaluate potential substitute investment managers at least once every three years and shall submit a report to the CPUC. The report may be combined with the annual report described above and shall be subject to the same confidentiality provisions.

The following factors may necessitate a formal reconsideration of the retention of the Investment

Manager or the allocation of funds to the Investment Manager at any time:

- (A) A change in investment philosophy and/or style of the Investment Manager as discerned by the Committee;
- (B) A substantive change, as defined by the Committee, in the management of the Investment Manager, including a significant change of professional staff, a change in ownership of the Investment Manager's firm, or other significant organizational changes; or
- (C) Any violation of permitted investment strategies as set forth in Section 7.4 of this Agreement.

10. LIABILITY

10.1 The Investment Manager shall be liable for any acts, omissions or defaults of its own officers and agents; provided, however, that the Investment Manager shall not be liable for the acts, omissions or defaults of an agent acting in its capacity as a broker/dealer provided that such agent (1) is a widely recognized bank or broker/dealer that commonly engages in

similar investment transactions with institutional investors, and (2) was selected with reasonable care and the performance and status of the agent is monitored with reasonable care throughout the duration of the agency relationship.

10.2 Except as provided in Sections 10.1, 10.3 and 10.4, the Investment Manager shall not be responsible for, and shall be held harmless from, any and all liability to the Company, the Committee, or the CPUC Non-Qualified Master Trust.

10.3 In the event the Investment Manager authorizes purchase of a security for the CPUC Non-Qualified Master Trust which, on the date the security was purchased, violates the investment restrictions set forth in Section 7.4 of this Agreement, the Investment Manager will purchase the security from the CPUC Non-Qualified Master Trust at its cost to the trust and will replace it with an acceptable security of equal value. The cost of the replacement security will be determined by the applicable prevailing yields or prices on the date the restricted security was purchased. Should a security or securities subsequently become restricted, at the time this is ascertained, the Investment Manager will sell the security or securities and use the proceeds to purchase acceptable securities.

The Committee shall promptly notify the Investment Manager upon its discovery of any security purchased by the Investment Manager for the CPUC Non-Qualified Master Trust which, in the opinion of the Committee or the Trustee, may not meet the investment restrictions set forth in Section 7.4 of this Agreement.

10.4 Should the Investment Manager, knowingly and willfully, with scienter violate the restrictions on the investment of trust assets set forth in Section 7.4 of this Agreement the Investment Manager shall be liable for any consequences flowing from such violation(s).

11. COMPENSATION

The Investment Manager's fee rates are set forth on Appendix B which is attached hereto and by this reference made a part hereof.

12. AMENDMENT AND TERMINATION

12.1 This Agreement may be amended by written agreement of the Committee and the Investment Manager. Any amendments, however, shall not be effective until approved by the CPUC.

12.2 Except as noted below, this Agreement shall continue in force until termination by the Committee or the

Investment Manager upon 30 days prior written notice to the other party. Fees paid in advance will be prorated to the date of termination and any unearned portion thereof will be refunded. If at any time the representation contained in the first sentence of Section 8.1 hereof ceases to be true, this Agreement shall terminate immediately and the Investment Manager shall cooperate with the Committee and the Trustee in the delivery of any of the assets, books or records pertaining to the CPUC Non-Qualified Master Trust which are then in the possession, or control, of the Investment Manager.

13. MISCELLANEOUS

- 13.1 No assignment of this Agreement or any rights or duties hereunder shall be made by the Investment Manager without the written consent of the Committee. As used herein, the term "assignment" shall have the meaning given in the Investment Advisers Act of 1940 and the rules and regulations adopted thereunder.
- 13.2 The Investment Manager shall promptly notify the Committee in writing of any significant change in the management of the Investment Manager, including a change in professional staff, ownership, or other significant organizational changes.
- 13.3 Any notice, direction, report or other communication to the Committee, the Investment Manager or the Trustee shall be addressed as follows:

(a) To the Committee:

Southern California Edison Company
2244 Walnut Grove Avenue, G.O. 1, Room 233
Rosemead, CA 91770

Attention: Nuclear Facilities Decommissioning
Master Trust Committee

(b) To the Investment Manager:

RCM Capital Management
Four Embarcadero Center, Suite 2900
San Francisco, CA 94111

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

(c) To the Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
P.O. Box 755
Chicago, IL 60690

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

13.4 In the event that the CPUC Non-Qualified Master Trust agreement is amended after the execution of this Agreement, the Committee shall furnish the Investment Manager with a copy of such amendment promptly after such amendment is adopted.

13.5 This Agreement and its performance shall be governed by and construed in accordance with the laws of the State of California as if this Agreement were executed in and were to be wholly performed within the State of California. In case any provision of

this Agreement shall be held to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Agreement but shall be fully severable, and the Agreement shall be construed and enforced as if such illegal or invalid provisions had not been included herein.

13.6 The titles to sections of this Agreement are intended solely as a convenience and shall not be used as an aid in construction of any of the provisions hereof.

13.7 This Agreement may be executed in three (3) counterparts, and any such counterpart shall be deemed an original if it has been signed and delivered by the parties hereto.

13.8 This Agreement shall be effective when approved by the CPUC and signed by all parties.

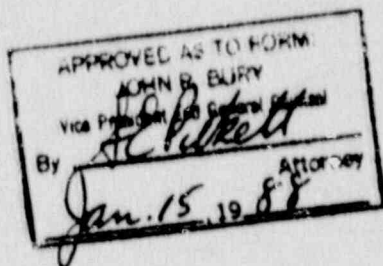
In recognition of their acceptance of the terms and conditions of this Agreement, the Committee and the Investment Manager hereby execute this Agreement by their duly authorized representatives, as of the 25th day of January, 1988.

APPROVED BY:
CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: _____

Executive Director

Date: _____



NUCLEAR FACILITIES
DECOMMISSIONING MASTER TRUST
COMMITTEE FOR THE SOUTHERN
CALIFORNIA EDISON COMPANY
NUCLEAR FACILITIES NON-QUALIFIED
CPUC DECOMMISSIONING MASTER
TRUST AGREEMENT, DATED
NOVEMBER 25, 1987

By: _____

Authorized Representative

By: _____

Authorized Representative

RCM CAPITAL MANAGEMENT

By: _____

Title: _____

By: _____

Title: _____

ENCLOSURE 1.B.11.c

SOUTHERN CALIFORNIA EDISON COMPANY -
INVESTMENT MANAGEMENT AGREEMENT BETWEEN STA FIXED INCOME MANAGEMENT
AND THE NUCLEAR FACILITIES DECOMMISSIONING MASTER TRUST
COMMITTEE FOR THE CPUC QUALIFIED MASTER TRUST

INVESTMENT MANAGEMENT AGREEMENT

BETWEEN

STW FIXED INCOME MANAGEMENT

AND

THE NUCLEAR FACILITIES DECOMMISSIONING

MASTER TRUST COMMITTEE

FOR THE

CPUC QUALIFIED MASTER TRUST

SOUTHERN CALIFORNIA EDISON COMPANY

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
1.	PARTIES	1
2.	RECITALS	1
3.	ACRLEMENT	2
4.	EMPLOYMENT	2
5.	THE COMMITTEE	3
6.	THE INVESTMENT ACCOUNT	4
7.	MANAGEMENT OF INVESTMENT ACCOUNT	4
8.	STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER	8
9.	INFORMATION AND REPORTS	9
10.	LIABILITY	13
11.	COMPENSATION	16
12.	AMENDMENT AND TERMINATION	16
13.	MISCELLANEOUS	17
APPENDIX A	21
APPENDIX B	22

INVESTMENT MANAGEMENT AGREEMENT

1. PARTIES

The Parties to this INVESTMENT MANAGEMENT AGREEMENT ("Agreement"), are STW Fixed Income Management ("Investment Manager") and the Nuclear Facilities Decommissioning Master Trust Committee ("Committee") created pursuant to Article III of that certain Nuclear Facilities Qualified CPUC Decommissioning Master Trust Agreement, dated November 25, 1987 ("CPUC Qualified Master Trust").

2. RECITALS

- 2.1 Southern California Edison Company ("Company") is a public utility subject to regulation by the California Public Utilities Commission ("CPUC").
- 2.2 Pursuant to Section 468A of the Internal Revenue Code of 1986 ("IRC") (all references to the IRC shall include any amendments thereto, any regulations thereunder and any applicable successor provisions) certain Federal income tax benefits are available to the Company by creating and funding qualified decommissioning funds associated with the San Onofre Nuclear Generating Station ("SONGS") and the Palo Verde Nuclear Generating Station ("Palo Verde").
- 2.3 The Company has established the CPUC Qualified Master Trust with Harris Trust and Savings Bank ("Trustee"), in order to provide adequate monies for the Company's

CPUC jurisdictional share of decommissioning costs associated with SONGS and Palo Verde.

2.4 The Committee has been created to direct and manage all assets of the CPUC Qualified Master Trust and to perform all duties attendant thereto, including the appointment of investment managers and the execution of whatever contracts, agreements, or other documents it deems necessary to manage and invest such assets.

2.5 The Committee desires to employ the Investment Manager to manage a portion of the CPUC Qualified Master Trust.

3. AGREEMENT

In consideration of the promises and mutual covenants contained herein, the Committee and the Investment Manager hereby mutually covenant and agree as follows:

4. EMPLOYMENT

4.1 The Committee hereby employs the Investment Manager to manage the CPUC Qualified Master Trust assets ("Investment Account") shown on Appendix A, attached hereto and made a part hereof, and such other assets as the Committee may, from time to time, designate in writing.

4.2 By execution of this Agreement the Investment Manager accepts the appointment as investment manager and agrees to supervise and direct the investments of the Investment Account in accordance with Section 7.4 hereof.

4.3 The Investment Manager shall not under any circumstances have custody or physical control of any assets of the Investment Account, it being intended that the Trustee, pursuant to the terms of the CPUC Qualified Master Trust, shall be responsible for the safekeeping thereof and for the physical consummation of all transactions made pursuant to the directions of the Investment Manager or otherwise.

5. THE COMMITTEE

In this Agreement certain powers (including, without limitation, the right to give certain directions, notices, instructions and consents) are reserved to the Committee. The Committee shall have authority to delegate the right to exercise such powers, or any one or more of them, and any responsibilities in connection therewith, to such person or persons, as the Committee may from time to time determine. The Committee shall give the Investment Manager written notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of any such delegation, including specimen signatures of all persons authorized to exercise such powers or to sign any documents on behalf of the Committee, and the Investment Manager shall be entitled to rely on such written notice of delegation until given written notice of any revocation of any such delegation.

6. THE INVESTMENT ACCOUNT

The Committee shall provide, or shall cause the Trustee to provide, to the Investment Manager on a continuing basis such information concerning security transactions and the status of the Investment Account as the Investment Manager may reasonably request. Payments from the CPUC Qualified Master Trust which are chargeable against the Investment Account, and allocations of assets to or from the Investment Account, may be made from time to time as provided in the CPUC Qualified Master Trust agreement. The Committee shall promptly notify, or shall cause the Trustee promptly to notify, the Investment Manager of any such payment or allocation. The Committee shall give the Investment Manager reasonable advance notice of any cash requirements, and the Investment Manager shall maintain in cash or cash equivalents sufficient assets to meet such cash requirements.

7. MANAGEMENT OF INVESTMENT ACCOUNT

7.1 The Investment Manager shall, subject to the provisions of Section 7.4 hereof, have complete discretion in the investment and reinvestment of the assets held in the Investment Account and shall determine what securities or other property shall be acquired, held or disposed of for the Investment Account and, subject to the provisions of Section 6 hereof, what portion of the assets held in the Investment Account shall be held in cash or cash equivalents.

- 7.2 The Investment Manager shall have authority as provided in Section 5.02 of the CPUC Qualified Master Trust agreement to direct the Trustee with respect to the investment and management of the assets held in the Investment Account. The Investment Manager shall exercise its power and carry out its duties hereunder at all times in a manner which conforms to the terms of this Agreement, the CPUC Qualified Master Trust agreement, and applicable law.
- 7.3 Unless otherwise specified in writing to the Investment Manager by the Committee, all orders for the purchase and sale of securities for the Investment Account shall be placed in such markets and through such brokers or dealers as in the Investment Manager's best judgment offer the most favorable price and market for the execution of such transactions. The Committee understands and agrees that the Investment Manager may effect securities transactions which cause the Investment Account to pay an amount of commission in excess of the amount of commission another broker or dealer would have charged, provided, however, that the Investment Manager determines in good faith that such amount of commission is reasonable. Brokerage fees or commissions shall be evaluated in relation to the value of brokerage and research services provided by such broker or dealer, viewed in terms of either the

specific transaction or the Investment Manager's overall responsibilities for the Investment Accounts for which the Investment Manager exercises investment discretion. The Committee also understands that the receipt and use of such services will not reduce the Investment Manager's customary and normal research activities.

7.4 The Investment Account shall be invested in conformity with the provisions of IRC Section 468A. Specifically, investments for the Investment Account shall be limited to:

- (A) Public debt securities of the United States (Obligations that are taken into consideration for purposes of the public debt limit);
- (B) Obligations of a state or local government that are not in default as to principal or interest (Obligations of a State or local government means the obligations of a State or local governmental unit the interest on which is exempt from tax under IRC Section 103(a)); and
- (C) Time or demand deposits in a bank (as defined in IRC Section 581) or an insured credit union (within the meaning of Section 101(6) of the Federal Credit Union Act, 12 U.S.C. 1752(7)),

located in the United States. The term "time or demand deposits" includes checking accounts, savings accounts, certificates of deposit or other time or demand deposits. The term does not include common or collective trust funds, such as a common trust fund as defined in IRC Section 584.

The Investment Account may not be invested in any investment which would violate the provisions against self-dealing contained in IRC Section 4951 as made applicable to the CPUC Qualified Master Trust by IRC Section 468A(e)(5) any regulations thereunder, and any successor provision. The Committee agrees to cooperate with the Investment Manager in identifying and/or ascertaining any conduct, act or transaction which may constitute "self-dealing" under IRC Section 4951.

- 7.5 The Investment Manager is hereby empowered to issue orders for the purchase or sale of securities for the Investment Account directly to a broker or dealer. The Investment Manager shall give the Trustee prompt written notification of each such order unless the Trustee settles such orders through a securities depository using an institutional delivery system, in which case the Trustee may deliver or receive securities in accordance with appropriate trade reports or statements given the Trustee by such depository without having received communications or instructions from the Investment Manager. In any event, the Investment

Manager shall instruct the broker or dealer concerned to forward a copy of the confirmation of the execution of such order to the Trustee and, if the Committee so requests, to the Committee and other interested parties.

8. STATUS, REPRESENTATION AND ACKNOWLEDGEMENTS OF INVESTMENT MANAGER

- 8.1 The Investment Manager represents and warrants that it is (a) duly registered as an investment adviser under the Investment Advisers Act of 1940 or (b) a bank, as defined in that Act, or (c) an insurance company qualified to perform investment advisory services under the laws of more than one state. The Investment Manager agrees to maintain such registration or status in full force and effect. The Investment Manager agrees that as soon as it knows or has reason to know that such registration or status may terminate it shall notify the Committee forthwith.
- 8.2 The Investment Manager acknowledges that it shall be a "fiduciary" with respect to the CPUC Qualified Master Trust and that it shall discharge its duties hereunder at all times with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Investment Manager agrees to exercise its powers and to discharge its duties hereunder in accordance with the provisions of the CPUC.

Qualified Master Trust agreement. The Investment Manager acknowledges that it has received copies of the CPUC Qualified Master Trust agreement.

9. INFORMATION AND REPORTS

9.1 Within 45 days after the close of each calendar quarter, the Investment Manager shall submit a written report to the Committee detailing the actions taken by the Investment Manager under this Agreement during such calendar quarter. Such reports shall be furnished to the Committee containing an asset summary, the Investment Account investments' cost and market values, before and after-tax rate of return measurements computed on a time-weighted basis, along with other selected measures and characteristics as may be requested by the Committee. Available twelve-month and market cycle period results shall also be provided.

9.2 The Trustee in performing its duties under Section 4.05 of the CPUC Qualified Master Trust agreement may from time to time request the Investment Manager to furnish the Trustee with reports of the valuation of particular assets held in the Investment Account and copies or summaries of any reports of the Investment Manager containing reasonably current information as to the valuation or factors affecting the valuation of such assets. The

Investment Manager shall provide such reports as the Trustee reasonably requests.

9.3 The Investment Manager shall keep accurate and detailed records and accounts of all investments of the Investment Account and of all receipts, disbursements and other transactions hereunder affecting the Investment Account. All such records and accounts and all documents relating thereto shall be open at all reasonable times and under reasonable conditions to inspection and audit by any person or persons designated by the Committee.

9.4 The Committee and the Investment Manager agree to provide to each other such information as the Investment Manager, or the Committee, as the case may be, may reasonably request to enable it to carry out its duties, obligations and responsibilities under this Agreement, the CPUC Qualified Master Trust agreement and applicable law. The Investment Manager agrees to notify the Committee promptly in writing of (i) the commencement of any proceeding, suit or action, whether civil or criminal, or the commencement by any state or federal administrative authority of any investigation or other administrative proceeding, if such proceeding, suit, action or investigation arises out of the conduct by the Investment Manager or its principals, or employees, or arises out of a violation or alleged

violation by any such person of any state or federal securities law, rule or regulation, and (ii) the commencement of any other proceeding, suit or action, whether civil or criminal, against the Investment Manager or any of its principals, affiliates or employees if an unfavorable determination in such proceeding, suit or action against any such person would have a material adverse effect on the Investment Manager's financial position or stability or otherwise interfere with performance of its duties hereunder.

9.5 All information and advice furnished to or obtained by the Committee, the Investment Manager, the Trustee or the CPUC under or in connection with this Agreement shall be treated as confidential and shall not be disclosed to third parties except as required by law.

9.6 As provided in the CPUC Qualified Master Trust agreement, the Committee shall evaluate the performance of the Investment Manager annually and submit a written report to the CPUC. The report shall be confidential and submitted to the CPUC under the provisions of Section 583 of the Public Utilities Code or an applicable successor provision. Also, as provided in the CPUC Qualified Master Trust agreement, the Committee shall evaluate potential substitute investment managers at least once every

three years and shall submit a report to the CPUC. The report may be combined with the annual report described above and shall be subject to the same confidentiality provisions.

The following factors may necessitate a formal reconsideration of the retention of the Investment Manager or the allocation of funds to the Investment Manager at any time:

- (A) A change in investment philosophy and/or style of the Investment Manager as discerned by the Committee;
- (B) A substantive change, as defined by the Committee, in the management of the Investment Manager, including a significant change of professional staff, a change in ownership of the Investment Manager's firm, or other significant organizational changes; or
- (C) Any violation of permitted investment strategies as defined by IRC Sections 501(c)(21)(B)(ii) and 468A(e)(4)(C), or this Agreement.

10. LIABILITY

10.1 The Investment Manager shall be liable for any acts, omissions or defaults of its own officers and agents; provided, however, that the Investment Manager shall not be liable for the acts, omissions or defaults of an agent acting in its capacity as a broker/dealer provided that such agent (1) is a widely recognized bank or broker/dealer that commonly engages in similar investment transactions with institutional investors, and (2) was selected with reasonable care and the performance and status of the agent is monitored with reasonable care throughout the duration of the agency relationship. This Section 10.1 shall not apply to any liabilities imposed under the IRC.

10.2 The Investment Manager shall be liable for any tax imposed pursuant to IRC Section 4951 (or any applicable successor provision) with respect only to investment transactions authorized by the Investment Manager for the CPUC Qualified Master Trust provided, however, that in determining the applicability of Section 4951, the Investment Manager may rely on a list provided and maintained by the Committee of "disqualified persons" as defined in Section 4951(e)(4) of the IRC.

10.3 Except as provided in Sections 10.1, 10.2, 10.4, and 10.5, the Investment Manager shall not be responsible

for, and shall be held harmless from, any and all liability to the Company, the Committee, or the CPUC Qualified Master Trust, including, but not limited to, any and all liability resulting from disqualification of the CPUC Qualified Master Trust by the Internal Revenue Service or taxes imposed on the CPUC Qualified Master Trust, the Committee, or the Company.

- 10.4 In the event the Investment Manager authorizes purchase of a security for the CPUC Qualified Master Trust which, on the date the security was purchased, violates the investment restrictions set forth in IRC Sections 501 (c)(21)(B)(ii) and 468 A (e)(4)(c), the Investment Manager will purchase the security from the CPUC Qualified Master Trust at its cost to the trust and will replace it with a qualifying security of equal value. The cost of the replacement security will be determined by the applicable prevailing yields or prices on the date the restricted security was purchased. Should a security or securities subsequently become restricted, at the time this is ascertained, the Investment Manager will sell the security or securities and use the proceeds to purchase qualifying securities.

In the event the Investment Manager authorizes purchase of a security for the CPUC Qualified Master

Trust which, on the date the security was purchased, violates the investment restrictions set forth in IRC Sections 501(c)(21)(B)(ii) and 468 A(e)(4)(C) and the Internal Revenue Service imposes a tax on that transaction under IRC Section 4952(a)(1), the Investment Manager shall be liable for that tax. However, the Investment Manager, shall not be liable for, and shall be held harmless from, any tax imposed on the Trustee pursuant to IRC Section 4952(a)(2), or any other tax resulting from the nonqualifying transaction.

Should the Internal Revenue Service disqualify the CPUC Qualified Master Trust and the Committee determines to defend its qualified status, the Investment Manager shall cooperate with the Committee and the Company in every reasonable manner, including providing its investment and trading professionals as expert witnesses at no cost to the Committee, the CPUC Qualified Master Trust or the Company.

The Committee shall promptly notify the Investment Manager upon its discovery of any security purchased by the Investment Manager for the CPUC Qualified Master Trust which, in the opinion of the Committee or the Trustee, may not meet the investment restrictions set forth in IRC Sections 501(c)(21)(B)(ii) and 468 A(e)(4)(C).

10.5 Should the Investment Manager, knowingly and willfully, with scienter violate the restrictions on the investment of trust assets set forth in IRC Sections 501 (c)(21)(B)(ii) and 468 A (e)(4)(c) with respect to the CPUC Qualified Master Trust the Investment Manager shall be liable for any consequences flowing from such violation(s).

11. COMPENSATION

The Investment Manager's fee rates are set forth on Appendix B which is attached hereto and by this reference made a part hereof.

12. AMENDMENT AND TERMINATION

12.1 This Agreement may be amended by written agreement of the Committee and the Investment Manager. Any amendments, however, shall not be effective until approved by the CPUC.

12.2 Except as noted below, this Agreement shall continue in force until termination by the Committee or the Investment Manager upon 30 days prior written notice to the other party. Fees paid in advance will be prorated to the date of termination and any unearned portion thereof will be refunded. If at any time the representation contained in the first sentence of Section 8.1 hereof ceases to be true, this Agreement

shall terminate immediately and the Investment Manager shall cooperate with the Committee and the Trustee in the delivery of any of the assets, books or records pertaining to the CPUC Qualified Master Trust which are then in the possession, or control, of the Investment Manager.

13. MISCELLANEOUS

- 13.1 No assignment of this Agreement or any rights or duties hereunder shall be made by the Investment Manager without the written consent of the Committee. As used herein, the term "assignment" shall have the meaning given in the Investment Advisers Act of 1940 and the rules and regulations adopted thereunder.
- 13.2 The Investment Manager shall promptly notify the Committee in writing of any significant change in the management of the Investment Manager, including a change in professional staff, ownership, or other significant organizational changes.
- 13.3 Any notice, direction, report or other communication to the Committee, the Investment Manager or the Trustee shall be addressed as follows:

(a) To the Committee:

Southern California Edison Company
2244 Walnut Grove Avenue, G.O. 1, Room 233
Rosemead, CA 91770

Attention: Nuclear Facilities Decommissioning
Master Trust Committee

(b) To the Investment Manager:

STW Fixed Income Management
1165 Coast Village Road
Santa Barbara, CA 93108

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

(c) To the Trustee:

Harris Trust and Savings Bank
111 West Monroe Street
P.O. Box 755
Chicago, IL 60690

Attn: Southern California Edison Company
Nuclear Facilities Decommissioning Master
Trust(s)

- 13.4 In the event that the CPUC Qualified Master Trust agreement is amended after the execution of this Agreement, the Committee shall furnish the Investment Manager with a copy of such amendment promptly after such amendment is adopted.
- 13.5 This Agreement and its performance shall be governed by and construed in accordance with the laws of the State of California as if this Agreement were executed in and were to be wholly performed within the State of California. In case any provision of this Agreement shall be held to be illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Agreement but shall be fully severable, and the Agreement shall

be construed and enforced as if such illegal or invalid provisions had not been included herein.

13.6 The titles to sections of this Agreement are intended solely as a convenience and shall not be used as an aid in construction of any of the provisions hereof.

13.7 This Agreement may be executed in three (3) counterparts, and any such counterpart shall be deemed an original if it has been signed and delivered by the parties hereto.

13.8 This Agreement shall be effective when approved by the CPUC and signed by all parties.

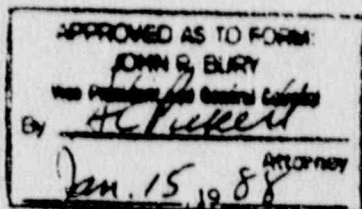
In recognition of their acceptance of the terms and conditions of this Agreement, the Committee and the Investment Manager hereby execute this Agreement by their duly authorized representatives, as of the 26th day of January, 1988.

APPROVED BY:
PUBLIC UTILITIES COMMISSION

By: [Signature]

Executive Director

Date: _____



NUCLEAR FACILITIES
DECOMMISSIONING MASTER TRUST
COMMITTEE / SOUTHERN
CALIFORNIA COMPANY
NUCLEAR FACILITIES QUALIFIED
CPUC DECOMMISSIONING MASTER
TRUST AGREEMENT, DATED
NOVEMBER 2, 1987

By: [Signature]

Authorized Representative

By: [Signature]

Authorized Representative

STW FIXED INCOME MANAGEMENT

By: [Signature]

Title: Principal

By: [Signature]

Title: Principal

ATTACHMENT PSNM-1

CERTIFICATE OF PUBLIC SERVICE COMPANY OF NEW MEXICO
RESPECTING DECOMMISSIONING FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION (PVNGS) UNIT 1

Public Service Company of New Mexico ("PSNM") hereby certifies that financial assurance for decommissioning PSNM's 10.2% interest in Unit 1 of the Palo Verde Nuclear Generating Station will be provided in an amount which may be more but not less than 10.2% of the amount stated in the table in paragraph (c)(1) of 10 C.F.R. Section 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c)(2) of 10 C.F.R. Section 50.75. Such amounts will be accumulated in accordance with 10 C.F.R. Section 50.75(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

PSNM has entered into a Decommissioning Trust Agreement dated as of July 31, 1987 with First Interstate Bank of Albuquerque, as Trustee, as amended by the First Amendment thereto dated as of January 1, 1990 (the "Trust Agreement"). [See Attachment PSNM-3.] Pursuant to the Trust Agreement, PSNM has also entered into a Service Agreement, dated as of July 31, 1987 with First Interstate Bank of Albuquerque and Financial Marketing Services, Inc., as amended by Amendment No. 1 dated July 31, 1988 and Amendment No. 2 dated January 1, 1990. [See Attachment PSNM-4.]

PSNM further certifies that it will make periodic deposits into the trust fund established pursuant to the Trust Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of each calendar year in an amount not less than 10.2% of (A) \$105 million (January 1986 dollars) (amount required by 10 C.F.R. Section 50.75 (c)(1)), adjusted annually in accordance with 10 C.F.R. Section 50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990 to the end of the calendar year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990 to the expiration of the term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

PUBLIC SERVICE COMPANY OF NEW MEXICO

By: M. H. Maerki

M. H. Maerki

Title: Senior Vice President and
Chief Financial Officer

Address: Alvarado Square
Albuquerque, NM 87158

Telephone No.: 505-848-6555

Date: July 13, 1990

ATTACHMENT PSNM--2

STATEMENT OF PUBLIC SERVICE COMPANY OF NEW MEXICO (PSNM)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUNDS AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUNDS FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

1. Adjusted Certification Amount for PVNGS Unit 1 [See Attachment PVNGS Unit 1]	\$116,590,000
2. PSNM's Share (10.2%) of Adjusted Certification Amount for PVNGS Unit 1	\$ 11,892,000
3. Status of PSNM's External Funds for PVNGS Unit 1 as of June 30, 1990	\$ 598,322
4. Currently Proposed Annual Payments into its External Funds, Including Earnings on Investments	Not less than \$ 327,353 *

* Calculated as follows:

(a) PSNM's share of Certification Amount	\$ 11,892,000
(b) Less Balance in External Funds at 06/30/90	598,322
(c) Balance remaining due on expiration date of Unit 1 license (12/31/24)	11,293,678
(d) Divide balance by 414 (no. of months 06/30/90 to 12/31/24)	27,279
(e) Multiply (d) by twelve to reflect annual payments	327,353

CERTIFICATE

I, J. B. Mulcock, Jr., Senior Vice President, Corporate Affairs and Secretary of Public Service Company of New Mexico, a New Mexico corporation (the "Company"), do hereby certify that each of:

(i) the attached Decommissioning Trust Agreement dated as of July 31, 1987 between First Interstate Bank of Albuquerque, as Trustee, and the Company;

(ii) the attached First Amendment to Decommissioning Trust Agreement dated as of January 1, 1990;

(iii) the attached Service Agreement, dated as of July 31, 1987, among First Interstate Bank of Albuquerque, Financial Marketing Services, Inc. and the Company;

(iv) the attached Amendment No. 1 to Service Agreement dated as of July 31, 1988; and

(v) the attached Amendment No. 2 to Service Agreement dated as of January 1, 1990;

is a true and correct conformed copy of the original of such document.

I do further certify that each of:

(i) the Decommissioning Trust Agreement dated as of July 31, 1987 between First Interstate Bank of Albuquerque, as Trustee, and the Company;

(ii) the Service Agreement, dated as of July 31, 1987, among First Interstate Bank of Albuquerque, Financial Marketing Services, Inc. and the Company; and

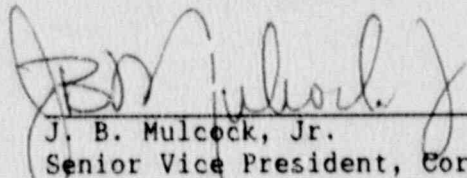
(iii) Amendment No. 1 to Service Agreement dated as of July 31, 1988;

was executed by B. D. Lackey, the duly elected Vice President and Corporate Controller of the Company, pursuant to authority granted to him, as Vice President, pursuant to the Company's Bylaws, and that each of:

(ii) the First Amendment to Decommissioning Trust Agreement dated as of January 1, 1990; and

(i) Amendment No. 2 to Service Agreement dated as of January 1, 1990;

was executed by M. H. Maerki, the duly elected Senior Vice President and Chief Financial Officer of the Company, pursuant to authority granted to him, as Senior Vice President, pursuant to the Company's Bylaws.



J. B. Mulcock, Jr.
Senior Vice President, Corporate
Affairs and Secretary

Date: July 13, 1990

ATTACHMENT PSNM-3

Decommissioning Trust Agreement dated as of July 31, 1987 between First Interstate Bank of Albuquerque, as Trustee, and Public Service Company of New Mexico, as amended by the First Amendment to Decommissioning Trust Agreement dated as of January 1, 1990.

DECOMMISSIONING TRUST AGREEMENT

between

PUBLIC SERVICE COMPANY OF NEW MEXICO

and

FIRST INTERSTATE BANK OF ALBUQUERQUE

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I - Definitions	2
1.01 Definitions	2
ARTICLE II - The Trust Fund; Deposits to the Fund; Warranties and Covenants	5
2.01 Creation of Trust	5
2.02 Initial Deposits	6
2.03 Initial Investments	6
2.04 Segregation and Safekeeping of Trust Fund	6
2.05 Purposes of Trust Fund	7
2.06 Revocation	7
ARTICLE III - Investment and Company Deposits	8
3.01 Company Direction of Investment	8
3.02 Trust Receipts	8
3.03 Cash Deposits	9
ARTICLE IV - Duties of Trustee	9
4.01 Restrictions on Trustee	9
4.02 Company Instructions	9
4.03 Compensation and Indemnification of Trustee	9
4.04 No Implied Duties	10

ARTICLE V - The Trustee	10
5.01 Acceptance of Trust; Standard of Care	10
5.02 Reports	10
5.03 Reliance on Experts	11
5.04 Trustee's Claims Against Trust Fund	11
5.05 Tax Returns	11
5.06 Monthly Reports and Annual Review	12
5.07 Audit by the Company	13
 ARTICLE VI - Indemnification of Trustee by the Company	 13
6.01 Indemnification	13
 ARTICLE VII - Transfer of the Company's Interest	 14
7.01 Permitted Transfers	14
7.02 Release of the Company	14
7.03 Notice to Trustee	15
 ARTICLE VIII - Successor Trustees; Co-Trustee and Separate Trustees	 15
8.01 Successor Trustees	15

8.02	Co-Trustees	16
8.03	Bankruptcy of Trustee	18
ARTICLE IX - Supplements and Amendments		18
9.01	Amendments and Supplements	18
9.02	Trustee Refusal to Execute	19
ARTICLE X - Payments and Distributions		19
10.01	Payments from Trust Fund Only	19
10.02	Payments of Administrative and Incidental Expenses	19
10.03	Distributions for Decommissioning Costs	19
ARTICLE XI - Miscellaneous		20
11.01	Termination	20
11.02	Transfer by Operation of Law	21
11.03	Transfers by Trustee	21
11.04	No Third-Party Beneficiaries	21
11.05	Notices	21
11.06	Severability	22
11.07	Amendments, Waivers	22
11.08	Counterparts	22
11.09	Successors and Assigns	22
11.10	Headings	22

11.11	Governing Law	22
11.12	Representations and Warranties	23
11.13	Compliance with Applicable Law	23

SCHEDULE OF EXHIBITS

EXHIBIT

TITLE

Exhibit A

COMReP Funding
Program

Exhibit B

Participating
Insurance Companies
and Forms of Policies

Exhibit C

Initial Deposit and
Initial Investment
Instructions

Exhibit D

Service Agreement

v

0134q:7/31/87:lj

DECOMMISSIONING TRUST AGREEMENT

THIS TRUST AGREEMENT is dated as of July 31, 1987, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (herein called the "Company"), and FIRST INTERSTATE BANK OF ALBUQUERQUE, a New Mexico banking corporation (herein called the "Trustee").

WHEREAS, the Company is a corporation duly organized and existing under and by virtue of the laws of the State of New Mexico and has full corporate power and authority to enter into this Trust Agreement and to undertake the obligations undertaken by it herein; and

WHEREAS, the Company intends to secure permanent life insurance in order to fund all or part of its PVNGS decommissioning program and to provide benefits to employees of the Company and its Affiliates as more fully described in Exhibit A hereto; and

WHEREAS, the Company has received commitments for the issuance of certain Insurance Policies; and

WHEREAS, the Company intends to restrict the use of the Insurance Policies and other assets constituting the corpus of the Trust; and

WHEREAS, it is the intent of this Trust Agreement to provide for the segregated safekeeping of the Insurance Policies and other assets of the Trust and to provide for the application of certain moneys contributed by the Company or obtained from the Insurance Policies, and to use the proceeds thereof in accordance with the terms of this Agreement; and

WHEREAS, the Trustee is a New Mexico banking corporation with its principal offices located in the State and has full power and authority to enter into this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the Company and the Trustee agree as follows:

7/31/87

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, capitalized terms used herein shall have the meanings provided herein (such definitions to be equally applicable to both the singular and the plural forms of the terms defined).

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

"Annual Review" shall mean a review of the Insurance Policies provided by the Insurance Servicing Agent pursuant to the Service Agreement once each year for the purpose of determining the gross insurance outstanding, the policy loans outstanding, interest due on policy loans, and the cash value of outstanding Insurance Policies and addressing certain other matters with respect to the Insurance Policies as more particularly provided in the Service Agreement.

"Company" shall mean Public Service Company of New Mexico, a New Mexico corporation, and its successors and assigns under this Agreement.

"Company Representative" shall mean the individual or individuals designated by the Company and having authority to issue Letters of Instruction.

"COMReP" shall mean the Cost of Money Reduction Plan, as more fully described in Exhibit A hereto.

"Decommissioning" shall mean the decommissioning and retirement from service of all or any interest in Unit 1 and/or Unit 2 and/or Unit 3 of PVNGS (the "Covered Units"), as elected by the Company, and the related possession, maintenance and disposal of radioactive material used in or produced incident to the possession and operation of the Covered Unit(s), including,

without limitation, (a) placement and maintenance of the Covered Unit(s) in a state of protective storage, (b) in-place entombment and maintenance of the Covered Unit(s), (c) dismantlement of the Covered Unit(s), (d) any other form of decommissioning and retirement from service required by or acceptable to the Nuclear Regulatory Commission, and (e) all activities undertaken incident to the implementation thereof and to the obtaining of Nuclear Regulatory Commission authority therefor, including, without limitation, maintenance, storage, custody, removal, decontamination, and disposition of materials, equipment and fixtures, razing of the Covered Unit(s), removal and disposition of debris from the site and restoration of the site related to the Covered Unit(s) for unrestricted use.

"Insurance Policies" shall mean the policies of insurance generally described in Exhibits B and D hereto, initially issued or to be issued by the insurance companies listed in Exhibit B hereto, and any additional, supplemental or replacement policies therefor issued by such insurance companies or other insurance companies specified in a Letter of Instruction, provided that in no event shall death benefits payable to an insured's beneficiaries, as specified in the Split-Dollar Agreements, constitute part of the Trust Fund.

"Insurance Servicing Agent" shall mean Financial Marketing Services, Inc., a Nebraska corporation, and its successors and assigns under the Service Agreement, and any successor agent engaged by the Trustee and/or the Company to perform servicing activities with respect to the Insurance Policies.

"Letter of Instruction" shall mean a notice in writing issued from time to time by the Company Representative directing the Trustee concerning the Insurance Policies, the investment of the Trust Fund, the payment of administrative costs or decommissioning costs, or other matters relating to the administration of the Trust Fund or this Agreement, including without limitation the payment of premiums due on the Insurance Policies and the payment of other expenses, borrowing against such Insurance Policies and receipt of the proceeds of the Insurance Policies, all as provided in Articles III, IV, IX and X hereof.

"Permitted Investment" shall mean the Insurance Policies and any investment other than the following:

- (a) capital stock or other ownership interests in, or debt obligations of, or other securities issued by, any entity which is a "PVNGS Participant", or any Affiliate thereof;

(b) capital stock or other ownership interests in, or debt obligations of, or other securities issued by, the Company or any Affiliate of the Company;

(c) capital stock or other ownership interests in, or debt obligations of, or other securities issued by, any New Mexico public utility or any public utility company operating in the State, or any Affiliate thereof;

(d) margin purchases;

(e) commodities speculation;

(f) fixed income securities or commercial paper not rated at least "investment grade" by at least one of the nationally recognized statistical rating services.

"Proceeds" shall mean any amounts received in the Trust Fund from the Permitted Investments, including surrender of the Insurance Policies, payment upon death of an insured (other than death benefits payable to an insured's beneficiaries as specified in the Split-Dollar Agreement, which shall be and remain the property of such beneficiaries) or borrowing against the Insurance Policies, or interest, dividends or sale proceeds from other Permitted Investments.

"PVNGS" shall mean the Palo Verde Nuclear Generating Station, located approximately 55 miles west of downtown Phoenix, Arizona.

"PVNGS Participant" shall mean a "Participant" as defined in the Arizona Nuclear Power Project Participation Agreement, dated as of August 23, 1973, among Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Southern California Edison Company, Public Service Company of New Mexico, El Paso Electric Company, the Department of Water and Power of the City of Los Angeles, and Southern California Public Power Authority, as heretofore and hereafter amended.

"Responsible Officer" shall mean any officer in the Trust Department of the Trustee designated by the Trustee as responsible for the administration of the Trust.

"Service Agreement" shall mean the Service Agreement among the Insurance Servicing Agent, the Trustee and the Company

dated as of July 31, 1987, with respect to management and servicing of the Insurance Policies, a copy of which is attached hereto as Exhibit D, as it may be amended from time to time, and any replacement agreement entered into by the Trustee and/or the Company with respect to management and servicing of the Insurance Policies.

"Split-Dollar Agreement" shall mean a Split-Dollar Agreement as defined in the Service Agreement.

"State" shall mean the State of New Mexico.

"Trust" shall mean this Trust created by the Company pursuant to the terms of this Agreement.

"Trust Agreement" or "Agreement" shall mean this Trust Agreement by and between the Company and the Trustee, as amended or supplemented from time to time.

"Trustee's Annual Report" shall mean the annual report by the Trustee with respect to the assets of the Trust, to be provided pursuant to Section 5.06(b).

"Trustee" shall mean First Interstate Bank of Albuquerque, a New Mexico banking corporation, as trustee under the Trust Agreement, and any successor independent trustee appointed hereunder.

"Trust Fund" shall mean the fund created by Section 2.01 hereof.

"Trust Obligations" shall mean amounts payable from the Trust Fund, including the payment of premiums on the Insurance Policies, payment of interest and repayment of principal on borrowings against the Insurance Policies, the payment to the Company of amounts due for any income taxes payable with respect to earnings of the Trust Fund, the payment of other administrative and incidental expenses related to the administration of the Trust Fund and this Agreement, and the payment of the costs of Decommissioning.

ARTICLE II

THE TRUST FUND; DEPOSITS TO THE FUND; WARRANTIES AND COVENANTS

Section 2.01. Creation of Trust. There is hereby created by the Company and ordered maintained in a special trust account in the custody of the Trustee in the name of the Company a trust fund, to be designated "Public Service Company of New

Mexico PVNGS Decommissioning Trust Fund" (herein called the "Trust Fund") to be held in trust by the Trustee separate and apart from any other funds of the Company held by the Trustee.

Section 2.02. Initial Deposits. Concurrently with the execution of this Trust Agreement or within a reasonable time thereafter, the Company shall deliver to the Trustee funds in the amount set forth in Exhibit C. The Trustee agrees to acquire, on behalf of the Company, by purchase from the Insurance Companies or by assignment from the Company, the Insurance Policies, and related Split-Dollar Agreements, described in the Service Agreement when issued. Except as specifically provided in Section 3.01 of this Trust Agreement, the Trustee shall have no power or duty to invest or reinvest any moneys held hereunder or to make substitutions for the Permitted Investments initially purchased hereunder or to sell, transfer or otherwise dispose of the Permitted Investments, except to collect the principal of and interest thereon, and except as specifically directed by the Company by a Letter of Instruction.

Section 2.03. Initial Investments. The initial funds received by the Trustee pursuant to Section 2.02 shall be deposited in the Trust Fund. Upon receipt of a Letter of Instruction to such effect, the Trustee shall apply the sum so deposited to the payment of the amounts necessary to bind the initial Insurance Policies as more particularly set forth in Exhibit C. Upon receipt, the initial Insurance Policies shall be deposited in the Trust Fund, although physical custody thereof shall be released to the Insurance Servicing Agent pursuant to the Service Agreement.

Section 2.04. Segregation and Safekeeping of Trust Fund. The Trustee shall hold, for the benefit of the Company, the Permitted Investments in the Trust Fund at all times as a special and separate trust fund wholly segregated from other funds and securities on deposit with the Trustee, shall never commingle the Permitted Investments with other funds or securities owned or held by it, and shall never at any time use, loan, or borrow the same, or use the same as collateral, in any way other than as provided in this Trust Agreement. The Trustee shall take reasonable efforts, consistent with the standard of care required by Section 5.01, to physically safeguard Permitted Investments in its possession. Nothing herein contained shall be construed as requiring the Trustee to keep the identical money, or any part thereof, in the Trust Fund if it is impractical to do so, but money of an equal amount, except to the extent represented by the Permitted Investments, must always be maintained on deposit in the Trust Fund as trust funds held by the Trustee as trustee; and a special account for the Trust

Fund evidencing such facts shall at all times be maintained on the books of the Trustee, together with such Permitted Investments so purchased. Except as otherwise expressly provided herein, the Trustee shall not be liable for any interest on any money held pursuant to this Agreement. Nothing herein shall prevent the Trustee from borrowing against the Insurance Policies pursuant to a Letter of Instruction as contemplated by COMReP or from relinquishing physical custody of the Insurance Policies to the Insurance Servicing Agent for ease of administration of COMReP as more particularly described in Exhibit A and the Service Agreement.

Section 2.05. Purposes of Trust Fund. The Company hereby warrants and covenants that, subject to applicable law and the right of the Company to the allocable balance of the Trust Fund upon completion of Decommissioning of each Covered Unit as provided in Section 10.03 below, the Trust Fund shall only be used for the following purposes:

(a) The accumulation of funds for the payment of the Company's share of Decommissioning costs;

(b) The payment of the Company's share of any costs, liabilities and expenses relating to or allocable to, or incurred in connection with, Decommissioning; and

(c) The payment of any administrative costs and other incidental expenses relating to or allocable to, or incurred in connection with, the Trust Fund, and the administration of this Agreement, including, without limitation, any federal, state or local tax imposed on the income or the assets of the fund, legal expenses, accounting expenses, actuarial expenses, trustee expenses, and the expenses of operating and administering COMReP.

The Company shall not authorize or permit the Trustee to invest or use the Trust Fund except in accordance with the terms of this Agreement. It is the intent of the Company that the Trust Fund be held by the Trustee and remain segregated from the other assets of the Company.

Section 2.06. Revocation. The Company may revoke this Agreement at any time upon 30 days written notice to the Trustee, provided the assets of the Trust Fund are transferred to another Decommissioning trust or otherwise dedicated to the payment of the costs of Decommissioning and administrative expenses associated with the operation of such trust or other financial program to accumulate funds for Decommissioning.

ARTICLE III

INVESTMENT AND COMPANY DEPOSITS

Section 3.01. Company Direction of Investment. At the written request of the Company by Letter of Instruction and upon compliance with the conditions hereinafter stated, the Trustee shall sell, transfer or otherwise dispose of, or request the redemption of, any of the Permitted Investments and shall either purchase other Permitted Investments or substitute Permitted Investments for such Permitted Investments. With respect to the Permitted Investments constituting the Insurance Policies, the Trustee shall at the written request of the Company by Letter of Instruction pay the Trust Obligations due thereon, surrender the policies, substitute other Permitted Investments of equivalent value for the Insurance Policies and transfer such Insurance Policies to the Company, borrow against the Insurance Policies and perform such other services with respect to and incident to the Insurance Policies, and perform any and all other actions as are specified in such Letter of Instruction, provided that the Trustee may delegate some or all of such activities to the Insurance Servicing Agent as more particularly described in the Service Agreement for ease of administration. The Trustee shall purchase directly or take by assignment such Permitted Investments as specified by the Company with deposits by the Company and/or the Proceeds derived from the sale, transfer, disposition or redemption of the Permitted Investments or from any other moneys on deposit in the Trust Fund. Any Permitted Investments substituted for existing Permitted Investments under this Section 3.01 shall be held by the Trustee in trust in the Trust Fund for the same purposes as the existing Permitted Investments, and the principal and Proceeds of such Permitted Investments and the interest, dividends or other income received thereon shall be applied and dealt with in the same manner as is herein prescribed for the Permitted Investments. Nothing herein shall be construed to prevent the Trustee from holding securities in the names of nominees for ease of administration.

Section 3.02. Trust Receipts. The Trustee shall from time to time collect and receive the interest or other Proceeds accruing and payable on the Permitted Investments and the maturing principal amounts of the Permitted Investments as the same become due and credit the same to the Trust Fund. If the Trustee shall receive death benefits from the Insurance Policies payable to an insured's beneficiaries, the Trustee shall not accept such payment and as soon as practicable shall return such payment to the applicable insurance companies for payment to such beneficiaries.

Section 3.03. Cash Deposits. The Company may make cash deposits to the Trust Fund from time to time in such amounts as it shall determine. Money deposited in the Trust Fund shall be invested pursuant to a Letter of Instruction from the Company and only in Permitted Investments, and neither the Company nor the Trustee shall otherwise invest or reinvest any money in the Trust Fund.

ARTICLE IV

DUTIES OF TRUSTEE

Section 4.01. Restrictions on Trustee. The Trustee agrees that it shall not manage, control, use, sell, dispose of or otherwise deal with the Trust Fund except as expressly required by the terms of this Agreement or as expressly provided in written instructions from the Company pursuant to Articles III, IV, IX or X hereof.

Section 4.02. Company Instructions. Upon receipt of a Letter of Instruction at any time and from time to time from the Company, the Trustee shall take such of the following actions as may be specified in such Letter of Instruction: (a) give such notice or direction or exercise such right, remedy or power hereunder or in respect of all or any part of the Trust Fund, or take such other action in respect of the Permitted Investments, as shall be specified in such Letter of Instruction; (b) take such action to preserve or protect the Trust Fund as may be specified in such Letter of Instruction; and (c) take such other actions not inconsistent with the terms of this Agreement which the Company deems necessary or desirable to consummate the transactions contemplated hereby.

Section 4.03. Compensation and Indemnification of Trustee. The Trustee shall not be required to take any action or refrain from taking any action under Section 4.02 hereof unless the Trustee shall have been indemnified by the Company in manner and form satisfactory to the Trustee against any liability, cost or expense (including counsel fees) which may be incurred in connection therewith; and, if the Company shall have directed the Trustee to take any such action or refrain from taking any action, the Company agrees to furnish such indemnity as shall be required and in addition to pay the reasonable compensation of the Trustee for the services performed or to be performed by it pursuant to such direction. As between the Company and the Trustee, the Company and the Trustee agree that the Trustee shall not be required to take any action under Section 4.02 hereof if the Trustee shall reasonably determine, or shall have been advised by counsel, that such action is contrary to the terms of this Agreement or is otherwise contrary to law.

The Trustee shall be entitled to (a) such reasonable compensation for its services under this Trust Agreement as shall be agreed upon from time to time in writing by the Trustee and Company, provided that the Company and the Trustee shall formally review the Trustee's fee structure at least every five (5) years, and (b) reimbursement for all reasonable expenses and disbursements incurred by the Trustee in accordance with any provision hereof (including the reasonable fees and disbursements of its counsel, agents, accountants and other skilled persons employed in accordance with Section 5.03 hereof). The Company shall be liable to the Trustee for such obligations to pay compensation and to reimburse for expenses and disbursements, to the extent such amounts are not paid directly from the Trust Fund.

Section 4.04. No Implied Duties. The Trustee shall not have any duty or obligation to manage, control, use, sell, dispose of or otherwise deal with the Trust Fund, except as expressly provided by the terms of this Trust Agreement or in a Letter of Instruction from the Company received pursuant to the terms of Articles III, IV, IX or X hereof, and no implied duties or obligations shall be read into this Trust Agreement against the Trustee.

ARTICLE V

THE TRUSTEE

Section 5.01. Acceptance of Trust; Standard of Care. The Trustee accepts the trusts hereby created and agrees to perform the same but only upon the terms of this Trust Agreement applicable to it. The Trustee also agrees to receive and disburse all moneys received by it constituting part of the Trust Fund upon the terms of this Trust Agreement and with respect thereto to exercise the same degree of care and skill as is customarily exercised by similar institutions in the receipt and disbursements of money under similar circumstances. The Trustee in its individual capacity shall not be answerable or accountable under any circumstances, except for the willful misconduct or gross negligence of the Trustee and except for its failure to exercise the degree of care and skill in the receipt and disbursements of moneys actually received by it as set forth in this Section 5.01 and except for liabilities that may result from the inaccuracy or breach of any covenant, representation or warranty made by the Trustee under this Trust Agreement.

Section 5.02. Reports. Except as otherwise provided in this Trust Agreement or by a Letter of Instruction furnished pursuant to Section 3.01 or 4.02 or Article X hereof, and without

limiting the generality of Section 4.04 hereof, the Trustee shall furnish to the Company promptly upon receipt thereof duplicates or copies of all reports, notices, requests, demands, certificates, financial statements and other instruments and all reports from any governmental authorities or agencies received by the Trustee with respect to or arising out of this Trust Agreement or the administration of the Trust Fund (collectively, "Communications"), unless such Communications expressly indicate that a duplicate copy thereof was sent by the originator to the Company.

Section 5.03. Reliance on Experts. The Trustee shall incur no liability to anyone in acting in reliance upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper believed by a Responsible Officer of the Trustee to be genuine and believed by such Responsible Officer to be signed by the proper party or parties. In the administration of the trusts hereunder, the Trustee may execute any of the trusts or powers hereof and perform its powers and duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled persons to be selected and employed by it, and the Trustee shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons.

Section 5.04. Trustee's Claims Against Trust Fund. Except as provided in Section 6.01 hereof or as directed by the Company in a Letter of Instruction, the Trustee agrees that it shall have no right against the Trust Fund for any fee as compensation for its services hereunder. Nothing contained in this Trust Agreement shall be construed as authorizing or permitting the Trustee to assert any lien on the Trust Fund for the payment of any fee or other sum owed to it under any agreement with the Company except as specifically provided herein.

Section 5.05. Tax Returns. Upon receipt of a Letter of Instruction from the Company to such effect, the Trustee shall sign and file all such tax reports and tax returns relating to the transactions contemplated by this Trust Agreement as may be delivered by the Company to the Trustee and shall execute such other instruments, documents and certificates as are necessary to enable the Company to make any such tax report or tax return, provided that the Trustee shall have no liability with respect to such tax returns and reports other than for the accuracy of information supplied by the Trustee for inclusion therein. The Trustee shall give to the Company, upon request, such periodic advice concerning receipts and disbursements of the Trustee as would be helpful to the Company in preparing its tax returns.

Section 5.06. Monthly reports and Annual Review.

(a) No later than the 15th day of each calendar month, the Trustee shall deliver to the Company a brief report with respect to:

(i) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for which the Trustee claims it is entitled to reimbursement hereunder;

(ii) the property and funds, if any, in the possession of the Trustee as such on the date of such report;

(iii) the property and funds, if any, constituting part of the Trust Fund in the possession of third parties (including without limitation the Insurance Servicing Agent) on the date of such report, provided that any information with respect to the Insurance Policies may be based solely upon the latest information provided by the Insurance Servicing Agent pursuant to the Service Agreement;

(iv) all receipts and disbursements by the Trustee from the Trust Fund during the preceding calendar month; and

(v) such other information with respect to the Trust Fund and the administration of this Agreement as the Company shall request, and in a form requested by the Company.

The Trustee shall periodically review information and reports supplied by the Insurance Servicing Agent pursuant to the Service Agreement for accuracy, consistency and completeness and shall consult with the Company and the Insurance Servicing Agent as necessary to ensure accurate and complete recordkeeping with respect to the Insurance Policies.

(b) Within thirty (30) days following the end of each calendar year, the Trustee shall furnish to the Company the

Trustee's Annual Report with respect to the immediately preceding calendar year, which shall include the information required under subparagraph (a) with respect to such preceding calendar year and any Annual Review, actuarial analysis and outside evaluation of the Insurance Policies provided by or through the Insurance Servicing Agent as contemplated by the Service Agreement.

Section 5.07. Audit by the Company. At any time, upon written notice to the Trustee, the Company shall have the right to inspect and examine the books of account, records, receipts and other pertinent information of the Trustee, and of its agents acting hereunder, including without limitation the Insurance Servicing Agent, with respect to the Trust Fund and this Trust Agreement. The Company shall also be entitled, at Company expense, at any time upon written notice to the Trustee, to an independent audit of such books of account, records, receipts and other pertinent information by a certified public accountant designated by the Company. Any such inspection or audit shall be conducted during the Trustee's usual business hours.

ARTICLE VI

INDEMNIFICATION OF TRUSTEE BY THE COMPANY

Section 6.01. Indemnification. The Company hereby agrees to indemnify, protect, save and keep harmless the Trustee, and the successors, assigns, legal representatives, agents and servants of the Trustee, from and against any and all liabilities, obligations, losses, damages, penalties, taxes (excluding any taxes payable by the Trustee on or measured by any compensation received by the Trustee for its services under this Trust Agreement), claims, actions, suits, costs, expenses or disbursements (including, without limitation, the reasonable fees and disbursements of counsel, accountants and other skilled persons employed by the Trustee in connection with this Trust Agreement) of any kind or any nature whatsoever which may be imposed on, incurred by or asserted against the Trustee in any way relating to or arising out of this Agreement or the enforcement of any of the terms hereof, or in any way relating to or arising out of the purchase, acceptance, nonacceptance, rejection, delivery, possession, condition, sale, return or other disposition of the Permitted Investments or part thereof, or in any way relating to or arising out of the administration of the Trust Fund hereunder, except (a) in the case of willful misconduct or gross negligence on the part of the Trustee or the failure to abide by its standard of care set forth in Section 5.01 hereof or (b) those resulting from the inaccuracy of any representation or warranty of the Trustee in this Trust

Agreement. The indemnities contained in this Section 6.01 extend to the Trustee and shall not be construed as indemnities of the Trust Fund. The indemnities contained in this Section 6.01 shall survive the termination of this Trust Agreement. In addition, if necessary, the Trustee shall be entitled to indemnification from the Trust Fund for any liability, obligation, loss, damage, penalty, tax, claim, action, suit, cost, expense or disbursement indemnified against pursuant to this Section 6.01 to the extent not reimbursed by the Company or others, but without releasing any of them from their respective agreements of reimbursement.

ARTICLE VII

TRANSFER OF THE COMPANY'S INTEREST

Section 7.01. Permitted Transfers. The Company (including any successor pursuant to this Section 7.01) shall not assign, convey or otherwise transfer any of its rights and interests in and to this Trust Agreement and the Trust Fund except in accordance with the terms of this Trust Agreement. Subject to the approval of the New Mexico Public Service Commission and/or any other governmental agency or entity with jurisdiction, to the extent such approval is required by applicable law, the Company may convey to any other person (hereinafter in this Article VII referred to as the "Transferee") all or any part of its rights and interests in and to this Trust Agreement and the Trust Fund if (a) the Transferee has the requisite power and authority to enter into and carry out the activities required or contemplated to be performed by the Company under this Agreement; and (b) the Transferee enters into an agreement, in form and substance reasonably satisfactory to the Trustee, whereby the Transferee confirms that, to the extent of such conveyance, it shall be deemed to be the party named as the Company in this Trust Agreement and agrees, to such extent, to be bound by all the terms of, and to undertake all the obligations, contained in this Trust Agreement.

