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 FACIL: STN-50-529 Palo Verde Nuclear Station, Unit 2, Arizona Publi 05000529
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 RECIP. NAME RECIPIENT AFFILIATION
 KNIGHTON, G. W. PWR Project Directorate 7.

SUBJECT: Submits clarifications &/or mods to util 860502 application
 re sale & leaseback transactions, per 860730 meeting.

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August 13, 1986

Director of Nuclear Reactor Regulation
Attention: Mr. George W. Knighton, Project Director
PWR Project Directorate #7
Division of Pressurized Water Reactor
Licensing-B
Nuclear Regulatory Commission
Washington, D.C. 20555

Re: Application in Respect of Sale
and Leaseback Transactions
by Arizona Public Service Company
Dated May 2, 1986 -
Palo Verde Nuclear Generating Station Unit 2
(Docket No. STN 50-529)

Dear Mr. Knighton:

Reference is made to the following letters and submissions with respect to the above-captioned Application (the Application): the letter of the undersigned dated July 30, 1986 with respect to matters raised at the meeting with the Staff on July 24, 1986; the letter of Arthur C. Gehr of Snell & Wilmer dated August 2, 1986 submitting "Additional Information with Respect to the Application in Respect of Sale and Leaseback Transactions by Arizona Public Service Company dated May 2, 1986"; the letter of the undersigned dated August 6, 1986 with respect to the final equity investor list; the letter of the undersigned date August 7, 1986 with respect to duration of basic lease term; and the

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letter of the undersigned dated August 8, 1986 with respect to the revised final equity investor list. Following are certain clarifications of or modifications to the information presented in the Application.

<u>Page Number(s)</u>	<u>Clarification/Modification</u>
2	No part of APS' interest in PVNGS common facilities and the real property related thereto (excluding the PVNGS site) will be sold. Such property will (assuming APS does not exercise its option to repurchase the Unit 2 Facilities) be subject to the "support agreements" referred to in Section 3.8 of the Application (see p. 13) and made available to the Lessor and its successors and assigns after (i) termination of the lease, (ii) the issuance of a Commission license to such person and (iii) the qualification of such person as a "Transferee" under Section 15.10 of the ANPP Participation Agreement.
2,n.1	An undivided interest in the PVNGS site will be sold and under a "fee simple determinable" deed and leased back under the lease.
4	The statement is made: " <u>As shown below, the transactions described in the transactions described in this Application are similar in all significant respects to the transactions entered into by PNM with respect to the Unit 1 Facilities....</u> " [Emphasis added.] The phrase "similar in all significant respects" was intended to refer only to the description of the proposed Unit 2 transactions thereafter set forth in the Application. This phrase does not mean that the terms of the transaction documents, as finally negotiated and executed, for the proposed APS transactions will be the same as the terms of the PNM Unit 1 documents.

