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 50-362 San Onofre Nuclear Station, Unit 3, Southern Californ 05000362
 AUTH. NAME: AUTHOR AFFILIATION
 GLEITZ, H.G. Southern California Edison Co.
 RECIP. NAME: RECIPIENT AFFILIATION
 ROOD, H. NRC - No Detailed Affiliation Given

SUBJECT: Forwards draft ltr of agreement w/City of Anaheim re
 proposed purchase by Anaheim of addl 1.5% ownership interest
 in facilities. Requests review & comment.

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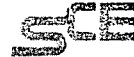
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Southern California Edison Company



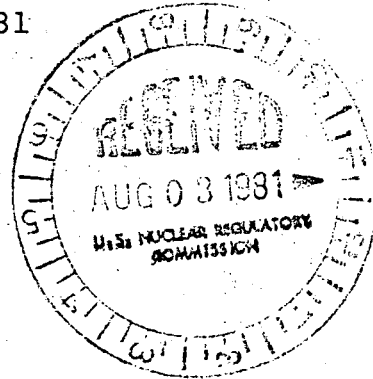
P.O. BOX 800
2244 WALNUT GROVE AVENUE
ROSEMEAD, CALIFORNIA 91770

HERBERT G. GLEITZ
ASSISTANT COUNSEL

LAW DEPARTMENT

TELEPHONE
(213) 572-1942

July 30, 1981



Mr. Harry Rood
United States Nuclear
Regulatory Commission
Washington, D. C. 20555

Re: Proposed Purchase by the City of Anaheim of an
Additional 1.5 Percent Ownership Interest in San
Onofre Nuclear Generating Station Units 2 and 3
from Southern California Edison Company

Dear Mr. Rood:

Enclosed for your review and comment is a copy of a letter agreement in near final form which the Southern California Edison Company (Edison) and the City of Anaheim (Anaheim) propose to enter into with respect to a contemplated purchase by Anaheim of an additional 1.5% undivided ownership interest in San Onofre Nuclear Generating Station Units 2 and 3.

On July 27, Alan Watts, counsel for Anaheim, and I met with Larry Chandler and Ben Vogler from the Office of the Executive Legal Director to discuss the contemplated transaction and the enclosed proposed letter agreement. They suggested we send copies of the proposed agreement to you and Mr. James Petersen for your review and comment.

Since Edison and Anaheim anticipate executing the letter agreement in the very near future, we would very much appreciate your early review of this matter.

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MR. HARRY ROOD
July 30, 1981
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If you have any questions, please do not hesitate to call me at (213) 572-3126 or Alan Watts at (714) 835-6212.

Sincerely,


HERBERT G. GLEITZ

HGG:clk

Enclosures

cc: Lawrence J. Chandler
Benjamin H. Vogler
Alan R. Watts



ANAHEIM PUBLIC UTILITIES DEPARTMENT

Office of The General Manager

July 28, 1981

Mr. William R. Gould
Chairman of the Board
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770

Re: Purchase by the City of Anaheim of an Additional
1.5 Percent Ownership Interest in San Onofre
Nuclear Generating Station Units 2 and 3 from
Southern California Edison Company

Dear Mr. Gould:

By letter dated January 22, 1981, Gordon W. Hoyt, Public Utilities General Manager of the City of Anaheim (Anaheim), inquired as to whether Southern California Edison Company (Edison) might wish to sell to Anaheim an additional Ownership Interest (hereinafter defined) in each of Units 2 and 3 at the San Onofre Nuclear Generating Station (SONGS 2 and 3). Such Ownership Interest would be in addition to the 1.66 percent interest already owned by Anaheim. Pursuant to that letter, the respective staffs of Anaheim and Edison have had further discussions with respect to the acquisition by Anaheim of such an Ownership Interest.

As a result of such discussions, Anaheim hereby offers to purchase from Edison a 1.5 percent Ownership Interest in SONGS 2 and 3, including a 1.5 percent ownership interest in the nuclear fuel associated with SONGS 2 and 3, and a 1.25 percent ownership interest in the associated common facilities, such total purchase being defined herein as the Ownership Interest. Upon completion of this transaction, Anaheim's undivided ownership interest as a tenant in common in SONGS 2 and 3 will be 3.16 percent.