Section 7.02. Release of the Company. Upon the transfer of all of its rights and interests in and to this Trust Agreement and the Trust Fund in a transaction permitted by Section 7.01, the Company shall be released and discharged without further act or formality whatsoever from its obligations hereunder with respect to the interest transferred. In the case of any such permitted conveyance or transfer of less than all of the interest of the Company, (a) the transferor and Transferee or Transferees shall be severally (and not jointly) obligated with respect to the obligations of the Company hereunder in accordance with the interest held by each of them, and (b) if necessary, appropriate amendments shall be made to this

Agreement to provide for the situation in which there is more than one beneficiary as may be agreed to by the transferor and Transferee or Transferees and consented to by the Trustee.

Section 7.03. Notice to Trustee. If, pursuant to Section 7.01 hereof, the Company proposes to transfer all or any part of its interests hereunder, it shall give written notice to the Trustee specifying the name and address of the Transferee, at least thirty (30) days prior to the conveyance. The Trustee shall not be bound by any assignment, conveyance or transfer until it shall have received an executed counterpart of the instrument of such assignment, conveyance or transfer and of the instrument of assumption required by this Section.

ARTICLE VIII

SUCCESSOR TRUSTEES; CO-TRUSTEE AND SEPARATE TRUSTEES

Section 8.01. Successor Trustees.

(a) If the Trustee or any successor Trustee shall for any reason cease to be eligible under Section 8.01 (e) of this Trust Agreement, the Trustee or any such successor Trustee shall immediately give written notice to the company of such fact and, upon appointment of a successor Trustee, shall resign and be succeeded by such successor Trustee who is eligible under Section 8.01(e).

(b) The Trustee or any successor Trustee may resign at any time without cause by giving at least 90 days' prior written notice to the Company. In addition, the Company may at any time remove the Trustee without cause by giving at least 90 days' prior written notice to the Trustee. In the case of the resignation or removal of the Trustee, the Company may appoint a successor Trustee by an instrument signed by it. If a successor Trustee shall not have been appointed within 30 days after such notice of resignation or removal, the Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee to act until such time, if any, as a successor shall have been appointed as above provided. Any such successor Trustee so appointed by such court shall immediately and without further act be superseded by any successor Trustee appointed as above provided.

(c) Any successor Trustee, however appointed, shall execute and deliver to the predecessor Trustee an instrument accepting such appointment, and thereupon

such successor Trustee, with ut further act, shall become vested with all the estates, properties, rights, powers, duties and trusts of the predecessor Trustee in the trusts hereunder with like effect as if originally named the Trustee herein; but nevertheless, upon the written request of such successor Trustee, such predecessor Trustee shall execute and deliver an instrument transferring to such successor Trustee, upon the trusts herein expressed, all the estates, properties, rights, powers and trusts of such predecessor Trustee, and such predecessor Trustee shall duly assign, transfer, deliver and pay over to such successor Trustee all moneys or other property then held by such predecessor Trustee upon the trusts herein expressed. Upon the appointment of a successor Trustee hereunder, the predecessor Trustee shall execute, acknowledge and deliver such instruments as will effectively transfer to such successor Trustee title to all Permitted Investments which then constitute a part of the Trust Fund. Any successor Trustee appointed hereunder shall not have any liability for the acts or omissions of any predecessor Trustee.

(d) Any resignation or removal of the Trustee or of any successor Trustee shall be effective when, and only when, all actions required to be taken under Section 8.01(c) hereof shall have been taken.

(e) The Trustee and any successor Trustee, however appointed, shall be a financial institution organized under the laws of the United States or any state thereof and having a combined capital and surplus of at least \$25,000,000.

(f) Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation to which substantially all the corporate trust business of the Trustee may be transferred, shall, subject to the terms of Paragraph (e) of this Section 8.01, be the Trustee under this Trust Agreement without further act.

Section 8.02. Co-Trustees. Whenever the Trustee or the Company shall deem it necessary or prudent in order either to conform to any law of any jurisdiction in which all or any part of the Trust Fund shall be situated or to make any claim or bring any suit with respect to the Trust Fund, or the Trustee or

the Company shall be advised by counsel satisfactory to it that it is so necessary or prudent, the Trustee and the Company shall execute and deliver an agreement supplemental hereto and all other instruments and agreements, and shall take all other action, necessary or proper to constitute one or more individuals or corporations (which may not be an Affiliate of the Company) either to act as co-trustee or co-trustees jointly with the Trustee of all or any part of the Trust Fund, or to act as separate trustee or separate trustees of all or any part of the Trust Fund. The Trustee shall execute, acknowledge and deliver all such instruments as may be required by any such co-trustee or separate trustee for more fully confirming the rights or duties of such co-trustee or separate trustee. Upon the acceptance in writing of such appointment by any such co-trustee or separate trustee, such co-trustee or separate trustee shall be vested with such rights and duties as shall be specified in the instrument of appointment, subject to all the terms of this Trust Agreement. In case any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all rights and duties of such co-trustee or separate trustee shall, so far as permitted by law, be vested in and be exercised by the Trustee, without the appointment of a successor to such co-trustee or separate trustee.

Every co-trustee and separate trustee hereunder shall, to the extent permitted by law, be appointed and act, and the Trustee and its successors shall act, subject to the following provisions and conditions:

(a) all powers, duties, obligations and rights conferred upon the Trustee in respect of the custody, control and management of moneys, the Permitted Investments or documents authorized to be delivered hereunder shall be exercised solely by the financial institution designated as Trustee in the first paragraph of this Trust Agreement, or its successors as Trustee hereunder;

(b) all other rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the financial institution designated as Trustee in the first paragraph of this Trust Agreement or its successor as Trustee, and such co-trustee or separate trustee jointly, except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed (including the holding of title to the Trust Fund or any part hereof), the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers,

duties and obligations shall be exercised and performed by such co-trustee or separate trustee;

(c) no power given to, or which it is provided hereby may be exercised by, any such co-trustee or separate trustee shall be exercised hereunder by such co-trustee or separate trustee, except jointly with, or with the consent in writing of, the financial institution designated as Trustee in this Trust Agreement or its successor as Trustee, anything herein contained to the contrary notwithstanding;

(d) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(e) the Company, at any time, by an instrument in writing may remove any such co-trustee or separate trustee. In the event that the Company shall not have executed any such instrument within 10 days after the receipt of a written request from the Trustee to do so, the Trustee shall have the power to remove any such co-trustee or separate trustee without the concurrence of the Company; and the Company hereby appoints the Trustee its agent and attorney-in-fact to act for it in such connection in such contingency.

Section 8.03. Bankruptcy of Trustee. If at any time the Trustee shall make an assignment for the benefit of creditors, admit in writing its inability to pay its debts, suffer a receiver or trustee for it or substantially all of its property to be appointed, suffer proceedings under any law relating to bankruptcy, insolvency, arrangement, reorganization or relief of debtors to be instituted by or against it or shall suffer any writ of attachment or execution or any similar process to be issued or levied against all or substantially all of its property, then the Trustee shall be deemed to have resigned hereunder immediately prior to the occurrence of any such event.

ARTICLE IX

SUPPLEMENTS AND AMENDMENTS

Section 9.01. Amendments and Supplements. At any time and from time to time, but only upon receipt of a Letter of Instruction from the Company, the Trustee shall execute a supplement to this Trust Agreement for the purpose of adding provisions to, or changing or eliminating provisions of, this Trust Agreement as specified in such request.

Section 9.02. Trustee Refusal to Execute. Notwithstanding the provisions of Section 9.01, if in the opinion of the Trustee any document required to be executed pursuant to the terms of Section 9.01 hereof increases, without reasonable compensation, any duties of or decreases any rights, immunities or indemnities in favor of the Trustee under this Trust Agreement, the Trustee may in its discretion decline to execute such document.

ARTICLE X

PAYMENTS AND DISTRIBUTIONS

Section 10.01. Payments from Trust Fund Only. All payments to be made by the Trustee under this Agreement shall be made only from the assets, income and proceeds of the Trust Fund, except as specifically provided in Section 6.01. The Company agrees that it will look solely to the assets, income and proceeds of the Trust Fund to the extent available for payment as herein provided and that, except as specifically provided herein, the Trustee shall not be liable to the Company for any amounts payable under this Agreement and shall not be subject to any liability under this Agreement.

Section 10.02. Payments of Administrative and Incidental Expenses. Upon receipt of a Letter of Instruction from the Company, the Trustee shall distribute from the Trust Fund, as directed by the Company, such amounts as shall be required to (a) pay or reimburse the Trustee for any fees or expenses (including reasonable attorneys' fees and expenses) not otherwise paid or reimbursed to the Trustee as to which the Trustee is entitled to be paid or reimbursed hereunder; and (b) pay all other administrative costs and other incidental expenses relating to or allocable to, or incurred in connection with, the Trust Fund and the administration of this Agreement, including without limitation, any federal, state or local tax (as calculated by the Company) imposed on the income or assets of the Trust Fund, legal expenses, accounting expenses and actuarial expenses. The Company shall pay directly or reimburse the Trustee for all such costs and expenses not paid by the Trustee out of the Trust Fund pursuant to a Letter of Instruction.

Section 10.03. Distributions for Decommissioning Costs. The Trustee shall distribute from the Trust Fund to the Company, or as directed by the Company, amounts for the payment of the costs and expenses of Decommissioning, on the basis of statements and Letters of Instruction it receives from the Company. The Trustee shall distribute such funds no later than one (1)

business day following receipt of a statement therefor and a corresponding Letter of Instruction from the Company. It is the Company's intent that at the time Decommissioning commences with respect to any of the Covered Units, the funds accumulated in the Trust Fund shall be allocated to each of the Covered Units in the same ratio that the estimated cost of Decommissioning such Unit bears to the estimated aggregate cost of Decommissioning all the Covered Units. Upon the completion of Decommissioning with respect to any Covered Unit, as certified to the Trustee by the Company, any amounts remaining in the Trust Fund allocated to the payment of Decommissioning costs with respect to such Unit shall be distributed forthwith to, or as directed by, the Company. The Trustee shall have no obligation to inquire into the accuracy of any statement received from the Company or the application of funds distributed by the Trustee pursuant to this Section.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Termination. This Trust Agreement and the trusts created hereby shall terminate and this Trust Agreement shall be of no further force or effect upon the earlier of (a) the sale or other final disposition of all property constituting part of the Trust Fund and the final distribution by the Trustee of all moneys or other property or proceeds constituting part of the Trust Fund, (b) the revocation of this Agreement by the Company as permitted by Section 2.06, (c) the completion of Decommissioning, as certified to the Trustee by the Company, or (d) 21 years less one day after the death of the last survivor of all of the descendants living on the date of this Agreement of the present members of the Boards of Directors of the Trustee and Public Service Company of New Mexico, but if any such rights, privileges or options shall be or become valid under applicable law for a period subsequent to the 21st anniversary of the death of such last survivor (or, without limiting the generality of the foregoing, if legislation shall become effective to grant such rights, privileges and options for a period in gross exceeding the period for which such rights, privileges and options are hereinabove stated to extend and be valid), then such rights, privileges or options shall not terminate as aforesaid but shall extend to and continue in effect, but only if such nontermination and extension shall then be valid under applicable law, until such time as the same shall, under applicable law, cease to be valid; otherwise this Trust Agreement and the trusts created hereby shall continue in full force and effect in accordance with the terms hereof. Any assets remaining in the Trust Fund upon termination shall be distributed forthwith to, or as directed by, the Company.

Section 11.02. Transfer by Operation of Law. No transfer, by operation of law or otherwise, of all or any portion of the rights, titles and interest of the Company in and to the Trust Fund hereunder shall operate to terminate this Trust Agreement or the trusts hereunder or entitle any successor or transferee of the Company to the transfer to it of legal title to any part of the Trust Fund.

Section 11.03. Transfers by Trustee. Any assignment, sale, transfer or conveyance of any right or interest in the Trust Fund or the Permitted Investments by the Trustee made pursuant to the terms of this Trust Agreement shall bind the Company and shall be effective to transfer or convey such right or interest. No purchaser or other grantee shall be required to inquire as to the authorization, necessity, expediency or regularity of such assignment, sale, transfer or conveyance or as to the application of any sale or other proceeds in respect thereof by the Trustee.

Section 11.04. No Third-Party Beneficiaries. Nothing in this Trust Agreement, whether express or implied, shall be construed to give any person other than the Trustee and the Company any legal or equitable right, remedy or claim under or in respect of this Trust Agreement; but this Trust Agreement shall be held to be for the sole and exclusive benefit of the Trustee and the Company.

Section 11.05. Notices. Unless otherwise expressly specified or permitted by the terms hereof, all notices shall be in writing, and shall be deemed duly given if mailed by certified mail, postage prepaid, return receipt requested; personally delivered; delivered by expedited delivery service; or sent by facsimile or telecopy transmission. Notice shall be sent to each party at its office as set forth below, or to any other address subsequently specified in writing by such party to the other party:

If to the Company, at: Public Service Company of New Mexico
Alvarado Square
Albuquerque, New Mexico 87158
Attention: Secretary
Telephone: (505) 848-2700

If to the Trustee, at: First Interstate Bank of Albuquerque
320 Gold Avenue, S.W.
Post Office Box 1830
Albuquerque, New Mexico 87103
Attention: Trust Division
Telephone: (505) 766-6330

If any notice is given by mail it will be effective on the third business day after it is deposited in the mails as provided above; if given by personal delivery or expedited delivery service, when delivered; or if given by facsimile or telecopy transmission, when received.

Section 11.06. Severability. Any provision of this Trust Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 11.07. Amendments, Waivers. This Agreement may not be amended or modified except by a writing signed by both parties. No term or provision of this Trust Agreement may be waived or discharged orally, but only by an instrument in writing signed by the party or other person against whom enforcement of the waiver or discharge is sought; and any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

Section 11.08. Counterparts. This Trust Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11.09. Successors and Assigns. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the Trustee (in each case in the capacity noted herein) and the successors and assigns of the Trustee (in each case in such capacity) and the Company, its successors and, to the extent permitted by Article VII hereof, its assigns. Any request, notice, direction, consent, waiver or other instrument or action by the Company shall bind its successors and assigns.

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

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

Section 11.12. Representations and Warranties. THE TRUSTEE MAKES NO REPRESENTATION OR WARRANTY AS TO THE VALUE, CONDITION, MERCHANTABILITY OR FITNESS FOR USE OF PVNGS, THE COSTS OF DECOMMISSIONING PVNGS, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO PVNGS WHATSOEVER. The Trustee and the Company each represents and warrants, in its individual capacity, as to itself that this Agreement has been executed and delivered by one or more of its officers who are duly authorized to execute and deliver this Agreement on its behalf.

Section 11.13. Compliance with Applicable Law. The Company shall exercise its rights and perform its obligations under this Agreement in conformity with and subject to all applicable laws, including without limitation the restrictions imposed by the Stipulation on Decommissioning as approved by the New Mexico Public Service Commission in Case No. 2004 (the "Stipulation") so long as such Stipulation remains in effect and binding upon the Company, provided, however, that the Trustee shall have no obligation whatsoever for the failure of the Company to comply with applicable law, including such Stipulation, for any reason. The Trustee shall have no duty to inquire into whether any act by or Letter of Instruction from the Company hereunder complies with applicable law, including the Stipulation, and shall be entitled to rely absolutely upon any Letter of Instruction from the Company.

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

"The Company"

PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation

By: [Signature]

Title: President & Chief Executive Officer

"The Trustee"

FIRST INTERSTATE BANK OF ALBUQUERQUE, a New Mexico banking corporation

Attest:

By: [Signature]

Title: Trust Officer

By: [Signature]

Title: Senior Vice President & Sr. Trust Officer

EXHIBIT A

COMReP PROGRAM DESCRIPTION

General

COMReP is a program by which Public Service Company of New Mexico (the "Company"), will simultaneously provide certain employee insurance benefits and institute an investment program the purpose of which is to fund the Company's share of the decommissioning costs of certain nuclear powered generating facilities. These dual objectives will be achieved through the purchase and maintenance of individual permanent life insurance policies insuring the lives of participating Employees of the Company and its Affiliates. Permanent life insurance policies provide a pure insurance benefit upon the death of the insured, together with an investment component. Upon the death of an insured employee, the insurer will pay both a pure insurance benefit and the accumulated cash value.

Reference is made to that certain Service Agreement (the "Service Agreement") among the Company, Financial Marketing Services, Inc. ("FMS") and First Interstate Bank of Albuquerque (the "Trustee") and the form of Split-Dollar Agreement (the "Split-Dollar Agreement") between the Company and each Insured which is attached to the Service Agreement. Capitalized terms used herein shall have the same meanings in this Exhibit A as in the Service Agreement, the Split-Dollar Agreement and the Decommissioning Trust Agreement to which this Exhibit A is attached.

Implementation

To implement COMReP, the Company will replace certain existing group term insurance coverages on participating Employees with individual permanent life Insurance Policies issued on their lives. Pursuant to the Split-Dollar Agreement between the Company and each Insured, the Employee will have the right to designate the Beneficiaries of the Term Portion of the Insurance Policy, and to select the settlement option therefor. The Company will be entitled to all other rights and interests in the Insurance Policy, including the cash value build-up and the right to borrow from the Insurance Company to the extent of such accumulated cash value.

Employee Death Benefit

The Split-Dollar Agreement between each participating Employee and the Company will entitle the Employee to the same

insurance benefit which the Company has historically provided him through the use of group term life insurance. The amount of the Employee Death Benefit will be based upon the Employee's eligibility for benefits as from time to time set forth in the Company's then current Summary Plan Description of the Management Life Insurance Plan and the Service Life Insurance Plan for Exempt Employees or any subsequent plan covering such Employee. Reference is made to the form of Split-Dollar Agreement which is attached as an exhibit to the Service Agreement. Each eligible Employee shall have the option of participating in either the COMREP program or the Company's group insurance program.

The amount of the Employee Death Benefit is the Term Portion of the Insurance Policy. Upon the Employee's death, the Employee's designated Beneficiary will receive the Term Portion of the proceeds payable by the Insurance Company. Such proceeds will be distributed by the insurer in accordance with the settlement option selected by the Employee. The Employee will have the exclusive right at any time during his life when his Insurance Policy is in force to change Beneficiaries or the settlement option.

Company Financial Benefit

As the beneficial owner of all other rights and interests in the permanent life Insurance Policies, the Company will have the opportunity to commence an investment program that is uniquely advantaged because of favorable federal income tax treatment. The amounts payable under an Insurance Policy in excess of the Term Portion is the Cash Value component. A portion of each policy's annual premium will be credited to the Cash Value component of the Insurance Policy. Based principally upon the portfolio earnings performance of the Insurance Companies underwriting the Insurance Policies, earnings on the accumulated Cash Value will also be credited annually in the form of dividends. Depending on returns that might be earned in future years from alternative investments, the accumulated Cash Values of the Insurance Policies may be left to accrue further, or may be withdrawn in the form of policy loans and alternatively invested to realize greater returns. In this way the Company can maximize over the years the growth of the fund which will be accrued to eventually defray its share of the cost of decommissioning nuclear power generating facilities.

Decommissioning Trust

The Company's rights and interests in the permanent life Insurance Policies will be administered through the use of a grantor trust to assure segregated administration of its decommissioning program. The assets of the Trust including the

Company's rights in the Cash Value of the Insurance Policies are not for the benefit of the Insured Employees and such Employees shall have no rights to any assets in the Trust. The Trust is being created to provide an external funding vehicle to accumulate funds for the Company's share of the Decommissioning Cost of PVNGS. The Insurance Policies constitute a Permitted Investment under the Decommissioning Trust Agreement.

On a periodic basis, the Company will deposit funds designated for decommissioning to the Trust. From such funds the Trustee will pay the annual premiums due on the Cash Value component of the Insurance Policies and other expenses. In addition, the premium due on the Term Portion of the Insurance Policies will be paid by the Company and/or its affiliated companies directly to the Insurance Companies. The amount of such Term Premium is calculated as provided in the Service Agreement.

The additional duties and responsibilities of the Trustee are described in the Decommissioning Trust Agreement. The Trustee shall act solely at the direction of the Company pursuant to periodic Letters of Instruction. However, the Trustee is responsible that the assets of the Trust are used for the purposes specified in the Decommissioning Trust Agreement.

Custodian and Servicing

In accordance with the Servicing Agreement, FMS, the originator of COMReP, will provide certain services in securing the Insurance Policies and otherwise implementing COMReP. FMS will also conduct certain annual reviews and analyses of COMReP and investment alternatives, and will prepare certain reports for and make recommendations to the Company and the Trustee. On an annual basis Touche Ross & Co., or other nationally recognized independent certified public accounting firm, will prepare a special procedures report using selected auditing tests. The nature and scope of such report is as provided in the Service Agreement. A copy of the report will be distributed to the Trustee and the Company. FMS will also provide assistance in the administration of claims filed with Insurance Companies and payment of death proceeds to Employee Beneficiaries and the Trust. To facilitate handling of the Insurance Policies, FMS has been designated in the Service Agreement as the custodian of the actual Insurance Policies. Copies will be available to the Trustee and to the Company.

0137q:7/18/87:1j

EXHIBIT B

**PARTICIPATING INSURANCE COMPANIES
AND FORMS OF POLICIES**

1. General American Life Insurance Company
2. New England Mutual Life Insurance Company
3. Connecticut Mutual Life Insurance Company
4. The Equitable Life Assurance Society of the
United States

General American

ROWLA TTS, JR., CLU
Vice Pres.
Individual and Business and Claims

NATIONAL SERVICE CENTER
Post Office Box 14480
St. Louis, MO 63178
(314) 826-6747

July 29, 1987

Public Service Co. of
New Mexico
Alvarado Square, Third Floor
Albuquerque, NM 87102

Financial Marketing Services, Inc.
10250 Regency Circle, Suite 304
Omaha, NE 68114

Re: Waiver of Contestability Provision of Policies Issued Under
COMRAE Insurance Program for Public Service Company of New Mexico

Gentlemen:

General American Life Insurance Company (the "Company"), acting through John E. Lyons, a duly licensed agent of the Company, has agreed to issue and deliver to Public Service Company of New Mexico, and Public Service Company of New Mexico ("PNM") has agreed to purchase pursuant to the COMRAE Life Insurance Program ("COMRAE Program") presented to PNM by Financial Marketing Services, Inc. whose principal is John E. Lyons, certain individual ordinary life insurance policies (the "COMRAE Policy or Policies").

The Company agrees to issue the COMRAE Policy on the life of each employee of PNM or any affiliate of PNM covered under the COMRAE Program provided said employee shall be randomly assigned to the Company.

The Company agrees to permit PNM to substitute a new insured on each COMRAE Policy in place of any currently participating employee who terminates employment with PNM, provided the new insured shall be randomly assigned to the Company.

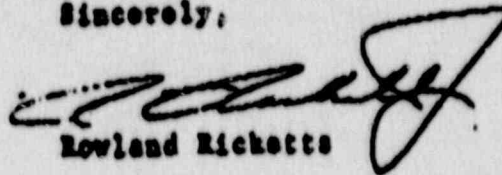
The Company agrees that the effective date of each policy shall be the date the Application is completed and signed by the proposed insured and accepted by PNM. The Company also agrees that the death benefits payable pursuant to the Split-Dollar Life Insurance Agreement by and between PNM and the Employee shall be paid pursuant to the Designation of Beneficiary Form on file with PNM.

July 29, 1987
Page 2

Except for the actively at work question contained on the Part II of the Application the Company agrees to waive the "Incontestability" and "Suicide Exclusion" of all COMReP Policies issued on lives of employees of PNM pursuant to the COMReP Program.

The Company agrees that the foregoing provisions of this letter shall be considered as a legally binding agreement on each COMReP Policy issued or to be issued by the Company under the COMReP Program.

Sincerely,



Rowland Richetts

RR:cmk

DATA PAGE

POLICY NUMBER

INSURED

RIGHT TO EXAMINE POLICY

You may return this policy within twenty days after receiving it. It may be delivered or mailed to us or the agent through whom it was purchased. The policy shall then be deemed void from the start. Any premium paid will be returned.

WHOLE LIFE INSURANCE
PAID-UP AT AGE 99

Face amount payable upon death of the insured. Premiums payable until policy anniversary nearest age 99 or until prior death of insured.

ISSUED BY: THE GENERAL AMERICAN LIFE INSURANCE CO.
P.O. BOX 396
ST. LOUIS, MISSOURI 63166

GUARANTEED VALUES TABLE

WHOLE LIFE INSURANCE PAID UP AT AGE 66

POLICY
NUMBER

MALE

INSURING AGE

VALUES FOR FACE AMOUNT ON POLICY SPECIFICATIONS PAGE

END OF POLICY YEAR	ATTAINED AGE	CASH OR LOAN VALUE	PAID-UP LIFE INS	EXTENDED TERM INSURANCE YRS DAYS
1	8	0.00	0.00	0 0
2	9	0.00	0.00	0 0
3	10	0.00	0.00	0 0
4	11	10.00	190.00	0 248
5	12	40.00	720.00	2 190
6	13	70.00	1,200.00	3 385
7	14	90.00	1,480.00	4 254
8	15	120.00	1,890.00	5 344
9	16	150.00	2,270.00	7 131
10	17	170.00	2,480.00	8 186
11	18	200.00	2,820.00	10 184
12	19	230.00	3,130.00	12 352
13	20	250.00	3,280.00	14 263
14	21	280.00	3,540.00	17 302
15	22	310.00	3,780.00	19 183
16	23	350.00	4,110.00	21 290
17	24	380.00	4,300.00	23 0
18	25	420.00	4,550.00	24 166
19	26	450.00	4,800.00	25 197
20	27	510.00	5,100.00	26 281
33	60	3,770.00	9,200.00	19 256
55	62	4,090.00	9,300.00	18 248
58	65	4,580.00	9,420.00	17 37

Values shown apply at the end of the policy year provided premiums have been paid to the end of that policy year and there is no loan on the policy. Values for periods not shown will be furnished upon request. They are calculated with a nonforfeiture factor of 3.24346 during the premium paying period and are equal to net level premium reserves thereafter. Guaranteed values and net single premiums are based on interest of 6.00% a year, compounded annually.

Any values in the form of paid-up additions, dividend accumulations, or outstanding dividends are in addition to these guaranteed values.

Extended Term Insurance is not available if the risk classification on the Policy Specifications Page is shown as 'Special Premium' or 'Rated' class.

1. DEFINITIONS IN THIS POLICY

We, Us and Our	The General American Life Insurance Company.
You and Your	<p>The owner of this policy. The owner is as shown in the application unless later changed as provided in this policy. The owner may be someone other than the insured.</p> <p>In the application the words "You" and "Your" refer to the proposed insured person(s).</p>
Insured	The person whose life is insured under this policy as shown on the Policy Specifications page.
Age	Age means the insured's age nearest birthday.
Beneficiary	The person named in the application or by later designation to receive the proceeds in the event of the insured's death.
Proceeds	<p>The amount payable as a result of the insured's death. This includes:</p> <ol style="list-style-type: none">1. The face amount of the policy,2. Any amount payable under an attached rider,3. Any dividends payable upon death,4. Any dividend accumulations, and5. Any premium refund. <p>This amount will be reduced by any policy indebtedness.</p>
Maturity	Death of the insured.

2. DIVIDENDS

Annual Dividends	<p>Your policy shares in our divisible surplus while it is in force, except as extended term insurance. Each year we will determine the share of divisible surplus, if any, accruing to your policy. We will distribute this surplus as a dividend. We will credit the first dividend, if any, to you upon payment in full of the premium for the second policy year. Thereafter, we will credit dividends at the end of the second and each subsequent policy year.</p> <p>If there would have been a dividend payable at the end of the policy year in which the insured dies, unless the policy is under a guaranteed value option, we will pay a part of that dividend to the beneficiary. The dividend will be for that part of the policy year during which the insured lived.</p>
Dividend Options	<p>You may choose one of the following options:</p> <p>Option 1. Cash. Paid in cash.</p> <p>Option 2. Reduce Premium. Used to pay part or all of the premium on your policy.</p> <p>Option 3. Paid-Up Additions. Used to buy a participating level paid-up insurance addition. Additions are payable at the same time as the policy proceeds.</p> <p>Option 4. Dividend Accumulations. Left with the company to accumulate at interest. The interest rate will be determined by us from time to time. This rate will never be less than 2 1/8% a year, compounded annually. Dividend accumulations outstanding at the death of the insured will be payable as part of the policy proceeds.</p>

2. POLICY SPECIFICATIONS

Insuring Age 07

Insured

Sex Male

Face Amount \$ 10,000

Risk
Classification Standard

Date of Issue August 27, 1986

Policy Number

Item Number	Benefits (As Specified in Policy and in Any Riders)	Annual Premium	Premium Period
84-47	Policy Plan: Whole Life Insurance Paid-Up at Age 98	\$ 73.60	91 Years
84-47			
84-100			
84-200			
84-300			
84-400			
84-500			
84-600			
84-700			
79-888			
79-720	Waiver of Premium Benefit Rider	.80	98 Years
827L-6	Modification		

TOTAL ANNUAL PREMIUM \$ 74.60

TOTAL PREMIUM PAYABLE AT Monthly INTERVALS \$ 6.67

The due dates of premiums after the first are measured from the Date of Issue, and are at the intervals specified above unless such intervals are subsequently changed as provided in this Policy.

100 The Company will accept the monthly premium(s) stated above so long as such premiums are paid under the Company's Budget Insurance, Pre-Authorized Check or Post-Dated Check Plans; otherwise, payments may be paid directly to the Company in accordance with its established rates and rules.

You may choose a dividend option within 31 days after a dividend is credit. If you do not, we will credit the dividend under Option B until such time as you request a different option. Any option you choose will remain in effect until you change it.

You may surrender your paid-up additions at any time for their cash value, unless their cash value was already applied under a guaranteed value option or is required to secure a loan on the policy.

We will credit interest on dividend accumulations for full policy years only. Interest will be credited on each policy anniversary. Dividend accumulations can be used to pay premiums as described in the Premiums and Grace Period section. You may also withdraw the entire amount or any part of it in cash at any time by making proper written request.

Paid-Up Privilege

If the cash value of your policy, plus the cash value of any paid-up additions and the amount of any dividend accumulations, equals or exceeds the net single premium for paid-up whole life for the face amount of your policy, it may be endorsed as fully paid-up. The net single premium will be based on the insured's attained age and will be increased by any rating under this policy. You must make a written request and release the necessary paid-up additions and dividend accumulations. Any policy loan, unless repaid, will be transferred to the fully paid-up policy.

If this policy is endorsed as paid-up, any riders requiring an additional premium will terminate.

3. PREMIUMS AND GRACE PERIOD

Payment of Premiums

Your first premium is due as of the date of issue. While the insured is living, premiums after the first must be paid in advance at the Home Office. You may pay your premiums annually, semiannually, quarterly, or at other intervals we may establish from time to time. This right is subject to our rates and minimum premium requirements at the date of issue. When the premium for any rider is no longer payable, the total premium will be reduced accordingly. A premium receipt will be furnished upon request.

If this policy is in your possession and you have not paid the first premium, it is not in force. It will be considered that you have the policy for inspection only.

Grace Period

Your premium is in default if you do not pay it on or before its due date. We will allow a grace period of 31 days after the premium due date for payment of each premium except the first. During this period no interest will be charged on the premium due, and the policy will remain in force. If the insured dies during the grace period, the amount of any unpaid premium due through the date of death will be deducted from the proceeds of the policy.

If any premium remains unpaid after the grace period, the Automatic Option as described in Section 5 will apply unless you elect otherwise.

Automatic Premium Payment

If you elect either or both of the following Automatic Premium Payment options your premiums may be paid automatically. You may elect these options in the application or by a written request received by us at our Home Office before any premium is in default.

1. **Dividend Accumulations.** If you elect this option any premium you do not pay by the last day of the grace period will be paid automatically from dividend accumulations, if they are sufficient to pay the entire premium.
2. **Automatic Loan.** If you elect this option, any premium you do not pay by the last day of the grace period and which is not paid by dividend accumulations will be paid automatically, and will be charged as a loan against your policy. Interest will be charged in advance from the due date of the unpaid premium to the end of the policy year. Such loan will be subject to the provisions of the Loans section of this policy. If you elect both options, available dividend accumulations will be used in full before any automatic loan is made. If the value under the option or options you elected is insufficient, the premium will remain unpaid and the Benefits on Lapse or Surrender section will apply.

You may cancel either or both Automatic Premium Payment options at any time. We must receive a written request from you at our Home Office. Any premium already paid under these options before we receive your request will not be affected.

Reinstatement

At any time within five years after the default in premium, you may apply for reinstatement, unless the policy has been surrendered for its cash value. You must submit proof satisfactory to us that the insured is insurable by our standards. You must pay all overdue premiums and pay or reinstate loan interest. Both will be accumulated at 6% per year compounded annually to the date of reinstatement. You must either pay or reinstate any policy loan (if the reinstated policy has sufficient value).

The insured must be alive on the date we approve the request for reinstatement. If the insured is not alive, such approval is void and of no effect.

Premium Refund at Death

Any part of a premium which pays the policy to a date beyond the insured's death will be refunded as part of the policy proceeds. This provision does not apply to any premium waived by a waiver of premium benefit rider.

4. LOANS

We will lend you an amount not in excess of the loan value of your policy while it is in force, other than as extended term insurance. Your policy will be the sole security for such loan. We have the right to require your policy for endorsement. After receipt of your application, we have the right to defer your loan for up to six months, unless the loan is used to pay premiums to us. Policy loans to pay premiums may be charged automatically against your policy, as described in the Premiums and Grace Period section.

The loan value is the cash value of the policy at the end of the then current policy year, plus the cash value on that date of any existing paid-up additions. We will deduct from your loan proceeds:

1. Interest at the rate of 7.4% per year in advance to the next policy anniversary; and
2. Any existing loans; and
3. Any unpaid premiums for the current policy year.

Interest will be payable annually in advance on each policy anniversary. If you do not pay the interest when it is due, we will add it to your existing loan if your policy has sufficient loan value. We will charge the same rate of interest on this amount as on the policy loan.

We may change the interest rate on any loan (including loans made to pay premiums) from time to time. The effective date of any increase will not be less than one year after the effective date of the previous rate. Any increase shall be no more than one percent per year. The total loan rate shall not exceed 7.4% per year paid in advance. The current interest rate will be furnished when you make a loan and when the interest is due. If you have a loan outstanding at least 40 days prior to the date of any increase, we will send you and any assignee of record a written notice at least 30 days prior to the date of any increase. If you make a loan less than 40 days prior to the date of any increase, notice will be given at the time the loan is made.

You may repay any outstanding loan in whole or in part at any time before the death of the insured while the policy is in force. Unpaid loans and interest will be deducted from any settlement of your policy.

If you fail to make repayments when the total loan and interest would exceed the loan value of your policy, it will terminate automatically. We will allow you a 31 day grace period for such payment of loans and interest. In such event the policy will become void 31 days after we have mailed notice to your last known address, the last known address of the insured, and that of any assignee of the record. This will apply whether or not premiums are paid to a date after the date of termination. Any outstanding dividend accumulations will be applied under the Guaranteed Value Option selected.

5. BENEFITS ON PREMIUM LAPSE OR SURRENDER

Definitions of Net Cash Value

The cash value of your policy is determined according to the Basis of Computation provision. The net cash value is the cash value of the policy, plus the cash value of any paid-up additions, any dividend accumulations and dividends due, less any loans and interest.

Guaranteed Value Options

(See Guaranteed Values Tables) -- You may choose any of the following guaranteed value options by making written application to us within 60 days after the due date of the unpaid premium. Option 3 is not available if the risk class is "Special Premium Class" or "Rated Class."

Option 1. Cash Surrender. Surrender your policy for its net cash value as of the due date of the first unpaid premium; or with our consent, on any monthly policy anniversary date.

We may defer payment of the net cash value for up to six months. If we defer payment for 30 days or more, we will pay interest at the rate of 2 1/2% per year for the period of deferment.

Option 2. Paid-up. Continue your policy as reduced level paid-up life insurance. Your policy will continue to be eligible for dividends. The amount of paid-up insurance will be that which the net cash value will purchase as a net single premium at the attained age of the insured on the due date of the first unpaid premium.

Option 3. Extended Term Insurance. Continue your policy as extended term insurance. Your policy will not receive dividends while on extended term insurance. The amount of extended term insurance will be the face amount of coverage, plus any paid-up additions, dividend accumulations, and dividend due, less any loans and interest. The period of extended insurance will be that which the net cash value will purchase as a net single premium at the attained age of the insured on the due date of the first unpaid premium. If the amount of extended term insurance is less than the amount of paid-up life insurance under Option 2, Option 2 will apply.

Option 4. Paid-up and Extended Term Insurance. Continue your policy as a combination of reduced level paid-up life insurance and extended term insurance. Your policy will continue to be eligible for dividends. The amount of paid-up insurance will be that which the net cash value will purchase as defined under Option 2. The initial amount of extended term insurance will be an amount which you may choose, but not more than the amount of extended term insurance defined under Option 3, less the amount of paid-up life insurance. The period of extended term may be continued from year to year by application of dividends. The amount of extended term will be the initial amount when this option was elected less the amount of any paid-up additions purchased after this option was elected, or such lesser amount as the current dividends can buy. The purchase price for extended term insurance will not exceed that specified in the Basis of Computation, and may be a lower rate which we determine.

Automatic Option

Option 3 is the automatic option unless the risk class is shown as "Special Premium Class" or "Rated Class." In that case, Option 2 is the automatic option. If you do not elect another option within 31 days after the due date of the first unpaid premium, the automatic option will take effect, unless the Automatic Premium Payment provision applies. The effective date of the automatic option will be the due date of the first unpaid premium. You have the right to elect another option within 60 days after the date of the first unpaid premium.

Surrender of Paid-Up and Extended Term Insurance

You may surrender your policy for its net cash value while it is continued as paid-up life insurance or extended term insurance. If you surrender your policy within 31 days after a policy anniversary date, the cash value we use to determine the net cash value of your policy will not be less than the cash value of the policy on that anniversary date.

Basis of Computation

We have computed all guaranteed values, reserves and net single premiums referred to in this policy on the basis of (1) the Commissioner's 1960 Standard Ordinary Mortality Table, except that for extended term insurance, the Commissioner's 1960 Extended Term Insurance Table is used, (2) interest as stated on your Guaranteed Values page, and (3) continuous functions. Cash values of your policy are shown for the years indicated in the Guaranteed Values Table. Values for periods not shown are calculated according to the standard non-forfeiture value method. Benefits of policy riders are excluded in computing guaranteed values, unless otherwise provided in the riders. All guaranteed values are equal to or greater than required by any applicable law for the state that governs your policy. A detailed statement of the method of computing guaranteed values has been filed with the insurance supervisory official of such state if requested.

The cash value of paid-up life insurance and extended term insurance on a policy anniversary is the net single premium for such insurance at the attained age of the insured on that anniversary. The cash value of paid-up additions on a policy anniversary is the net single premium for such additions at the attained age of the insured on that anniversary. This amount will not be less than the dividends used to purchase such additions.

If you have paid premiums for part of a policy year, the cash value on the date to which you have paid premiums will be proportionate. If paid-up life insurance or paid-up additions are surrendered between anniversaries, the cash value on the date of surrender will be proportionate.

6. PERSONS WITH AN INTEREST IN THE POLICY

Owner

The original owner of this policy is as shown in the application. You, as owner, are entitled to all rights provided by this policy, prior to its maturity. Ownership may be changed in accordance with the Change of Owner or Beneficiary provision. After maturity, you cannot change the payee nor the mode of payment, unless otherwise provided in this policy. Any person whose rights of ownership depend upon some future event shall not possess any present rights of ownership. If there is more than one owner at a given time, all must exercise the rights of ownership by joint action.

Beneficiary

The original beneficiary is as shown in the application. You may change the beneficiary in accordance with the Change of Owner or Beneficiary provision. Unless otherwise stated, the beneficiary has no rights in this policy before the death of the insured. If there is more than one beneficiary at the death of the insured, each will receive equal payments unless otherwise provided. If no beneficiary is living at the death of the insured the proceeds will be payable to you, if you are living, or to your estate.

Change of Owner or Beneficiary

During the insured's lifetime you may change the ownership and beneficiary designations. You must make the change in written form satisfactory to us. If acceptable to us it will take effect as of the time you signed the request, whether or not the insured is living when we receive your request at our Home Office. The change will be subject to any assignment of this policy or other legal restrictions. It will also be subject to any payment we made or action we took before we received your written notice of the change. We have the right to require the policy for endorsement before we accept the change.

If you are also the beneficiary of the policy at the time of the insured's death, you may designate some other person to receive the proceeds of the policy within 60 days after the insured's death.

Assignments

We will not be bound by an assignment of the policy or of any interest in it unless:

1. It is made as a written instrument,
2. You file the original instrument or a certified copy with us at our Home Office, and
3. We send you an acknowledged copy.

We are not responsible for the validity of any assignment.

If a claim is based on an assignment, we may require proof of interest of the claimant. A valid assignment will take precedence over any claim of a beneficiary.

7. THE CONTRACT

The Contract

We have issued this policy in consideration of the application and payment of premiums. The policy and the application, a copy of which is attached to and made a part of the policy, are the entire contract. The policy may be changed by mutual agreement. Our agents have no authority to alter or modify any terms, conditions, or agreements of this policy, or to waive any of its provisions.

Conformity with Statutes

If any provision in this policy is in conflict with the laws of the state which govern this policy, the provision will be deemed to be amended to conform with such laws.

Date of Issue

The date of issue is the effective date of the coverage under this policy. It is also the date from which policy anniversaries, policy years, and premium due dates are measured.

138 77

Misstatement of Age or Sex and Corrections

If the age or the sex of the insured has been misstated on the application, any amount payable on the policy will be such as the premium paid would have purchased had the insured's age and sex been correctly stated. If we make any payment or policy changes in good faith, relying on our records, or evidence supplied to us, we will be fully discharged. We reserve the right to correct any errors in the policy.

Statements in Application

All statements made by the insured or on his or her behalf, or by the applicant, will be deemed representations and not warranties, except in the case of fraud. Material misstatements will not be used to void the policy or deny a claim unless made in the application.

Incontestability

We cannot contest this policy, except for nonpayment of premium, after it has been in force during the lifetime of the insured for a period of two years from the date of issue. This provision will not apply to any rider which contains its own incontestability clause.

Suicide Exclusion

If the insured dies by suicide, while sane or insane, within two years from the date of issue (or within the maximum period permitted by laws of the state in which this policy was delivered, if less than two years), the amount payable will be limited to the amount of premiums paid, less any outstanding policy loans with interest to the date of death. This provision does not apply if this policy is issued to a Missouri citizen, unless the insured intended suicide when this policy was applied for.

Claims of Creditors

To the extent permitted by law, neither the policy nor any payment under it will be subject to the claim of creditors or to any legal process.

Change of Insured

While this policy is in force, you may change the insured. To do this, you must be the owner of this policy on the date of change. You and the new insured must also sign an application for such change.

The insured may be changed only on the basic policy. All riders attached to this policy will be cancelled. If a rider has a surrender value, we will make the proper refund to you.

You must have an insurable interest in the life of the new insured. We will require proof that the new insured is insurable by our standards. If the new insured would have been older than age 75 on the date of issue of the policy, the change will not be permitted.

Coverage on the new insured will become effective on the date of change. Coverage on the former insured will terminate on the prior day.

The date of change will be the later of the date we approve the application for the new insured, or the date you pay the cost of change.

The issue date of the policy will remain the same, or will be changed to the first anniversary of this policy after the birth of the new insured, if later.

The face amount for the new insured will be computed one of two ways:

Method 1. The cash value of the policy will remain the same as of the date of change. The face amount will then be determined by the cash value. If there is a zero cash value on that date, we will use reserves in place of cash value under Method 1.

Method 2. The face amount will be the same on the date of change.

Under either method, the amount of the coverage may not be less than our minimum limit for the plan of insurance chosen as of the date of issue.

The cost of the change will be the sum of the following items which apply to the change being made:

1. The amount needed to pay the premiums on this policy to the date of change.
2. The first premium for the new insured.
3. Any amount required to reduce your indebtedness to us, as described in the Loans section.
4. Any administrative costs required to make this change.

B. If Method 2 is used, and if

- a. the cash value based on the issue age of the new insured is greater than the cash value of this policy on the date of change, you must pay us the amount of the excess. If your state has a premium tax, you will need to pay us the amount of that tax on the excess, or
- b. the cash value based on the issue age of the new insured is less than the cash value of this policy on the date of change, we will refund you the difference.

Any refund from this change will be applied first to the cost of the change. Any balance not used will be paid to you.

Premiums for the new insured will be based on the rates charged for the plan as of the date of issue. They will also be based on the new insured's age at the date of issue and the risk classification of the new insured as of the date of change.

The first premium due for the new insured will be for the amount needed to pay premiums from the date of change to the next premium due date. The frequency of premium payments will be as stated in the application for change.

Any loan and loan interest on the policy will be continued unless repaid on the date of change. If such loan exceeds the new cash value, you must pay the difference as part of the cost of this change.

Any dividend accumulations will remain on the policy. The face amount of any existing paid-up additions will be adjusted so that the cash value will remain the same as of the date of change.

Riders that we are issuing on the date of change may be attached to the policy. This may be done only upon your written request. We will require proof that the new insured is insurable by our standards.

Premiums for such riders will be based upon rates charged by us for the age of the new insured on the date of change.

Suicide and Incontestability periods in the policy will begin again and run from the date of change. For the purpose of determining the amount of company liability payable under the Suicide Exclusion, the amount of premiums will include only those paid on and after the date of change, plus the cash value of the policy as of the date of change. Any refund offered in connection with a contest of validity of the policy will include:

1. The amount of any cash value as of the date of change; and
2. The amount of premiums paid with interest from the date of change.

The policy will continue to be subject to any existing assignment.

8. PAYMENT OF POLICY BENEFITS

Payment

Payment will be made as provided on the face page.

If a beneficiary entitled to proceeds dies after the insured, and

1. no settlement option elected by you is in effect, and
2. the deceased beneficiary has not chosen an option or requested the proceeds in cash,

his or her proceeds will be paid as though he or she died before the insured.

Interest on Proceeds

We will pay interest on single sum proceeds from the date of the insured's death to the date of payment. Interest will be at an annual rate determined by us, but never less than the Guaranteed Settlement Option rate.

Settlement Options

(See Settlement Option Tables at the end of this section.) At the maturity of this policy, the proceeds may be placed under any of the following options:

Option A. Life Income.

We will pay equal monthly instalments as long as the payee lives.

Option B. Life Income for Two Lives.

We will pay monthly instalments jointly and to two named payees if both are living when the instalments become payable. One payee will be designated as primary payee. Full instalments will continue so long as the primary payee is living. If the primary payee dies after instalments begin, full instalments or instalments of 1/2 or 2/3, (whichever you elected when applying for this option) will continue to the other payee during his or her lifetime.

Option C. Income for Specified Number of Years and Life thereafter.

We will pay monthly instalments beginning on the effective date of the option and continuing for 5, 10, 15 or 20 years certain, as may be chosen, and after that during the payee's lifetime.

Option D. Life Income With Cash Refund.

We will pay equal monthly instalments as long as the payee lives. If the payee dies before the total amounts paid equal the proceeds applied, we pay the difference in one sum.

Option E. Instalments of a Specified Amount.

We will pay instalments at dates and in amounts chosen by the payee with our approval. We will continue to make payments until all of the proceeds, with interest, are paid. The final payment will not exceed the unpaid balance.

Option F. Income for Specified Number of Years.

We will pay monthly instalments beginning on the effective date of the option and continuing for a specified number of years, not to exceed 30 years.

Option G. Interest.

We will hold the proceeds on deposit during the payee's lifetime or for any other period selected with our approval. Interest may be accumulated or received in monthly, quarterly, semi-annual, or annual payments, as may be chosen. Interest begins to accrue as of the effective date of the option.

Election of Settlement Options

Prior to the maturity of the policy, you may choose a settlement option. After the maturity of the policy, a person entitled to receive payment in one sum may choose an option for his or her benefit. If you have not already done so, With our consent, an option may be chosen for the benefit of another payee.

For you to choose an option, we must receive your written request at our Home Office. If the request is satisfactory to us, we will issue a written agreement showing the option you elected. The effective date of the election will be the date of the request, the date of issue of the policy, or the date the person who is making the election signed the agreement, whichever is the latest.

You may change or revoke an option during the lifetime of the insured.

Payee	A person who receives benefits under an option is a payee. Except for a legal guardian, a payee must be a natural person receiving benefits in his or her own right. With our consent, the payee may be a trustee, assignee, corporation, or partnership.
Guaranteed Settlement Option Interest Rate	We use a guaranteed effective annual rate of 4% in computing payments under all options. We may pay interest in excess of this amount.
Minimum Amounts (for each payee)	<p>The minimum amount that can be placed under an option and the minimum amount of any payments under an option will be based on our rules at the time the option is to become effective.</p> <p>The required minimum amount to be placed under an option will never be more than \$5,000, nor shall the minimum amount of any payment be set at more than \$50 per month.</p>
Life Income Options	Life Income Options are based on the payee's sex and age nearest birthday on the settlement option effective date. We have the right to require satisfactory proof of age and sex. If age or sex has been incorrectly stated, the proper adjustment in payments will be made. We may also require proof that the payee is living on any payment due date.
Death of Payee	If a payee dies, any amount still payable under an option will be paid as they become due to the surviving or next succeeding payee. If no designated payee survives, any amounts payable in one sum, or the commuted value of any unpaid installments, will be paid in one sum to the estate of the last payee to die.
First Payment	We will make the first payment under an option other than Option G as of the option effective date. We will pay interest under Option G at the end of each period selected for payment.
Rights Under Settlement Options	No payee has the right to make any change in the provisions of the agreement or to receive the proceeds in any manner other than that stated in the agreement, unless such right was reserved in the agreement. The right may be reserved to the payee to withdraw all or part of any amount held under Options G and E, including any interest, or the commuted value of any unpaid installments under Option F. We will not make any payments in advance, nor commute installments under any life income option. Under a partial withdrawal right, the number of withdrawals allowed per year and the minimum amount of each withdrawal shall be determined by our rules in effect at the time of the request for a partial withdrawal.
Base of Commutation	Commutation of installments will be at the effective annual rate of 4% compounded annually.
Contingent Payee	<p>The payee may name contingent payees, subject to any restrictions under a settlement option chosen during the insured's lifetime, under the following conditions:</p> <ol style="list-style-type: none"> 1. If you are the payee; or 2. If the payee has the right to withdraw the entire amount under the option, even though contingent payees may have been previously named; or 3. If at any time after the insured's death, and during the option period no previously named contingent payee is living. <p>Designations made by the payee under these provisions may be changed by the payee. Such changes must be made by written request satisfactory to us. Changes will only take effect when we accept them in writing at our Home Office. At that time, the contingent interest of any other person is terminated as of the date the payee signed the request, whether or not the payee is living when we receive the request.</p>
Extended Provisions	Provisions for settlement of proceeds different from those stated in this policy may only be made upon written agreement with us.
Company Liability	We will be fully discharged by any payment we make when a written request for an election, change, or revocation was made and is received in our Home Office.

