



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

August 15, 1986

Docket No.: 50-529

Mr. E. E. Van Brunt, Jr.  
Executive Vice President  
Arizona Nuclear Power Project  
Post Office Box 52034  
Phoenix, Arizona 85072-2034

Dear Mr. Van Brunt:

Subject: Issuance of Amendment No. 3 to Facility Operating License NPF-51  
for Palo Verde Unit 2

On April 15, 1986, the Arizona Public Service Company filed with the Nuclear Regulatory Commission an Application in Respect of Sale and Leaseback Transactions on behalf of El Paso Electric Company (El Paso). This application was supplemented by subsequent submissions dated June 3, July 30, August 7, August 8, and August 13, 1986. On the totality of the circumstances presented, the Commission finds that the proposed financial transaction, subject to the conditions set forth below and specified in the enclosed license amendment, is acceptable under the Atomic Energy Act and the Commission regulations.

This approval is subject to the condition that the lessor and anyone else who may acquire an interest under the transaction which is the subject of this application are prohibited from exercising directly or indirectly any control over the licensees of the Palo Verde nuclear facility. For purposes of this condition, the limitations in 10 C.F.R. 50.81 "Creditor Regulations," as now in effect and as these may be subsequently amended, are fully applicable to the named lessor and any successor in interest to that lessor as long as the license for Palo Verde Nuclear Generating Station, Unit 2, remains in effect. This financial transaction shall have no effect on the license for the Palo Verde Nuclear Generating Station, Unit 2.

This transaction is similar to that approved by the Commission in its Order of December 12, 1985, with regard to the sale and leaseback of PNM's interest in Palo Verde Unit 1. Subject to the foregoing, the Commission hereby approves the application under the conditions set forth in the enclosed Amendment No. 3 to the Palo Verde Unit 2 license.

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A copy of the Safety Evaluation supporting the amendment is also enclosed.

Sincerely,

Original signed by:  
Richard H. Vollmer

for Harold R. Denton, Director  
Office of Nuclear Reactor Regulation

Enclosures:

1. Amendment No. 3 to NPF-51
2. Safety Evaluation

cc: See next page

for PD7 *nuq/bois*  
EALicitra/yt  
8/8/86

PD7  
JLee  
8/8/86

No objection (by phone 8/8/86)  
J Peterson

OSP  
JSaltzman  
8/1/86

OGC  
[Signature]  
8/8/86  
of days

DIR: PD7  
[Signature]  
8/13/86

PD7  
FMraglia  
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NRR  
HRDenton  
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Mr. E. E. Van Brunt, Jr.  
Arizona Nuclear Power Project

Palo Verde

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August 15, 1986

ISSUANCE OF AMENDMENT NO.3 TO FACILITY OPERATING  
LICENSE NPF-51 FOR PALO VERDE UNIT 2

DISTRIBUTION

Docket File 50-529

NRC PDR

Local PDR

PD7 Reading

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

ARIZONA PUBLIC SERVICE COMPANY, ET AL.\*

DOCKET NO. STN 50-529

PALO VERDE NUCLEAR GENERATING STATION, UNIT NO. 2

AMENDMENT TO FACILITY OPERATING LICENSE

Amendment No. 3  
License No. NPF-51

1. The Nuclear Regulatory Commission (the Commission) has found that:
  - A. The present amendment, issued in response to the April 15, 1986 application (and supplemental letters dated June 3, July 30, August 7, August 8, and August 13, 1986) by the Arizona Public Service Company with respect to a sale and leaseback financing transaction by licensee, El Paso Electric Company complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act) and the Commission's regulations set forth in 10 CFR Chapter I;
  - B. In approving the aforementioned application the Director of the Office of Nuclear Reactor Regulation, by letter of August 15, 1986, stated:

This approval is subject to the condition that the lessor and anyone else who may acquire an interest under the transaction which is the subject of this application are prohibited from exercising directly or indirectly any control over the licensees of the Palo Verde nuclear facility. For purposes of this condition, the limitations in 10 C.F.R. 50.81 "Creditor Regulations," as now in effect and as these may be subsequently amended, are fully applicable to the named lessor and any successor in interest to that lessor as long as the license for Palo Verde Nuclear Generating Station, Unit 2, remains in effect. This financial transaction shall have no effect on the license for the Palo Verde Nuclear Generating Station, Unit 2.

