

**Units 1 and 2 Operating Licenses**



*A subsidiary of Pinnacle West Capital Corporation*

Palo Verde Nuclear  
Generating Station

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**102-06284-DCM/RKR**  
**November 23, 2010**

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

Dear Sirs:

**Subject: Palo Verde Nuclear Generating Station (PVNGS)**  
**Units 1 and 2**  
**Docket Nos. STN 50-528 and 529**  
**Amendment No. 15 to the Arizona Nuclear Power Project**  
**Participation Agreement**

In accordance with the requirements of Section 2.B.(6)(b) of the PVNGS Unit 1 Operating License and both Sections 2.B.(6)(b) and 2.B.(8)(b) of the PVNGS Unit 2 Operating License, Arizona Public Service Company (APS) hereby provides notification of Amendment No. 15 to the Arizona Nuclear Power Project Participation Agreement. This amendment changes the method of allocating operating agent corporate overhead charges to the Arizona Nuclear Power Project participants.

No commitments are being made to the NRC by this letter. Should you need further information regarding this amendment, please contact Russell A. Stroud, Licensing Section Leader, at (623)393-5111.

Sincerely,

DCM/RAS/RKR/gat

Enclosure: Amendment No. 15 to the Arizona Nuclear Power Project Participation Agreement

cc: E. E. Collins, Jr. NRC Region IV Regional Administrator  
J. R. Hall NRC NRR Senior Project Manager  
L. K. Gibson NRC NRR Project Manager  
J. H. Bashore NRC Senior Resident Inspector (acting) for PVNGS

A member of the **STARS** (Strategic Teaming and Resource Sharing) Alliance

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*ADD  
NRR*

**ENCLOSURE**

**Amendment No. 15 to the  
Arizona Nuclear Power Project  
Participation Agreement**

AMENDMENT NUMBER 15  
TO THE ARIZONA NUCLEAR POWER PROJECT  
PARTICIPATION AGREEMENT

**1. PARTIES:**

The Parties to this Amendment Number 15 to the Arizona Nuclear Power Project Participation Agreement, hereinafter referred to as "Amendment Number 15," are: ARIZONA PUBLIC SERVICE COMPANY, a corporation organized and existing under and by virtue of the laws of the State of Arizona, hereinafter referred to as "Arizona"; SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized and existing under and by virtue of the laws of the State of Arizona, hereinafter referred to as "Salt River Project"; SOUTHERN CALIFORNIA EDISON COMPANY, a corporation organized and existing under and by virtue of the laws of the State of California, hereinafter referred to as "Edison"; PUBLIC SERVICE COMPANY OF NEW MEXICO, a corporation organized and existing under and by virtue of the laws of the State of New Mexico, hereinafter referred to as "PNM"; EL PASO ELECTRIC COMPANY, a corporation organized and existing under and by virtue of the laws of the State of Texas, hereinafter referred to as "El Paso"; SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, a joint powers agency organized and existing under and by virtue of the laws of the State of California, doing business in the State of Arizona as SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY ASSOCIATION, hereinafter referred to as "SCPPA"; and DEPARTMENT OF WATER AND POWER OF THE CITY OF LOS ANGELES, a municipal corporation organized and existing under and by virtue of the laws of the State of California, hereinafter referred to as "LADWP;" all hereinafter individually referred to as "Party" and collectively as "Parties."

**2. RECITALS:**

2.1. Arizona, Salt River Project, Edison, PNM, El Paso, SCPPA and LADWP are parties to a certain agreement entitled Arizona Nuclear Power Project Participation Agreement, dated as of August 23, 1973, as amended by: Amendment Number 1, dated as of January 1, 1974; Amendment Number 2, dated as of August 28, 1975; Amendment Number 3, dated as of July 22, 1976; Amendment Number 4, dated as of December 15, 1977; Amendment Number 5, dated as of December 5, 1979; Amendment Number 6, effective as of October 16, 1981; Amendment Number 7, effective as of April 1, 1982; Amendment Number 8, executed as of September 12, 1983; Amendment Number 9, executed as of June 12, 1984; Amendment Number 10, executed as of November 21, 1985; Amendment Number 11, effective January 10, 1987; Amendment Number 12, effective August 5, 1988; Amendment Number 13, effective June 15, 1991; and, Amendment Number 14, effective June 20, 2000, retroactive to January 1, 1993, hereinafter, as so amended, referred to as the "Participation Agreement."

2.2. Pursuant to and in accordance Section E.11 of Appendix E to the Participation Agreement, El Paso and PNM filed protests regarding the allocation of certain overhead expenses of Arizona, and its corporate parent Pinnacle West Capital Corporation, to the Arizona Nuclear Power Project Participants, as specified in the Participation Agreement, Appendix E, (the "Protests").

