

August 18, 2006

Mr. James J. Sheppard
President and Chief Executive Officer
STP Nuclear Operating Company
South Texas Project Electric
Generating Station
P. O. Box 289
Wadsworth, TX 77483

SUBJECT: SOUTH TEXAS PROJECT, UNITS 1 AND 2 - RE: MODIFICATION OF
AGREEMENT FOR CORPORATE RESTRUCTURING UNDERTAKEN BY NRG
ENERGY, INC. (TAC NOS. MD1651 AND MD1652)

Dear Mr. Sheppard:

This is in response to the STP Nuclear Operating Company's (STPNOC's) letters dated April 13, 2006, and May 25, 2006. In both letters, STPNOC, the licensee for South Texas Project, Units 1 and 2, described a corporate restructuring that NRG Energy, Inc. (NRG Energy), undertook and completed during April and May 2006. The licensee stated that the new corporate structure will not involve any direct or indirect transfer of control of NRG South Texas LP or its licenses. In addition, STPNOC requested that the U.S. Nuclear Regulatory Commission (NRC) provide written consent to amendments to the existing (April 2005 Agreement) financial support agreement for \$120 million, dated April 13, 2005, between NRG Texas LLC and NRG South Texas LP. The proposed amendments would: (1) conform the names in the April 2005 Agreement to fit the new structure; (2) conform the April 2005 Agreement in light of the new intermediary relationships between NRG Energy and NRG South Texas LP, rather than having the agreement reflect the intermediary company relationships existing before the restructuring; and (3) acknowledge that the obligations under the April 2005 Agreement can be offset by support payments made by NRG Energy under a new 2006 financial support agreement for \$120 million between NRG Energy and NRG South Texas LP.

The licensee also stated that the restructuring completed in May 2006 was done to "streamline the corporate organizational structure among the NRG Energy subsidiaries that hold direct and indirect ownership of the NRG South Texas LP, and to achieve certain other business and tax advantages" but that it "will not involve any direct or indirect transfer of control of the NRG South Texas LP or its licenses." In the new corporate structure, NRG Energy and the existing wholly-owned subsidiaries of NRG Energy that own the NRG South Texas LP will retain control of the voting stock or other existing controlling interests in NRG South Texas LP. The STPNOC noted in its May 25, 2006, letter that in the new structure, NRG Energy directly owns over 80 percent of the voting stock of Texas Genco Holdings, Inc. (TGN), which in turn controls NRG South Texas LP through two intermediary companies. Also, before the restructuring, over 80 percent of this voting stock in TGN was also owned by NRG Energy. Therefore, in the new corporate structure, NRG Energy will continue to exercise control over TGN and thus over NRG South Texas LP; only changes in intermediary company relationships will occur that do not affect this relationship of control of the licensee by NRG Energy.

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The NRC staff has performed a threshold review of the facts and circumstances set forth in these two letters, and has considered the changes in the corporate structure and in the support agreement. The staff has concluded that no NRC direct or indirect license transfer approvals are required under 10 CFR 50.80 with respect to the licenses held by NRG South Texas LP and that changes to the prior support agreement as reflected in the new 2006 support agreement are adequate and need no further modification.

If you have any questions regarding this matter, please contact me at (301) 415-1476.

Sincerely,

/RA/

Mohan C. Thadani, Senior Project Manager
Plant Licensing Branch IV
Division of Operating Reactor Licensing
Office of Nuclear Reactor Regulation

Docket Nos. 50-498 and 50-499

cc: See next page

J. Sheppard

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The NRC staff has performed a threshold review of the facts and circumstances set forth in these two letters, and has considered the changes in the corporate structure and in the support agreement. The staff has concluded that no NRC direct or indirect license transfer approvals are required under 10 CFR 50.80 with respect to the licenses held by NRG South Texas LP and that changes to the prior support agreement as reflected in the new 2006 support agreement are adequate and need no further modification.

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Sincerely,

/RA/

Mohan C. Thadani, Senior Project Manager
Plant Licensing Branch IV
Division of Operating Reactor Licensing
Office of Nuclear Reactor Regulation

Docket Nos. 50-498 and 50-499

cc: See next page

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ACCESSION NO: ML062220406

*No significant change to SE input.

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South Texas Project, Units 1 & 2

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