

LAW OFFICES

CONNER & WETTERHAHN, P.C.

1747 PENNSYLVANIA AVENUE, N.W.

WASHINGTON, D.C. 20006

September 16, 1983

TROY B. CONNER, JR.  
MARK J. WETTERHAHN  
ROBERT M. RADER  
INGRID M. OLSON  
ARCH A. MOORE, JR.  
ROBERT E. FURL  
OF COUNSEL  
NOT ADMITTED IN D.C.

(202) 833-3500

CABLE ADDRESS: ATONLAW

Mr. Edson G. Case  
Deputy Director of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

In the Matter of Mississippi Power and Light Company  
(Grand Gulf Nuclear Station, Unit 1)  
Docket No. 50-416

Dear Mr. Case:

The owners of the Grand Gulf Nuclear Station, Unit 1, and the Board of Supervisors of Claiborne County, Mississippi have entered into an agreement to finance certain portions of the facility designed, inter alia, for the abatement of water pollution and atmospheric pollutants and contaminants.

In order to satisfy the pertinent requirements of Section 1.103-8(g)(2)(i) of the Internal Revenue Income Tax Regulations, the NRC is requested to certify that the portions of the Station for which certification is sought, as designed, are in furtherance of the purpose of abating or controlling water pollution and atmospheric pollutants or contaminants.

In accordance with our conversation of September 13, 1983, I have attached for your convenience a suggested form of such a certificate which you may wish to use.

Also enclosed for your information is a copy of Section 1.103-8(g)(2) of the IRS Regulations, the June 20, 1983 Resolution of the Board of Supervisors of Claiborne County, Mississippi authorizing the filing of a petition with the Mississippi Board of Economic Development for the issuance of pollution control revenue bonds, a copy of the May 12, 1983 IRS ruling issued in connection with this financing, and various materials relating to your previous certification of pollution control facilities for Peach Bottom Atomic Power Station, Units 2 and 3.

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WASHINGTON, D.C. 20006

September 16, 1983

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Deputy Director of Nuclear Reactor Regulation  
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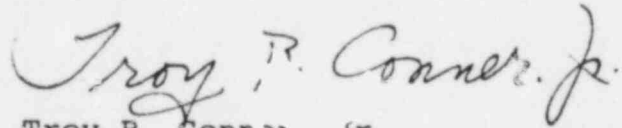
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We greatly appreciate the cooperation from you and your staff.

Sincerely,

A handwritten signature in cursive script that reads "Troy B. Conner, Jr.".

Troy B. Conner, Jr.  
Counsel for Mississippi Power  
and Light Company

TBC/sls

Enclosures

Docket No. 50-416

Grand Gulf Nuclear Station, Unit 1

CERTIFICATE

I, Edson G. Case, Deputy Director, Office of Nuclear Reactor Regulation of the United States Nuclear Regulatory Commission, being duly authorized, certify as follows:

The closed loop cooling water system, the components of the radwaste and other waste systems, and the Skyshine Shielding System described in the project description contained in the attached "Resolution Authorizing the Filing of Petition with the Mississippi Board of Economic Development for Approval of the Issuance of Pollution Control Revenue Bonds in Principal Amount not to Exceed One Hundred Million Dollars (\$100,000,000) and for Related Purposes" by the Board of Supervisors of Claiborne County, Mississippi, for the Mississippi Power and Light Company's Grand Gulf Nuclear Station, Unit 1, are, as designed, in



furtherance of the purpose of controlling water pollution  
and atmospheric pollutants, respectively.

FOR THE NUCLEAR REGULATORY  
COMMISSION

\_\_\_\_\_  
Edson G. Case

Dated at Bethesda, Maryland

this \_\_\_\_ day of \_\_\_\_\_, 1983

ment. In such a case, the ratio prescribed in § 1.103-8(g)(3)(iii) would allocate 40 percent of the cost of the property to the function which results in an economic benefit, and the remaining 60 percent of the cost of the property would qualify as an expenditure for a pollution control facility.

The proposed amendment provides that the regulations as amended apply to obligations issued after August 20, 1975. However, at the option of the issuer, the status of obligations issued before November 19, 1975, or obligations issued with respect to facilities the construction, reconstruction, or acquisition (including, in the case of an acquisition, a binding contract to acquire such facility) of which commences before November 19, 1975, may be determined without regard to the amendment.

*Proposed amendments to the regulations.* To provide rules defining facilities that qualify as air or water pollution control facilities and to provide rules with respect to the use of bond proceeds for exempt facilities, the Income Tax Regulations (26 CFR Part 1) under sections 103(c)(4) and 103(c)(4)(F) of the Internal Revenue Code of 1954 are amended as follows:

Section 1.103-8 is amended by adding two new sentences at the end of paragraph (a)(1)(i) and by revising paragraph (g). The new and revised provisions read as follows:

**§ 1.103-8 Interest on bonds to finance certain exempt facilities.**

(a) In general—(1) *General rule.* (i) [made final by T.D. 7511, 9/30/77]

(g) *Air or water pollution control facilities—(1) General rule.* Section 103(c)(4)(F) provides that section 103(c)(1) shall not apply to obligations issued by a State of local governmental unit which are part of an issue substantially all of the proceeds of which are to be used to provide air or water pollution control facilities. Such facilities are in all events treated as serving the general public and thus satisfy the public use requirement of paragraph (a)(2) of this section. Proceeds are used to provide air or water pollution control facilities if they are used to provide property which satisfies the requirements of paragraph (g)(2) and (3) of this section. Where property has a function other than to abate or control water or atmospheric pollution or contamination (hereinafter referred to as "control of pollution"), only the incremental cost of such property is taken into account as an expenditure to provide an air or water pollution control facility. Rules to determine whether property has any function other than the control of pollution are provided in paragraph (g)(2) and (3) of this section. Rules to determine the incremental cost of such property are provided in paragraph (g)(3) of this section.

