



UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

SAFETY EVALUATION BY THE OFFICE OF NUCLEAR REACTOR REGULATION

PROPOSED ORGANIZATIONAL AND FINANCIAL RESTRUCTURING

SAN DIEGO GAS AND ELECTRIC COMPANY

DOCKET NOS. 50-206, 50-361 AND 50-362

SAN ONOFRE NUCLEAR GENERATING STATION, UNITS NOS. 1, 2 AND 3

1.0 INTRODUCTION

By letter dated November 15, 1994, Richard A. Meserve of Covington & Burling, Counsel for San Diego Gas & Electric Company (SDG&E), informed the Nuclear Regulatory Commission (NRC) that a corporate restructuring of SDG&E has been proposed that will result in the creation of a holding company under the temporary name SDO Parent Company, Inc. (Parent Company), of which SDG&E would become a subsidiary. SDG&E is a 20-percent co-owner of San Onofre Nuclear Generating Station (SONGS), Units 1, 2, and 3. Under the restructuring, the holders of SDG&E common stock will become the holders of common stock of the Parent Company on a share-by-share basis. After the restructuring, SDG&E will continue to be a public utility providing the same utility services as it did immediately prior to the reorganization. SDG&E will continue to be a licensee of the SONGS units, and no direct transfer of the operating licenses or interests in the units will result from the restructuring. Approval for the restructuring is being sought from the NRC pursuant to 10 CFR 50.80.

Pursuant to 10 CFR 50.80, the Commission may approve the transfer of control of a license, after notice to interested persons. Such action is contingent upon the Commission's determination that the holder of the license and the transfer of such control is otherwise consistent with applicable provisions of law, regulations, and orders of the Commission.

2.0 ANTITRUST REVIEW

The corporate restructuring of SDG&E outlined in the November 15, 1994, letter does not appear to present any opportunity for the new indirect owner of SONGS, Units 2 and 3,¹ to exert any undue market power over other power systems in the geographic area served by the SONGS facilities. The new owner will be a holding company owned and controlled by the existing SDG&E shareholders. Therefore, the staff finds that the restructuring, as proposed, will not materially affect the operation or control of SONGS nor the bulk power services markets served by the SONGS facilities.

¹ SONGS Unit 1 was not licensed under Section 103 of the Atomic Energy Act and is not subject to the provisions of Section 105c(2) of the Act concerning antitrust review.

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3.0 AVAILABLE FUNDS

The submittal states that the proposed restructuring will have no impact on the funds available for SDG&E to carry out activities under the operating licenses. The Federal Energy Regulatory Commission will still regulate SDG&E's wholesale electric rates, and the California Public Utility Commission will also maintain jurisdiction over the licensee's retail electric rates. In addition, the submittal states that the restructuring will have no effect on SDG&E's capital structure or capital costs and will not result in any change in SDG&E's wholesale or retail rates. Moreover, there will be no change in SDG&E's source of funds for operating its utility facilities, including operating costs and eventual decommissioning costs for the SONGS units.

Based on the above information, the staff finds that there will be no change in the amount of revenues, the source of funds, or SDG&E's ability to obtain funds necessary to operate and decommission its nuclear plants as a result of the proposed restructuring.

4.0 MANAGEMENT OF SDG&E UTILITY OPERATIONS

SDG&E stated in its application that the proposed restructuring will have no effect upon the management of SDG&E's utility operations. The holding company structure retains the utility as a discrete and wholly separate entity which functions in the same fashion as it did prior to restructuring. SDG&E management will continue to make its own decisions with regard to utility planning, operation, financial requirements, purchasing, and sales. No SDG&E nuclear management positions will be changed by the restructuring.

Based on the continuity of management described above, the staff finds that the proposed restructuring will not adversely affect SDG&E's involvement in the management of the SONGS facility.

5.0 FOREIGN OWNERSHIP, CONTROL, OR DOMINATION

The licensee indicated in its submittal that after restructuring is implemented, Parent Company will become the sole holder of SDG&E outstanding common stock, and the current holders of SDG&E's common stock will become holders of the common stock of Parent Company on a share-for-share basis. Thus, previous holders of SDG&E common stock will own Parent Company common stock in the same proportion as SDG&E common stock was held. Currently, only 0.2 percent of the total outstanding shares of SDG&E are held in foreign accounts.

Based on the above discussion, the staff finds that the proposed restructuring will not result in SDG&E being owned, controlled, or dominated by foreign interests.

6.0 FINANCIAL QUALIFICATIONS ANALYSIS

SDG&E will continue to remain a 20-percent owner of the three-unit SONGS and will remain an electric utility engaged in the generation, transmission, and distribution of electric energy for wholesale and retail sale. As indicated in the November 15, 1994, letter to the NRC (see testimony by N.A. Peterson, SDG&E, before the California Public Utilities Commission, November 7, 1994), for the 9 months ended September 30, 1994, SDG&E earned net income of over \$86 million on operating revenues of approximately \$1.37 billion. SDG&E achieved similar results in 1992 and 1991. SDG&E's common stockholder equity exceeded \$1.46 billion. This represented approximately 49 percent of total capitalization as compared to 46.5-percent capitalization from long-term debt. Such a capitalization ratio indicates excellent financial health in that SDG&E is not obligated to make overly burdensome interest payments on its debt. Similarly, SDG&E's "times-interest-earned" ratio is a healthy 4.8, which indicates that it has a substantial cushion of pre-tax earnings to pay interest obligations. SDG&E had total plant assets net of depreciation in 1993 exceeding \$3.1 billion. SDG&E's latest rating in Value Line (November 25, 1994, p. 1732) indicates very healthy "A+" financial strength. Similarly, the most recent rating by Moody's in its 1994 Public Utility Manual of SDG&E's long-term bonds was "AA3," which is an excellent rating indicating sound investment quality and protection for long-term bond investors. In sum, SDG&E is financially sound. The proposed restructuring should not adversely affect SDG&E's financial health, but rather should improve SDG&E's ability to maintain its financial health in an increasingly competitive environment and, as asserted, serve to help insulate SDG&E from non-utility activities by SDO.

In its letter to the NRC dated March 24, 1995, SDG&E committed to "provide the Director of the Office of Nuclear Reactor Regulation with 60 days prior notice of a transfer (excluding grants of security interests or liens) from SDG&E to its proposed parent or to any other affiliated company of facilities for the production, transmission or distribution of electric energy having a depreciated book value exceeding one percent (1%) of SDG&E's consolidated net utility plant, as recorded on SDG&E's books of account." The staff believes this commitment, together with SDG&E's recent and projected strong financial performance, provides reasonable assurance that SDG&E will continue to maintain adequate resources to contribute its share of the operating and decommissioning costs for the SONGS units. Therefore, the staff concludes that SDG&E's proposed restructuring will not adversely affect its financial qualifications with respect to the SONGS facilities.

7.0 CONCLUSION

Based on the above determinations, the staff concludes that the proposed action

- (1) will not reduce funds available to SDG&E to carry out activities under its operating license,
- (2) will not adversely affect the management of SDG&E utility operations,
- (3) will not result in SDG&E becoming owned, controlled, or dominated by an alien, a foreign corporation, or a foreign government,
- (4) will not affect the qualifications of SDG&E as a holder of the license for the SONGS units, and
- (5) is otherwise consistent with the applicable provisions of the law, regulations, and orders issued by the Commission pursuant thereto.

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Date: April 20, 1995