

UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

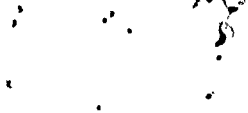
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In the matter of :
ARIZONA PUBLIC SERVICE :
COMPANY, et al., :
(Palo Verde Nuclear :
Generating Station, Unit 2) :
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DOCKET NO. STN 50-529

SUPPLEMENTAL APPLICATION
IN RESPECT OF SALE AND
LEASEBACK TRANSACTIONS BY
EL PASO ELECTRIC COMPANY

October 15, 1986

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SUPPLEMENTAL APPLICATION
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EL PASO ELECTRIC COMPANY

Arizona Public Service Company (APS), as Project Manager and Operating Agent of Palo Verde Nuclear Generating Station (PVNGS) Units 1, 2 and 3, submits this Supplemental Application in Respect of Sale and Leaseback Transactions by El Paso Electric Company, with respect to PVNGS Unit 2 (Unit 2), on behalf of El Paso Electric Company (El Paso), a licensee under Facility Operating License No. NPF-51 (the Unit 2 License).

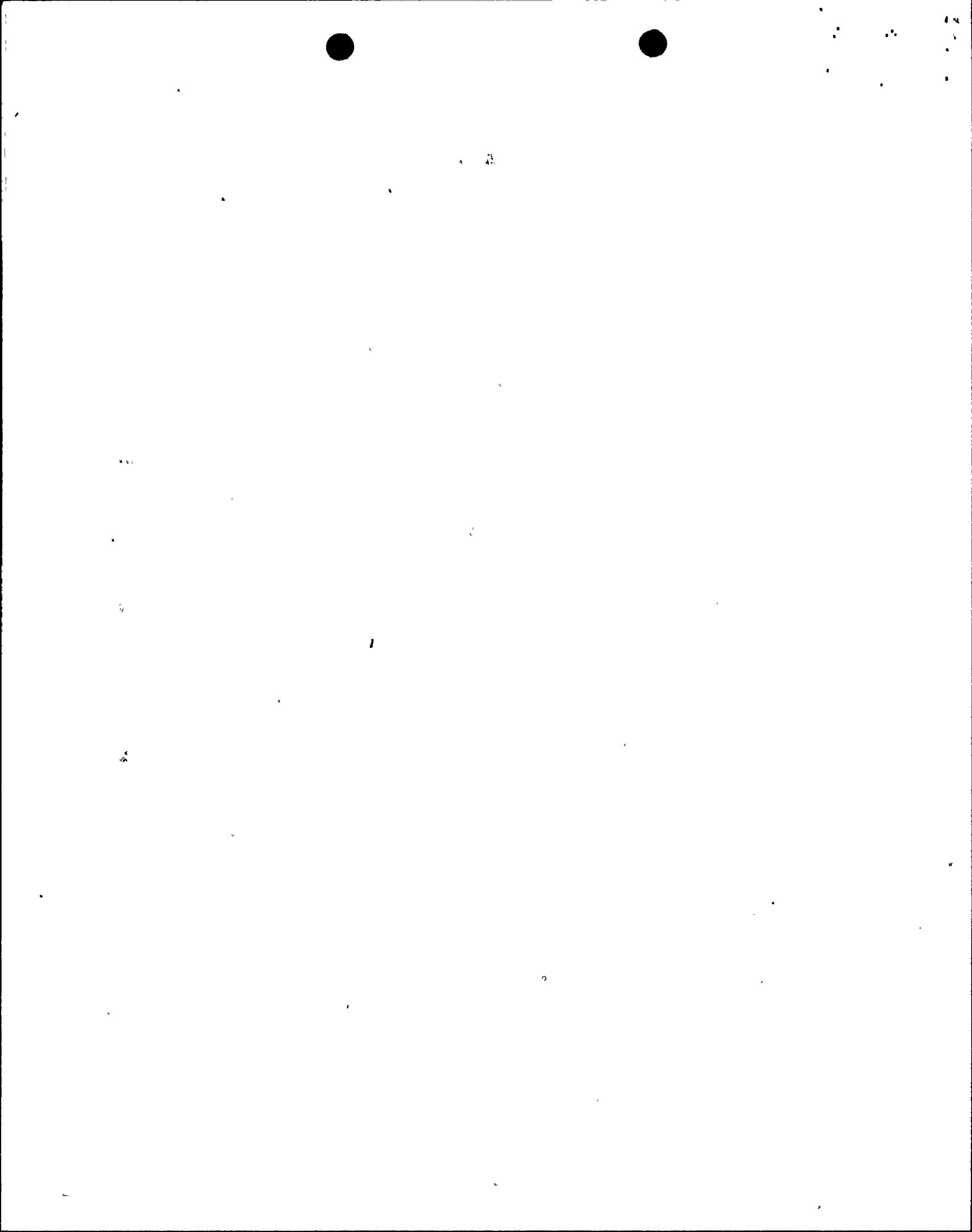
Background

(i) The Unit 2 Application. On April 15, 1986, APS filed in Docket STN 50-529, on behalf of El Paso, an Application in Respect of Sale and Leaseback Transactions by El Paso Electric Company. Such application was supplemented by subsequent submissions dated June 3,



July 30, August 7, August 8 and August 13, 1986 (such Application, as so supplemented, is hereinafter referred to as the Unit 2 Application). On August 15, 1986, the Commission issued Amendment No. 3 to the Unit 2 License (Amendment No. 3). The Staff's related evaluation of Amendment No. 3 is contained in a Safety Evaluation dated August 15, 1986. On August 18, 1986 and August 22, 1986, as permitted by Amendment No. 3, El Paso sold and leased back, in the aggregate, an 11.6% (approximate) undivided ownership interest in Unit 2 and a 3.87% (approximate) undivided ownership interest in certain related PVNGS common facilities, in addition to certain PVNGS real property interests (such transactions being referred to herein as the August 1986 Sale and Leaseback Transactions).

(ii) Remaining Unit 2 Ownership Interests. El Paso proposes to enter into additional sale and leaseback financing transactions relating to all or a portion of El Paso's remaining 4.2% (approximate) undivided ownership interest in Unit 2 and up to 1.4% (approximate) undivided ownership interest in certain related PVNGS common facilities, in addition to certain real property interests (all of such interests being herein collectively called the Remaining Unit 2 Interest). The estimated fair market value of the Remaining Unit 2 Interest is approximately \$181 million.



1. Relief Requested

The relief requested by this Supplemental Application is the issuance of a further amendment to the Unit 2 License, in substantially the form of Amendment No. 3, so as to permit additional sale and leaseback transactions relating to all or a portion of the Remaining Unit 2 Interest.