(2) *Definitions.* (i) Property is a pollution control facility if it is property described in paragraph (g)(2)(ii) of this section and if either (A) a Federal, State, or local agency exercising jurisdiction has certified that the facility, as designed, is in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants, or water pollution, as the case may be, or (B) the facility is designed to meet or exceed applicable Federal, State, and local requirements for the control of atmospheric contaminants, or water pollution, as the case may be, in effect at

the time the obligations, the proceeds of which are to be used to provide such facilities, are issued.

(ii) Property is described in this subdivision if it (A) is either of a character subject to the allowance for depreciation provided in section 167 or land, and (B) is used in whole or in part to abate or control water or atmospheric pollution or contamination by removing, altering, disposing, or storing pollutants, contaminants, waste or heat (hereinafter individually and collectively referred to as a pollutant). Property is not described in the preceding sentence unless it is a unit which is discrete and which performs in whole or in part one or more of the functions referred to in such sentence and which cannot be further reduced in size without losing one of such characteristics. The term "pollutant" does not include any material or heat unless such material or heat is in a state or form such that its discharge or release would result in water or atmospheric pollution or contamination. Property is not described in this subdivision to the extent that such property avoids the creation of pollutants. Property which is used solely for the processing or manufacturing of material or heat after such material or heat is no longer a pollutant is not property described in this subdivision. Property is not a pollution control facility to the extent that such property treats or processes a material in such a manner as to prevent the discharge or release of pollutants when such material is subsequently used. Property to be used in the control of water pollution includes the necessary intercepting sewers, pumping, power, and other equipment, and their appurtenances. Such property is necessary if it removes, alters, disposes of, or stores a pollutant or is functionally related and subordinate to property used to control water pollution. In the case of property which removes pollutants from fuel, see paragraph (g)(2)(iv) of this section. For inclusion, as property described in this subdivision, of property functionally related and subordinate to an exempt pollution control facility, see paragraph (a)(3) of this section.

(iii) Property is not used for the control of pollution to the extent that it—

(A) Is designed to prevent the release of pollutants in a major accident.

(B) Prevents the release of materials or heat which would endanger the employees of the trade or business in which such property is used (as determined for example by Federal, State, or local employee occupational health or safety standards).

(C) Is used to control materials or heat that traditionally have been controlled because their release would constitute a nuisance.

(D) Controls the release of hazardous materials or heat that would cause an immediate risk of substantial damage or injury to property or persons, or

(E) Controls materials or heat in essentially the same manner as the user of such property has previously controlled such material or heat as a customary practice for reasons other than compliance with pollution control requirements. If such user previously has not generated such material or heat at the location where such material or heat is controlled, such customary practice shall be determined by reference to the use of similar property by similarly situated users.

The following resolution was introduced in writing by  
Supervisor JOHNSON, read and discussed:

RESOLUTION AUTHORIZING THE FILING OF PETITION WITH THE  
MISSISSIPPI BOARD OF ECONOMIC DEVELOPMENT FOR APPROVAL  
OF THE ISSUANCE OF POLLUTION CONTROL REVENUE BONDS IN  
PRINCIPAL AMOUNT NOT TO EXCEED ONE HUNDRED MILLION  
DOLLARS (\$100,000,000) AND FOR RELATED PURPOSES.

WHEREAS, the Board of Supervisors of Claiborne County,  
Mississippi (the "Governing Body") acting for and on behalf of  
said County (the "Issuer"), does hereby find, determine and  
adjudicate as follows:

1. The Issuer is a public body corporate and politic and a  
political subdivision of the State of Mississippi, duly organized  
and existing under the Constitution and laws of the State of  
Mississippi, and a "municipality" as defined in Sections  
49-17-101 through 49-17-131, Mississippi Code of 1972 (the  
"Act");

2. The Issuer is authorized by the Act to acquire, purchase  
and construct pollution control facilities as defined in the Act,  
to issue bonds for the purpose of defraying the cost of such  
facilities, and to enter into contracts for the lease and/or sale  
of such facilities to an industry;

3. Pursuant to its authority under the Act the Issuer on  
April 3, 1974 entered into a Memorandum of Agreement (the  
"Original Agreement") with Mississippi River & Light Company, a  
corporation organized and existing under the Constitution and  
laws of the State of Mississippi and an "industry" as defined in  
the Act ("MREL"), whereunder the Issuer agreed to issue its  
pollution control revenue bonds and to use the proceeds from the  
sale of said bonds for the acquisition and construction of  
certain pollution control facilities to be used for the  
elimination, mitigation and/or prevention of air and water  
pollution (the "Project") to be located at the Grand Gulf Nuclear  
Station located within the Issuer (the "Plant"), and thereafter  
to lease or sell the Project to MREL; on March 6, 1978, the

Issuer, MSF and Middle South Energy Inc., a corporation organized and existing under the constitution and laws of the State of Arkansas and authorized to do business in the State of Mississippi ("MSF") entered into an Assignment and Supplemental Memorandum Agreement whereunder MSF assigned to MSB all its rights under the Original Agreement and MSB assumed all obligations of MSF under the Original Agreement and the Issuer reaffirmed its undertakings under the Original Agreement for the benefit of MSB and released MSF from all further obligations under the Original Agreement; on September 5, 1979, the Issuer and MSB entered into a Second Assignment and Supplemental Memorandum Agreement relating to the Project; on September 26, 1981, the Issuer, MSF and MSB entered into a Third Assignment and Supplemental Memorandum Agreement which reaffirmed the undertakings of the Issuer and MSB with respect to the Project;

4. The pollution control facilities comprising the Project are generally described as follows:

A. A Closed Loop Cooling Water System consisting of a cooling tower, a pumphouse, blowdown and make-up water facilities, sodium hypochlorite and sulfuric acid removal systems, associated plumbing and electrical equipment.

