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50-287	Oconee Nuclear Station, Unit 3, Duke Power Co.		05000287
50-369	William B. McGuire Nuclear Station, Unit 1, Duke Powe		05000369
50-370	William B. McGuire Nuclear Station, Unit 2, Duke Powe		05000370
50-413	Catawba Nuclear Station, Unit 1, Duke Power Co.		05000413
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SUBJECT: Addresses impact on DPC as an NRC licensee if it merges w/ PanEnergy Corp. DPC announced its intent to acquire the natural gas transmission company based in Houston, TX on 961125.

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DUKE POWER

January 6, 1996

U. S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555

Subject: Oconee Nuclear Station
Docket Nos. 50-269, 50-270, 50-287
McGuire Nuclear Station
Docket Nos. 50-369, 50-370
Catawba Nuclear Station
Docket Nos. 50-413, 50-414
Duke Power Company Acquisition of PanEnergy

Ref: (1) Ltr dated June 21, 1996 from William T. Russell,
NRC/ONRR to W.H. Grigg, Duke Power Company

On November 25, 1996, Duke Power Company announced that it intended to acquire PanEnergy Corp, a natural gas transmission company based in Houston, Texas. The purpose of this letter is to address the merger's resulting impact on Duke Power Company as an NRC licensee.

By Reference (1), NRC transmitted a copy of Administrative Letter 96-02, "Licensees Responsibilities Related to Financial Qualifications," and communicated the expectation that licensees inform the NRC of, and

. . . seek and obtain prior NRC consent for any changes that would constitute a transfer of an NRC license, directly or indirectly, through transfer of control of the license to any person.

Duke Power Company's acquisition of PanEnergy does not constitute a transfer of an NRC license, directly or indirectly, to any person.

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Reference 1 also expressed the Commission's concern that

. . . corporate changes such as mergers. . . for the purpose of securing a more competitive position in the new utility environment . . . may affect the basis for prior NRC decisions related to financial qualifications as an NRC licensee . . .

Duke Power Company does not believe that its acquisition of PanEnergy materially affects the basis for any prior NRC decisions on financial qualifications or decommissioning funding assurance.

Pursuant to the Agreement and Plan of Merger, dated November 24, 1996, PanEnergy will become a wholly owned subsidiary of Duke Power Company, with no opportunity to control any of Duke Power's facility operating licenses. The consolidated company after the merger will have pro forma revenues of approximately \$9.6 billion and assets of \$21 billion at December 31, 1995. The only change with respect to Duke Power's corporate status is that its name will change to Duke Energy. The balance of this letter will describe the proposed merger in more detail.

PanEnergy is a Delaware corporation. The transaction is being structured as a merger of a newly formed, wholly owned subsidiary of Duke Power Company ("Duke") called Duke Transaction Corporation ("DTC") into PanEnergy, with PanEnergy as the surviving of the two corporations. DTC has been formed solely to accomplish the proposed transaction. DTC will be capitalized with \$1,000 in cash contributed to it by Duke in exchange for all of its 1,000 issued and outstanding shares. If approved by the PanEnergy and Duke shareholders, and subject to other applicable regulatory approvals, DTC will merge into PanEnergy on the closing date of the merger. DTC will disappear in the merger, and PanEnergy will survive the merger, retaining all of its pre-merger assets and liabilities. The 1,000 shares of DTC owned by Duke immediately before the merger will become shares of PanEnergy and will be the only shares of PanEnergy outstanding after the merger. Each of the 150.2 million shares of PanEnergy outstanding immediately before the merger will automatically be converted into the right to receive 1.0444 shares of common stock of Duke by operation of Delaware law. Duke will also assume PanEnergy's obligations to issue stock with respect to certain PanEnergy employee stock plans and convertible debt. The resulting post-merger corporate structure will be as follows:

1. Duke will continue in existence, owning all of its pre-merger assets and liabilities and conducting all of its pre-merger business.
2. A total of approximately 166,000,000 shares of Duke Common Stock would be issued and reserved in connection with the transaction. Based upon PanEnergy's outstanding shares on November 22, 1996, or approximately 151,000,000, Duke would issue approximately 158,000,000 shares to PanEnergy shareholders in the merger. The implied price per PanEnergy share at the time the merger agreement was executed was \$50.00 based on Duke's closing stock price of \$47.875 on November 22, 1996. Duke would also assume PanEnergy's employee stock options and restricted stock awards and would agree to grant certain stock options or restricted stock awards under employment agreements with PanEnergy executive, which stock options and restricted stock awards would cover up to approximately 7.5 million additional shares of Duke Common Stock. Duke would reserve 7.5 million shares of its Common Stock for restricted stock awards and stock options and another .5 million shares to satisfy Duke's assumption of PanEnergy's obligation to issue approximately 452,000 shares of its common stock upon conversion of its 9% Convertible Notes due 1997-2004. The number of Duke shares issued and reserved is subject to change prior to the effective time of the merger depending upon options granted and exercised, shares of PanEnergy common stock issued under its dividend reinvestment plan, and shares of restricted stock vested or awarded under PanEnergy's 1990 Long Term Incentive Plan. Duke will not issue more shares than required under the agreement. Former PanEnergy shareholders will own approximately 44% of Duke Energy's outstanding shares.
3. Duke will own all of the outstanding shares of PanEnergy. PanEnergy will continue to own all of its assets and liabilities as a wholly owned subsidiary of Duke. Duke will not assume any liabilities of PanEnergy other than the assumption of certain stock options and similar equity rights as described above.
4. Duke will change its name to Duke Energy Corporation, but will not change its corporate form. Duke will submit the necessary information to the NRC to change its name on the facility operating licenses for Oconee, McGuire and Catawba Nuclear Stations. Duke will not "drop" the electric utility business into a subsidiary. All of the common and preferred

January 6, 1997

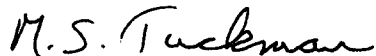
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shares of Duke outstanding before the effectiveness of the merger will remain outstanding and unchanged.