\*The other licensees are the Salt River Project Agricultural Improvement and Power District, El Paso Electric Company, Southern California Edison Company, Public Service Company of New Mexico, Los Angeles Department of Water and Power, and Southern California Public Power Authority.

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This transaction is similar to that approved by the Commission in its Order of December 12, 1985, with regard to the sale and leaseback of PNM's interest in Palo Verde Unit 1. Subject to the foregoing, the Commission hereby approves the application under the conditions set forth in the enclosed Amendment No. 3 to the Palo Verde Unit 2 license.

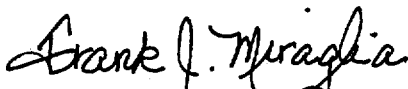
- C. The facility will operate in conformity with the above application and the Director of the Office of Nuclear Reactor Regulation's letter of August 15, 1986, the provisions of the Act, and the regulations of the Commission;
  - D. There is reasonable assurance (i) that the activities authorized by this amendment can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations;
  - E. The issuance of this amendment will not be inimical to the common defense and security or to the health and safety of the public;
  - F. The issuance of this amendment is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied.
  - G. The present amendment authorizes any such sale and leaseback transactions made pursuant thereto until September 30, 1986.
2. Accordingly, Paragraph 2.B(7) is hereby added to read as follows:
- (7)(a) El Paso Electric Company is authorized to transfer all or a portion of its 15.8% ownership share in Palo Verde Unit 2 and a proportionate share of a third of its interest in the Palo Verde common facilities to certain equity investors identified in its submission of August 7, 1986, and at the same time to lease back from such purchasers such interest sold in the Palo Verde plant. The term of the lease is for approximately 27 years subject to a right of renewal. Any such sale and leaseback transaction is subject to the representations and conditions set forth in the aforementioned application of April 15, 1986, and the subsequent submittals dated June 3, July 30, August 7, August 8, and August 13, 1986, as well as the letter of the Director of the Office of Nuclear Reactor Regulation dated August 15, 1986, consenting to such transactions. Specifically, the lessor and anyone else who may acquire an interest under this transaction are prohibited from exercising directly or indirectly any control

over the licensees of the Palo Verde Nuclear Generating Station, Unit 2. For purposes of this condition the limitations in 10 CFR 50.81, "Creditor Regulations," as now in effect and as they may be subsequently amended, are fully applicable to the lessor and any successor in interest to that lessor as long as the license for Palo Verde Unit 2 remains in effect; this financial transaction shall have no effect on the license for the Palo Verde nuclear facility throughout the term of the license.

- (b) Further, the licensees are also required to notify the NRC in writing prior to any change in: (i) the terms or conditions of any lease agreements executed as part of this transaction; (ii) the ANPP Participation Agreement, (iii) the existing property insurance coverage for the Palo Verde nuclear facility, Unit 2 as specified in licensee counsel's letter of November 26, 1985, and (iv) any action by the lessor or others that may have an adverse effect on the safe operation of the facility.

