



South Texas Project Electric Generating Station P.O. Box 289 Wadsworth, Texas 77483

October 12, 2004
NOC-AE-04001787

U.S. Nuclear Regulatory Commission
Attention: James E. Dyer
Director, Office of Nuclear Reactor Regulation
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498 and STN 50-499
Intent to Transfer Generation Assets

Reference: Letter, M.C. Thadani to W.T. Cottle, "South Texas Project Electric Generating Station, Unit Nos. 1 and 2 - Issuance of Conforming Amendments re: Transfer of Ownership Interests to Texas Genco, LP," dated September 4, 2002

The referenced letter added a condition to the South Texas Project (STP) Operating Licenses such that Texas Genco, LP (Texas Genco) must provide the Director, Office of Nuclear Reactor Regulation a copy of any application to transfer facilities for the production of electric energy exceeding 10% of their net utility plant. STP Nuclear Operating Company (STPNOC) hereby submits this letter on behalf of Texas Genco to notify the Director of Texas Genco's plans, as further described below, to transfer their fossil-fuel electric generation assets to a newly organized limited partnership and affiliate of Texas Genco as an intermediate step in a larger sales transaction with GC Power Acquisition, LLC (GC Power). This transaction does not involve an "application" to another regulator, and therefore, there is no copy of such application to be submitted to NRC as contemplated by the license condition. However, to the extent the license condition is deemed to apply to the transaction, STPNOC provides notice as follows.

Currently, Texas Genco is an indirect subsidiary of Texas Genco Holdings, Inc. (TGN), which is itself an indirect subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy). TGN includes approximately 13,380 MWe of fossil generation assets and approximately 770 MWe of nuclear generation assets (STP). CenterPoint Energy has entered into a sales agreement to sell all of the TGN generation assets to GC Power.

The transaction through which CenterPoint Energy will sell TGN involves four steps. First, Texas Genco's fossil generation assets will be allocated to Texas Genco II LP (Genco II), a new indirect subsidiary of TGN. Second, CenterPoint Energy will buy the publicly held TGN stock.

A001

Third, an indirect subsidiary of GC Power will acquire the fossil generation assets. Finally, after NRC approval of the indirect transfer of control of the licenses, Texas Genco, which will continue to own its share of STP, will be transferred to GC Power through a merger of TGN and a subsidiary of GC Power. STPNOC, on behalf of Texas Genco and GC Power, will seek approval of any indirect transfer of control of STP resulting from this last step in the transaction in a separate application to be submitted to NRC concurrently with this letter of notification.

The sales transaction has been structured to ensure that Texas Genco will retain the requisite financial and managerial resources to continue to maintain its ownership interest in STP. The sales transaction will be described in more detail in the application for consent to an indirect transfer of control of the licenses.

At present, Texas Genco's share of the electrical output from STP is sold through (i) power sales agreements, (ii) sales under Texas PUC-mandated auctions, and (iii) other auction sales and negotiated transactions. During the interim period between steps 1 and 4, Texas Genco's share of the output from STP will continue to be sold through similar type sales. In addition, a substantial portion of Texas Genco's baseload capacity from 2005 through 2008 is subject to a power sales agreement with an affiliate of the Goldman Sachs Group. The power sales agreement was executed concurrently with the execution of the transaction agreement with GC Power in order to preserve the currently favorable prices in the ERCOT market. Deliveries under the power sales agreement will commence in January 2005. Pursuant to an agreement between Texas Genco and Genco II, Genco II has assumed the obligations to deliver power previously undertaken by Texas Genco, and Texas Genco has sold power forward on a unit contingent basis to Genco II in order to meet these obligations. In addition, Genco II will market and sell all of Texas Genco's uncontracted share of the output of STP. Texas Genco will receive 100% of the revenues from these sales.

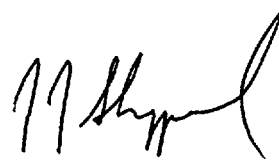
In addition to the substantial cash expected to be generated from these power sales, Texas Genco will also maintain committed financial resources sufficient to fund its anticipated cash needs and operating costs during the interim period. In particular, Texas Genco will retain all of the cash of TGN at the time of the transfer of the fossil assets, currently estimated to be \$269 million. It is anticipated that approximately \$174 million will be used in early 2005 for Texas Genco's acquisition of an additional 13.2% share of STP from AEP Texas Central Company. That transaction will be described in detail in an application submitted to the NRC by STPNOC for approval of the related license transfer. Nevertheless, the remaining available cash will provide approximately \$95 million of additional liquidity, a level of funding that is more than sufficient to cover the fixed operating costs that Texas Genco would expect to incur over a six-month outage, as suggested by the NRC Standard Review Plan (NUREG-1577, Rev. 1), and provides additional assurance that Texas Genco will continue to be financially qualified to own and maintain its interest in STP.

In the event that the NRC approval of the indirect transfer of control of Texas Genco's interest in STP cannot be obtained, or if some other event were to occur that precluded that transfer, Texas Genco would continue to own its interest in STP as an indirect wholly owned subsidiary of CenterPoint Energy and would maintain the requisite financial qualifications to continue to own

that interest. Currently, it is not anticipated that additional sources of funding would be required to maintain those financial qualifications.

Throughout each stage of the sales transaction and until the ultimate transfer of TGN to GC Power, Texas Genco will continue to satisfy the NRC's decommissioning funding assurance requirements under 10 CFR 50.75 in the same manner that it satisfies those requirements today. This will continue to be the case even in the event that the final step in the sales transaction is not completed.

If there are any questions regarding this intent to transfer Texas Genco's fossil generation assets, please contact John Conly at (361) 972-7336 or me at (361) 972-8757.

A handwritten signature in black ink, appearing to read "J. J. Sheppard". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

J. J. Sheppard
President & Chief Executive Officer

jtc

cc:
(paper copy)

Regional Administrator, Region IV
U.S. Nuclear Regulatory Commission
611 Ryan Plaza Drive, Suite 400
Arlington, TX 76011-8064

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852

Steven R. Hom
U. S. Nuclear Regulatory Commission
One White Flint North
11555 Rockville Pike
Rockville, MD 20852
Mail Stop OWFN/15-D21

Jeffrey Cruz
U. S. Nuclear Regulatory Commission
P. O. Box 289, Mail Code: MN116
Wadsworth, TX 77483

Richard A. Ratliff
Bureau of Radiation Control
Texas Department of State Health Services
1100 West 49th Street
Austin, TX 78756-3189

C. M. Canady
City of Austin
Electric Utility Department
721 Barton Springs Road
Austin, TX 78704

(electronic copy)

A. H. Gutterman
J. E. Matthews
Morgan, Lewis & Bockius LLP

L. D. Blaylock
City Public Service

R. L. Balcom
Texas Genco, LP

C. A. Johnson
AEP Texas Central Company

Jon C. Wood
Matthews & Branscomb

Stan Blanton
Balch & Bingham

David H. Jaffe
U. S. Nuclear Regulatory Commission

Gerry Garfield
Day, Berry & Howard