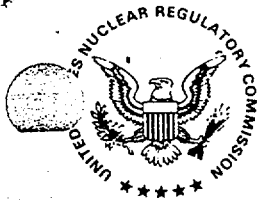


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*For*  
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UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D. C. 20555

December 2, 1987

Posted

*Amat. 1 to NPF-74*

Docket No.: STN 50-530

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. 1 TO FACILITY OPERATING LICENSE  
NO. NPF-74 FOR THE PALO VERDE NUCLEAR GENERATING STATION,  
UNIT NO. 3 (TAC NO. 65926)

On July 23, 1987, the Arizona Public Service Company filed with the Nuclear Regulatory Commission an Application in Respect of Sale and Leaseback Transactions involving Palo Verde Nuclear Generating Station, Unit 3. This application was for a license amendment to authorize sale and leaseback transactions by the El Paso Electric Company (El Paso). The aforementioned application was supplemented on November 6, and November 9, 1987, setting forth more information. On the totality of the circumstances presented, the Commission finds that the proposed financial transactions, subject to the conditions set forth below and specified in the enclosed license amendment, are acceptable under the Atomic Energy Act and the Commission regulations.

This approval is subject to the condition that the lessors, and anyone else who may acquire an interest under the transactions which are the subject of this application, are prohibited from exercising directly or indirectly any control over the licensees of the Palo Verde nuclear facilities. For purposes of this condition, the limitations in 10 CFR 50.81, "Creditor Regulations," as now in effect and as these may be subsequently amended, are fully applicable to the named lessors and any successors in interest to those lessors as long as the license for Palo Verde Nuclear Generating Station, Unit 3, remains in effect. These financial transactions shall have no effect on the license for the Palo Verde Nuclear Generating Station, Unit 3.

These transactions are similar to that approved by the Commission in its Order of December 13, 1985, with regard to the sale and leaseback of Public Service Company of New Mexico's (PNM) 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 to the license for Palo Verde, Unit 3. This amendment authorizes such sale and leaseback transactions until May 30, 1988.

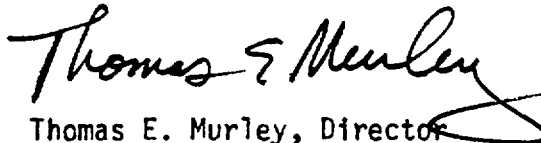
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A copy of the related Safety Evaluation is also enclosed. A Notice of Issuance will be included in the Commission's next regular bi-weekly Federal Register notice.

Sincerely,



Thomas E. Murley, Director  
Office of Nuclear Reactor Regulation

Enclosures:

1. Amendment No. 1 to NPF-74
2. Safety Evaluation

cc: See next page

✓

Mr. E. E. Van Brunt, Jr.  
Arizona Nuclear Power Project

Palo Verde

cc:

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7



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

ARIZONA PUBLIC SERVICE COMPANY, ET AL.\*

DOCKET NO. STN 50-530

PALO VERDE NUCLEAR GENERATING STATION, UNIT NO. 3

AMENDMENT TO FACILITY OPERATING LICENSE

Amendment No. 1  
 License No. NPF-74

1. The Nuclear Regulatory Commission (the Commission) has found that:
  - A. The present amendment, issued in response to the July 23, 1987 application, as supplemented on November 6 and 9, 1987, by the Arizona Public Service Company with respect to sale and lease-back financing transaction by 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 December 2, 1987, stated:

This approval is subject to the condition that the lessors and anyone else who may acquire an interest under the transactions which are the subject of this application, are prohibited from exercising directly or indirectly any control over the licensees of the Palo Verde nuclear facilities. For purposes of this condition, the limitations in 10 CFR 50.81, "Creditor Regulations," as now in effect and as these may be subsequently amended, are fully applicable to the named lessors and any successors in interest to those lessors as long as the license for Palo Verde Nuclear Generating Station, Unit 3, remains in effect. These financial transactions shall have no effect on the license for the Palo Verde Nuclear Generating Station, Unit 3.

