



**Pacific Gas and  
Electric Company®**

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June 20, 2006

PG&E Letter DCL-06-078

U.S. Nuclear Regulatory Commission  
ATTN: Document Control Desk  
Washington, DC 20555-0001

Docket No. 50-275, OL-DPR-80  
Docket No. 50-323, OL-DPR-82  
Diablo Canyon Units 1 and 2  
Supplemental Information to Support License Amendment Request 06-03,  
"Application for License Amendments to Delete Antitrust License Conditions"

Dear Commissioners and Staff:

Pacific Gas and Electric Company (PG&E) Letter DCL-06-007 dated January 19, 2006, submitted License Amendment Request (LAR) 06-03, "Application for License Amendments to Delete Antitrust License Conditions." The LAR proposes to delete Appendix C, "Antitrust Conditions," from Facility Operating License Nos. DPR-80 and DPR-82 for Units 1 and 2 of the Diablo Canyon Power Plant (DCPP), respectively. This letter provides supplemental information to support the LAR.

The LAR was the subject of a *Federal Register* notice on April 14, 2006 (71 FR 19551). In response to that notice, on May 12, 2006, counsel for the Northern California Power Agency (NCPA), a party in interest with respect to the Antitrust Conditions and related matters, filed comments on the LAR. Counsel for NCPA advised that PG&E and NCPA had reached a Settlement Agreement by which NCPA does not contest the grant of the amendments requested by PG&E. The comments included a copy of the Settlement Agreement that, at the time, had not yet been formally executed by the parties.

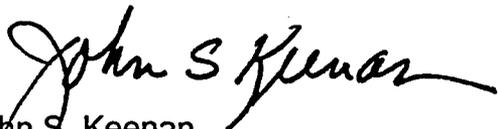
By this letter PG&E advises the Commission that the agreement has now been executed by both parties. Enclosure 1 contains a copy of the executed Settlement Agreement for the record.

This information does not affect the results of the analysis or the no significant hazards consideration determination previously transmitted in PG&E Letter DCL-06-007.

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If you have any questions, or require additional information, please contact Stan Ketelsen at (805) 545-4720.

Sincerely,



John S. Keenan  
*Senior Vice President – Generation and Chief Nuclear Officer*

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kjse/4328

Enclosure

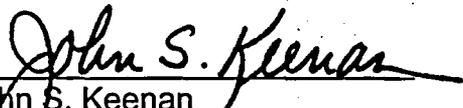
cc: Edgar Bailey, DHS  
Terry W. Jackson  
Bruce S. Mallett  
Robert McDiarmid, Esq.  
Diablo Distribution  
cc/enc: Alan B. Wang

UNITED STATES OF AMERICA  
NUCLEAR REGULATORY COMMISSION

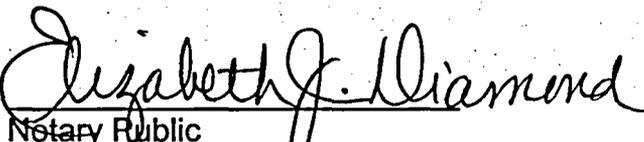
In the Matter of PACIFIC GAS AND ELECTRIC COMPANY	) Docket No. 50-275 ) Facility Operating License ) No. DPR-80
Diablo Canyon Power Plant Units 1 and 2	) Docket No. 50-323 ) Facility Operating License ) No. DPR-82

AFFIDAVIT

John S. Keenan, of lawful age, first being duly sworn upon oath states that he is Senior Vice President - Generation and Chief Nuclear Officer of Pacific Gas and Electric Company; that he has executed this supplemental information to support License Amendment Request 06-03 on behalf of said company with full power and authority to do so; that he is familiar with the content thereof; and that the facts stated therein are true and correct to the best of his knowledge, information, and belief.

  
 John S. Keenan  
 Senior Vice President - Generation and Chief Nuclear Officer

Subscribed and sworn to before me this 20th day of June, 2006, by John S. Keenan, personally known to me or proved to me on the basis of satisfactory evidence to be the person who appeared before me.

  
 Notary Public  
 County of San Francisco  
 State of California



**Settlement Agreement**

**SETTLEMENT AGREEMENT**

This settlement agreement is made as of this 25<sup>th</sup> day of May, 2006, by and between Pacific Gas and Electric Company ("PG&E") and the Northern California Power Agency ("NCPA"), jointly the Parties.

**Recitals**

WHEREAS, PG&E is the licensee of Facility Operating License Nos. DPR-80 and DPR-82 ("Licenses") for Units 1 and 2 of the Diablo Canyon Power Plant ("DCPP"); and

WHEREAS, the Licenses are subject to and now each contain Appendix C (the Antitrust Conditions); and

WHEREAS, PG&E has filed with the NRC in Docket Nos. 50-275 and 50-323 (the "NRC Proceedings") to remove the Antitrust Conditions from the Licenses; and

WHEREAS, the Antitrust Conditions arise out of the Stanislaus Commitments, which derived from the NRC licensing proceeding for the proposed, but never completed, Stanislaus Nuclear Plant, and which were included in the Licenses by virtue of PG&E's commitment in 1976 to the Department of Justice; and

WHEREAS, NCPA is and has been held to be a third party beneficiary of the Stanislaus Commitments, and has previously sought to enforce them in its capacity as a third party beneficiary; and

WHEREAS, PG&E and NCPA in November 1991 entered into a settlement ("1991 Settlement Agreement") in which PG&E agreed to abide by the Stanislaus Commitments through January 1, 2050, notwithstanding whether these commitments continue to be included in the DCPP Licenses; and

WHEREAS, PG&E has represented to the NRC in the NRC Proceedings that PG&E will continue to meet its obligations with respect to the Stanislaus Commitments pursuant to the 1991 Settlement Agreement; and

WHEREAS, PG&E and NCPA desire to settle and resolve any disputes concerning the NRC Proceedings and to avoid the further expense, burden and inconvenience of litigation,

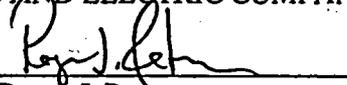
NOW THEREFORE, in reliance on the foregoing recitals, and in consideration of the mutual promises, covenants and obligations herein, the Parties hereby agree as follows:

Terms

1. PG&E, on behalf of itself, its successors and assigns, agrees that the 1991 Settlement Agreement is an enforceable contract and that NCPA may between now and January 1, 2050 enforce the rights accorded to a Neighboring Entity under the Stanislaus Commitments, attached hereto at Exhibit 1, and the 1991 Settlement Agreement, attached hereto as Exhibit 2.
2. This Settlement Agreement does not in any way interpret, expand or otherwise modify the terms of the Stanislaus Commitments or the 1991 Settlement Agreement or any subsequent interpretation of either of those documents by the Federal Energy Regulatory Commission ("FERC").
3. NCPA agrees not to oppose or attempt to condition in any way PG&E's request in the NRC Proceedings to remove the Antitrust Conditions from the Licenses.

4. The 1991 Settlement Agreement and this Settlement Agreement may be enforced at the FERC, to the extent it may have jurisdiction over this matter, or in any court of competent jurisdiction.
5. The undersigned represent that they have the requisite authority to act on behalf of, and bind PG&E and NCPA, respectively, to the terms of this Settlement Agreement.

PACIFIC GAS AND ELECTRIC COMPANY

By:   
Name: Roger J. Peters  
Title: Senior Vice President and Chief Counsel  
Date: May 12, 2006

NORTHERN CALIFORNIA POWER AGENCY

By:   
Name: James H. Pope  
Title: General Manager  
Date: 5/25/06