

December 22, 1998

Mr. Oliver D. Kingsley, President
Nuclear Generation Group
Commonwealth Edison Company
Executive Towers West III
1400 Opus Place, Suite 500
Downers Grove, IL 60515

SUBJECT: ORDER AND SAFETY EVALUATION REGARDING INDIRECT TRANSFER OF
LICENSES (TAC NOS. MA3516 AND MA3517)

Dear Mr. Kingsley:

The enclosed Order and Safety Evaluation (SE) are in response to the application for consent to the indirect transfer of the licenses for the Quad Cities Nuclear Power Station, Units 1 and 2, to the extent held by MidAmerican Energy Company. The application was submitted with cover letters dated September 10, 1998, from CalEnergy Company, Inc. (CalEnergy) and MidAmerican Energy Company (MEC), through counsel Roy P. Lessy, Jr., and from the Commonwealth Edison Company (ComEd). Supplemental materials were filed as attachments to letters dated September 16 and November 20, 1998, from counsel. The Order consents to the indirect transfer of the licenses to the extent held by MEC with respect to its 25 percent ownership interest in the Quad Cities Nuclear Power Station, Units 1 and 2, to CalEnergy, pursuant to Section 50.80 of Title 10 of the Code of Federal Regulations. The Order is being forwarded to the Office of the Federal Register for publication.

Sincerely,

original signed by:

Robert M. Pulsifer, Project Manager
Project Directorate III-2
Division of Reactor Projects - III/IV
Office of Nuclear Reactor Regulation

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dfo

Docket Nos. 50-254 and 50-265

- Enclosures: 1. Order Approving Indirect
Transfer of Licenses
2. Safety Evaluation

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See previous concurrence*

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D.C. 20555-001, Attention: Rulemakings and Adjudications Staff, in accordance with 10 CFR 2.1313.

The Commission will issue a notice or order granting or denying a hearing request or intervention petition, designating the issues for any hearing that will be held and designating the Presiding Officer. A notice granting a hearing will be published in the Federal Register and served on the parties to the hearing.

For further details with respect to this Order, see the application for consent concerning the proposed corporate merger of CalEnergy and MEHC submitted under cover letters dated September 10, 1998, and supplemental information submitted under cover letters dated September 16 and November 20, 1998, and the safety evaluation dated which are available for public inspection at the Commission's Public Document Room, The Gelman Building, 2120 L. Street, NW., Washington, DC, and at the local public document room located at the Dixon Public Library, 221 Hennipen Avenue, Dixon, Illinois.

FOR THE NUCLEAR REGULATORY COMMISSION

original signed by:

Samuel J. Collins, Director
Office of Nuclear Reactor Regulation

Dated at Rockville, Maryland
this day of 1998

DOCUMENT NAME: G:\PD3-2\CM\QUAD\QC3516.ORD

*See previous concurrence

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DATE	12/21/98	12/21/98	12/22/98		

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UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

December 22, 1998

Mr. Oliver D. Kingsley, President
Nuclear Generation Group
Commonwealth Edison Company
Executive Towers West III
1400 Opus Place, Suite 500
Downers Grove, IL 60515

**SUBJECT: ORDER AND SAFETY EVALUATION REGARDING INDIRECT TRANSFER OF
LICENSES (TAC NOS. MA3516 AND MA3517)**

Dear Mr. Kingsley:

The enclosed Order and Safety Evaluation (SE) are in response to the application for consent to the indirect transfer of the licenses for the Quad Cities Nuclear Power Station, Units 1 and 2, to the extent held by MidAmerican Energy Company. The application was submitted with cover letters dated September 10, 1998, from CalEnergy Company, Inc. (CalEnergy) and MidAmerican Energy Company (MEC), through counsel Roy P. Lessy, Jr., and from the Commonwealth Edison Company (ComEd). Supplemental materials were filed as attachments to letters dated September 16 and November 20, 1998, from counsel. The Order consents to the indirect transfer of the licenses to the extent held by MEC with respect to its 25 percent ownership interest in the Quad Cities Nuclear Power Station, Units 1 and 2, to CalEnergy, pursuant to Section 50.80 of Title 10 of the Code of Federal Regulations. The Order is being forwarded to the Office of the Federal Register for publication.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert M. Pulsifer".