2. Description of the Proposed Transactions

The additional sale and leaseback transactions with respect to the Remaining Unit 2 Interest are expected to be consummated substantially on the basis of documentation executed in connection with the August 1986 Sale and Leaseback Transactions, modified, however, to incorporate terms relating to the Financial Support Facilities referred to below. Subject to such modifications, the structure of any such further sale and leaseback transactions will be substantially similar to that of the August 1986 Sale and Leaseback Transactions (as previously described in the Unit 2 Application), although the terms of various transaction and financing documents, as finally negotiated and executed, may not necessarily be the same as for the August 1986 Sale and Leaseback Transactions.

Additionally, such further sale and leaseback transactions may include financial support for the benefit of the Equity Investors for the term of the leases in an amount equal to their respective investments in such transactions, as such investments change over time. Such financial support could take the form of bank letters of credit, financial guarantees, cash escrow accounts and/or other



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financial support facilities (hereafter collectively referred to as the Financial Support Facilities).

Although Financial Support Facilities would provide the Equity Investors with added protection in respect of their investments, the inclusion of such Financial Support Facilities in any sale and leaseback transactions with respect to the Remaining Unit 2 Interest would not involve the creation of any security interests in, or liens on, any part of PVNGS.

In any event, neither (a) any differences between the terms of transaction and financing documents executed in connection with sale and leaseback transactions relating to the Remaining Unit 2 Interest, and the terms of transaction and financing documents executed in connection with the August 1986 Sale and Leaseback Transactions, nor (b) the inclusion of Financial Support Facilities in sale and leaseback transactions relating to the Remaining Unit 2 Interest will alter the representations and conditions material to the Commission's action on the Unit 2 Application and this Supplemental Application, including, specifically, the acknowledgment by the Lessors and the Equity Investors that before taking possession of any part of PVNGS, they will be subject to applicable requirements concerning (i) the issuance of a license by the Commission authorizing such possession or (ii) the transfer of the Commission license authorizing El Paso to possess an interest in PVNGS upon application for transfer of such license filed pursuant to applicable law.

