



An EDISON INTERNATIONAL Company

Harold B. Ray
Executive Vice President

November 12, 1996

Mr. Frank J. Miraglia, Jr.
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Miraglia:

Subject: **Docket Nos. 50-206, 50-361, and 50-362**
Restructuring Issues
San Onofre Nuclear Generating Station
Units 1, 2, and 3

This letter provides an update to my letter of June 3, 1996 to Mr. William T. Russell regarding restructuring issues as they affect the San Onofre Nuclear Generating Station (SONGS). In particular, my June 3 letter indicated that Southern California Edison Company (Edison) was reviewing the issue of the creation of an Independent System Operator (ISO) and would inform the NRC of any necessary changes to its SONGS operating licenses. Edison has now concluded that creation and operation of the ISO will not alter the technical basis under which Edison received its operating licenses for the SONGS units and therefore does not require NRC consent. However, in the interest of providing the NRC with information about technical aspects of the restructuring and deregulation that relate to operation of SONGS, this letter addresses recent California legislative action and addresses the creation of the ISO.

On September 23, Governor Wilson signed into law Assembly Bill 1890 (AB 1890). This bill provides for the restructuring of the electric industry in the state of California beginning January 1, 1998. As it relates to SONGS, this bill reaffirms that the SONGS Incremental Cost Incentive Pricing ratemaking mechanism previously established in California Public Utilities Commission (CPUC) Decisions as discussed in my June 3 letter will continue through December 31, 2003. In addition, AB 1890 reaffirms that nuclear decommissioning costs shall be recovered, as a matter of California State law, as a nonbypassable charge until the Decommissioning Fund is fully funded. This decommissioning funding provision also applies to Edison's 15.8% share of Palo Verde Nuclear Generating Station.

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Based on the enactment of this bill, the following provisions discussed in my June 3 letter will remain unchanged: (1) Edison will recover its SONGS 2 and 3 operating and other incremental costs over the eight year period through a pre-set price (averaging four cents) for each kilowatt-hour of energy produced by these units, (2) following this eight year transition period, SONGS 2 and 3 generation will be sold under competitive market conditions, (3) fifty percent of the post-2003 benefits of SONGS 2 and 3 operation will be allocated to ratepayers, and (4) Edison will retain full cost-of-service rate recovery of SONGS 2 and 3 decommissioning costs. The only provision discussed in my January 3 letter that is changed by AB 1890 relates to accelerated recovery of Edison's sunk cost investment in SONGS 2 and 3. Under recent CPUC decisions, Edison would have obtained accelerated recovery of its pre-April 14, 1996 sunk investment costs in SONGS 2 and 3 over an eight year period (1996-2003). However, under AB 1890, Edison will obtain accelerated recovery of its sunk investment in SONGS 2 and 3 costs over a six year period (1996-2001). This change will not affect Edison's ability to meet its public health and safety responsibilities under its nuclear licenses, and it will provide full recovery of the required decommissioning costs.

AB 1890 also contemplates the implementation of an ISO by January 1, 1998. Specifically, the bill includes the following provisions for the ISO:

1. The ISO shall ensure efficient use and reliable operation of the transmission grid consistent with achievement of planning and operating reserve criteria no less stringent than those established by the Western Systems Coordinating Council (WSCC) and the North American Electric Reliability Council (NERC).
2. The ISO shall immediately participate in all relevant Federal Regulatory Commission (FERC) proceedings.
3. The ISO shall adopt inspection, maintenance, repair, and replacement standards for the transmission facilities under its control to provide for high quality, safe, and reliable service.
4. The ISO shall adopt standards for reliability and safety during periods of emergency and disaster.
5. The ISO shall perform a review following a major outage that affects at least 10 percent of the customers of the entity providing the local distribution service.

These functions are currently provided by the utilities who own and operate the various transmission systems in the state. For the transmission systems associated with the

SONGS units these functions are provided by Edison and San Diego Gas & Electric (SDG&E.)