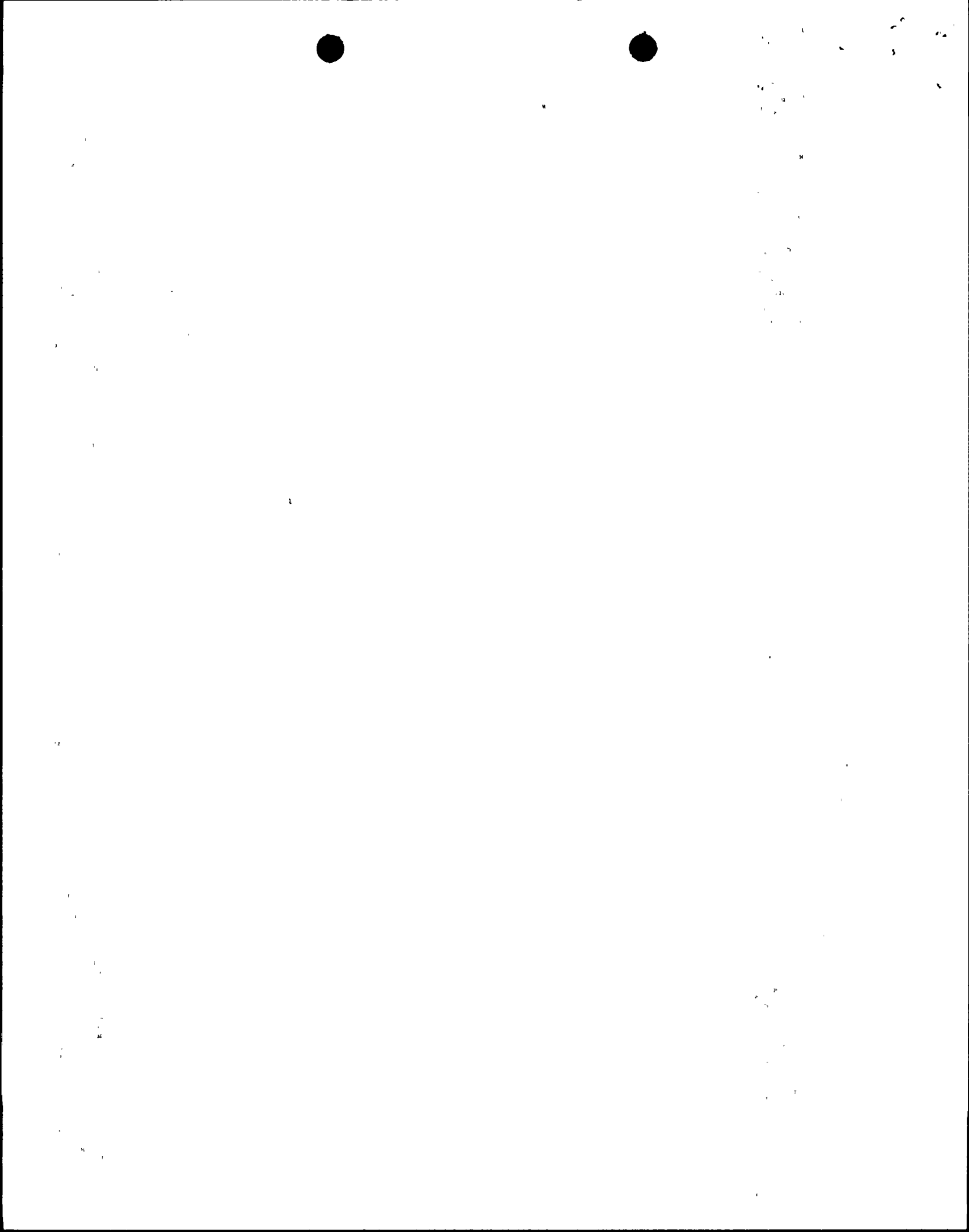
If requested, we will supply you with a description of the material differences between the two sets of transaction documents after the APS documents have been finally negotiated and executed.

9 The fair market value of APS's 29.1% interest in PVNGS Unit 2 (exclusive of the PVNGS site and common facilities and related real property interests) is approximately \$1.1 billion.

19 The proposed sale and leaseback transactions can occur subsequent to August 18, 1986, but only at the risk of such property not constituting "transition property" as defined in the House tax bill (H.R. 3838, 99th Congress). One consequence of not being transition property is a possible adverse impact on the tax benefits available to the Equity Investors under the proposed transactions.

11; 25-26

On each of these pages statements are made which, if taken out of context, may be subject to the construction that the Lessors, the Equity Investors and their respective successors and assigns have no control of, or ability to realize the value of, their respective interests except as passive owners of such interests under the leases. These statements were not intended, nor should they be construed, to relate to rights of the Lessor and the Equity Investors in the residual values of the Unit 2 Facilities after termination of the leases. Rather, these statements were intended to describe the rights of such persons during the term of the leases, when the Lessor and the Equity Investors are neither licensees of the Commission nor Participants under the ANPP Participation Agreement. Upon (i) the termination of the Lease, (ii) the issuance of a license or a license amendment by the Commission and (iii) the qualification of the Lessor or its successor as a Participant under



the ANPP Participation Agreement in respect of the Unit 2 Facilities, or any part thereof, such person would have full rights in respect of such Unit 2 Facilities and could then realize all values which may be derived therefrom. The Application is not meant to preclude such person, in appropriate circumstances and subject to due compliance with the Commission's regulations, from realizing the residual values of the Unit 2 Facilities.

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In the Application, a debt funding mechanism utilizing Funding Corporation is described. This constitutes only one debt funding mechanism that APS is currently considering. APS may, for example, forgo the use of Funding Corporation in favor of privately-placed separate long-term loans to each Lessor. In addition, interim financing will be provided by as many as 18 banks pending placement of long-term financing or sale of long-term debt. The description of the nature and amount of the debt is otherwise as set forth in the Application.

None of the clarifications set forth above and modifications alter the representations made in Section 13 of the Application (pages 30-33); i.e., the representations and conditions that are material to the Commission's action on the Application, including, specifically, the acknowledgment by the Lessors and the Equity Investors that none of them may take possession of their respective interests in the Unit 2 Facilities upon termination of the lease for any cause until the Commission's licensing requirements have been met. At such time any Lessor, Equity Investor or a transferee or assignee of any of them who may take possession of such interests will be subject to the Commission's jurisdiction in respect thereof.



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If I can be of further assistance, please do not hesitate to call.

Sincerely,

Timothy Toy
Timothy Michael Toy

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