It should be noted that Sonatrach Petroleum Investment Corp. B.V., a Dutch company, owns 5.1% of PanEnergy stock. After the merger, its ownership of Duke Energy will amount to only about 2.2%, far short of a controlling interest. Also, while current PanEnergy directors will be added to the Duke Board of Directors, this will not constitute a change of control in the Board of Directors of Duke, which will continue to have eleven current Duke directors. For an illustration of the pre- and post-merger corporate structure, please refer to the Attachments 1 and 2. If additional information is needed, please refer to Duke's Form 8-K Report filed with the Securities and Exchange Commission on December 9, 1996, which includes a copy of the Agreement and Plan of Merger dated as of November 24, 1996, among Duke Power Company, Duke Transaction Corporation, and PanEnergy Corp.

I trust that this explanation of Duke Power Company's acquisition of PanEnergy addresses the concerns raised in Reference 1 and NRC Administrative Letter 96-02. Should the NRC staff have any questions concerning the above, please contact G. A. (Skip) Copp at 704/382-5826.

Very truly yours,



M.S. Tuckman

MST/PRN/jr

Attachments

U.S. Nuclear Regulatory Commission
January 6, 1997
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cc: w/att L. J. Callan, Director
Office of Nuclear Reactor Regulation

Luis A. Reyes
Regional Administrator, Region II

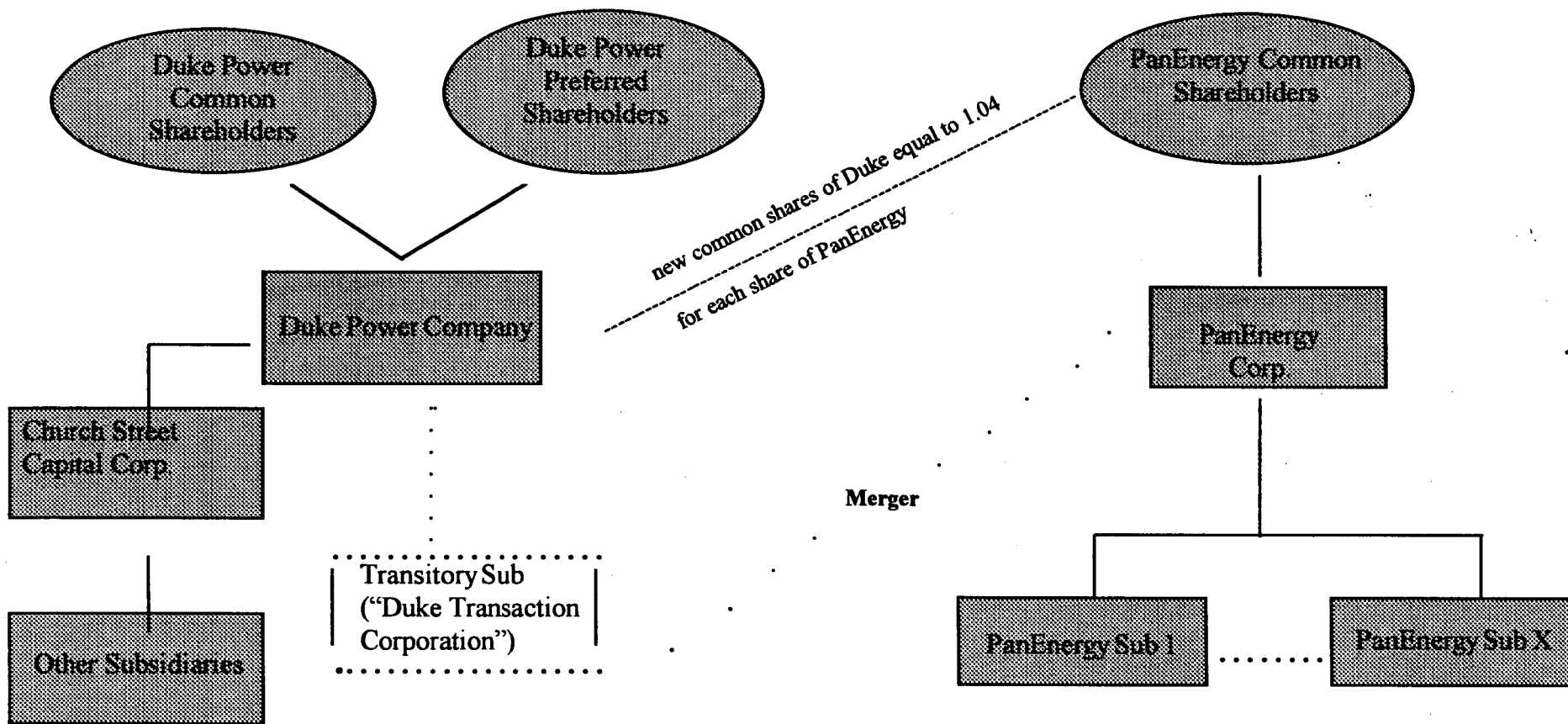
M. A. Scott
NRC Senior Resident Inspector, ONS

R. J. Freudenberger
NRC Senior Resident Inspector, CNS

S. M. Shaeffer
NRC Senior Resident Inspector, MNS

Duke Power Company Acquires PanEnergy Corp.

Proposed Structure - "Reverse Subsidiary Merger"



After Consummation of Proposed Transaction

