PROPRIETARY

Nuclear Innovation
North America LLC
4000 Avenue F, Suite A
Bay City, Texas 77414

January 17, 2012
U7-C-NINA-NRC-120008
10 CFR 2.390

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
One White Flint North
11555 Rockville Pike
Rockville, MD 20852-2738

South Texas Project
Units 3 and 4
Docket Nos. 52-012 and 52-013
Response to Request for Additional Information

Reference: Letter, Scott Head to Document Control Desk, "Response to Request for Additional Information," U7-C-NINA-NRC-120005, dated January 11, 2012.

This letter provides a supplemental response to Request for Additional Information (RAI) Letter No. 388 related to South Texas Project (STP) Units 3 & 4 Combined License Application (COLA) Part 1, General and Financial Information. As stated in the referenced letter, the attachments to this letter provide the supplemental response to RAI 01-24.

Attachment 1 provides a supplemental response to Questions 5, 6 and 7 included in RAI 01-24. Attachment 2 is an affidavit requesting that the information provided in Attachment 4 and marked as proprietary be withheld from public disclosure in accordance with 10 CFR 2.390. Attachment 3 is a redacted, non-proprietary version, suitable for public disclosure, of the financial projections included in Attachment 4. Attachment 4 submits the proprietary financial projections referenced in the supplemental response to Questions 5, 6, and 7 of RAI 01-24. When separated from the proprietary material in Attachment 4, this letter is not proprietary.

There are no changes to the COLA required as a result of this response.

There are no commitments in this letter.

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NRO

STI 33255853

If there are any questions regarding this response, please contact Scott Head at (361) 972-7136, or Bill Mookhoek at (361) 972-7274.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on 1/17/12

Mark McBurnett
Chief Nuclear Officer
Nuclear Innovation North America LLC

ccc

Attachments:

1. RAI 01-24 Response, Supplement 1
2. Proprietary Information Affidavit
3. Summary Financial Projections (Non-proprietary)
4. Summary Financial Projections (PROPRIETARY)

cc: w/o attachment except*
(paper copy)

Director, Office of New Reactors
U. S. Nuclear Regulatory Commission
One White Flint North
11555 Rockville Pike
Rockville, MD 20852-2738

Regional Administrator, Region IV
U. S. Nuclear Regulatory Commission
1600 E. Lamar Blvd.
Arlington, Texas 76011-4511

Kathy C. Perkins, RN, MBA
Assistant Commissioner
Division for Regulatory Services
Texas Department of State Health Services
P. O. Box 149347
Austin, Texas 78714-9347

Alice Hamilton Rogers, P.E.
Inspection Unit Manager
Texas Department of State Health Services
P. O. Box 149347
Austin, Texas 78714-9347

*Steven P. Frantz, Esquire
A. H. Gutterman, Esquire
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Ave. NW
Washington D.C. 20004

*Stacy Joseph
Two White Flint North
11545 Rockville Pike
Rockville, MD 20852

(electronic copy)

*George F. Wunder
*Stacy Joseph
Charles Casto
U. S. Nuclear Regulatory Commission

Jamey Seely
Nuclear Innovation North America

Peter G. Nemeth
Crain, Caton and James, P.C.

Richard Peña
Kevin Pollo
L. D. Blaylock
CPS Energy

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

In the Matter of	)		
	)		
Nuclear Innovation North America LLC	)	Docket Nos.	52-012
	)		52-013
South Texas Project	)		
Units 3 and 4	)		

AFFIDAVIT

I, Mark McBurnett, being duly sworn, hereby depose and say that I am Chief Nuclear Officer of Nuclear Innovation North America LLC (NINA); that I am duly authorized to sign and file with the Nuclear Regulatory Commission (NRC) this affidavit on behalf of NINA; and state:

1. I am authorized to execute this affidavit on behalf of NINA, Nuclear Innovation North America Investments Holdings LLC ("NINA Holdings"), Nuclear Innovation North America Investments LLC ("NINA Investments"), NINA Texas 3 LLC ("NINA 3") and NINA Texas 4 LLC ("NINA 4").