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3. Schedule

In the event that the Financial Support Facilities referred to in Section 2 of this Application are not incorporated in further sale and leaseback transactions relating to the Remaining Unit 2 Interest, the only regulatory or other approvals necessary to consummate such transactions, other than clearance of the public offering of the lease obligation bonds under Federal and state securities laws, approvals of the parties to such transactions and approvals already obtained, are:

- (i) The determination by the ANPP Administrative Committee required by Section 15.6 of the ANPP Participation Agreement; and
- (ii) The amendment to the Unit 2 License requested in this Supplemental Application.

In the event that Financial Support Facilities are incorporated in such sale and leaseback transactions, regulatory approvals in addition to those approvals referred to in the preceding paragraph will be required in order to consummate such transactions. Specifically, such additional regulatory approvals are orders from the New Mexico Public Service Commission (NMPSC) and the Federal Energy Regulatory Commission (FERC) authorizing the transactions pertaining to the use of Financial Support Facilities.

The ANPP Administrative Committee is expected to act in due course, either at a regularly convened meeting or a meeting convened specifically for that purpose. Both the NMPSC and FERC are expected to act, if so required, by mid November 1986. The timing of the amendment to the Unit 2 License requested by this Supplemental Application is, therefore, the primary scheduling consideration.

If El Paso is successful in negotiating commitments from Equity Investors, it is desirable that El Paso be in a position to consummate the proposed sale and leaseback transactions with respect to the Remaining Unit 2 Interest as soon as possible after securing such commitments. Although tax considerations make it advantageous to close transactions by the end of the year, El Paso would like to have the flexibility to consummate transactions in 1987. To complete the sale and leaseback transactions in an orderly and timely manner, and to provide El Paso with some discretion in the timing of such transactions, it is desirable that:

- (a) notice of receipt of this Supplemental Application and a proposed no significant hazards determination be published in the Federal Register as soon as practicable;
- (b) El Paso notify the Commission as soon as possible of the date (the Closing Date) on which El Paso proposes to consummate a sale and leaseback transaction; provided that such Closing Date shall not occur prior to (i) the