B. A Solid Waste System which will collect, process, package and store radioactive solid wastes for offsite shipment and permanent disposal.

C. An Oily Waste System which will collect nonradioactive oily wastes from stabilizing tanks in several buildings.

D. A Chemical Waste System which will collect and neutralize chemical wastes contained in nonradioactive water from a make-up water treatment system and blowdown facilities.

E. A Sewage System which will consist of facilities for the plant that are designed to treat and dispose of sewage.

F. A Sediment Retention System which will consist of a low volume wastewater discharge basin and a chemical waste basin into which nonradioactive waste waters resulting from washdowns and sludges of various plant components will be diverted.

G. A Gaseous Wastewater Management System which is designed to control air pollution and consists of the Off-gas System, the Wastewater Scrubbing Filter System, and the Containment Scrubbing Filter System.

H. Sky-line Shielding System which will consist of structures that are designed to control air pollution by limiting offshore emissions or direct radiation from the plant.

I. A general summary of the terms and conditions of the proposed Installment Sale Agreement between the Issuer and MSB is as follows:

The proposed Installment Sales Agreement will provide that in order to defray the cost of the project, the Issuer will issue and sell its Pollution Control Revenue Bonds (Middle South Energy, Inc. Project) in principal amount not to exceed one Hundred Million Dollars (\$100,000,000) (the "Bonds"); that the Issuer will acquire and sell the Project to MSB for sums of money sufficient to provide for the payment of the principal of and interest and redemption premium, if any, on the Bonds as the same shall become due, whether an stated maturity thereof or otherwise; and that the MSB will pay the cost of advertising the Project and keeping it properly insured.

6. Because the Project will require a high degree of integration with the plant and because of the particular nature of such facilities comprising the Project, it would not be in the public interest and would less effectively achieve the purposes of the Act to enter into contracts for the acquisition, purchase, construction and/or installation of facilities contemplated by the Act upon the basis of public bidding pursuant to advertisement; public bidding pursuant to advertisement should be dispensed with, and MSB should be authorized to enter into such contracts based upon negotiation and, at its option, to negotiate such contracts in the name of the Issuer;

7. By letter addressed to the Governing Body, MSB has estimated the cost of the pollution control facilities comprising



the Project to be not in excess of One Hundred Million Dollars (\$100,000,000) and has concluded in the finding of the Governing Body that because of the particular nature of the Project, it would not be in the public interest and would less effectively achieve the purposes of the Act to enter into contracts for the acquisition, purchase, construction and/or installation of facilities contemplated by the Act and by the Installment Sale Agreement upon the basis of public bidding pursuant to advertisement, which letter is in lines, words and figures as follows:





MIDDLE SOUTH ENERGY, INC. 225 BARONNE NEW ORLEANS, LA 70112 / (504) 526-5262

June 10, 1983

Board of Supervisors  
Claiborne County, Mississippi  
Port Gibson, Mississippi 39150

Gentlemen:

Pursuant to Title 49, Chapter 17, Mississippi Code of 1972 (the "Act"), you have heretofore agreed to assist Middle South Energy, Inc. in financing the acquisition and construction of certain pollution control facilities located at Grand Gulf Nuclear Station in Claiborne County, Mississippi (the "Project") which are generally described as follows:

A. A Closed Loop Cooling Water System consisting of a cooling tower, a pumphouse, blowdown and make-up water facilities, sodium hypochlorite and sulphuric acid removal systems, associated plumbing and electrical equipment.

B. A Solid Radwaste System which will collect, process, package and store radioactive solid wastes for offsite shipment and permanent disposal.

C. An Oily Waste System which will collect nonradioactive oily wastes from stabilizing sumps in several buildings.

D. A Chemical Waste System which will collect and neutralize chemical wastes contained in nonradioactive water from a make-up water treatment system and blow-down facilities.

E. A Sewage System which will consist of facilities designed to treat and dispose of sewage.

F. A Sediment Retention System which will consist of a low volume wastewater discharge basin and a chemical waste basin into which nonradioactive waste waters resulting from washdowns and flushes of various components will be diverted.

Board of Supervisors  
Claiborne County, Mississippi  
June 10, 1963  
Page Two

G. A Gaseous Radwaste Management System which is designed to control air pollution and consists of the Off-gas System, the Radwaste Building Filter System, and the Containment Building Filter System.

H. A Sky-shine Shielding System which will consist of structures that are designed to control air pollution by limiting offsite emissions of direct radiation.


The estimated cost of the Project, including net interest during construction, an "insubstantial portion" contingency factor of 10% and expenses relating to issuance and sale of the bonds will not exceed \$100,000,000.

Because of and the particular nature of the facilities comprising the Project, it would not be in the public interest and would less effectively achieve the purposes of the Act to enter into contracts for the acquisition, purchase, construction and/or installation of facilities contemplated by the Act upon the basis of public bidding pursuant to advertisement. Public bidding pursuant to advertisement should be dispensed with, and Middle South Energy, Inc. should be authorized to enter into such contracts based upon negotiation and, at its option, to negotiate such contracts in the name of Claiborne County.

Yours very truly,

MIDDLE SOUTH ENERGY, INC.