2. NINA 3 & NINA 4 are providing information to support the application for Combined Licenses for STP Units 3 & 4. The information being submitted contains financial projections for the planned operation of STP 3&4, and contains proprietary commercial and financial information that should be held in confidence by the NRC pursuant to the policy reflected in 10 CFR2.390(a)(4), because:

    i. This information is and has been withheld in confidence by NINA 3, NINA 4 and their affiliates.

    ii. This information is of a type that is customarily held in confidence by NINA 3, NINA 4 and their affiliates, and there is a rational basis for doing so because the information contains sensitive legal and financial information concerning financing arrangements and project costs for NINA 3 and NINA 4.

    iii. This information is being transmitted to the NRC voluntarily, in confidence and under the provisions of 10 CFR2.390(a)(4) and it is to be received in confidence by the NRC.

    iv. This information is not available in public sources and could not be gathered readily from other publicly available information.

v. Public disclosure of this information would create substantial harm to the competitive position of NINA 3, NINA 4, and their affiliates by disclosing internal business and financial information.

3. The information in Attachment 4 is proprietary in its entirety and has been appropriately marked as proprietary. A redacted version suitable for public disclosure is provided as Attachment 3.

4. The information has substantial commercial value. The information requested to be withheld reveals commercially valuable and sensitive information and information about financing arrangements. Public disclosure of this proprietary information is likely to cause substantial harm to the competitive position of NINA 3 and NINA 4, NINA Investments, NINA Holdings and NINA itself because it would enhance the ability of competitors to gain knowledge of our costs and our commercial strategies.

5. Accordingly, NINA 3 and NINA 4 request that the entire Attachment 4 accompanied by this affidavit be withheld from public disclosure pursuant to 10 CFR 2.390(a)(4).

Mark McBurnett
Chief Nuclear Officer
Nuclear Innovation North America LLC

STATE OF TEXAS)
)
COUNTY OF MATAGORDA)

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this 17 day of January, 2012.

LOREE ESTHER ELTON
MY COMMISSION EXPIRES
October 18, 2015

Loree Esther Elton
Notary Public in and for the
State of Texas

RAI 01-24

The request for additional information (RAI) is for Part 1, General and Financial Information, Rev. 6 of the combined license application (COLA) for the South Texas Project, Units 3 and 4. On June 23, 2011, NINA submitted an update to the South Texas Project Units 3 and 4, Combined License Application (COLA) Part 1, General and Financial Information (ML111780305). The update to the COL application included updated information regarding financial qualifications and ownership interests in STP 3 and 4. In order for the staff to make a determination, provide responses to the following questions.

RESPONSE, Supplement 1:

As stated in the response to RAI 01-24 in letter U7-C-NINA-NRC-120005, dated January 11, 2012, financial projections requested in Questions 5, 6 and 7 of RAI 01-24 are provided as described below.

Question 5: Sources of funds for Operation: Income Statement

Pursuant to 10 CFR 50.33(f)(2), "...the applicant shall submit information that demonstrates that the applicant possesses or has reasonable assurance of obtaining the funds necessary to cover estimated operation costs for the period of the license...and shall indicate the source(s) of funds to cover these costs."

Pursuant to 10 CFR 50.33(f)(5), "The Commission may request an established entity or newly-formed entity to submit additional or more detailed information respecting its financial arrangements and status of funds if the Commission considers this information appropriate. This may include information regarding a licensee's ability to continue the conduct of the activities authorized by the license and to decommission the facility."

Submit a projected income statement for the first ten years of operations, including the following rows of information: total revenues from sales of energy, operations expenses, overhead and administration expenses, subtotal (net operating income), other income, debt financing(interest), decommissioning expense, taxes and grand total. The format should follow the model as submitted by Constellation Energy in its 2009 license transfer application on January 22, 2009 (ML09290101). Provide third party substantiation for revenue and expense assumptions. Include a summary of the experience and qualifications of the preparer(s) of the projection, the basis of the projection, and citations to the information sources used in the projection.