SETTLEMENT OPTION TABLES

FOR EACH \$1,000

OPTION A - LIFE INCOME											
AGE OF PAYEE		MONTHLY INSTALLMENTS	AGE OF PAYEE		MONTHLY INSTALLMENTS	AGE OF PAYEE		MONTHLY INSTALLMENTS	AGE OF PAYEE		MONTHLY INSTALLMENTS
MALE	FEMALE		MALE	FEMALE		MALE	FEMALE		MALE	FEMALE	
10	10	12.30	20	20	12.30	30	30	12.30	40	40	12.30
11	10	2.80	21	20	4.80	31	30	2.17	41	40	2.80
12	17	2.81	22	27	4.84	32	27	2.27	42	37	2.90
13	10	2.82	23	20	4.86	33	30	2.30	43	40	2.95
14	10	2.83	24	20	4.19	34	30	2.40	44	40	2.97
15	20	2.85	25	40	4.10	35	30	2.57	45	30	10.00
16	21	2.87	26	41	4.21	36	31	2.60	46	31	10.50
17	22	2.88	27	42	4.25	37	32	2.60	47	32	11.00
18	22	2.70	28	43	4.30	38	33	2.63	48	33	11.50
19	24	2.72	29	44	4.35	39	34	2.66	49	34	12.11
20	25	2.74	40	45	4.40	40	35	2.70	50	35 AND OVER	12.70
21	26	2.76	41	46	4.45	41	36	2.90	51	OVER	13.27
22	27	2.79	42	47	4.51	42	37	2.51	52		
23	28	2.80	43	48	4.57	43	38	2.66	53		
24	29	2.82	44	49	4.63	44	39	2.67	54		
25	30	2.85	45	50	4.70	45	40	2.67	55 AND OVER		14.00
26	31	2.87	46	51	4.77	46	41	2.70			
27	32	2.90	47	52	4.84	47	42	2.81			
28	33	2.93	48	53	4.88	48	43	2.76			
29	34	2.95	49	54	5.00	49	44	2.81			

OPTION B-MONTHLY INSTALMENTS-JOINT AND ONE-HALF TO SECONDARY PAYEE																						
AGE OF PRIMARY PAYEE		AGE OF SECONDARY PAYEE																				
MALE		45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
	FEMALE	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70
50	50	14.04	14.06	14.08	14.10	14.12	14.14	14.16	14.17	14.19	14.20	14.21	14.21	14.22	14.23	14.24	14.24	14.25	14.25	14.26	14.26	14.27
51	50	4.00	4.71	4.73	4.75	4.77	4.79	4.81	4.83	4.84	4.85	4.87	4.88	4.89	4.90	4.91	4.91	4.92	4.92	4.93	4.94	4.94
52	57	4.73	4.75	4.76	4.80	4.83	4.84	4.87	4.90	4.90	4.93	4.93	4.95	4.96	4.97	4.98	4.99	5.00	5.00	5.01	5.02	5.03
53	58	4.77	4.80	4.82	4.86	4.87	4.90	4.93	4.94	4.96	4.99	5.00	5.01	5.03	5.04	5.05	5.06	5.07	5.08	5.09	5.10	5.11
54	59	4.81	4.84	4.87	4.90	4.93	4.95	4.98	5.00	5.02	5.04	5.07	5.09	5.10	5.12	5.14	5.15	5.16	5.17	5.18	5.19	5.20
55	60	4.84	4.87	4.91	4.94	4.98	5.01	5.04	5.06	5.09	5.11	5.13	5.15	5.17	5.19	5.21	5.22	5.24	5.25	5.26	5.27	5.28
56	61	4.90	4.94	4.97	5.00	5.05	5.08	5.09	5.12	5.15	5.18	5.20	5.22	5.25	5.27	5.29	5.31	5.32	5.34	5.35	5.36	5.38
57	62	4.95	4.98	5.02	5.06	5.09	5.12	5.15	5.18	5.21	5.24	5.27	5.30	5.32	5.35	5.37	5.39	5.41	5.43	5.44	5.46	5.47
58	63	5.00	5.03	5.07	5.11	5.14	5.18	5.21	5.24	5.28	5.31	5.34	5.37	5.40	5.42	5.45	5.48	5.50	5.52	5.54	5.56	5.57
59	64	5.03	5.05	5.10	5.13	5.16	5.20	5.23	5.27	5.31	5.34	5.37	5.41	5.43	5.46	5.49	5.51	5.54	5.56	5.58	5.60	5.62
60	65	5.10	5.14	5.18	5.21	5.25	5.28	5.32	5.35	5.37	5.41	5.45	5.48	5.52	5.55	5.58	5.62	5.65	5.68	5.71	5.73	5.76
61	66	5.15	5.18	5.23	5.27	5.31	5.35	5.40	5.44	5.48	5.52	5.56	5.60	5.64	5.67	5.71	5.74	5.79	5.81	5.84	5.86	5.89
62	67	5.21	5.25	5.29	5.33	5.37	5.42	5.46	5.50	5.55	5.59	5.63	5.68	5.72	5.76	5.80	5.84	5.87	5.91	5.94	5.97	6.00
63	68	5.27	5.31	5.35	5.39	5.44	5.48	5.53	5.57	5.62	5.67	5.71	5.76	5.80	5.85	5.90	5.93	5.97	6.01	6.05	6.08	6.13
64	69	5.33	5.37	5.41	5.46	5.51	5.55	5.60	5.65	5.69	5.74	5.79	5.84	5.89	5.94	5.99	6.03	6.07	6.12	6.16	6.20	6.24
65	70	5.38	5.43	5.48	5.53	5.57	5.62	5.67	5.72	5.77	5.82	5.87	5.92	5.98	6.03	6.08	6.13	6.18	6.23	6.27	6.32	6.36
66	71	5.45	5.50	5.55	5.60	5.64	5.69	5.74	5.80	5.85	5.90	5.96	6.01	6.07	6.12	6.18	6.23	6.29	6.34	6.39	6.44	6.49
67	72	5.52	5.57	5.62	5.67	5.72	5.77	5.83	5.87	5.93	5.99	6.04	6.10	6.16	6.22	6.28	6.33	6.39	6.45	6.51	6.56	6.60
68	73	5.59	5.64	5.69	5.74	5.79	5.85	5.90	5.96	6.01	6.07	6.13	6.19	6.25	6.32	6.38	6.44	6.50	6.57	6.63	6.68	6.73
69	74	5.66	5.71	5.76	5.82	5.87	5.93	5.99	6.04	6.10	6.16	6.22	6.29	6.35	6.42	6.48	6.55	6.62	6.68	6.75	6.82	6.88
70	75	5.74	5.79	5.84	5.90	5.95	6.01	6.07	6.13	6.19	6.25	6.32	6.38	6.45	6.52	6.59	6.66	6.73	6.81	6.88	6.95	7.02
71	76	5.81	5.86	5.92	5.97	6.03	6.09	6.15	6.22	6.28	6.34	6.41	6.48	6.55	6.63	6.70	6.77	6.85	6.93	7.01	7.08	7.17
72	77	5.89	5.94	6.00	6.06	6.12	6.18	6.24	6.31	6.37	6.44	6.51	6.58	6.66	6.73	6.81	6.88	6.97	7.05	7.14	7.22	7.31
73	78	5.97	6.03	6.09	6.14	6.20	6.27	6.33	6.40	6.47	6.54	6.61	6.69	6.77	6.84	6.93	7.01	7.10	7.19	7.27	7.36	7.46
74	79	6.05	6.11	6.17	6.23	6.29	6.36	6.43	6.50	6.57	6.64	6.72	6.80	6.89	6.96	7.04	7.13	7.22	7.31	7.41	7.51	7.61
75	80	6.14	6.20	6.26	6.32	6.39	6.46	6.53	6.60	6.67	6.74	6.83	6.91	6.99	7.08	7.17	7.26	7.35	7.45	7.55	7.65	7.75

SETTLEMENT OPTION TABLES-CONTINUED

FOR EACH \$1,000

AGE OF PRIMARY PAYER**		OPTION B-MONTHLY INSTALLMENTS-JOINT AND TWO-THIRDS TO SECONDARY PAYER																			
		AGE OF SECONDARY PAYER**																			
MALE		45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64
FEMALE		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69
50	50	14.51	14.54	14.58	14.63	14.67	14.72	14.77	14.82	14.87	14.92	14.97	15.02	15.07	15.12	15.17	15.22	15.27	15.32	15.37	15.42
51	50	4.84	4.87	4.90	4.93	4.96	4.99	5.02	5.05	5.08	5.11	5.14	5.17	5.20	5.23	5.26	5.29	5.32	5.35	5.38	5.41
52	51	4.97	4.99	5.02	5.05	5.08	5.11	5.14	5.17	5.20	5.23	5.26	5.29	5.32	5.35	5.38	5.41	5.44	5.47	5.50	5.53
53	50	4.80	4.83	4.87	4.90	4.93	4.96	4.99	5.02	5.05	5.08	5.11	5.14	5.17	5.20	5.23	5.26	5.29	5.32	5.35	5.38
54	52	4.93	4.97	4.99	5.02	5.05	5.08	5.11	5.14	5.17	5.20	5.23	5.26	5.29	5.32	5.35	5.38	5.41	5.44	5.47	5.50
55	50	4.80	4.79	4.74	4.77	4.81	4.84	4.88	4.91	4.94	4.97	5.00	5.03	5.06	5.09	5.12	5.15	5.18	5.21	5.24	5.27
56	51	4.99	4.79	4.73	4.81	4.86	4.90	4.93	4.96	4.99	5.02	5.05	5.08	5.11	5.14	5.17	5.20	5.23	5.26	5.29	5.32
57	52	4.72	4.70	4.68	4.64	4.68	4.69	4.67	4.68	4.69	4.70	4.71	4.72	4.73	4.74	4.75	4.76	4.77	4.78	4.79	4.80
58	53	4.79	4.79	4.64	4.68	4.62	4.67	4.61	4.66	4.60	4.63	4.67	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
59	54	4.79	4.63	4.67	4.67	4.65	4.61	4.61	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
60	55	4.81	4.60	4.61	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
61	56	4.96	4.68	4.64	4.65	4.64	4.60	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92
62	57	4.80	4.63	4.60	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
63	58	4.93	4.67	4.62	4.67	4.63	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
64	59	4.99	4.60	4.60	4.61	4.59	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
65	60	4.89	4.64	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
66	61	4.89	4.66	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
67	62	4.87	4.70	4.70	4.64	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
68	63	4.79	4.79	4.64	4.68	4.62	4.67	4.61	4.66	4.60	4.63	4.67	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
69	64	4.79	4.63	4.67	4.67	4.65	4.61	4.61	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
70	65	4.81	4.60	4.61	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
71	66	4.96	4.68	4.64	4.65	4.64	4.60	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92
72	67	4.80	4.63	4.60	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
73	68	4.93	4.67	4.62	4.67	4.63	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
74	69	4.99	4.60	4.60	4.61	4.59	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
75	70	4.89	4.64	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
76	71	4.89	4.66	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
77	72	4.87	4.70	4.70	4.64	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
78	73	4.79	4.79	4.64	4.68	4.62	4.67	4.61	4.66	4.60	4.63	4.67	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
79	74	4.79	4.63	4.67	4.67	4.65	4.61	4.61	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
80	75	4.81	4.60	4.61	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
81	76	4.96	4.68	4.64	4.65	4.64	4.60	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92
82	77	4.80	4.63	4.60	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
83	78	4.93	4.67	4.62	4.67	4.63	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
84	79	4.99	4.60	4.60	4.61	4.59	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
85	80	4.89	4.64	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
86	81	4.89	4.66	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
87	82	4.87	4.70	4.70	4.64	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
88	83	4.79	4.79	4.64	4.68	4.62	4.67	4.61	4.66	4.60	4.63	4.67	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
89	84	4.79	4.63	4.67	4.67	4.65	4.61	4.61	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
90	85	4.81	4.60	4.61	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
91	86	4.96	4.68	4.64	4.65	4.64	4.60	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92
92	87	4.80	4.63	4.60	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
93	88	4.93	4.67	4.62	4.67	4.63	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
94	89	4.99	4.60	4.60	4.61	4.59	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
95	90	4.89	4.64	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
96	91	4.89	4.66	4.70	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
97	92	4.87	4.70	4.70	4.64	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
98	93	4.79	4.79	4.64	4.68	4.62	4.67	4.61	4.66	4.60	4.63	4.67	4.71	4.74	4.77	4.80	4.83	4.86	4.89	4.92	4.95
99	94	4.79	4.63	4.67	4.67	4.65	4.61	4.61	4.59	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89
100	95	4.81	4.60	4.61	4.63	4.60	4.56	4.59	4.54	4.56	4.59	4.62	4.65	4.68	4.71	4.74	4.77	4.80	4.83	4.86	4.89

OPTION B-MONTHLY INSTALMENTS-JOINT AND EQUAL TO SECONDARY PAYER																						
AGE OF PRIMARY PAYER**		AGE OF SECONDARY PAYER**																				
MALE		45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
FEMALE		50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70
50	51	14.27	14.30	14.34	14.37	14.40	14.43	14.46	14.49	14.51	14.53	14.55	14.58	14.60	14.63	14.65	14.68	14.70	14.73	14.75	14.77	14.79
51	50	4.80	4.82	4.85	4.88	4.90	4.93	4.95	4.98	5.00	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.27	5.29
52	51	4.93	4.95	4.97	4.99	5.01	5.04	5.06	5.09	5.11	5.14	5.16	5.19	5.21	5.24	5.26	5.29	5.31	5.34	5.36	5.39	5.41
53	52	4.98	4.99	5.00	5.02	5.04	5.07	5.09	5.12	5.14	5.17	5.19	5.22	5.24	5.27	5.29	5.32	5.34	5.37	5.39	5.42	5.44
54	53	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
55	54	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
56	55	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
57	56	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
58	57	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
59	58	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
60	59	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
61	60	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
62	61	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
63	62	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
64	63	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
65	64	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
66	65	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
67	66	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
68	67	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
69	68	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
70	69	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
71	70	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
72	71	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
73	72	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
74	73	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45
75	74	4.99	5.00	5.01	5.03	5.05	5.08	5.10	5.13	5.15	5.18	5.20	5.23	5.25	5.28	5.30	5.33	5.35	5.38	5.40	5.43	5.45

SETTLEMENT OPTION TABLES-CONTINUED

FOR EACH \$1,000

OPTION C-MONTHLY INSTALLMENTS CERTAIN AND LIFE THEREAFTER

AGE OF PAYEE		MONTHLY INSTALLMENTS				AGE OF PAYEE		MONTHLY INSTALLMENTS				AGE OF PAYEE		MONTHLY INSTALLMENTS			
		NUMBER OF YEARS CERTAIN						NUMBER OF YEARS CERTAIN						NUMBER OF YEARS CERTAIN			
MALE	FEMALE	5	10	15	20	MALE	FEMALE	5	10	15	20	MALE	FEMALE	5	10	15	20
10-	10-	5.55	5.55	5.55	5.57	66	66	54.16	54.16	54.16	54.11	66	66	56.14	56.00	56.00	56.00
11	10	5.56	5.56	5.56	5.58	67	67	54.20	54.19	54.19	54.15	67	67	56.20	56.06	56.06	56.06
12	11	5.61	5.60	5.60	5.62	68	68	54.25	54.24	54.23	54.19	68	68	56.26	56.12	56.12	56.12
13	12	5.67	5.65	5.65	5.67	69	69	54.30	54.29	54.28	54.24	69	69	56.32	56.18	56.18	56.18
14	13	5.73	5.71	5.71	5.73	70	70	54.35	54.33	54.33	54.29	70	70	56.38	56.24	56.24	56.24
15	14	5.79	5.77	5.77	5.79	71	71	54.40	54.38	54.38	54.34	71	71	56.44	56.30	56.30	56.30
16	15	5.85	5.83	5.83	5.85	72	72	54.45	54.43	54.43	54.39	72	72	56.50	56.36	56.36	56.36
17	16	5.91	5.89	5.89	5.91	73	73	54.50	54.48	54.48	54.44	73	73	56.56	56.42	56.42	56.42
18	17	5.97	5.95	5.95	5.97	74	74	54.55	54.53	54.53	54.49	74	74	56.62	56.48	56.48	56.48
19	18	6.03	6.01	6.01	6.03	75	75	54.60	54.58	54.58	54.54	75	75	56.68	56.54	56.54	56.54
20	19	6.09	6.07	6.07	6.09	76	76	54.65	54.63	54.63	54.59	76	76	56.74	56.60	56.60	56.60
21	20	6.15	6.13	6.13	6.15	77	77	54.70	54.68	54.68	54.64	77	77	56.80	56.66	56.66	56.66
22	21	6.21	6.19	6.19	6.21	78	78	54.75	54.73	54.73	54.69	78	78	56.86	56.72	56.72	56.72
23	22	6.27	6.25	6.25	6.27	79	79	54.80	54.78	54.78	54.74	79	79	56.92	56.78	56.78	56.78
24	23	6.33	6.31	6.31	6.33	80	80	54.85	54.83	54.83	54.79	80	80	56.98	56.84	56.84	56.84
25	24	6.39	6.37	6.37	6.39	81	81	54.90	54.88	54.88	54.84	81	81	57.04	56.90	56.90	56.90
26	25	6.45	6.43	6.43	6.45	82	82	54.95	54.93	54.93	54.89	82	82	57.10	56.96	56.96	56.96
27	26	6.51	6.49	6.49	6.51	83	83	55.00	54.98	54.98	54.94	83	83	57.16	57.02	57.02	57.02
28	27	6.57	6.55	6.55	6.57	84	84	55.05	55.03	55.03	54.99	84	84	57.22	57.08	57.08	57.08
29	28	6.63	6.61	6.61	6.63	85	85	55.10	55.08	55.08	55.04	85	85	57.28	57.14	57.14	57.14
30	29	6.69	6.67	6.67	6.69	86	86	55.15	55.13	55.13	55.09	86	86	57.34	57.20	57.20	57.20
31	30	6.75	6.73	6.73	6.75	87	87	55.20	55.18	55.18	55.14	87	87	57.40	57.26	57.26	57.26
32	31	6.81	6.79	6.79	6.81	88	88	55.25	55.23	55.23	55.19	88	88	57.46	57.32	57.32	57.32
33	32	6.87	6.85	6.85	6.87	89	89	55.30	55.28	55.28	55.24	89	89	57.52	57.38	57.38	57.38
34	33	6.93	6.91	6.91	6.93	90	90	55.35	55.33	55.33	55.29	90	90	57.58	57.44	57.44	57.44
35	34	6.99	6.97	6.97	6.99	91	91	55.40	55.38	55.38	55.34	91	91	57.64	57.50	57.50	57.50
36	35	7.05	7.03	7.03	7.05	92	92	55.45	55.43	55.43	55.39	92	92	57.70	57.56	57.56	57.56
37	36	7.11	7.09	7.09	7.11	93	93	55.50	55.48	55.48	55.44	93	93	57.76	57.62	57.62	57.62
38	37	7.17	7.15	7.15	7.17	94	94	55.55	55.53	55.53	55.49	94	94	57.82	57.68	57.68	57.68
39	38	7.23	7.21	7.21	7.23	95	95	55.60	55.58	55.58	55.54	95	95	57.88	57.74	57.74	57.74
40	39	7.29	7.27	7.27	7.29	96	96	55.65	55.63	55.63	55.59	96	96	57.94	57.80	57.80	57.80
41	40	7.35	7.33	7.33	7.35	97	97	55.70	55.68	55.68	55.64	97	97	58.00	57.86	57.86	57.86
42	41	7.41	7.39	7.39	7.41	98	98	55.75	55.73	55.73	55.69	98	98	58.06	57.92	57.92	57.92
43	42	7.47	7.45	7.45	7.47	99	99	55.80	55.78	55.78	55.74	99	99	58.12	57.98	57.98	57.98
44	43	7.53	7.51	7.51	7.53	100	100	55.85	55.83	55.83	55.79	100	100	58.18	58.04	58.04	58.04

OPTION D-MONTHLY INSTALLMENTS-CASH REFUND

AGE OF PAYEE		MONTHLY INSTALLMENTS	AGE OF PAYEE		MONTHLY INSTALLMENTS	AGE OF PAYEE		MONTHLY INSTALLMENTS
MALE	FEMALE		MALE	FEMALE		MALE	FEMALE	
10-	10-	5.57	66	66	54.20	70	70	56.71
11	10	5.58	67	67	54.22	71	70	56.80
12	11	5.60	68	68	54.25	72	71	56.89
13	12	5.62	69	69	54.28	73	72	56.98
14	13	5.64	70	70	54.31	74	73	57.07
15	14	5.66	71	71	54.34	75	74	57.16
16	15	5.68	72	72	54.37	76	75	57.25
17	16	5.70	73	73	54.40	77	76	57.34
18	17	5.72	74	74	54.43	78	77	57.43
19	18	5.74	75	75	54.46	79	78	57.52
20	19	5.76	76	76	54.49	80	79	57.61
21	20	5.78	77	77	54.52	81	80	57.70
22	21	5.80	78	78	54.55	82	81	57.79
23	22	5.82	79	79	54.58	83	82	57.88
24	23	5.84	80	80	54.61	84	83	57.97
25	24	5.86	81	81	54.64	85	84	58.06
26	25	5.88	82	82	54.67	86	85	58.15
27	26	5.90	83	83	54.70	87	86	58.24
28	27	5.92	84	84	54.73	88	87	58.33
29	28	5.94	85	85	54.76	89	88	58.42
30	29	5.96	86	86	54.79	90	89	58.51
31	30	5.98	87	87	54.82	91	90	58.60
32	31	6.00	88	88	54.85	92	91	58.69
33	32	6.02	89	89	54.88	93	92	58.78
34	33	6.04	90	90	54.91	94	93	58.87
35	34	6.06	91	91	54.94	95	94	58.96
36	35	6.08	92	92	54.97	96	95	59.05
37	36	6.10	93	93	54.99	97	96	59.14
38	37	6.12	94	94	55.02	98	97	59.23
39	38	6.14	95	95	55.05	99	98	59.32
40	39	6.16	96	96	55.08	100	99	59.41
41	40	6.18	97	97	55.11			
42	41	6.20	98	98	55.14			
43	42	6.22	99	99	55.17			
44	43	6.24	100	100	55.20			

OPTION E-INSTALLMENTS CERTAIN

YEARS CERTAIN	MONTHLY INSTALLMENTS
1	56.83
2	56.83
3	56.83
4	56.83
5	56.83
6	56.83
7	56.83
8	56.83
9	56.83
10	56.83
11	56.83
12	56.83
13	56.83
14	56.83
15	56.83
16	56.83
17	56.83
18	56.83
19	56.83
20	56.83
21	56.83
22	56.83
23	56.83
24	56.83
25	56.83
26	56.83
27	56.83
28	56.83
29	56.83
30	56.83

WAIVER OF PREMIUM BENEFIT RIDER

If this rider is listed on the Policy Specifications page it is a part of the policy. It is subject to all of the provisions of the policy which are not inconsistent with the provisions of this rider. The annual premium and the premium paying period for this rider are shown on the Policy Specifications page.

Waiver of Premium Benefit

If you furnish us with due written proof that the insured is totally disabled, as defined in this rider, we will waive premium payments on this policy. The insured must have become disabled after age 8 and before age 65. The disability must have continued without interruption for at least six months. This rider must be in force. Premiums on this policy will be waived as follows:

Disability Beginning Before Age 60. If the insured's disability begins before age 60, we will waive premiums which were due during the six months of uninterrupted disability. We will continue to waive premiums after that. However, the insured must continue to be totally disabled.

Disability Beginning Between Ages 60 and 65. If the insured's disability begins on or after age 60 but before age 65, we will waive premiums which were due during the six months of uninterrupted disability. We will continue to waive premiums after that, but no later than age 65. However, the insured must continue to be totally disabled.

Definition of Age 8, Age 60, and Age 65

"Age 8," "age 60," and "age 65" begin on the policy anniversary nearest the insured's 8th, 60th, and 65th birthdays, respectively.

Total Disability

"Total Disability" means the complete inability of the insured to perform all of the substantial and material duties of his regular occupation. Such disability must be the result of an injury or a sickness. The injury or sickness must originate after this rider becomes effective.

However, after this period of disability has continued for 60 months, the insured will be considered to be totally disabled only if he is unable to perform all of the substantial and material duties of any occupation for which he is reasonably fitted by education, training or experience. Such disability must be the result of an injury or a sickness.

If after this rider becomes effective you suffer the total and irrecoverable loss of sight in both eyes, or of the use of both hands or both feet, or of one hand and one foot, this will be considered total disability as defined in this rider. On such a loss the insured will still be considered disabled even though working at an occupation.

Recurrent Total Disability

If, while this policy is in force, the insured becomes disabled again after having been totally disabled before, the new disability will be considered a continuation of the previous period unless:

1. It is due to an entirely different cause; or
2. The insured has performed all of the material and substantial duties of a gainful occupation. These duties must be performed for a continuous period of 6 months or more between such periods of total disability.

Risks Not Assumed

We will not waive premiums under this rider if disability results from war or any act of war while the insured is in the military, naval or air forces of any country at war. We will also not waive premiums if the insured becomes disabled while in a civilian non-combatant unit serving with such forces. "War" includes undeclared war and "any country" includes any international organization or combination of countries.

Termination

You may terminate this rider as of any premium due date. To do this you must make a proper written request. If this rider is not already terminated it will terminate on the date any of the following events first occurs:

1. When the insured attains age 65. This will be without prejudice to any benefits granted for total disability occurring before age 65; or

2. The due date of any premium for the policy or this rider which remains unpaid at the end of the policy grace period; or
3. The date any guaranteed value option in the policy becomes effective; or
4. When the policy matures or terminates. If this is an annuity policy, the date annuity payments are due to commence; or
5. The end of the premium paying period. With respect to any other rider to which this benefit applies, the end of the premium paying period for that rider.

We will incur no liability for this benefit if premiums for it are paid beyond its termination date. Any premiums paid beyond its termination date will be returned with compound interest at 6% per year.

Notice of Claim and Proof of Disability

Before we waive any premium, we must receive at our Home Office:

1. Written notice of claim for this benefit during the lifetime of the insured. This notice must be submitted during the continuance of total disability. This notice cannot be submitted later than six months after age 65 of the insured.
2. Written proof of total disability within six months after we receive written notice of claim. In no event shall this proof be submitted later than the date when any of the following events first occurs:
 - a. One year after age 65 of the insured;
 - b. Prior maturity of the policy;
 - c. Surrender of the policy for its net cash value;
 - d. One year from the due date of the first unpaid premium if any premium is in default.

Failure to give such notice and proof within the time allowed will not always invalidate a claim. We will consider the claim if you show us that it was not reasonably possible to file notice and proof on time. However, you must file notice and proof as soon as is reasonably possible. In no event will any premium be waived or refunded if its due date was more than one year before we received notice of claim at our Home Office.

We will require no further proof of disability and we will automatically waive all further premiums if:

1. The insured is totally disabled at age 65; and
2. All premiums for at least the five years preceding age 65 have been waived.

We have the right to have the insured examined by our appointed examiner. We also have the right to receive written proof of continuance of disability from the insured at the following times:

1. After receipt of such notice of claim;
2. At any time within two years after we receive proof of total disability;
3. Not more than once each year after the first two years.

We will not waive any further premiums if the insured refuses to be medically examined. Nor will we waive further premiums if proof of continuance of disability is not furnished when we request it.

Examination of the Insured

Incontestability

We cannot contest this rider as to statements made in the application for the policy after a period of two years from the date of issue if:

1. This rider shall have been in force during the lifetime of the insured; and
2. The insured does not become totally disabled within this period.

Term Conversion If this rider is attached to a term policy and such policy has a Conversion Privilege, this rider may be converted along with the term policy. If this policy has a term insurance rider with a Conversion Privilege, that rider may be converted along with this Waiver of Premium Benefit rider. The term policy or term rider may modify this Waiver of Premium Benefit rider.

General Provisions We will pay dividends and all other amounts payable under the policy the same as if premiums had not been waived.

If the insured becomes disabled during the grace period of the first premium in default, we will allow this Waiver of Premium Benefit as if default had not occurred. However, you will be liable for the premium in default. Interest compounded at 6% per year will be charged on this premium.

This rider will not affect the guaranteed values, loan values, nor other values of the policy, if any. This rider does not apply to any insurance provided by any guaranteed value options of the policy.

You may apply for reinstatement of this policy with or without this rider. We have the right to decide whether to approve the reinstatement of this policy with or without this rider. If this rider is attached to an annuity policy, the word "insured" is changed to the word "annuitant." This benefit is not applicable after annuity payments have begun.

**General
American**
LIFE INSURANCE COMPANY
ST. LOUIS, MISSOURI 63102

ENDORSEMENT

The "Incontestability" provision and "Suicide Exclusion" of this policy are amended at issue to read as follows:

Incontestability - This policy will be incontestable after it has been in force during the lifetime of the insured(s) for a "maximum period of two years from August 5, 1986, except for nonpayment of premiums. This is not applicable to any increased coverage added to this policy.

Any increase in face amount made and/or any rider benefits added to this policy will be incontestable after being in force during the lifetime of the insured(s) for a "maximum period of two years from the effective date of such increased coverage, except for nonpayment of premiums.

Any rider benefits added to this policy after its date of issue will also be subject to any additional conditions contained in the rider's own "Incontestability" provision.

Suicide Exclusion - If the insured commits suicide, while sane or insane, within a "maximum period of two years from August 5, 1986, our payment for the policy will be limited to:

- (a) the amount of premiums paid on the policy; less
- (b) the amount of any outstanding policy loans; less
- (c) loan interest to the date of death.

This is not applicable to any increased coverage added to this policy.

If the insured commits suicide, while sane or insane, within a "maximum period of two years from the date the face amount was increased; and/or the date that any rider benefits were added to this policy; our payment for such increased coverage will be limited to:

- (a) the amount of premiums paid for such increase; less
- (b) the amount of any outstanding policy loans; less
- (c) loan interest to the date of death.

Any rider benefits added to this policy after its date of issue will also be subject to any additional conditions contained in the rider's own Suicide Exclusion.

This Suicide Exclusion does not apply if the insured was a citizen of Missouri at the time the coverage took effect; unless, the insured intended suicide at that time.

Any amount that we are liable for under any of the conditions stated above will be paid as death claim proceeds under the policy provisions governing such payment.

If the incontestability and/or suicide exclusion period is less than two years in the state in which your coverage became effective, such shorter period will be applicable to such coverage.

Nelson Laurang
SECRETARY

William T. Tinsley
PRESIDENT

**General
American**
Life Insurance Company
St. Louis, Missouri 63102

MODIFICATION

The maximum and current loan rates provided in the loans and reinstatement provisions of your policy are modified as follows:

Loans

The loan interest is charged daily at a rate we set from time to time. This rate will never be more than the maximum permitted by law. We will not change this rate more than once a year on your policy anniversary date.

We will tell you the current loan interest rate when a loan is made. We will also mail you an advance notice if there is to be a change in the loan interest rate applicable to any existing loan balance.

Reinstatement

Any loan and loan interest due from the date of lapse must be paid or reinstated. Compound interest to the date of reinstatement will be charged on any unpaid loan at the loan interest rate which was in effect at the date of lapse and as changed from time to time up to the date of reinstatement.

All overdue premiums will be accumulated at 5% per year compounded annually to the date of reinstatement.

Helen Lawrence
SECRETARY

William T. ...
PRESIDENT

**General
American**
Life Insurance Company
St. Louis, Missouri 63102



The New England
Your Financial Partner

Mitchell A. Karmen
Attorney

July 29, 1987

Public Service Company of New Mexico
Alvarado Square, Third Floor
Albuquerque, New Mexico 87102

Financial Marketing Services, Inc.
10250 Regency Circle, Suite 304
Omaha, Nebraska 68114

RE: Waiver of Contestability Provision of Policies Issued Under COMREP
Insurance Program for Public Service Company of New Mexico

Gentlemen:

New England Mutual Life Insurance Company (the "Company"), acting through John E. Lyons, a duly licensed agent of the Company, has agreed to issue and deliver to Public Service Company of New Mexico, and Public Service Company of New Mexico ("PSM") has agreed to purchase pursuant to the COMREP Life Insurance Program ("COMREP Program") presented to PSM by Financial Marketing Services, Inc. whose principal is John E. Lyons, certain individual ordinary life insurance policies (the "COMREP Policy or Policies").

The Company agrees to issue the COMREP Policy on the life of each employee of PSM or any affiliate of PSM covered under the COMREP Program provided said employee shall be randomly assigned to the Company.

The Company agrees to permit PSM to substitute a new insured on each COMREP Policy in place of any currently participating employee who terminates employment with PSM, provided the new insured shall be randomly assigned to the Company, and that the substitution of a new insured shall be applied for in accordance with the Company's standard procedures for issuing new policies under the COMREP Insurance Program.

The Company agrees that the effective date of each policy shall be the date the Application is completed and signed by the proposed insured and accepted by PSM. The Company also agrees that the death benefits payable pursuant to the Split-Dollar Life Insurance Agreement by and between PSM and the Employee shall be paid pursuant to the Designation of Beneficiary Form which is on file with, and in a form satisfactory to, the Company.

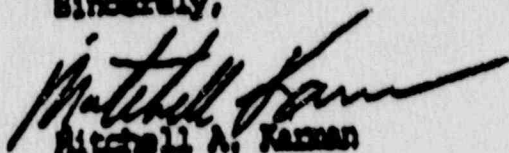
July 29, 1987
Page Two

The Company agrees to waive the "Noncontestable After Two Years Provision" of all COMREP Policies issued on lives of employees of F&M pursuant to the COMREP program, except that the Company reserves the right to confirm that the insured was actively at work on a full time basis on the date of application in the event of a claim.

The Company agrees to waive "Suicide Within Two Years" provision of the COMREP Policies.

The Company agrees that the foregoing provisions of this letter constitutes the Company's understanding of the administrative procedures to be followed for policies issued under the COMREP Insurance Program in the areas described by this letter.

Sincerely,


Mitchell A. Kanan

WAK/600

New England Mutual Life Insurance Company

Rev 26

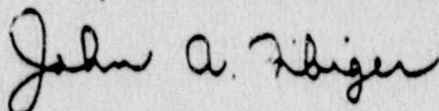
Insurance Company (called the Company). The which includes the attached Application, is the entire contract between you and the Company. All Riders are listed in Section 1. No change in or waiver of the provisions of the Policy is valid unless the change or waiver is signed by the President or Secretary of the Company.

Payments Under the Contract. All contract amounts are in dollars of the United States of America. Payments by the

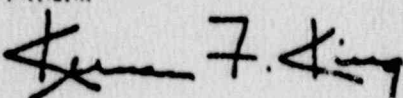
**New England Mutual life
Insurance Company Agrees to pay
the Face Amount of this Policy for the
policy year in which the Insured dies
to the Beneficiary on receipt of proof of
the death of the Insured; and to provide
the other rights and benefits of the
Policy.**

These agreements are subject to all the provisions of the Policy.

Signed on the Date of Issue for
the Company at its Home Office,
301 Boylston Street, Boston, Massachusetts 02117.



President



Secretary

Whole Life Policy

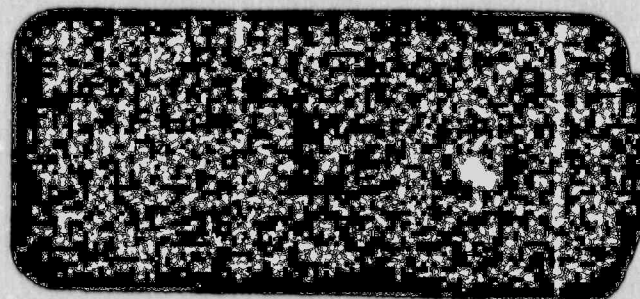
- The Policy Proceeds are payable at the death of the Insured.
- The Face Amount increases each year for a specified period.
- Premiums are payable to the Company for a specified period.
- The Policy participates in Dividends.

Please Read Your Policy Carefully

This Policy is a legal contract between you and the Company.

Ten Day Right to Return The Policy

When this Policy is issued, you have 10 days after you receive it from the Company to examine it. Within those 10 days you can return the Policy to the Company or its Agent for any reason. If you do, the Policy will be cancelled. Any premium paid will then be refunded and the Policy will be void from the beginning.



Policy Provisions

Section

- 1 Policy Schedule
- 2 Table of Values
- 3 Table of Face Amounts
- 4 Contract
- 5 Premiums
- 6 Nonpayment of Premiums
- 7 Reinstatement After Lapse
- 8 Cash Value of the Policy
- 9 Policy Loans
- 10 Dividends
- 11 Change of Plan
- 12 Owner and Beneficiary
- 13 Payment of Benefits
- 14 Payment Options
- 15 Life Income Tables
- Riders, if any
- Amendments and Endorsements
- Copy of the Application

Alphabetical Guide

Section

- 1, 4 Age of Insured
- 12 Assignments
- 5 Automatic Premium Payment
- 12 Beneficiary
- 13 Benefits, Payment of
- 2, 8 Cash Value
- 11 Change of Plan
- 4 Claims of Creditors
- 4 Contestable
- 4 Contract
- 1, 4 Date of Issue
- 1, 4 Date, Policy
- 10 Dividend Accumulations
- 10 Dividends
- 3 Face Amounts, Table of
- 5 Grace Period
- 6 Lapse Options

Section

- 13, 14 Life Income Options
- 15 Life Income Tables
- 2, 9 Loans, Policy
- 8 Net Cash Value
- 6 Nonpayment of Premiums
- 12 Owner
- 10 Paid-Up Additions
- 2, 6 Paid-Up Insurance
- 14 Payment Options
- 9 Policy Loan Balance
- 5 Premiums
- 7 Reinstatement
- 1 Schedule, Policy
- 4 Suicide
- 8 Surrender of the Policy
- 2 Values, Table of

4. Contract

The Contract. This Policy is a legal contract between the Owner of the Policy (called "you") and New England Mutual Life Insurance Company (called "the Company"). The Policy, which includes the attached Application, is the entire contract between you and the Company. All Riders are listed in Section 1. No change in or waiver of the provisions of the Policy is valid unless the change or waiver is signed by the President or the Secretary of the Company.

Payments Under the Contract. All contract amounts are in dollars of the United States of America. Payments by the Company under the contract will be made at the Home Office of the Company. The obligations of the Company are subject to all payments made and actions taken by the Company under the Policy before receipt by the Company at its Home Office of proof of death of the Insured.

Dates. Policy years, months and anniversaries are all measured from the Policy Date. The contestable and suicide periods start on the Date of Issue. The Policy Date and the Date of Issue are both shown in Section 1.

Not Contestable After Two Years. Insurance is issued by the Company in reliance on the statements made in the Application for the insurance. Those statements are representations; they are not warranties. No statement can be used to contest or rescind insurance or to defend against a claim unless contained in the Application for the insurance. The insurance issued under this Policy will not be contestable after it has been in force during the life of the Insured for two years from the Date of Issue.

Suicide Within One Year. If the Insured dies by suicide within one year from the Date of Issue, the Face Amount will not be paid. The policy proceeds will be limited to the amount of the premiums paid, less any Policy Loan Balance on the date of death, and less any dividends paid in cash or used in reduction of premiums.

Age of Insured. The age of the Insured on the Policy Date and on policy anniversaries means the age at the nearest birthday of the Insured. Between anniversaries, age means age on the last anniversary plus elapsed time. If the age of the Insured has not been correctly stated in the Application, the values and benefits will be corrected to the amounts which the premiums paid would have purchased for the correct age.

Claims of Creditors. The Policy and payments under it will be exempt from the claims of creditors to the extent allowed by law.

Basis of Values. Reserves, Cash Values and net single premiums are based on the Commissioners 1958 Standard Ordinary Mortality Table. Continuous functions are used. Interest is at the rate of $4\frac{1}{2}\%$ per year compounded yearly. However, for Paid-up Additions (see Section 10) a higher rate of interest may be used by the Company. Reserves are computed by the Commissioners Reserve Valuation Method. The Cash Value of the Policy will be equal to the full reserve no later than the end of the tenth policy year or by the end of the period for which premiums are payable if less than ten years. The Cash Value of the Policy at any time within a policy year while premiums are being paid will reflect the lapse of time and the premiums paid. A detailed statement of the method of computing values has been filed with the Insurance Department of the state in which the Policy is to be delivered. All values are equal to or are in excess of the minimum values required by the law of that state.

5. Premiums

Patient. Premiums are your payments to the Company for the Policy. Payments can be made at the Home Office of the Company or at any Agency of the Company. A receipt for payment signed by the Secretary of the Company will be furnished on request. The Policy will not be in force until the first premium is paid.

Amount and Frequency. Annual premiums for the Policy and for any Riders are shown in Section 1. Payment can be semi-annual or quarterly or can be at any other frequency agreed to by the Company. Payment is due in advance on the first day of each payment period, starting on the Policy Date. No premium will be due or payable for any period after the death of the Insured.

Grace Period. There is a grace period of 31 days in which to pay a premium, without interest, after its due date. The insurance remains in force during the grace period.

Option for Automatic Premium Payment from Dividend Accumulations and By Policy Loans. If this Option has been elected in writing, and if a premium is not paid by the end of its grace period, a premium will be paid automatically to the next quarterly due date:

First, by using any Dividend Accumulations (see Section 10);

Second, by using any available Loan Value of the Policy (see Section 9).

If the unpaid premium is an annual or a semi-annual premium, it will be paid in full, if possible. If the amount available is not sufficient to pay a premium to the next quarterly due date, no premium will be paid. Loan interest will be charged on automatic Policy Loans from the due date of the premium. You can from time to time elect in writing to use Dividend Accumulations or Loan Values or both for this Option; or you can elect to cancel this Option.

Premium Adjustment At Death. The pro rata portion of any premium paid for a period beyond the date of death will be added to the policy proceeds. This adjustment does not apply to Paid-Up Insurance.

If the Insured dies during the grace period of an unpaid premium, a pro rata premium to the date of death will be deducted from the policy proceeds.

6. Non-Payment of Premiums

Lapse of Policy. Any premium which is not paid by its due date is in default. If it remains unpaid at the end of its 31-day grace period and is not paid automatically under the Option in Section 5, the Policy will lapse.

Lapse Option. If the Policy lapses because a premium is not paid, any Net Cash Value of the Policy will be used to continue the Policy in force as Paid-Up Insurance. Any Riders will lapse unless otherwise stated in the Rider. Any Dividend Accumulations, Paid-Up Additions and Policy Loan Balance will terminate when the Net Cash Value is used for this purpose.

Paid-Up Insurance Option. Paid-Up Insurance is permanent life insurance with no further premiums due. It has increasing Cash Values and Loan Values and shares in dividends. The amount of Paid-Up Insurance is payable at the death of the Insured.

Paid-Up Insurance will be provided by using the Net Cash Value of the Policy as a net single premium at the age of the Insured on the due date of the premium in default. The Table of Values (Section 2) shows samples of the amount of Paid-Up Insurance which the Cash Value could provide.

7. Reinstatement After Lapse

Reinstatement Within 62 Days. If the Policy lapses because a premium remains unpaid at the end of its grace period, the Policy and Riders can be reinstated by payment of the premium within 62 days after its due date, but only if the Insured is living at the time of payment. (See Limitations on Reinstatement below.)

Reinstatement at a Later Time. The Policy and Riders can be reinstated at any later time. (See Limitations on Reinstatement below.) Reinstatement will then be subject to:

- Application to reinstate; and
- Proof that the Insured is then insurable; and
- Payment, while the Insured is living, of each unpaid premium, plus interest at the rate of 6% per year compounded yearly; and
- Payment or reinstatement of any Policy Loan Balance on the due date of the premium in default, plus the interest that would have accrued if the Policy had not lapsed.

Policy Loans may have been made while the Policy is in force as Paid-Up Insurance. (See Section 6.) If the Loans are not repaid, they will continue in force after the Policy is reinstated.

Upon reinstatement the Policy will be credited with any additional dividends which would have been credited if the Policy had not lapsed. Any Paid-Up Additions and Dividend accumulations at the time of lapse will also be reinstated.

Limitations on Reinstatement. The Policy and Riders cannot be reinstated, except with the consent of the Company:

- If more than seven years have passed since the due date of the premium in default; or
- If the Policy has been surrendered for its Net Cash Value. (See Section 8.)

Any Rider which provides life or disability insurance on a person other than the Insured can be reinstated only as stated in the Rider.

8. Cash Value of the Policy

Surrender of the Policy. You can surrender the Policy for its Net Cash Value at any time by notice to the Company in writing. Upon surrender, the Policy will terminate. The Net Cash Value will be paid to you in one sum, unless you elect in writing to apply all or part of the Value to any Payment Option. (See Payment of Benefits, Section 13.)

The Company can postpone payment of the Net Cash Value for not more than six months after surrender. If payment is postponed for more than 30 days it will be credited with interest from the date of surrender. The rate of interest will be determined each year by the Company; but the rate will not be less than $3\frac{1}{2}\%$ per year.

Net Cash Value. The Net Cash Value of the Policy is equal to:

- The Cash Value of the Policy;
PLUS
- The Cash Value of any Paid-Up Additions;
PLUS
- Any Dividend Accumulations and unpaid dividends;
LESS
- Any Policy Loan Balance.

Cash Value. The Table of Values (Section 2) shows samples of the Cash Value of the Policy at various dates, assuming that all premiums due have been paid. Values at other dates will be quoted by the Company on request. The Cash Value of the Policy is not increased by the Cash Value of any Rider, unless stated in the Rider. For 90 days after the due date of a premium in default, the Cash Value of the Policy will not be less than on the due date.

The Cash Value of Paid-Up Insurance (including Paid-Up Additions) is equal to the net single premium which would be required to provide the insurance at the age of the Insured on the date of the valuation. For 31 days after each policy anniversary, the Cash Value will not be less than on the anniversary.

3. Policy Loans

Policy Loans. You can borrow all or part of the Loan Value of the Policy from time to time by written application to the Company. Policy Loans are made on the sole security of the Policy. The amount available to be borrowed at any time is equal to the Loan Value less any Policy Loan Balance at that time. Policy Loans may be charged automatically against the Policy to pay premiums. (See Option for Automatic Premium Payment in Section 5.)

The Company can postpone the making of any Policy Loan or not more than six months from the day you apply, except loans to pay premiums on policies issued by the Company.

Loan Value. The Loan Value of the Policy is the amount which with loan interest will equal the Cash Value of the Policy and of any Paid-Up Additions on the next loan interest due date or on the next premium due date, whichever is the smaller amount. During the grace period of an unpaid premium, the "next" premium due date means the due date of the unpaid premium.

The Table of Values (Section 2) shows samples of the Loan Value of the Policy at various dates, assuming all premiums due have been paid.

Interest on Loans; Policy Loan Balance. Policy Loans bear interest at an adjustable rate as allowed by law. Interest accrues daily. The Policy Loan Balance at any time means Policy Loans outstanding plus interest accrued to date. Loan interest is due each year on the annual premium anniversary date. Loan interest not paid when due will be added to the loan. The loan interest rate will be set by the Company once a year, in advance, on the annual premium anniversary.

When a Policy Loan is made you will be informed in writing of the annual loan interest rate applicable until your next annual premium anniversary. While there is a Loan Balance, you will be given advance notice, in writing, of any change in the loan interest rate which will be effective on your next annual premium anniversary.

The loan interest rate set each year will not exceed the greater of:

- The Published Monthly Average for the second calendar month before the date on which the rate is set; and
- The rate per year used to compute the Cash Values of this Policy plus one percent.

In no event will the loan interest rate be greater than allowed by law. "Published Monthly Average" means "The Moody's Corporate Bond Yield Average — Monthly Average Corporates" as published by Moody's Investors Service, Inc.; or an average that is similar in substance and which is approved by the Insurance Department of the state in which this Policy is delivered.

The loan interest rate:

- May be increased when the maximum allowed rate is at least one-half of one percent greater than the rate then in use;
- Will be decreased when the maximum allowed rate is at least one-half of one percent less than the rate then in use.

Repayment of Loans. Policy Loans may be repaid to the Company at any time in whole or in part. A Policy Loan is a charge against the Policy. The proceeds of the Policy will be reduced by any Policy Loan Balance on the date of death of the Insured. If the Policy Loan Balance at any time exceeds the Cash Value of the Policy and of any Paid-Up Additions, the Company will mail a notice to you and to any assignee. The notice will be mailed to the addresses on record with the Company. If the excess amount is not paid to the Company within 31 days after mailing of the notice, the Policy will lapse without value. Any Dividend Accumulations will then be paid to you.

Policy Loans Affect Dividends. Policy Loans on this Policy will affect the amount of dividends for the Policy. (See Section 10.)

10. Dividends

Dividends. The Policy will share in the divisible surplus of the Company. The share, if any, to be apportioned to the Policy will be determined each year by the Company and credited to the Policy as a dividend. Each dividend for the Policy will be affected by the average Policy Loan Balance on the Policy. The dividend date will be the annual premium anniversary date each year.

Dividend Options. You can elect to have dividends applied under any one of these Options:

"A" Paid to you in cash;

"B" Used in reduction of premiums;

"C" Used to provide Paid-Up Additions; or

"D" Held by the Company as Dividend Accumulations.

Paid-Up Additions. Under Option "C" each dividend will be used as a net single premium at the Insured's age on the dividend date to provide additional Paid-Up Insurance (called "Paid-Up Additions"). Paid-Up Insurance is permanent life insurance for a level amount with no further premiums due. It has increasing Cash Values and Loan Values and shares in dividends. The amount of any Paid-Up Additions in force at the death of the Insured will be added to the policy proceeds.

Dividend Accumulations. Under Option "D" the Company will hold the dividends at interest (called "Dividend Accumulations"). The rate of interest will be determined by the Company each year; but the rate will not be less than $3\frac{1}{2}\%$ per year compounded yearly. You can withdraw Dividend Accumulations in cash at any time. They may be used automatically to pay premiums. (See Option for Automatic Premium Payment in Section 5.) Any balance of Dividend Accumulations at the death of the Insured will be added to the policy proceeds.

Election of Dividend Option. You can change the election of the Dividend Option from time to time by notice to the Company in writing. If no election is made, Option "C" will be used.

Dividend at Death. A pro rata portion of the dividend for the year in which the Insured dies will be added to the policy proceeds unless the Insured dies in the first policy year.

11. Change of Plan

Change of Plan. You can exchange this Policy, if it has not lapsed, for a policy on another plan of insurance. The new policy will be issued:

- On any plan of Whole Life or Endowment insurance with a level face amount issued by the Company on the Policy Date;
- With the same Face Amount as this Policy in the year of the exchange;
- With the same Insured, Age, Policy Date, and underwriting class as this Policy;
- On a policy form and at premium rates in use by the Company on the Policy Date; and
- Subject to any assignments and Policy Loans on this Policy, any limitations on this Policy stated in Riders, and any cost or credit described below.

Proof of insurability will not be required unless the term of insurance will be longer, or the Cash Value or policy reserve will be smaller, than for this Policy. Benefits provided by Rider will be available on the new policy only with the consent of the Company.

Change Cost or Credit. If the new policy has a larger Cash Value on the date of change than this Policy, or if the total premiums from the Policy Date to the date of change would be larger for the new policy than for this Policy, the change will be subject to a change cost payable to the Company. The cost will be the larger of:

- 103% of any increase in the Cash Value; and
- Any increase in the total premiums to date, with interest from the due date of each premium at the rate of 6% per year compounded yearly.

If the new policy has neither a larger Cash Value nor larger total premiums to date, there may be a change credit payable to you. The credit will be the smaller of:

- Any decrease in the Cash Value; and
- Any decrease in the total premiums to date.

In computing the cost or credit, premiums will be adjusted to reflect dividends, without regard to how dividends were used. Any Policy Loan Balance in excess of the Loan Value of the new policy must be repaid to the Company at the time of change.

12. Owner and Beneficiary

Owner. The Owner of the Policy is named in the Application. (See copy attached.) However, the Owner can be changed from time to time. The new Owner will succeed to all of the rights of the Owner, including the right to make a further change of Owner. At the death of the Owner, his or her estate will be the Owner, unless a successor Owner has been named. In this Policy "you" means the Owner, whether the Owner is an individual, a partnership, a corporation, a fiduciary or any other legal entity. The rights of the Owner will terminate at the death of the Insured, except for Payment of Benefits. (See Section 13.)

Beneficiary. The Beneficiary is named in the Application. (See copy attached.) However, the Beneficiary can be changed from time to time before the death of the Insured. The Beneficiary has no rights in the Policy until the death of the Insured. An individual must survive the Insured to qualify as Beneficiary. If none survives, the proceeds will be paid to the Owner. The Beneficiary can also be a corporation, a partnership, a fiduciary or any other legal entity.

Change of Owner or Beneficiary. A change of Owner or Beneficiary must be in written form satisfactory to the Company, and must be dated and signed by the Owner who is making the change. The change will be subject to all payments made and actions taken by the Company under the Policy before the signed change form is received by the Company at its Home Office.

Assignments. An absolute assignment of the Policy by the Owner is a change of Owner and Beneficiary to the assignee. A collateral assignment of the Policy by the Owner is not a change of Owner or Beneficiary; but their rights will be subject to the terms of the assignment. Assignments will be subject to all payments made and actions taken by the Company before a signed copy of the assignment form is received by the Company at its Home Office. The Company will not be responsible for determining whether or not an assignment is valid.

13. Payment of Benefits

Designation of Owner and Beneficiary. A numbered sequence can be used to name successive Owners or Beneficiaries. Co-Beneficiaries will receive equal shares unless otherwise stated.

In naming Owners or Beneficiaries, unless otherwise stated:

- "Child" includes an adopted or posthumous child;
- "Provision for issue" means that if a Beneficiary does not survive the Insured, the share of that Beneficiary will be taken by his or her living issue by right of representation; and
- A family relation such as "wife," "husband," or "child" means the relation to the Insured.

At the time for payment of benefits the Company can rely on an affidavit of any Owner or other responsible person to determine family relations or members of a class.

Payment. The policy proceeds will be paid in one sum, unless you elect to apply all or part of the proceeds to any Payment Option. (See Section 14.) The Company will pay interest on the proceeds from the date they become payable to the date of payment in one sum, or to the Option Date. The rate of interest will be determined each year by the Company; but the rate on death and maturity proceeds will not be less than that required by law and the rate on other proceeds will not be less than $3\frac{1}{2}\%$ per year.

Election of Payment Options; Option Date. The election of a Payment Option and the naming of the Payee must be in written form satisfactory to the Company. You can make or change or revoke the election from time to time before the death of the Insured. The Option Date is the effective date of the Payment Option, as stated in the election.

Payee. A Payee is any individual, corporation, partnership, fiduciary or any other legal entity entitled to receive payment in one sum or under a Payment Option.

Election By Payees. Any proceeds payable in one sum at the death of the Insured, or upon surrender of the Policy, can be applied to any Payment Option at the election of the Payee. Further, subject to the consent of the Company, any Payee who is entitled to receive proceeds in one sum at the expiration of a Payment Option, or at the death of a prior Payee, or upon withdrawal of the proceeds, can elect to apply the proceeds to a Payment Option.

Rights of Payees. In the election of a Payment Option the right can be given to the Payee:

- To withdraw principal and interest under the Fourth or Fifth Option; or
- To withdraw the commuted value of payments certain under the First, Second, or Sixth Option.

Payments under the Life Income Options cannot be commuted, except for payments certain. No Payee can assign, anticipate, commute or withdraw the payments under any Payment Option, unless the right is reserved in the election of the Option.

Limitations. Amounts less than \$2,000 can be applied to a Payment Option only with the consent of the Company. If instalments under an Option are less than \$20, the Company can change the interval of payment to 3 or 6 or 12 months in order to increase each payment to at least \$20.

14. Payment Options

Life Income Options. Life Income Options are based on the age of the Payee on the Payee's birthday nearest the Option Date. The Company will require proof of age. The Life Income payments will be based on the rates shown in the Life Income Tables (Section 15) or on the Payment Option rates of the Company on the Option Date, whichever rates are more favorable to the Payee. If the rates at a given age are the same for different periods certain, the longest period certain will be deemed to have been elected.

Purchase of Increased Life Income Benefits. On the Option Date a one sum purchase payment can be made to the Company to add to the proceeds being applied to any Life Income Option. The portion of Life Income payments purchased in this way will be based on the nonparticipating Payment Option rates of the Company on the Option Date, which may not be the rates shown in the Life Income Tables (Section 15). The purchase payment will be limited to the Company's published maximum for single premium immediate annuities on the Option Date. A portion of the purchase payment may be used by the Company to pay premium taxes on the purchase payment.

Death of Payee. Amounts to be paid after the death of a Payee under a Payment Option will be paid as due to the surviving or succeeding Payee. If no Payee survives, amounts to be paid in one sum, or the commuted value of any unpaid payments certain, will be paid in one sum to the estate of the last Payee to die. If a Payee under a Life Income Option dies within 30 days after the Option Date, the amount applied to the Option, less any payments made, will be paid in one sum, unless a Payment Option is elected.

Commutation Rate. The interest rate used to compute the commuted value of any unpaid payments certain:

- Under the First Option will be $3\frac{1}{2}\%$ per year; and
- Under the Life Income Options will be the rate used by the Company in computing the amount of the monthly payments.

Payment Options. You can elect to have all or part of the policy proceeds applied to provide payments under any one of the following Options, subject to Section 13, Payment of Benefits:

First Option: Income for a Specified Number of Years. The Company will make equal monthly payments which will include both principal and interest. Payments will begin on the Option Date and will continue for the number of years elected, which may not be more than 30. Interest is at the rate of $3\frac{1}{2}\%$ per year compounded yearly. Additional interest paid by the Company for any year will be added to the monthly payments for that year.

Guaranteed monthly payments per \$1,000 of proceeds applied to the First Option are shown below:

Number of Years		Number of Years		Number of Years	
1	\$84.65	11	\$9.09	21	\$5.56
2	43.05	12	8.46	22	5.39
3	29.19	13	7.94	23	5.24
4	22.27	14	7.49	24	5.09
5	18.12	15	7.10	25	4.96
6	15.35	16	6.76	26	4.84
7	13.38	17	6.47	27	4.73
8	11.90	18	6.20	28	4.63
9	10.75	19	5.97	29	4.53
10	9.83	20	5.75	30	4.45

Second Option: Life Income. The Company will make equal monthly payments. Payments will begin on the Option Date and will continue:

- During the life of the Payee, with no further payment after the death of the Payee, called "Life Income, No Refund"; or
- During the life of the Payee, but for at least 10 years, called "Life Income, 10 Years Certain"; or
- During the life of the Payee, but for at least 20 years, called "Life Income, 20 Years Certain."

Third Option: Life Income with Refund. The Company will make equal monthly payments. Payments will begin on the Option Date and will continue during the life of the Payee. At the death of the Payee, if the total of the payments made is less than the total proceeds applied to the Option, then:

- The difference will be paid in one sum, called "Life Income, Cash Refund"; or
- The equal monthly payments will continue until the total payments are equal to the total proceeds applied to the Option, called "Life Income, Instalment Refund."

Fourth Option: Interest. The Company will hold the proceeds at interest during the life of the Payee or for any other period agreed to by the Company. Interest on the proceeds:

- Will be paid each month to the Payee beginning one month after the Option Date; or
- Will be added to the principal amount each year and earn interest.

At the death of the Payee, or at the end of the period agreed to, the balance of principal and any accrued interest will be paid in one sum. The rate of interest will be determined each year by the Company; but will not be less than $3\frac{1}{2}\%$ per year.

Fifth Option: Specified Amount of Income. The Company will make equal monthly payments which will include both principal and interest. Payments will be in the amount elected. Payments may be quarterly or at any other frequency elected, and payments may be in variable amounts, all subject to the consent of the Company. Payments will continue until the balance is fully paid out. At the death of the Payee any unpaid balance and accrued interest will be paid in one sum. The rate of interest will be determined each year by the Company; but the rate will not be less than $3\frac{1}{2}\%$ per year. Interest will be added each year to the principal and will earn interest.

Sixth Option: Life Income for Two Lives. The Company will make equal monthly payments. Payments will begin on the Option Date and will continue:

- While either of two Payees is living, called "Joint and Survivor Life Income"; or
- While either of two Payees is living, but for at least 10 years, called "Joint and Survivor Life Income, 10 Years Certain"; or
- While two Payees are living, and after the death of one Payee, two-thirds of the monthly amount while the other Payee is living, called "Joint and $\frac{2}{3}$ to Survivor Life Income."

15. Life Income Tables

Life Income Tables. Guaranteed monthly payments per \$1,000 of amounts applied to the Life Income Options are shown below:

Second and Third Options: Life Income

Age of Payer	No Refund	10 Years Certain	20 Years Certain	Cash Refund	Instalment Refund
15*	\$3.19	\$3.19	\$3.19	\$3.18	\$3.19
16	3.21	3.20	3.20	3.19	3.20
17	3.23	3.22	3.21	3.21	3.21
18	3.25	3.23	3.23	3.22	3.22
19	3.26	3.24	3.24	3.23	3.24
20	3.26	3.26	3.25	3.25	3.25
21	3.27	3.27	3.27	3.26	3.26
22	3.28	3.28	3.28	3.28	3.28
23	3.31	3.30	3.30	3.29	3.29
24	3.32	3.32	3.31	3.31	3.31
25	3.34	3.34	3.33	3.32	3.33
26	3.36	3.36	3.35	3.34	3.35
27	3.38	3.37	3.37	3.36	3.36
28	3.40	3.39	3.39	3.38	3.38
29	3.42	3.41	3.41	3.40	3.40
30	3.44	3.44	3.43	3.42	3.42
31	3.46	3.46	3.45	3.44	3.44
32	3.49	3.48	3.47	3.46	3.47
33	3.51	3.51	3.50	3.49	3.49
34	3.54	3.53	3.52	3.51	3.52
35	3.56	3.56	3.55	3.54	3.54
36	3.59	3.59	3.58	3.56	3.57
37	3.62	3.62	3.60	3.59	3.60
38	3.65	3.65	3.63	3.62	3.63
39	3.68	3.69	3.67	3.65	3.66
40	3.73	3.72	3.70	3.68	3.69
41	3.76	3.76	3.73	3.71	3.72
42	3.80	3.79	3.77	3.75	3.76
43	3.84	3.84	3.80	3.78	3.79
44	3.88	3.88	3.84	3.82	3.83
45	3.93	3.92	3.88	3.86	3.87
46	3.98	3.97	3.92	3.90	3.91
47	4.03	4.02	3.97	3.94	3.96
48	4.08	4.07	4.01	3.99	4.00
49	4.14	4.12	4.06	4.03	4.05
50	4.20	4.18	4.11	4.08	4.10
51	4.26	4.23	4.16	4.13	4.15
52	4.32	4.30	4.21	4.19	4.21
53	4.38	4.36	4.26	4.24	4.27
54	4.46	4.43	4.32	4.30	4.33
55	4.54	4.50	4.37	4.36	4.39
56	4.62	4.58	4.43	4.43	4.46
57	4.70	4.65	4.49	4.49	4.53
58	4.79	4.74	4.56	4.57	4.60
59	4.89	4.83	4.62	4.64	4.68
60	4.98	4.92	4.68	4.72	4.76
61	5.10	5.02	4.75	4.80	4.85
62	5.23	5.12	4.82	4.89	4.94
63	5.34	5.23	4.88	4.98	5.03
64	5.47	5.35	4.95	5.07	5.13

Age of Payer	No Refund	10 Years Certain	20 Years Certain	Cash Refund	Instalment Refund
65	\$5.61	\$5.47	\$5.02	\$5.17	\$5.24
66	5.76	5.60	5.08	5.28	5.38
67	5.92	5.73	5.15	5.39	5.47
68	6.10	5.87	5.21	5.51	5.60
69	6.28	6.02	5.27	5.63	5.72
70	6.48	6.17	5.33	5.76	5.86
71	6.70	6.33	5.38	5.89	6.00
72	6.92	6.49	5.43	6.04	6.16
73	7.17	6.66	5.48	6.19	6.32
74	7.43	6.84	5.52	6.34	6.49
75	7.71	7.02	5.56	6.52	6.67
76	8.02	7.20	5.60	6.69	6.86
77	8.34	7.38	5.63	6.87	7.06
78	8.69	7.56	5.66	7.07	7.27
79	9.07	7.75	5.68	7.27	7.50
80	9.47	7.93	5.70	7.49	7.74
81	9.90	8.11	5.71	7.73	7.99
82	10.36	8.28	5.73	7.96	8.25
83	10.86	8.45	5.73	8.21	8.53
84	11.39	8.62	5.74	8.50	8.83
85+	11.96	8.77	5.75	8.78	9.14

*and under and over

Sixth Option: Life Income for Two Lives

Age of One Payer	Age of Other Payer	55	60	65	70	75
Joint and Survivor						
55	55	\$4.04	\$4.17	\$4.28	\$4.37	\$4.43
60	60	4.17	4.36	4.53	4.68	4.79
65	65	4.29	4.53	4.79	5.02	5.22
70	70	4.37	4.68	5.02	5.38	5.71
75	75	4.43	4.79	5.22	5.71	6.22
80	80	4.47	4.87	5.37	5.98	6.58
Joint and Survivor, 10 Years Certain						
55	55	\$3.96	\$4.09	\$4.20	\$4.36	\$4.42
60	60	4.09	4.27	4.44	4.58	4.77
65	65	4.20	4.44	4.69	4.91	5.09
70	70	4.36	4.59	4.91	5.22	5.50
75	75	4.42	4.77	5.09	5.50	5.88
80	80	4.46	4.85	5.33	5.72	6.21
Joint and 2/3 to Survivor						
55	55	\$4.37	\$4.56	\$4.76	\$4.99	\$5.23
60	60	4.56	4.78	5.02	5.30	5.59
65	65	4.76	5.02	5.33	5.67	6.03
70	70	4.99	5.30	5.67	6.10	6.57
75	75	5.23	5.59	6.03	6.57	7.18
80	80	5.48	5.89	6.41	7.06	7.84

Payments for other ages will be quoted by the Company on request.

The rates shown above are based on an interest rate of 3 1/4% per year; and on mortality: using a 60/40 male/female weighting; based on the Individual Annuitant Mortality Table for 1983; and with projection on Scale C to the year 2000 and then on Scale B Modified to year 2010.

Amendments and Endorsements (To be made only by the Company)

Whole Life Policy

- The Policy Proceeds are payable at the death of the Insured.
- The Policy is payable in cash or in annuity for a specified period.
- Premiums are payable to the Company for a specified period.
- The Policy participates in Dividends.