\*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.

These transactions are similar to that approved by the Commission in its Order of December 12, 1985, with regard to the sale and leaseback of Public Service Company of New Mexico (PNM) 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 to the license for Palo Verde, Unit 3. This amendment authorizes such sale and leaseback transactions until May 30, 1988.

- C. The facility will operate in conformity with the application, 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 May 30, 1988.

2. Accordingly, Paragraph 2.B(6) is hereby added to read as follows:

- (6)(a) El Paso Electric Company is authorized to transfer all or a portion of its 15.8% ownership share in Palo Verde, Unit 3 and its interest in the Palo Verde common facilities to certain equity investors identified in its submissions of November 6 and 9, 1987, and at the same time to lease back from such purchasers such interest sold in the Palo Verde, Unit 3 facility. The term of the lease is for approximately 29½ years subject to a right of renewal. Sale and leaseback transactions of all or a portion of El Paso's ownership share in Palo Verde, Unit 3 are hereby authorized until May 30, 1988. Any such sale and leaseback transaction is subject to the representations and conditions set forth in the aforementioned application of July 23, 1987, and the subsequent submittals dated November 6 and 9, 1987, as well as the letter of the Director of the Office of Nuclear Reactor Regulation dated December 2, 1987, 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 3. 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 3 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 3 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.

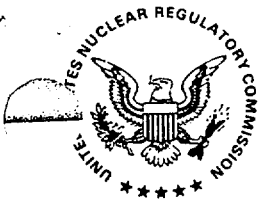
3. This license amendment is effective as of the date of issuance.

FOR THE NUCLEAR REGULATORY COMMISSION



Dennis M. Crutchfield, Director  
Division of Reactor Projects - III, IV,  
V and Special Projects

Date of Issuance: December 2, 1987



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

SAFETY EVALUATION BY THE OFFICE OF NUCLEAR REACTOR REGULATION  
RELATED TO AMENDMENT NO. 1 TO FACILITY OPERATING LICENSE NO. NPF-74

ARIZONA PUBLIC SERVICE COMPANY, ET. AL.

PALO VERDE NUCLEAR GENERATING STATION, UNIT NO. 3

DOCKET NO. STN 50-530

1.0 INTRODUCTION

By application dated July 23, 1987, and supplemented on November 6 and November 9, 1987, the Arizona Public Service Company (APS) requested approval for El Paso Electric Company (El Paso) to sell and lease back all or part of its ownership interest in Unit 3 of the Palo Verde Nuclear Generating Station.

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.

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

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- (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. Several license amendments have been issued for Palo Verde, Units 1 and 2 to reflect approval of sale and leaseback transactions. The present application for license amendment seeks authorizations of sale and leaseback transactions by El Paso of its ownership interests in Palo Verde, Unit 3.

### 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 these changes. No comments were received.

### 4.0 ENVIRONMENTAL CONSIDERATION

The amendment only involves the administration of the credit and financial arrangements for Palo Verde, Unit 3. The parties will enter into agreements which provide for the sale and lease back of ownership shares by El Paso under terms requiring continued full control and responsibility over these ownership shares by El Paso. The lessors and anyone else who may acquire an interest under these transactions are prohibited from exercising, directly or indirectly, any control of the licensees. The amendments also include 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. The Commission has previously issued proposed findings that the amendment involves no significant hazard consideration, and there has been no public comment on such finding. Accordingly, the amendment meets the eligibility criteria for categorical exclusion set forth in 10 CFR 51.22(c)(9). Pursuant to 10 CFR 51.22(b) no environmental impact statement or environmental assessment need to be prepared in connection with the issuance of this amendment.

### 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 requests are acceptable.

Principal contributor: M. Davis and Jean Lee

Dated: December 2, 1987