For the projected income statements, perform the following sensitivity analyses:

Base Case: 100% Market based revenue
Sensitivity Analysis 1: 100% Market based revenue with at 10% reduction in MWhr Sales
Sensitivity Analysis 2: 100% Market based revenue with a 10% increase in Operating Expenses

RESPONSE (Supplement 1) to Question 5:

The requested Projected Income Statement and Sensitivity Analyses 1 & 2 are provided in Pages 1-3 of Attachment 4. The projections were prepared by Blackstone Advisory Partners LLC (Blackstone) with input from NINA, NINA's investors, and Science Applications International Corporation (SAIC). SAIC provided the input for the assumed annual market price of electricity based upon SAIC projections of Houston Zone gas prices.

Blackstone has been acting as a financial advisor for Toshiba America Nuclear Energy Corporation. Blackstone is a leading independent global financial advisor, having advised on mergers and acquisitions totaling over $400 billion in value. The company has a long-standing track record of advising on significant power sector transactions, including most recently advising GDF Suez Energy International in connection with its merger with International Power.

SAIC is a FORTUNE 500® scientific, engineering, and technology applications company that uses its considerable knowledge to solve problems in national security, energy and environment, health, and cybersecurity. Recent notable clients include the U.S. Environmental Protection Agency, National Grid Corp., City of Oklahoma City, and National Nuclear Security Administration Office of Defense Programs.

SAIC developed price projections at the Houston zone or hub. Twice per year, SAIC develops a base case forecast for the ensuing 20 years of monthly fuel prices, annual emission allowance prices, annual electric capacity additions, annual electric capacity prices (where relevant), and hourly electric energy prices for 32 market areas across the United States, including the Houston zone. These forecasts are developed using a suite of integrated models, including the industry-standard MarketPower™ and PROMOD™ models, which are used to generate the final hourly electric energy price forecasts. The power price forecast in the base case is based upon SAIC's 3Q2011 base case.

The Projected Income Statement was prepared using the SAIC "Base Case," which NINA and Blackstone believe represents a consensus view of the market, *i.e.*, a view that is neither optimistic nor pessimistic as compared with other mainstream views of the relevant market. Pages 7 and 8 of Attachment 4 show additional SAIC scenarios that assume more favorable views of the future market: (1) High Capital Cost case; (2) High Gas Price case; (3) Carbon Case; and (4) Gas Price and Carbon case. Each of these scenarios would produce more favorable financial projections.

Question 6: Sources of funds for Operation: Market Price Projection

Pursuant to 10 CFR 50.33(f)(2), "...the applicant shall submit information that demonstrates that the applicant possesses or has reasonable assurance of obtaining the funds necessary to cover estimated operation costs for the period of the license..."

Provide a market price projection for power for the same 10 yr period to substantiate revenue projections for question 5. Include a summary of the experience and qualifications of the preparer(s) of the projection, the basis of the projection, and citations to the information sources used in the projection. What impact will lower than expected natural gas prices have on the applicant's ability to cover costs, including operations, maintenance and interest, for STP Units 3 and 4 project assuming no changes in direct costs or in subsidies?

RESPONSE (Supplement 1) to Question 6:

The requested market price projection is provided as a line item for each year in the Projected Income Statement provided in Attachment 4. Further details regarding the source of the market price projection are provided in response to Question 5. Because the assumed market price projections are based upon natural gas price assumptions, Sensitivity Case 1 provided in response to Question 5 reflects the impact of lower than expected gas prices.

Question 7: Projected Statement of Operating Cashflows

Pursuant to 10 CFR 50.33(f)(2), "...the applicant shall submit information that demonstrates that the applicant possesses or has reasonable assurance of obtaining the funds necessary to cover estimated operation costs for the period of the license..."

Submit a projected statement of operating cashflows for the first ten years of operations, including debt service payments, using the same revenue assumptions as the Base Case income statement. Include a summary of the experience and qualifications of the preparer(s) of the projection, the basis of the projection, and citations to the information sources used in the projection. Perform the same two sensitivity analyses as for the projected income statement.