Notice of Annual Meeting and Voting Privilege

The Owner of this Policy, by virtue of the Policy, is a Member of New England Mutual Life Insurance Company and can vote, either in person or by proxy, at all meetings of Members of the Company. Annual Meetings are held at the Home Office of the Company on the third Wednesday in March each year at eleven o'clock A.M.

New England Mutual Life Insurance Company
501 Boylston Street, Boston,
Massachusetts 02117

Rider: Level Term Insurance

The Company agrees that if the Insured dies while this Rider is in force, the policy proceeds will be increased by the amount of Level Term Insurance shown in the Policy Schedule. (See Section 1 of the Policy.) This agreement is subject to the following provisions.

Premiums For This Rider. Premiums for this Rider are due with the premiums for the Policy. The annual premiums for the Rider are shown in the Policy Schedule. No premium will be due or payable for the Rider for any period after the death of the Insured or the termination of the Rider.

Date of Issue. The Date of Issue of this Rider is the same as the Date of Issue of the Policy unless a different Date of Issue is shown for the Rider in the Policy Schedule. Rider years will coincide with policy years. If this Rider is issued after the Date of Issue of the Policy, the first rider year will begin on the policy anniversary on or next following the Date of Issue of the Rider. The term insurance provided by this Rider will be in force from the Date of Issue of the Rider.

Not Contestable After Two Years. The Company will not contest or rescind this Rider after it has been in force during the life of the Insured for two years from the Date of Issue of the Rider.

Suicide Within Two Years. If the Insured dies by suicide within two years from the Date of Issue of this Rider, the amount of Level Term Insurance will not be paid. The amount payable under the Rider will be limited to the premiums paid for the Rider.

Contract. A copy of the application for this Rider is attached to and made a part of the Rider. This Rider is made a part of the Policy to which it is attached if the Rider is listed in the Policy Schedule. This Rider has no cash value.

Exchange Option. The Owner may exchange this Rider for a new policy. The new policy will be issued:

- Without proof of insurability;
- With a Face Amount equal to the amount of term insurance then provided by this Rider;
- With the same Insured and underwriting class as this Rider;
- On any plan of Whole Life or Endowment insurance, with a level face amount, issued by the Company on the Policy Date of the new policy;
- On a policy form and at premium rates in use by the Company on the Policy Date of the new policy;
- Subject to any assignments and limitations to which this Rider is subject, and to the exchange cost described below; and
- As either an "Original Date Exchange" or a "Current Date Exchange," at the election of the Owner.

Original Date Exchange: The new policy will have a Policy Date and Age of Insured as of the date the first rider year began. The exchange cost will be the larger of:

- 103% of the reserve for the new policy; or
- The total premiums to date for the new policy, less the total premiums for the Rider from the Policy Date of the new policy to the date of exchange, with interest at the rate of 6% per year compounded yearly. In computing the cost, premiums will be adjusted to reflect dividends, without regard to how dividends were used.

Current Date Exchange: The new policy will have a current Policy Date and Age of Insured. The exchange is subject to payment of the first premium for the new policy.

Exchange With Waiver of Premiums Rider. If this Policy has a rider for Waiver of Premiums for disability, the new policy can have a similar Waiver of Premiums rider, but only if:

- The person insured under the Waiver of Premiums rider has not been disabled within two years before the exchange; or
- The new policy is a Current Date Exchange on the Ordinary Life plan. In this case if the person insured under the Waiver of Premiums rider is disabled at the time of the exchange, premiums for the new policy will be waived as if the rider had been in force when the disability commenced.

Automatic Exchange With Waiver of Premiums Rider. At the Expiry Date of this Rider, if premiums are being waived under a rider for Waiver of Premiums for disability, then an automatic Current Date Exchange will be made. The new policy will be on the Ordinary Life plan. A similar Waiver of Premiums rider will be attached to the new policy. Premiums for the new policy will be waived as if the rider had been in force when the disability commenced.

Termination. This Rider will terminate upon the earliest of: (a) failure to pay any premium for the Policy or for the Rider by the end of the premium grace period; (b) termination or maturity of the Policy other than by death; (c) exchange of the Rider for a new policy; (d) receipt at the Home Office of the Company of written election signed by the Owner of the Policy to terminate the Rider; or (e) the Expiry Date shown for the Rider in the Policy Schedule.

New England Mutual Life Insurance Company
501 Boylston Street, Boston, Massachusetts

Edward E. Pelly

President

Joseph T. McCullough

Secretary

Rider: Exchange of Insurance to a Substitute Insured

The Company agrees that the Policy to which this Rider is attached may be exchanged for a new policy on the life of a substitute insured. This agreement is subject to the following provisions.

Conditions. The exchange can be made only:

- Upon application signed by the Owner of this Policy and the substitute insured;
- Subject to proof satisfactory to the Company that the substitute insured is insurable;
- If the Owner of this Policy has an insurable interest in the life of the substitute insured; and
- If the Insured under this Policy is living on the Date of Issue of the new policy.

Benefits provided by Rider will be available on the new policy only with the consent of the Company.

This Policy will terminate at the end of the day prior to the Date of Issue of the new policy. The new policy will take effect on its Date of Issue.

The New Policy. The new policy will be issued:

- On any plan of Whole Life or Endowment insurance with a level face amount issued by the Company on the Policy Date of the new policy;
- With a Policy Date the same as this Policy or the policy anniversary next following the substitute insured's date of birth, whichever is later;
- On a Policy form and at premium rates in use by the Company on the Policy Date of the new policy;
- Subject to any assignments and Policy Loans on this Policy, and any cost or credit described below.

Premiums for the new policy will be based on the substitute insured's sex and age on the Policy Date of the new policy. The Date of Issue of the new policy will be the first day of the policy month which begins on or next follows:

- The approval by the Company of the application for the exchange; and
- Payment to the Company of any exchange cost.

Face Amount of New Policy. The Face Amount of the new policy cannot be more than the larger of:

- The Face Amount of this Policy; or
- The Face Amount which is supported by the policy reserve transferred to the new policy.

The Face Amount of the new policy is subject to the Company's published maximum and minimum limits of issue.

Exchange Cost or Credit. If the new policy has a larger Cash Value or a larger reserve on its Date of Issue than this Policy, or if the total premiums from the Policy Date of this Policy to the Date of Issue of the new policy would be larger for the new policy than for this Policy, the exchange will be subject to an exchange cost payable to the Company. The cost will be the largest of:

- 103% of any increase in the Cash Value; or
- 103% of any increase in the reserve; or
- Any increase in the total premiums to date, with interest from the due date of each premium at the rate of 6% per year compounded yearly.

If the new policy does not have a larger Cash Value, nor a larger reserve, nor larger total premiums to date, there may be an exchange credit payable to you. The credit will be the smallest of:

- Any decrease in the Cash Value; or
- Any decrease in the reserve; or
- Any decrease in the total premiums to date.

In computing the cost or credit, premiums will be adjusted to reflect dividends, without regard to how dividends were used. Any Policy Loan Balance in excess of the Loan Value of the new policy must be repaid to the Company at the time of the exchange.

Dividend Accumulations and Paid-Up Dividend Additions. Any Dividend Accumulations on this Policy at the time of the exchange will be transferred to the new policy. Any Paid-Up Additions in force on this Policy at the time of the exchange will terminate and their Cash Value will be used to provide Paid-Up Additions on the new policy.

Rider: Exchange of Insurance to a Substitute Insured

The Company agrees that the Policy to which this Rider is attached may be exchanged for a new policy on the life of a substitute insured. This agreement is subject to the following provisions.

Conditions. The exchange can be made only:

- Upon application signed by the Owner of this Policy and the substitute insured;
- Subject to proof satisfactory to the Company that the substitute insured is insurable;
- If the Owner of this Policy has an insurable interest in the life of the substitute insured; and
- If the Insured under this Policy is living on the Date of Issue of the new policy.

Benefits provided by Rider will be available on the new policy only with the consent of the Company.

This Policy will terminate at the end of the day prior to the Date of Issue of the new policy. The new policy will take effect on its Date of Issue.

The New Policy. The new policy will be issued:

- On any plan of Whole Life or Endowment insurance with a level face amount issued by the Company on the Policy Date of the new policy;
- With a Policy Date the same as this Policy or the policy anniversary next following the substitute insured's date of birth, whichever is later;
- On a Policy form and at premium rates in use by the Company on the Policy Date of the new policy;
- Subject to any assignments and Policy Loans on this Policy, and any cost or credit described below.

Premiums for the new policy will be based on the substitute insured's sex and age on the Policy Date of the new policy. The Date of Issue of the new policy will be the first day of the policy month which begins on or next follows:

- The approval by the Company of the application for the exchange; and
- Payment to the Company of any exchange cost.

Face Amount of New Policy. The Face Amount of the new policy cannot be more than the larger of:

- The Face Amount of this Policy; or
- The Face Amount which is supported by the policy reserve transferred to the new policy.

The Face Amount of the new policy is subject to the Company's published maximum and minimum limits of issue.

Exchange Cost or Credit. If the new policy has a larger Cash Value or a larger reserve on its Date of Issue than this Policy, or if the total premiums from the Policy Date of this Policy to the Date of Issue of the new policy would be larger for the new policy than for this Policy, the exchange will be subject to an exchange cost payable to the Company. The cost will be the largest of:

- 103% of any increase in the Cash Value; or
- 103% of any increase in the reserve; or
- Any increase in the total premiums to date, with interest from the due date of each premium at the rate of 6% per year compounded yearly.

If the new policy does not have a larger Cash Value, nor a larger reserve, nor larger total premiums to date, there may be an exchange credit payable to you. The credit will be the smallest of:

- Any decrease in the Cash Value; or
- Any decrease in the reserve; or
- Any decrease in the total premiums to date.

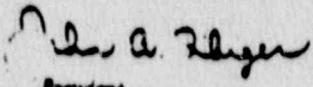
In computing the cost or credit, premiums will be adjusted to reflect dividends, without regard to how dividends were used. Any Policy Loan Balance in excess of the Loan Value of the new policy must be repaid to the Company at the time of the exchange.

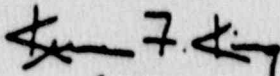
Dividend Accumulations and Paid-Up Dividend Additions. Any Dividend Accumulations on this Policy at the time of the exchange will be transferred to the new policy. Any Paid-Up Additions in force on this Policy at the time of the exchange will terminate and their Cash Value will be used to provide Paid-Up Additions on the new policy.

Contract. This Rider is made a part of the Policy to which it is attached if the Rider is listed in the Policy Schedule. This Rider has no cash value.

Termination. This Rider will terminate upon the earliest of (a) termination or maturity of the policy; (b) failure to pay any premium for the Policy by the end of the premium grace period; or (c) exchange of the Policy for a new policy under the provisions of the Rider.

New England Mutual Life Insurance Company
501 Boylston Street, Boston, Massachusetts


President


Secretary

Connecticut Mutual

Large Corporate Marketing
140 Gordon Street
Hartford, CT 06154
(203) 727-4300

July 28, 1987

Public Service Company of New Mexico
Alvarado Square, Third Floor
Albuquerque, New Mexico 87101

Financial Marketing Services, Inc.
10250 Regency Circle, Suite 304
Omaha, Nebraska 68114

Re: Waiver of Contestability Provision of Policies Issued
Under COMReP Insurance Program for Public Service
Company of New Mexico

Gentlemen:

Connecticut Mutual Life Insurance Company (the "Company"), acting through John E. Lyons, a duly licensed agent of the Company, has agreed to issue and deliver to Public Service Company of New Mexico, and Public Service Company of New Mexico ("PNM") has agreed to purchase pursuant to the COMReP Life Insurance Program ("COMReP Program") presented to PNM by Financial Marketing Services, Inc. whose principal is John E. Lyons, certain individual ordinary life insurance policies (the "COMReP Policy or Policies").

The Company agrees to guarantee the issuance of the COMReP Policy on the life of each employee of PNM or any affiliate of PNM covered under the COMReP Program until January 1, 1989, provided said employee shall be randomly assigned to the Company.

The Company agrees to permit PNM to substitute a new insured on each COMReP Policy in place of any currently participating employee who terminates employment with PNM, on a guaranteed issue basis until January 1, 1989, provided the new insured shall be randomly assigned to the Company.

The Company agrees that the effective date of each policy shall be the date the Application is completed and signed by the proposed insured and accepted by PNM. However, coverage will commence no earlier than the date of a PNM check payable to the Company for the first premium for a policy. The Company also agrees that the death benefits by and between PNM and the Employee shall be paid pursuant to the Designation of Beneficiary Form on file with PNM. Upon the death of an employee the Company will pay proceeds pursuant to an affidavit signed by PNM specifying the split of proceeds between PNM and the employee's beneficiary.

Page 2

July 28, 1987

The Company agrees to waive the "Incontestability" provision of all COMReP Policies issued on lives of employees of PNM pursuant to the COMReP Program.

The Company agrees to waive the "Suicide" provision of the COMReP Policies.

The Company agrees that the foregoing provisions of this letter shall be considered as a legally binding agreement on each COMReP Policy issued or to be issued by the Company under the COMReP Program. The "Incontestability" and "Suicide" waivers will be reflected by endorsements attached to each such Policy.

Sincerely,

Robert B. Dalton
Robert B. Dalton, JD, ChFC, CLU
Vice President
Large Corporate Marketing

RBD:dc

Connecticut Mutual Life Insurance Company
Hartford, Connecticut

INSURED
POLICY NUMBER
POLICY DATE

AGE AND SEX
FACE AMOUNT

The Company will pay the Face Amount to the Beneficiary in the event of the Insured's death while this Policy is in force. Payment will be subject to all the provisions of this Policy. Payment will be made upon receipt at the Home Office of due proof of the Insured's death.

This Policy is issued by the Company at its Home Office, 140 Garden Street, Hartford, Connecticut, 06154 on the Date of Issue. It is a legal contract between the Owner and the Company.

READ YOUR POLICY CAREFULLY

David C. Kline

SECRETARY

Dennis A. Mullane

CHAIRMAN

REGISTRAR

RIGHT OF INSURED TO VOTE

While this Policy is in force, the Insured is a member of the Company and has the right to vote in person or by proxy at all meetings of the Company.

TEN DAY RIGHT TO EXAMINE THE POLICY

This Policy can be returned to us at any time within 10 days after you receive it. Upon its return, the Policy will be considered void from its inception. Any premiums paid will be returned to you. To return the Policy, mail or deliver it to our Home Office, to any general agency office, or to the agent who sold it to you.

SAMPLE
ECONOMY LIFE

WHOLE LIFE POLICY
Payable at Death
Premiums Payable For Life
Participating—Annual Dividends

TABLE OF CONTENTS

Part	Page	Part	Page
POLICY SPECIFICATIONS		DIVIDENDS	2
DEFINITIONS	1	The Dividend	
GENERAL PROVISIONS	1	Paid-up or Matured By Dividends	
The Contract		NONFORFEITURE PROVISIONS	2
Owner		Automatic Extended Term Insurance	
Beneficiary		Paid-up Insurance	
Change of Owner or Beneficiary		Surrender Value	
Misstatement of Age or Sex		CASH VALUE	3
Incontestability		Table of Values	
Suicide		Change of Plan	
Assignments or Transfers		POLICY LOAN	3
Proceeds		General	
Policy Settlement		Loan Interest Rate	
Reserves and Net Single Premiums		INCOME SETTLEMENT OPTIONS	4
PAYMENT OF PREMIUMS	1		
Premium Payments			
Grace Period			
Premium Adjustment			
Payment of Premium and Loan Interest by			
Accumulated Dividends			
Automatic Premium Loan			
Reinstatement			

DEFINITIONS

YOU, YOUR—The Owner.

WE, OUR, US—Connecticut Mutual Life Insurance Company.

HOME OFFICE—Connecticut Mutual Life Insurance Company, 140 Garden Street, Hartford, Connecticut 06154.

DIVIDEND CREDITS—Any dividends due you; they include any outstanding dividend accumulations.

DEBT—Any unpaid loans against this Policy, including any accrued interest.

POLICY VALUE—The amount of cash value, plus dividend credits, less any debt, available in the Policy at any given time.

PREMIUM-PAYING—The Policy is in force and premiums are payable in the future.

WRITTEN REQUEST—A request in writing in a form satisfactory to us and received at our Home Office.

ATTAINED AGE—The issue age shown in the Policy Specifications increased by the number of Policy Years elapsed.

POLICY YEAR, POLICY ANNIVERSARY, POLICY MONTH—Are computed from the Policy Date shown in the Policy Specifications. The first Policy Year begins on the Policy Date. The first Policy Anniversary is the Policy Date plus one year. The Policy Month begins on the same date in each calendar month as the Policy Date.

PREMIUM MODE—Premiums for this Policy can be paid either:

- a) Annually - once a year, on the Policy Anniversary; or
- b) Semiannually - twice a year, on the Policy Anniversary and six months thereafter; or
- c) Quarterly - four times a year, on the Policy Anniversary and every three months thereafter.

DATE OF ISSUE—Date of issue as shown in the Policy Specifications.

GENERAL PROVISIONS

The Contract

The Policy and the application constitute the entire contract. A copy of the application is attached to and made a part of this Policy.

- All statements in the application will be deemed representations and not warranties.
- No statement will be used to void this Policy or to defend against a claim under it unless contained in the application.
- Our agents cannot alter or modify any of the terms of this Policy. They cannot waive any of its provisions.

Owner

The Owner has the exclusive right to exercise all rights and privileges and to receive all benefits under this Policy during the lifetime of the Insured. If no Owner designated under this Policy is living and if the Policy does not provide otherwise, the Owner will be the Executor or Administrator of the last Owner to die.

Beneficiary

- If no Beneficiary designated under this Policy survives the Insured, the Beneficiary will be the Executor or Administrator of the Insured, unless the Policy states otherwise.
- The interest of any Beneficiary will be subject to:
 - (1) Any assignment of this Policy which is binding on us.
 - (2) Any optional settlement agreement in effect at the Insured's death.

Change of Owner or Beneficiary

While the Insured is alive, you can change the Owner or Beneficiary by written request.

- The change will take effect on the date you signed the request whether or not the Insured is living when we receive the request at the Home Office. However, the change will be subject to any payments made, or actions taken by us before receiving the request.

Misstatement of Age or Sex

If the age or sex of the Insured has been misstated, we will adjust the amount payable under this Policy. It will be the amount the premiums paid would have purchased at the Insured's correct age and sex. This amount will be based on the rates applicable to this Policy and in effect on its Date of Issue.

Incontestability

We cannot contest this Policy except for nonpayment of premium after it has been in force during the lifetime of the Insured for a period of two years from the Date of Issue.

- This provision will not apply to any extra benefit rider providing benefits in the event of disability or death by accidental bodily injury.

Suicide

If the Insured dies by suicide within two years from the Date of Issue, whether sane or insane, the amount we will pay under this Policy will be limited to the premiums paid, less any debt outstanding on the date of death.

Assignments or Transfers

- Written notice of the terms of a transfer or a copy of an assignment must be filed at the Home Office. Until we receive such notice, we will not be required to take notice of or be responsible for any transfer of interest in this Policy by an assignment, agreement or otherwise.
- We will not be responsible for the validity of any assignment.
- Any assignment made after the Insured's death will be valid only with our consent.

Proceeds

- Death proceeds payable under this Policy will consist of:
 - (1) The face amount, or the amount of extended (or paid-up) insurance in effect.
 - (2) Paid-up additions and dividend credits outstanding.
 - (3) Any postmortem dividend we apportion.
- Proceeds will be reduced by any debt. They will also be adjusted by a premium refund or charge as described in the Premium Adjustment provision.
- We will pay interest on death proceeds paid in a single sum from the date of death to the date of payment. The rate of interest will not be less than the current rate credited on death proceeds left on deposit with us, but in no case less than 3% a year.

Policy Settlement

- All amounts payable by us are payable only at our Home Office.
- Any debt will be deducted from the amount payable at settlement. We may require return of the Policy.

Reserves and Net Single Premiums

- Reserves and net single premiums are computed using the 1980 CSO Mortality Table—Ultimate for the sex of the Insured.
- Reserves and net single premiums for extended insurance are computed using the 1980 CET Table for the sex of the Insured.
- Reserves for all years are calculated based on the Commissioner's Reserve Valuation Method, continuous functions and compound interest at 5% a year.

PAYMENT OF PREMIUMS

Premium Payments

This contract is made in consideration of the application and the payment of all premiums as provided in this Policy.

- All premiums are payable in advance. They can be paid at our Home Office or to one of our authorized agents. A receipt signed by the President or Secretary and countersigned by the agent will be given to you if you request it. Possession of such a receipt will be sole evidence of the agent's authority to receive a premium due.
- Annual premiums and the period for which they are payable are shown in the Policy Specifications.

- We will change the method of premium payment upon your written request. The change will be effective on the next applicable premium due date. You can change to any premium mode available. The applicable published rates for this Policy will be used.
- If any premium is not paid as provided in this Policy, all liability under this Policy will end, except as otherwise provided in this Policy.
- Premiums paid for any extra benefit rider will not increase any cash, loan, paid-up or extended term insurance value under this Policy. They will not increase any dividend paid under this Policy.

Grace Period

For the payment of each premium after the first, we will allow a grace period of 31 days after the due date. This Policy will continue in force during the grace period.

Premium Adjustment

If the insured dies while this Policy is in force, we will refund any premium paid beyond the end of the Policy Month of death. We will make a charge for any premium not paid to the end of the Policy Month of death. The refund or charge will be made by an adjustment in the death proceeds.

Payment of Premium and Loan Interest by Accumulated Dividends

We will automatically apply dividend credits to pay any premium in default on this Policy and any extra benefit rider attached to it. Any loan interest due may also be paid by dividend credits. If you did not elect this option in your application, send your written request to us while premiums are being paid. If operative, you may revoke this provision by sending your written request to us. The revocation will apply to any premiums coming due after we receive the request.

- Dividend credits may be insufficient to make the required payment. If so, we will still apply the credits towards the payment if the Premium Loan provision is operative and there is enough premium loan value to cover the balance due.
- Dividend credits may be insufficient to meet the required payment and the Premium Loan provision may not be operative. If so, we will change the method of premium payment to quarterly, if there are sufficient credits to meet the quarterly premium. If not, this provision will not apply.

AUTOMATIC PREMIUM LOAN

We will automatically apply the loan value to pay any premium in default on this Policy and any extra benefit rider attached to it. If you did not elect this option in your application, send your written request to us while premiums are being paid. If operative, you may revoke this provision by sending your written request to us. The revocation will apply to any premiums coming due after we receive the request.

- This provision:
 - (a) is not available for premiums due in the first Policy Year;
 - (b) will not apply if the new loan, plus any existing debt, would exceed the maximum loan value of this Policy;
 - (c) will apply only if the loan value is sufficient to meet the required payment of either an annual, semiannual or quarterly premium; We will change the premium mode if necessary to keep this Policy in force.
- If two or more successive premiums have been paid in whole or part by premium loan, we may change the method of payment to annual. We will make this change providing the available loan value is sufficient to pay the annual premium or balance of the annual premium.
- A premium loan will bear interest from the premium due date. The loan will be subject to the policy loan terms of this Policy. A loan agreement or delivery of this Policy is not required.

Reinstatement

This Policy may be reinstated at any time within 5 years after default in premium payment. The following conditions must be met:

- (1) The Policy has not been surrendered for its surrender value.
- (2) Evidence of insurability satisfactory to us must be furnished.

- (3) Overdue premiums, adjusted for dividends, are paid with compound interest at a rate not to exceed 6% a year.
- (4) Any debt which existed at the date of default is paid or reinstated. It will be increased by interest at the policy loan rate from the date of default to the date of reinstatement.

DIVIDENDS

The Dividend

While this Policy is in force, except as extended term insurance, we will credit it with dividends. Dividends are based on such shares of the divisible surplus (if any) as we may apportion at the end of each Policy Year.

The dividends will reflect our mortality experience and investment experience. It will be affected by any outstanding loan and loan interest during the Policy Year.

- As you direct, we will apply each dividend under one of these options:
 - (1) CASH—The dividend is paid to you in cash.
 - (2) ACCUMULATION—The dividend is left with us to accumulate at interest, subject to withdrawal at any time. Interest will be credited annually at a rate of no less than 3%. No interest will be credited for any fraction of a Policy Year.
 - (3) PREMIUM PAYMENT—We apply the dividend to a premium due on this Policy.
 - (4) DIVIDEND ADDITION—We convert the dividend into a participating paid-up addition to the face amount of this Policy. You may, at any time, surrender to us for cash any such dividends outstanding. The cash amount will be equal to the reserve of the paid-up additions.

If no dividend option is in effect when a dividend becomes payable, we will use the dividend to purchase a paid-up addition under option (4) above. You can elect one of the other options up to 31 days after the dividend becomes payable.

- When this Policy matures, we will pay any dividend credits and paid-up additions outstanding. We will also pay as part of the policy proceeds any postmature dividend we may apportion.

Paid-Up or Matured by Dividends

- Upon your request, this Policy will be endorsed as fully paid-up whenever the cash value plus dividend credits equals the net single premium. The net single premium will be that for a fully paid-up policy of this kind and face amount for the then age of the insured.
- The above is conditional upon surrender and release of all dividend credits and paid-up additions outstanding.

NONFORFEITURE PROVISIONS

Automatic Extended Term Insurance*

This benefit will become effective if any premium is not paid by the end of the grace period from dividend credits, by premium loan or otherwise. We will automatically continue this Policy in force as non-participating extended term insurance. This benefit will not become effective if you have elected the Paid-Up Insurance benefit.

- The amount of extended term insurance will be the face amount of this Policy, plus any paid-up additions and dividend credits due you, less any debt.
- The extended term insurance will start as of the due date of the premium in default. It will continue for such term as the policy value will purchase as a net single premium.
- The surrender value available as a net single premium may purchase a smaller amount of extended term insurance than paid-up insurance. If it does, we will provide paid-up insurance instead.

Paid-Up Insurance*

You can have this benefit instead of the Extended Term Insurance benefit. To elect this benefit:

- You must make a written request before 90 days have elapsed since the due date of the premium in default.

Page 3

- Premiums on this Policy must have been paid for one full year or more.
- A surrender value must be available as a net single premium sufficient to purchase a minimum face amount of \$1,000.

If the above conditions are met, we will continue this Policy in force as participating paid-up life insurance for the remainder of the period of this Policy. Any outstanding dividend accumulations will continue at interest. If the above conditions are not met, we will provide extended term insurance.

The paid-up insurance will start as of the due date of the premium in default. It will have such face amount as the surrender value will purchase as a net single premium.

- Any insurance continued under these nonforfeiture provisions will not include benefits which supplement the basic life insurance benefit unless specifically provided for where the supplemental benefit is described. This applies whether the supplemental benefits are mentioned in the Policy itself or provided for by a rider attached to the Policy. These nonforfeiture benefits are not less than the minimum benefits required by the insurance law of the state in which the Policy is delivered.

Surrender Value

The surrender value of this Policy is the cash value, less debt. The surrender value is paid in full settlement of our liability under this Policy. You may surrender it at any time after premiums have been paid to the date the Policy first has a cash value.

- Upon surrender we will also pay you any dividend credits.
- Surrender will be effective on the date of your written request.
- We may defer making a surrender payment. We will not defer a payment for more than 6 months after we receive your written request. If we defer a payment for 30 days or more, we will pay interest at a rate not less than 3% a year for the period the payment is deferred.
- We may require the Policy be delivered to us before making a surrender payment.
- The surrender value is not less than the minimum value required by the insurance law of the state in which the Policy is delivered.

CASH VALUE

- Guaranteed Cash Values are shown in the Policy Specifications. The guaranteed cash values for the Policy Years twenty and beyond equal the policy reserve.
- While this Policy is in force as premium paying and all premiums have been paid, the cash value on any Policy Anniversary will be:
 - (a) the guaranteed cash value; plus
 - (b) the cash value of any paid-up additions.
- The cash value of paid-up additions is the reserve for these additions.
- The cash value at any time during a Policy Year will be equal to the value on the date to which premiums have been paid. We will compute the value with allowance for the time elapsed in the Policy Year.
- In no event will this Policy have a cash value if premiums have been paid for less than one full Policy Year.
- This Policy may become fully paid-up under the Paid-Up or Matured by Dividends provision. If it does, the cash value will be the then reserve plus the reserve on any paid-up additions.
- This Policy may be in force under the Automatic Extended Term Insurance or Paid-Up Insurance provisions. If it is, the cash value will be the then reserve plus the reserve on any paid-up additions.

However, the cash value within 90 days after the due date of a premium in default will be computed as of the due date. Also, the cash value within 30 days after any subsequent Policy Anniversary will be not less than the value on that anniversary.

Table of Values

The values shown in the Table of Values in the Policy Specifications apply if all premiums have been paid to the end of the Policy Year specified and there is no debt.

- The loan values are the maximum loan values available at the end of the Policy Year shown.
- Values will be increased by dividend credits and by paid-up additions only as specifically provided in this Policy.
- This Policy will have a value during the Policy Year for which a value first appears in the Table of Values. Premiums must have been paid for at least one full Policy Year.
- All values are greater than or equal to those required by any state statute.
- We will furnish values for any Policy Year not shown in the Policy Specifications, upon request.

CHANGE OF PLAN

Upon written request while this policy has been in force for 10 years and is premium-paying, you may exchange it for another on or within 31 days following any Policy Anniversary.

- The Policy issued in exchange:
 - (1) cannot involve any other life;
 - (2) may be any other premium-paying Whole Life Policy (having level premiums and face amount) that was available when this Policy was issued;
 - (3) will be written with the same Policy Date, age and face amount as this Policy; it will be subject to any limitation of risk, any debt and assignments outstanding against this Policy;
 - (4) will be based on the published premium rate in use when this Policy was issued;
 - (5) will be issued with the same risk classification as this Policy.
- Any extra benefit rider will be available only with our consent.
- Evidence of insurability satisfactory to us will be required only if the term of the insurance is increased or the premium rate decreased.
- If, as a result of the exchange, either the reserve or cash value is increased, the cost of the plan change will be \$25 plus the greater of:
 - (a) 104% of the difference in reserves,
 - (b) 104% of the difference in cash values, or
 - (c) in the first three Policy Years the difference in accumulated premiums (at 6%) under the two Policies from the original issue date to the date of exchange, adjusted for dividends.
- If as a result of the exchange, both the reserve and cash value are decreased, the decrease in cash values will be refunded, less a \$25 deduction of plan change costs.
- If any premium or premiums falling due after a proposed change of plan date have been paid in advance, the amount of such prepayment may, with our permission, be deducted from the cost of the plan change, or added to the refund.

POLICY LOAN

General

At any time after the Policy is in force and has a cash value, you may borrow against it. We will loan you any sum up to the Policy's maximum loan value, less existing debt. The maximum loan value is that amount which together with interest at the loan interest rate, will equal the cash value as of the next Policy Anniversary or the next premium due date if earlier. However, the maximum loan value cannot exceed the surrender value at the time of calculation. You cannot borrow if the Policy is in force as Extended Term Insurance.

- We will make the loan when we receive a written request. We reserve the right to inspect or endorse the Policy before making the loan.
- We may defer making a loan for a period not exceeding 6 months after you apply for it. However, we will not defer the loan if it is to be used to pay premiums under the premium loan provision.
- Any premium due when the loan is made will be deducted from the loan amount.
- The Policy will be the sole security for the loan. Lack of endorsement will not indicate that the Policy is free of loans.
- Any interest not paid when due will be added to the loan. Interest is payable on the Policy Anniversary.
- Any debt may be repaid in whole or in part at any time while this Policy is in force, unless it has been deducted from the Automatic Extended Term Insurance or Paid-Up Insurance benefit.

- Both principal and interest are payable at our Home Office.
- When debt equals or exceeds the maximum loan value this Policy will terminate. We will mail notice of termination to the last known address of the insured (or of the person designated to receive such notice) and of any assignee of record at our Home Office. This Policy will have no value 31 days after we mail this notice.
- Any outstanding loans and interest will affect any dividend payable under this Policy.

LOAN INTEREST RATE

Interest on any loan is at an effective annual rate. This rate will apply to all debt under the Policy. This rate may change. Changes will be made only on a Policy Anniversary and will remain in effect for the following Policy Year.

- The loan interest rate is based in a published Monthly Average. That Average will be:
 - (1) The Monthly Average of the Composite Yield on Seasoned Corporate Bonds as published by Moody's Investors Service, Inc., or any successor to the Service; or
 - (2) If that Monthly Average is no longer published, a substantially similar average, established by regulation issued by the insurance supervisory official of the state where this Policy was delivered.
- The loan interest rate will be determined two months prior to the first day of the month in which your Policy Anniversary occurs. It will not exceed a maximum rate which is the greater of:
 - (1) The Published Monthly Average for the calendar month ending two months before the date we determine the rate; or
 - (2) The interest rate used to compute the Cash Value for that Policy Year plus 1%.
- The following restrictions apply to the loan interest rate as described above:
 - (1) We will not increase the rate unless the new rate would be at least $\frac{1}{2}\%$ higher than the rate in effect for the previous Policy Year.
 - (2) We will reduce the rate whenever the maximum rate is at least $\frac{1}{2}\%$ lower than the rate in effect for the prior Policy Year.
 - (3) If the rate is changed, the new rate will become effective on your Policy Anniversary.
 - (4) The loan interest rate may not exceed the maximum loan interest rate allowed by the state in which this Policy is delivered.
- We will notify you of the current loan interest rate:
 - (1) upon your written request;
 - (2) at the time a policy loan is made; and
 - (3) as soon as reasonably practical after the initial premium loan is made.
- Whenever there is any debt under this Policy, we will notify you of any change in the loan interest rate before it becomes effective. Any notice of loan interest rate will state that the rate may vary and will state how frequently the rate is determined.

INCOME SETTLEMENT OPTIONS

Rather than pay proceeds as provided in this Policy, we will pay them based on the terms of an optional settlement agreement. You may elect such an agreement before proceeds become payable. If proceeds are at least \$5,000, the payee may elect such an agreement if none is in effect. The following options are available:

Option 1. Installments for a Special Period. Equal payments for a stated number of years, not more than 30. The amount is shown in the Option 1 Table.

Option 2. Life Income. Equal monthly payments while the payee is

alive, as shown in the Option 2 Table. Payments with or without installments certain may be elected.

Option 3. Interest. Interest payments while the payee is alive or for a shorter period. Interest will be paid at an effective rate of 3% a year. Payments are increased by any additional interest earnings we may apportion. For each \$1,000 of proceeds, interest payments equal \$30 annually, \$14.89 semiannually, \$7.42 quarterly and \$2.47 monthly.

Option 4. Installments of Specified Amount. Equal annual, semi-annual, quarterly or monthly payments for a stated amount. Payments will be made until the proceeds and interest are all paid out. The total yearly amount paid must be at least 6% of the original proceeds. Any unpaid balance left with us will be increased by interest at 3% a year. We will also add any additional interest earnings we may apportion.

Option 5. Life Income With Installment Refund. Equal monthly payments as shown in the Option 5 Table. Payments will be made until the total amount paid equals the proceeds, and as long thereafter as the payee lives.

Option 6. Joint Life Income for the Payee and One Other Person with Two-Thirds to Survivor (One Hundred and Twenty Months Certain). Based on the Option 6 table, we will pay a joint monthly income to the payee and one other person designated at exercise of this option. We will pay the income for 120 months certain, and as long afterwards as both payees are living. After the death of either payee, and following payment of any remaining income certain, monthly payments equal to two-thirds of monthly income will be continued to the surviving payee for life.

Alternate Life Income

If Option 2, 5 or 6 is elected, the payee may elect to receive an alternate life income. This is instead of receiving income based on the rates shown in the following tables. The election must be made at the time the income is to begin.

- The alternate life income will be more than the monthly income provided by a new single premium immediate annuity (first payment immediate), based on our published rate then in use.

Payment Provisions

- If an optional settlement agreement becomes effective, we will issue a supplementary contract in exchange for the Policy and agreement. The contract will show the rights and benefits provided by the agreement.
- We may change the payment basis to quarterly, semiannual, or annual if any payment is less than \$50.
- We may pay proceeds in one sum if they are less than \$5,000. Proceeds will be paid to the then payee of income named in the optional settlement agreement.
- Payments under Options 2, 5 and 6 will be subject to proof of the payees' ages.
- The first installment under Options 1, 2, 4, 5 and 6 is due as of the date the proceeds become payable.
- Installments certain under Options 1, 2, 5 and 6 are computed at 3% interest compounded annually. This does not apply when alternate life income is elected.

Installments certain, after the first, will be increased by any additional interest earnings we may apportion. If the alternate life income is elected, we will not increase payments certain by additional interest earnings.

- No endorsements of the Policy are required when an optional settlement agreement is completed.

INSTALLMENTS CERTAIN FOR EACH \$1,000 OF PROCEEDS		
OPTION 1		
Number of Years	Annual Installment	Monthly Installment
1	\$1,000.00	\$84.47
2	507.30	42.28
3	343.23	28.69
4	261.19	22.09
5	212.60	17.81
6	179.22	14.94
7	156.03	13.10
8	138.31	11.66
9	124.00	10.53
10	113.02	9.61
11	104.00	8.80
12	97.04	8.24
13	91.20	7.71
14	86.06	7.28
15	81.30	6.87
16	77.20	6.53
17	73.74	6.23
18	70.80	5.96
19	67.79	5.73
20	65.20	5.51
21	62.96	5.30
22	60.90	5.10
23	59.04	4.90
24	57.20	4.74
25	55.70	4.71
26	54.31	4.60
27	52.97	4.47
28	51.74	4.37
29	50.60	4.27
30	49.53	4.18

Semiannual installments are 50.37% of the annual installments. Quarterly installments are 25.20% of the annual installments.

MONTHLY LIFE INCOME PER \$1,000 OF PROCEEDS							
MALE PAYEE Age Nearest Birthday	OPTION 1		OPTION 2		FEMALE PAYEE Age Nearest Birthday	OPTION 3	
	Unpaid Installment Certain	Number of Monthly In- stallments Certain	Unpaid Installment Certain	Number of Monthly In- stallments Certain		Unpaid Installment Certain	Number of Monthly In- stallments Certain
20	1.00	120	1.00	120	20	1.00	120
21	1.01	119	1.01	119	21	1.01	119
22	1.02	118	1.02	118	22	1.02	118
23	1.03	117	1.03	117	23	1.03	117
24	1.04	116	1.04	116	24	1.04	116
25	1.05	115	1.05	115	25	1.05	115
26	1.06	114	1.06	114	26	1.06	114
27	1.07	113	1.07	113	27	1.07	113
28	1.08	112	1.08	112	28	1.08	112
29	1.09	111	1.09	111	29	1.09	111
30	1.10	110	1.10	110	30	1.10	110
31	1.11	109	1.11	109	31	1.11	109
32	1.12	108	1.12	108	32	1.12	108
33	1.13	107	1.13	107	33	1.13	107
34	1.14	106	1.14	106	34	1.14	106
35	1.15	105	1.15	105	35	1.15	105
36	1.16	104	1.16	104	36	1.16	104
37	1.17	103	1.17	103	37	1.17	103
38	1.18	102	1.18	102	38	1.18	102
39	1.19	101	1.19	101	39	1.19	101
40	1.20	100	1.20	100	40	1.20	100
41	1.21	99	1.21	99	41	1.21	99
42	1.22	98	1.22	98	42	1.22	98
43	1.23	97	1.23	97	43	1.23	97
44	1.24	96	1.24	96	44	1.24	96
45	1.25	95	1.25	95	45	1.25	95
46	1.26	94	1.26	94	46	1.26	94
47	1.27	93	1.27	93	47	1.27	93
48	1.28	92	1.28	92	48	1.28	92
49	1.29	91	1.29	91	49	1.29	91
50	1.30	90	1.30	90	50	1.30	90
51	1.31	89	1.31	89	51	1.31	89
52	1.32	88	1.32	88	52	1.32	88
53	1.33	87	1.33	87	53	1.33	87
54	1.34	86	1.34	86	54	1.34	86
55	1.35	85	1.35	85	55	1.35	85
56	1.36	84	1.36	84	56	1.36	84
57	1.37	83	1.37	83	57	1.37	83
58	1.38	82	1.38	82	58	1.38	82
59	1.39	81	1.39	81	59	1.39	81
60	1.40	80	1.40	80	60	1.40	80
61	1.41	79	1.41	79	61	1.41	79
62	1.42	78	1.42	78	62	1.42	78
63	1.43	77	1.43	77	63	1.43	77
64	1.44	76	1.44	76	64	1.44	76
65	1.45	75	1.45	75	65	1.45	75
66	1.46	74	1.46	74	66	1.46	74
67	1.47	73	1.47	73	67	1.47	73
68	1.48	72	1.48	72	68	1.48	72
69	1.49	71	1.49	71	69	1.49	71
70	1.50	70	1.50	70	70	1.50	70
71	1.51	69	1.51	69	71	1.51	69
72	1.52	68	1.52	68	72	1.52	68
73	1.53	67	1.53	67	73	1.53	67
74	1.54	66	1.54	66	74	1.54	66
75	1.55	65	1.55	65	75	1.55	65
76	1.56	64	1.56	64	76	1.56	64
77	1.57	63	1.57	63	77	1.57	63
78	1.58	62	1.58	62	78	1.58	62
79	1.59	61	1.59	61	79	1.59	61
80	1.60	60	1.60	60	80	1.60	60
81	1.61	59	1.61	59	81	1.61	59
82	1.62	58	1.62	58	82	1.62	58
83	1.63	57	1.63	57	83	1.63	57
84	1.64	56	1.64	56	84	1.64	56
85	1.65	55	1.65	55	85	1.65	55
86	1.66	54	1.66	54	86	1.66	54
87	1.67	53	1.67	53	87	1.67	53
88	1.68	52	1.68	52	88	1.68	52
89	1.69	51	1.69	51	89	1.69	51
90	1.70	50	1.70	50	90	1.70	50
91	1.71	49	1.71	49	91	1.71	49
92	1.72	48	1.72	48	92	1.72	48
93	1.73	47	1.73	47	93	1.73	47
94	1.74	46	1.74	46	94	1.74	46
95	1.75	45	1.75	45	95	1.75	45
96	1.76	44	1.76	44	96	1.76	44
97	1.77	43	1.77	43	97	1.77	43
98	1.78	42	1.78	42	98	1.78	42
99	1.79	41	1.79	41	99	1.79	41
100	1.80	40	1.80	40	100	1.80	40

MONTHLY LIFE INCOME FOR EACH \$1,000 OF PROCEEDS — OPTION 6																					
FEMALE PAYEE Age Nearest Birthday	MALE PAYEE — Age Nearest Birthday																				
	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
40	3.03	3.06	3.09	3.70	3.72	3.74	3.77	3.79	3.82	3.84	3.86	3.89	3.91	3.94	3.97	3.99	4.02	4.04	4.07	4.09	4.12
41	3.06	3.09	3.70	3.73	3.76	3.77	3.80	3.82	3.85	3.87	3.90	3.92	3.95	3.97	4.00	4.02	4.05	4.08	4.10	4.13	4.16
42	3.09	3.71	3.73	3.76	3.79	3.80	3.83	3.85	3.88	3.90	3.93	3.95	3.98	4.01	4.03	4.06	4.09	4.12	4.14	4.17	4.19
43	3.71	3.73	3.76	3.79	3.81	3.83	3.86	3.88	3.91	3.94	3.96	3.99	4.02	4.04	4.07	4.10	4.13	4.16	4.18	4.21	4.24
44	3.74	3.76	3.79	3.81	3.84	3.86	3.89	3.92	3.94	3.97	4.00	4.02	4.05	4.08	4.11	4.14	4.17	4.19	4.22	4.25	4.28
45	3.77	3.79	3.82	3.84	3.87	3.89	3.92	3.95	3.98	4.00	4.03	4.06	4.09	4.12	4.15	4.18	4.21	4.24	4.27	4.29	4.32
46	3.79	3.82	3.85	3.87	3.90	3.93	3.96	3.99	4.01	4.04	4.07	4.10	4.13	4.16	4.19	4.22	4.25	4.28	4.31	4.34	4.37
47	3.82	3.85	3.88	3.90	3.93	3.96	3.99	4.02	4.05	4.08	4.11	4.14	4.17	4.20	4.23	4.26	4.29	4.32	4.35	4.38	4.42
48	3.85	3.88	3.91	3.94	3.97	3.99	4.02	4.05	4.08	4.12	4.15	4.18	4.21	4.24	4.27	4.31	4.34	4.37	4.40	4.43	4.47
49	3.88	3.91	3.94	3.97	4.00	4.03	4.06	4.09	4.12	4.16	4.19	4.22	4.25	4.28	4.31	4.35	4.38	4.42	4.45	4.48	4.52
50	3.91	3.94	3.97	4.00	4.03	4.07	4.10	4.13	4.16	4.20	4.23	4.26	4.29	4.32	4.35	4.40	4.44	4.47	4.50	4.54	4.57
51	3.94	3.97	4.01	4.04	4.07	4.10	4.13	4.17	4.20	4.24	4.27	4.31	4.34	4.38	4.41	4.45	4.48	4.52	4.56	4.59	4.63
52	3.97	4.01	4.04	4.07	4.11	4.14	4.17	4.21	4.24	4.28	4.32	4.35	4.39	4.43	4.46	4.50	4.54	4.57	4.61	4.65	4.68
53	4.01	4.04	4.07	4.11	4.14	4.18	4.21	4.25	4.28	4.32	4.36	4.40	4.44	4.48	4.51	4.55	4.59	4.63	4.67	4.71	4.74
54	4.04	4.07	4.11	4.14	4.18	4.22	4.25	4.29	4.33	4.37	4.41	4.45	4.49	4.53	4.57	4.61	4.65	4.69	4.73	4.77	4.80
55	4.07	4.11	4.14	4.18	4.22	4.26	4.29	4.33	4.37	4.41	4.45	4.49	4.53	4.58	4.62	4.66	4.70	4.75	4.79	4.83	4.87
56	4.11	4.14	4.18	4.22	4.26	4.30	4.34	4.38	4.42	4.46	4.50	4.54	4.58	4.63	4.67	4.71	4.76	4.81	4.85	4.90	4.94
57	4.14	4.18	4.22	4.26	4.30	4.34	4.38	4.42	4.46	4.51	4.55	4.60	4.64	4.69	4.73	4.78	4.82	4.87	4.91	4.96	5.00
58	4.18	4.21	4.25	4.29	4.34	4.38	4.42	4.47	4.51	4.56	4.60	4.65	4.70	4.74	4.79	4.84	4.89	4.93	4.98	5.03	5.07
59	4.21	4.25	4.29	4.33	4.38	4.42	4.47	4.51	4.56	4.60	4.65	4.70	4.75	4.80	4.85	4.90	4.95	5.00	5.05	5.10	5.15
60	4.25	4.29	4.33	4.37	4.42	4.46	4.51	4.56	4.61	4.66	4.70	4.75	4.81	4.86	4.91	4.96	5.01	5.07	5.12	5.17	5.22
61	4.28	4.33	4.37	4.41	4.46	4.51	4.56	4.60	4.65	4.71	4.76	4.81	4.86	4.92	4.97	5.03	5.08	5.14	5.19	5.25	5.30
62	4.32	4.36	4.41	4.46	4.50	4.55	4.60	4.65	4.70	4.76	4.81	4.87	4.92	4.98	5.04	5.09	5.15	5.21	5.27	5.33	5.38
63	4.36	4.40	4.45	4.50	4.54	4.59	4.64	4.69	4.75	4.81	4.87	4.92	4.98	5.04	5.10	5.16	5.22	5.28	5.34	5.40	5.46
64	4.39	4.44	4.49	4.54	4.59	4.64	4.69	4.75	4.80	4.86	4.92	4.98	5.04	5.10	5.16	5.23	5.29	5.36	5.42	5.48	5.54
65	4.43	4.48	4.53	4.58	4.63	4.68	4.74	4.80	4.85	4.91	4.97	5.04	5.10	5.17	5.23	5.30	5.36	5.43	5.50	5.56	5.63

Connecticut Mutual Life Insurance Company
Hartford, Connecticut

INSURED
POLICY NUMBER
POLICY DATE

AGE AND SEX
FACE AMOUNT
FINAL EXPIRY DATE

The Company will pay the Death Proceeds to the Beneficiary in the event of the Insured's death while this Policy is in force. Payment will be made upon receipt at the Home Office of due proof that the Insured's death occurred on or before the Final Expiry Date.

This Policy may be renewed subject to the Renewal Privilege and payment of increased premiums as provided.

This Policy is issued by the Company at its Home Office, 140 Garden Street, Hartford, Connecticut, 06154 on the Date of Issue. It is a legal contract between the Owner and the Company.

READ YOUR POLICY CAREFULLY

David C. Kline

SECRETARY

Denis F. Mullane

CHAIRMAN

REGISTRAR

RIGHT OF INSURED TO VOTE

While this Policy is in force, the Insured is a member of the Company and has the right to vote in person or by proxy at all meetings of the Company.

TEN DAY RIGHT TO EXAMINE THE POLICY

This Policy can be returned to us at any time within 10 days after you receive it. Upon its return, the Policy will be considered void from its inception. Any premiums paid will be returned to you. To return the Policy, mail or deliver it to our Home Office, to any general agency office, or to the agent who sold it to you.

SAMPLE
YRT100

YEARLY RENEWABLE TERM LIFE INSURANCE POLICY
Payable at Death on or Before the Final Expiry Date
Renewable to Policy Anniversary at Attained Age 100
Convertible Until Policy Anniversary at Attained Age 70
Participating—Annual Dividends

57 of 77

TABLE OF CONTENTS

Part	Page	Part	Page
POLICY SPECIFICATIONS		PREMIUM PROVISION	1
DEFINITIONS	1	Premium Payments	
GENERAL PROVISIONS	1	Grace Period	
The Contract		Reinstatement	
Owner		RENEWAL PROVISION	2
Beneficiary		CONVERSION PROVISION	2
Change of Owner or Beneficiary		PROCEEDS	2
Misstatement of Age or Sex		General	
Incontestability		Policy Settlement	
Suicide		Premium Adjustment	
Assignments or Transfers		INCOME SETTLEMENT OPTIONS	2
Reserves			
Dividends			

DEFINITIONS

YOU, YOUR—The Owner.

WE, OUR, US—Connecticut Mutual Life Insurance Company.

DIVIDEND CREDITS—Any dividends due you, they include any outstanding dividend accumulations.

WRITTEN REQUEST—A request in writing in a form satisfactory to us and received at our Home Office.

ATTAINED AGE—The issue age shown in the Policy Specifications increased by the number of Policy Years elapsed.

POLICY YEAR, POLICY ANNIVERSARY, POLICY MONTH—Are computed from the Policy Date shown in the Policy Specifications. The first Policy Year begins on the Policy Date. The first Policy Anniversary is the Policy Date plus one year. The Policy Month begins on the same date in each calendar month as the Policy Date.

PREMIUM MODE—Premiums for this Policy can be paid either:

- (a) Annually - once a year, on the Policy Anniversary; or
- (b) Semiannually - twice a year, on the Policy Anniversary and every six months thereafter; or
- (c) Quarterly - four times a year, on the Policy Anniversary and every three months thereafter.

DATE OF ISSUE—Date of Issue shown in the Policy Specifications.

GENERAL PROVISIONS

The Contract

The Policy and the application constitute the entire contract. A copy of the application is attached to and made a part of this Policy.

- All statements in the application will be deemed representations and not warranties.
- No statement will be used to void this Policy or to defend against a claim under it unless contained in the application.
- Our agents cannot alter or modify any of the terms of this Policy. They cannot waive any of its provisions.

Owner

The Owner has the exclusive right to exercise all rights and privileges and to receive all benefits under the Policy during the lifetime of the Insured. If no Owner designated under this Policy is living and if the Policy does not provide otherwise, the Owner will be the Executor or Administrator of the last Owner to die.

Beneficiary

- If no Beneficiary stated in this Policy survives the Insured, the Beneficiary will be the Executor or Administrator of the Insured, unless the Policy states otherwise.
- The interest of any Beneficiary will be subject to:
 - (1) Any assignment of this Policy which is binding on us.
 - (2) Any optional settlement agreement in effect at the Insured's death.

Change of Owner or Beneficiary

While the Insured is alive, you can change the Owner or Beneficiary by written request.

- The change will take effect on the date you signed the request whether or not the Insured is living when we receive the request at the Home Office. However, the change will be subject to any payment made, or actions taken by us before receiving the request.

Misstatement of Age or Sex

If the age or sex of the Insured has been misstated, we will adjust the amount payable under this Policy. It will be the amount that the premiums paid would have purchased at the Insured's correct age and sex. This amount will be based on the rates applicable to this Policy and in effect on its Date of Issue.

Incontestability

We cannot contest this Policy, except for nonpayment of premium after it has been in force during the lifetime of the Insured for a period of two years from the Date of Issue.

- This provision will not apply to any disability waiver of premium rider providing benefits in event of disability.

Suicide

If the Insured dies by suicide within two years from the Date of Issue, whether sane or insane, the amount we will pay under this Policy will be limited to the premiums paid.

Assignments or Transfers

- Written notice of the terms of a transfer or a copy of an assignment must be filed at the Home Office. Until we receive such notice, we will not be required to take notice of or be responsible for any transfer of interest in this Policy by an assignment, agreement or otherwise.
- We will not be responsible for the validity of any assignment.
- Any assignment made after the Insured's death will be valid only with our consent.

Reserves

Reserves at all durations are based on the Net Level Premium method using the 1980 CSO Mortality Table with select factors for the sex of the Insured, continuous functions and compound interest at 5% a year.

DIVIDENDS

While this Policy is in force we will credit it with dividends. Dividends are based on such shares of the divisible surplus (if any) as we may apportion at the end of each Policy Year.

- As you direct, we will apply each dividend under one of these options:

- (1) **CASH**—The dividend is paid to you in cash.
- (2) **ACCUMULATION**—The dividend is left with us to accumulate at interest, subject to withdrawal at any time. Interest will be credited annually at a rate of no less than 3%. No interest will be credited for any fraction of a policy year. If any premium due is not paid by the end of the grace period this Policy will terminate. We will pay dividend accumulations to you in cash.
- (3) **PREMIUM PAYMENT**—We apply the dividend to a premium due on this Policy.

If no dividend option is in effect when a dividend becomes payable, we will apply the dividend under the accumulation option. You can elect one of the other options up to 31 days after the dividend becomes payable.

- If the Insured dies while this Policy is in force, we will pay any dividend credits outstanding. We will also pay as part of the policy proceeds any postmortem dividend we may apportion.

PREMIUM PROVISION

Premium Payments

This contract is made in consideration of the application and the payment of premiums as provided in this Policy.

- All premiums are payable in advance. They can be paid at our Home Office or to one of our authorized agents. A receipt signed by our President or Secretary and countersigned by the agent will be given to you if you request it. Possession of such a receipt will be sole evidence of the agent's authority to receive a premium due.
- Annual premiums and the period for which they are payable are shown in the Policy Specifications.
- We will change the premium mode upon your written request. The change will be made on the next applicable premium due date. You can change to any premium mode available. The applicable published rates for this Policy will be used.
- If any premium is not paid as provided in this Policy, all liability under this Policy will end, except as otherwise provided in this Policy.
- Premiums paid for any extra benefit rider will not increase any Cash Value under this Policy. They will not increase any dividend paid under this Policy.

Grace Period

For the payment of each premium after the first, we will allow a grace period of 31 days after the due date. This Policy will continue in force during the grace period.

Reinstatement

This Policy may be reinstated at any time within 5 years after default in premium payment. The following conditions must be met:

- (1) reinstatement must occur before the Final Expiry Date of this Policy;
- (2) the Policy must not have been released in accordance with the Conversion Privilege provision;
- (3) evidence of insurability satisfactory to us must be furnished;
- (4) premium payment is made from the Policy Month of reinstatement to the next applicable premium due date, depending on the premium mode.

RENEWAL PROVISION

Renewal

While this Policy is in force, we will renew it annually without evidence of insurability. It will be renewed until the Final Expiry Date shown in the Policy Specifications. This Policy will not be continued beyond the Final Expiry Date. It will not be renewed if premiums are in default.

- Renewal will:
 - (1) be for the term of one year; it will begin when the preceding term ends.
 - (2) occur on each Policy Anniversary;
 - (3) be subject to the payment of the premium in the Policy Specifications and Premium Payments provision; the premium payment must be received by us within 31 days after the end of the preceding term period.
- Any extra benefit rider in force will continue according to the terms of the rider.

CONVERSION PROVISION

Conversion

While this Policy is in force, it may be released and converted to a new premium paying Policy, upon your written request.

- Conversion will occur without evidence of insurability.
- Conversion must occur on or before the Policy Anniversary at the Insured's attained age 70.
- The new Policy will:
 - (1) be of the same risk classification as this Policy;
 - (2) will not involve any other life;
 - (3) will be subject to any limitations of risk and any assignments outstanding against this Policy.
- Only those extra benefit riders in effect under this Policy will be issued with the new Policy without evidence of insurability.

You may request one of the following:

- (1) Attained Age Conversion
 - The new Policy will be issued:
 - (a) for the Insured's attained age at our then rates;
 - (b) on any Regular Series Whole Life plan we then offer;
 - (c) with a face amount not exceeding the face amount of this Policy;
 - (d) with a face amount not less than the minimum we then allow.
- (2) Original Age Conversion
 - This change must occur on a Policy Anniversary.
 - The new Policy will be issued:
 - (a) with the same Policy Date and age as this Policy;
 - (b) on any Regular Series Whole Life form, having level premiums and face amount, that we offered when this Policy was issued;
 - (c) with the same face amount as this Policy;
 - (d) at the premium rates in effect on the Policy Date of this Policy;
 - (e) before the end of the third Policy Year, upon payment of:

the accumulated value of annual premiums on the new Policy less the accumulated value of annual premiums on this Policy; the accumulation will be for the period from the issue date to the date of exchange; the premiums on each Policy will be adjusted for dividends; the accumulation will be at 6% a year;

- (f) after the end of the third Policy Year, upon payment of: 104% of the reserve of the new Policy as of the date of exchange.

If the Insured is totally disabled within the meaning of any disability waiver of premium rider in force with this Policy, conversion will be permitted only at the Insured's attained age. Conversion will be subject to the following conditions.

- Conversion will be made to our lowest premium Whole Life Policy having level premiums and level face amount payable for life. It will have a similar form of disability waiver of premium rider.
- The new Policy will be issued for the Insured's attained age at our then rates.
- The face amount of the new Policy cannot exceed the face amount of this Policy. The face amount for the new Policy cannot be less than the minimum we then allow.
- Conversion will be made automatically if we are waiving premiums under this Policy at the time this option would expire.