This offer is made subject to the following terms and conditions:

1. It is understood and agreed that transfer to Anaheim of an ownership interest, as that term has been defined by the Nuclear Regulatory Commission (NRC), in SONGS 2 and 3 and the

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execution and delivery of the Amendment to the San Onofre Units 2 and 3 Participation Agreement (Participation Agreement) contemplated by Paragraph 9 hereof are subject to prior receipt of authorization for the transfer of such ownership interest from the California Public Utilities Commission (CPUC) and the NRC. It is intended that nothing contained in this agreement shall impose any obligations on either of the parties that would result in any violation of the Atomic Energy Act of 1954 or the regulations of the NRC.

2. At a special municipal election held on June 2, 1981, Anaheim received voter approval to issue electric revenue bonds and other securities pertaining to SONGS 2 and 3. Anaheim's obligations hereunder are subject to the issuance and sale of electric revenue bonds and/or other securities (Securities). Anaheim covenants and agrees that it will use its best efforts to issue and sell the Securities in an amount and at such time as will enable it to fulfill its agreement to pay Edison the Purchase Price (hereinafter defined) in accordance with this offer.

3. Anaheim shall pay Edison for such Ownership Interest an amount (Purchase Price) to be determined in accordance with the following formula:

$$PP = BC + CNF + ((BC - TB) \times TR + ITCR) \times \frac{1}{(1 - TR)}$$

Where:

PP = Purchase Price of the Ownership Interest.

BC = Book Cost, i.e., all recorded costs and expenses incurred by Edison in connection with the construction, ownership, and licensing of the Ownership Interest as of September 1, 1981, other than the cost of nuclear fuel associated with the Ownership Interest.

CNF = Cost of nuclear fuel for SONGS 2 and 3 associated with the Ownership Interest, including taxes arising from this transaction associated with the transfer of ownership of said Nuclear Fuel, as of September 1, 1981, as provided for in Section 11.2 of the Participation Agreement.

TB = The tax basis of the Ownership Interest exclusive of nuclear fuel prescribed by the Internal Revenue Code (IRC) for determining gain or loss in this transaction.

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TR = The weighted average of composite federal and state statutory tax rates applicable to the sales proceeds received by Edison from the sale of the Ownership Interest to Anaheim.

ITC = Investment tax credit (4 percent only) associated with the Ownership Interest which Edison has previously passed on to its ratepayers.

ITCR = The amount of ITC required to be recaptured pursuant to the applicable provisions of the IRC.

Edison shall make a good faith effort to avoid recapture of the ITC and shall make a good faith effort to include the matter of recapture of such ITC in rate cases filed using a 1983 test year. However, Edison shall take no position on either its federal or state income tax return inconsistent with treatment for tax purposes of the transaction contemplated hereby as a transfer of the Ownership Interest on the date of payment by Anaheim of the Purchase Price. If it is determined by the Internal Revenue Service or any other administrative body having jurisdiction or, if judicial review is sought, by the final order of a court of competent jurisdiction, that the ITC is not recaptureable, or if the ITC is no longer subject to recapture because of the passage of time, Edison shall adjust the Purchase Price by the amount of any ITC included in the Purchase Price recovered by Edison. Such adjustment, if any, shall be made by Edison within sixty (60) days following such final determination or the date that the ITC becomes no longer subject to recapture because of the passage of time, as the case may be. If Edison is able to recover any ITCR through rate relief, Edison shall adjust the Purchase Price by the amount of any ITCR included therein and recovered by Edison. Such adjustment, if any, shall be made ratably during the period for which the rate relief is made effective.

4. The Purchase Price shall be determined as of September 1, 1981 in accordance with the formula set forth in Paragraph 3. No later than October 15, 1981, Anaheim shall pay to Edison the Purchase Price in accordance with Edison's latest estimate of the Purchase Price that is available as of the date of payment. The Purchase Price shall be adjusted to reflect recorded costs when data regarding such costs become available. During regular business hours, Anaheim shall have the right, at its own expense, to audit the books and records of Edison directly pertaining to the costs included in the Purchase Price. Anaheim hereby agrees that the results of any such audit and any information obtained

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in connection herewith will be used solely for the purpose of verifying the costs included in the Purchase Price. Should such audit reveal errors, omissions or items not properly chargeable to the Purchase Price, each party shall pay to the other any amount found due and owing by it on the basis of such audit. Any such amount shall be paid within sixty (60) days after results of the audit are agreed upon by Edison and Anaheim. In the event that a dispute arises regarding the findings of such audit, Edison and Anaheim shall attempt in good faith to resolve the dispute between themselves.