RESPONSE (Supplement 1) to Question 7:

The requested statement of operating cashflows and sensitivities are provided in Pages 4-6 of Attachment 4. These projections were prepared in same manner as the Projected Income Statement described in response to Question 5.

Attachment 3

Summary Financial Projections (Non-proprietary)

January 11, 2012

Projected Income Statement: *Base Case*

Projected Income Statement
($ in millions except where noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net Plant Operating Capacity (GW)[1]													
Capacity Factor[2]													
Total Generation (GWh)													
Price ($/MWh)[3]													
Total Revenue													
Operating Expenses													
Fixed O&M:													
Labor													
Materials													
Services													
Other													
Refueling Expense													
Fixed O&M Subtotal													
Variable O&M:													
Fuel Expense[4]													
DOE Spent Fuel Charge													
Property Taxes													
Insurance Costs													
Business Interruption Insurance													
Decommissioning Expense													
Variable O&M Subtotal													
Depreciation													
Operating Income													
Texas Franchise Tax (Expense) / Benefit													
Net Interest (Expense) / Income													
Earnings Before Taxes													
Less: Income Taxes[5]													
Net Income													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Projected operating capacity net of auxiliary load.
(2) Capacity Factor accounts for availability, degradation, and operating days of STP Units 3&4.
(3) SAIC power price projections based on Houston Zone gas prices.
(4) First fuel load is depreciated with project costs.
(5) Assumed tax rate of 35.0%.

Projected Income Statement: *Sensitivity Case 1*

Sensitivity Case 1 assumes a 10% reduction in annual megawatt-hour sales.

Projected Income Statement

($ in millions except where noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net Plant Operating Capacity (GW)[1]	[redacted]												
Capacity Factor[2]													
Total Generation (GWh)													
Price ($/MWh)[3]													
Total Revenue													
Operating Expenses													
Fixed O&M:													
Labor													
Materials													
Services													
Other													
Refueling Expense													
Fixed O&M Subtotal													
Variable O&M:													
Fuel Expense[4]													
DOE Spent Fuel Charge													
Property Taxes													
Insurance Costs													
Business Interruption Insurance													
Decommissioning Expense													
Variable O&M Subtotal													
Depreciation													
Operating Income													
Texas Franchise Tax (Expense) / Benefit													
Net Interest (Expense) / Income													
Earnings Before Taxes													
Less: Income Taxes[5]													
Net Income													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Projected operating capacity net of auxiliary load.
(2) Capacity Factor incorporates a 10% reduction in megawatt-hours sales. It also accounts for availability, degradation, and operating days of STP Units 3&4.
(3) SAIC power price projections based on Houston Zone gas prices.
(4) First fuel load is depreciated with project costs.
(5) Assumed tax rate of 35.0%.

Projected Income Statement: *Sensitivity Case 2*

Sensitivity Case 2 assumes a 10% increase in annual operating expenses.

Projected Income Statement

($ in millions except where noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net Plant Operating Capacity (GW)[1]	[redacted]												
Capacity Factor[2]													
Total Generation (GWh)													
Price ($/MWh)[3]													
Total Revenue													
Operating Expenses													
Fixed O&M:													
Labor													
Materials													
Services													
Other													
Refueling Expense													
Fixed O&M Subtotal													
Variable O&M:													
Fuel Expense[4]													
DOE Spent Fuel Charge													
Property Taxes													
Insurance Costs													
Business Interruption Insurance													
Decommissioning Expense													
Variable O&M Subtotal													
Depreciation													
Operating Income													
Texas Franchise Tax (Expense) / Benefit													
Net Interest (Expense) / Income													
Earnings Before Taxes													
Less: Income Taxes[5]													
Net Income													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Projected operating capacity net of auxiliary load.
(2) Capacity Factor accounts for availability, degradation, and operating days of STP Units 3&4.
(3) SAIC power price projections based on Houston Zone gas prices.
(4) First fuel load is depreciated with project costs.
(5) Assumed tax rate of 35.0%.