Robert M. Pulsifer, Project Manager
Project Directorate III-2
Division of Reactor Projects - III/IV
Office of Nuclear Reactor Regulation

Docket Nos. 50-254 and 50-265

Enclosures: 1. Order Approving Indirect
Transfer of Licenses
2. Safety Evaluation

cc w/encls: See next page

O. Kingsley
Commonwealth Edison Company

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Units 1 and 2

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**O. Kingsley
Commonwealth Edison Company**

- 2 -

**Quad Cities Nuclear Power Plant
Units 1 and 2**

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**Mr. Michael J. Wallace
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Commonwealth Edison Company
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**Roy P. Lessy, Jr.
Akin, Gump, Strauss, Hauer and Feld, L.L.P.
1333 New Hampshire Avenue, N.W.
Suite 400
Washington, D.C. 20036**

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

In the Matter of)	
)	
COMMONWEALTH EDISON COMPANY)	Docket Nos. 50-254
and)	and 50-265
MIDAMERICAN ENERGY COMPANY)	
)	
(Quad Cities Nuclear Power Station,)	
Units 1 and 2))	

**ORDER APPROVING APPLICATION REGARDING PROPOSED
MERGER OF MIDAMERICAN ENERGY HOLDINGS COMPANY
WITH CALENERGY COMPANY**

I.

MidAmerican Energy Company (MEC) owns a 25-percent interest in Quad Cities Nuclear Power Station, Units 1 and 2. Commonwealth Edison Company (ComEd) owns the remaining 75-percent share of the facilities. MEC and ComEd hold Facility Operating Licenses Nos. DPR-29 and DPR-30 issued by the U. S. Atomic Energy Commission pursuant to Part 50 of Title 10 of the Code of Federal Regulations (10 CFR Part 50) on December 14, 1972. Under these licenses, only ComEd, acting for itself and as agent and representative of MEC has the authority to operate the Quad Cities Nuclear Power Station, Units 1 and 2. Quad Cities is located in Rock Island County, Illinois.

II.

By application accompanied by cover letters dated September 10, 1998, from CalEnergy Company, Inc. (CalEnergy) and MEC, through counsel Roy P. Lessy, Jr., and from ComEd, MEC and CalEnergy informed the Commission of a proposed merger of CalEnergy with MidAmerican Energy Holdings Company (MEHC), the parent of MEC, which would effectively result in CalEnergy becoming the parent corporation and sole owner of MEHC. MEHC would

continue to be the parent of MEC. MEC would continue to remain a 25-percent minority owner and possession-only licensee of the Quad Cities Nuclear Power Station, Units 1 and 2, and would remain an "electric utility" as defined in 10 CFR 50.2, engaged in the generation, transmission, and distribution of electric energy for wholesale and retail, according to the application. The application was supplemented by letters dated September 16 and November 20, 1998, and attachments thereto, from counsel for the applicants. MEC and CalEnergy requested the Commission's approval of the indirect license transfers to CalEnergy to the extent effected by the proposed corporate merger, pursuant to 10 CFR 50.80. Notice of this request for approval was published in the FEDERAL REGISTER on October 27, 1998 (63 FR 57324).

Upon review of the information submitted in the application, including the supplemental information provided by the applicants, and other information before the Commission, the NRC staff has determined that the proposed merger will not affect the qualifications of MEC as a holder of the license, and that the transfer of control of the licenses, to the extent effected by the proposed merger is otherwise consistent with applicable provisions of law, regulations, and orders issued by the Commission subject to the conditions set forth herein. These findings are supported by a Safety Evaluation dated December 22, 1998.

III.

Accordingly, pursuant to Sections 161b, 161i, 161o, and 184 of the Atomic Energy Act of 1954, as amended, 42 USC §§ 2201(b), 2201(i), 2201(o), and 2234; and 10 CFR 50.80, IT IS HEREBY ORDERED that the Commission approves the application regarding the proposed merger of MEHC with CalEnergy, subject to the following: (1) MEC shall provide the Director of the Office of the Nuclear Reactor Regulation a copy of any application, at the time it

is filed, to transfer (excluding grants of security interests or liens) from MEC to its parent or to any other affiliated company, facilities for the production, transmission, or distribution of electric energy having a depreciated book value exceeding ten percent (10%) of MEC's consolidated net utility plant, as recorded on MEC's books of account, and (2) should the merger of CalEnergy and MEHC not be completed by December 31, 1999, this Order shall become null and void, provided, however, on application and for good cause shown, such date may be extended.

This Order is effective upon issuance.

IV.

By January 19, 1999, any person whose interest may be affected by this Order may file in accordance with the Commission's rules of practice set forth in subpart M of 10 CFR Part 2, a request for a hearing and petition for leave to intervene with respect to issuance of the Order. Such requests and petitions must comply with the requirements sets forth in 10 CFR 2.1306, and should address the considerations contained in 10 CFR 2.1308(a). Untimely requests and petitions may be denied, as provided in 10 CFR 2.1308(b), unless good cause for failure to file on time is established. In addition, an untimely request or petition should address the factors that the Commission will also consider, in reviewing untimely requests or petitions, set forth in 10 CFR 2.1308(b)(1)-(2).