By

  
Edwin Lupberger

8. The issuer proposes to issue its pollution control revenue bonds in principal amount not to exceed One Hundred Million Dollars (\$100,000,000) (the "Bonds") in one or more series for the purpose of defraying the cost of the Project; in order to provide security for the payment of the principal of and interest and redemption premiums, if any, on the Bonds, the issuer proposes to authorize the execution and delivery of one or more Trust indentures; the Bonds will be payable as to principal, interest and redemption premium (if any) solely out of and will be secured by an (i) irrevocable pledge of the revenue to be derived from the sale of the Project, and (ii) any other sums which may be received from or in connection with the Project; the Bonds will be limited obligations of the issuer, and shall never constitute an indebtedness of the issuer within the meaning of any constitutional provision or statutory limitation of the State of Mississippi, and shall never constitute nor give rise to any pecuniary liability of the issuer or a charge against its general credit or taxing power, nor shall the issuer be obligated to pay the principal of, or interest and redemption premium, if any, on any of the Bonds except from revenues to be derived from the sale of the Project and any other sums which may be received from or in connection with the Project as aforesaid; the Bonds shall mature at such time or times as the issuer and MSB may determine, not to exceed forty (40) years from their date; the Bonds shall be subject to such terms of redemption, shall be payable at such place or places, shall bear interest at such rate or rates as the issuer and MSB shall agree upon, may contain such other provisions not inconsistent with the Act as the issuer may determine, and shall be sold at public or private sale at such price and in such manner and at such time or from time to time as may be determined by the issuer and MSB to be most advantageous, all of which shall be provided in the proceedings authorizing the issuance of the Bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF CLAIBORNE COUNTY, MISSISSIPPI, AS FOLLOWS:

SECTION 1. That all recitals and findings of fact set forth in the preamble hereto are hereby found, determined and adjudicated true and correct.

SECTION 2. That as required by the Act the Clerk of the Governing Body is hereby directed to request a finding by the Bureau of Pollution Control of the Mississippi Department of Natural Resources that the pollution control facilities comprising the Project are necessary and that the design thereof will result in the elimination, mitigation and/or prevention of air or water pollution, and the Clerk is hereby authorized to present such documents as may be required.

SECTION 3. That the Clerk of the Governing Body be and she is hereby authorized to file with the Mississippi Board of Economic Development a certified copy of this resolution, as and for the petition of the issuer for approval of the pollution control facilities comprising the Project and approval to issue pollution control revenue bonds of the issuer in principal amount not to exceed One Hundred Million Dollars (\$100,000,000), as described in the preamble hereto; that said petition be accompanied by a copy of the findings of the Bureau of Pollution Control of the Mississippi Department of Natural Resources in connection with the pollution control facilities comprising the Project and financial statements of MSN for five (5) calendar years immediately preceding the date hereto.

SECTION 4. That the Mississippi Board of Economic Development be requested to concur in and approve the finding by the Governing Body that, because of the particular nature of the facilities comprising in the Project, it would not be in the public interest and would less effectively achieve the purposes of the Act to enter into contracts for the acquisition, purchase, construction and/or installation of the facilities contemplated by the Act upon the basis of public bidding pursuant to

advertisement, that public bidding pursuant to advertisement should be dispensed with, and that NBT should be authorized to enter into such contracts based upon negotiation and, at its option, to negotiate such contracts in the name of the issuer.

SECTION 5. That all orders, resolutions or proceedings in conflict with the provisions of this resolution shall be, and the same are hereby repealed, rescinded and set aside, but only to the extent of such conflict.

The adoption of the above Resolution was moved by Supervisor

JOHNSON, seconded by Supervisor EGGLESTON

and was put to a roll call vote, which was as follows:

Supervisor	<u>EGGLESTON</u>	voted:	<u>YES</u>
Supervisor	<u>VAUGHAN</u>	voted:	<u>YES</u>
Supervisor	<u>BURRELL</u>	voted:	<u>YES</u>
Supervisor	<u>JOHNSON</u>	voted:	<u>YES</u>
Supervisor	<u>ROSS</u>	voted:	<u>YES</u>

Said Resolution having received the approval of all members of the Board of Supervisors present, it was declared adopted by the Board of Supervisors of Claiborne County, Mississippi, on this the 20th day of June, 1981.

William Matt Ross  
PRESIDENT

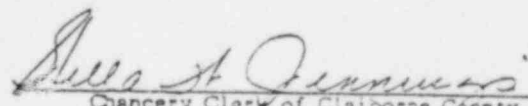
ATTEST:

Dee H. Jennings  
CLERK

STATE OF MISSISSIPPI  
COUNTY OF CLAIBORNE

I, STELLA H. JENNINGS, CHANCERY CLERK OF CLAIBORNE COUNTY, MISSISSIPPI, CERTIFY THAT THE WITHIN AND FOREGOING ORDER IS A TRUE AND CORRECT OF AN ORDER DULY ADOPTED BY THE Board of Supervisors of Claiborne County, Mississippi, on the 20th day of June, 1983 at a regular meeting thereof, and that a quorum was duly present at said meeting and, further that all members of the Board of Supervisors voted affirmatively in favor of the adoption of the order, and that said order is now in full force and effect.

SO CERTIFIED, THIS THE 20th DAY OF JUNE, 1983.