PROCEEDS

General

- Death proceeds payable under this Policy will consist of:
 - (1) the face amount,
 - (2) dividend credits, and
 - (3) any postmortem dividend we apportion.
- Proceeds will be adjusted by a premium refund or charge as described in the Premium Adjustment provision.
- We will pay interest on death proceeds paid in a single sum from the date of death to the date of payment. The rate of interest will not be less than the current rate credited on death proceeds left on deposit with us, but in no case less than 3% a year.

Policy Settlement

- All amounts payable by us are payable only at our Home Office.
- We may require return of the Policy.

Premium Adjustment

If the Insured dies while this Policy is in force, we will refund any premium paid beyond the end of the Policy Month of death. We will make a charge for any premium not paid to the end of the Policy Month of death. The refund or charge will be made by an adjustment in the death proceeds.

INCOME SETTLEMENT OPTIONS

Rather than pay proceeds as provided in this Policy, we will pay them based on the terms of an optional settlement agreement. You may elect such an agreement before proceeds become payable. If proceeds are at least \$5,000, the payee may elect such an agreement, if none is in effect. The following options are available:

Option 1. Installments for a Specified Period. Equal payments for a stated number of years, not more than 30. The amount is shown in the Option 1 Table.

Option 2. Life Income. Equal monthly payments while the payee is alive, as shown in the Option 2 Table. Payments with or without installments certain may be elected.

Option 3. Interest. Interest payments while the payee is alive or for a shorter period. Interest will be paid at an effective rate of 3% a year. Payments are increased by any additional interest earnings we may apportion. For each \$1,000 of proceeds, interest payments equal \$30 annually, \$14.89 semiannually, \$7.42 quarterly and \$2.47 monthly.

Option 4. Installments of Specified Amount. Equal annual, semi-annual, quarterly or monthly payments for a stated amount. Payments will be made until the proceeds and interest are all paid out. The total yearly amount paid must be at least 6% of the original proceeds. Any unpaid balance left with us will be increased by interest at 3% a year. We will also add any additional interest earnings we may apportion.

Option 5. Life Income With Installment Refund. Equal monthly payments as shown in the Option 5 Table. Payments will be made until the total amount paid equals the proceeds, and as long thereafter as the payee lives.

Option 6. Joint Life Income for the Payee and One Other Person with Two-Thirds to Survivor (One Hundred and Twenty Months Certain.) Based on the Option 6 table, we will pay a joint monthly income to the payee and one other person designated at the exercise of this option. We will pay the income for 120 months certain, and as long afterwards as both payees are living. After the death of either payee, and following payment of any remaining income certain, monthly payments equal to two-thirds of monthly income will be continued to the surviving payee for life.

Alternate Life Income

If Option 2, 5 or 6 is elected, the payee may elect to receive an alternate life income. This is instead of receiving income based on the rates shown in the following tables. The election must be made at the time the income is to begin.

- The alternate life income will be more than the monthly income provided by a new single premium immediate annuity (first payment immediate), based on our published rate then in use.

Payment Provisions

- If an optional settlement agreement becomes effective, we will issue a supplementary contract in exchange for the Policy and agreement. The contract will show the rights and benefits provided by the agreement.
- We may change the payment basis to quarterly, semiannual, or annual if any payment is less than \$50.
- We may pay proceeds in one sum if they are less than \$5,000. Proceeds will be paid to the then payee of income named in the optional settlement agreement.
- Payments under Options 2, 5 and 6 will be subject to proof of the payees' ages.
- The first installment under Options 1, 2, 4, 5 and 6 is due as of the date the proceeds become payable.
- Installments certain under Options 1, 2, 5 and 6 are computed at 3% interest compounded annually. This does not apply when alternate life income is elected.
- Installments certain, after the first, will be increased by any additional interest earnings we may apportion. If the alternate life income is elected, we will not increase payments certain by additional interest earnings.
- No endorsements of the Policy are required when an optional settlement agreement is completed.

INSTALLMENTS CERTAIN FOR EACH \$1,000 OF PROCEEDS		
OPTION 1		
Number of Years	Annual Installment	Monthly Installment
1	\$1000.00	\$84.47
2	507.30	42.06
3	343.23	28.60
4	261.10	21.76
5	212.00	17.91
6	176.22	14.68
7	146.00	12.16
8	120.31	10.00
9	104.00	8.80
10	91.02	7.61
11	80.00	6.66
12	70.84	5.84
13	63.20	5.11
14	56.00	4.46
15	50.00	3.87
16	45.00	3.33
17	40.74	2.92
18	37.00	2.60
19	33.50	2.33
20	30.00	2.10
21	26.60	1.88
22	23.20	1.66
23	20.00	1.44
24	17.00	1.22
25	14.20	1.00
26	11.50	0.83
27	9.00	0.67
28	6.60	0.52
29	4.30	0.37
30	2.00	0.16

Semiannual installments are 50.37% of the annual installments. Quarterly installments are 25.19% of the annual installments.

MONTHLY LIFE INCOME FOR \$1,000 OF PROCEEDS							
MALE PAYER Age Nearest Birthday	OPTION 1		OPTION 2		FEMALE PAYER Age Nearest Birthday	OPTION 1	
	Whole Unit Cost	Monthly Income Cost	Whole Unit Cost	Monthly Income Cost		Whole Unit Cost	Monthly Income Cost
20	10.00	0.00	10.00	0.00	20	10.00	0.00
21	10.00	0.00	10.00	0.00	21	10.00	0.00
22	10.00	0.00	10.00	0.00	22	10.00	0.00
23	10.00	0.00	10.00	0.00	23	10.00	0.00
24	10.00	0.00	10.00	0.00	24	10.00	0.00
25	10.00	0.00	10.00	0.00	25	10.00	0.00
26	10.00	0.00	10.00	0.00	26	10.00	0.00
27	10.00	0.00	10.00	0.00	27	10.00	0.00
28	10.00	0.00	10.00	0.00	28	10.00	0.00
29	10.00	0.00	10.00	0.00	29	10.00	0.00
30	10.00	0.00	10.00	0.00	30	10.00	0.00
31	10.00	0.00	10.00	0.00	31	10.00	0.00
32	10.00	0.00	10.00	0.00	32	10.00	0.00
33	10.00	0.00	10.00	0.00	33	10.00	0.00
34	10.00	0.00	10.00	0.00	34	10.00	0.00
35	10.00	0.00	10.00	0.00	35	10.00	0.00
36	10.00	0.00	10.00	0.00	36	10.00	0.00
37	10.00	0.00	10.00	0.00	37	10.00	0.00
38	10.00	0.00	10.00	0.00	38	10.00	0.00
39	10.00	0.00	10.00	0.00	39	10.00	0.00
40	10.00	0.00	10.00	0.00	40	10.00	0.00
41	10.00	0.00	10.00	0.00	41	10.00	0.00
42	10.00	0.00	10.00	0.00	42	10.00	0.00
43	10.00	0.00	10.00	0.00	43	10.00	0.00
44	10.00	0.00	10.00	0.00	44	10.00	0.00
45	10.00	0.00	10.00	0.00	45	10.00	0.00
46	10.00	0.00	10.00	0.00	46	10.00	0.00
47	10.00	0.00	10.00	0.00	47	10.00	0.00
48	10.00	0.00	10.00	0.00	48	10.00	0.00
49	10.00	0.00	10.00	0.00	49	10.00	0.00
50	10.00	0.00	10.00	0.00	50	10.00	0.00
51	10.00	0.00	10.00	0.00	51	10.00	0.00
52	10.00	0.00	10.00	0.00	52	10.00	0.00
53	10.00	0.00	10.00	0.00	53	10.00	0.00
54	10.00	0.00	10.00	0.00	54	10.00	0.00
55	10.00	0.00	10.00	0.00	55	10.00	0.00
56	10.00	0.00	10.00	0.00	56	10.00	0.00
57	10.00	0.00	10.00	0.00	57	10.00	0.00
58	10.00	0.00	10.00	0.00	58	10.00	0.00
59	10.00	0.00	10.00	0.00	59	10.00	0.00
60	10.00	0.00	10.00	0.00	60	10.00	0.00
61	10.00	0.00	10.00	0.00	61	10.00	0.00
62	10.00	0.00	10.00	0.00	62	10.00	0.00
63	10.00	0.00	10.00	0.00	63	10.00	0.00
64	10.00	0.00	10.00	0.00	64	10.00	0.00
65	10.00	0.00	10.00	0.00	65	10.00	0.00
66	10.00	0.00	10.00	0.00	66	10.00	0.00
67	10.00	0.00	10.00	0.00	67	10.00	0.00
68	10.00	0.00	10.00	0.00	68	10.00	0.00
69	10.00	0.00	10.00	0.00	69	10.00	0.00
70	10.00	0.00	10.00	0.00	70	10.00	0.00

MONTHLY LIFE INCOME FOR EACH \$1,000 OF PROCEEDS — OPTION 6																				
FEMALE PAYER Age Nearest Birthday	MALE PAYER — Age Nearest Birthday																			
	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39
40	3.65	3.66	3.66	3.70	3.72	3.74	3.77	3.79	3.82	3.84	3.86	3.89	3.91	3.94	3.97	3.99	4.02	4.04	4.07	4.09
41	3.66	3.67	3.67	3.71	3.73	3.75	3.78	3.80	3.83	3.85	3.87	3.90	3.92	3.95	3.98	4.00	4.03	4.05	4.08	4.10
42	3.67	3.68	3.68	3.72	3.74	3.76	3.79	3.81	3.84	3.86	3.88	3.91	3.93	3.96	3.99	4.01	4.04	4.06	4.09	4.11
43	3.68	3.69	3.69	3.73	3.75	3.77	3.80	3.82	3.85	3.87	3.89	3.92	3.94	3.97	3.99	4.02	4.04	4.07	4.09	4.11
44	3.69	3.70	3.70	3.74	3.76	3.78	3.81	3.83	3.86	3.88	3.90	3.93	3.95	3.98	4.00	4.03	4.05	4.08	4.10	4.11
45	3.70	3.71	3.71	3.75	3.77	3.79	3.82	3.84	3.87	3.89	3.91	3.94	3.96	3.99	4.01	4.04	4.06	4.09	4.11	4.12
46	3.71	3.72	3.72	3.76	3.78	3.80	3.83	3.85	3.88	3.90	3.92	3.95	3.97	4.00	4.02	4.05	4.07	4.10	4.11	4.12
47	3.72	3.73	3.73	3.77	3.79	3.81	3.84	3.86	3.89	3.91	3.93	3.96	3.98	4.01	4.03	4.06	4.08	4.11	4.12	4.13
48	3.73	3.74	3.74	3.78	3.80	3.82	3.85	3.87	3.90	3.92	3.94	3.97	3.99	4.02	4.04	4.07	4.09	4.12	4.13	4.14
49	3.74	3.75	3.75	3.79	3.81	3.83	3.86	3.88	3.91	3.93	3.95	3.98	4.00	4.03	4.05	4.08	4.10	4.13	4.14	4.15
50	3.75	3.76	3.76	3.80	3.82	3.84	3.87	3.89	3.92	3.94	3.96	3.99	4.01	4.04	4.06	4.09	4.11	4.14	4.15	4.16
51	3.76	3.77	3.77	3.81	3.83	3.85	3.88	3.90	3.93	3.95	3.97	4.00	4.02	4.05	4.07	4.10	4.12	4.15	4.16	4.17
52	3.77	3.78	3.78	3.82	3.84	3.86	3.89	3.91	3.94	3.96	3.98	4.01	4.03	4.06	4.08	4.11	4.13	4.16	4.17	4.18
53	3.78	3.79	3.79	3.83	3.85	3.87	3.90	3.92	3.95	3.97	3.99	4.02	4.04	4.07	4.09	4.12	4.14	4.17	4.18	4.19
54	3.79	3.80	3.80	3.84	3.86	3.88	3.91	3.93	3.96	3.98	4.00	4.03	4.05	4.08	4.10	4.13	4.15	4.18	4.19	4.20
55	3.80	3.81	3.81	3.85	3.87	3.89	3.92	3.94	3.97	3.99	4.01	4.04	4.06	4.09	4.11	4.14	4.16	4.19	4.20	4.21
56	3.81	3.82	3.82	3.86	3.88	3.90	3.93	3.95	3.98	4.00	4.02	4.05	4.07	4.10	4.12	4.15	4.17	4.20	4.21	4.22
57	3.82	3.83	3.83	3.87	3.89	3.91	3.94	3.96	3.99	4.01	4.03	4.06	4.08	4.11	4.13	4.16	4.18	4.21	4.22	4.23
58	3.83	3.84	3.84	3.88	3.90	3.92	3.95	3.97	4.00	4.02	4.04	4.07	4.09	4.12	4.14	4.17	4.19	4.22	4.23	4.24
59	3.84	3.85	3.85	3.89	3.91	3.93	3.96	3.98	4.01	4.03	4.05	4.08	4.10	4.13	4.15	4.18	4.20	4.23	4.24	4.25
60	3.85	3.86	3.86	3.90	3.92	3.94	3.97	3.99	4.02	4.04	4.06	4.09	4.11	4.14	4.16	4.19	4.21	4.24	4.25	4.26
61	3.86	3.87	3.87	3.91	3.93	3.95	3.98	4.00	4.03	4.05	4.07	4.10	4.12	4.15	4.17	4.20	4.22	4.25	4.26	4.27
62	3.87	3.88	3.88	3.92	3.94	3.96	3.99	4.01	4.04	4.06	4.08	4.11	4.13	4.16	4.18	4.21	4.23	4.26	4.27	4.28
63	3.88	3.89	3.89	3.93	3.95	3.97	4.00	4.02	4.05	4.07	4.09	4.12	4.14	4.17	4.19	4.22	4.24	4.27	4.28	4.29
64	3.89	3.90	3.90	3.94	3.96	3.98	4.01	4.03	4.06	4.08	4.10	4.13	4.15	4.18	4.20	4.23	4.25	4.28	4.29	4.30
65	3.90	3.91	3.91	3.95	3.97	3.99	4.02	4.04	4.07	4.09	4.11	4.14	4.16	4.19	4.21	4.24	4.26	4.29	4.30	4.31
66	3.91	3.92	3.92	3.96	3.98	4.00	4.03	4.05	4.08	4.10	4.12	4.15	4.17	4.20	4.22	4.25	4.27	4.30	4.31	4.32
67	3.92	3.93	3.93	3.97	3.99	4.01	4.04	4.06	4.09	4.11	4.13	4.16	4.18	4.21	4.23	4.26	4.28	4.31	4.32	4.33
68	3.93	3.94	3.94	3.98	4.00	4.02	4.05	4.07	4.10	4.12	4.14	4.17	4.19	4.22	4.24	4.27	4.29	4.32	4.33	4.34
69	3.94	3.95	3.95	3.99	4.01	4.03	4.06	4.08	4.11	4.13	4.15	4.18	4.20	4.23	4.25	4.28	4.30	4.33	4.34	4.35
70	3.95	3.96	3.96	4.00	4.02	4.04	4.07	4.09	4.12	4.14	4.16	4.19	4.21	4.24	4.26	4.29	4.31	4.34	4.35	4.36
71	3.96	3.97	3.97	4.01	4.03	4.05	4.08	4.10	4.13	4.15	4.17	4.20	4.22	4.25	4.27	4.30	4.32	4.35	4.36	4.37
72	3.97	3.98	3.98	4.02	4.04	4.06	4.09	4.11	4.14	4.16	4.18	4.21	4.23	4.26	4.28	4.31	4.33	4.36	4.37	4.38</

DENNIS D. WITTE
Vice President

THE EQUITABLE

July 28, 1987

Public Service Company of New Mexico
Alvarado Square, Third Floor
Albuquerque, NM 87101

Financial Marketing Services, Inc.
10250 Regency Circle, Suite 304
Omaha, NE 68114

Gentlemen:

The Equitable Life Assurance Society (the "Company"), acting through John E. Lyons, a duly licensed agent of the Company, has agreed to issue and deliver to Public Service Company of New Mexico, and Public Service Company of New Mexico ("PNM") has agreed to purchase life insurance policies presented to PNM by Financial Marketing Services, Inc., whose principal is John E. Lyons.

The Company agrees to guarantee the issuance of the policies on the life of each employee of PNM or any affiliate of PNM covered under the Insurance Program until January 1, 1989, provided said employee shall be randomly assigned to the Company.

- The Company agrees to permit PNM to substitute a new insured on each Policy in place of any currently participating employee who terminates employment with PNM, on a guaranteed issue basis until January 1, 1989, provided the new insured shall be randomly assigned to the Company.

The Company agrees that the effective date of each policy shall be the date the Application is completed and signed by the proposed insured and accepted by PNM. However, coverage will commence no earlier than the date of a PNM check payable to the Company for the first premium for a policy. The Company also agrees that the death benefits by and between PNM and the Employee shall be paid pursuant to the Designation of Beneficiary Form on file with PNM. Upon the death of an employee the Company will pay proceeds pursuant to an affidavit signed by PNM specifying the split of proceeds between PNM and the employee's beneficiary.

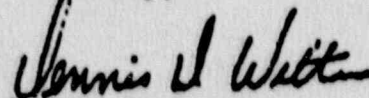
Page 2

July 27, 1987

The Company agrees to waive the "Incontestability" provision of all Policies issued on lives of employees of PNM pursuant to the Program, except we retain the right to confirm "actively at work" status in the event of a claim. The Company agrees to waive the "Suicide" provision of the Policies.

The Company agrees that the foregoing provisions of this letter shall be considered as a legally binding agreement on each Policy issued or to be issued by the Company under the Program.

Sincerely,



Dennis D. Witte
Vice President

dq

THE INSURED
POLICY OWNER
FACE AMOUNT
POLICY NUMBER

**LIFE
INSURANCE
POLICY**



SPECIMEN

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Agrees

- To pay the insurance benefits of this policy to the Beneficiary upon receiving proof of the Insured's death, and
- To provide you (the policy Owner) with the other rights and benefits of this policy.

These agreements are subject to the provisions of this policy.

Ten Days to Examine Policy - If for any reason you are not satisfied with your policy, you may cancel it by returning the policy to us within 10 days after you receive it. If you do, we will refund the premium that was paid.

Ray E. Evers

President

Robert L. Evers

Vice President
and Secretary

No. 120-04

Limited Payment Life - Executive 100 Plan. Insurance payable upon death. Premiums payable for Premium Period shown on page 3 or until earlier death. Policy participates in dividends. Conversion Option, if available.

65 877

THE INSURED
POLICY OWNER
FACE AMOUNT
POLICY NUMBER

LIFE
INSURANCE
POLICY



SPECIMEN

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Agrees

- To pay the insurance benefits of this policy to the Beneficiary upon receiving proof of the Insured's death, and
- To provide you (the policy Owner) with the other rights and benefits of this policy.

These agreements are subject to the provisions of this policy.

Ten Days to Examine Policy - If for any reason you are not satisfied with your policy, you may cancel it by returning the policy to us within 10 days after you receive it. If you do, we will refund the premium that was paid.

President

Vice President
and Secretary

No. 120-04

Limited Payment Life - Executive 100 Plan. Insurance payable upon death. Premiums payable for Premium Period shown on page 3 or until earlier death. Policy participates in dividends. Conversion Option, if available.

65 4 77

Contents

Insurance benefits 2
Policy owner and beneficiary 4
Premiums, grace, lapse, reinstatement 4

Dividends 5
Cash value 5
Loans, automatic premium loans 6

Options on lapse 6
Conversion option 7
General provisions 7
Payment options 8

Any additional benefit riders and a copy of the application are included in this policy after page 9.

In this policy:

"We," "our" and "us" mean The Equitable Life Assurance Society of the United States.

"You" and "your" mean the Owner of the policy at the time an Owner's right is exercised.

Insurance Benefits

The insurance benefits we pay at the Insured's death include:

- the Face Amount of this policy,
- *plus* any additional benefits due from riders to this policy,
- *plus* any amount due from dividends left under this policy,
- *plus or minus* any adjustment for the last premium,
- *minus* any loan (and loan interest) on the policy.

We will add interest to the resulting amount for the period from the date of death to the date of payment. It will be computed at the interest rate we are then paying under the Deposit Option on page 8.

We will pay these benefits only if premiums have been paid as called for by this policy. However, even if premiums have been discontinued we may still pay certain benefits. See Options on Lapse, page 6.

Payment of these benefits may also be affected by other provisions of this policy. See the Suicide Exclusion, Incontestability and Age and Sex clauses on page 7. Special exclusions or limitations (if any) are listed on page 3.

Policy Owner and Beneficiary

OWNER. The Owner of this policy is the Insured unless otherwise stated in the application, or later changed. As Owner, you can exercise all the rights in this policy while the Insured is living. You do not need the consent of anyone who has only a conditional or future ownership interest in this policy.

BENEFICIARY. The Beneficiary is as stated in the application, unless later changed. If two or more persons are named, those surviving the Insured will share equally unless otherwise stated.

We will pay any benefit for which there is no stated Beneficiary living at the death of the Insured to the children of the Insured who then survive, in equal shares. If none survive, we will pay the estate of the Insured.

CHANGES. While the Insured is living, you may change the Owner or Beneficiary by written notice in a form satisfactory to us. The change will take effect on the date you sign the notice, except that it will not apply to any payment we make or other action we take before we receive the notice. If you change the Beneficiary, any previous arrangement you made under the Payment Options provision on page 8 is cancelled.

ASSIGNMENT. You may assign this policy, but we will not be bound by an assignment unless it is in writing and we have received it. Your rights and those of any other person referred to in this policy will be subject to the assignment. We assume no responsibility for the validity of any assignment.

SPECIAL PREMIUMS

AMOUNTS AND DUE DATES. Page 3 shows the amounts and due dates of premiums and the period for which they are to be paid. Each premium is payable on or before its due date at our Home Office or premium collection office.

You may write and ask us to change the frequency of premium payment. If we approve the change, the new premium will be determined on the rate scale for this policy.

GRACE PERIOD. We allow a grace period of 31 days for payment of each premium, after the first premium. The insurance will continue during the grace period.

LAPSE. If a premium is not paid by the end of its grace period, the policy will lapse as of the premium due date. If this occurs, all insurance ends, except as stated in the Options on Lapse section on page 6.

Additional benefit riders do not continue beyond the grace period of an unpaid premium.

REINSTATEMENT. You may reinstate this policy within five years after lapse, if: (1) the policy has not been given up for its net cash value; (2) you provide evidence of insurability satisfactory to us; (3) you pay all overdue premiums with interest at 6% per year compounded annually; and (4) you repay or reinstate any policy loan, with loan interest.

PREMIUM ADJUSTMENT. We will add to the insurance benefits any part of the last premium paid that applies to a period beyond the policy month in which the Insured dies. If the Insured dies during the grace period of an unpaid premium, we will deduct from the benefits the part of the overdue premium for one policy month.

SPECIMEN

Dividends

We will determine your policy's share, if any, of our divisible surplus annually. It will be payable as a dividend at the end of each policy year if the policy is then in effect with all premiums duly paid. We do not expect any dividend to be paid on your policy before the end of the second policy year.

DIVIDEND OPTIONS. You may choose one of these options:

- **CASH:** Your dividends will be paid directly to you.
- **PREMIUMS:** Your dividends will be used to help pay any premium then due.
- **DIVIDEND ADDITIONS:** Your dividends will be used to provide paid-up additional whole life insurance on the Insured.
- **DIVIDEND ACCUMULATIONS:** Your dividends will be left with us to accumulate with interest at 3% per year compounded annually. We may allow excess interest each year.

Your dividends will be used to provide dividend additions if you have not advised us otherwise within three months after we mail the dividend notice. While this policy is continued as reduced

paid-up insurance, any dividends will be used to provide dividend additions. No dividends are paid under any extended term insurance.

Dividend additions and dividend accumulations existing when the Insured dies, plus any dividend then payable, will be included in the insurance benefits.

"Dividend credits," as used in this policy, means the sum of dividend accumulations, the cash value of dividend additions, and any dividend that has not been applied under an option. The cash value of dividend additions is their reserve, or the original cash dividends if greater.

You may use dividend credits toward making the policy paid-up for its Face Amount. We will do this at your written request on any premium due date when dividend credits plus the reserve on this policy equal the reserve for the paid-up policy. No further premiums are due on a paid-up policy.

You may withdraw dividend credits at any time, if they are not required as security for a loan. If this policy lapses, any dividend credits that are not withdrawn will be applied as part of the net cash value in the Options on Lapse section.

Cash Value

You may give up this policy for its net cash value at any time while the Insured is living. In the first policy year, however, you may not do this before a date to which premiums have been paid.

NET CASH VALUE. The net cash value is the cash value plus any dividend credits, minus any loan and loan interest.

CASH VALUE. The Table of Values on page 3 shows the cash value of your policy at the end of policy years for which premiums have been paid. Any cash values not shown will be furnished on

request. We will determine the cash value as of a date within a policy year with allowance for time elapsed and premiums paid.

The cash value within three months from the date of lapse will be the same as it was on that date. The cash value after three months from the date of lapse, while the policy is continued as reduced paid-up or extended term insurance, is the reserve for the policy based on the Insured's then current age. The cash value of paid-up insurance within 30 days after a policy anniversary will not be less than it was on that anniversary.

SPECIAL

Loans

You may get a loan on this policy while it has a loan value and it is not being continued as extended term insurance. This policy will be the sole security for the loan.

The amount of the loan may not be more than the loan value. Any existing loan and loan interest on it will be deducted from the new loan. We may also deduct any unpaid premium then due.

LOAN VALUE. The loan value is the policy's cash value plus any dividend credits on the next premium due date (or the next policy anniversary, if this has become a paid-up policy), minus interest at the loan rate to that date.

LOAN INTEREST. Interest on a loan accrues daily, at an annual rate of 8%. We may charge a lower rate for any period of time. Interest is due on each policy anniversary. If the interest is not paid when due, it will be added to the loan and bear interest at the loan rate.

This policy will terminate when a loan with loan interest first equals or exceeds the cash value plus any existing dividend credits. We will mail 31 days'

prior notice to you and any assignee of record at last known addresses.

REPAYMENT. You may repay a loan, and loan interest, at any time while the Insured is living, and before the end of the grace period of an unpaid premium. We will deduct any existing loan, and loan interest, from any benefits we pay at the Insured's death.

AUTOMATIC PREMIUM LOAN OPTION. While this option is in effect, any unpaid premium will be paid by policy loan as of the end of its grace period. The amount then available as a loan must be large enough to pay the premium. If you are using dividends to help pay premiums, a loan will be made only for the part of the premium in excess of the dividend.

This option will be in effect if asked for in the application or you ask for it in writing before the end of the grace period of an unpaid premium. You may suspend its operation by written notice. This option is not applicable if premiums are paid monthly.

Options on Lapse

You have a number of options if the policy lapses. You may apply for reinstatement. If there is a net cash value, you may withdraw it and give up the policy. Or, you may continue insurance under one of the following options:

REDUCED PAID-UP INSURANCE. This is insurance for the Insured's lifetime and for the amount that the net cash value will buy. This option participates in dividends.

EXTENDED TERM INSURANCE. This is term insurance for an amount equal to the Face Amount plus any dividend additions and dividend accumulations, minus any unpaid loan and loan interest. The insurance will continue from the date of lapse for as long a term period as the net cash value will buy. In no event, however, will this period be less than 90 days if premiums have been paid for at least three months before lapse and there is no loan on this policy. This option does not participate in divi-

dends. This option is not available if so stated on page 3.

Extended term insurance will apply automatically if you have made no other choice within three months after the date of lapse. Reduced paid-up insurance will apply instead if the extended term insurance option is not available.

If the Insured dies after the grace period but within three months from the date of lapse, the greater of the benefit under reduced paid-up or extended term insurance will apply. In this case, any restriction on page 3 as to extended term insurance will not apply.

We will determine amounts and term periods for these options as of the date of lapse (the due date of the unpaid premium), using net single premiums for the Insured's then current age. We will use net cash values as of the date of lapse, adjusted for any loan or dividend transaction on or after that date.

SPECIMEN

Conversion Option

This option is available unless there is a statement on Page 3 that it is not available.

You may convert this policy to a whole life policy for a reduced face amount. This may be done as of any premium due date between the policy anniversaries nearest the Insured's 60th and 70th birthdays, but not before the 10th policy anniversary. You may do this only if premiums have been duly paid and are not being waived under a Disability Premium Waiver rider of this policy.

The converted policy will have a face amount equal to the excess of the Face Amount of this policy over its cash value on the conversion date. Its premiums will be based on the Insured's age at the birthday nearest that date. The premium rate scale in effect on the Register Date of this policy for the same class of risk will apply. Premiums will start at the conversion

date and continue while the Insured lives. We will furnish premium rates on request.

Upon conversion, we will pay you the cash value of this policy minus any loan and loan interest on the conversion date. If the amount of any loan plus loan interest is more than the cash value, the difference will continue as a loan against the converted policy.

If this policy contains additional benefit riders which are still in effect on the conversion date, they may be continued with the same benefits and premiums in the converted policy. However, the converted policy may not contain a Disability Premium Waiver rider.

Your request for conversion must be made to us in writing within 31 days of the conversion date you choose. This policy must be returned with your request and payment of the first premium for the converted policy.

General Provisions

THE CONTRACT. We provide this insurance in consideration of payment of the required premiums. This policy and the attached copy of the application make up the entire contract.

The contract may not be modified, nor may any of our rights or requirements be waived, except in writing signed by our President or one of our Vice Presidents.

INCONTESTABILITY. All statements made in the application are representations and not warranties. We have the right to contest the validity of this policy based on material misstatements made in the application. However, this policy will become incontestable after it has been in effect during the lifetime of the Insured for two years from the Date of Issue shown on page 3.

See any additional benefit riders for modifications that apply to them.

AGE AND SEX. If the Insured's age or sex has been misstated, any benefits will be those that the

premium paid would have purchased at the correct age and sex.

SUICIDE EXCLUSION. If the Insured commits suicide, while sane or insane, within two years after the Date of Issue shown on page 3, our liability will be limited to the payment of a single sum equal to the premiums paid, minus any loan and loan interest.

POLICY PERIODS AND ANNIVERSARIES. Policy years, policy months, policy anniversaries and premium periods are measured from the Register Date. Each policy month begins on the same day in each calendar month as in the Register Date. If the end of a premium period or policy year is indicated by an age, it ends on the policy anniversary nearest the birthday on which the Insured reaches that age.

DEFERMENT. We may defer payment of a cash value and the making of a loan (other than to pay premiums on policies we have issued) for up to six months after we receive a request. We will allow interest, at a rate of at least 3% a year, on any cash value payment we defer for 30 days or more.

POLICY CHANGES. You may change this policy to another plan of insurance or add additional benefit riders or make other changes, subject to our rules at the time of change.

BASIS OF COMPUTATION. Cash values, reserves and net single premiums are based on the Commissioners 1958 Standard Ordinary Mortality Table. For any extended term insurance, they are based instead on the Commissioners 1958 Extended Term Insurance Table. Continuous functions are used with interest compounded annually at 4% during the first 20 policy years and 3% thereafter.

The cash values and paid-up insurance benefits are

Payment Options

Instead of having the insurance benefits or net cash value paid immediately in one sum, you can choose another form of payment for all or part (if at least \$2,500). If you do not arrange for this before the Insured dies, the Beneficiary will have this right when the Insured dies. Arrangements you make, however, cannot be changed by the Beneficiary after the Insured's death. The options are:

1. DEPOSIT OPTION: Left on deposit for a period mutually agreed upon, with interest paid at the end of each month, each 3 months, each 6 months or each 12 months, as chosen.

2. INSTALMENT OPTIONS:

A. FIXED PERIOD: Paid in equal instalments for a specified number of years (not more than 30). The instalments will not be less than those shown in the Table of Guaranteed Payments on page 9.

B. FIXED AMOUNT: Paid in instalments as mutually agreed upon until the amount applied, together with interest on the unpaid balance, is used up.

3. LIFE INCOME OPTIONS:

A. Paid as a monthly income for life in an amount we determine but not less than shown in the Table of Guaranteed Payments on page 9. We guarantee payments for life and in any event for 10 years, 20 years, or until the payments we make equal the amount applied (called "refund certain"), according to the "certain" period chosen.

equal to or more than those required by law. A detailed statement of the method of computing values and benefits has been filed with the insurance supervisory official of the jurisdiction in which this policy is delivered. The cash value at the end of a policy year after the 20th equals the reserve. Reserves referred to in this policy are computed by the net level premium method.

VOTING RIGHTS. After this policy has been in effect for one year, you will have the right to vote in the annual election of our Board of Directors. You may do this in person, by mail or by proxy. For more information, write to our Vice President and Secretary.

B. Paid as a monthly income for life under any other form of single premium annuity we make available when the policy benefits become payable. Annuity payments will be at least 103% of those determined on a basis consistent with our annuity rates then in effect for a comparable form of annuity.

We guarantee interest under Option 1 at the rate of 3% a year and under Option 2 at 3½% a year, or such higher rates as we may determine. We may allow excess interest dividends under Options 1 and 2. Option 3 does not participate in dividends.

We reserve the right to change how often we make payments, so that each payment is for at least \$25. The payee under an option may name and change a successor payee for any amount we would otherwise pay to the payee's estate.

Any arrangements involving more than one of the options, or a payee who is not a natural person (such as a corporation) or who is a fiduciary, must have our approval. Also, details of all arrangements will be subject to our rules at the time the arrangement takes effect. These include withdrawal or commutation rights, designation of payees and successor payees, and evidence of age and survival.

Choices (or any later changes) under these options will be made and will take effect in the same way as a change of Beneficiary. Amounts applied under these options will not be subject to the claims of creditors or to legal process, to the extent permitted by law.

SPECIMEN

Table of Guaranteed Payments

(MINIMUM AMOUNT FOR EACH \$1,000 APPLIED)

Option 2A

FIXED PERIOD INSTALMENTS

Number of Years Instalments	Monthly Instalment	Annual Instalment
1	\$84.70	\$1000.00
2	43.08	508.60
3	29.21	344.86
4	22.28	263.04
5	18.12	213.99
6	15.36	181.32
7	13.38	158.01
8	11.91	140.56
9	10.76	127.00
10	9.84	116.18
11	9.09	107.34
12	8.47	99.98
13	7.94	93.78
14	7.49	88.47
15	7.11	83.89
16	6.77	79.89
17	6.47	76.37
18	6.20	73.25
19	5.97	70.47
20	5.76	67.98
21	5.57	65.74
22	5.40	63.70
23	5.24	61.85
24	5.10	60.17
25	4.97	58.62
26	4.84	57.20
27	4.73	55.90
28	4.63	54.69
29	4.54	53.57
30	4.45	52.53

If instalments are paid each 3 months, they will be 25.32% of the annual instalments. If they are paid each 6 months, they will be 50.43% of the annual instalments.

Option 3A

MONTHLY LIFE INCOME

AGE	10 Years Certain		20 Years Certain		Refund Certain	
	Male	Female	Male	Female	Male	Female
50	\$4.50	\$3.96	\$4.27	\$3.89	\$4.28	\$3.87
51	4.58	4.02	4.32	3.94	4.35	3.93
52	4.67	4.09	4.38	4.00	4.42	3.99
53	4.75	4.16	4.44	4.06	4.50	4.05
54	4.85	4.24	4.50	4.12	4.58	4.11
55	4.94	4.32	4.56	4.18	4.66	4.18
56	5.04	4.40	4.62	4.24	4.74	4.25
57	5.15	4.49	4.68	4.31	4.83	4.33
58	5.26	4.58	4.74	4.38	4.93	4.41
59	5.37	4.68	4.81	4.45	5.03	4.49
60	5.49	4.78	4.86	4.52	5.13	4.58
61	5.62	4.89	4.92	4.59	5.24	4.67
62	5.75	5.00	4.98	4.66	5.35	4.77
63	5.88	5.12	5.04	4.73	5.48	4.88
64	6.03	5.25	5.09	4.80	5.60	4.99
65	6.17	5.39	5.14	4.88	5.74	5.10
66	6.32	5.53	5.19	4.95	5.88	5.22
67	6.48	5.68	5.24	5.01	6.01	5.35
68	6.64	5.83	5.28	5.08	6.16	5.49
69	6.80	6.00	5.32	5.14	6.35	5.64
70	6.97	6.17	5.35	5.20	6.53	5.79
71	7.15	6.34	5.38	5.26	6.71	5.96
72	7.32	6.53	5.41	5.30	6.91	6.13
73	7.50	6.72	5.43	5.35	7.12	6.32
74	7.67	6.92	5.45	5.38	7.34	6.52
75	7.85	7.12	5.47	5.42	7.58	6.73
76	8.02	7.32	5.48	5.44	7.82	6.96
77	8.19	7.53	5.49	5.46	8.09	7.21
78	8.36	7.75	5.50	5.48	8.38	7.47
79	8.52	7.96	5.50	5.49	8.67	7.75
80	8.67	8.16	5.51	5.50	9.00	8.05
81	8.81	8.36	5.51	5.51	9.34	8.39
82	8.94	8.55	5.51	5.51	9.70	8.73
83	9.06	8.73	5.51	5.51	10.10	9.12
84	9.16	8.90	5.51	5.51	10.52	9.53
85 & over	9.26	9.05	5.51	5.51	10.96	9.97

Income amounts for Life Income Options are based on age nearest birthday when income starts. Income amounts for ages not shown will be furnished on request.

1. Proposed Insured a. Print name to appear on policy.

b. ☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other Title
c. List all current occupations—Give Title(s) and Dates

c. Date of Birth Mo Day Year
d. Age Nearest Birthday
e. Place of Birth: State of
f. Residence: State of
g. ☐ Male ☐ Female

2. Plan

Amount
of Insurance
\$

3. Optional Benefits

- ☐ Accidental Death Benefit* (Specify Amount): \$
☐ Disability Premium Waiver*
☐ Automatic Premium Loan (Not for Term policies, or while premiums are paid monthly)
☐ Option to Purchase Add'l Ins. (Insured age to 77 only): \$
Term Riders (Only one may be elected for insured. None available if Proposed Insured is a Child (Insured Age 0-14))
Decreasing Term
☐ Family Income: Years to
☐ Mortgage Paym.: Years Initial Am.: \$
Renewable Term
☐ On Interest: \$
☐ On Additional Insured (See page 2): \$
☐ Children's Term (See page 2): Under
*If Proposed Insured is a Child (Insured Age 0-14) see Limitations on p.3.
OPAJ and Decreasing Term not available for ESP.

4. Beneficiary for Insurance on Proposed Insured. Include Full Name and Relationship to Proposed Insured.

Unless otherwise requested, the contingent beneficiary will be the surviving children of the insured, in equal shares. If none survive, payment will be made to the insured's estate.
The Beneficiary under any Term Insurance Rider on an Additional Insured or on a Child will be as stated in these riders, unless otherwise designated in Special Instructions.

5. OWNER Owner's Sex, Sex, or Tax ID#

The Owner is ☐ Proposed Insured
☐ Applicant for Child (See 16.A.)
☐ Other (Give Full Name):

If "Other", complete the following:
☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other Title
Relationship to Insured
Specify a successor Owner if desired

If the Proposed Insured or the Applicant for a Child is not the Owner and if all persons designated die before the insured, the Owner will be the estate of the last of such persons to die except where the insured is a Child (see Note to 16.A.).

6. Mailing Address ☐ Business (Give Full Name) ☐ Residence

No. Street Apt.
City State ZIP

7. Premium Payment Plan

- ☐ Annual ☐ Semi-Annual ☐ Quarterly
☐ Monthly ☐ System Meter (Attach S-14 Form)
☐ Single
☐ Military Allowance: Branch
Register Date
☐ Salary Adjustment: Register Date
Use Name
Use/Sub-Use No. if established:
Divisible by ☐ 2 ☐ 4 Payroll No.
☐ Hold Premiums \$

8. Dividend Election

- ☐ Dividend Type Policies
☐ Additional* ☐ Premiums
☐ Accumulations ☐ Cash
☐ Plan "A" ☐ Term Dividend
☐ Plan "B" ☐ Provision to
*Not Available for Term policies
*Not Available for Term policies or ESP.

9. Special Instructions

- a. ☐ Preliminary Term to Mo Day Year
b. ☐ Date to new insurance age:
c. Other:

AGENT'S REPORT

(Complete 1-11 & Regular Insurers.
Complete 1-14 & ESP. Prior to blank info.)

1. **Purchaser**
 a. If the Purchaser is other than the Insured/Applicant's Trust, give the Purchaser's Annual Income \$ _____
 b. If the Purchaser is a Corporation or Partnership, give the names of officer, partners and amounts of interest on their lives owned by the Purchaser.
 c. How long have you known the insured?
 d. Your relationship to the insured, if any.
 e. If the insured is a Child (Insured Age 6-14) when did you last see the child?
 f. Proposed Insured's (If Insured is a Child, Insured Age 6-14, complete as to Applicant):
 a. Name _____ b. Date of Birth (Month) _____ (Day) _____ (Year) _____
 c. Annual Earned Income \$ _____ d. Previous Married or Maiden Name _____
 e. Residence: If rural residence, state road and distance to nearest town (P.O. Box Unacceptable) _____
 f. City and State _____ Zip _____ County _____ Years at Residence _____
 g. Current Residence _____
 h. If less than two years at current address
 i. Business Address: _____
 j. Bank Name, Branch Location & Acct. No. (Only on applications over \$100,000)
 k. Submit form 100-100 for applications over \$250,000.
 l. If Insured is a Child (Insured Age 6-14):
 m. Child's Name _____ Residence Address _____ Date of Birth: _____
 n. Address: _____
 o. Address: _____
 p. Address: _____
 q. Address: _____
 r. Address: _____
 s. Address: _____
 t. Address: _____
 u. Address: _____
 v. Address: _____
 w. Address: _____
 x. Address: _____
 y. Address: _____
 z. Address: _____
 AA. Address: _____
 AB. Address: _____
 AC. Address: _____
 AD. Address: _____
 AE. Address: _____
 AF. Address: _____
 AG. Address: _____
 AH. Address: _____
 AI. Address: _____
 AJ. Address: _____
 AK. Address: _____
 AL. Address: _____
 AM. Address: _____
 AN. Address: _____
 AO. Address: _____
 AP. Address: _____
 AQ. Address: _____
 AR. Address: _____
 AS. Address: _____
 AT. Address: _____
 AU. Address: _____
 AV. Address: _____
 AW. Address: _____
 AX. Address: _____
 AY. Address: _____
 AZ. Address: _____
 BA. Address: _____
 BB. Address: _____
 BC. Address: _____
 BD. Address: _____
 BE. Address: _____
 BF. Address: _____
 BG. Address: _____
 BH. Address: _____
 BI. Address: _____
 BJ. Address: _____
 BK. Address: _____
 BL. Address: _____
 BM. Address: _____
 BN. Address: _____
 BO. Address: _____
 BP. Address: _____
 BQ. Address: _____
 BR. Address: _____
 BS. Address: _____
 BT. Address: _____
 BU. Address: _____
 BV. Address: _____
 BW. Address: _____
 BX. Address: _____
 BY. Address: _____
 BZ. Address: _____
 CA. Address: _____
 CB. Address: _____
 CC. Address: _____
 CD. Address: _____
 CE. Address: _____
 CF. Address: _____
 CG. Address: _____
 CH. Address: _____
 CI. Address: _____
 CJ. Address: _____
 CK. Address: _____
 CL. Address: _____
 CM. Address: _____
 CN. Address: _____
 CO. Address: _____
 CP. Address: _____
 CQ. Address: _____
 CR. Address: _____
 CS. Address: _____
 CT. Address: _____
 CU. Address: _____
 CV. Address: _____
 CW. Address: _____
 CX. Address: _____
 CY. Address: _____
 CZ. Address: _____
 DA. Address: _____
 DB. Address: _____
 DC. Address: _____
 DD. Address: _____
 DE. Address: _____
 DF. Address: _____
 DG. Address: _____
 DH. Address: _____
 DI. Address: _____
 DJ. Address: _____
 DK. Address: _____
 DL. Address: _____
 DM. Address: _____
 DN. Address: _____
 DO. Address: _____
 DP. Address: _____
 DQ. Address: _____
 DR. Address: _____
 DS. Address: _____
 DT. Address: _____
 DU. Address: _____
 DV. Address: _____
 DW. Address: _____
 DX. Address: _____
 DY. Address: _____
 DZ. Address: _____
 EA. Address: _____
 EB. Address: _____
 EC. Address: _____
 ED. Address: _____
 EE. Address: _____
 EF. Address: _____
 EG. Address: _____
 EH. Address: _____
 EI. Address: _____
 EJ. Address: _____
 EK. Address: _____
 EL. Address: _____
 EM. Address: _____
 EN. Address: _____
 EO. Address: _____
 EP. Address: _____
 EQ. Address: _____
 ER. Address: _____
 ES. Address: _____
 ET. Address: _____
 EU. Address: _____
 EV. Address: _____
 EW. Address: _____
 EX. Address: _____
 EY. Address: _____
 EZ. Address: _____
 FA. Address: _____
 FB. Address: _____
 FC. Address: _____
 FD. Address: _____
 FE. Address: _____
 FF. Address: _____
 FG. Address: _____
 FH. Address: _____
 FI. Address: _____
 FJ. Address: _____
 FK. Address: _____
 FL. Address: _____
 FM. Address: _____
 FN. Address: _____
 FO. Address: _____
 FP. Address: _____
 FQ. Address: _____
 FR. Address: _____
 FS. Address: _____
 FT. Address: _____
 FU. Address: _____
 FV. Address: _____
 FW. Address: _____
 FX. Address: _____
 FY. Address: _____
 FZ. Address: _____
 GA. Address: _____
 GB. Address: _____
 GC. Address: _____
 GD. Address: _____
 GE. Address: _____
 GF. Address: _____
 GG. Address: _____
 GH. Address: _____
 GI. Address: _____
 GJ. Address: _____
 GK. Address: _____
 GL. Address: _____
 GM. Address: _____
 GN. Address: _____
 GO. Address: _____
 GP. Address: _____
 GQ. Address: _____
 GR. Address: _____
 GS. Address: _____
 GT. Address: _____
 GU. Address: _____
 GV. Address: _____
 GW. Address: _____
 GX. Address: _____
 GY. Address: _____
 GZ. Address: _____
 HA. Address: _____
 HB. Address: _____
 HC. Address: _____
 HD. Address: _____
 HE. Address: _____
 HF. Address: _____
 HG. Address: _____
 HH. Address: _____
 HI. Address: _____
 HJ. Address: _____
 HK. Address: _____
 HL. Address: _____
 HM. Address: _____
 HN. Address: _____
 HO. Address: _____
 HP. Address: _____
 HQ. Address: _____
 HS. Address: _____
 HT. Address: _____
 HU. Address: _____
 HV. Address: _____
 HW. Address: _____
 HX. Address: _____
 HY. Address: _____
 HZ. Address: _____
 IA. Address: _____
 IB. Address: _____
 IC. Address: _____
 ID. Address: _____
 IE. Address: _____
 IF. Address: _____
 IG. Address: _____
 IH. Address: _____
 II. Address: _____
 IJ. Address: _____
 IK. Address: _____
 IL. Address: _____
 IM. Address: _____
 IN. Address: _____
 IO. Address: _____
 IP. Address: _____
 IQ. Address: _____
 IR. Address: _____
 IS. Address: _____
 IT. Address: _____
 IU. Address: _____
 IV. Address: _____
 IW. Address: _____
 IX. Address: _____
 IY. Address: _____
 IZ. Address: _____
 JA. Address: _____
 JB. Address: _____
 JC. Address: _____
 JD. Address: _____
 JE. Address: _____
 JF. Address: _____
 JG. Address: _____
 JH. Address: _____
 JI. Address: _____
 JJ. Address: _____
 JK. Address: _____
 JL. Address: _____
 JM. Address: _____
 JN. Address: _____
 JO. Address: _____
 JP. Address: _____
 JQ. Address: _____
 JR. Address: _____
 JS. Address: _____
 JT. Address: _____
 JU. Address: _____
 JV. Address: _____
 JW. Address: _____
 JX. Address: _____
 JY. Address: _____
 JZ. Address: _____
 KA. Address: _____
 KB. Address: _____
 KC. Address: _____
 KD. Address: _____
 KE. Address: _____
 KF. Address: _____
 KG. Address: _____
 KH. Address: _____
 KI. Address: _____
 KJ. Address: _____
 KK. Address: _____
 KL. Address: _____
 KM. Address: _____
 KN. Address: _____
 KO. Address: _____
 KP. Address: _____
 KQ. Address: _____
 KR. Address: _____
 KS. Address: _____
 KT. Address: _____
 KU. Address: _____
 KV. Address: _____
 KW. Address: _____
 KX. Address: _____
 KY. Address: _____
 KZ. Address: _____
 LA. Address: _____
 LB. Address: _____
 LC. Address: _____
 LD. Address: _____
 LE. Address: _____
 LF. Address: _____
 LG. Address: _____
 LH. Address: _____
 LI. Address: _____
 LJ. Address: _____
 LK. Address: _____
 LL. Address: _____
 LM. Address: _____
 LN. Address: _____
 LO. Address: _____
 LP. Address: _____
 LQ. Address: _____
 LR. Address: _____
 LS. Address: _____
 LT. Address: _____
 LU. Address: _____
 LV. Address: _____
 LW. Address: _____
 LX. Address: _____
 LY. Address: _____
 LZ. Address: _____
 MA. Address: _____
 MB. Address: _____
 MC. Address: _____
 MD. Address: _____
 ME. Address: _____
 MF. Address: _____
 MG. Address: _____
 MH. Address: _____
 MI. Address: _____
 MJ. Address: _____
 MK. Address: _____
 ML. Address: _____
 MM. Address: _____
 MN. Address: _____
 MO. Address: _____
 MP. Address: _____
 MQ. Address: _____
 MR. Address: _____
 MS. Address: _____
 MT. Address: _____
 MU. Address: _____
 MV. Address: _____
 MW. Address: _____
 MX. Address: _____
 MY. Address: _____
 MZ. Address: _____
 NA. Address: _____
 NB. Address: _____
 NC. Address: _____
 ND. Address: _____
 NE. Address: _____
 NF. Address: _____
 NG. Address: _____
 NH. Address: _____
 NI. Address: _____
 NJ. Address: _____
 NK. Address: _____
 NL. Address: _____
 NM. Address: _____
 NN. Address: _____
 NO. Address: _____
 NP. Address: _____
 NQ. Address: _____
 NR. Address: _____
 NS. Address: _____
 NT. Address: _____
 NU. Address: _____
 NV. Address: _____
 NW. Address: _____
 NX. Address: _____
 NY. Address: _____
 NZ. Address: _____
 OA. Address: _____
 OB. Address: _____
 OC. Address: _____
 OD. Address: _____
 OE. Address: _____
 OF. Address: _____
 OG. Address: _____
 OH. Address: _____
 OI. Address: _____
 OJ. Address: _____
 OK. Address: _____
 OL. Address: _____
 OM. Address: _____
 ON. Address: _____
 OO. Address: _____
 OP. Address: _____
 OQ. Address: _____
 OR. Address: _____
 OS. Address: _____
 OT. Address: _____
 OU. Address: _____
 OV. Address: _____
 OW. Address: _____
 OX. Address: _____
 OY. Address: _____
 OZ. Address: _____
 PA. Address: _____
 PB. Address: _____
 PC. Address: _____
 PD. Address: _____
 PE. Address: _____
 PF. Address: _____
 PG. Address: _____
 PH. Address: _____
 PI. Address: _____
 PJ. Address: _____
 PK. Address: _____
 PL. Address: _____
 PM. Address: _____
 PN. Address: _____
 PO. Address: _____
 PP. Address: _____
 PQ. Address: _____
 PR. Address: _____
 PS. Address: _____
 PT. Address: _____
 PU. Address: _____
 PV. Address: _____
 PW. Address: _____
 PX. Address: _____
 PY. Address: _____
 PZ. Address: _____
 QA. Address: _____
 QB. Address: _____
 QC. Address: _____
 QD. Address: _____
 QE. Address: _____
 QF. Address: _____
 QG. Address: _____
 QH. Address: _____
 QI. Address: _____
 QJ. Address: _____
 QK. Address: _____
 QL. Address: _____
 QM. Address: _____
 QN. Address: _____
 QO. Address: _____
 QP. Address: _____
 QQ. Address: _____
 QR. Address: _____
 QS. Address: _____
 QT. Address: _____
 QU. Address: _____
 QV. Address: _____
 QW. Address: _____
 QX. Address: _____
 QY. Address: _____
 QZ. Address: _____
 RA. Address: _____
 RB. Address: _____
 RC. Address: _____
 RD. Address: _____
 RE. Address: _____
 RF. Address: _____
 RG. Address: _____
 RH. Address: _____
 RI. Address: _____
 RJ. Address: _____
 RK. Address: _____
 RL. Address: _____
 RM. Address: _____
 RN. Address: _____
 RO. Address: _____
 RP. Address: _____
 RQ. Address: _____
 RR. Address: _____
 RS. Address: _____
 RT. Address: _____
 RU. Address: _____
 RV. Address: _____
 RW. Address: _____
 RX. Address: _____
 RY. Address: _____
 RZ. Address: _____
 SA. Address: _____
 SB. Address: _____
 SC. Address: _____
 SD. Address: _____
 SE. Address: _____
 SF. Address: _____
 SG. Address: _____
 SH. Address: _____
 SI. Address: _____
 SJ. Address: _____
 SK. Address: _____
 SL. Address: _____
 SM. Address: _____
 SN. Address: _____
 SO. Address: _____
 SP. Address: _____
 SQ. Address: _____
 SR. Address: _____
 SS. Address: _____
 ST. Address: _____
 SU. Address: _____
 SV. Address: _____
 SW. Address: _____
 SX. Address: _____
 SY. Address: _____
 SZ. Address: _____
 TA. Address: _____
 TB. Address: _____
 TC. Address: _____
 TD. Address: _____
 TE. Address: _____
 TF. Address: _____
 TG. Address: _____
 TH. Address: _____
 TI. Address: _____
 TJ. Address: _____
 TK. Address: _____
 TL. Address: _____
 TM. Address: _____
 TN. Address: _____
 TO. Address: _____
 TP. Address: _____
 TQ. Address: _____
 TR. Address: _____
 TS. Address: _____
 TT. Address: _____
 TU. Address: _____
 TV. Address: _____
 TW. Address: _____
 TX. Address: _____
 TY. Address: _____
 TZ. Address: _____
 UA. Address: _____
 UB. Address: _____
 UC. Address: _____
 UD. Address: _____
 UE. Address: _____
 UF. Address: _____
 UG. Address: _____
 UH. Address: _____
 UI. Address: _____
 UJ. Address: _____
 UK. Address: _____
 UL. Address: _____
 UM. Address: _____
 UN. Address: _____
 UO. Address: _____
 UP. Address: _____
 UQ. Address: _____
 UR. Address: _____
 US. Address: _____
 UT. Address: _____
 UY. Address: _____
 UZ. Address: _____
 VA. Address: _____
 VB. Address: _____
 VC. Address: _____
 VD. Address: _____
 VE. Address: _____
 VF. Address: _____
 VG. Address: _____
 VH. Address: _____
 VI. Address: _____
 VJ. Address: _____
 VK. Address: _____
 VL. Address: _____
 VM. Address: _____
 VN. Address: _____
 VO. Address: _____
 VP. Address: _____
 VQ. Address: _____
 VR. Address: _____
 VS. Address: _____
 VT. Address: _____
 VY. Address: _____
 VZ. Address: _____
 WA. Address: _____
 WB. Address: _____
 WC. Address: _____
 WD. Address: _____
 WE. Address: _____
 WF. Address: _____
 WG. Address: _____
 WH. Address: _____
 WI. Address: _____
 WJ. Address: _____
 WK. Address: _____
 WL. Address: _____
 WM. Address: _____
 WN. Address: _____
 WO. Address: _____
 WP. Address: _____
 WQ. Address: _____
 WR. Address: _____
 WS. Address: _____
 WT. Address: _____
 WY. Address: _____
 WZ. Address: _____
 XA. Address: _____
 XB. Address: _____
 XC. Address: _____
 XD. Address: _____
 XE. Address: _____
 XF. Address: _____
 XG. Address: _____
 XH. Address: _____
 XI. Address: _____
 XJ. Address: _____
 XK. Address: _____
 XL. Address: _____
 XM. Address: _____
 XN. Address: _____
 XO. Address: _____
 XP. Address: _____
 XQ. Address: _____
 XR. Address: _____
 XS. Address: _____
 XT. Address: _____
 XU. Address: _____
 XV. Address: _____
 XW. Address: _____
 XX. Address: _____
 XY. Address: _____
 XZ. Address: _____
 YA. Address: _____
 YB. Address: _____
 YC. Address: _____
 YD. Address: _____
 YE. Address: _____
 YF. Address: _____
 YG. Address: _____
 YH. Address: _____
 YI. Address: _____
 YJ. Address: _____
 YK. Address: _____
 YL. Address: _____
 YM. Address: _____
 YN. Address: _____
 YO. Address: _____
 YP. Address: _____
 YQ. Address: _____
 YR. Address: _____
 YS. Address: _____
 YT. Address: _____
 YZ. Address: _____
 ZA. Address: _____
 ZB. Address: _____
 ZC. Address: _____
 ZD. Address: _____
 ZE. Address: _____
 ZF. Address: _____
 ZG. Address: _____
 ZH. Address: _____
 ZI. Address: _____
 ZJ. Address: _____
 ZK. Address: _____
 ZL. Address: _____
 ZM. Address: _____
 ZN. Address: _____
 ZO. Address: _____
 ZP. Address: _____
 ZQ. Address: _____
 ZR. Address: _____
 ZS. Address: _____
 ZT. Address: _____
 ZY. Address: _____
 ZZ. Address: _____

15. **Remarks:**
 16. **Telephone No. where we can reach Proposed Insured (Applicant if Proposed Insured is a Child, or Employee if ESP):**
 17. **ESP-Employee/Unit Name:**
 18. **Employee's Name:**
 19. **If the Employee is not the Proposed Insured:**
 20. **Proposed Insured's Name:**
 21. **Employee's Annual Earned Income \$:**
 22. **and relationship to Employee:**

TEMPORARY INSURANCE AGREEMENT

(In this Agreement, "we," "our" and "us" mean The Equitable Life Assurance Society of the United States.)

The following conditions must be met before any Temporary Insurance takes effect:

- (1) A completed and properly signed application Part 1 and, if required, Part 2 (or Part 1A in the case of a Child) must be given to us; and
- (2) The full first premium for the policy applied for must be paid, or a payroll deduction authorization must be signed; and
- (3) To the best of the knowledge and belief of those signing the application, the statements and answers in all parts of the application must be true and complete when made and continue to be true and complete, without material change, when the premium is paid or the payroll deduction authorization is signed; and
- (4) No Person Proposed for Insurance has had cancer, a stroke or been struck within the last year.