Projected Statement of Operating Cash Flows: *Base Case*

Projected Statement of Operating Cash Flows
($ in millions except where noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flow from Operations:	[redacted]												
Net Income													
Plus: Depreciation & Amortization													
Plus: Decommissioning Expense													
Plus: Deferred Taxes													
Plus: Nuclear Fuel Expense[1]													
Net Capitalized Interest													
Changes in Working Capital													
CFO													
Cash Flow from Investing:													
Capital Expenditures[2]													
Nuclear Fuel Purchases													
Contribution to Decommissioning Fund													
Other[3]													
CFI													
Free Cash Flow													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Depreciation of nuclear fuel costs.
(2) Includes construction and maintenance capital expenditures.
(3) Power sales during commissioning.

Projected Statement of Operating Cash Flows: *Sensitivity Case 1*

Sensitivity Case 1 assumes a 10% reduction in annual megawatt-hour sales.

Projected Statement of Operating Cash Flows

($ in millions except where noted)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flow from Operations:	[redacted]												
Net Income													
Plus: Depreciation & Amortization													
Plus: Decommissioning Expense													
Plus: Deferred Taxes													
Plus: Nuclear Fuel Expense[1]													
Net Capitalized Interest													
Changes in Working Capital													
CFO													
Cash Flow from Investing:													
Capital Expenditures[2]													
Nuclear Fuel Purchases													
Contribution to Decommissioning Fund													
Other[3]													
CFI													
Free Cash Flow													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Depreciation of nuclear fuel costs.
(2) Includes construction and maintenance capital expenditures.
(3) Power sales during commissioning.

Projected Statement of Operating Cash Flows: *Sensitivity Case 2*

Sensitivity Case 2 assumes a 10% increase in annual operating expenses.

Projected Statement of Operating Cash Flows

($ in millions except where noted)

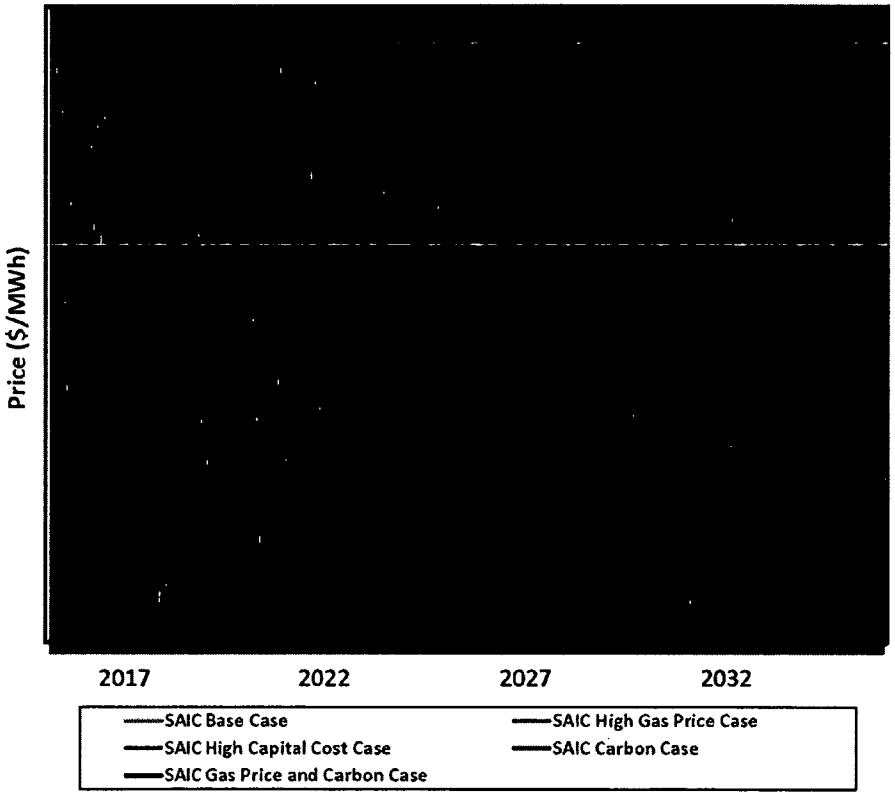
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash Flow from Operations:													
Net Income													
Plus: Depreciation & Amortization													
Plus: Decommissioning Expense													
Plus: Deferred Taxes													
Plus: Nuclear Fuel Expense[1]													
Net Capitalized Interest													
Changes in Working Capital													
CFO													
Cash Flow from Investing:													
Capital Expenditures[2]													
Nuclear Fuel Purchases													
Contribution to Decommissioning Fund													
Other[3]													
CFI													
Free Cash Flow													