  
Chancery Clerk of Claiborne County, Mississippi



## Internal Revenue Service

## Department of the Treasury

Index Nos.: 0103.06-00  
0103.06-07

Washington, DC 20224

Edwin Lupberger  
Senior Vice President - Chief  
Financial Officer  
Middle South Energy, Inc.  
P.O. Box 61000  
New Orleans, LA 70161

## Person to Contact:

W. J. Sheehan  
Telephone Number:  
(202) 566-4463  
Refer Reply to:  
CC:C:E:E:2 - 2D4807  
Date:

Attention: Treasurer

MAY 12 1983

In re: Pollution Control Revenue Bonds.  
Grand Gulf Nuclear Station Project

The Company:	Middle South Energy, Inc. EIN: 72-0752777
The Affiliate:	Mississippi Power & Light EIN: 64-0205330
The Parent:	Middle South Utilities, Inc. EIN: 13-5530175
The County:	Claiborne County, Mississippi
State A:	The State of Mississippi
State B:	The State of Arkansas
State C:	The State of Louisiana
State D:	The State of Florida
The Station:	The Grand Gulf Nuclear Station
<u>X:</u>	87.52
Date 1:	December 1, 1983
Date 2:	November 1, 1983

"This document" may not  
used or cited as prece-  
dent. Section 6110(j)  
of the Internal Revenue  
Code."

Dear Mr. Lupberger:

In a letter of April 26, 1982, and subsequent correspon-  
dence, submitted on behalf of the Company, a ruling is  
requested. The ruling requested is that substantially all of  
the proceeds of certain bonds (the "Bonds") will be used to  
provide sewage or solid waste disposal facilities, and air or  
water pollution control facilities (the "Facilities") within

Mr. Edwin Lupberger

the meaning of sections 1.103-8(f) of the Income Tax Regulations and 1.103-8(g) of the regulations and proposed regulations.

The Facilities, currently under construction and to be constructed and acquired at the Station, are to be financed by the County for the benefit of the Company.

The pertinent facts are as follows:

The County is a political subdivision and governmental unit of State A, duly existing under the Constitution and laws of that state. The County is authorized and empowered by the provisions of the laws of State A (the "Act") to issue revenue bonds for the purpose of defraying the cost of acquiring, purchasing, constructing, operating, maintaining and replacing the Facilities as air or water pollution control facilities, as defined in the Act (including solid waste disposal facilities and sewage disposal facilities), and to sell the Facilities to the Company.

The Company is a corporation of State B, having its principal place of business in State C, and is qualified to do business as a foreign corporation in State A. The Affiliate, an affiliate of the Company, is a corporation of State A having its principal place of business in that State. The Company and the Affiliate are wholly-owned subsidiaries of the Parent, a corporation of State D having its principal place of business in State C. The Company and the Affiliate file a consolidated federal income tax return with the Parent in State C.

The Company is currently constructing a nuclear powered electric generating station (the "Plant") that will consist primarily of two boiling water reactor nuclear generating units (the "Units"), and that will be located in the County. Unit 1 is expected to be placed in service on Date 1 and Unit 2 is expected to be placed in service on Date 2.

The construction of the Plant has been undertaken as a part of the plans of the Parent and its principal operating subsidiary companies (the "System operating companies") to install new electric generating capacity. Initially, the Affiliate undertook the engineering and related work in connection with the Plant; however, it was later determined that it was not feasible for the Affiliate to undertake the ownership and financing of the Plant.

Mr. Edwin Lupberger

The Company was organized as a wholly-owned subsidiary of the Parent for the purpose of financing, constructing and owning the Plant for the Parent's electric generating system. To that end, the Company and the Parent entered into an agreement pursuant to which the Parent undertook to furnish or cause to be furnished to the Company sufficient capital for construction of the Plant, to permit activation and commercial operation thereof and, at maturity, to pay in full certain notes issued by the Company under an agreement with certain banks.

Under federal construction permits, the Company was obligated to offer an opportunity to other entities to participate in the Plant. The participation is through ownership of a portion of the Plant or a contractual right to purchase a portion of the output of the Plant. It is presently assumed that, as a result of certain agreements, the Company will own an x percent undivided interest in the Facilities. The estimated costs summarized below represent x percent of the estimated costs of the Facilities.

The County proposes to issue the Bonds to finance the cost of acquisition and construction of the Facilities that relate in whole or in part to each of the Units (the "Project"). The Bonds will be issued in two series. Each series will be issued in a principal amount necessary to pay those costs, including interest during construction, an "insubstantial portion" of other costs, and all expenses in connection with the authorization, issuance and sale of each series.

The proceeds of the sale of each series of the Bonds will be temporarily invested until applied to the payment of the costs of the Project. Anticipated earnings from these temporary investments also will be available for the payment of the costs that the County proposes to finance.

Original Bond proceeds and amounts resulting from the investment of those proceeds during the construction period will be applied to pay the costs of certain facilities as described below or will be requisitioned to reimburse the Company for such costs. Upon completion of the Project, if any portion of the funds remain on hand, having not been so applied or requisitioned, the requirements of Rev. Proc. 79-5, 1979-1 C.B. 485, will be complied with.

Mr. Edwin Lupberger

The two series, the "Series A Bonds" and the "Series B Bonds", will be used to provide portions of the Project as described below. Each series will be sold pursuant to separate official statements, and there will be at least a 30 day interval between the issuance of each.

The County and the Affiliate entered into an agreement (the "Agreement") pursuant to which the County agreed to authorize the issuance and sale of the Bonds to finance certain systems and facilities that include the Project. The agreement also stated that it was anticipated that the Plant might be owned by the Affiliate, the Company, or some other System operating company and, to that end, the County agreed that the Affiliate could assign all of its rights under the Agreement to the Company or such other companies.