If all of these conditions are met, then Temporary Insurance shall take effect on the life of a Person Proposed for Insurance on the later of: (a) the date the premium is paid or the payroll deduction authorization is signed; or (b) if an application Part 2 (or Part 1A in the case of a Child) is initially required as to that person by our underwriting rules, the date that Part 1 is completed. The Temporary Insurance will be in the amount applied for (subject to the Amount Limitation below) and in accordance with the terms of the policy we could issue.

If a Person Proposed for Insurance dies as a result of accidental bodily injury, directly and independently of all other causes, before a required application Part 2 (or Part 1A in the case of a Child) for that person is completed, then the Temporary Insurance will be in effect unless it terminated earlier.

Amount Limitation: The amount of insurance (apart from any Accidental Death Benefit) in effect on the life of any Person Proposed for Insurance under all Temporary Insurance Agreements issued by us or our subsidiary Equitable Variable Life Insurance Company shall not exceed \$250,000.

Termination of Temporary Insurance: Insurance under this Agreement will end upon the earlier of the following:

- (1) When we issue a policy as applied for and the full first premium for it is paid; or
- (2) Twenty days after we issue a policy other than as applied for, if issued, when that policy is either accepted or refused; or
- (3) Five days after we mail a notice declining the application and enclosing a refund of any premium paid; or
- (4) The 75th day after the date of Part 1 of the application.

10. Complete if Proposed Insured is a Child (Issue Ages 0-14).

a. Will there be more life insurance in effect on the Child than on any other child in the family? ☐ Yes ☐ No
If yes, explain: _____

b. Applicant-Complete if other than the Child.

i. Your Name _____
ii. Address _____
iii. Date of Birth _____
iv. ☐ Male ☐ Female
v. Relationship to Child _____
vi. Total Life Insurance now in effect: \$ _____

c. Owner. If the Applicant is to be the Owner, after the Applicant's death the Child will be the Owner unless otherwise designated in Special Instructions (in any such designation include Owner's Full Name, Relationship to Child, and Social Security or Tax Number).

NOTE: Consider designating an adult secondary Owner to

reduce the chance of a minor Child becoming the Owner. If all persons designated die before the Child, the Owner will be the Child.

d. Optional Benefit On Applicant.

☐ Supplemental Protective Benefit. Give Applicant's:
i. Age Nearest Birthday _____
ii. Place of Birth _____
iii. Height _____ Ft. _____ In. Weight _____ Lbs.
iv. Occupations—Give Title(s) and Dates: _____

Also answer questions on page 3 as to Applicant.

e. Limitations On Child's ADB and DPW Benefits.

If the Accidental Death Benefit is applied for on the Child, the benefit is payable only if the Child dies after the Child's first birthday.
If the Disability Premium Waiver Benefit is applied for on the Child, the benefit is effective only if the Child becomes totally disabled on or after the Child's 5th birthday.

11. Complete for Children's Term Rider.

Per Fixed Amount under ESP. Give names of Children below.

NOTE: Any Other Amount or Plan. Give Names of Children _____ and answer the Questions on page 3 as to each Child.

CHILDREN PROPOSED FOR INSURANCE.

NOTE: To be eligible, children (including stepchildren and legally adopted children) must not yet have reached their 18th birthday. Coverage does not begin until a child is 15 days old.

First Name	Middle Initial	Last Name	Date of Birth			
			Sex	Mo.	Day	Yr.

12. Complete for Renewable Term Rider on Additional Insured.

Complete below and answer the Questions on page 3 as to the Additional Insured.

☐ For ESP, the Additional Insured is to be the Spouse (subject to the Spouse amount limit).

PROPOSED ADDITIONAL INSURED

a. First name as it is to appear on the Policy: _____

b. List all current occupations—Give Title(s) and Dates: _____

c. Date of Birth: Mo. _____ Day _____ Yr. 19____

d. Age Nearest Birthday: _____

e. Place of Birth: State of _____

f. Residence: State of _____

g. ☐ Male ☐ Female

h. Owner's Relationship to Additional Insured: _____

13. Complete if Using Existing Option to Purchase Insurance.

a. If Option is under Individual Policy:

i. Policy No. _____ ii. Option Date _____

iii. Option Amount: \$ _____

iv. ☐ Regular Option or
☐ Option on Birth or Adoption of Child

Child's Name: _____

Date of Birth or Adoption: _____
v. If applying for Disability Premium Waiver, is Proposed Insured now totally disabled as defined in the Disability Premium Waiver provision of the above policy? ☐ Yes ☐ No

b. If Option is under Group Policy:

i. Policy No. _____ ii. Option Date _____

iii. Employer's Name: _____

iv. Maximum Amt. Available Under Option: \$ _____

This application is made under a provision in the policy indicated above permitting the purchase of individual life insurance (the "Option Provision").

If this application is made within the time allowed and in accordance with the other terms in the Option Provision, including timely payment of the full first premium for the option insurance, then the option insurance shall take effect upon the terms of the policy The Equitable would issue. Otherwise, the option insurance shall not take effect.

Answer the Questions on page 3 only if evidence of insurability is required in connection with an optional benefit or any excess of the insurance amount applied for over the insurance amount permitted by the Option Provision (the option insurance).

180-301L

NO. B 790258

2

This receipt must not be detached unless the application is signed and either the first premium is collected or a payroll deduction authorization is signed.

IMPORTANT:

No Temporary Insurance shall take effect except as stated in the Temporary Insurance Agreement on the back of this receipt.

180-301L

RECEIPT

Received from _____

☐ a signed payroll deduction authorization, or

☐ \$ _____ for proposed insurance on the life of each Person Proposed for Insurance in accordance with an application to The Equitable Life Assurance Society of the United States (The Equitable).

Dated at _____ on _____ 19____

Agent _____

Checks must be drawn to the order of The Equitable and are received subject to collection.

RECEIPT NO. B 799258

76 B 77

**LIFE
INSURANCE
POLICY**



A Mutual Company
Organized July 26, 1859

No. 120-04

Limited Payment Life - Executive 100 Plan. Insurance payable upon death.
Premiums payable for Premium Period shown on page 3 or until earlier
death. Policy participates in dividends. Conversion Option, if available.

EXHIBIT C

INITIAL DEPOSIT AND
INITIAL INVESTMENT INSTRUCTIONS

As its initial deposit hereunder, the Company has deposited, or shall within a reasonable time after the date of this Agreement deposit, Three Hundred Thousand Dollars (\$300,000) with the Trustee. The Trustee shall pay \$75,000 to each of the Insurance Companies specified on Exhibit B to bind the initial Insurance Policies.

2749E:7/31/87:1j



SERVICE AGREEMENT

dated July 31, 1987

among

**PUBLIC SERVICE COMPANY OF NEW MEXICO,
FIRST INTERSTATE BANK OF ALBUQUERQUE**

and

FINANCIAL MARKETING SERVICES, INC.

TABLE OF CONTENTS

	<u>Page</u>
DEFINITIONS	1
Section 1. Issuance of Insurance Policies....	4
Section 2. Custodian	4
Section 3. FMS Fees	5
Section 4. Assignment of FMS Servicing Compensation	5
Section 5. Advisory Service	8
Section 6. Reporting and Evaluation	8
Section 7. Settlement of Death Benefits	11
Section 8. Employee Enrollment	11
Section 9. Day-to-Day Activities	11
Section 10. Recordkeeping and Security	13
Section 11. Audits	13
Section 12. Payment of Expenses	14
Section 13. Term and Termination	14
Section 14. Liability of FMS	15
Section 15. Successors and Assigns; Assignment	16
Section 16. Notices	16
Section 17. Default by Trustee or Company.....	17
Section 18. Attorneys Fees	17
Section 19. Entire Agreement	17
Section 20. Amendments; Waivers	18
Section 21. Section Headings	18

Section 22.	Severability	18
Section 23.	Governing Law	18
Section 24.	Counterparts	18
Section 25.	Survival	18
Section 26.	Direct Dealings With Insurance Companies	18
Exhibit A	Form of Split-Dollar Agreement	

SERVICE AGREEMENT

THIS SERVICE AGREEMENT (the "Agreement") is made as of July 31, 1987 by and among FINANCIAL MARKETING SERVICES, INC. ("FMS"), FIRST INTERSTATE BANK OF ALBUQUERQUE, as trustee (the "Trustee") under that certain Decommissioning Trust Agreement dated as of July 31, 1987 with Public Service Company of New Mexico (the "Trust Agreement"), and PUBLIC SERVICE COMPANY OF NEW MEXICO (the "Company").

WHEREAS, the Company has decided to implement a "Cost of Money Reduction Plan" (the "COMReP program") as described in the Trust Agreement, which is incorporated herein by reference; and

WHEREAS, it is the intent of the parties that FMS shall act as agent of the Trustee in connection with the administration of the Trust Fund and as agent of the Company in connection with the administration and servicing of the Term Portion of the Insurance Policies, and that the Trustee and the Company may independently exercise their rights under this Agreement;

WHEREAS, the parties desire to enter into an agreement whereby FMS will agree to provide certain services to the Company, including certain consultation, assistance and advice to the Company in connection with the COMReP program;

NOW, THEREFORE, in consideration of the promises and mutual covenants set forth herein, it is mutually agreed by the parties as follows:

DEFINITIONS

All words and phrases defined in the Trust Agreement shall have the same meanings in this Service Agreement, unless otherwise defined herein. In addition, the following words and phrases shall have the following meanings.

"Beneficiary" means the party or parties entitled to receive the death benefit proceeds associated with the Term Portion of the Insurance Policies in the event of the death of the Insured.

"Cash Value" means all amounts payable under an Insurance Policy, except the amounts payable under the Term Portion.

"Cash Value Premium" means all premium amounts payable under an Insurance Policy except the Term Premium.

"COMReP" means the Cost of Money Reduction Plan developed by FMS and is the process of using permanent life insurance policies for various corporate funding purposes.

"COMReP Administrative Software" means (i) all Company census and insurance policy data compiled and stored by FMS in connection with the COMReP program through the date of any transfer of such COMReP Administrative Software to the Company, and (ii) such administrative software as is required to maintain the ability to service the COMReP program in a manner substantially consistent with the servicing of the COMReP program prior to any such transfer, including preparation of actuarial analyses and projections. Transfer of such COMReP Administrative Software to the Company will be contingent upon the Company and its servicing agent signing a "confidentiality and non-disclosure agreement" reasonably satisfactory to FMS.

"Event of Default" means a failure of FMS to perform or observe in any material respect any covenant or agreement expressed in this Service Agreement which has been the subject of a written "Notice of Default" given by the Trustee or the Company to FMS, and which failure shall have continued following receipt of the Notice of Default for a period of 60 days.

"FMS" or "Financial Marketing Services" means Financial Marketing Services, Inc., a Nebraska corporation which, pursuant to the terms of an Agent of Record letter and this Service Agreement, will assist the Company and the Trustee in the implementation of COMReP and provide the annual ongoing review of the performance of the Insurance Policies.

"FMS Servicing Compensation" means the fees payable to FMS by the Insurance Companies in connection with servicing the Insurance Policies, without regard to whether FMS is then acting as servicing agent (the "Unconditional Service Fees"), and shall be equal to (a) with respect to the initial Insurance Policies, for the first ten (10) policy years: (i) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by General American Life Insurance Company, plus nine/hundredths of one percent (.09%) of the annual "total cash surrender value" of such Insurance Policies; (ii) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by New England Mutual Life Insurance Company; (iii) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by The Equitable Life Assurance Society of The United States; and (iv) two percent (2%) of the annual premiums with respect to the Insurance Policies issued by Connecticut Mutual Life Insurance Company; and (b) with respect to additional Insurance Policies, for such period as the

Unconditional Compensation with respect to such Insurance Policies is payable to FMS, an amount equal to the annual "service fees" specified as such in the agent or broker contracts between FMS and the Insurance Companies at the time of the issuance of such Insurance Policies (whether the "service fees" are separately identified as a component of the Unconditional Compensation or combined with sales commissions as lump sum Unconditional Compensation). If such "service fees" are not identifiable in the agent or broker contracts with respect to the additional Insurance Policies, then the annual FMS Servicing Compensation with respect to such additional Insurance Policies shall be deemed to be equal to an amount determined by multiplying the annual Unconditional Compensation with respect to such Insurance Policies by a ratio, the numerator of which is the aggregate annual Unconditional Service Fees payable pursuant to (a) above, and the denominator of which is the aggregate annual Unconditional Compensation payable with respect to the initial Insurance Policies.

"Insurance Companies" means the insurance companies listed in Exhibit B to the Trust Agreement initially writing Insurance Policies and any additional insurance companies writing Insurance Policies in the future.

"Insurance Policy" or "Insurance Policies" mean a life insurance policy or policies, the initial forms of which are attached as Exhibit B to the Trust Agreement, issued by the Insurance Companies listed therein, including any additional or substitute Insurance Policies.

"Insured" means an employee of the Company or of an Affiliate of the Company (at the time of issuance) on whom an Insurance Policy is issued and who, pursuant to the Split-Dollar Agreement, shall designate the Beneficiary of the Term Portion.

"Notice of Resignation" means a notice from FMS to the Trustee and the Company of its intention to resign as servicing agent under this Agreement pursuant to Section 13(c) below.

"Policy Anniversary Date" means January 1 of each year, unless another date is specified on a particular Insurance Policy. Such January 1 corresponds to the initial dates on which the Insurance Policies included in the COMReP program become effective. If such dates shall fall on a Saturday, Sunday or legal holiday, the Policy Anniversary Date shall be the next succeeding business day.

"Split-Dollar Agreement" means the split-dollar agreement, the form of which is attached hereto as Exhibit A, between the Company and each Insured named therein pursuant to

which the respective ownership of the Cash Value and Term Portion of each Insurance Policy are described. The Company's rights under the Split-Dollar Agreement will be assigned to the Trustee while the Trustee holds title to the related Insurance Policy or Policies.

"Term Portion" means the portion of each Insurance Policy to which the Insured is entitled pursuant to the terms of the Split-Dollar Agreement.

"Term Premium" means the premium amount for the Term Portion of the Insurance Policy, calculated at the average rate paid by the Company (at the time of such calculation) with respect to group term life insurance policies maintained by the Company on employees of the Company and/or its Affiliates.

"Triggering Event" means an event terminating the right of FMS to collect the FMS Servicing Compensation as provided in Section 4(a) below.

"Unconditional Compensation" with respect to any Insurance Policies means the compensation payable to FMS by the Insurance Companies with respect to such policies without regard to whether FMS is then acting as servicing agent.

Section 1. Issuance of Insurance Policies. Upon receipt of an Agent of Record letter signed by an officer of the Company, FMS shall recommend to the Company the names of nationally recognized life insurance companies qualified to write the insurance policies for the COMREP program. At the direction of the Company, FMS shall obtain the Insurance Policies from those companies approved by the Company. Any Insurance Policies not in the forms attached as Exhibit B to the Trust Agreement must be approved in advance by the Company. In coordination with the Company, FMS will handle enrollment of the initial Insureds and future Insureds, submission of insurance applications to the Insurance Companies and provide other assistance necessary for the issuance of the Insurance Policies.

Section 2. Custodian. The Insurance Policies will be issued either to the Trustee on behalf of the Company or to the Company and then assigned to the Trustee. FMS is hereby appointed custodian of the Insurance Policies. FMS shall retain possession of the original Insurance Policies until requested by either the Company or the Trustee to deliver such Insurance Policies to the Trustee or the Company. FMS shall automatically deliver to the Trustee and the Company a copy of the declarations page of each Insurance Policy upon issuance and/or modification, and shall deliver copies of the entire Insurance Policies upon request by the Trustee or the Company.

Section 3. FMS Fees. FMS agrees that for its services under this Agreement, it shall look solely to the Insurance Companies issuing the COMReP Insurance Policies for its compensation, and neither the Company nor the Trustee shall have any liability whatsoever in connection therewith; provided, however, if insurance policies are obtained by the Trustee or the Company from insurance companies for whom FMS is not acting as Agent of Record, and FMS is requested to monitor such insurance policies and provide similar services as specified herein, FMS shall be entitled to reasonable compensation from the Trust Fund or from the Company in an amount to be agreed to by FMS and the Company, and provided further, that if FMS and the Company fail to agree on such additional compensation, FMS need not provide such similar services. In addition, if services not contemplated herein are requested of FMS by either the Company or the Trustee, FMS shall be entitled to additional reasonable compensation from the Company or the Trust Fund, as elected by the Company, in an amount to be agreed to by the parties hereto; provided, that if FMS and the Company fail to agree on such additional compensation, FMS need not provide such additional services.

Section 4. Assignment of FMS Servicing Compensation.

(a) FMS acknowledges that the Trustee and the Company have entered into this Agreement in reliance upon the insurance expertise of FMS and with the expectation that FMS will assist the Company and the Trustee in the administration of the COMReP program throughout the term of this Agreement by providing the services contemplated herein. FMS further acknowledges that it will be paid certain FMS Servicing Compensation by the Insurance Companies issuing the Insurance Policies which are intended to reimburse the costs of servicing the Insurance Policies while they are in force. FMS further acknowledges that if it ceases to provide the services contemplated by this Agreement, the total cost thereafter to the Company and/or the Trustee to maintain and administer the Insurance Policies and the COMReP program would be likely to increase. In consideration of the foregoing, FMS hereby assigns to the Company (for payment to a licensed insurance agent approved by the Company and by the Trustee) all rights of FMS, hereafter accruing, to the FMS Servicing Compensation payable by the Insurance Companies with respect to the Insurance Policies obtained via FMS or otherwise related to the implementation by the Company of the COMReP program; provided, that this assignment of the rights to the FMS

Servicing Compensation shall be conditioned upon the occurrence of one of the following events (the "Triggering Events"):

(i) the Company or the Trustee shall give notice of the intent to terminate this Agreement due to an Event of Default by FMS hereunder;

(ii) FMS shall dissolve or otherwise cease to exist, voluntarily or involuntarily;

(iii) FMS shall deliver to the Trustee and the Company a Notice of Resignation which shall be followed by termination of this Agreement, all pursuant to Section 13(c)(ii) below; or

(iv) FMS shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against FMS seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of 60 consecutive days.

FMS hereby gives to and confers upon the Company (to be exercised through a licensed insurance agent approved by the Company and by the Trustee) the right, power and authority to collect the FMS Servicing Compensation, subject to the conditions set forth above, and hereby appoints the Company its true and lawful attorney-in-fact, at the option of the Company at any time and from time to time (acting through a licensed insurance agent approved by the Company and by the Trustee), to demand, receive and enforce payment, to give receipts, releases

and satisfactions, and to sue, in the name of FMS or the Company, for all such FMS Servicing Compensation subject to the assignment provided for in this Section 4.

(b) The conditional assignment of the FMS Servicing Compensation provided for in this paragraph is intended to be an absolute assignment from FMS to the Company and not merely the passing of a security interest.

(c) Upon the occurrence of any Triggering Event, at the option of the Company in the case of Triggering Events specified in paragraph (a)(i), (ii) or (iv), (i) FMS shall assign its rights and obligations under this Agreement to another servicing agent reasonably approved by the Company and the Trustee, which assignee shall enter into a written agreement with the Company and the Trustee assuming all the obligations of FMS hereunder, or (ii) this Agreement shall terminate and the Company (or the Trustee, if so elected by the Company) shall thereafter collect, or assign to another servicing agent selected by the Company, the FMS Servicing Compensation. If the Company and the Trustee fail to disapprove in writing of any successor servicing agent proposed by FMS pursuant to subparagraph (c)(i) within 30 days after a written request from FMS for approval, the Company and the Trustee shall be deemed to have approved such servicing agent.

(d) FMS represents, warrants and covenants that it (i) has not previously assigned, pledged or granted a security interest in, its rights to the FMS Servicing Compensation or any part thereof or interest therein, and will not do any of the foregoing in the future; (ii) shall not amend, cancel, modify, release, supplement, terminate or waive, or enter into or give any agreement, approval or consent with respect to the FMS Servicing Compensation; or (iii) shall not take any action with respect to the FMS Servicing Compensation which is inconsistent with the provisions or purposes of this Agreement or which would adversely affect the rights of the Company or the Trustee hereunder.

(e) FMS further agrees that, upon the occurrence of a Triggering Event, FMS will deliver to the Company or the new servicing agent the COMReP Administrative Software. The Company shall not distribute any such software to any party which is not an Affiliate of the Company or of such new servicing agent.

Section 5. Advisory Service. Not later than 60 days prior to each Policy Anniversary Date, FMS shall review the Insurance Policies included in the COMReP program and, in accordance with such review, make recommendations and render advice on matters with respect to the COMReP program to the Company and the Trustee including advice relating to taking and repaying policy loans and such other matters as are related to the application and transfer of COMReP funds. Upon the written request of the Company or the Trustee, FMS shall provide such additional advisory services as may reasonably be requested, at the expense of the Company or the Trust Fund as provided in Section 3. The services of FMS contemplated by this Section 5 are advisory only and FMS assumes no, and shall have no, responsibility for making any decisions on behalf of the Company or the Trustee with respect to matters for which its recommendations and advice are requested.

Section 6. Reporting and Evaluation.

(a) On a quarterly basis using a calendar year, FMS shall prepare a report, in a form reasonably acceptable to the Company and the Trustee, setting forth with respect to each Insurance Policy included in the COMReP program during the preceding calendar quarter: (i) the name of the Insured employee; (ii) the face amount of the Insurance Policy; (iii) policy loans outstanding; (iv) the interest paid or accrued during the preceding calendar quarter on policy loans; and (v) the gross and net surrender values of the policy. Such quarterly report may be based upon the latest information provided by the Insurance Companies or reasonably determinable by FMS and shall be delivered to the Company and the Trustee on or before the fifteenth day of the next calendar quarter, commencing April 15, 1988, provided that the report with respect to the fourth quarter of any calendar year after 1987 shall be incorporated into the annual report provided pursuant to paragraph (b) below.

(b) FMS shall prepare and deliver to the Trustee and the Company an annual report, in a form reasonably acceptable to the Company and the Trustee, (i) setting forth with respect to each Insurance Policy included in the COMReP program during the Company's fiscal year: (A) the name of the Insured employee; (B) the face amount of the Insurance Policy; (C) policy loans outstanding; (D) the interest paid or accrued during the calendar year on policy loans; and (E) the gross and net surrender values of the policy; (ii) containing

a report on the latest projected earnings on or increases in the Cash Value of the Insurance Policies, based upon the latest earning projections of the Insurance Companies. If, in the reasonable judgment of the Company, the new earnings projections of the Insurance Companies differ materially from those used in preparing the latest actuarial analysis contemplated by paragraph (c) below, FMS shall, upon the request of the Company, prepare and deliver to the Company and the Trustee, within sixty (60) days following such request, a new actuarial analysis in the form required by paragraph (c). Each such annual report shall be delivered to the Trustee and the Company no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1987. Such report shall be as of December 31 of such year.

(c) Every three years, commencing in 1990, FMS shall prepare and deliver to the Company and the Trustee an actuarial analysis, based upon reasonable assumptions agreed to by FMS and the Company, including without limitation estimates of future insurance premiums and future returns provided by the Insurance Companies, of whether the funds generated by the Insurance Policies (other than the Term Portion), together with the other Permitted Investments then held in the Trust Fund, will be sufficient to provide the funds necessary to pay the costs of Decommissioning the Covered Unit(s) at the end of their useful lives, and a recommendation as to whether the Company's annual contribution to the Trust Fund should be changed. Such analysis shall include a projection of yearly cash flows over the Decommissioning funding period, using historical and forecasted data. Such report shall be delivered no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1990. With respect to incorporating the other Permitted Investments referred to above in the analysis to be prepared by FMS, the Company shall provide to FMS the current value of such Permitted Investments and the Company's expectation of future earnings on such Permitted Investments sufficiently in advance of the due date of such report as to allow FMS to incorporate such data in its analysis.

(d) On an annual basis, FMS shall retain at its expense Touche Ross & Co., or another nationally recognized certified public accounting firm approved by the Company and the Trustee (the "Accountants"), to perform a review and evaluation of the report referred to in paragraph (b) of this Section relating to the COMReP program, and, in connection therewith, deliver to FMS, the Company and the Trustee a special procedures report, which report shall be developed using selected auditing procedures reasonably acceptable to the Company and the Trustee and shall include, but is not limited to, a discussion of the following matters: (i) gross insurance outstanding; (ii) policy loans outstanding; (iii) interest paid or accrued on policy loans; and (iv) Cash Value on outstanding Insurance Policies. Such report will be presented to the Trustee and the Company no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1987. Such results shall be as of December 31 of each year.

(e) From time to time as requested in writing by the Company or the Trustee, and at the expense of the Company or the Trust Fund as contemplated by Section 3, FMS shall provide the Company and/or the Trustee with such information related to the COMReP program which is in its possession or reasonably accessible to FMS as (i) may be required to allow the Company or the Trustee to comply with applicable laws and regulations; or (ii) may be reasonably requested by the Company and/or the Trustee.

(f) On an annual basis, on or before May 1 of the following year (or such other date identified by the Company with reasonable advance notice to FMS), FMS shall provide the Company with the information in its possession or reasonably accessible to it which may be requested by the Company to meet its reporting requirements of Part I of Title I of the Employee Retirement Income Security Act of 1974 (ERISA) in connection with the Company's Management Life Insurance Plan and Service Life Insurance Plan for Exempt Employees.

(g) FMS shall provide to the Company and the Trustee copies of all annual summary reports issued by the Insurance Companies with respect to the Insurance Policies not later than 14 business days following receipt of such reports by FMS.

(h) The performance of the services set forth in paragraphs (a) through (g) above shall be conditioned upon the timely receipt by FMS and the Accountants, or their designees, of all information necessary to commence and complete or comply with the appropriate review and evaluation or information request which is the subject of such subsections, including receipt by FMS of information in the control of the Company or the Trustee. FMS' reports pursuant to this Section shall be based upon information obtained from the Insurance Companies issuing the Insurance Policies under the COMREP program and from the Company and/or the Trustee to the extent any required information is exclusively within the control of the Company and/or the Trustee.

Section 7. Settlement of Death Benefits. FMS shall assist the Company in obtaining in a timely manner the settlement of death benefits with the appropriate Insurance Company for claims submitted under an Insurance Policy with respect to a deceased Insured. Each claim submission by the Company shall be accompanied by a valid and legal death certificate. In accordance with the Split-Dollar Agreement, the Insurance Company shall be directed to pay the proceeds of the Term Portion to the Beneficiary and to pay the balance of the amount payable under the Insurance Policy to the Company, or, pursuant to a written instruction from the Trustee to FMS to such effect, to the Trustee if the Split-Dollar Agreement has been assigned to the Trustee. When commercially reasonable, FMS shall request the Insurance Companies to make such payments by wire transfer.

Section 8. Employee Enrollment. The Company shall provide FMS, on a timely basis, enrollment lists identifying employees who have or will become eligible for enrollment in the COMREP program since the preceding enrollment period, and at the same time notify FMS of employees being terminated from the COMREP program. As part of the quarterly and annual reports referred to in Section 6, FMS will provide to the Company a listing of all employees insured under the COMREP program. The Company agrees to notify FMS of any discrepancies, and FMS shall take any action necessary to correct such discrepancies.

Section 9. Day-to-Day Activities.

(a) Upon the receipt of written instructions from the Trustee, FMS shall coordinate with the Insurance Companies the payment of insurance premiums, borrowing against the Insurance Policies, repayment of principal

of and interest on policy loans, the surrender of Insurance Policies, substitution of other Permitted Investments for the Company's interest in the Insurance Policies and transfer of the Insurance Policies to the Company, the issuance of Insurance Policies on additional employees of the Company and/or its Affiliates, the substitution of alternate Insureds under the Insurance Policies, and such other services reasonably requested by the Trustee or the Company with respect to servicing the Insurance Policies. FMS shall confirm all such transactions by written notice to the Trustee and the Company, unless such confirmation notice is waived, and shall forward to the Trustee and the Company copies of all confirmations issued by the Insurance Companies with respect to such transactions.

(b) Without limiting the generality of the foregoing, FMS will coordinate premium billings with respect to the Insurance Policies issued by each Insurance Company so as to provide one invoice to the Trustee and the Company for the aggregate Cash Value Premiums and separate invoices to the Company and each Affiliate whose employees are covered by Insurance Policies for the Term Premiums on the Insurance Policies covering the respective employees of the Company and each Affiliate. All invoices shall be sent to the attention of the Employee Benefits Department of the Company, and the invoices for the Cash Value Premiums shall also be sent to the Trustee. FMS shall provide the Company (to the attention of the Employee Benefits Department) and the Trustee copies of all invoices issued by the Insurance Companies.

(c) With respect to each Insurance Policy, FMS shall also, upon notice from the Company, notify the Insurance Companies of, and take such action as may be necessary to effect, any changes in the designated Beneficiary, the amount each Beneficiary is to receive upon the Insured's death or the settlement option exercised, and shall deliver to the Company (to the attention of the Employee Benefits Department) written confirmation of all such changes from FMS and from the Insurance Companies.

(d) FMS agrees to testify before any regulatory bodies with jurisdiction over the Company or the subject matter of this Agreement as may be reasonably requested by the Company from time to time. FMS shall be entitled to reasonable compensation for services rendered under this subparagraph (d) and reimbursement

for reasonable expenses incurred by FMS in connection therewith, including costs for legal, financial, accounting, and actuarial services.

(e) While this Agreement is in effect, FMS agrees that if, following the termination of any Insured as an employee of the Company or of an Affiliate of the Company, such former employee continues to be the Insured under an Insurance Policy, FMS will continue to service such Insurance Policy as provided herein, ~~except that FMS will coordinate directly with the Insured with respect to the payment of the Term Premiums and the designation of the Beneficiary.~~

Section 10. Recordkeeping and Security. FMS shall keep full, complete and accurate records of all transactions and communications under this Agreement or otherwise related to the Insurance Policies, and shall keep such additional records related hereto as may reasonably be requested by the Company or the Trustee or, upon notice from the Company or the Trustee, as may be required by any applicable law or regulation or regulatory body or agency with jurisdiction over the Company, the Trustee or the subject matter of the Trust Agreement or this Agreement. FMS shall maintain such records, including without limitation the Insurance Policies, in safe and secure facilities reasonably protected against damage from fire, flood, vandalism or other hazard. FMS shall not destroy any records related to this Agreement or the Insurance Policies without the prior written consent of the Company and the Trustee. The Company and the Trustee shall have the right at any time during FMS' normal working hours to inspect the FMS recordkeeping system and facilities, and FMS shall promptly implement any reasonable changes requested by the Trustee or the Company. Promptly upon request by the Trustee or the Company, FMS shall deliver to the Company or the Trustee copies of any records maintained by FMS hereunder, and, upon termination of this Agreement, FMS shall deliver all such records to, or as directed in writing by, the Company. FMS acknowledges that it is the intent of the parties that FMS shall maintain the primary records with respect to the Insurance Policies and all transactions and communications related thereto.

Section 11. Audits. At any time, upon written notice to FMS, the Company and the Trustee shall have the right to inspect and examine the books of account, records, receipts and other pertinent information of FMS with respect to the Insurance Policies and this Agreement. The Company and the Trustee shall also be entitled, at no expense to FMS, at any time upon written notice to FMS, to an independent audit of such books of account, records, receipts and other pertinent information by a certified

public accountant designated by the Company or the Trustee. Any such inspection or audit shall be conducted during the usual business hours of FMS.

Section 12. Payment of Expenses. Unless otherwise provided for herein, each party to this Agreement shall be responsible for payment of all expenses, claims and fees paid to third parties as a result of the performance of their respective obligations and duties under this Agreement, except to the extent the Trust Agreement provides that such expenses of the Company and the Trustee are to be paid from the Trust Fund.

Section 13. Term and Termination.

(a) The term of this Agreement shall commence on the date hereof and terminate upon such date as the last Insurance Policy issued under the COMReP program obtained via FMS is no longer in force, unless sooner terminated as provided in this Agreement. FMS acknowledges that the Trust Agreement has been entered into in contemplation of a term ending after final Decommissioning of the Covered Unit(s), which is presently estimated to be completed in approximately 46 years, and that the Company may elect, but is not obligated under the Trust Agreement or this Agreement, to maintain the COMReP program in force until such time.

(b) This Agreement may be terminated by the Company or the Trustee upon delivery of written notice (the "Termination Notice") to FMS, and neither the Company nor the Trustee shall have any liability whatsoever to FMS in connection with such termination. Upon such termination in the absence of a Triggering Event, the conditional assignment provided for in Section 4 shall terminate and FMS shall have full rights, title and interest to the FMS Servicing Compensation. Upon such termination of this Agreement by the Trustee or the Company following an Event of Default by FMS, the Company shall have the rights specified in Section 4. The right to terminate this Agreement, whether pursuant to Section 4 or pursuant to this Section 13, shall be the exclusive remedy of the Company and the Trustee for a default by FMS hereunder, except as otherwise provided in Section 14 below.

(c) At any time following the second anniversary of the date the initial Insurance Policies are issued, FMS may elect to resign as servicing agent hereunder upon at least 90 days' prior written notice (the "Notice of Resignation") to the Company and the

Trustee, which notice shall specify the effective date of such resignation, provided no Event of Default has occurred and is continuing at the time the Notice of Resignation is given or at the time the resignation is to become effective. In such event, FMS (i) may assign its rights and obligations under this Agreement to a new servicing company approved by the Company and the Trustee, which approval shall not be unreasonably withheld, which assignee shall enter into a written agreement with the Company and the Trustee assuming all of the obligations of FMS hereunder, or (ii) in lieu thereof, this Agreement shall terminate and the Company shall be entitled to the FMS Servicing Compensation as provided in Section 4. If the Company and the Trustee fail to disapprove in writing of any successor servicing agent proposed by FMS and provided above within 30 days after a written request from FMS for such approval, the Company and Trustee shall be deemed to have approved such successor servicing agent.

(d) Termination of this Agreement shall have no effect upon the rights and performance of the parties to and under the Insurance Policies. FMS expressly waives any claim, based on the assertion that the COMReP program is a proprietary concept, or otherwise, that the Company does not have the absolute right following any such termination, without any payment to FMS, to continue to use permanent life insurance policies, including without limitation the Insurance Policies, for various corporate funding purposes, including the accumulation of funds for Decommissioning as contemplated by the Trust Agreement, or to independently, or through a new agent employed by the Company, develop, implement and administer a similar funding program. Notwithstanding the foregoing, nothing herein shall be construed to require FMS to provide to the Company, or allow the Company to use, the computer software developed by FMS in connection with the COMReP program except as expressly provided in this Agreement or any "confidentiality and non-disclosure agreement" with respect to the COMReP Administrative Software.

Section 14. Liability of FMS. Neither FMS nor its directors, officers or employees will have any liability with respect to any loss, damage or expenses incurred by the Company or the Trustee as a result of any claims, actions or proceedings threatened or brought against the Company or the Trustee by third parties based upon any acts or omissions of FMS in its performance of this Agreement undertaken in good faith and

without gross negligence or intentional or willful misconduct. In the event of the gross negligence or intentional or willful misconduct of FMS, the Trustee and the Company shall be entitled, in addition to the rights specified in Section 4, to any remedies available at law or in equity.

Section 15. Successors and Assigns; Assignment. The Company may, without the consent of FMS or the Trustee, transfer all or any portion of its interest under this Agreement. Neither FMS nor the Trustee shall assign its interest and obligations under this Agreement without the written consent of the Company, which consent shall not be unreasonably withheld. Upon any transfer of its interest hereunder by the Company, the Company shall be released and discharged without further act or formality whatsoever from its obligations hereunder with respect to the interest transferred. In the case of any such conveyance or transfer of less than all of the interest of the Company, (a) the transferor and Transferee or Transferees shall be severally (and NOT jointly) obligated with respect to the obligations of the Company hereunder in accordance with the interest held by each of them, and (b) if necessary, appropriate amendments shall be made to this Agreement to provide for the situation in which there is more than one party holding the original interest of the Company. Upon the substitution of a new person or entity for the Trustee named above as trustee under the Trust Agreement, such successor trustee shall automatically, without further act or formality whatsoever, succeed to the interest of the Trustee under this Agreement. This Agreement shall be binding upon and inure to the benefit of the permitted successors and assigns of the parties hereto.

Section 16. Notices. Any notice required to be given in writing by any party to this Agreement shall be deemed duly given if mailed by certified mail, postage prepaid, return receipt requested; personally delivered; delivered by expedited delivery service; or sent by facsimile or telecopy transmission. If any notice is given by mail, it will be effective on the fourth business day after it is deposited in the mails as provided above; if given by personal delivery or expedited delivery service, when delivered; or if given by facsimile or telecopy transmission, when received. If notice is to be given to one party, notice shall also be given to each party using the same method of notice. Unless otherwise specified herein, notice shall be sent to each party at its office as set forth below, or to any other address subsequently specified in writing by such party to the other parties:

If to FMS, at: FMS, Inc.
 Suite 304
 10250 Regency Circle
 Omaha, NE 68114
 Telephone: (402) 391-4121

If to the
Company, at:

Public Service Company of New Mexico
Alvarado Square
Albuquerque, NM 87158
Attention: Secretary
Telephone: (505) 848-2700

If to the
Trustee, at:

First Interstate Bank of Albuquerque
320 Gold Avenue, S.W.
Post Office Box 1830
Albuquerque, NM 87103
Attention: Trust Division
Telephone: (505) 766-6330

Section 17. Default by Trustee or Company. In the event that the Company or the Trustee shall breach this Agreement, any non-defaulting party may give notice specifying the breach to such breaching party. The Company or the Trustee, as the case may be, shall have 30 days following such notice to cure the breach, and the obligations of the parties not in breach shall cease until such cure has been completed. If the breach is not cured at the end of the 30-day period, the parties not in breach shall be entitled to all legal and equitable remedies available; provided, however, if the breach stated in the notice cannot be corrected within the 30-day period from the date of such notice and the Company or Trustee, as the case may be, has instituted corrective action within the 30-day period and is diligently pursuing correction of the breach, the time for such cure shall be extended, but in no event shall such cure period exceed 90 days. If the breach is not cured in the 90 day period FMS shall have the option to terminate those services of FMS under this Agreement which cannot reasonably be performed by FMS due to the default of the Company or the Trustee.

Section 18. Attorneys Fees. In any action arising under this Agreement, the party (or parties) which prevails shall be entitled to recover reasonable costs and attorney fees incurred in such action from the nonprevailing party.

Section 19. Entire Agreement. This Agreement, including exhibits hereto, constitutes the entire understanding and agreement between the parties hereto and supersedes any prior agreements between the parties pertaining to FMS' services to the Company and the Trustee. There are no representations, warranties, promises, covenants or understandings between the parties with respect to such services other than those herein expressly set forth.

Section 20. Amendments; Waivers. No change, modification or amendment of this Agreement shall be valid unless in writing and signed by all parties hereto. No waiver or discharge of any provision of this Agreement shall be valid unless in writing and signed by the party against whom its enforcement is sought, and any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

Section 21. Section Headings. The various section headings are inserted for the convenience of reference only and shall not affect the meaning or interpretation of this Agreement or any section hereof.

Section 22. Severability. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision is omitted.

Section 23. Governing Law. This Agreement is made pursuant to and shall be construed and enforced in accordance with the laws of the State of New Mexico, irrespective of any forum in which an action may be brought to enforce or secure an interpretation of this Agreement.

Section 24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

Section 25. Survival. Any liability of a party to any other party hereunder accruing prior to the termination of this Agreement as provided herein shall survive such termination.

Section 26. Direct Dealings With Insurance Companies. Nothing in this Agreement shall be construed to limit in any way whatsoever the right of the Company and the Trustee to communicate and deal directly with the Insurance Companies. The Company and the Trustee shall give prompt written notice to FMS of any matters arising from such direct dealings or communications which may affect the obligations of FMS hereunder.

IN WITNESS WHEREOF, the parties have executed this

Agreement as of the date first above written.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By _____

Its _____

FINANCIAL MARKETING SERVICES,
INC.

By _____

Its _____

FIRST INTERSTATE BANK OF
ALBUQUERQUE, Trustee

Attest:

By _____

By _____

Its _____

0222q:7/31/87:1j

SPLIT-DOLLAR LIFE INSURANCE AGREEMENT

THIS AGREEMENT ("Agreement") dated the date indicated below is by and between Public Service Company of New Mexico ("Company") and the undersigned employee ("Employee"), and is entered into for the purpose of providing life insurance protection for Employee upon the following terms and conditions:

1. Purchase of Insurance. Company agrees to cause to be purchased and maintained, subject to Employee's rights provided in this Agreement, a policy or policies of life insurance on the life of Employee which Company deems appropriate sufficient to provide insurance benefits upon Employee's death in the amount of the Employee Death Benefit (defined in Paragraph 3). The insurance company or companies issuing the policy or policies of life insurance (collectively, the "Policy") are hereinafter collectively referred to as "Insurer." Company and or a trustee on behalf of the Company will pay the annual gross premiums due on the Policy. Employee expressly consents to the purchase and ownership of the Policy insuring Employee's life in all respects as contemplated by this Agreement.
2. Rights in the Policy. Employee, without the consent of any other party, shall have the sole right to designate and change the beneficiaries of an amount payable under the Policy upon Employee's death equal to the Employee Death Benefit (as defined in Paragraph 3) and to select the settlement option under the Policy with respect to such amount. Company shall not terminate, alter or amend any such beneficiary designation or settlement option election without the express written consent of Employee. Company shall be entitled to receive the balance of the proceeds of the death benefit payable under the Policy by Insurer upon Employee's death not paid to Employee's designated beneficiaries. Payments to Employee's beneficiaries and to Company of their respective portions of the death benefit proceeds due under the Policy shall be made by separate payment directly by Insurer. Company shall have and may exercise, except as limited hereinafter, any and all other ownership rights and interests in the Policy, including, but not to be limited to, any right to borrow from Insurer and to secure such borrowings by Company's interest in the Policy; provided that Company shall exercise its rights and interests in this Agreement and the Policy in such a manner that upon Employee's death, at any time, the proceeds payable by the Insurer shall be in an amount sufficient to pay the Employee Death Benefit (as defined in Paragraph 3).
3. Employee Death Benefit. The Employee Death Benefit shall at any time be the amount of life insurance benefits to which the Employee would be entitled if the Employee had been insured under the Company's then current "Management Life Insurance Plan" and "Service Group Term Life Insurance Plan." Notice of increases or decreases in the Employee Death Benefit shall be as provided in Paragraph 4 herein.
4. Increase or Decrease in Insurance. Subject to Employee's right to decline, Company may, at its discretion, increase the amount of the Employee Death Benefit. Notice of any increase or decrease in Employee Death Benefit may be provided to Employee and Insurer under Company's normal business practices and Company shall maintain a record of the then current Employee Death Benefit.
5. Application of Policy Dividends. On an annual basis Company shall, at its discretion, have all rights to determine the application of Policy dividends, provided that no such application of Policy dividends shall in any event reduce the amount of the Employee Death Benefit.
6. Plan Management. For purposes of the Employee Retirement Security Act of 1974 ("ERISA"), Employee and Company intend and agree that Employee has no right, interest or claim to any of Company's rights or interests in this Agreement

or the Policy, and that none of Company's rights and interests in this Agreement or the Policy shall constitute "plan assets" for purposes of the fiduciary obligations prescribed by ERISA, or shall otherwise be subject to the provisions of ERISA. Company will be the "Named Fiduciary" and "Plan Administrator" of the welfare benefit plan comprised of Employee's interest in this Agreement and the Policy (the "Plan"), for which this Agreement is hereby designated the written plan instrument.

7. Amendment and Assignment. This Agreement may be altered, amended or modified only by a written agreement signed by Company and Employee. Either party may assign its interests and obligations under this Agreement provided that any such assignment shall be made subject to the terms of this Agreement. This Agreement, and any amendments hereto, shall be binding upon Company and Employee, their heirs, legal representatives, successors and assigns.

8. Termination. This Agreement may be terminated at any time while Employee is living by written notice thereof by either Company or Employee to the other, and shall terminate upon (i) termination of Employee's employment, (ii) the bankruptcy, receivership, insolvency or dissolution of Company, or (iii) nonpayment of premiums on the Policy. In the event of termination of this Agreement, Company shall have the right to designate and change the beneficiaries of the Employee Death Benefit, and to select the settlement option therefor.

9. Governing Law. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and any and all prior agreements, to the extent inconsistent herewith, are hereby superseded. This Agreement will be governed by the laws of the State of New Mexico.

10. Company Trustee. Employee acknowledges that the Company's rights and interests in this Agreement may be assigned to First Interstate Bank of Albuquerque, or any other comparable financial institution satisfactory to Company (the "Trustee"), and such Trustee may become the record owner and co-beneficiary under the Policy under a trust for the benefit of Company. Establishment of such trust and assignment of Company's interest hereunder shall not modify or alter Employee's rights or interests in this Agreement or the Policy.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, Company by its duly authorized officer, on _____.

Employee - Print or Type Name

Employee - Signature

PUBLIC SERVICE COMPANY OF NEW MEXICO

By _____

FIRST AMENDMENT TO
DECOMMISSIONING TRUST AGREEMENT

This First Amendment to Decommissioning Trust Agreement ("Amendment") is entered into as of January 1, 1990, between PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation (the "Company"), and FIRST INTERSTATE BANK OF ALBUQUERQUE, a New Mexico banking corporation (herein called the "Trustee").

RECITALS

A. The Company and the Trustee previously entered into that certain Decommissioning Trust Agreement dated as of July 31, 1987 (the "Original Trust Agreement"), providing for the funding of certain decommissioning costs and employee benefits through the use of permanent life insurance on certain employees of the Company. Unless otherwise defined herein, all capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Original Trust Agreement.

B. The Company has determined that it is in its best interests to generally provide the employee benefits previously provided through the Insurance Policies through alternate life insurance programs and to devote the Insurance Policies, with certain exceptions, solely to the purposes for which the Trust Fund is to be used pursuant to the Original Trust Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained herein, the parties agree as follows:

1. The definition of "Insurance Policies" is hereby amended and superseded in its entirety to read as follows:

"Insurance Policies" shall mean the policies of insurance generally described in Exhibits B and D hereto, initially issued or to be issued by the insurance companies listed in Exhibit B hereto, and any additional, supplemental or replacement policies therefor issued by such insurance companies specified in a Letter of Instruction, provided that in no event shall death benefits payable to an insured's beneficiaries, as specified in any Split-Dollar Agreements in effect from time, constitute part of the Trust Fund.

2. The definition of "Proceeds" is hereby amended and superseded in its entirety to read as follows:

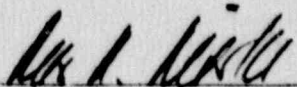
"Proceeds" shall mean any amounts received in the Trust Fund from the Permitted Investments, including surrender of the Insurance Policies, payable upon death of an insured (other than death benefits payable to an insured's beneficiaries as specified in any Split-Dollar Agreement in effect at the time of the insured's death, which shall be and remain the property of such beneficiaries) or borrowing against the Insurance Policies, or interest, dividends or sale proceeds from other Permitted Investments.

3. Exhibit A to the Original Trust Agreement entitled "COMReP Program Description" is hereby amended and superseded in its entirety by Exhibit A-1 attached hereto.

4. Except as amended hereby, the Original Trust Agreement shall remain unamended and in full force and effect.

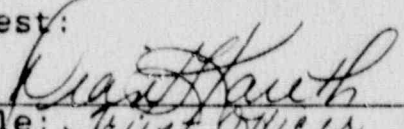
IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

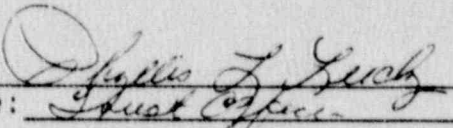
PUBLIC SERVICE COMPANY OF
NEW MEXICO, a New Mexico
corporation

By: 
Title: SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

FIRST INTERSTATE BANK OF
ALBUQUERQUE, a New Mexico
banking corporation

Attest:

By: 
Title: Trust Officer

By: 
Title: Trust Officer

1659q

EXHIBIT A-1

COMReP PROGRAM DESCRIPTION

General

COMReP is primarily an investment program by Public Service Company of New Mexico (the "Company"), the purpose of which is to fund the Company's share of the decommissioning costs of certain nuclear powered generating facilities. In addition, from time to time the Company may provide certain employee insurance benefits through the COMReP program. These dual objectives will be achieved through the purchase and maintenance of individual permanent life insurance policies insuring the lives of participating employees of the Company and its Affiliates. Permanent life insurance policies provide a pure insurance benefit upon the death of the insured, together with an investment component. Upon the death of an insured employee, the insurer will pay both a pure insurance benefit and the accumulated cash value.

Reference is made to that certain Service Agreement among the Company, Financial Marketing Services, Inc. ("FMS") and First Interstate Bank of Albuquerque (the "Trustee"), as amended (the "Service Agreement") and the form of Split-Dollar Agreement (the "Split-Dollar Agreement") which may be in effect from time to time between the Company and an Insured, which is attached to the Service Agreement. Capitalized terms used herein shall have the same meanings in this Exhibit A as in the Service Agreement, the Split-Dollar Agreement and the Decommissioning Trust Agreement to which this Exhibit A is attached.

Implementation

To implement COMReP, the Company will maintain individual permanent life Insurance Policies on participating employees. If there is a Split-Dollar Agreement in effect between the Company and an Insured, the employee will have the right to designate the Beneficiaries of the Term Portion of the Insurance Policy, and to select the settlement option therefor. The Company will in such event be entitled to all other rights and interests in the Insurance Policy, including the cash value build-up and the right to borrow from the Insurance Company to the extent of such accumulated cash value. If there is no Split-Dollar Agreement in effect between the Company and an Insured, the Company will have the rights and benefits under the Insurance Policies covering such Insured and the employee will have no rights or benefits with respect thereto.

Employee Death Benefit

The Company anticipates that, as of January 1, 1990, most participating employees will receive their employee life insurance benefits through the Company's group term insurance policies. From time to time, the Company may determine that additional and/or alternate life insurance benefits for one or more Insureds (who may but need not be a current employee of the Company at such time) should be provided through COMReP. In such event, the Company and the Insured will enter into a Split-Dollar Agreement, which will entitle the Insured to insurance benefits as may be agreed upon between the Company and the Insured. Reference is made to the form of Split-Dollar Agreement which is attached as an exhibit to the Service Agreement.

The amount of the Employee Death Benefit is the amount of benefits to which the Insured's designated Beneficiary will be entitled upon the Insured's death. Such proceeds will be distributed by the insurer in accordance with the settlement option selected by the Insured. The Insured will have the exclusive right, at any time during his life when a Split-Dollar Agreement is in effect with respect to his Insurance Policy to change Beneficiaries or the settlement option.

Company Financial Benefit

As the beneficial owner of all other rights and interests in the permanent life Insurance Policies, the Company will have the opportunity to commence an investment program that is uniquely advantaged because of favorable federal income tax treatment. The amounts payable under an Insurance Policy in excess of the Term Portion, if any, is the Cash Value component. A portion of each policy's annual premium will be credited to the Cash Value component of the Insurance Policy. Based principally upon the portfolio earnings performance of the Insurance Companies underwriting the Insurance Policies, earnings on the accumulated Cash Value will also be credited annually in the form of dividends. Depending on returns that might be earned in future years from alternative investments, the accumulated Cash Values of the Insurance Policies may be left to accrue further, or may be withdrawn in the form of policy loans and alternatively invested to realize greater returns. In this way the Company can maximize over the years the growth of the fund which will be accrued to eventually defray its share of the cost of decommissioning nuclear power generating facilities.

Decommissioning Trust

The Company's rights and interests in the permanent life Insurance Policies will be administered through the use of

a grantor trust to assure segregated administration of its decommissioning program. The assets of the Trust including the Company's rights in the Cash Value of the Insurance Policies are not for the benefit of the Insured employees and such employees shall have no rights to any assets in the Trust. The Trust is being created to provide an external funding vehicle to accumulate funds for the Company's share of the Decommissioning Cost of PVNGS. The Insurance Policies constitute a Permitted Investment under the Decommissioning Trust Agreement.

On a periodic basis, the Company will deposit funds designated for decommissioning to the Trust. From such funds the Trustee will pay the annual premiums on the Insurance Policies and other expenses, except for premiums allocable to the insurance benefits provided to employees or former employees pursuant to any Split-Dollar Agreements (the "Employee Benefit Cost"). The Employee Benefit Cost shall be paid by the Company and/or its affiliated company and/or the Insured as provided in the Split-Dollar Agreement.

The additional duties and responsibilities of the Trustee are described in the Decommissioning Trust Agreement. The Trustee shall act solely at the direction of the Company pursuant to periodic Letters of Instruction. However, the Trustee is responsible that the assets of the Trust are used for the purposes specified in the Decommissioning Trust Agreement.

Custodian and Servicing

In accordance with the Servicing Agreement, FMS, the originator of COMReP, will provide certain services in securing the Insurance Policies and otherwise implementing COMReP. FMS will also conduct certain annual reviews and analyses of COMReP and investment alternatives, and will prepare certain reports for and make recommendations to the Company and the Trustee. On an annual basis Touche Ross & Co., or other nationally recognized independent certified public accounting firm, will prepare a special procedures report using selected auditing tests. The nature and scope of such report is as provided in the Service Agreement. A copy of the report will be distributed to the Trustee and the Company. FMS will also provide assistance in the administration of claims filed with Insurance Companies and payment of death proceeds to the Insured's Beneficiaries and/or the Trust. To facilitate handling of the Insurance Policies, FMS has been designated in the Service Agreement as the custodian of the actual Insurance Policies. Copies will be available to the Trustee and to the Company.

ATTACHMENT PSNM-4

Service Agreement, dated as of July 31, 1987, among First Interstate Bank of Albuquerque, Financial Marketing Services, Inc. and Public Service Company of New Mexico, as amended by Amendment No. 1 to Service Agreement dated as of July 31, 1988 and Amendment No. 2 to Service Agreement dated as of January 1, 1990.

SERVICE AGREEMENT

dated July 31, 1987

among

PUBLIC SERVICE COMPANY OF NEW MEXICO,

FIRST INTERSTATE BANK OF ALBUQUERQUE

and

FINANCIAL MARKETING SERVICES, INC. .

TABLE OF CONTENTS

	<u>Page</u>
DEFINITIONS	1
Section 1. Issuance of Insurance Policies....	4
Section 2. Custodian	4
Section 3. FMS Fees	5
Section 4. Assignment of FMS Servicing Compensation	5
Section 5. Advisory Service	8
Section 6. Reporting and Evaluation	8
Section 7. Settlement of Death Benefits	11
Section 8. Employee Enrollment	11
Section 9. Day-to-Day Activities	11
Section 10. Recordkeeping and Security	13
Section 11. Audits	13
Section 12. Payment of Expenses	14
Section 13. Term and Termination	14
Section 14. Liability of FMS	15
Section 15. Successors and Assigns; Assignment	16
Section 16. Notices	16
Section 17. Default by Trustee or Company.....	17
Section 18. Attorneys Fees	17
Section 19. Entire Agreement	17
Section 20. Amendments; Waivers	18
Section 21. Section Headings	18

Section 22.	Severability	18
Section 23.	Governing Law	18
Section 24.	Counterparts	18
Section 25.	Survival	18
Section 26.	Direct Dealings With Insurance Companies	18
Exhibit A	Form of Split-Dollar Agreement	

SERVICE AGREEMENT

THIS SERVICE AGREEMENT (the "Agreement") is made as of July 31, 1987 by and among FINANCIAL MARKETING SERVICES, INC. ("FMS"), FIRST INTERSTATE BANK OF ALBUQUERQUE, as trustee (the "Trustee") under that certain Decommissioning Trust Agreement dated as of July 31, 1987 with Public Service Company of New Mexico (the "Trust Agreement"), and PUBLIC SERVICE COMPANY OF NEW MEXICO (the "Company").

WHEREAS, the Company has decided to implement a "Cost of Money Reduction Plan" (the "COMReP program") as described in the Trust Agreement, which is incorporated herein by reference; and

WHEREAS, it is the intent of the parties that FMS shall act as agent of the Trustee in connection with the administration of the Trust Fund and as agent of the Company in connection with the administration and servicing of the Term Portion of the Insurance Policies, and that the Trustee and the Company may independently exercise their rights under this Agreement; and

WHEREAS, the parties desire to enter into an agreement whereby FMS will agree to provide certain services to the Company, including certain consultation, assistance and advice to the Company in connection with the COMReP program;

NOW, THEREFORE, in consideration of the promises and mutual covenants set forth herein, it is mutually agreed by the parties as follows:

DEFINITIONS

All words and phrases defined in the Trust Agreement shall have the same meanings in this Service Agreement, unless otherwise defined herein. In addition, the following words and phrases shall have the following meanings.

"Beneficiary" means the party or parties entitled to receive the death benefit proceeds associated with the Term Portion of the Insurance Policies in the event of the death of the Insured.

"Cash Value" means all amounts payable under an Insurance Policy, except the amounts payable under the Term Portion.

"Cash Value Premium" means all premium amounts payable under an Insurance Policy except the Term Premium.

"COMReP" means the Cost of Money Reduction Plan developed by FMS and is the process of using permanent life insurance policies for various corporate funding purposes.

"COMReP Administrative Software" means (i) all Company census and insurance policy data compiled and stored by FMS in connection with the COMReP program through the date of any transfer of such COMReP Administrative Software to the Company, and (ii) such administrative software as is required to maintain the ability to service the COMReP program in a manner substantially consistent with the servicing of the COMReP program prior to any such transfer, including preparation of actuarial analyses and projections. Transfer of such COMReP Administrative Software to the Company will be contingent upon the Company and its servicing agent signing a "confidentiality and non-disclosure agreement" reasonably satisfactory to FMS.

"Event of Default" means a failure of FMS to perform or observe in any material respect any covenant or agreement expressed in this Service Agreement which has been the subject of a written "Notice of Default" given by the Trustee or the Company to FMS, and which failure shall have continued following receipt of the Notice of Default for a period of 60 days.

"FMS" or "Financial Marketing Services" means Financial Marketing Services, Inc., a Nebraska corporation which, pursuant to the terms of an Agent of Record letter and this Service Agreement, will assist the Company and the Trustee in the implementation of COMReP and provide the annual ongoing review of the performance of the Insurance Policies.