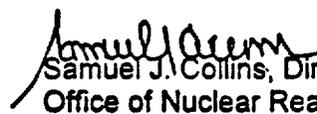
Requests for a hearing and petitions for leave to intervene should be served upon Michael I. Miller, Esquire, Sidley and Austin, One First National Plaza, Chicago, Illinois 60603, attorney for ComEd; Roy P. Lessy, Jr., Akin, Gump, Straus, Hauer, & Feld, L.L.P., 1333 New Hampshire Avenue, N.W., Suite 400, Washington, DC 20036, attorney for CalEnergy and MEC; the General Counsel, U.S. Nuclear Regulatory Commission, Washington, D.C. 20555; and the Secretary of the Commission, U.S. Nuclear Regulatory Commission, Washington,

D.C. 20555-001, Attention: Rulemakings and Adjudications Staff, in accordance with 10 CFR 2.1313.

The Commission will issue a notice or order granting or denying a hearing request or intervention petition, designating the issues for any hearing that will be held and designating the Presiding Officer. A notice granting a hearing will be published in the Federal Register and served on the parties to the hearing.

For further details with respect to this Order, see the application for consent concerning the proposed corporate merger of CalEnergy and MEHC submitted under cover letters dated September 10, 1998, and supplemental information submitted under cover letters dated September 16 and November 20, 1998, and the safety evaluation dated December 22, 1998, which are available for public inspection at the Commission's Public Document Room, The Gelman Building, 2120 L. Street, NW., Washington, DC, and at the local public document room located at the Dixon Public Library, 221 Hennipen Avenue, Dixon, Illinois.

FOR THE NUCLEAR REGULATORY COMMISSION


Samuel J. Collins, Director
Office of Nuclear Reactor Regulation

Dated at Rockville, Maryland
this 22nd day of December 1998



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

SAFETY EVALUATION BY THE OFFICE OF NUCLEAR REACTOR REGULATION
RELATED TO THE PROPOSED MERGER OF CALENERGY COMPANY, INC.
AND MIDAMERICAN ENERGY HOLDINGS COMPANY
QUAD CITIES NUCLEAR POWER STATION, UNITS 1 AND 2
DOCKETS NOS. 50-254 AND 50-265

1.0 BACKGROUND

CalEnergy Company, Inc., and MidAmerican Energy Company, by themselves and through Commonwealth Edison Company, submitted under cover of letters dated September 10, 1998, an application for approval of the indirect transfer of the licenses for the Quad Cities Nuclear Power Station, Units 1 and 2 (Quad Cities). The application was supplemented by letters dated September 16 and November 20, 1998, and enclosures thereto. MidAmerican Energy Company (MidAmerican), a wholly owned subsidiary of MidAmerican Energy Holdings Company (MEHC), is a twenty five percent (25%) non-operating owner of Quad Cities. Commonwealth Edison Company (ComEd) owns the remaining seventy five percent (75%) share of Quad Cities and is the licensed operator of the facility.

Under an Agreement and Plan of Merger dated as of August 11, 1998 (Merger Agreement), CalEnergy Company, Inc. (CalEnergy) will incorporate as an Iowa corporation, and essentially acquire MEHC for cash, resulting in CalEnergy becoming the parent company of MEHC. MidAmerican, an electric utility as defined in 10 CFR § 50.2, will remain as the NRC licensee as an indirect wholly-owned subsidiary of CalEnergy, with MEHC as an intermediary holding company. CalEnergy will be renamed MidAmerican Energy Holdings Company. The subsidiary MEHC will change its name at a future date. The application seeks Commission approval, under 10 CFR 50.80, of the indirect transfer of the licenses for Quad Cities, to the extent held by MidAmerican, that would result from consummation of the proposed merger between CalEnergy and MEHC.

2.0 FINANCIAL AND TECHNICAL QUALIFICATIONS

On the basis of the information submitted in the application, including supplements thereto, the staff finds that there will be no near-term substantive change in the financial ability of MidAmerican to contribute appropriately to the operations and decommissioning of Quad Cities as a result of the proposed merger. MidAmerican is, and would remain after the merger, an "electric utility" as defined in 10 CFR § 50.2, engaged in the generation, transmission and distribution of electricity and will remain subject to the rate regulatory authority of the Federal Energy Regulatory Commission, the Illinois Commerce Commission, the Iowa Utilities Board, and the South Dakota Public Utilities Commission, according to the application. Thus, pursuant

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to 10 CFR § 50.33(f) MidAmerican, as an electric utility, is exempt from further financial qualifications review.