- 2.3. After analysis and consideration of the Protests by the appropriate Palo Verde Participant committees, the Participants were not able to resolve the Protests to the satisfaction of all of the Participants.
- 2.4. Prior to the call for submission of the Protests to arbitration as specified in Sections 24 and E.11.2 of the Participation Agreement, the Participants referred the Protests to *higher authority* within each of the respective Participants' organizations in accordance with Section 6.10 of the Participation Agreement.
- 2.5. In December 2009 and January 2010, the Participants' *higher authority* (i.e. the Chief Executive Officers, or the positional equivalent) met and conferred in an attempt to resolve the Protests. Following these meetings, PNM agreed to withdraw its protest, and Arizona proposed modifications to certain provisions of the Participation Agreement, Appendix E, to resolve El Paso's protest; El Paso agreed to Arizona's proposed settlement, and agreed to withdraw its protest provided that all Participants execute this Amendment No. 15.

**3. AGREEMENT:**

For and in consideration of the premises and the mutual obligations of and undertakings by the Parties as hereinafter provided in this Amendment Number 15 to the Participation Agreement, the Parties agree as follows.

**4. EFFECTIVE DATE:**

This Amendment Number 15 shall become effective forty-five (45) days after the date that the Party which last in time executes this Amendment Number 15. The amended procedures for allocating costs that are associated with this Amendment Number 15 shall be applied retroactively to January 1, 2010.

**5. DEFINED TERMS:**

- 5.1. The Capitalized and *italicized* words and phrases used in this Amendment Number 15 shall have meanings ascribed to them in the Participation Agreement as amended by this Amendment Number 15.
- 5.2. All references to a "Section" or "Sections" in this Amendment Number 15 shall mean a Section or Sections of the Participation Agreement unless the text expressly states otherwise.

**6. AMENDMENTS TO THE ARIZONA NUCLEAR POWER PROJECT MADE BY THIS AMENDMENT NUMBER 15:**

- 6.1. Delete Section E.1.9.
  
- 6.2. Delete Section E.2.3.

- 6.3. Amend Section E.3.1.4, by deleting the strikethrough text and substituting therefor the underlined text:

A portion of the expenses incurred by the Operating Agent's System Electric Operations Department, such portion to be determined by multiplying the total of such expenses by a ratio, the numerator of which is ~~the total payroll for ANPP and the denominator of which is the total payroll supervised by the Executive Vice President, Engineering and Operations~~ the annual total net megawatt-hour generation of the ANPP (known and referred to as the Palo Verde Nuclear Generating Station), and the denominator of which is the annual total net megawatt-hour generation of all Arizona-operated electric generating facilities plus Arizona megawatt-hour power purchases plus Arizona megawatt-hour transmission of power for others. Such expenses shall include, but not be limited to, the following:

- 6.4. Amend Section E.6.1, by deleting the strikethrough text:

The Operation and Maintenance A & G Ratio shall be the percentage computed by dividing (i) the sum of (a) the total amounts charged to FPC Accounts 920 and 921 multiplied by the O & M Ratio computed in accordance with Section E.8 hereof, (b) the total amounts charged to FPC Accounts 923 (except any amounts directly chargeable to ANPP) and 935 (formerly 932), (c) the product of the portion of labor charges included within (a) and (b) above multiplied by the Payroll Tax Ratio computed in accordance with Section E.4 hereof (d) the product of the labor charges included within (a) and (b) above multiplied by the Benefits Ratio computed in accordance with Section E.5 hereof, and (e) the product of the labor charges included within (a) and (b) above multiplied by the Compensation Insurance Ratio computed in accordance with Section E.7 hereof, ~~less (f) the one percent (1%) portion of the administrative and general expenses charged to FPC Accounts 920 and 921 allocable to contract operation and maintenance~~ by (ii) the direct labor (i.e. total labor less labor charge to clearing accounts) chargeable to operation and maintenance accounts (exclusive of A & G), to include O & M labor billed to Participants and the labor portion of Start-Up and Pre-Operation Costs subject to the Operation and Maintenance A & G Ratio pursuant to Section L.1.3, and to exclude the labor portion of Start-Up and Pre-Operation Costs subject to the construction administrative and general expense percentage of one percent (1%) pursuant to Section L.1.3.

- 6.5. Amend Section E.6.2, by deleting the strikethrough text and substituting therefor the underlined text:

The following example sets forth the method to be employed by the Operating Agent to determine the Operation and Maintenance A & G Ratio:

EXAMPLE COMPUTATION OF OPERATIONS  
AND MAINTENANCE A & G RATIO  
(Based on the Operating Agent's 1984 Experience)