"FMS Servicing Compensation" means the fees payable to FMS by the Insurance Companies in connection with servicing the Insurance Policies, without regard to whether FMS is then acting as servicing agent (the "Unconditional Service Fees"), and shall be equal to (a) with respect to the initial Insurance Policies, for the first ten (10) policy years: (i) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by General American Life Insurance Company, plus nine/hundredths of one percent (.09%) of the annual "total cash surrender value" of such Insurance Policies; (ii) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by New England Mutual Life Insurance Company; (iii) two percent (2%) of the annual premiums paid with respect to the Insurance Policies issued by The Equitable Life Assurance Society of The United States; and (iv) two percent (2%) of the annual premiums with respect to the Insurance Policies issued by Connecticut Mutual Life Insurance Company; and (b) with respect to additional Insurance Policies, for such period as the

Unconditional Compensation with respect to such Insurance Policies is payable to FMS, an amount equal to the annual "service fees" specified as such in the agent or broker contracts between FMS and the Insurance Companies at the time of the issuance of such Insurance Policies (whether the "service fees" are separately identified as a component of the Unconditional Compensation or combined with sales commissions as lump sum Unconditional Compensation). If such "service fees" are not identifiable in the agent or broker contracts with respect to the additional Insurance Policies, then the annual FMS Servicing Compensation with respect to such additional Insurance Policies shall be deemed to be equal to an amount determined by multiplying the annual Unconditional Compensation with respect to such Insurance Policies by a ratio, the numerator of which is the aggregate annual Unconditional Service Fees payable pursuant to (a) above, and the denominator of which is the aggregate annual Unconditional Compensation payable with respect to the initial Insurance Policies.

"Insurance Companies" means the insurance companies listed in Exhibit B to the Trust Agreement initially writing Insurance Policies and any additional insurance companies writing Insurance Policies in the future.

"Insurance Policy" or "Insurance Policies" mean a life insurance policy or policies, the initial forms of which are attached as Exhibit B to the Trust Agreement, issued by the Insurance Companies listed therein, including any additional or substitute Insurance Policies.

"Insured" means an employee of the Company or of an Affiliate of the Company (at the time of issuance) on whom an Insurance Policy is issued and who, pursuant to the Split-Dollar Agreement, shall designate the Beneficiary of the Term Portion.

"Notice of Resignation" means a notice from FMS to the Trustee and the Company of its intention to resign as servicing agent under this Agreement pursuant to Section 13(c) below.

"Policy Anniversary Date" means January 1 of each year, unless another date is specified on a particular Insurance Policy. Such January 1 corresponds to the initial dates on which the Insurance Policies included in the COMReP program become effective. If such dates shall fall on a Saturday, Sunday or legal holiday, the Policy Anniversary Date shall be the next succeeding business day.

"Split-Dollar Agreement" means the split-dollar agreement, the form of which is attached hereto as Exhibit A, between the Company and each Insured named therein pursuant to

which the respective ownership of the Cash Value and Term Portion of each Insurance Policy are described. The Company's rights under the Split-Dollar Agreement will be assigned to the Trustee while the Trustee holds title to the related Insurance Policy or Policies.

"Term Portion" means the portion of each Insurance Policy to which the Insured is entitled pursuant to the terms of the Split-Dollar Agreement.

"Term Premium" means the premium amount for the Term Portion of the Insurance Policy, calculated at the average rate paid by the Company (at the time of such calculation) with respect to group term life insurance policies maintained by the Company on employees of the Company and/or its Affiliates.

"Triggering Event" means an event terminating the right of FMS to collect the FMS Servicing Compensation as provided in Section 4(a) below.

"Unconditional Compensation" with respect to any Insurance Policies means the compensation payable to FMS by the Insurance Companies with respect to such policies without regard to whether FMS is then acting as servicing agent.

Section 1. Issuance of Insurance Policies. Upon receipt of an Agent of Record letter signed by an officer of the Company, FMS shall recommend to the Company the names of nationally recognized life insurance companies qualified to write the insurance policies for the COMReP program. At the direction of the Company, FMS shall obtain the Insurance Policies from those companies approved by the Company. Any Insurance Policies not in the forms attached as Exhibit B to the Trust Agreement must be approved in advance by the Company. In coordination with the Company, FMS will handle enrollment of the initial Insureds and future Insureds, submission of insurance applications to the Insurance Companies and provide other assistance necessary for the issuance of the Insurance Policies.

Section 2. Custodian. The Insurance Policies will be issued either to the Trustee on behalf of the Company or to the Company and then assigned to the Trustee. FMS is hereby appointed custodian of the Insurance Policies. FMS shall retain possession of the original Insurance Policies until requested by either the Company or the Trustee to deliver such Insurance Policies to the Trustee or the Company. FMS shall automatically deliver to the Trustee and the Company a copy of the declarations page of each Insurance Policy upon issuance and/or modification, and shall deliver copies of the entire Insurance Policies upon request by the Trustee or the Company.

Section 3. FMS Fees. FMS agrees that for its services under this Agreement, it shall look solely to the Insurance Companies issuing the COMReP Insurance Policies for its compensation, and neither the Company nor the Trustee shall have any liability whatsoever in connection therewith; provided, however, if insurance policies are obtained by the Trustee or the Company from insurance companies for whom FMS is not acting as Agent of Record, and FMS is requested to monitor such insurance policies and provide similar services as specified herein, FMS shall be entitled to reasonable compensation from the Trust Fund or from the Company in an amount to be agreed to by FMS and the Company, and provided further, that if FMS and the Company fail to agree on such additional compensation, FMS need not provide such similar services. In addition, if services not contemplated herein are requested of FMS by either the Company or the Trustee, FMS shall be entitled to additional reasonable compensation from the Company or the Trust Fund, as elected by the Company, in an amount to be agreed to by the parties hereto; provided, that if FMS and the Company fail to agree on such additional compensation, FMS need not provide such additional services.

Section 4. Assignment of FMS Servicing Compensation.

(a) FMS acknowledges that the Trustee and the Company have entered into this Agreement in reliance upon the insurance expertise of FMS and with the expectation that FMS will assist the Company and the Trustee in the administration of the COMReP program throughout the term of this Agreement by providing the services contemplated herein. FMS further acknowledges that it will be paid certain FMS Servicing Compensation by the Insurance Companies issuing the Insurance Policies which are intended to reimburse the costs of servicing the Insurance Policies while they are in force. FMS further acknowledges that if it ceases to provide the services contemplated by this Agreement, the total cost thereafter to the Company and/or the Trustee to maintain and administer the Insurance Policies and the COMReP program would be likely to increase. In consideration of the foregoing, FMS hereby assigns to the Company (for payment to a licensed insurance agent approved by the Company and by the Trustee) all rights of FMS, hereafter accruing, to the FMS Servicing Compensation payable by the Insurance Companies with respect to the Insurance Policies obtained via FMS or otherwise related to the implementation by the Company of the COMReP program; provided, that this assignment of the rights to the FMS

Servicing Compensation shall be conditioned upon the occurrence of one of the following events (the "Triggering Events"):

(i) the Company or the Trustee shall give notice of the intent to terminate this Agreement due to an Event of Default by FMS hereunder;

(ii) FMS shall dissolve or otherwise cease to exist, voluntarily or involuntarily;

(iii) FMS shall deliver to the Trustee and the Company a Notice of Resignation which shall be followed by termination of this Agreement, all pursuant to Section 13(c)(ii) below; or

(iv) FMS shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against FMS seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of 60 consecutive days.

FMS hereby gives to and confers upon the Company (to be exercised through a licensed insurance agent approved by the Company and by the Trustee) the right, power and authority to collect the FMS Servicing Compensation, subject to the conditions set forth above, and hereby appoints the Company its true and lawful attorney-in-fact, at the option of the Company at any time and from time to time (acting through a licensed insurance agent approved by the Company and by the Trustee), to demand, receive and enforce payment, to give receipts, releases

and satisfactions, and to sue, in the name of FMS or the Company, for all such FMS Servicing Compensation subject to the assignment provided for in this Section 4.

(b) The conditional assignment of the FMS Servicing Compensation provided for in this paragraph is intended to be an absolute assignment from FMS to the Company and not merely the passing of a security interest.

(c) Upon the occurrence of any Triggering Event, at the option of the Company in the case of Triggering Events specified in paragraph (a)(i), (ii) or (iv), (i) FMS shall assign its rights and obligations under this Agreement to another servicing agent reasonably approved by the Company and the Trustee, which assignee shall enter into a written agreement with the Company and the Trustee assuming all the obligations of FMS hereunder, or (ii) this Agreement shall terminate and the Company (or the Trustee, if so elected by the Company) shall thereafter collect, or assign to another servicing agent selected by the Company, the FMS Servicing Compensation. If the Company and the Trustee fail to disapprove in writing of any successor servicing agent proposed by FMS pursuant to subparagraph (c)(i) within 30 days after a written request from FMS for approval, the Company and the Trustee shall be deemed to have approved such servicing agent.

(d) FMS represents, warrants and covenants that it (i) has not previously assigned, pledged or granted a security interest in, its rights to the FMS Servicing Compensation or any part thereof or interest therein, and will not do any of the foregoing in the future; (ii) shall not amend, cancel, modify, release, supplement, terminate or waive, or enter into or give any agreement, approval or consent with respect to the FMS Servicing Compensation; or (iii) shall not take any action with respect to the FMS Servicing Compensation which is inconsistent with the provisions or purposes of this Agreement or which would adversely affect the rights of the Company or the Trustee hereunder.

(e) FMS further agrees that, upon the occurrence of a Triggering Event, FMS will deliver to the Company or the new servicing agent the COMReP Administrative Software. The Company shall not distribute any such software to any party which is not an Affiliate of the Company or of such new servicing agent.

Section 5. Advisory Service. Not later than 60 days prior to each Policy Anniversary Date, FMS shall review the Insurance Policies included in the COMReP program and, in accordance with such review, make recommendations and render advice on matters with respect to the COMReP program to the Company and the Trustee including advice relating to taking and repaying policy loans and such other matters as are related to the application and transfer of COMReP funds. Upon the written request of the Company or the Trustee, FMS shall provide such additional advisory services as may reasonably be requested, at the expense of the Company or the Trust Fund as provided in Section 3. The services of FMS contemplated by this Section 5 are advisory only and FMS assumes no, and shall have no, responsibility for making any decisions on behalf of the Company or the Trustee with respect to matters for which its recommendations and advice are requested.

Section 6. Reporting and Evaluation.

(a) On a quarterly basis using a calendar year, FMS shall prepare a report, in a form reasonably acceptable to the Company and the Trustee, setting forth with respect to each Insurance Policy included in the COMReP program during the preceding calendar quarter: (i) the name of the Insured employee; (ii) the face amount of the Insurance Policy; (iii) policy loans outstanding; (iv) the interest paid or accrued during the preceding calendar quarter on policy loans; and (v) the gross and net surrender values of the policy. Such quarterly report may be based upon the latest information provided by the Insurance Companies or reasonably determinable by FMS and shall be delivered to the Company and the Trustee on or before the fifteenth day of the next calendar quarter, commencing April 15, 1988, provided that the report with respect to the fourth quarter of any calendar year after 1987 shall be incorporated into the annual report provided pursuant to paragraph (b) below.

(b) FMS shall prepare and deliver to the Trustee and the Company an annual report, in a form reasonably acceptable to the Company and the Trustee, (i) setting forth with respect to each Insurance Policy included in the COMReP program during the Company's fiscal year: (A) the name of the Insured employee; (B) the face amount of the Insurance Policy; (C) policy loans outstanding; (D) the interest paid or accrued during the calendar year on policy loans; and (E) the gross and net surrender values of the policy; (ii) containing

a report on the latest projected earnings on or increases in the Cash Value of the Insurance Policies, based upon the latest earning projections of the Insurance Companies. If, in the reasonable judgment of the Company, the new earnings projections of the Insurance Companies differ materially from those used in preparing the latest actuarial analysis contemplated by paragraph (c) below, FMS shall, upon the request of the Company, prepare and deliver to the Company and the Trustee, within sixty (60) days following such request, a new actuarial analysis in the form required by paragraph (c). Each such annual report shall be delivered to the Trustee and the Company no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1987. Such report shall be as of December 31 of such year.

(c) Every three years, commencing in 1990, FMS shall prepare and deliver to the Company and the Trustee an actuarial analysis, based upon reasonable assumptions agreed to by FMS and the Company, including without limitation estimates of future insurance premiums and future returns provided by the Insurance Companies, of whether the funds generated by the Insurance Policies (other than the Term Portion), together with the other Permitted Investments then held in the Trust Fund, will be sufficient to provide the funds necessary to pay the costs of Decommissioning the Covered Unit(s) at the end of their useful lives, and a recommendation as to whether the Company's annual contribution to the Trust Fund should be changed. Such analysis shall include a projection of yearly cash flows over the Decommissioning funding period, using historical and forecasted data. Such report shall be delivered no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1990. With respect to incorporating the other Permitted Investments referred to above in the analysis to be prepared by FMS, the Company shall provide to FMS the current value of such Permitted Investments and the Company's expectation of future earnings on such Permitted Investments sufficiently in advance of the due date of such report as to allow FMS to incorporate such data in its analysis.

(d) On an annual basis, FMS shall retain at its expense Touche Ross & Co., or another nationally recognized certified public accounting firm approved by the Company and the Trustee (the "Accountants"), to perform a review and evaluation of the report referred to in paragraph (b) of this Section relating to the COMReP program, and, in connection therewith, deliver to FMS, the Company and the Trustee a special procedures report, which report shall be developed using selected auditing procedures reasonably acceptable to the Company and the Trustee and shall include, but is not limited to, a discussion of the following matters: (i) gross insurance outstanding; (ii) policy loans outstanding; (iii) interest paid or accrued on policy loans; and (iv) Cash Value on outstanding Insurance Policies. Such report will be presented to the Trustee and the Company no later than 20 days before the end of the Company's current fiscal year (or such other date identified by the Company with reasonable advance notice to FMS), beginning December 11, 1987. Such results shall be as of December 31 of each year.

(e) From time to time as requested in writing by the Company or the Trustee, and at the expense of the Company or the Trust Fund as contemplated by Section 3, FMS shall provide the Company and/or the Trustee with such information related to the COMReP program which is in its possession or reasonably accessible to FMS as (i) may be required to allow the Company or the Trustee to comply with applicable laws and regulations; or (ii) may be reasonably requested by the Company and/or the Trustee.

(f) On an annual basis, on or before May 1 of the following year (or such other date identified by the Company with reasonable advance notice to FMS), FMS shall provide the Company with the information in its possession or reasonably accessible to it which may be requested by the Company to meet its reporting requirements of Part I of Title I of the Employee Retirement Income Security Act of 1974 (ERISA) in connection with the Company's Management Life Insurance Plan and Service Life Insurance Plan for Exempt Employees.

(g) FMS shall provide to the Company and the Trustee copies of all annual summary reports issued by the Insurance Companies with respect to the Insurance Policies not later than 14 business days following receipt of such reports by FMS.

(h) The performance of the services set forth in paragraphs (a) through (g) above shall be conditioned upon the timely receipt by FMS and the Accountants, or their designees, of all information necessary to commence and complete or comply with the appropriate review and evaluation or information request which is the subject of such subsections, including receipt by FMS of information in the control of the Company or the Trustee. FMS' reports pursuant to this Section shall be based upon information obtained from the Insurance Companies issuing the Insurance Policies under the COMReP program and from the Company and/or the Trustee to the extent any required information is exclusively within the control of the Company and/or the Trustee.

Section 7. Settlement of Death Benefits. FMS shall assist the Company in obtaining in a timely manner the settlement of death benefits with the appropriate Insurance Company for claims submitted under an Insurance Policy with respect to a deceased Insured. Each claim submission by the Company shall be accompanied by a valid and legal death certificate. In accordance with the Split-Dollar Agreement, the Insurance Company shall be directed to pay the proceeds of the Term Portion to the Beneficiary and to pay the balance of the amount payable under the Insurance Policy to the Company, or, pursuant to a written instruction from the Trustee to FMS to such effect, to the Trustee if the Split-Dollar Agreement has been assigned to the Trustee. When commercially reasonable, FMS shall request the Insurance Companies to make such payments by wire transfer.

Section 8. Employee Enrollment. The Company shall provide FMS, on a timely basis, enrollment lists identifying employees who have or will become eligible for enrollment in the COMReP program since the preceding enrollment period, and at the same time notify FMS of employees being terminated from the COMReP program. As part of the quarterly and annual reports referred to in Section 6, FMS will provide to the Company a listing of all employees insured under the COMReP program. The Company agrees to notify FMS of any discrepancies, and FMS shall take any action necessary to correct such discrepancies.

Section 9. Day-to-Day Activities.

(a) Upon the receipt of written instructions from the Trustee, FMS shall coordinate with the Insurance Companies the payment of insurance premiums, borrowing against the Insurance Policies, repayment of principal

of and interest on policy loans, the surrender of Insurance Policies, substitution of other Permitted Investments for the Company's interest in the Insurance Policies and transfer of the Insurance Policies to the Company, the issuance of Insurance Policies on additional employees of the Company and/or its Affiliates, the substitution of alternate Insureds under the Insurance Policies, and such other services reasonably requested by the Trustee or the Company with respect to servicing the Insurance Policies. FMS shall confirm all such transactions by written notice to the Trustee and the Company, unless such confirmation notice is waived, and shall forward to the Trustee and the Company copies of all confirmations issued by the Insurance Companies with respect to such transactions.

(b) Without limiting the generality of the foregoing, FMS will coordinate premium billings with respect to the Insurance Policies issued by each Insurance Company so as to provide one invoice to the Trustee and the Company for the aggregate Cash Value Premiums and separate invoices to the Company and each Affiliate whose employees are covered by Insurance Policies for the Term Premiums on the Insurance Policies covering the respective employees of the Company and each Affiliate. All invoices shall be sent to the attention of the Employee Benefits Department of the Company, and the invoices for the Cash Value Premiums shall also be sent to the Trustee. FMS shall provide the Company (to the attention of the Employee Benefits Department) and the Trustee copies of all invoices issued by the Insurance Companies.

(c) With respect to each Insurance Policy, FMS shall also, upon notice from the Company, notify the Insurance Companies of, and take such action as may be necessary to effect, any changes in the designated Beneficiary, the amount each Beneficiary is to receive upon the employee's death or the settlement option therefor. FMS shall deliver to the Company (to the attention of the Employee Benefits Department) written confirmation of all such changes from FMS and from the Insurance Companies.

(d) FMS agrees to testify before any regulatory bodies with jurisdiction over the Company or the subject matter of this Agreement as may be reasonably requested by the Company from time to time. FMS shall be entitled to reasonable compensation for services rendered under this subparagraph (d) and reimbursement

for reasonable expenses incurred by FMS in connection therewith, including costs for legal, financial, accounting, and actuarial services.

(e) While this Agreement is in effect, FMS agrees that if, following the termination of any Insured as an employee of the Company or of an Affiliate of the Company, such former employee continues to be the Insured under an Insurance Policy, FMS will continue to service such Insurance Policy as provided herein, except that FMS will coordinate directly with the Insured with respect to the payment of the Term Premiums and the designation of the Beneficiary.

Section 10. Recordkeeping and Security. FMS shall keep full, complete and accurate records of all transactions and communications under this Agreement or otherwise related to the Insurance Policies, and shall keep such additional records related hereto as may reasonably be requested by the Company or the Trustee or, upon notice from the Company or the Trustee, as may be required by any applicable law or regulation or regulatory body or agency with jurisdiction over the Company, the Trustee or the subject matter of the Trust Agreement or this Agreement. FMS shall maintain such records, including without limitation the Insurance Policies, in safe and secure facilities reasonably protected against damage from fire, flood, vandalism or other hazard. FMS shall not destroy any records related to this Agreement or the Insurance Policies without the prior written consent of the Company and the Trustee. The Company and the Trustee shall have the right at any time during FMS' normal working hours to inspect the FMS recordkeeping system and facilities, and FMS shall promptly implement any reasonable changes requested by the Trustee or the Company. Promptly upon request by the Trustee or the Company, FMS shall deliver to the Company or the Trustee copies of any records maintained by FMS hereunder, and, upon termination of this Agreement, FMS shall deliver all such records to, or as directed in writing by, the Company. FMS acknowledges that it is the intent of the parties that FMS shall maintain the primary records with respect to the Insurance Policies and all transactions and communications related thereto.

Section 11. Audits. At any time, upon written notice to FMS, the Company and the Trustee shall have the right to inspect and examine the books of account, records, receipts and other pertinent information of FMS with respect to the Insurance Policies and this Agreement. The Company and the Trustee shall also be entitled, at no expense to FMS, at any time upon written notice to FMS, to an independent audit of such books of account, records, receipts and other pertinent information by a certified

public accountant designated by the Company or the Trustee. Any such inspection or audit shall be conducted during the usual business hours of FMS.

Section 12. Payment of Expenses. Unless otherwise provided for herein, each party to this Agreement shall be responsible for payment of all expenses, claims and fees paid to third parties as a result of the performance of their respective obligations and duties under this Agreement, except to the extent the Trust Agreement provides that such expenses of the Company and the Trustee are to be paid from the Trust Fund.

Section 13. Term and Termination.

(a) The term of this Agreement shall commence on the date hereof and terminate upon such date as the last Insurance Policy issued under the COMReP program obtained via FMS is no longer in force, unless sooner terminated as provided in this Agreement. FMS acknowledges that the Trust Agreement has been entered into in contemplation of a term ending after final Decommissioning of the Covered Unit(s), which is presently estimated to be completed in approximately 46 years, and that the Company may elect, but is not obligated under the Trust Agreement or this Agreement, to maintain the COMReP program in force until such time.

(b) This Agreement may be terminated by the Company or the Trustee upon delivery of written notice (the "Termination Notice") to FMS, and neither the Company nor the Trustee shall have any liability whatsoever to FMS in connection with such termination. Upon such termination in the absence of a Triggering Event, the conditional assignment provided for in Section 4 shall terminate and FMS shall have full rights, title and interest to the FMS Servicing Compensation. Upon such termination of this Agreement by the Trustee or the Company following an Event of Default by FMS, the Company shall have the rights specified in Section 4. The right to terminate this Agreement, whether pursuant to Section 4 or pursuant to this Section 13, shall be the exclusive remedy of the Company and the Trustee for a default by FMS hereunder, except as otherwise provided in Section 14 below.

(c) At any time following the second anniversary of the date the initial Insurance Policies are issued, FMS may elect to resign as servicing agent hereunder upon at least 90 days' prior written notice (the "Notice of Resignation") to the Company and the

Trustee, which notice shall specify the effective date of such resignation, provided no Event of Default has occurred and is continuing at the time the Notice of Resignation is given or at the time the resignation is to become effective. In such event, FMS (i) may assign its rights and obligations under this Agreement to a new servicing company approved by the Company and the Trustee, which approval shall not be unreasonably withheld, which assignee shall enter into a written agreement with the Company and the Trustee assuming all of the obligations of FMS hereunder, or (ii) in lieu thereof, this Agreement shall terminate and the Company shall be entitled to the FMS Servicing Compensation as provided in Section 4. If the Company and the Trustee fail to disapprove in writing of any successor servicing agent proposed by FMS and provided above within 30 days after a written request from FMS for such approval, the Company and Trustee shall be deemed to have approved such successor servicing agent.

(d) Termination of this Agreement shall have no effect upon the rights and performance of the parties to and under the Insurance Policies. FMS expressly waives any claim, based on the assertion that the COMReP program is a proprietary concept, or otherwise, that the Company does not have the absolute right following any such termination, without any payment to FMS, to continue to use permanent life insurance policies, including without limitation the Insurance Policies, for various corporate funding purposes, including the accumulation of funds for Decommissioning as contemplated by the Trust Agreement, or to independently, or through a new agent employed by the Company, develop, implement and administer a similar funding program. Notwithstanding the foregoing, nothing herein shall be construed to require FMS to provide to the Company, or allow the Company to use, the computer software developed by FMS in connection with the COMReP program except as expressly provided in this Agreement or any "confidentiality and non-disclosure agreement" with respect to the COMReP Administrative Software.

Section 14. Liability of FMS. Neither FMS nor its directors, officers or employees will have any liability with respect to any loss, damage or expenses incurred by the Company or the Trustee as a result of any claims, actions or proceedings threatened or brought against the Company or the Trustee by third parties based upon any acts or omissions of FMS in its performance of this Agreement undertaken in good faith and

without gross negligence or intentional or willful misconduct. In the event of the gross negligence or intentional or willful misconduct of FMS, the Trustee and the Company shall be entitled, in addition to the rights specified in Section 4, to any remedies available at law or in equity.

Section 15. Successors and Assigns; Assignment. The Company may, without the consent of FMS or the Trustee, transfer all or any portion of its interest under this Agreement. Neither FMS nor the Trustee shall assign its interest and obligations under this Agreement without the written consent of the Company, which consent shall not be unreasonably withheld. Upon any transfer of its interest hereunder by the Company, the Company shall be released and discharged without further act or formality whatsoever from its obligations hereunder with respect to the interest transferred. In the case of any such conveyance or transfer of less than all of the interest of the Company, (a) the transferor and Transferee or Transferees shall be severally (and NOT jointly) obligated with respect to the obligations of the Company hereunder in accordance with the interest held by each of them, and (b) if necessary, appropriate amendments shall be made to this Agreement to provide for the situation in which there is more than one party holding the original interest of the Company. Upon the substitution of a new person or entity for the Trustee named above as trustee under the Trust Agreement, such successor trustee shall automatically, without further act or formality whatsoever, succeed to the interest of the Trustee under this Agreement. This Agreement shall be binding upon and inure to the benefit of the permitted successors and assigns of the parties hereto.

Section 16. Notices. Any notice required to be given in writing by any party to this Agreement shall be deemed duly given if mailed by certified mail, postage prepaid, return receipt requested; personally delivered; delivered by expedited delivery service; or sent by facsimile or telecopy transmission. If any notice is given by mail, it will be effective on the fourth business day after it is deposited in the mails as provided above; if given by personal delivery or expedited delivery service, when delivered; or if given by facsimile or telecopy transmission, when received. If notice is to be given to one party, notice shall also be given to each party using the same method of notice. Unless otherwise specified herein, notice shall be sent to each party at its office as set forth below, or to any other address subsequently specified in writing by such party to the other parties:

If to FMS, at: FMS, Inc.
Suite 304
10250 Regency Circle
Omaha, NE 68114
Telephone: (402) 391-4121

If to the
Company, at:

Public Service Company of New Mexico
Alvarado Square
Albuquerque, NM 87158
Attention: Secretary
Telephone: (505) 848-2700

If to the
Trustee, at:

First Interstate Bank of Albuquerque
320 Gold Avenue, S.W.
Post Office Box 1830
Albuquerque, NM 87103
Attention: Trust Division
Telephone: (505) 766-6330

Section 17. Default by Trustee or Company. In the event that the Company or the Trustee shall breach this Agreement, any non-defaulting party may give notice specifying the breach to such breaching party. The Company or the Trustee, as the case may be, shall have 30 days following such notice to cure the breach, and the obligations of the parties not in breach shall cease until such cure has been completed. If the breach is not cured at the end of the 30-day period, the parties not in breach shall be entitled to all legal and equitable remedies available; provided, however, if the breach stated in the notice cannot be corrected within the 30-day period from the date of such notice and the Company or Trustee, as the case may be, has instituted corrective action within the 30-day period and is diligently pursuing correction of the breach, the time for such cure shall be extended, but in no event shall such cure period exceed 90 days. If the breach is not cured in the 90 day period FMS shall have the option to terminate those services of FMS under this Agreement which cannot reasonably be performed by FMS due to the default of the Company or the Trustee.

Section 18. Attorneys Fees. In any action arising under this Agreement, the party (or parties) which prevails shall be entitled to recover reasonable costs and attorney fees incurred in such action from the nonprevailing party.

Section 19. Entire Agreement. This Agreement, including exhibits hereto, constitutes the entire understanding and agreement between the parties hereto and supersedes any prior agreements between the parties pertaining to FMS' services to the Company and the Trustee. There are no representations, warranties, promises, covenants or understandings between the parties with respect to such services other than those herein expressly set forth.

Section 20. Amendments; Waivers. No change, modification or amendment of this Agreement shall be valid unless in writing and signed by all parties hereto. No waiver or discharge of any provision of this Agreement shall be valid unless in writing and signed by the party against whom its enforcement is sought, and any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

Section 21. Section Headings. The various section headings are inserted for the convenience of reference only and shall not affect the meaning or interpretation of this Agreement or any section hereof.

Section 22. Severability. The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision is omitted.

Section 23. Governing Law. This Agreement is made pursuant to and shall be construed and enforced in accordance with the laws of the State of New Mexico, irrespective of any forum in which an action may be brought to enforce or secure an interpretation of this Agreement.

Section 24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

Section 25. Survival. Any liability of a party to any other party hereunder accruing prior to the termination of this Agreement as provided herein shall survive such termination.

Section 26. Direct Dealings With Insurance Companies. Nothing in this Agreement shall be construed to limit in any way whatsoever the right of the Company and the Trustee to communicate and deal directly with the Insurance Companies. The Company and the Trustee shall give prompt written notice to FMS of any matters arising from such direct dealings or communications which may affect the obligations of FMS hereunder.

IN WITNESS WHEREOF, the parties have executed this

Agreement as of the date first above written.

PUBLIC SERVICE COMPANY OF NEW
MEXICO

By B. D. Lacey
Its Vice President & Corporate Controller

FINANCIAL MARKETING SERVICES,
INC.

By [Signature]
Its President

FIRST INTERSTATE BANK OF
ALBUQUERQUE, Trustee

Attest:

By [Signature]

By [Signature]
Its Senior Vice Pres. and Sr. Trust.

0222q:7/31/87:1j

SPLIT-DOLLAR LIFE INSURANCE AGREEMENT

THIS AGREEMENT ("Agreement") dated the date indicated below is by and between Public Service Company of New Mexico ("Company") and the undersigned employee ("Employee"), and is entered into for the purpose of providing life insurance protection for Employee upon the following terms and conditions:

1. Purchase of Insurance. Company agrees to cause to be purchased and maintained, subject to Employee's rights provided in this Agreement, a policy or policies of life insurance on the life of Employee which Company deems appropriate sufficient to provide insurance benefits upon Employee's death in the amount of the Employee Death Benefit (defined in Paragraph 3). The insurance company or companies issuing the policy or policies of life insurance (collectively, the "Policy") are hereinafter collectively referred to as "Insurer." Company and or a trustee on behalf of the Company will pay the annual gross premiums due on the Policy. Employee expressly consents to the purchase and ownership of the Policy insuring Employee's life in all respects as contemplated by this Agreement.
2. Rights in the Policy. Employee, without the consent of any other party, shall have the sole right to designate and change the beneficiaries of an amount payable under the Policy upon Employee's death equal to the Employee Death Benefit (as defined in Paragraph 3) and to select the settlement option under the Policy with respect to such amount. Company shall not terminate, alter or amend any such beneficiary designation or settlement option election without the express written consent of Employee. Company shall be entitled to receive the balance of the proceeds of the death benefit payable under the Policy by Insurer upon Employee's death not paid to Employee's designated beneficiaries. Payments to Employee's beneficiaries and to Company of their respective portions of the death benefit proceeds due under the Policy shall be made by separate payment directly by Insurer. Company shall have and may exercise, except as limited hereinafter, any and all other ownership rights and interests in the Policy, including, but not to be limited to, any right to borrow from Insurer and to secure such borrowings by Company's interest in the Policy; provided that Company shall exercise its rights and interests in this Agreement and the Policy in such a manner that upon Employee's death, at any time, the proceeds payable by the Insurer shall be in an amount sufficient to pay the Employee Death Benefit (as defined in Paragraph 3).
3. Employee Death Benefit. The Employee Death Benefit shall at any time be the amount of life insurance benefits to which the Employee would be entitled if the Employee had been insured under the Company's then current "Management Life Insurance Plan" and "Service Group Term Life Insurance Plan." Notice of increases or decreases in the Employee Death Benefit shall be as provided in Paragraph 4 herein.
4. Increase or Decrease in Insurance. Subject to Employee's right to decline, Company may, at its discretion, increase the amount of the Employee Death Benefit. Notice of any increase or decrease in Employee Death Benefit may be provided to Employee and Insurer under Company's normal business practices and Company shall maintain a record of the then current Employee Death Benefit.
5. Application of Policy Dividends. On an annual basis Company shall, at its discretion, have all rights to determine the application of Policy dividends, provided that no such application of Policy dividends shall in any event reduce the amount of the Employee Death Benefit.
6. Plan Management. For purposes of the Employee Retirement Security Act of 1974 ("ERISA"), Employee and Company intend and agree that Employee has no right, interest or claim to any of Company's rights or interests in this Agreement

or the Policy, and that none of Company's rights and interests in this Agreement or the Policy shall constitute "plan assets" for purposes of the fiduciary obligations prescribed by ERISA, or shall otherwise be subject to the provisions of ERISA. Company will be the "Named Fiduciary" and "Plan Administrator" of the welfare benefit plan comprised of Employee's interest in this Agreement and the Policy (the "Plan"), for which this Agreement is hereby designated the written plan instrument.

7. Amendment and Assignment. This Agreement may be altered, amended or modified only by a written agreement signed by Company and Employee. Either party may assign its interests and obligations under this Agreement provided that any such assignment shall be made subject to the terms of this Agreement. This Agreement, and any amendments hereto, shall be binding upon Company and Employee, their heirs, legal representatives, successors and assigns.

8. Termination. This Agreement may be terminated at any time while Employee is living by written notice thereof by either Company or Employee to the other, and shall terminate upon (i) termination of Employee's employment, (ii) the bankruptcy, receivership, insolvency or dissolution of Company, or (iii) nonpayment of premiums on the Policy. In the event of termination of this Agreement, Company shall have the right to designate and change the beneficiaries of the Employee Death Benefit, and to select the settlement option therefor.

9. Governing Law. This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and any and all prior agreements, to the extent inconsistent herewith, are hereby superseded. This Agreement will be governed by the laws of the State of New Mexico.

10. Company Trustee. Employee acknowledges that the Company's rights and interests in this Agreement may be assigned to First Interstate Bank of Albuquerque, or any other comparable financial institution satisfactory to Company (the "Trustee"), and such Trustee may become the record owner and co-beneficiary under the Policy under a trust for the benefit of Company. Establishment of such trust and assignment of Company's interest hereunder shall not modify or alter Employee's rights or interests in this Agreement or the Policy.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, Company by its duly authorized officer, on _____.

Employee - Print or Type Name

Employee - Signature

PUBLIC SERVICE COMPANY OF NEW MEXICO

By _____

AMENDMENT NO. 1 TO SERVICE AGREEMENT

This Amendment No. 1 to Service Agreement is entered into as of the 31st day of July, 1988 by and among Public Service Company of New Mexico ("PNM"), First Interstate Bank of Albuquerque ("Trustee") and Financial Marketing Services, Inc. ("FMS").

RECITALS

A. PNM, Trustee and FMS previously entered into that certain Service Agreement dated July 31, 1987 (the "Original Agreement") relating to the administration of the COMReP insurance plan developed for PNM.

B. The parties now desire to amend the Original Agreement to (i) substitute a new form of Split-Dollar Agreement for the form originally attached as Exhibit A thereto, and (ii) permit the future amendment of such form of Split-Dollar Agreement without further amendment to the Service Agreement.

NOW, THEREFORE, in consideration of the foregoing, and the mutual covenants and conditions contained herein, the parties agree as follows:

1. Definition of Split-Dollar Agreement. The definition of "Split-Dollar Agreement" contained in the Original Agreement is hereby amended and restated in its entirety as follows:

"'Split-Dollar Agreement' means the split-dollar agreement, the current form of which is attached hereto as Exhibit A, between the Company and each Insured

named therein pursuant to which the respective ownership of the Cash Value and Term Portion of each Insurance Policy are described, and any substitute or amended form thereof submitted by the Company to the Trustee and FMS. The Company's rights under the Split-Dollar Agreement will be assigned to the Trustee while the Trustee holds title to the related Insurance Policy or Policies."

2. Substituted Form of Split-Dollar Agreement. The form of Split-Dollar Agreement attached as Exhibit A to the Original Agreement is hereby superseded in its entirety by the form of Split-Dollar Agreement attached hereto as Exhibit A.

3. No Other Amendments. The Original Agreement, except as amended hereby, shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Service Agreement as of the day and year first set forth above.

PUBLIC SERVICE COMPANY OF NEW MEXICO

By: [Signature]
Its: Vice President & Corporate Controller

FINANCIAL MARKETING SERVICES, INC.

By: [Signature]
Its: President

FIRST INTERSTATE BANK OF ALBUQUERQUE, Trustee

By: [Signature]
Its: Sr. Vice Pres. for Trusts

Attest:

By: [Signature]

0822q 7/13/88

SPLIT-DOLLAR LIFE INSURANCE AGREEMENT

THIS AGREEMENT ("Agreement") dated the date indicated below is by and between Public Service Company of New Mexico ("Company") and the undersigned employee ("Employee"), and is entered into for the purpose of providing life insurance protection for Employee upon the following terms and conditions:

1. **Purchase of Insurance.** Company agrees to cause to be purchased and maintained, subject to Employee's rights provided in this Agreement, a policy or policies of life insurance on the life of Employee which Company deems appropriate, sufficient to provide insurance benefits upon Employee's death in the amount of the Employee Death Benefit (defined in Paragraph 3). The insurance company or companies issuing the policy or policies of life insurance (collectively, the "Policy") are hereafter collectively referred to as "Insurer." Company and/or a trustee on behalf of Company will pay the annual gross premiums due on the Policy. Employee expressly consents to the purchase and ownership of the Policy insuring Employee's life in all respects as contemplated by this Agreement.

2. **Rights in the Policy.** Employee, without the consent of any other party, shall have the sole right to designate and change the beneficiaries of an amount payable under the Policy upon Employee's death equal to the Employee Death Benefit (as defined in Paragraph 3) and to select the settlement option under the Policy with respect to such amount. Company shall not terminate, alter or amend any such beneficiary designation or settlement option election without the express written consent of Employee. Company shall be entitled to receive the balance of the proceeds of the death benefit payable under the Policy by Insurer upon Employee's death not paid to Employee's designated beneficiaries. Payments to Employee's beneficiaries and to Company of their respective portions of the death benefit proceeds due under the Policy shall be made by separate payment directly by Insurer. Company shall have and may exercise, except as limited hereinafter, any and all other ownership rights and interests in the Policy, including, but not to be limited to, any right to borrow from Insurer and to secure such borrowings by Company's interest in the Policy, provided that Company shall exercise its rights and interests in this Agreement and the Policy in such a manner that upon Employee's death, at any time, the proceeds payable by the Insurer shall be in an amount sufficient to pay the Employee Death Benefit (as defined in Paragraph 3).

3. **Employee Death Benefit.** The Employee Death Benefit shall at any time be the amount of life insurance benefits to which the Employee is entitled under Company's then current "Management Life Insurance Plan" and "Service Life Insurance Plan for Exempt Employees." Notice of increases or decreases in the Employee Death Benefit shall be as provided in Paragraph 4 herein.

4. **Increase or Decrease in Insurance.** Subject to Employee's right to decline, Company may, at its discretion, increase the amount of the Employee Death Benefit. Notice of any increase or decrease in the Employee Death Benefit may be provided to Employee and Insurer under Company's normal business practices and Company shall maintain a record of the then current Employee Death Benefit.

5. **Application of Policy Dividends.** On an annual basis Company shall, at its discretion, have all rights to determine the application of Policy dividends, provided that no such application of Policy dividends shall in any event reduce the amount of the Employee Death Benefit.

6. **Plan Management.** For purposes of the Employee Retirement Security Act of 1974 ("ERISA"), Employee and Company intend and agree that Employee has no right, interest or claim to any of Company's rights or interests in this Agreement or the Policy, and that none of Company's rights and interests in this Agreement or the Policy shall constitute "plan assets" for purposes of the fiduciary obligations prescribed by ERISA, or shall otherwise be subject to the provisions of ERISA. Company will be the "Named Fiduciary" and "Plan Administrator" of the welfare benefit plan comprised of Employee's

interest in this Agreement and the Policy (the "Plan") for which this Agreement is hereby designated the written plan instrument.

7. **Amendment and Assignment.** This Agreement may be altered, amended or modified only by a written agreement signed by Company and Employee. Either party may assign its interests and obligations under this Agreement provided that any such assignment shall be made subject to the terms of this Agreement. This Agreement, and any amendments hereto, shall be binding upon Company and Employee, their heirs, legal representatives, successors and assigns.

8. **Termination.** This Agreement may be terminated at any time while Employee is living by written notice thereof by either Company or Employee to the other, and shall terminate upon (i) termination of Employee's employment, (ii) the bankruptcy, receivership, insolvency or dissolution of Company or (iii) nonpayment of premiums on the Policy. In the event of termination of this Agreement, Company shall have the right to designate and change the beneficiaries of the Employee Death Benefit and to select the settlement option therefor.

9. **Governing Law.** This Agreement sets forth the entire agreement of the parties hereto with respect to the subject matter hereof, and any and all prior agreements, to the extent inconsistent herewith, are hereby superseded. This Agreement will be governed by the laws of the State of New Mexico.

10. **Company Trustee.** Employee acknowledges that Company's rights and interests in this Agreement may be assigned to First Interstate Bank of Albuquerque, or any other comparable financial institution satisfactory to Company (the "Trustee"), and such Trustee may become the record owner and co-beneficiary under the Policy under a trust for the benefit of Company. Establishment of such trust and assignment of Company's interest hereunder shall not modify or alter Employee's rights or interests in this Agreement or the Policy.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, Company by its duly authorized officer, on _____.

Employee - Print or Type Name

Employee Signature

PUBLIC SERVICE COMPANY OF NEW MEXICO

By _____

AMENDMENT NO. 2 TO SERVICE AGREEMENT

This Amendment No. 2 to Service Agreement is entered into as of January 1, 1990 by and among PUBLIC SERVICE COMPANY OF NEW MEXICO, a New Mexico corporation ("PNM"), FIRST INTERSTATE BANK OF ALBUQUERQUE ("Trustee") and FINANCIAL MARKETING SERVICES, INC. ("FMS").

RECITALS

A. PNM, Trustee and FMS are parties to that certain Service Agreement dated July 31, 1987, as amended by Amendment No. 1 to Service Agreement dated as of July 31, 1988 (as so amended, the "Service Agreement"). Capitalized terms used herein, unless otherwise defined herein, shall have the meanings assigned to such terms in the Service Agreement.

B. PNM has now determined that it is in its best interests to generally provide the employee life insurance benefits formerly provided through COMREP using alternate life insurance policies, and, with limited exceptions, to terminate all the Split-Dollar Agreements and assign to the Trustee all the rights and benefits under the Insurance Policies.

C. Concurrently herewith, PNM and the Trustee have entered into a First Amendment to Trust Agreement to reflect the changes in the COMREP program described above.

D. The parties now desire to amend the Service Agreement to reflect such changes in the COMREP program.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained herein, the parties agree as follows:

1. The definition of "Insured" set forth in the Service Agreement is hereby amended and superseded in its entirety to read as follows:

"Insured" means an employee of the Company or of an Affiliate of the Company (at the time of issuance) on whom an Insurance Policy is issued and who, if and so long as a Split-Dollar Agreement with respect to such Insurance Policy is in effect, shall designate the Beneficiary of the Term Portion.

2. The definition of "Split-Dollar Agreement" set forth in the Service Agreement is hereby amended and superseded in its entirety to read as follows:

"Split-Dollar Agreement" means any split-dollar agreement, the current form of which is attached hereto as Exhibit A, between the Company and an Insured pursuant to which the respective ownership of the Cash Value and Term Portion of such Insurance Policy is described, and any substitute or amended form thereof submitted by the Company to the Trustee and FMS. The Company's rights under any such Split-Dollar Agreement will be assigned to the Trustee while the Trustee holds title to the related Insurance Policies or Policies.

3. The definition of "Term Portion" set forth in the Service Agreement is hereby amended and superseded in its entirety to read as follows:

"Term Portion" means the portion of an Insurance Policy to which the Insured is entitled, if any, pursuant to the terms of any Split-Dollar Agreement in effect between the Company and the Insured.

4. The definition of "Term Premium" set forth in the Service Agreement is hereby amended and superseded in its entirety to read as follows:

"Term Premium" means the premium amount, if any, for the Term Portion of the Insurance Policy, calculated and to be paid as provided in the Service Agreement.

5. Section 6(f) of the Service Agreement is hereby amended and superseded in its entirety to read as follows:

(f) On an annual basis, on or before May 1 of the following year (or such other date identified by the Company with reasonable advance notice to FMS), FMS shall provide the Company with the information in its possession or reasonably accessible to it which may be requested by the Company to meet its reporting requirements of Part I of Title I of the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time, or any successor statute ("ERISA") in connection with the Company's employee life insurance benefit plans then in effect.

6. The third sentence of Section 7 of the Service Agreement is hereby deleted in its entirety and the following is substituted in its place:

If there is a Split-Dollar Agreement in effect at the time of the death of the Insured, the Insurance Company shall be directed to pay the proceeds of the Term Portion to the Beneficiary and to pay the balance of the amount payable under the Insurance Policy to the Company, or, pursuant to a written instruction from the Trustee to FMS to such effect, to the Trustee if the Company's rights under the Split-Dollar Agreement have been assigned to the Trustee. If there is no Split-Dollar Agreement in effect at the time of the death of the Insured, the Insurance Company shall be directed to pay all the proceeds of the Insurance Policy to the Company, or, pursuant to a written instruction from the Trustee to FMS to such effect, to the Trustee if the Company's rights under the Insurance Policy have been assigned to the Trustee.

7. The first sentence of Section 9(b) of the Service Agreement is hereby amended and superseded in its entirety to read as follows:

(b) Without limiting the generality of the foregoing, FMS will coordinate premium billings with respect to the Insurance Policies issued by each Insurance Company so as to provide one invoice to the Trustee and the Company for the aggregate Cash Value Premiums and separate invoices to the party or parties responsible, pursuant to any Split-Dollar Agreements in effect at such time, for payment of the Term Premiums on any Insurance Policies.

8. Section 9(e) of the Service Agreement is hereby amended and superseded in its entirety to read as follows:

(e) While this Agreement is in effect, FMS agrees that if, following the termination of any Insured as an employee of the Company or of an Affiliate of the Company, such former employee continues to be the Insured under an Insurance Policy and a Split-Dollar Agreement is in effect with respect to such Insurance Policy, FMS will continue to service such Insurance Policy as provided herein, except that FMS will coordinate directly with the Insured with respect to the payment of the Term Premiums and the designation of the Beneficiary.

9. Except as amended hereby, the Service Agreement shall remain unamended and in full force and effect.

IN WITNESS WHEREOF, the parties have entered into this
Amendment as of the date first set forth above.

PUBLIC SERVICE COMPANY OF
NEW MEXICO

By: *La O. Niki*
Title: SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

FINANCIAL MARKETING SERVICES, INC.

By: *[Signature]*
Title: VPES

FIRST INTERSTATE BANK OF
ALBUQUERQUE, Trustee

Attest: *[Signature]*
By: *[Signature]*
Title: Trust Officer

By: *[Signature]*
Title: Trust Officer

1660q

ATTACHMENT LADWP-1

CERTIFICATE OF LOS ANGELES DEPARTMENT OF
WATER AND POWER RESPECTING DECOMMISSION FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION UNIT 1

The Los Angeles Department of Water and Power ("LADWP") hereby certifies that financial assurance for decommissioning the LADWP's 5.70 percent interest in Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS) will be provided in an amount which may be more, but not less than 5.70 percent of the amount stated in the table in paragraph (c) (1) of 10 C.F.R., Section 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c) (2) of 10 C.F.R. Section 50.75. Such amounts will be accumulated in accordance with 10 C.F.R., Section 50.75.(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

LADWP has entered into a Decommissioning Trust Fund Agreement ("Trust Fund Agreement") for PVNGS Unit 1 dated as of July 17, 1990 with Security Pacific National Bank, as Trustee.

LADWP certifies that it will make periodic deposits into the Trust Funds established pursuant to the Trust Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of fiscal year in an amount not less than 5.70 percent of (A) \$116,590,000 (1989 dollars) (amount required by 10 C.F.R., Section 50.75(c)(1)), adjusted annually in accordance with 10 C.F.R., Section 50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990 to the end of the fiscal year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990 to the expiration of term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

LOS ANGELES DEPARTMENT OF
WATER AND POWER

By: Eldon A. Cotton
ELDON A. COTTON
Title: Assistant General Manager -
Power
Address: P.O. Box 111, Room 1155
Los Angeles, CA 90051
Telephone No.: (213) 481-5651

ATTACHMENT LADWP-2

STATEMENT OF LOS ANGELES DEPARTMENT OF WATER AND POWER (LADWP)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUNDS AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUNDS FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

- | | | |
|----|---|------------------------------------|
| 1. | Adjusted Certification, amount for
for PVNGS Unit 1 (See Attachment 3) | <u>\$116,590,000</u> |
| 2. | LADWP's share (5.70%) of adjusted
Certification amount for PVNGS Unit 1 | <u>\$ 6,646,000</u> |
| 3. | Status of the LADWP's External Funds
for PVNGS Unit 1 as of 6/30/90 | <u>\$ 1,168,514</u> |
| 4. | Currently proposed (semiannually)
payments into its External Funds,
including 7% projected earnings
on investments | Not less than
<u>\$ 79,662*</u> |

Department of Water and Power



the City of Los Angeles

TOM BRADLEY
Mayor

Commission
RICK J. CARUSO, *President*
JACK W. LEENEY, *Vice President*
ANGEL M. ECHEVARRIA
CAROL WHEELER
WALTER A. ZELMAN
JUDITH K. DAVISON, *Secretary*

NORMAN E. NICHOLS, *General Manager and Chief Engineer*
ELDON A. COTTON, *Assistant General Manager - Power*
DUANE L. GEORGESON, *Assistant General Manager - Water*
DANIEL W. WATERS, *Assistant General Manager - External Affairs*
NORMAN J. POWERS, *Chief Financial Officer*

CERTIFICATE

I, Judith K. Davison, Secretary of the Los Angeles Board of Water and Power Commissioners, do hereby certify that the attached Decommissioning Trust Agreement dated as of July 17, 1990 between Security Pacific National Bank, as Trustee, and the Los Angeles Department of Water and Power (the "Department"), is a true and correct conformed copy of the original of such document, and that such document was executed by Eldon A. Cotton, the duly appointed Assistant General Manager - Power of the Department pursuant to authority granted to him as the Assistant General Manager - Power of the Department.

A handwritten signature in cursive script, reading "Judith K. Davison", written over a horizontal line.

Water and Power Conservation... a way of life

111 North Hope Street, Los Angeles, California ☐ Mailing address: Box 111, Los Angeles 90051-0100
Telephone: (213) 481-4211 Cable address: DEWAPOLA FAX: (213) 481-8701

DECOMMISSIONING TRUST FUND AGREEMENT I

By and Between

LOS ANGELES DEPARTMENT OF WATER AND POWER

and

SECURITY PACIFIC NATIONAL BANK, as Trustee

Dated as of July 17, 1990

TABLE OF CONTENTS

I.	DEFINITIONS, PURPOSES, REPRESENTATIONS AND ACCEPTANCE...	2
1.01	Definitions.....	2
1.02	Authorization.....	3
1.03	Declaration of Trust; Trust Purpose.....	3
1.04	Establishment of Decommissioning Trust Fund I.....	3
1.05	Trustee Representations.....	3
1.06	Trustee Acceptance.....	4
II.	DISPOSITIVE PROVISIONS.....	4
2.01	Payment of Decommissioning Costs.....	4
2.02	Additions to Trust.....	4
2.03	Transfer Trust Fund Monies Among Unit Accounts.....	4
2.04	Adjustments for Excess Contributions.....	5
2.05	No Transferability of Interest In Trust.....	5
2.06	Termination of Trust.....	5
2.07	Distribution of Trust Upon Termination.....	5
2.08	Alterations and Amendments.....	6
III.	LADWP.....	6
3.01	Duties of the LADWP.....	6
3.02	LADWP May Limit Trustee Actions.....	6
IV.	TRUSTEE.....	6
4.01	Compensation.....	6
4.02	Accounting.....	7
4.03	Tax Returns.....	7
4.04	Liability.....	7
4.05	Appointment of Successor Trustee(s).....	8
4.06	Resignation.....	8
4.07	Notice of Change In Trustee.....	9
4.08	Indemnity of Trustee.....	9
4.09	No Duty to Advance Funds.....	9
V.	INVESTMENT MANAGER(S).....	9
5.01	Appointment of Investment Manager(s).....	9
5.02	Direction by Investment Manager(s).....	9

VI.	TRUSTEE'S GENERAL POWERS.....	11
6.01	Payment of Expenses of Administration.....	11
6.02	Extension of Obligations and Negotiations of Claims.....	11
6.03	Registration of Securities.....	12
6.04	Exercise of Rights.....	12
6.05	Location of Assets.....	12
6.06	Retention of Professional Services.....	12
6.07	Discretion in Exercise of Powers.....	12
VII.	INVESTMENT POWERS.....	12
7.01	Investment by Trustee.....	12
7.02	Absence of Directions.....	13
7.03	Limitations.....	13
7.04	Disposition of Investments.....	13
VIII.	MISCELLANEOUS.....	14
8.01	Headings.....	14
8.02	Particular Words.....	14
8.03	Parties Interested Herein.....	14
8.04	Severability of Provisions.....	14
8.05	Form and Content of Communications.....	14
8.06	Delivery of Notices Under Agreement.....	15
8.07	Successors and Assigns.....	15
8.08	Governing Jurisdiction.....	15
8.09	Accounting Year.....	15
8.10	Counterparts.....	15

**LOS ANGELES DEPARTMENT OF WATER AND POWER
DECOMMISSIONING TRUST FUND AGREEMENT I**

This DECOMMISSIONING TRUST FUND AGREEMENT I is entered into as of July __, 1990, by and between the LOS ANGELES DEPARTMENT OF WATER AND POWER ("LADWP"), a municipal corporation organized and existing under and by the laws of the state of California and SECURITY PACIFIC NATIONAL BANK ("Trustee"), a national banking association having trust powers and organized under the laws of the United States as Trustee.

WHEREAS, the United States Nuclear Regulatory Commission ("NRC"), has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 50, as may be amended from time to time (the "Regulations"), which are applicable to LADWP, and require that a holder of a license issued pursuant to 10 CFR Part 50 provide assurance that funds will be available when needed for required decommissioning activities;

WHEREAS LADWP is a party to that certain Arizona Nuclear Power Project Participation Agreement ("Participation Agreement") dated as of August 23, 1973, as amended and as may be further amended from time to time, which, subject to all applicable laws and regulations, governs the administration of the Units, including but not limited to the preparation and submission to the NRC of a Termination Plan, the establishment of Termination Funds for Decommissioning and the payment of Termination Costs, as such capitalized terms are defined in the Participation Agreement;

WHEREAS, LADWP desires to establish a decommissioning trust to provide all financial assurance required under the Regulations and the Participation Agreement as amended from time to time for its 5.70-percent share of facilities identified as Palo Verde Nuclear Generating Station ("PVNGS") Units 1, 2, and 3, located in Maricopa County, Arizona, approximately 36 miles west of the City of Phoenix;

WHEREAS, LADWP, acting through its duly Authorized Representatives, has selected Trustee to act as its trustee under this Agreement, and Trustee is willing to act as trustee,

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth herein, LADWP and Trustee agree as follows:

I. DEFINITIONS, PURPOSE, REPRESENTATIONS AND ACCEPTANCE

1.01 Definitions. The following terms as used in this Agreement shall have the meanings indicated:

- a. "Agreement" shall mean this Decommissioning Trust Fund Agreement I as the same may, from time to time, be amended, modified, or supplemented.
- b. "Authorized Representative" shall mean LADWP's General Manager, Assistant General Manager - Power, Chief Financial Officer, or any other person designated by a certificate filed with the Trustee.
- c. "Certificate" or "Certification" shall mean a written certificate signed by an Authorized Representative of LADWP.
- d. "Code" shall mean the Internal Revenue Code of 1986 as amended from time to time.
- e. "Decommissioning Costs" shall mean the costs incurred by LADWP in connection with the Decommissioning Plan. The estimated costs and schedule for decommissioning the Units shall be reviewed periodically and updated pursuant to the provisions of the NRC and of the Participation Agreement.
- f. "Decommissioning Plan" shall mean the plan for decommissioning of the Units, as approved by the NRC and established in compliance with the Participation Agreement, including without limitation, the retirement from service of the Units, as such Plan may be amended from time to time with the approval of the NRC and in compliance with the Participation Agreement.
- g. "Investment Manager(s)" shall mean the fiduciary (which may be the Trustee) specified in the Investment Manager Agreement(s), if any, which has been retained by LADWP to manage, acquire, invest or dispose of any asset belonging to the Trust.
- h. "Investment Manager Agreement(s)" shall mean the agreement(s), if any, between LADWP and the Investment Manager(s) selected by LADWP, which Agreement governs the management of some or all of the assets of the Trust Fund.
- i. "Trust Fund" shall mean the Decommissioning Trust Fund I, and shall consist of all contributions thereto, together with investments and reinvestments thereof and any income earnings and appreciations thereon.

- j. "Units" shall mean Palo Verde Unit No. 1, Palo Verde Unit No. 2, Palo Verde Unit No. 3, and all auxiliary structures, system facilities and equipment comprising the Palo Verde Nuclear Generating Station, collectively.

1.02 Authorization. LADWP and Trustee each hereby represent and warrant to the other that it has full legal authority and is duly empowered to enter into this Agreement, and has taken all actions necessary to authorize the execution of this Agreement by the individual signing on its behalf.

1.03 Declaration of Trust; Trust Purpose. There is hereby established a trust ("the Trust") for the exclusive purpose set forth in this Section 1.03, and the Trustee declares that it holds the Trust for such purpose and for the benefit of LADWP. The exclusive purpose of the Trust and Trust Fund established by this Agreement is to provide the requisite funds to satisfy LADWP's obligations for Decommissioning Costs as required by the NRC and the Participation Agreement, to the extent of amounts required by the NRC under the Regulations.

1.04 Establishment of Decommissioning Trust Fund I. The Los Angeles Department of Water and Power Decommissioning Trust Fund I is hereby created and established with the Trustee to provide payment or reimbursement of Decommissioning Costs for the benefit of LADWP. The Trust shall consist of such monies and assets as LADWP may deliver to the Trustee for the Trust Fund and also shall include all investments and reinvestments thereof, and all earnings and appreciation thereon. The Trustee shall accept all cash and securities delivered to it for the Trust Fund.

The Trust Fund shall be held in the custody of the Trustee IN TRUST and accounted for separate and apart from other funds of LADWP and the Trustee. No third party shall have access to the Trust Fund except as provided herein.

At the direction of LADWP, the Trustee shall establish within the Trust Fund a separate account with respect to each of the Units. Each such account shall hold such portion of the Trust Fund as directed by LADWP. Moneys and investments held in each such account shall be separately accounted for, although moneys within two or more such accounts may be combined for purposes of investment.