However, in view of the NRC's concern that restructuring actions can lead to a diminution of assets necessary for the safe operation and decommissioning of a licensee's nuclear power plant, it is the NRC's practice to condition license transfer approvals upon a requirement that a licensee not transfer significant assets from the licensee without first notifying the NRC. This requirement assists the NRC in assuring that the licensee will continue to maintain adequate resources to contribute to the safe operation and decommissioning of its facilities. In this regard, MidAmerican has agreed to:

provide the Director of the Office of Nuclear Reactor Regulation a copy of any application, at the time it is filed, to transfer (excluding grants of a security interest or liens) from MidAmerican to its proposed parent, or any other affiliated company, facilities for the production, transmission, or distribution of electric energy having a depreciated book value exceeding ten percent (10%) of MidAmerican's consolidated net utility plant, as recorded on MidAmerican's books of account.

See Application of CalEnergy Company and MidAmerican Energy Company for Indirect Transfer of Control at 12-13. With the foregoing made a condition to the NRC's consent to the indirect license transfers, the NRC staff finds that MidAmerican will remain financially qualified to hold the facility licenses following the proposed merger.

With respect to technical qualifications, the proposed merger does not involve the licensed operator, Commonwealth Edison Company (ComEd), and will not effect any change in the responsibilities and obligations of ComEd or MidAmerican as set forth in the license. In addition, ComEd and MidAmerican are not proposing any change to either the required organization or personnel responsible for operation of the Quad Cities Nuclear Power Station, Units 1 and 2. Since MidAmerican is not authorized to operate the facility, the proposed merger presents no technical qualifications issues.

Comments were received by telephone from a concerned individual which directed the staff's attention to the September 25, 1998, proxy statement of MEHC, and to the pending law suit of Southern California Edison vs. Coso Finance Partners in California superior court, which involves subsidiaries of CalEnergy. After careful review of the proxy statement and a letter from CalEnergy's attorneys outlining the highlights of the law suit, staff finds that any current or potential financial repercussions with respect to these matters, in and of themselves, do not render MidAmerican financially unqualified to hold the licenses as a result of the proposed merger. The proxy statement did not contain any information that contradicted, or proved false, the information provided in the CalEnergy/MidAmerican application. These two items and other general concerns expressed by this individual may be of significance to a potential risk-adverse investor in CalEnergy, but do not alter the staff's finding of financial qualifications of MidAmerican.

3.0 ANTITRUST REVIEW

Section 105 of the Atomic Energy Act of 1954, as amended (the Act), requires the NRC to conduct an antitrust review in connection with an application for a license to construct or operate a facility under Section 103. The Quad Cities Nuclear Power Station, Units 1 and 2, were licensed under Section 104(b) and, as a result, the application regarding the proposed merger with CalEnergy is not subject to an antitrust review by the staff.

4.0 FOREIGN OWNERSHIP, CONTROL OR DOMINATION

The applicants state in their application that CalEnergy is a United States public company, traded on the New York Stock Exchange and is not now owned, controlled or dominated by an alien, a foreign corporation or a foreign government nor will it be so upon consummation of the merger. Furthermore, CalEnergy states in the application that the planned merger will not result in ownership, control, or domination of MidAmerican by a foreign corporation or foreign government, nor is MidAmerican presently so dominated or controlled. All current officers and directors of MidAmerican and MEHC are citizens of the United States. According to the application, only one proposed senior officer (President/Chief Operating Officer) of the merged CalEnergy is a foreign (Canadian) citizen. The proposed Chairman/Chief Executive Officer, Chief Financial Officer and General Counsel are all U.S. citizens. In addition, of the proposed board of CalEnergy following the merger, only two of fifteen members will be foreign (United Kingdom) citizens, according to the application. As stated above, the applicants have affirmed that the merged CalEnergy will not be owned, controlled, or dominated by foreign interests, notwithstanding the immediately preceding description of the proposed limited involvement of non-U.S. citizens in the company.

The staff does not know or have reason to believe that MidAmerican will be owned, controlled, or dominated by an alien, foreign corporation, or foreign government as a result of the proposed merger.

5.0 CONCLUSIONS

In view of the foregoing, the staff concludes that the proposed merger between CalEnergy and MEHC, resulting in CalEnergy becoming the parent company of MEHC, and the indirect parent of MidAmerican, will not adversely affect the financial qualifications of MidAmerican with respect to the operation and decommissioning of the Quad Cities Nuclear Power Station, Units 1 and 2. Also, there do not appear to be any problematic antitrust or foreign ownership considerations related to the Quad Cities licenses that would result from the proposed merger. Thus, the proposed merger will not affect the qualifications of MidAmerican as a holder of the licenses, and the indirect transfer of control of the licenses, to the extent effected by the proposed merger, is otherwise consistent with applicable provisions of law, regulations and orders issued by the Commission. Accordingly, with the condition discussed above relating to significant asset transfers, the NRC should approve the application regarding the proposed merger.

Principal Contributor: M A Dusaniwskyj

Date: December 22, 1998