As of the date of the Agreement, onsite construction or offsite fabrication relating to the Project had not commenced. All amounts spent by the Affiliate, as of that date, with respect to the Plant consisted of expenditures relating generally to the acquisition and construction of the Plant; none of those expenditures related directly to the construction or acquisition of the Project. However, construction of the portions of the Plant to be financed with the Series B Bonds commenced prior to November 19, 1975.

The Company has elected to have the provisions of the proposed regulations apply to the Series A Bonds, but not to the Series B Bonds. This election was made in accordance with section 1.103-8(g)(4) of the proposed regulations.

The cost of the Project includes the material and labor costs associated with the construction and acquisition of the foregoing systems as well as a portion of the indirect costs for the entire Plant construction allocable to the Project. For federal income tax purposes, all costs of the Project will be capitalized or could be chargeable to capital account. Indirect costs will be allocated to the material and labor costs of the Project on the basis of the ratio of the total estimated indirect costs of the Plant to the total estimated material and labor costs related to the Plant.

Mr. Edwin Lupberger

The Series A Bonds will be used to provide Subproject A consisting of the following portions of the Project:

1. Circulating Water System
2. Solid Radwaste System
3. Oily Waste System
4. Chemical Waste System
5. Sewage System
6. Sediment Retention System

The Series B Bonds will be used to provide Subproject B consisting of the following portions of the Project:

1. Gaseous Radwaste Management System
2. Skyshine Shielding System

Circulating Water System. The system will be a closed loop cooling water system consisting of a cooling tower, pumphouse, blowdown and make-up water facilities, sodium hypochlorite and sulphuric acid systems, associated plumbing, and electrical equipment.

Included as a cost of constructing the Circulating Water System is direct material and labor costs incurred to repair tornado damage to the Unit 1 cooling tower during its construction. The Company received an insurance reimbursement of a portion of these additional construction costs. Although the Company has instituted legal proceedings to recover from the contractor the unreimbursed construction costs incurred to repair the tornado damage, plus substantial other amounts required to complete the cooling tower and correct other warranty deficiencies, it is impossible at this time to predict the outcome of those proceedings. The Company's share of the estimated cost of constructing and acquiring the Circulating Water System has been reduced by the insurance reimbursement; no reduction in that cost has been made for any anticipated recovery in the legal proceedings.

Solid Radwaste System. The system will collect, process, package, and store radioactive solid wastes for offsite shipment and permanent disposal.



Mr. Edwin Lupberger

The system will receive residue from a liquid radwaste system that is not included as part of the Facilities. The system will dewater the waste in holding tanks, mix it with solidification agents in mixer units, and place the mixture in 55 gallon drums. The filled containers will be remotely capped and moved within the fill area on remote controlled transfer carts. Movement from the fill area will be done by a handling crane. The system will also provide washdown facilities, sample retrievers, and optical surveillance facilities. Additional miscellaneous equipment and structures include a portion of an inventory station, remote control panels, a radiation monitoring system, filter discharge chutes, and vent spray housings.

The system will also receive paper, rags, contaminated clothing, tools and equipment, laboratory waste, and solid material from air filters.

Compressible solid wastes will be compacted, and non-compressible wastes will be packaged manually in appropriate containers.

Besides the equipment listed above, the Solid Radwaste System will have a hot water heater, pumps, fill ports used to fill the drums, piping, electrical equipment, and equipment pads.

Oily Waste System. The Oily Waste System will collect nonradioactive oily wastes from stabilizing sumps in several buildings. The sumps are collection points where the wastes that are directed from drain sumps are accumulated. The wastes will be pumped from the sumps to separators, and from the separators to tanks for temporary storage. The treated effluent will be discharged through a storm drainage system and will not be reused. After being packaged in drums, the oil will be disposed of offsite by a private contractor without payment to the Company.

Piping, valves, and electrical equipment are included in the Oily Waste System.

Chemical Waste System. The Chemical Waste System will collect and neutralize chemical wastes contained in nonradioactive water from a makeup water treatment system and blow-down facilities. The wastes will be collected and neutralized in a regeneration waste neutralizing tank. Also included in the system will be a sampling pump, acid dike sump and pump, piping that will carry the wastewater streams to the neutralizing tank, valves, electrical facilities, and controls.



Mr. Edwin Lupberger

Sewage System. The Sewage System will consist of facilities for the Plant that are designed to treat and dispose of sewage. The components of the system are an activated sludge treatment unit including aeration, sludge storage and chlorine contact tanks, lift station, wetwell, chlorinator, valves, pipes, and pumps.

Part of the sludge will be recycled to the aeration tank for treating additional sludge; and the remainder will be transported offsite by a commercial contractor. The treated effluent will be mixed with cooling water blowdown and other effluents from the Plant, and discharged.

Sediment Retention System. The Sediment Retention System will consist of improvements at the Plant that are designed to control water pollution. The system will consist of a low volume wastewater discharge basin and a chemical waste basin into which nonradioactive wastewaters resulting from washdowns and flushes of various Plant components will be diverted.

The low volume wastewater discharge basin will receive low volume wastewater from the regeneration waste neutralizing tank, filter backwashes, and auxiliary boiler blowdown. These wastewaters will be collected and diverted to this basin where the sediments and suspended solids will settle, and the effluent will be discharged.

In preparation for the startup of Unit 1, various Plant components will be flushed and backwashed to remove contaminants that may have been introduced during construction. Temporary piping will be installed to direct the resulting wastewaters to the chemical waste basin. This temporary piping will be disassembled after the Unit is in commercial operation. Periodically thereafter, during shutdowns for refueling and routine maintenance, temporary piping will again be installed to direct to the retention basins the wastewaters from backwashings and flushes done during the shutdown periods. Only the estimated cost of the original temporary piping that will be installed prior to commercial operation is included in the cost of the Sediment Retention System. The chemical waste basin was placed in service on July 1, 1982 coincident and in conjunction with the initial fuel loading and associated testing of Unit 1.