In anticipation of creation of the ISO, we reviewed the licensing history of the SONGS units. We conclude that creation of the ISO does not require any changes to the technical basis for the SONGS licenses and therefore does not require NRC consent. However, some specific attributes of the offsite transmission system are relied upon by SONGS and by the Nuclear Regulatory Commission (NRC), and must be maintained by the ISO when it assumes operating control of the offsite transmission system. These specific attributes of the offsite transmission system are (1) requirements contained in the regulations (10 CFR 50, Appendix A, General Design Criterion 17), (2) the SONGS Technical Specifications, and (3) reliability and stability in accordance with established criteria. Further discussion of these attributes is provided in the following paragraph.

The regulations (10 CFR 50 Appendix A, General Design Criterion 17) require two connections from the plant to the offsite transmission system, each of which is designed to be available in sufficient time to assure that (1) fuel design limits and design conditions of the reactor coolant pressure boundary are not exceeded as a result of anticipated operational occurrences and (2) the core is cooled and containment integrity and other vital functions are maintained in the event of postulated accidents. This requirement for two offsite power connections is also included in the SONGS Technical Specifications (Limiting Condition for Operation 3.8.1). This design will not be changed. Further, the offsite transmission system will continue to be owned, operated, and maintained by Edison and SDG&E. However, the transmission system will be under the dispatch authority of the ISO, rather than by Edison and SDG&E. The ISO will also be responsible for other functions, as discussed above, previously performed by Edison and SDG&E.

As part of the SONGS 2 and 3 operating license application, Edison performed and the NRC reviewed detailed reliability and stability analyses of the transmission systems. These studies are documented in Section 8.2 of the SONGS 2 and 3 Updated Final Safety Analysis Report. We recognize that it is important to maintain the reliability and stability of the transmission system. Edison has proposed to the FERC that the ISO assume responsibility for control area operations now being performed by Edison, and be obligated, at a minimum, to meet WSCC's, NERC's, and Edison's existing specific reliability requirements and operating guidelines. At this time no changes are anticipated in operation of the transmission system that would result in degradation of its reliability and stability.

In preparation for the transfer of control of the transmission system to the ISO, Edison will ensure that the essential plant specific requirements for the offsite transmission

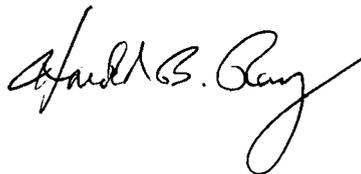
system at SONGS are firmly established between Edison and the ISO. To this end, Edison is preparing a definition of the specific technical and regulatory requirements that SONGS has for the offsite power system, including (1) capacity to support both anticipated operational occurrences and design basis accident mitigation, (2) requirements for line availability, voltage, frequency, and notification to the SONGS control room whenever specific impaired or degraded grid situations exist, (3) performance of system stability studies, and (4) the maintenance of offsite power supply operability requirements. Based on FERC acceptance of our proposed role for the ISO, this should ensure that our requirements for the offsite transmission system will continue to be met. Consequently, no change to the technical basis for the SONGS licenses will be required as a result of the creation of the ISO and therefore NRC consent is not required.

As the ISO is created over the next 15 months, Edison will continuously assess any implications for SONGS. If the development of the ISO is substantially different from our current expectations, such that NRC consent is required, Edison will notify the NRC promptly on these issues and provide input to you accordingly.

We recognize that the NRC is concerned regarding potential safety impacts on power reactor licensees resulting from the economic deregulation and restructuring of the electric utility industry, as indicated in the recently published draft policy statement. We will continue to follow the NRC's efforts on these issues.

If you have any questions about information in this letter, please call.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Berg". The signature is fluid and cursive, with a large, sweeping flourish at the end.

cc: L. J. Callan, Administrator, NRC Region IV
J. E. Dyer, Director, Division of Reactor Projects, Region IV
K. E. Perkins, Jr., Director, Walnut Creek Field Office, NRC Region IV
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