3. This license amendment is effective as of the date of issuance.

FOR THE NUCLEAR REGULATORY COMMISSION



Frank J. Miraglia, Director  
Division of PWR Licensing-B

Date of Issuance: August 15, 1986





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

SAFETY EVALUATION BY THE OFFICE OF NUCLEAR REACTOR REGULATION  
RELATED TO AMENDMENT NO. 3 TO FACILITY OPERATING LICENSE NO. NPF-51  
ARIZONA PUBLIC SERVICE COMPANY, ET AL.  
PALO VERDE NUCLEAR GENERATING STATION, UNIT NO. 2  
DOCKET NO. STN 50-529

1.0 INTRODUCTION

By application dated April 15, 1986, the Arizona Public Service Company (APS) on behalf of El Paso Electric Company (El Paso), requested approval for El Paso to sell and lease back all or part of El Paso's 15.8 percent ownership interest in the Palo Verde Nuclear Generating Station, Unit 2, and a proportionate share of one-third of El Paso's 15.8 percent ownership interest in the Palo Verde common facilities. In addition to information provided in the application, the licensees provided financial and other information by letters dated June 3, July 30, August 7, August 8, and August 13, 1986.

2.0 COMMISSION ACTION

On December 12, 1985, the Nuclear Regulatory Commission, upon review of the staff's Policy Papers SECY-85-350 and SECY 85-367 which contained a discussion of this type of proposed transaction, issued an Order <sup>1/</sup> consenting to a sale and leaseback transaction for Palo Verde Unit 1. To provide for health and safety concerns, it required that:

- (1) The lessor and anyone else who may acquire an interest under the proposed transaction be prohibited from exercising directly or indirectly any control over the licensees of Palo Verde Unit 1. For purpose of this condition, the limitations in 10 CFR 50.81 "Creditor Regulations" as now in effect, and as they may be subsequently amended, are fully applicable to the named lessor and any successor in interest to that lessor as long as the license for the Palo Verde Unit 1 remains in effect. Accordingly, this financial transaction shall have no effect on the license for Palo Verde Unit 1 throughout the term of the license.

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<sup>1/</sup> Arizona Public Service Company (Palo Verde Unit 1), Docket No. STN 50-528  
December 12, 1985.

- (2) The Palo Verde Unit 1 operating license be amended to expressly require that the NRC be notified in writing prior to any change in: (i) the executed lease agreements; (ii) the ANPP Participation Agreement; (iii) the existing insurance policies; and (iv) any action by the lessor or others which may have an adverse effect on the safe operation of the facility.
- (3) The Palo Verde Unit 1 license be amended to reflect the licensee's position as a lessee of the facility.

The Commission's Order authorized the sale and lease back of licensee, Public Service Company of New Mexico's interest in the Palo Verde Unit 1 facility. The present application for license amendment seeks authorization for a similar sale and lease back of El Paso's interest in Palo Verde Unit 2. By letter dated August 15, 1986, the Director of the Office of Nuclear Reactor Regulation has authorized such amendment.

### 3.0 CONTACT WITH STATE OFFICIAL

The Arizona Radiation Regulatory Agency has been advised of the proposed determination of no significant hazards consideration with regard to this amendment. No comments were received.

### 4.0 ENVIRONMENTAL CONSIDERATIONS

This amendment only involves the administration of the credit and financial arrangements for Palo Verde Unit 2. The parties will enter into agreements which provide for the sale and lease back of El Paso's ownership share under terms requiring El Paso's continued full control and responsibility over this ownership share. The lessor and anyone else who may acquire an interest under this transaction are prohibited from exercising, directly or indirectly, any control of the license. The amendment also includes a reporting requirement that the NRC must be notified in writing prior to any change in the executed lease agreements, the ANPP participation agreement, and the existing insurance policies. Accordingly, this amendment meets the eligibility criteria for categorical exclusion set forth in 10 CFR 51.22 (c)(10).

### 5.0 CONCLUSION

The staff has concluded, based on the considerations discussed above, that (1) there is reasonable assurance that the health and safety of the public will not be endangered by operation in the proposed manner, (2) such activities will be conducted in compliance with the Commission's regulations, and (3) the issuance of this amendment will not be inimical to the common defense and security or to the health and safety of the public. We, therefore, conclude that the request is acceptable.

Dated: August 15, 1986