Mr. Edwin Lupberger

Expenditures for the planning, construction, and installation of Subproject A are identified below:

1. Circulating Water System	\$88,649,429
2. Solid Radwaste System	3,321,033
3. Oily Waste System	709,343
4. Chemical Waste System	459,490
5. Sewage System	1,915,452
6. Sediment Retention System	541,841

Gaseous Radwaste Management System. This system is designed to control air pollution, and consists of the Offgas System, the Radwaste Building Filter System, and the Containment Building Filter System.

The function of the Offgas System is to collect and isolate radioactive noble gases, airborne halogens, and particulates, and reduce their activity through decay. The Offgas System will process radioactive gases and particulates that will be pulled from the steam in the main condenser by steam jet ejectors that are not included in this system.

Steam will be added to the noncondensable gases that are removed from the main condenser to dilute the hydrogen. This steam gas mixture will then be superheated in a pre-heater and passed through a catalytic recombiner that will reduce the volume of the gas by converting radiolytically disassociated hydrogen and oxygen into water. The gases will then pass through a condensor and water separator to remove condensable moisture and will further reduce the volume of the gases. The remaining nondensible gases will go through a holdup tank and piping that is designed to delay the flow of the gases. This delay will allow the nitrogen and oxygen isotopes and most of the xenon and krypton isotopes to decay. The gases then will pass through a cooler-condenser, where the gases will be further cooled, a moisture separator, and a high efficiency particulate air ("HEPA") filter. The gases will then pass through a dessicant dryer to improve the performance of the charcoal adsorption beds into which the gases will pass next. The beds will operate in a refrigerated vault and absorb and delay the remaining radioactive noble

Mr. Edwin Lupberger

gases to allow additional time for decay. From the beds, the gases will pass through a HEPA after-filter that will trap charcoal particles and solid decay products. Thereafter, the gases will flow through an effluent monitoring system from which they will be discharged.

The effluent monitoring system will include a sample panel that will have filters for particulate and halogen collection in parallel with gross radiation detection assemblies. This system will also include a shielded chamber, detector and check source, and radiation monitors.

Most of the facilities will be housed in the Offgas Building that will abut and share a common wall with two other structures. One of the buildings, the Radwaste Building will contain facilities for processing liquid and solid radwaste, and the other, the Water Treatment Building, will house nonradwaste water treatment facilities.

Radwaste Building Filter Systems and Containment Building Filter Systems. It is anticipated that during the normal operation of the Plant the Radwaste Building ventilation exhaust will contain certain radioactivity in low concentrations from the various radioactive wastes that are treated in this building. This exhaust will be treated through "Filter Systems", each consisting of a HEPA Filter, ductwork, controls, wire, cable, cable tray and conduit, and connections. In addition, tanks in the Radwaste Building that will be potential sources of radioactivity will be vented through other Filter Systems, consisting of a demister, prefilter, HEPA filter, charcoal filter and fan. These Filter Systems will remove particulate contaminants from the exhaust air before passing through the effluent monitoring system described above in the Offgas Building and then released.

Also during normal operation, a small amount of the air in the Containment Building for Unit 1 will contain low levels of radioactivity that will be continuously exhausted through charcoal Filter Systems located in the Unit 1 Auxiliary Building. These Filter Systems will consist of a demister, heating coil, prefilter, HEPA filters and charcoal filter bank. After the exhaust air passes through these Filter Systems it will pass through effluent monitoring systems that will continuously sample and monitor the Containment Building exhaust for gross radiation level and collect halogen and particulate samples. These monitoring systems will be identical to the ones described above

Mr. Edwin Lupberger

that are located in the Offgas Building. After passing through the monitoring system, the exhaust air will be released.

Skyshine Shielding System. The Skyshine Shielding System will consist of structures for Unit 1 that are designed to control air pollution by limiting offsite emissions of direct radiation from the Plant.

It is anticipated that when the Plant is completed and in operation, the maximum offsite whole-body dose estimates of direct radiation will be due almost entirely to the direct radiation and atmospheric scattering of high energy gamma rays emitted from reactor steam in the main steam lines, turbines and moisture separators. The Skyshine Shielding System for Unit 1 will consist of a discrete concrete slab. This slab will be located in the Turbine Building for Unit 1 below the roof and above the moisture separators and reheaters and will reduce offsite doses of direct radiation by absorbing those radioactive gases and particulates, and reducing the activity of them through decay.

The structures comprising the shielding system are being installed solely for the purpose of meeting federal regulations for offsite emissions.

Expenditures for the planning, construction, and installation of the Subproject B are identified below.

- |                                       |              |
|---------------------------------------|--------------|
| 1. Gaseous Radwaste Management System | \$15,409,376 |
| 2. Skyshine Shielding System          | 425,542      |

Under section 103(a)(1) of the Code gross income does not include interest on the obligation of a state or any of its political subdivisions.

Section 103(b)(1) of the Code provides that, with the exception as described below, an industrial development bond does not fall within the purview of section 103(a)(1). Paragraph (4) provides that paragraph (1) does not apply to an obligation that is issued as part of an issue substantially all of the proceeds of which are used to provide solid waste disposal facilities, or air or water pollution control facilities.