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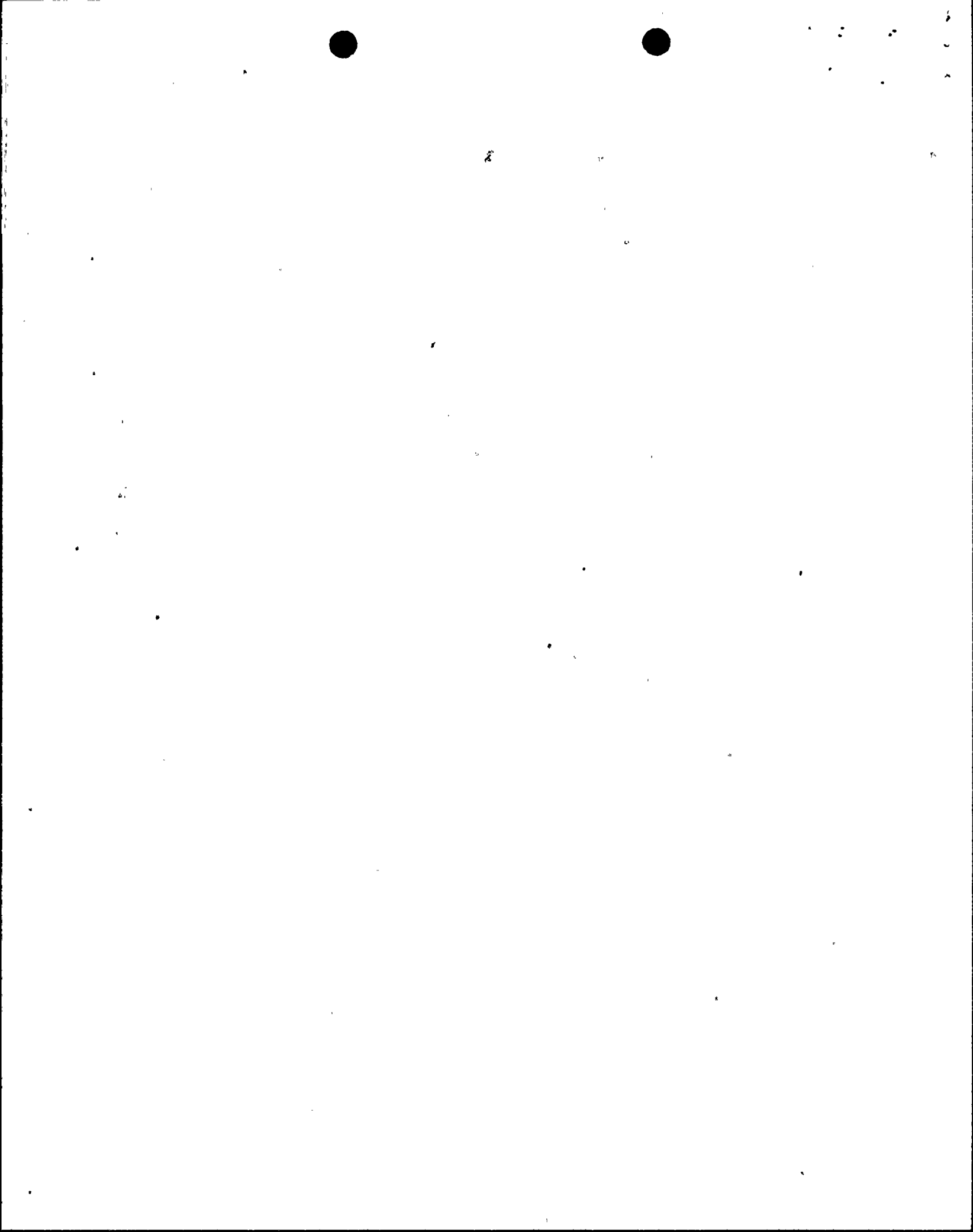
ninth (9th) day following the date on which El Paso so notifies the Commission, or (ii) the seventh (7th) day following the expiration of the comment period specified in the Federal Register notice, whichever is later;

- (c) the requested amendment to the Unit 2 License be issued and become effective not later than two (2) business days prior to the proposed Closing Date; and
- (d) the requested amendment be made effective for sale and leaseback transactions having Closing Dates during a period of six months after the date hereof or such other period as the Commission deems appropriate.

4. Supporting Information

With respect to particular Equity Investors, the undertaking of El Paso to submit publicly available financial and other information will continue to apply to newly identified Equity Investors. El Paso will endeavor to supply the Commission with that information as soon as it is known, but in any event not later than nine (9) days prior to the proposed Closing Date.