1.05 Trustee Representations. The Trustee hereby represents and warrants that it is (a) a national banking association organized and existing under and by virtue of the laws of the United States (b) authorized under such laws to exercise corporate trust powers; (c) subject to supervision or examination by federal or state banking or trust authorities; and (d) not owned by or subject to the control, except as provided in this

Agreement, of the State of California, LADWP, or any other Participant under and as defined in the Participation Agreement.

1.06 **Trustee Acceptance.** By its execution of this Agreement, the Trustee accepts the terms and conditions hereof and agrees to perform all the duties and accept all the obligations herein imposed. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied duties or obligations shall be read into this Agreement against Trustee.

II. DISPOSITIVE PROVISIONS

Subject to payment of the expenses to be paid from the Trust Fund pursuant to Section 6.01 hereof, the Trustee shall apply the Trust Fund as follows:

1.01 **Payment of Decommissioning Costs.** The Trustee shall make payments of the Decommissioning Costs in accordance with the procedures described below.

a. Authorized Representative. LADWP shall promptly notify the Trustee in writing of (a) the identity of its Authorized Representatives, and (b) the termination of any Authorized Representative's authority. The Trustee shall have no duty to inquire into or investigate the continued authority of such persons to act as the Authorized Representative.

b. Disbursements. The Trustee shall apply amounts on deposit in the Trust Fund to the payment or reimbursement of Decommissioning Costs upon receipt by the Trustee of a Certificate stating with respect to each application for payment: (1) The name and address of the person to whom payment is due, which may be LADWP; (2) the amount of money to be paid; (3) that the obligation to be paid is a Decommissioning Cost; and (4) that such payment is in accordance with the Decommissioning Plan.

2.02 **Additions to Trust.** From time to time but at least annually (unless such deposits have been prepaid) after the initial contribution to the Trust Fund and prior to the termination of the Trust, LADWP shall make, and the Trustee shall accept, additional contributions of money or other assets to the Trust Fund to satisfy the purpose of the Trust as set forth in Section 1.03.

2.03 **Transfer Trust Fund Monies Among Unit Accounts.** LADWP may in writing direct the Trustee to, and upon receipt of such

direction, the Trustee shall transfer any amount in one Unit account to another Unit account within the Trust Fund to satisfy NRC and Participation Agreement funding requirements or provide funds for payment or reimbursement of Decommissioning Costs.

2.04 Adjustments for Excess Contributions. The Trustee and LADWP understand and agree that the value of the assets in the Trust Fund, including earnings thereon, in time may exceed the amount then required to be maintained by the NRC under the Regulations (such excess is hereinafter referred to as "Excess Contribution"). Upon Certification of the amount of any Excess Contribution, the Trustee shall pay the amount stated in the Certificate to the person or persons specified, which may be LADWP. In no event shall the amount so paid exceed the amount of the Excess Contribution specified by the Certificate.

2.05 No Transferability of Interest in Trust Fund. The interest of LADWP in the Trust is not transferable by LADWP, whether voluntarily or involuntarily, nor subject to the claims of creditors of LADWP, provided, however, that any creditor of LADWP as to which a Certificate for payment has been properly completed and submitted to the Trustee may assert a claim directly against the Trust in an amount not to exceed the amount specified on such Certificate. Nothing herein shall be construed to prohibit a transfer of LADWP's interest in the Trust upon sale of all or part of LADWP's ownership interest in any Unit or Units; provided, however, that if LADWP retains any vested ownership interest in the Units, the Trust assets remaining for the benefit of LADWP shall be valued on the effective date of the transfer at an amount at least equal to the greater of the minimum amount then required to be held by LADWP for decommissioning under the Regulations.

2.06 Termination of Trust. LADWP may revoke this Trust by delivery of a Certificate to the Trustee at any time if, at the time of revocation, (a) another trust, or other form of financial assurance, satisfying the applicable requirements of the NRC and of the Participation Agreement, has been established by LADWP for the same purpose as described in Section 1.03, and (b) notice of such revocation is provided both to the NRC and as may be required pursuant to the Participation Agreement. Other than as provided above, the Trust shall be irrevocable.

The Trust shall terminate upon the first to occur of:
(a) Revocation by LADWP, as provided above; (b) receipt by the Trustee of a Certificate from LADWP stating that all Decommissioning Costs pertaining to the PVNGS facilities have been paid; or (c) written agreement by LADWP and the Trustee to terminate the Trust.

2.07 Distribution of Trust Upon Termination. Upon the termination of the Trust, the Trustee shall, at the written

election of LADWP, (a) immediately transfer all or any portion of the remaining monies and assets in the Trust Fund to or as directed by LADWP, or (b) liquidate all or any portion of the assets of the Trust Fund and immediately distribute the proceeds of such liquidation(s) to or as directed by LADWP.

2.08 **Alterations and Amendments.** The Trustee and LADWP understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purpose of the Trust. LADWP shall provide notice of any such modifications or amendments to the NRC and as may be required under the Participation Agreement.

III. LADWP

3.01 **Duties of LADWP.** LADWP shall appoint the Investment Manager(s), if any, and the Trustee, and shall perform all other duties required of LADWP under this Agreement. LADWP may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities hereunder. The fees and/or compensation of any such assistance LADWP may desire to retain shall be payable from the Trust Fund and regarded as appropriate trust administration expenses or, at the election of LADWP, shall be payable directly by LADWP.

3.02 **LADWP May Limit Trustee Actions.** The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions provided by a Certificate so long as the terms and conditions of the Certificate are consistent with the terms and conditions of this Agreement. The Trustee shall not have any obligation to invest, manage, control, make any payment from, or otherwise deal with the Trust Fund except as expressly provided in this Agreement or a Certificate, pursuant to the terms thereof.

IV. TRUSTEE

4.01 **Compensation.** The Trustee shall be entitled to reasonable compensation for its services rendered hereunder and all reasonable advances, attorneys' fees, and other expenses reasonably made or incurred by the Trustee in connection with such services, as shall first be agreed upon in writing by LADWP and the Trustee. The Trustee shall have no lien, security interest or right of set-off whatsoever upon the Trust Fund for the payment of fees and expenses for services rendered by the Trustee under this Agreement; provided, however, that in the event dissolution or bankruptcy of LADWP prevents or prohibits

payment by LADWP of the Trustee's fees and expenses, then the Trustee shall be entitled to payments therefor from the Trust Fund.

4.02 Accounting. The Trustee shall furnish financial statements to LADWP on a monthly basis, within thirty (30) days following the last calendar day of each month, or at such other frequency as LADWP may from time to time reasonably require. The financial statements shall (a) set forth the then-current value of the assets comprising the Trust Fund and indicate, without limitation, (1) income and expenses of the Trust, and (2) all investments sold or purchased by Trustee or by the Investment Manager, if any, for the reported period, and (b) shall include such other matters in respect of the Trust Fund, and be in such form and detail as LADWP may reasonably require. Any securities in the Trust Fund shall be valued at market value as of the date of valuation. LADWP may employ independent certified public accountants of its choice to audit the financial statements.

The Trustee shall maintain and keep, and upon reasonable notice shall permit LADWP's representatives to examine all records and documentation in respect of contributions, investments, disbursements and earnings of the Trust Fund for at least five (5) years.

4.03 Tax Returns. Although it is the intent of LADWP that any and all income earnings and appreciation on Trust Funds shall be exempt from taxation under the Code, the Trustee if requested by LADWP shall cooperate in the preparation of income tax returns or other reports, if any, as may be required from time to time. With the prior written approval of LADWP, Trustee may employ independent certified public accountants or other tax counsel to prepare or review such returns and reports.

4.04 Liability. The Trustee shall be liable for any negligence, misconduct, or breach of any provision of this Agreement by the Trustee, its officers, employees or agents. The Trustee shall not be liable for the acts, omissions or defaults of independent contractors, if any, to which it delegates duties under this Agreement, provided that the duties of such contractor are delegable by the Trustee pursuant to the provisions of this Agreement and that any such contractor has been selected, and the performance and status of the contractor has been monitored, with reasonable care. The Trustee shall not be liable for the acts or omissions of any Investment Manager(s) acting hereunder, or for anything done, suffered or omitted in good faith by the Trustee in accordance with the advice or opinion of counsel, accountants, or other skilled persons retained by it in the performance of its duties under this Agreement.

The Trustee shall not be liable for (a) the accuracy of the recitals to this Agreement, (b) the validity of this

Agreement (except insofar as validity relates to the power of the Trustee to enter into and perform this Agreement) or (c) the adequacy of this Agreement for its purpose.

The Trustee is prohibited from doing any act or knowingly engaging in any transaction that would violate the terms and conditions of any instructions provided by Certificate, or from contravening any provision of this Agreement.

Upon receipt of a Certificate giving the Trustee notice either of instructions to the Trustee or of acts or transactions believed to constitute a violation by the Trustee of the provisions of this Agreement, the Trustee shall follow such instructions and/or cease and desist from the acts identified in the Certificate as violating the provisions of this Agreement. To the extent the Trustee fails to follow such instructions, or continues with any act identified in the Certificate as violating the provisions of this Agreement, the Trustee (and not the Trust or the Trust Fund) shall be liable for all consequences arising in connection therewith. Notwithstanding the foregoing, the Trustee (and not the Trust or the Trust Fund) shall be liable for all consequences flowing from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by Certificate.

In the event of any inconsistency between the instructions in a Certificate and the provisions of this Agreement, the provisions of this Agreement shall prevail.

4.05 Appointment of Successor Trustee(s). At any time during the term of the Trust, LADWP shall have the right to remove the Trustee and appoint another qualified organization as a successor trustee upon not less than sixty (60) days' written notice to the Trustee, or upon such shorter notice as may be acceptable to the Trustee.

Any successor trustee shall qualify by a duly acknowledged acceptance of the Trust, delivered to LADWP and the NRC. Upon acceptance of such appointment by the successor trustee, the Trustee shall assign, transfer and pay over in trust to such successor trustee the monies and properties then constituting the Trust Fund. Any successor trustee shall be vested with all the rights, powers, trusts, duties and obligations of its predecessor and shall be deemed to have made all representations herein made by the initial Trustee.

4.06 Resignation. The Trustee may resign and be relieved as trustee hereunder at any time by a duly acknowledged instrument, which shall be delivered to LADWP by the Trustee prior to the effective date of the Trustee's resignation; provided, however, that no such resignation shall take effect unless and until a successor trustee shall have been appointed by LADWP and shall

have accepted the Trust as provided above.

4.07 Notice of Change in Trustee. LADWP promptly shall send notice of any successor Trustee to the NRC and as may be required under the Participation Agreement.

4.08 Indemnity of Trustee. Subject to Section 4.04, LADWP shall indemnify and hold harmless the Trustee from any and all claims, losses, actions or liabilities which it may incur in acting in accordance with the terms of this Agreement or with a Certificate. The provisions of this Section shall not apply in the event of the negligence, willful misconduct, or breach of any provision of this Agreement by the Trustee or by its employees or agents. Such indemnity shall survive the resignation or removal of the Trustee or discharge of this Agreement.

4.09 No Duty to Advance Funds. The Trustee shall have no duty or obligation to risk or advance its own funds or incur any expense in the performance of its duties hereunder for which it is not reimbursed by LADWP.

V. INVESTMENT MANAGER(S)

5.01 Appointment of Investment Manager(s). LADWP may appoint one or more Investment Managers, which may be the Trustee, to direct the investment of all or part of the Trust Fund; provided, however, that such Investment Manager(s) may not be owned by or subject to the control, except as provided in this Agreement, of the State of California, LADWP, or any other Participant under and as defined in the Participation Agreement. LADWP also shall have the right to remove any Investment Manager. LADWP shall provide notice of any such appointment by Certification to the Trustee, specifying the portion of the Trust Fund with respect to which the Investment Manager(s) has been designated. The Investment Manager(s) shall certify in writing to the Trustee that it is qualified to act in the capacity provided under the Investment Manager Agreement, shall accept its appointment as such Investment Manager(s), shall certify the identity of the person or persons authorized to give instructions or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under the Investment Manager Agreement. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by LADWP or the Investment Manager(s), as the case may be.

5.02 Direction by Investment Manager(s). The Investment Manager(s) shall have authority to manage, acquire and dispose of the assets of any portion of the Trust Fund designated by Certification, or a portion thereof as the case may be, subject

to the limitations specified in Section 7. The Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. The Trustee, upon proper notification from an Investment Manager, shall execute and deliver instruments in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to the Trustee and LADWP by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee and to LADWP by the broker or dealer. Such notification shall be proper authority for the Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

The Investment Manager(s) shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund with respect to which the Investment Manager(s) has by Certification been designated; provided, however, that on or about the date of its appointment as Investment Manager in respect of any part of the Trust Fund and prior to or on each yearly anniversary date of such appointment, the Investment Manager(s) shall provide written notification to LADWP, in form and substance satisfactory to LADWP, of its policies with respect to the exercise of such rights.

The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of LADWP, and the Trustee shall not be deemed to be a party to or to have any obligations under any agreement with the Investment Manager(s) unless and to the extent the Trustee is retained under an Investment Manager Agreement. Any duty of supervision or review of the acts, omissions or overall performance of the Investment Manager(s) shall be the exclusive responsibility of LADWP, and, except as provided in Section 4.04 or to the extent the Trustee is retained under an Investment Manager Agreement, the Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), or to make suggestions to the Investment Manager(s) or to LADWP with respect to the exercise or nonexercise of any power by the Investment Manager(s).

Except to the extent the Trustee is retained under an Investment Manager Agreement, or fails to comply with the terms of this Agreement or any instructions provided by a Certificate, the Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken or not taken by it

in accordance with any direction of the Investment Manager(s). In any event, except as provided in any Investment Manager Agreement pursuant to which the Trustee is retained as an Investment Manager, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the investments purchased, sold, or retained by the Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments, nor for any other aspect of a portfolio for which an Investment Manager(s) has been appointed.

VI. TRUSTEE'S GENERAL POWERS

The Trustee shall have the following powers:

6.01 **Payment of Expenses of Administration.** Subject to the terms and conditions of this Agreement and unless otherwise instructed in a Certificate, to pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and the reasonable fees and/or compensation of any professional advisors, brokers, legal counsel, accountants, actuaries or administrative support hired by LADWP as provided in Section 3.01, and fees and out-of-pocket expenses incurred in the discharge of the Trustee's obligations under this Agreement.

6.02 **Extension of Obligations and Negotiation of Claims.** To renew or extend the time of payment of any obligation payable to or by this Trust for as long a period of time and on such terms as LADWP shall determine, and to promptly notify LADWP of any claims, actions or demands in favor of or against this Trust. Upon the written request of LADWP, Trustee shall assist in the settlement, compromise, or arbitration of claims, actions or demands in favor of or against this Trust.

It is the intention that all income earned by the Trust Fund shall be exempt from taxation pursuant to applicable provisions of the Code. If, however, any tax is imposed or threatened against the Trust, the Trustee upon receipt of notice thereof shall promptly so notify LADWP. If LADWP, at its discretion, in writing directs the Trustee to challenge such tax, to pay such tax under protest, and/or to withhold payment of such tax until a binding and final ruling of a court of competent jurisdiction orders such payment, the Trustee shall comply with such direction. All legal fees and expenses arising from a challenge or protest shall be payable directly by LADWP. Notice of such election shall be in writing, executed by an Authorized Representative, and shall be provided to the Trustee prior to the expiration of any period of time in which payment is required by a final, binding court order.

6.03 **Registration of Securities.** To hold any stocks, bonds, securities, and/or other property in the name of a nominee, in a street name, or by other title-holding device, without indication of trust.

6.04 **Exercise of Rights.** Except with respect to any securities or other property which pursuant to Section 5.02 an Investment Manager(s) other than the Trustee has been designated, and except as otherwise provided in a Certificate, the Trustee shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund; provided, however, that on or about the date hereof and prior to or on each yearly anniversary date thereof, the Trustee shall provide written notification to LADWP, in form and substance satisfactory to LADWP, of its policies with respect to the exercise of such rights.

6.05 **Location of Assets.** To keep any property belonging to the Trust at any place in the United States.

6.06 **Retention of Professional Services.** To execute any of the powers hereof and perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers, all in accordance with the terms and conditions of this Agreement.

6.07 **Discretion in Exercise of Powers.** To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would: (a) Disqualify the income accrued to the Trust Fund from tax exempt status under the Code; (b) contravene any provision of this Agreement; or (c) violate the terms and conditions of any instructions provided by written Certificate.

VII. INVESTMENT POWERS

The Trustee recognizes the authority of the Investment Manager(s), if any, to manage, invest and reinvest all or part of the Trust Fund pursuant to the Investment Manager Agreement(s), and as provided in Section 5.02 of this Agreement, and the Trustee agrees to cooperate with LADWP and the Investment Manager(s), to accomplish these tasks. The Trustee and the Investment Manager(s) shall have the following investment powers:

7.01 **Investment by Trustee.** Subject to the foregoing, the Trustee shall invest and reinvest the Trust Fund as directed in Certificates received by the Trustee from time to time. No such Certificate shall direct the acquisition of any investment

prohibited under applicable laws of the United States or the State of California.

7.02 Absence of Directions. The Trustee shall invest any portion of the Trust Fund with respect to which it has not received investment direction from LADWP or an Investment Manager in one or more taxable government money market portfolios (which may be established or managed by the Trustee) restricted to (a) obligations with maturities of one year or less issued or guaranteed by the United States and (b) repurchase agreements collateralized by such obligations.

7.03 Limitations. Subject to Sections 7.01 and 7.02, the Trustee and the Investment Manager(s), if any, are authorized to invest the Trust Fund in securities that are indebtedness of the United States Government, the State of California or any political subdivision thereof and any other permissible investments that may be allowed by amendment to the City Charter from time to time; provided however, that no such investment or reinvestment of the Trust Fund may be made by the Trustee or the Investment Manager(s):

- a. In securities or other obligations of LADWP or the City of Los Angeles or any political subdivision thereof;
- b. In securities or other obligations of any other owner or operator of the Units, or of any of their affiliates as defined in the Investment Company Act of 1940, as amended (15 U.S.C. 80a-2(a)), unless they are securities or other obligations of the Federal or a state government;
- c. In any securities that the Trustee may issue or from which the Trustee or the Investment Manager(s), if any, may derive any benefit, except with the written authorization of LADWP; or
- d. Which would contravene any provision of this Agreement or in the case of any Investment Manager, the Investment Manager Agreement between LADWP and that Investment Manager, or would conflict with any Certificate issued by LADWP.

7.04 Disposition of Investments. When required and necessary to make any payments under Sections 2.01 or 6.01 hereof, the Trustee and the Investment Manager(s), if any, shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only upon written direction from LADWP or an Investment Manager. The Trustee shall have no liability with respect to any sale or prepayment of an investment made in accordance with written direction of LADWP or an Investment Manager.

VIII. MISCELLANEOUS

8.01 Headings. The section headings set forth in this Agreement are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.

8.02 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.

8.03 Parties Interested Herein. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon, or to give to, any person or corporation, other than LADWP and the Trustee, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein. LADWP shall be entitled to receive payments for Decommissioning Costs and administrative expenses of the Trust which LADWP may incur in carrying out the purpose set forth in Section 1.03 of this Agreement. It is intended by LADWP that it be the ultimate beneficiary of this Agreement in that the decommissioning activities contemplated by this Agreement, which are to be performed by or on behalf of LADWP, will inure to the benefit of LADWP by the satisfaction of its obligations under the Regulations and the Participation Agreement.

8.04 Severability of Provisions. If any provision of this Agreement, or its application to any person, shall be invalid and unenforceable, the other provisions of this Agreement shall remain in effect.

8.05 Form and Content of Communications. The names of any person authorized to act on behalf of LADWP shall be certified, with the specimen signature of such person provided to the Trustee by LADWP. Until appropriate written evidence to the contrary is received by the Trustee, it shall be fully protected in relying upon or acting in accordance with any written notice, instruction, direction, certificate, resolution, or other communication believed by it to be genuine and to be signed and/or certified by any proper person, and the Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement contained therein. Until notified in writing to the contrary, the Trustee shall have the right to assume that there has been no change in the identity or authority of any person previously certified to it hereunder.

8.06 Delivery of Notices Under Agreement. Any notice required by this Agreement to be given to LADWP or the Trustee shall be personally delivered, sent by overnight courier, telecommunicated, or mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to LADWP:

Los Angeles Department of Water and Power
P. O. Box 111, Beaudry 1720
Los Angeles, CA 90051
Attention: Chief Financial Officer
Fax: (213) 481-3644

If to the Trustee:

Security Pacific National Bank
333 South Beaudry Avenue
Los Angeles, CA 90017
Attention: Corporate Trust Division (W24-30)
Fax: (213) 482-3288

LADWP or the Trustee may change its address, or add additional addresses for notices to be given to it hereunder by delivering notice thereof in writing to the other party.

8.07 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of LADWP, the Trustee and their respective successors, assigns, personal representatives, executors and heirs.

8.08 Governing Jurisdiction. This Trust is a California trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of California as if it was executed in and is to be wholly performed within the State of California.

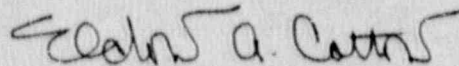
8.09 Accounting Year. The Trust shall operate on an accounting year which coincides with LADWP's fiscal year, July 1 through June 30.

8.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, with the same effect as if the signatures were upon the same instrument.

IN WITNESS WHEREOF the parties have caused this Agreement to be executed by the respective officers duly authorized as of the date first written above.

LOS ANGELES DEPARTMENT OF
WATER AND POWER

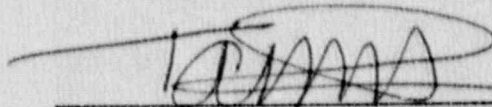
DATE: JUL 17 1990



ELDON A. COTTON
Assistant General Manager - Power

SECURITY PACIFIC NATIONAL BANK
TRUSTEE

DATE: JUL 17 1990



TAMARA MAWN
Vice President

ATTACHMENT SCPPA-1

CERTIFICATE OF SOUTHERN CALIFORNIA PUBLIC
POWER AUTHORITY RESPECTING DECOMMISSION FUNDS FOR
PALO VERDE NUCLEAR GENERATING STATION UNIT 1

The Southern California Public Power Authority ("SCPPA") hereby certifies that financial assurance for decommissioning the SCPPA's 5.91 percent interest in Unit 1 of the Palo Verde Nuclear Generating Station (PVNGS) will be provided in an amount which may be more, but not less than 5.91 percent of the amount stated in the table in paragraph (c) (1) of 10 C.F.R., Section 50.75, adjusted annually using a rate at least equal to that stated in paragraph (c) (2) of 10 C.F.R. Section 50.75. Such amounts will be accumulated in accordance with 10 C.F.R., Section 50.75.(e), through the mechanism of an external sinking fund in which deposits are made at least annually, unless any such annual deposits have been prepaid through advance deposits or investment income and appreciation or both.

SCPPA has entered into a Decommissioning Trust Fund Agreement ("Trust Fund Agreement I") for PVNGS Unit 1 dated as of July 13, 1990 with Security Pacific National Bank, as Trustee.

SCPPA certifies that it will make periodic deposits into the Trust Funds established pursuant to the Trust Agreement in an amount or amounts which, together with investment income and appreciation, will be sufficient to provide decommissioning funds at the end of fiscal year in an amount not less than 5.91 percent of (A) \$116,590,000 (1989 dollars) (amount required by 10 C.F.R., Section 50.75(c)(1)), adjusted annually in accordance with 10 C.F.R., Section 50.75(c)(2) and the final Regulatory Guide on Assuring the Availability of Funds for Decommissioning Nuclear Reactors, multiplied by (B) the ratio obtained by dividing (C) the number of years and any portion thereof after June 30, 1990 to the end of the fiscal year for which the amount is being calculated by (D) the number of years and any portion thereof after June 30, 1990 to the expiration of term stated in the PVNGS Unit 1 Facility Operating License No. NPF-41.

SOUTHERN CALIFORNIA PUBLIC
POWER AUTHORITY

By: Ronald V. Stassi

Title: RONALD V. STASSI
Vice President

Address: 150 South Los Robles Ave.
Pasadena, CA 91101

Telephone No.: (818) 953-9640

ATTACHMENT SCPPA-2

STATEMENT OF SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY (SCPPA)
RESPECTING ITS SHARE OF THE ADJUSTED CERTIFICATION
AMOUNT, STATUS OF ITS EXTERNAL FUNDS AND PROPOSED
PERIODIC PAYMENTS INTO ITS EXTERNAL FUNDS FOR
DECOMMISSIONING PALO VERDE NUCLEAR GENERATING
STATION (PVNGS) UNIT 1

- | | | |
|----|---|-------------------------------------|
| 1. | Adjusted Certification, amount for
for PVNGS Unit 1 (See Attachment 3) | <u>\$116,590,000</u> |
| 2. | SCPPA's share (5.91%) of adjusted
Certification amount for PVNGS Unit 1 | <u>\$ 6,890,000</u> |
| 3. | Status of the SCPPA's External Funds
for PVNGS Unit 1 as of 6/30/90 | <u>\$ 0</u> |
| 4. | Currently proposed (semiannually)
payments into its External Funds,
including 7% projected earnings
on investments | Not less than
<u>\$ 100,205*</u> |



Southern California Public
Power Authority, Room 1149
P.O. Box 111
Los Angeles, CA 90051

CERTIFICATE

I, George R. Spencer, Assistant Secretary of the Southern California Public Power Authority (the "Authority"), a public entity organized under the laws of the State of California, do hereby certify that the attached Decommissioning Trust Fund Agreement dated as of July 13, 1990 between Security Pacific National Bank, as Trustee, and the Authority, is a true and correct conformed copy of the original of such document, and that such document was executed by Gale A. Drews, the duly appointed President of the Board of Directors of the Authority pursuant to authority granted to him, as President, in Resolution 1990-8 dated July 11, 1990.

A handwritten signature in cursive script that reads "George R. Spencer". The signature is written in dark ink and is positioned above a horizontal line.

DECOMMISSIONING TRUST FUND AGREEMENT I

By and Between

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

and

SECURITY PACIFIC NATIONAL BANK,
as Trustee

Dated as of July 13, 1990

TABLE OF CONTENTS

I. DEFINITIONS, PURPOSE, REPRESENTATIONS AND ACCEPTANCE	2
1.01 Definitions	2
1.02 Authorization	3
1.03 Declaration of Trust; Trust Purpose	3
1.04 Establishment of Trust Fund	3
1.05 Trustee Representations	3
1.06 Trustee Acceptance	3
II. DISPOSITIVE PROVISIONS	4
2.01 Payment of Decommissioning Costs	4
2.02 Additions to Trust Fund	4
2.03 Adjustments for Excess Contributions	4
2.04 No Transferability of Interest in Trust	4
2.05 Termination of Trust	5
2.06 Distribution of Trust Fund Upon Termination	5
2.07 Alterations and Amendments	5
III. THE GRANTOR	5
3.01 Duties of the Grantor	5
3.02 Grantor May Limit Trustee Actions	5
IV. TRUSTEE	5
4.01 Compensation	5
4.02 Accounting	6
4.03 Tax Returns	6
4.04 Liability	6
4.05 Appointment of Successor Trustee(s)	7
4.06 Resignation	7
4.07 Notice of Change In Trustee	7
4.08 Indemnity of Trustee	7
V. INVESTMENT MANAGER(S)	7
5.01 Appointment of Investment Manager(s)	7
5.02 Direction by Investment Manager(s)	8
VI. TRUSTEE'S GENERAL POWERS	9
6.01 Payment of Expenses of Administration	9
6.02 Extension of Obligations and Negotiation of Claims	9
6.03 Registration of Securities	9
6.04 Exercise of Rights	10
6.05 Location of Assets	10
6.06 Retention of Professional Services	10
6.07 Discretion in Exercise of Powers	10

6.08	Rights of Trustee	10
VII. INVESTMENT POWERS		10
7.01	Investment by Trustee	10
7.02	Absence of Directions	11
7.03	Limitations	11
7.04	Disposition of Investments	12
VIII. MISCELLANEOUS		12
8.01	Headings	12
8.02	Particular Words	12
8.03	Parties Interested Herein	12
8.04	Severability of Provisions	12
8.05	Form and Content of Communications	12
8.06	Delivery of Notices Under Agreement	12
8.07	Successors and Assigns	13
8.08	Governing Jurisdiction	13
8.09	Accounting Year	13
8.10	Counterparts	13

DECOMMISSIONING TRUST FUND AGREEMENT I

THIS DECOMMISSIONING TRUST FUND AGREEMENT I is entered into as of this thirteenth day of July, 1990, by and between SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, a public entity organized under the laws of the State of California ("Grantor"), and SECURITY PACIFIC NATIONAL BANK, a national banking association having trust powers and organized under the laws of the United States, as Trustee ("Trustee").

RECITALS

A. The Grantor is a licensee with respect to the Palo Verde Nuclear Generating Station, located in Maricopa County, Arizona, approximately 36 miles west of the City of Phoenix, and owns: (i) a 5.91 percent undivided interest in Unit One of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 1"); (ii) a 5.91 percent undivided interest in Unit Two of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 2"); and (iii) a 5.91 percent undivided interest in Unit Three of the Palo Verde Nuclear Generating Station ("Palo Verde Unit No. 3"); and

B. The United States Nuclear Regulatory Commission ("NRC") has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 50, as may be amended from time to time (the "Regulations"), which require that the Grantor provide assurance that funds will be available when needed for required decommissioning activities; and

C. The Grantor is a party to that certain Arizona Nuclear Power Project Participation Agreement dated as of August 23, 1973, as amended and as may be further amended from time to time (the "ANPPPA"), which, subject to all applicable Regulations, governs the administration of the Units, including but not limited to the preparation and submission to the NRC of a Termination Plan, the establishment of Termination Funds for Decommissioning and the payment of Termination Costs, as such capitalized terms are defined in the ANPPPA; and

D. The Grantor has elected to use trust funds to provide all financial assurance required under the Regulations and/or under the ANPPPA for the Units; and

E. The Grantor has elected to use the trust fund established by this Agreement to provide Decommissioning Costs in satisfaction of Grantor's obligations under the Regulations and under the ANPPPA, to the extent of the amounts required by the NRC under the Regulations;

NOW, THEREFORE, in consideration of the mutual promises herein contained, the Grantor and the Trustee hereby enter into this Agreement upon the terms and conditions herein set forth.

AGREEMENT

I. DEFINITIONS, PURPOSE, REPRESENTATIONS AND ACCEPTANCE

1.01 Definitions. As used in this Decommissioning Trust Fund Agreement I, the following terms shall have the meanings indicated:

- (a) "Agreement" shall mean this Decommissioning Trust Fund Agreement I as the same may from time to time be amended, modified, or supplemented.
- (b) "Authorized Representative" shall mean, the President, Vice President, Secretary, Treasurer or Executive Director of the Grantor, or any other person designated as an Authorized Representative by a Certificate filed with the Trustee.
- (c) "Certificate" or "Certification" shall mean a written certificate signed by an Authorized Representative of the Grantor.
- (d) "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.
- (e) "Decommissioning Costs" shall mean the costs incurred by Grantor in connection with the Decommissioning Plan. The estimated costs and schedule for decommissioning the Units shall be reviewed periodically and updated pursuant to the provisions of the Regulations and of the ANPPPA.
- (f) "Decommissioning Plan" shall mean the plan, as approved by the NRC, of decommissioning activities for the Units, including without limitation the retirement from service of the Units, as such plan may be amended from time to time with the approval of the NRC.
- (g) "Investment Manager(s)" shall mean the fiduciary (which may be the Trustee) specified in the Investment Manager Agreement(s), if any, which has been retained by the Grantor to manage, acquire, invest or dispose of any asset belonging to the Trust.
- (h) "Investment Manager Agreement(s)" shall mean the agreement(s), if any, between the Grantor and the Investment Manager(s) selected by the Grantor, which agreement governs the management of some or all of the assets of the Trust.
- (i) "Units" shall mean Palo Verde Unit No. 1, Palo Verde Unit No. 2, Palo Verde Unit No. 3, and all auxiliary structures, system facilities and equipment comprising the Palo Verde Nuclear Generating Station, collectively. If during the term of this Agreement any additional nuclear generating unit in which Grantor has an interest is constructed at and as part of the Palo Verde Nuclear Generating Station, then at the election of

Grantor, in writing delivered to the Trustee, the NRC and as may be required under the ANPPPA, such unit shall be deemed part of the Units.

1.02 Authorization. The Trustee and the Grantor each hereby represent and warrant to the other that it has full legal authority and is duly empowered to enter into this Agreement, and has taken all action necessary to authorize the execution of this Agreement by the officers and persons signing on its behalf.

1.03 Declaration of Trust; Trust Purpose. There is hereby established a trust (the "Trust") for the exclusive purpose set forth in this Section 1.03, and the Trustee declares that it holds the Trust for such purpose and for the benefit of the Grantor. The exclusive purpose of the Trust is to provide for the payment or reimbursement of Decommissioning Costs in satisfaction of Grantor's obligations under the Regulations and under the ANPPPA, to the extent of the amounts required by the NRC under the Regulations.

1.04 Establishment of Trust Fund. There is hereby established with the Trustee as part of the Trust a special trust fund, which special trust fund shall be designated the "Southern California Public Power Authority Decommissioning Trust Fund I" (the "Trust Fund").

The Trust shall consist of such monies and assets as the Trustee may accept for the Trust and also shall include all investments and reinvestments thereof, and all earnings and appreciation thereon; provided, however, that the Trustee shall accept all cash and securities delivered to it for the Trust.

The Trust Fund shall be held in the custody of the Trustee separate and apart from other funds of the Grantor and the Trustee. No third party shall have access to the Trust Fund except as provided herein.

At the direction of Grantor, Trustee shall establish within the Trust Fund a separate account with respect to each of the Units; each such account to hold such portion of the Trust Fund as shall be directed by Grantor. Moneys and investments held in each such account shall be separately accounted for. Moneys within two or more of such accounts may be combined for purposes of investment, provided that the moneys so combined shall be separately accounted for.

1.05 Trustee Representations. The Trustee hereby represents and warrants that it is (a) a national banking association organized and existing under and by virtue of the laws of the United States, (b) authorized under such laws to exercise corporate trust powers, (c) subject to supervision or examination by federal or state banking or trust authorities; and (d) not owned by or subject to the control, except as provided in this Agreement, of the State of California, the Grantor, or any other Participant under and as defined in the ANPPPA.

1.06 Trustee Acceptance. By its execution of this Agreement, the Trustee accepts the conditions hereof and agrees to perform all the duties and accept all the obligations thereof.

II. DISPOSITIVE PROVISIONS

Subject to payment of any expenses to be paid from the Trust Fund pursuant to Section 6.01 hereof, the Trustee shall apply the Trust Fund as follows:

2.01 Payment of Decommissioning Costs. The Trustee shall make payments of the Decommissioning Costs in accordance with the following procedures:

- (a) Authorized Representative. The Grantor shall promptly notify the Trustee in writing of (1) the identity of its Authorized Representatives, and (2) the termination of any Authorized Representative's authority. The Trustee shall have no duty to inquire into or investigate the continued authority of such persons to act as the Authorized Representatives.
- (b) Disbursements. The Trustee shall apply amounts on deposit in the Trust Fund to the payment or reimbursement of Decommissioning Costs upon receipt by the Trustee of a Certificate stating with respect to each application for payment: (1) the name and address of the person to whom payment is due (which may be the Grantor); (2) the amount of money to be paid; (3) that the obligation to be paid is a Decommissioning Cost; and (4) that such payment is in accordance with the Decommissioning Plan.

2.02 Additions to Trust Fund. From time to time but at least annually (unless such deposits have been prepaid) after the initial contribution to the Trust Fund and prior to the termination of the Trust, the Grantor shall make, and, subject only to the provisions set forth in Section 1.04, the Trustee shall accept, additional contributions of money or other assets to the Trust Fund to satisfy the purpose of the Trust as set forth in Section 1.03.

2.03 Adjustments for Excess Contributions. The Trustee and the Grantor understand and agree that the value of the assets in the Trust Fund, including earnings thereon, from time to time may exceed the amount then required by the NRC under the Regulations (such excess is hereinafter referred to as the "Excess Contribution"). Upon Certification of the amount of any Excess Contribution, the Trustee shall pay the amount requested in the Certificate to the person or persons specified (which may be the Grantor). In no event shall the amount so paid exceed the amount of the Excess Contribution specified by the Certificate.

2.04 No Transferability of Interest in Trust. The interest of the Grantor in the Trust is not transferable by the Grantor, whether voluntarily or involuntarily, nor subject to the claims of creditors of the Grantor; provided, however, that any creditor of the Grantor as to which a Certificate for payment has been properly completed and submitted to the Trustee may assert a claim directly against the Trust Fund in an amount not to exceed the amount specified on such Certificate. Nothing herein shall be construed to prohibit a transfer of all or part of the Grantor's interest in the Trust upon sale of all or part of the Grantor's ownership interest in any Unit or Units; provided, however, that if the Grantor retains any vested ownership interest in the Units, the Trust's assets remaining for the benefit of Grantor shall be valued on the effective date of the transfer at an amount at least equal to the minimum amount then required by the NRC to be held by Grantor for decommissioning under the Regulations.

Termination of Trust. Grantor may revoke the Trust by delivery of a Certificate to the Trustee (upon which the Trustee may rely without investigation) at any time if, at the time of revocation, (a) another trust, or other form of financial assurance, satisfying the applicable requirements of the Regulations and of the ANPPPA, has been established by the Grantor for the payment or reimbursement of Decommissioning Costs, and (b) notice of such revocation is provided both to the NRC and as may be required pursuant to the ANPPPA. Other than as provided above, the Trust shall be irrevocable.

The Trust shall terminate upon the first to occur of: (a) revocation by the Grantor, as provided above; (b) receipt by the Trustee of a Certificate from the Grantor stating that all Decommissioning Costs have been paid; or (c) written agreement by the Grantor and the Trustee to terminate the Trust.

2.06 Distribution of Trust Fund Upon Termination. Upon the termination of the Trust, the Trustee shall, at the written election of the Grantor, (a) immediately transfer all or any portion of the remaining monies and assets in the Trust Fund to or as directed by the Grantor, or (b) liquidate all or any portion of the assets of the Trust Fund and immediately distribute the proceeds of such liquidation(s) to or as directed by the Grantor.

2.07 Alterations and Amendments. The Trustee and the Grantor understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of the Trust. The Grantor shall provide notice of any such modifications or amendments both to the NRC and as may be required under the ANPPPA.

III. THE GRANTOR

3.01 Duties of the Grantor. The Grantor shall appoint the Investment Manager(s), if any, and the Trustee, and shall perform all other duties required of Grantor under this Agreement. The Grantor may retain the services of such professional advisors, legal counsel, and administrative support as it deems necessary to carry out its responsibilities hereunder. The fees and/or compensation of any such assistance the Grantor may desire to retain shall be payable from the Trust Fund and regarded as appropriate trust administration expenses or, at the election of the Grantor, shall be payable directly by the Grantor.

3.02 Grantor May Limit Trustee Actions. The Trustee shall not take any action or participate in any transaction which would violate the terms and conditions of any instructions provided by a Certificate so long as the terms and conditions of the Certificate are consistent with the terms and conditions of this Agreement.

IV. TRUSTEE

4.01 Compensation. The Trustee shall be entitled to payment and/or reimbursement of its reasonable fees and charges for its services rendered hereunder and all reasonable advances, attorneys' fees, and other expenses reasonably made or incurred by the Trustee in connection with such services, as shall first be agreed upon in writing by the Grantor and the Trustee. The Trustee shall have no lien, security interest or right of set-off whatsoever upon

the Trust Fund for the payment of fees and expenses for services rendered by the Trustee under this Agreement; provided, however, that in the event dissolution or bankruptcy of the Grantor prevents or prohibits payment by the Grantor of the Trustee's fees and expenses, then the Trustee shall be entitled to payment therefor from the Trust Fund.

4.02 Accounting. The Trustee shall furnish financial statements to the Grantor on a monthly basis (within thirty (30) days following the last day of each calendar month), or at such other frequency as the Grantor shall from time to time reasonably require. The financial statements shall (a) set forth the then current value of the assets comprising the Trust Fund and indicate, without limitation, (1) income and expenses of the Trust Fund, and (2) all investments sold or purchased by the Trustee or by the Investment Manager(s), if any, for the reported period, and (b) include such other matters in respect of the Trust Fund, and be in such form and detail, as the Grantor shall reasonably require. Any securities in the Trust Fund shall be valued at market value as of the date of valuation. The Grantor shall employ independent certified public accountants of its choice to audit the financial statements not less frequently than annually.

Trustee shall maintain and keep, and upon reasonable notice shall permit Grantor's representatives to examine, all records and documentation in respect of contributions, investments, disbursements and earnings of the Trust Fund for at least five (5) years.

4.03 Tax Returns. Although it is the intent of the Grantor that any and all income earnings and appreciation on Trust Funds shall be exempt from taxation under the Code, the Trustee (if requested by the Grantor) and the Grantor shall cooperate in the preparation of income tax returns or other reports, if any, as may be required from time to time and may employ independent certified public accountants or other tax counsel to prepare or review such returns and reports.

4.04 Liability. The Trustee shall be liable for any negligence, misconduct or breach of any provision of this Agreement by the Trustee, its officers, employees or agents. The Trustee shall not be liable for the acts, omissions or defaults of independent contractors, if any, to which it delegates duties under this Agreement, provided that the duties of such contractor are delegable by the Trustee pursuant to the provisions of this Agreement and that any such contractor has been selected, and the performance and status of the contractor has been monitored, with reasonable care. The Trustee shall not be liable for the acts or omissions of any Investment Manager(s) acting hereunder. The Trustee shall not be liable for anything done, suffered or omitted by it in good faith in accordance with the advice or opinion of counsel, accountants or other skilled persons retained by it in the performance of its duties under this Agreement.

The Trustee shall not be liable for (a) the accuracy of the recitals to this Agreement, (b) the validity of this Agreement (except insofar as validity relates to the power of the Trustee to enter into and perform this Agreement) or (c) the adequacy of this Agreement for its purpose.

The Trustee is prohibited from doing any act or knowingly engaging in any transaction that would violate the terms and conditions of any instructions provided by Certificate, or from contravening any provision of this Agreement.

Upon receipt of a Certificate giving the Trustee notice either of instructions to the Trustee or of acts or transactions believed to constitute a violation by the Trustee of the provisions

of this Agreement, the Trustee shall follow such instructions and/or cease and desist from the act identified in the Certificate as violating the provisions of this Agreement. To the extent the Trustee fails to follow such instructions, or continues with any act identified in the Certificate as violating the provisions of this Agreement, the Trustee (and not the Trust or the Trust Fund) shall be liable for all consequences arising in connection therewith. Notwithstanding the foregoing, the Trustee (and not the Trust or the Trust Fund) shall be liable for all consequences flowing from any violation by the Trustee of the provisions of this Agreement, regardless of whether notice thereof was provided by Certificate.

In the event of any inconsistency between the instructions in a Certificate and the provisions of this Agreement, the provisions of this Agreement shall prevail.

4.05 Appointment of Successor Trustee(s). At any time during the term of the Trust, the Grantor shall have the right to remove the Trustee and appoint another qualified corporation as a successor trustee upon not less than sixty (60) days' written notice to the Trustee, or upon such shorter notice as may be acceptable to the Trustee.

Any successor trustee shall qualify by a duly acknowledged acceptance of the Trust, delivered to the Grantor and the NRC. Upon acceptance of such appointment by the successor trustee, the Trustee shall assign, transfer and pay over in trust to such successor trustee the monies and properties then constituting the Trust Fund. Any successor trustee shall be vested with all the rights, powers, trusts, duties and obligations of its predecessor and shall be deemed to have made all representations herein made by the initial Trustee.

4.06 Resignation. The Trustee may resign and be relieved as trustee hereunder at any time by a duly acknowledged instrument, which shall be delivered to the Grantor by the Trustee prior to the effective date of the Trustee's resignation; provided, however, that no such resignation shall take effect unless and until a successor trustee shall have been appointed by the Grantor and shall have accepted the Trust as provided above.

4.07 Notice of Change In Trustee. The Grantor promptly shall send notice of any successor Trustee to the NRC and as may be required under the ANPPPA.

4.08 Indemnity of Trustee. Subject to Section 4.04, the Grantor shall indemnify and hold harmless the Trustee from any and all claims, losses, actions or liabilities, including reasonable attorneys' fees, which it may incur in acting in accordance with the terms of this Agreement or with a Certificate. The provisions of this Section shall not apply in the event of the negligence, willful misconduct or breach of any provision of this Agreement by the Trustee or by its employees or agents. Such indemnity shall survive the resignation or removal of the Trustee or discharge of this Agreement.

V. INVESTMENT MANAGER(S)

5.01 Appointment of Investment Manager(s). The Grantor may appoint one or more Investment Managers, which may be the Trustee, to direct the investment of all or part of the Trust Fund; provided, however, that such Investment Manager(s) may not be owned by or subject to the control, except as provided in this Agreement, of the State of California, the Grantor, or any

other Participant under and as defined in the ANPPPA. The Grantor also shall have the right to remove any Investment Manager. The Grantor shall provide notice of any such appointment by Certification to the Trustee, specifying the portion of the Trust Fund with respect to which the Investment Manager(s) has been designated. The Investment Manager(s) shall certify in writing to the Trustee that it is qualified to act in the capacity provided under the Investment Manager Agreement, shall accept its appointment as such Investment Manager(s), shall certify the identity of the person or persons authorized to give instructions or directions to the Trustee on its behalf, including specimen signatures, and shall undertake to perform the duties imposed on it under the Investment Manager Agreement. The Trustee may continue to rely upon all such certifications unless otherwise notified in writing by the Grantor or the Investment Manager(s), as the case may be.

5.02 Direction by Investment Manager(s). The Investment Manager(s) shall have authority to manage, acquire and dispose of the assets of any portion of the Trust Fund designated by Certification, or a portion thereof as the case may be, subject to the limitations specified in Section 7. The Investment Manager(s) shall have the power and authority, exercisable in its sole discretion at any time and from time to time, to issue and place orders for the purchase or sale of portfolio securities directly with qualified brokers or dealers. The Trustee, upon proper notification from an Investment Manager, shall execute and deliver instruments in accordance with the appropriate trading authorizations. Written notification of the issuance of each such authorization shall be given promptly to the Trustee and the Grantor by the Investment Manager(s), and the Investment Manager(s) shall cause the execution of such order to be confirmed in writing to the Trustee and to the Grantor by the broker or dealer. Such notification shall be proper authority for the Trustee to pay for portfolio securities purchased against receipt thereof and to deliver portfolio securities sold against payment therefor, as the case may be.

The Investment Manager(s) shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund with respect to which the Investment Manager(s) has by Certification been designated; provided, however, that on or about the date of its appointment as Investment Manager in respect of any part of the Trust Fund and prior to or on each yearly anniversary date of such appointment, the Investment Manager(s) shall provide written notification to the Grantor, in form and substance satisfactory to the Grantor, of its policies with respect to the exercise of such rights.

The authority of the Investment Manager(s) and the terms and conditions of the appointment and retention of the Investment Manager(s) shall be the responsibility solely of the Grantor, and the Trustee shall not be deemed to be a party to or to have any obligations under any agreement with the Investment Manager(s) unless and to the extent the Trustee is retained under an Investment Manager Agreement. Any duty of supervision or review of the acts, omissions or overall performance of the Investment Manager(s) shall be the exclusive responsibility of the Grantor, and, except as provided in Section 4.04 or to the extent the Trustee is retained under an Investment Manager Agreement, the Trustee shall have no duty to review any securities or other assets purchased by the Investment Manager(s), or to make suggestions to the Investment Manager(s) or to the Grantor with respect to the exercise or nonexercise of any power by the Investment Manager(s).

Except to the extent the Trustee is retained under an Investment Manager Agreement or fails to comply with this Agreement or any instructions provided by Certificate, the Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken or not taken by it in accordance with any direction of the Investment Manager(s). In any event, except as provided in any Investment Manager Agreement pursuant to which the Trustee is retained as an Investment Manager, the Trustee shall be under no liability for any loss of any kind by reason of changes in value of the investments purchased, sold, or retained by the Investment Manager(s), nor for the risk or diversification of the portfolio, nor for the turnover of the investments, nor for any other aspect of a portfolio for which an Investment Manager(s) has been appointed.

VI. TRUSTEE'S GENERAL POWERS

The Trustee shall have the following powers:

6.01 Payment of Expenses of Administration. Subject to the terms and conditions of this Agreement and as instructed in a Certificate, to pay all ordinary and necessary expenses and other incidental costs including, but not limited to, Investment Manager(s) fees and the reasonable fees and/or compensation of any professional advisors, brokers, legal counsel, accountants, actuaries or administrative support hired by the Grantor as provided in Section 3.01, and fees and expenses incurred in the discharge of the Trustee's obligations under this Agreement.

6.02 Extension of Obligations and Negotiation of Claims. To renew or extend the time of payment of any obligation payable to or by the Trust for as long a period of time and on such terms as the Grantor shall determine, and to adjust, settle, compromise, and arbitrate claims, actions or demands in favor of or against the Trust, except claims for taxes, upon such terms as the Grantor may deem advisable, subject to the procedures contained in Section 2.01. The Trustee shall promptly notify the Grantor of any such claim or demand known to the Trustee.

It is the intention that all income earned by the Trust Fund shall be exempt from taxation pursuant to applicable provisions of the Code. If, however, any tax is imposed or threatened against the Trust, the Trustee upon receipt of notice thereof promptly shall so notify the Grantor. If the Grantor, at its discretion, in writing directs the Trustee to challenge such tax, to pay such tax under protest, and/or to withhold payment of such tax until a binding and final ruling of a court of competent jurisdiction orders such payment, the Trustee shall comply with such direction. All legal fees and expenses arising from a challenge or protest shall be payable directly by the Grantor. Any tax or fine imposed upon the Trust Fund shall be payable, at the Grantor's election, by the Trust or by the Grantor. Notice of such election shall be in writing, executed by an Authorized Representative, and shall be provided to the Trustee prior to the expiration of any period of time in which payment is required by a final, binding court order.

6.03 Registration of Securities. To hold any stocks, bonds, securities, and/or other property in the name of a nominee, in a street name, or by other title-holding device, without indication of trust.

6.04 Exercise of Rights. Except with respect to any securities or other property which pursuant to Section 5.02 any Investment Manager(s) other than the Trustee has been designated, the Trustee shall have authority to exercise itself, or by general or limited power of attorney, any right, including the right to vote, incident to ownership of any securities or other property constituting any part of the Trust Fund; provided, however, that on or about the date hereof and prior to or on each yearly anniversary date thereof, the Trustee shall provide written notification to the Grantor, in form and substance satisfactory to the Grantor, of its policies with respect to the exercise of such rights.

6.05 Location of Assets. To keep any property belonging to the Trust at any place in the United States.

6.06 Retention of Professional Services. To execute any of the powers hereof and perform the duties required of it hereunder by or through its employees, agents, attorneys, or receivers, all in accordance with the terms and conditions of this Agreement.

6.07 Discretion in Exercise of Powers. To do any and all other acts which the Trustee shall deem proper to effectuate the powers specifically conferred upon it by this Agreement, provided, however, that the Trustee may not do any act or knowingly engage in any transaction which would: (a) disqualify the income accrued to the Trust Fund from tax exempt status under the Code; (b) contravene any provision of this Agreement; or (c) violate the terms and conditions of any instructions provided by written Certificate.

6.08 Rights of Trustee.

(a) The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Agreement or are required pursuant to a Certificate, and no implied duties or obligations shall be read into this Agreement against the Trustee.

(b) The Trustee shall not have any obligation to invest, manage, control, make any payment from, or otherwise deal with, the Trust Fund or any moneys or securities therein except as expressly provided by this Agreement or a Certificate.

(c) The Trustee shall have no duty or obligation to risk or advance its own funds in the performance of its duties under this Agreement.

VII. INVESTMENT POWERS

The Trustee recognizes the authority of the Grantor and the Investment Manager(s), if any, to manage, invest and reinvest all or part of the Trust Fund pursuant to the Investment Manager Agreement(s) and as provided in Section 5.02 of this Agreement, and the Trustee agrees to cooperate with the Investment Manager(s) to accomplish these tasks. The Trustee and the Investment Manager(s), if any, shall have the following investment powers:

7.01 Investment by Trustee. Subject to the foregoing, the Trustee shall invest and reinvest the Trust Fund as directed in Certificates received by the Trustee from time to time. No

such Certificate shall direct the acquisition of any investment prohibited under applicable laws of the United States or the State of California.

7.02 Absence of Directions. The Trustee shall invest any portion of the Trust Fund with respect to which it has not received investment direction from the Grantor or an Investment Manager in one or more taxable government money market portfolios (which may be established or managed by the Trustee) restricted to (a) obligations with maturities of one year or less issued or guaranteed by the United States and (b) repurchase agreements collateralized by such obligations.

7.03 Limitations. Subject to Section 7.01 and Section 7.02, the Trustee and the Investment Manager(s), if any, are authorized to acquire every kind of property, real, personal, or mixed, and to make every type of investment, specifically including, but not limited to, corporate obligations and securities of every kind, preferred or common stocks, and interests in investment trusts and mutual funds, that persons of prudence, discretion and intelligence acquire for their own account, so long as such investments are not prohibited under applicable laws of the United States or of the State of California; provided, however, that no such investment or reinvestment of the Trust Fund may be made by the Trustee or the Investment Manager(s):

- (a) In securities or other obligations of the Grantor, or of any other owner or operator of the Units, or of any of their affiliates as defined in the Investment Company Act of 1940, as amended (15 U.S.C. 80a-2(a)), unless they are securities or other obligations of the Federal or a state government; or
- (b) In any securities that the Trustee may issue or from which the Trustee or the Investment Manager(s), if any, may derive any benefit, except as provided in Section 7.02 or with the written authorization of the Grantor; or
- (c) In real property unless and until (1) a qualified, independent consultant experienced in performing environmental assessments has inspected such property and issued an environmental assessment reasonably satisfactory to the Trustee and to the Grantor, and (2) arrangements have been made for periodic monitoring of such property for compliance with applicable environmental laws, rules or regulations; or
- (d) Which would contravene any provision of this Agreement or any Certificate, or in the case of any Investment Manager, the Investment Manager Agreement between the Grantor and that Investment Manager.

The provisions of the Code with respect to the proceeds (including investment proceeds) of tax-exempt borrowings by the Grantor may establish a maximum yield permitted on investment thereof. Notwithstanding the foregoing provisions of this Section 7.02, upon receipt by the Trustee of a Certificate specifying a maximum yield on all or any portion of the Trust Fund, the Trustee shall not invest the Trust Fund or such portion of the Trust Fund in securities bearing yields in excess of such yield limitation.

7.04 Disposition of Investments. When required and necessary to make any payments under Sections 2.01 or 6.01 hereof, the Trustee and the Investment Manager(s), if any, shall sell investments at the best price reasonably obtainable, or present investments for prepayment, but only upon written direction from the Grantor or an Investment Manager. The Trustee shall have no liability with respect to any sale or prepayment of an investment made in accordance with written direction of the Grantor or an Investment Manager.

VIII. MISCELLANEOUS

8.01 Headings. The section headings set forth in this Agreement are inserted for convenience of reference only and shall be disregarded in the construction or interpretation of any of the provisions of this Agreement.

8.02 Particular Words. Any word contained in the text of this Agreement shall be read as the singular or plural and as the masculine, feminine, or neuter as may be applicable or permissible in the particular context. Unless otherwise specifically stated, the word "person" shall be taken to mean and include an individual, partnership, association, trust, company, or corporation.

8.03 Parties Interested Herein. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the Grantor and the Trustee, any right, remedy or claim under or by reason of this Agreement, or any covenant, condition or stipulation contained herein. The Grantor shall be entitled to receive payments for Decommissioning Costs and administrative expenses of the Trust which the Grantor may incur in carrying out the purpose set forth in Section 1.03 of this Agreement. It is intended by the Grantor that the Grantor be the ultimate beneficiary of this Agreement in that the decommissioning activities contemplated by this Agreement, which are to be performed by or on behalf of the Grantor, will inure to the benefit of the Grantor by the satisfaction of its obligations under the Regulations and the ANPPPA.

8.04 Severability of Provisions. If any provision of this Agreement, or its application to any person, shall be invalid and unenforceable, the other provisions of this Agreement shall remain in effect.

8.05 Form and Content of Communications. The names of any person authorized to act on behalf of the Grantor shall be certified, with the specimen signature of such person provided to the Trustee by the Grantor. Until appropriate written evidence to the contrary is received by the Trustee, it shall be fully protected in relying upon or acting in accordance with any written notice, instruction, direction, certificate, resolution, or other communication believed by it to be genuine and to be signed and/or certified by any proper person, and the Trustee shall be under no duty to make any investigation or inquiry as to the truth or accuracy of any statement contained therein. Until notified in writing to the contrary, the Trustee shall have the right to assume that there has been no change in the identity or authority of any person previously certified to it hereunder.

8.06 Delivery of Notices Under Agreement. Any notice required by this Agreement to be given to the Grantor or the Trustee shall be personally delivered, sent by overnight

courier, telecommunicated, or mailed, postage prepaid, by registered or certified mail, to the person to be notified as set forth below:

If to the Grantor:

Southern California Public Power Authority
200 South Los Robles Avenue
Suite 155
Pasadena, California 91101
Attention: Executive Director
Fax #: 818/793-9461

If to the Trustee:

Security Pacific National Bank
333 South Beaudry Avenue
Los Angeles, California 90017
Attention: Corporate Trust Division (W24-30)
Fax #: 213/482-3288

The Grantor or the Trustee may change its address, or add additional addresses, for notices to be given to it hereunder by delivering notice thereof in writing to the other party.

8.07 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Grantor, the Trustee and their respective successors, assigns, personal representatives, executors and heirs.

8.08 Governing Jurisdiction. The Trust is a California trust and all questions pertaining to its validity, construction, and administration shall be determined in accordance with the laws of the State of California as if it was executed in and is to be wholly performed within the State of California.

8.09 Accounting Year. The Trust shall operate on an accounting year which coincides with Grantor's fiscal year, July 1 through June 30.

8.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, with the same effect as if the signatures were upon the same instrument.

IN WITNESS WHEREOF, the Grantor and the Trustee have set their hands to this Agreement as of the day and year first above written.

GRANTOR:

SOUTHERN CALIFORNIA PUBLIC POWER
AUTHORITY

By: *Alan A. Lewis*

Its: President

Attest: *George L. Spencer*

Its: Assistant Secretary

TRUSTEE:

SECURITY PACIFIC NATIONAL BANK,
As Trustee

By: *[Signature]*

Its: *VP*