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 KNIGHTON, G. W. PWR Project Directorate 7

SUBJECT: Clarifies & modifies info in B60415 application for sale & leaseback transactions by util.

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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 El Paso Electric Company
Dated April 15, 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 June 3, 1986 with respect to certain decommissioning matters; 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 the undersigned dated August 7, 1986 with respect to the final equity investor list (also enclosing (i) supplemental financial information with respect to El Paso Electric Company (El Paso) and the prospective equity investors and (ii) a revised El Paso estimate of the reduction of ratepayer revenue requirements, etc.); and the letter of the undersigned August 7, 1986 with

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respect to the duration of the basic lease term. Following are certain clarifications of or modifications to the information presented in the Application:

Page
Number

Clarification/Modification

4 The statement is made: "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...." [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 El Paso 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 El Paso documents have been finally negotiated and executed.

8 The fair market value of El Paso's 15.8% interest in Unit 2 and the related portion of PVNGS common facilities is approximately \$680 million.

8 El Paso has the option, at the end of the basic term, to renew all (but not fewer than all) the Leases at a rental payment equal to 50 percent of the average rent on the final two rent payments dates, for a renewal term of up to the maximum fixed rate renewal term permitted by Federal tax law without disqualifying the Leases as true leases for Federal tax purposes. The Leases will not provide for renewals at fair market rentals.

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On this page 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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One or more lessors may borrow up to 80% of the purchase price of the Unit 2 Facilities. The sale and leaseback transactions will be closed with non-recourse interim debt financing provided by banks. El Paso intends to refinance such interim debt with public debt as described in Section 3.9.

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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.

None of the clarifications set forth above and modifications alter the representations made in Section 13 of the Application (pages 21-23); 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.

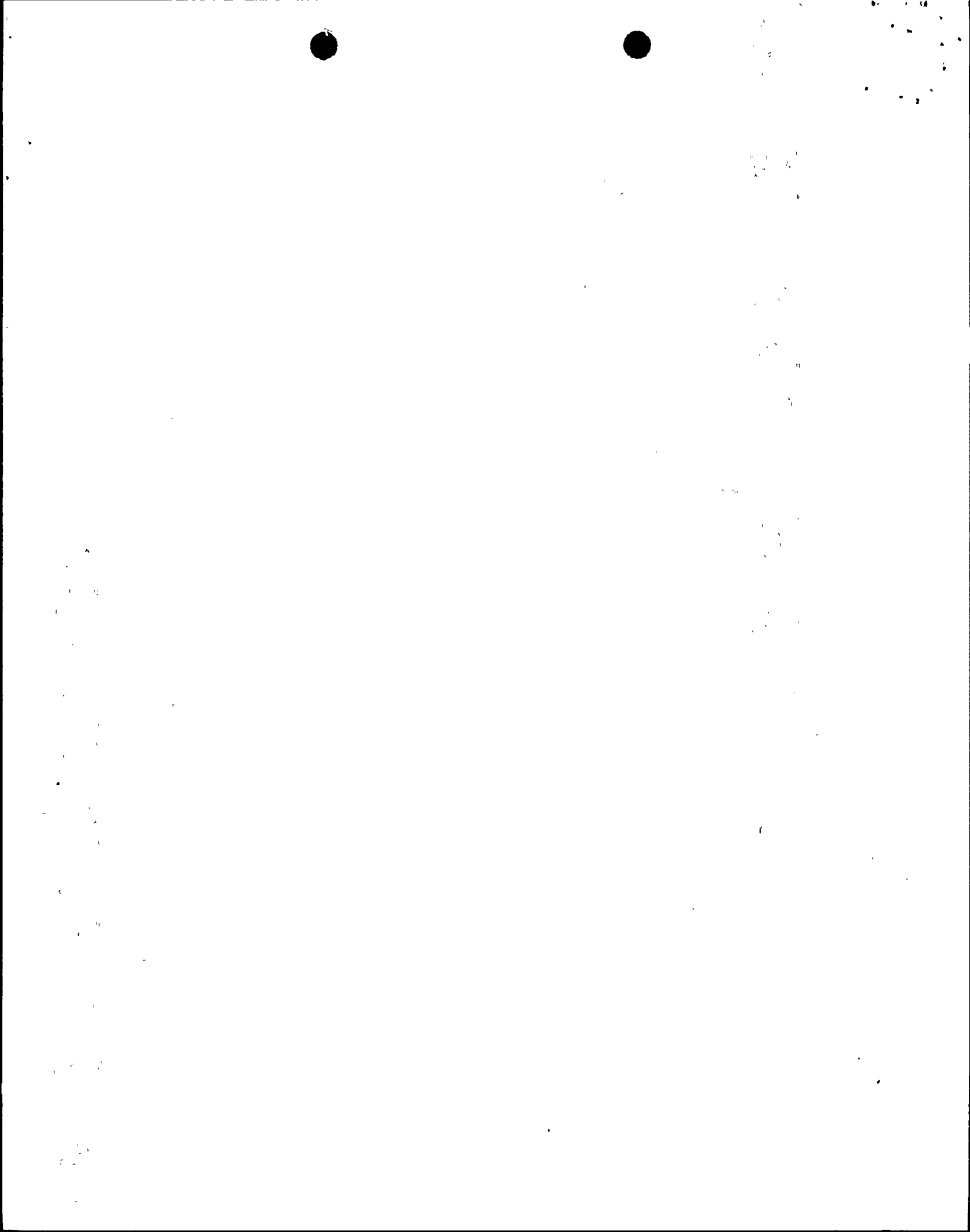
If I can be of further assistance, please do not hesitate to call.

Sincerely,

Timothy Toy
Timothy Michael Toy

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