5. If the Purchase Price is paid prior to September 1, 1981, Edison shall pay Anaheim interest on said Purchase Price from the date that Edison receives the funds to, but not including, September 1, 1981 at a rate equal to Anaheim's effective interest rate on the Securities. However, in no event shall such rate exceed the average of the one-month commercial paper rates published by the Board of Governors of the Federal Reserve System (such average being defined herein as the Commercial Paper Rate) during such period. If, pursuant to Paragraph 4, the Purchase Price is paid after September 1, 1981, and on or before October 15, 1981, Anaheim shall pay Edison interest on such Purchase Price during the period from September 1, 1981 to the date of Edison's receipt of payment at a rate equal to the average of the Commercial Paper Rate published during such period. If the Purchase Price is not paid to Edison by Anaheim on or before October 15, 1981, this agreement, unless extended by written agreement of Edison and Anaheim, shall terminate.

6. Anaheim shall commence making weekly progress payments associated with the Ownership Interest in accordance with Sections 6.7 and 6.9 of the San Onofre Units 2 and 3 Construction Agreement, as amended, and shall commence making payments for its share of nuclear fuel costs associated with the Ownership Interest on the first due dates for such payments after payment of the Purchase Price. However, if the Purchase Price is paid after September 1, 1981, the amount of any weekly progress payments and nuclear fuel payments due after September 1, 1981 but prior to the date of payment of the Purchase Price and not included in the Purchase Price shall be included in the first weekly progress payment made by Anaheim after payment of the Purchase Price. Such amounts shall bear interest at the Commercial Paper Rate from the date such payments were due to the date that Edison receives such funds, inclusive.

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7. Anaheim and Edison each hereby represents that it is unaware of any reasonable basis for the CPUC or the NRC to deny authorization for the transfer from Edison to Anaheim of the Ownership Interest and each of them also represents that, barring unreasonable regulatory delay, it expects each such authorization will be obtained prior to March 31, 1982. Anaheim and Edison shall jointly seek authorization from the CPUC and the NRC for the transfer from Edison to Anaheim of the Ownership Interest. Edison and Anaheim shall cooperate fully in seeking said authorizations, and all other approvals, contract amendments, assignments of interest, and consents necessary to effect transfer of the Ownership Interest. Anaheim shall be responsible for and shall pay all costs incurred in obtaining necessary authorizations, approvals, assignments, amendments, and consents associated with the transfer of the Ownership Interest. Each party shall bear its own costs of preparing the amendments specified in Paragraph 8.

8. Upon execution and delivery of this letter agreement, both parties shall cooperate fully in preparing and agreeing to amendments to the Participation Agreement, the Supplemental Agreement for the Integration of Anaheim's Entitlements in San Onofre Units 2 and 3, as modified (Supplemental Agreement), and the Edison-Anaheim San Onofre Transmission Service Agreement (Transmission Service Agreement) to reflect the transfer of the Ownership Interest, so that, prior to the time Anaheim first markets its Securities for the payment of the Purchase Price, such amendments shall be in final, agreed upon form suitable for execution. However, said amendments shall not be executed until authorizations for such transfer have been received from the CPUC and NRC and the Purchase Price has been paid to Edison. Anaheim and Edison each hereby agree to fully cooperate to obtain, prior to the time Anaheim first markets Securities for the payment of the Purchase Price, the written consents of San Diego Gas & Electric Company (SDG&E) and the City of Riverside (Riverside) to such amendment to the Participation Agreement. Neither party is aware of any reasonable basis for either SDG&E or Riverside to refuse to give such consent.