<u>Labor</u>	<u>Total</u>
Administrative and General Salaries	

charged to FPC Account 920	\$17,408,542	\$17,406,779
Office Supplies and Expenses		
charged to FPC Account 921		<u>7,208,084</u>
[Line 7] Total	<u>\$17,408,542</u>	<u>\$24,614,863</u>
Total FPC Accounts 920 and 921,		
multiplied by O & M Ratio @ 68.48%	\$11,921,544	\$16,856,504
FPC Account 923		919,166
FPC Account 932 (presently 935)	<u>1,555,913</u>	<u>3,127,002</u>
[Line 11] Subtotal	\$13,477,457	\$20,902,672
Payroll Taxes @ 7.126%		960,404
Pensions and Benefits @ 13.512%		1,821,074
Compensation Insurance @ 0.451%		60,783
<del>Less that 1% portion of A &amp; G allocable</del>		
<del>to Contract Operation and Maintenance</del>		<del>1,483,314</del>
Total administrative and general expenses		
allocable to operations and maintenance	<del>\$22,261,619</del>	<u>\$23,744,933</u>

Labor Base

Direct labor charged to system operations and		
maintenance, as further defined in Section E.6.1		\$148,557,953
Less direct labor charged to administrative and		
general expenses (FPC Accounts 920-931 and 935)		<u>13,160,635</u>
Labor Base		\$135,397,318

~~Operation and Maintenance~~

~~A & G Ratio for 1984  $\$22,261,619 \div \$135,397,318 = 16.442\%$~~

Operation and Maintenance

A & G Ratio for 1984  $\$23,744,933 \div \$135,397,318 = 17.537\%$

Note: All labor figures include loading for allowed time.

6.6. Amend Section E.9.1, by deleting the strikethrough text:

The Capital A & G Ratio shall be the percentage computed by dividing (i) the amounts equal to ~~(A)~~ the sum of (a) the total amounts charged to FPC Accounts 920 and 921 multiplied by the Construction Ratio computed in accordance with Section E.8 hereof, and (b) the product of the portion of labor charges included in (a) above multiplied by the sum of the Payroll Tax Ratio, the Benefits Ratio and the Compensation Insurance Ratio ~~less (B) the one percent (1%) portion of administrative and general expenses charged to FPC Accounts 920 and 921 allocable to contract construction (including the administrative and general expenses (i) recovered on Start-Up and Pre-Operation Costs subject to the construction administrative and general expense percentage of one percent (1%) pursuant to Section L.1.3, (ii) recovered on ANPP construction expenses, and (iii) allocable to other contract construction)~~ by (ii) the direct labor in construction accounts (exclusive of A & G), to include construction labor billed to Participants, excluding the labor portion of Start-Up and Pre-Operation Costs subject to the Operation and Maintenance A & G Ratio pursuant to Section L.1.3, less the labor portion of construction expenses to which the one percent (1%) portion of administrative and general expenses is applicable, and less the labor portion of Start-Up and Pre-Operation Costs subject to the construction administrative and general expense percentage of one percent (1%) pursuant to Section L.1.3.

6.7. Amend Section E.9.2, by deleting the strikethrough text and substituting therefor the underlined text:

The following example sets forth the method to be employed by the Operating Agent to determine the Capital A & G Ratio:

EXAMPLE COMPUTATION OF CAPITAL A & G RATIO

(Based on the Operating Agent's 1984 Experience)

<u>Labor</u>		<u>Total</u>
Administrative and General Salaries charged to FPC Account 920	\$17,408,542	\$17,406,779
Office Supplies and Expenses charged to FPC Account 921		<u>7,208,084</u>
[Line 7] Total	<u>\$17,408,542</u>	<u>\$24,614,863</u>
Total FPC Accounts 920 and 921, multiplied [Line 9] by Construction Ratio @ 28.355%	\$ 4,936,192	\$ 6,979,544
Payroll Taxes @ 7.126%		351,753
Pensions and Benefits @ 13.512%		666,978
Compensation Insurance @ 0.451%		22,262
<del>Less that 1% portion of A &amp; G allocable</del>		

<del>to Contract Construction, as further defined in Section E.9.1</del>	<del>3,634,919</del>
Total A & G Expense allocable to Construction	\$ 4,385,618 <del>8,020,537</del>
Construction Direct Labor	56,061,726
Less the labor portion of Construction Work, Start-Up and Pre-Operation Costs subject to the construction administrative and general expense percentage of one percent (1%)	13,496,824
Total Construction Direct Labor Base	\$42,564,902

~~Capital A & G Ratio for 1984  $\$4,385,618 \div \$42,564,902 = 10.303\%$~~

Capital A & G Ratio for 1984  $\$8,020,537 \div \$42,564,902 = 18.843\%$

Note: All labor figures include loading for allowed time.

**7. EXECUTION BY COUNTERPARTS:**

This Amendment Number 15 may be executed in any number of counterparts, and upon execution by all Participants, each executed counterpart shall have the same force and effect as an original instrument and as if all Participants had signed the same instrument. Any signature page of this Amendment Number 15 may be detached from any counterpart of the Amendment Number 15 without impairing the legal effect of any signature thereon, and may be attached to another counterpart of this Amendment Number 15 identical in form hereto but having attached to it one or more signature pages.

[Remainder of page intentionally left blank. This page is followed by seven consecutive execution pages.]