

November 2, 2006

Mr. James J. Sheppard
President and Chief Executive Officer
STP Nuclear Operating Company
South Texas Project Electric
Generating Station
P.O. Box 289
Wadsworth, TX 77483

SUBJECT: SOUTH TEXAS PROJECT, UNITS 1 AND 2 - RE: MODIFICATION OF
FINANCIAL SUPPORT AGREEMENT; THRESHOLD REVIEW OF
CORPORATE RESTRUCTURING UNDERTAKEN BY NRG ENERGY, INC.
(TAC NOS. MD1651 AND MD1652)

Dear Mr. Sheppard:

This is in response to the STP Nuclear Operating Company's (STPNOC) letters dated April 13 and May 25, 2006. In both letters, STPNOC, the operating licensee for South Texas Project, Units 1 and 2, described a corporate restructuring plan for NRG Energy, Inc. (NRG Energy), the ultimate parent company of co-owner licensee NRG South Texas LP (formerly Texas Genco LP), effective as of April 30, 2006. In the letter dated April 13, 2006, STPNOC stated that the new corporate structure would not involve any direct or indirect transfer of control of NRG South Texas LP or its licenses.

In the letter dated May 25, 2006, STPNOC requested that the U.S. Nuclear Regulatory Commission (NRC) confirm that no license transfer approval was necessary regarding the new corporate structure. In addition, STPNOC requested in both letters that the NRC provide written consent to proposed amendments to the existing financial support agreement for \$120 million, dated April 13, 2005 (April 2005 Agreement) between NRG Texas LLC (formerly Texas Genco LLC) and NRG South Texas LP. These proposed amendments would: (1) conform the names in the April 2005 Agreement to reflect the new names of the parties; (2) conform the April 2005 Agreement to reflect the new intermediary relationships between NRG Energy and NRG South Texas LP; and (3) acknowledge that the obligations under the April 2005 Agreement can be offset by support payments made by NRG Energy under a new 2006 financial support agreement for \$120 million, dated April 11, 2006, provided by NRG Energy for NRG South Texas LP.

The NRC staff responded to STPNOC's requests by letter dated August 18, 2006. Subsequent review indicated that there were some errors in the NRC staff's response and that the letter had not been signed by the Director of the NRC's Office of Nuclear Reactor Regulation, as stipulated in condition 1 of the NRC's Order Approving Application Regarding Proposed Acquisition, dated April 4, 2005 (April 2005 Order). Accordingly, this letter supersedes NRC's letter dated August 18, 2006.

According to STPNOC, under the new corporate structure, NRG Energy retains ultimate control of NRG South Texas LP. No new intermediate parent entity was introduced between NRG Energy and NRG South Texas LP. STPNOC noted in its May 25, 2006, letter that as a result of the restructuring, NRG Energy now directly owns 100 percent of the voting stock of Texas Genco Holdings, Inc. (TGN), which in turn controls NRG South Texas LP through two intermediary companies. Before the restructuring, TGN was also indirectly controlled by NRG Energy. Therefore, in the new corporate structure, NRG Energy continues to exercise control over TGN and, thus over NRG South Texas LP. The changes in intermediary company relationships that occurred did not affect control of NRG South Texas LP by NRG Energy.

The NRC staff performed a threshold review of the facts and circumstances surrounding the NRG Energy corporate restructuring immediately after receipt of STPNOC's letter dated April 13, 2006, and concluded, at that time, that no NRC direct or indirect license transfer approvals were required under Section 50.80 of Title 10 of the *Code of Federal Regulations* with respect to the licenses held by NRG South Texas LP. This letter confirms such conclusion.

The corporate restructuring did reduce the level of assets backing the April 2005 Agreement, in that NRG Texas LLC no longer indirectly owns the South Texas Project nuclear assets as it did when the agreement was first presented to the NRC and executed. However, given the implementation of the April 11, 2006, support agreement provided by NRG Energy, which effectively provides the full amount of additional financial assurance that staff relied upon in connection with the April 2005 Order, I have concluded that the proposed changes to the April 13, 2005, support agreement are acceptable. Accordingly, the proposed changes to the April 2005 Agreement may be made.

Sincerely,

/RA/

J. E. Dyer, Director
Office of Nuclear Reactor Regulation

Docket Nos. 50-498 and 50-499

cc: See next page

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October 2006