9. In the event that payment of the Purchase Price by Anaheim to Edison has been made on or before October 15, 1981, and the authorizations of the CPUC and NRC for the transfer of the Ownership Interest are obtained on or before March 31, 1982, then within five (5) business days after the later of such

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authorizations is so obtained, Edison and Anaheim shall each execute and deliver the amendments to the Participation Agreement, the Supplemental Agreement and the Transmission Service Agreement referred to in Paragraph 8. Upon execution and delivery of the amendment to the Participation Agreement, Anaheim shall own the Ownership Interest as a tenant-in-common and shall be responsible for its share of all nuclear fuel costs, including sales and use taxes, associated therewith, in accordance with Section 11 of the Participation Agreement.

10. If Anaheim pays Edison the Purchase Price pursuant to Paragraph 3 before the authorizations of the CPUC and NRC for the transfer of the Ownership Interest are obtained, during the period between payment of the Purchase Price to Edison and the execution and delivery of the amendment to the Participation Agreement contemplated by Paragraph 8, Anaheim shall be entitled to any energy generated by SONGS 2 and 3 which is associated with the Ownership Interest during such period less the energy associated with the Ownership Interest required for operation of all process and auxiliary equipment and systems used in connection with the operation and maintenance of SONGS 2 and 3 and be responsible for all of the obligations associated with the Ownership Interest, including but not limited to: (i) the treatment of the Ownership Interest as property of Anaheim for property tax purposes; (ii) the naming of Anaheim as a named insured with respect to the Ownership Interest on all insurance maintained by Edison, as Project Director, for SONGS 2 and 3, and (iii) the payment of all nuclear fuel and other costs associated with the Ownership Interest.

11. If Anaheim pays Edison the Purchase Price pursuant to Paragraph 3 before the authorizations of the CPUC and NRC for the transfer of the Ownership Interest are obtained, and such authorizations are not obtained on or before March 31, 1982, unless such date is extended in writing by mutual agreement of the parties, said agreement not to be withheld unless the non-agreeing party suffers economic detriment or increased risk, Edison's obligations to execute and deliver the amendments described in Paragraph 8 shall, on April 1, 1982, become null and void and Edison shall pay to Anaheim, on or before July 1, 1982, an amount equal to (i) the Purchase Price, plus (ii) an amount equal to Anaheim's interest cost, from the date the Purchase Price was received by Edison to the date such amount is paid by Edison to Anaheim, on the Securities issued to fund the Purchase Price, but in no event shall such cost exceed the amount that would have obtained had the interest rate on the Securities been the Commercial Paper Rate plus (iii) the weekly progress

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payments made in accordance with Paragraph 6 and payments for nuclear fuel, plus (iv) an amount equal to Anaheim's interest costs, from the date such payments were received by Edison to the date such amounts are paid by Edison to Anaheim, on the Securities issued to fund the weekly progress payments and nuclear fuel payments but in no event shall such cost exceed the amount that would have obtained had the interest rate on the Securities been the Commercial Paper Rate, plus (v) an amount equal to the costs incurred by Anaheim in issuing, refunding, and redeeming the Securities; provided, that the amount to be paid pursuant to this clause (v) shall not exceed the sum of Four Hundred Thousand Dollars (\$400,000). In no event shall the date for obtaining regulatory authorizations described herein, March 31, 1982, be extended to later than December 31, 1982. In the event the March 31, 1982 date is so extended, a like extension shall be provided for the April 1, 1982 and July 1, 1982 dates.

12. If authorizations of the CPUC and NRC are not obtained by March 31, 1982, or such other date as may be agreed upon by the parties as provided for in Paragraph 11, the rights and obligations of Edison and Anaheim pursuant to this letter agreement, except for the obligation to pay money, shall terminate.

If the terms and conditions of this letter agreement are satisfactory, would you please indicate your acceptance hereof by having an appropriate officer of Edison execute this letter agreement on behalf of Southern California Edison Company in the place provided at the bottom of this letter and return such copy to Gordon W. Hoyt, Public Utilities General Manager, City of Anaheim. The signatory of the City of Anaheim hereto represents that he has been appropriately authorized by the Anaheim City Council to execute this agreement on behalf of Anaheim.

Very truly yours,
CITY OF ANAHEIM

BY

Public Utilities General Manager

AGREED AND ACCEPTED THIS
____ DAY OF _____, 1981.

SOUTHERN CALIFORNIA EDISON COMPANY

BY _____