Source: Management assumptions.
Note: Represents 92.375% NINA interest in STP 3&4.
(1) Depreciation of nuclear fuel costs.
(2) Includes construction and maintenance capital expenditures.
(3) Power sales during commissioning.

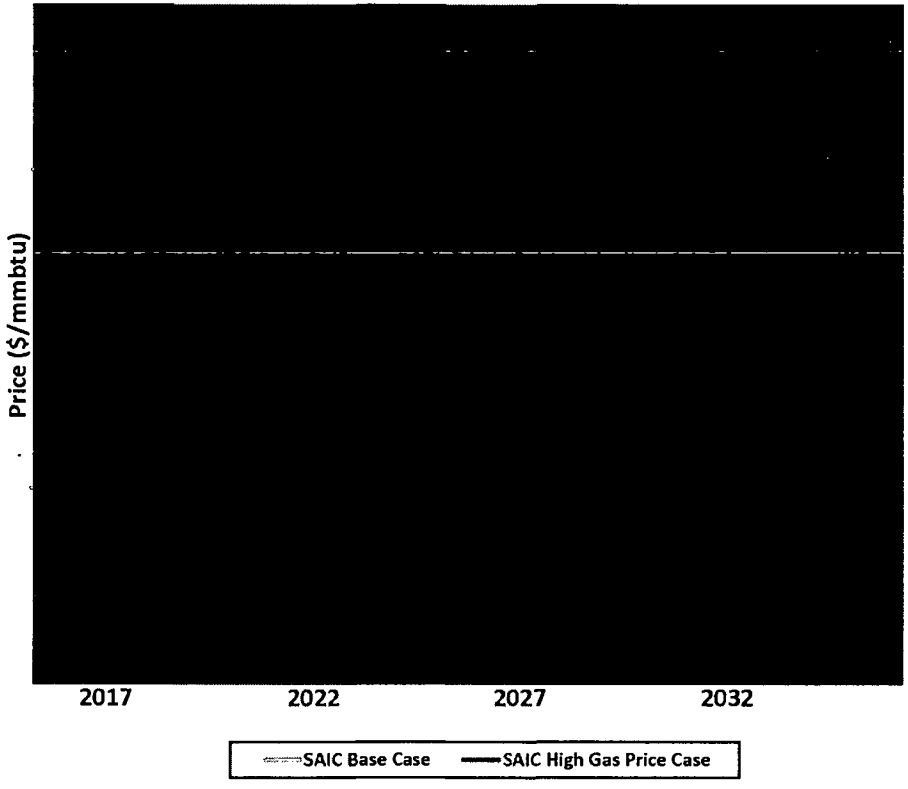
Power Price Projections

Current financial projections are based on the power price forecast developed by SAIC. Projected Base Case power prices as well as the underlying gas price assumptions are shown below.

