



**Pacific Gas and
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PG&E Letter DCL 02-008

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Docket No. 50-275, OL-DPR-80
Docket No. 50-323, OL-DPR-82
Diablo Canyon Power Plant, Units 1 and 2
Supplemental Information Related To License Transfer Application

Dear Commissioners and Staff:

On November 30, 2001, Pacific Gas and Electric Company (PG&E) filed an application pursuant to Section 184 of the Atomic Energy Act and 10 CFR 50.80, requesting Nuclear Regulatory Commission (NRC) consent to the transfer of the NRC operating licenses for the Diablo Canyon Power Plant, Units 1 and 2 (DCPP). PG&E requested these transfers in connection with a comprehensive Plan of Reorganization (Plan) for PG&E filed under Chapter 11 of the United States Bankruptcy Code.

Enclosure 1 to this letter provides supplemental information requested by an NRC staff reviewer during a January 10, 2002, telephone conference call in support of the November 30, 2001, license transfer application. If you have any questions about this matter, please contact Terry Grebel at (805) 595-6382.

Sincerely,

Gregory M. Rueger

Enclosure

cc/enc: Edgar Bailey, DHS
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A001

**PG&E Response to NRC Staff Reviewer Request for
Additional Information Regarding License Transfer Application**

Question 1

Explain the Difference in the Value of the Nuclear Decommissioning Trust Fund for Diablo Canyon as Reported in the March 30, 2001 Nuclear Decommissioning Funding Report and in the November 30, 2001 License Transfer Application.

PG&E Response to Question 1

The November 30, 2001, License Transfer Application states that the liquidation value of the Diablo Canyon portion of the PG&E Nuclear Decommissioning Trust, as of September 30, 2001, was \$1101.0 million (for Units 1 and 2 combined). In Enclosure 9 of the License Transfer Application, this value is used to project an end-of-year 2001 liquidation value of the Diablo Canyon fund as \$1124.0 million. In contrast, PG&E's Decommissioning Funding Status Report filed March 30, 2001 (PG&E Letter DCL-01-026, HBL-01-005), reported the market value of the combined Diablo Canyon portion of the Trust at the end of calendar year 2000 as \$1272.6 million.

The difference in the values reported in the two filings is primarily due to the fact that one filing states the value of the Trust as the liquidation value and the other filing states the value of the Trust as a market value. Market value of a trust represents the value of the investment instruments in the trust at any one time. Liquidation value reflects an adjustment to the market value to account for the effect of applicable capital gains taxes on the value of the investment instruments in the trust. Therefore, liquidation value more conservatively represents the funds available, after taxes, to pay nuclear decommissioning costs.

To compare like values, the liquidation value of the Diablo Canyon portion of the PG&E Nuclear Decommissioning Trust at the end of calendar year 2000 was approximately \$1170.1 million. The projected end-of-year 2001 liquidation value reflects a decline in value over that time of approximately \$46.1 million. This decline is attributable to market fluctuations with respect to the investment instruments.

Question 2

Discuss Whether the Projected Income Statement (Enclosure 8 to the License Transfer Application) is Sensitive to the Market Price of Electricity.

PG&E Response to Question 2

The financial projections for Electric Generation LLC (Gen) included in Enclosure 8 to the License Transfer Application are not sensitive to the market price of electricity. As

discussed in the License Transfer Application, a key element of the Plan of Reorganization (Plan) for PG&E as submitted to the Bankruptcy Court is a Power Purchase and Sale Agreement between Gen and the reorganized PG&E. A copy of the Form of the Master Power Purchase and Sale Agreement was Enclosure 7 of the License Transfer Application. For the first eleven years of this twelve-year long-term bilateral contract, the output from the Diablo Canyon Power Plant, the output from Gen's hydroelectric generating stations, and the power produced under Gen's power purchase agreements, will be sold to the reorganized PG&E. These sales, over the term of the bilateral contract, will be in accordance with a fixed rate (for energy and capacity) specified in the contract and to be approved by the Federal Energy Regulatory Commission (see Exhibit A of the Master Power Purchase and Sale Agreement). The financial projections in Enclosure 8 to the License Transfer Application — which cover the first five years of the bilateral contract — are based solely upon the fixed contract price for electricity.

Because all of the output of the Diablo Canyon Power Plant and Gen's hydroelectric generating stations is committed to be sold to reorganized PG&E at the contract price for the first eleven years of the agreement, the projected revenue and net income of Gen is independent of the fluctuating market price of electricity for eleven years. In year 12, approximately half of the output remains under the terms of the bilateral contract while the other half will be released to the market (see Schedule 1 of the Master Power Purchase and Sale Agreement).

The bilateral power purchase contract, and particularly the price and term, are the linchpin of the Plan of Reorganization and not amenable to change. The Plan requires Gen to borrow \$2.4B to repay creditors. The contract was developed to allow Gen to borrow \$2.4B and maintain an investment grade credit rating. If the price specified in the contract were reduced, Gen would not have the necessary access to \$2.4B in the investment grade capital markets. In addition, if Gen were not investment grade the creditors would not be likely to accept the Plan. Under the Plan, creditors are to be paid with a combination of notes and cash raised by debt issuances. The creditors have indicated that they will not accept any reorganization plan that pays creditor claims with sub-investment grade notes.