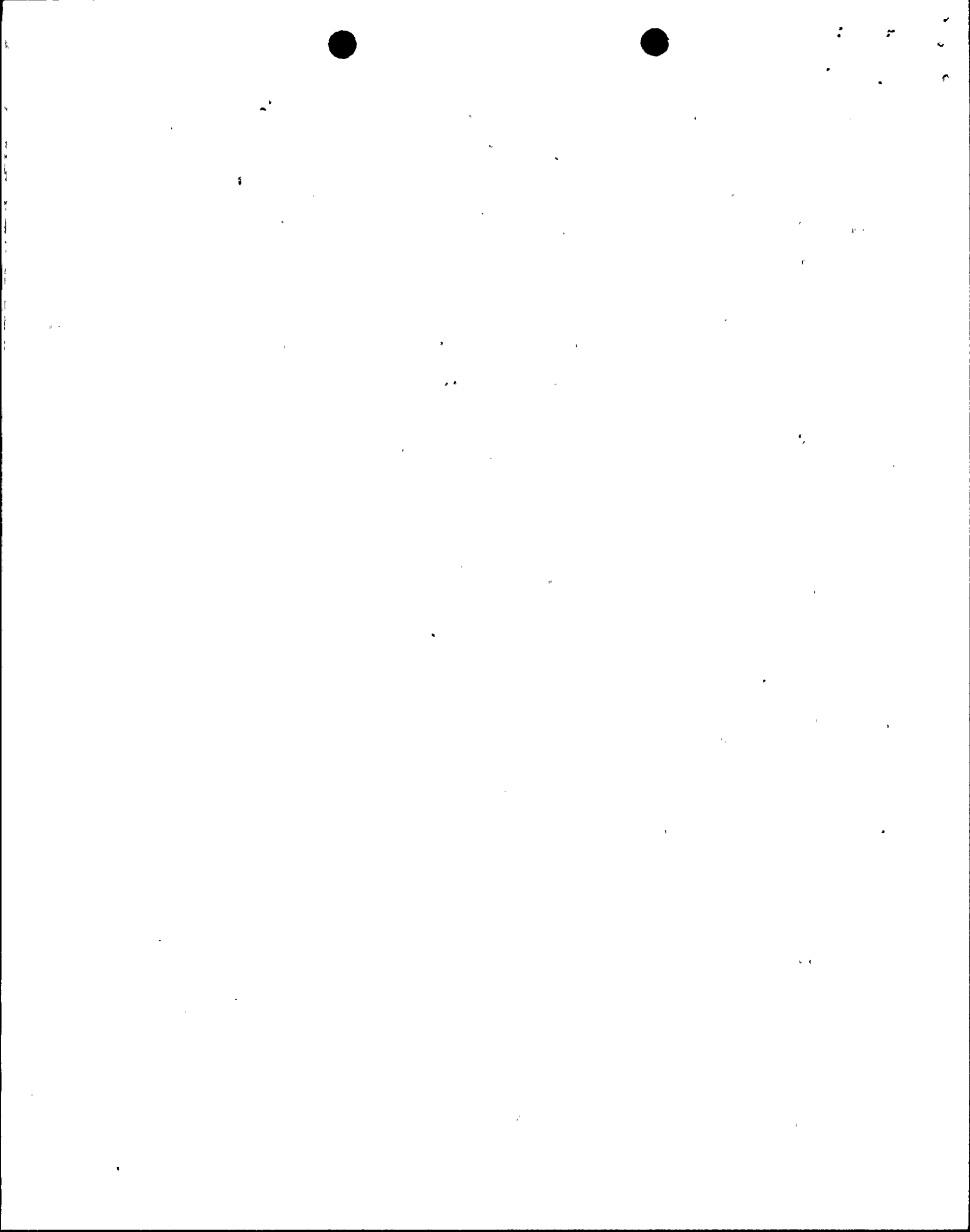
Copies of the most recent interim financial statements and reports on Form 10-Q for El Paso and Bank of Boston Corporation (parent corporation of The First National Bank of Boston, the Owner Trustee) will be provided to the Commission at or prior to the time



that supporting information concerning Equity Investors is provided pursuant to the preceding paragraph.

5. Basis for Relief Requested

As set forth above in Section 2, the proposed transactions described in this Supplemental Application will be similar to the August 1986 Sale and Leaseback Transactions previously consummated by El Paso in all respects material to the Commission's action. In addition, the relief requested in this Supplemental Application by APS, on behalf of El Paso, is the same relief (based upon similar facts) as was previously granted by the Commission in respect of the Unit 2 Application. It is respectfully submitted that the Staff's action in response to this Supplemental Application should be governed by the Commission's response to the Unit 2 Application.



WHEREFORE, APS requests on behalf of El Paso that the Commission grant the relief requested in Section 1 hereof or in such other form and/or subject to such conditions in addition to those stated in such Section as the Commission may deem appropriate.

Respectfully submitted,

ARIZONA PUBLIC SERVICE COMPANY

By Edwin E. Van Brunt, Jr.
Edwin E. Van Brunt, Jr.
Executive Vice President-ANPP

Dated: October 15, 1986



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STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Edwin E. Van Brunt, Jr., represent that I am the Executive Vice President-ANPP, that the foregoing document has been signed by me on behalf of Arizona Public Service Company with full authority to do so, that I have read such document and know its contents, and that to the best of my knowledge and belief, the statements made therein are true.

By Edwin E. Van Brunt
Edwin E. Van Brunt, Jr.

Sworn before me this 15th day of October, 1986.

Sue Heim
Notary Public

My Commission Expires:

My Commission Expires Oct. 1, 1989

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