Power Prices
($ / MWh)



Henry Hub Natural Gas Prices
($ / mmbtu)

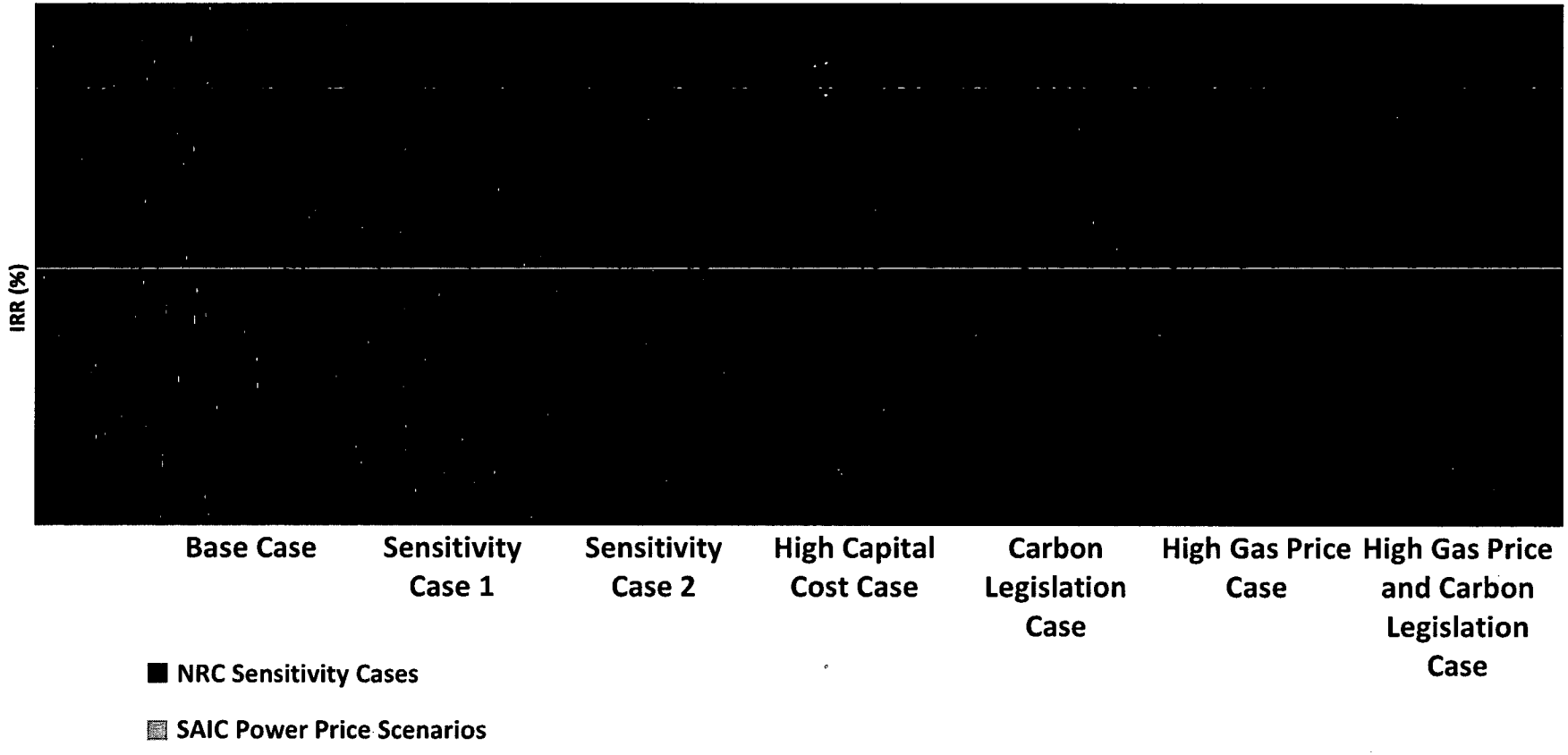


Source: SAIC.

Overview of Investor Returns

The economics of the project from the perspective of a new equity investor are highly sensitive to assumptions related to gas prices, carbon legislation, and operational efficiency.

Projected IRRs Based on Selected Assumptions [1]



Source: Management assumptions, SAIC.
Note: IRR calculated over the life of the project. Assumes investor funds its equity commitment at FNTP. Based on pre-tax cash flows to equity holders.
(1) Sensitivity Case 1 assumes a 10% reduction in megawatt-hour sales. Sensitivity Case 2 assumes a 10% increase in annual operating expenses.