As provided by section 1.103-8(a)(1) of the regulations, substantially all of the proceeds of an issue of governmental obligations are used to provide an exempt facility if 90 percent



Mr. Edwin Lupberger

or more of such proceeds are so used. For purposes of this "substantially all" test two rules apply. First, proceeds are reduced by amounts properly allocable on a pro rata basis between providing the exempt facility and other uses of the proceeds. Second, amounts used to provide an exempt facility include amounts paid or incurred that are chargeable to the facility's capital account or would be so chargeable either with proper election by a taxpayer to deduct such amounts.

Under the provisions of section 1.103-8(a)(3) of the regulations, an exempt facility includes any land, building, or other property functionally related and subordinate to the facility provided the property is of a character and size commensurate with the character and size of the facility.

Section 1.103-8(a)(5)(i) of the regulations provides that to qualify under section 103(b)(4) of the Code and section 1.103-8 as an exempt facility, the facility must be one described in subdivision (iv) of subparagraph (5) if construction, reconstruction, or acquisition of the facility commences on or after September 2, 1972.

Subdivision (iv) of section 1.103-8(a)(5) of the regulations provides that if the original use of a facility commences prior to the date of issue of the obligations issued to provide that facility, the facility will be described in subdivision (iv) if no nonexempt persons or a related person (a) who was a substantial user of the facility at any time during the 5-year period preceding the date of issue of the obligations, and (b) who receives proceeds of the issue of obligations in an amount equal to 5 percent or more of the face amount of the issue (in payment for the non-exempt person's interest in the facility) will be a substantial user of the facility at any time during the 5-year period following the date of issue.

Subdivision (v) of section 1.103-8(a)(5) of the regulations provides that a facility will not fail to be described in subdivision (iv) because the facility was used by the substantial user before the date of issue of the obligations issued to provide the facility if a bond resolution or other similar official action was taken by the issuer before commencement of construction, reconstruction, or acquisition of the facility and the obligations are issued within 1 year after the entire facility was first placed in service or was acquired (whichever occurs last).

Mr. Edwin Lupberger

Section 1.103-8(f)(1)(i) of the regulations provides that section 103(b)(1) of the Code does not apply to obligations issued by a state or local governmental unit that are part of an issue substantially all of the proceeds of which are used to provide solid waste disposal facilities.

As defined by section 1.103-8(f)(2)(i) of the regulations, the term "sewage disposal facilities" is property used for the collection, storage, treatment, utilization, processing, or final disposal of sewage.

Section 1.103-8(f)(2)(ii)(a) of the regulations provides that the term "solid waste disposal facilities" means any property or portion thereof used for the collection, storage, treatment, utilization, processing, or final disposal of solid waste. Only expenditures for that portion of property that is a solid waste disposal facility qualify as expenditures for solid waste disposal facilities. The fact that a facility that otherwise qualifies as a solid waste disposal facility operates at a profit will not, of itself, disqualify the facility as an exempt facility.

Section 1.103-8(f)(2)(ii)(b) of the regulations provides that material will not qualify as solid waste unless, on the date of issue of the obligations issued to provide the facility to dispose of such waste material, it is property that is useless, unused, unwanted, or discarded solid material that has no market or other value at the place where it is located. Thus, where any person is willing to purchase such property, at any price, the material is not waste.

Section 1.103-8(g)(1) of the proposed regulations provides that section 103(b)(1) of the Code does not apply to the obligations issued by a state or local governmental unit that are part of an issue substantially all of the proceeds of which are used to provide air or water pollution control facilities. Proceeds are used to provide air or water pollution control facilities if they are used to provide property that satisfies the requirements of paragraph (g)(2) and (3) of this section. Where property has a function other than to abate or control water or atmospheric pollution or contamination, only the incremental cost of the property is taken into account as an expenditure to provide an air or water pollution control facility. Rules to determine whether property has any function other than the control of pollution are provided in paragraph (g)(2) and (3) of this section. Rules to determine the incremental cost of the property are provided in paragraph (g)(3) of this section.



Mr. Edwin Lupberger

In accordance with section 1.103-8(g)(2)(i) of the proposed regulations, property is a pollution control facility if it is property described in paragraph (g)(2)(ii) of this section and if a federal, state, or local agency exercising jurisdiction has certified that the facility, as designed, is in furtherance of the purpose of abating or controlling air or water pollution.

Section 1.103-8(g)(2)(ii) of the proposed regulations provides that property is pollution control property if it is either of a character subject to the allowance for depreciation, or land, and is used in whole or in part to abate or control water pollution or contamination by removing, altering, disposing, or storing pollutants. To qualify, the property described above must be a unit that is discrete and that performs in whole or in part one or more of the functions referred to above and that cannot be further reduced in size without losing one of the characteristics.

Section 1.103-8(g)(3)(i) of the proposed regulations provides that if property described in paragraph (g)(2) of this section is used to control pollution and also has a function other than the control of pollution, only the incremental cost of the property is taken into account as an expenditure to provide air or water pollution control facilities. An example of a function of property other than the control of pollution is an economic benefit to the user resulting from the use of the property. The term "economic benefit" means gross income or cost savings resulting from any increase in production or capacity, production efficiencies, the production of a by-product, the extension of the useful life of nonpollution control property, and any other identifiable cost savings, such as savings resulting from the use, reuse, or recycling of the items recovered.

Section 1.103-8(g)(3)(iii) of the proposed regulations provides that in the case of property that results in an economic benefit, only a portion of the cost of the property is allocable to pollution control. The method to determine the qualifying portion is contained in this section.

Mr. Edwin Lupberger

Example 4 of section 1.103-8(g)(5) of the proposed regulations provides a method to determine the allocation of costs to be made under paragraph (g)(3)(iii).

Under section 1.103-8(g)(4) of the proposed regulations, the provisions of paragraph (g) apply, at the option of the issuer, to obligations issued with respect to facilities the construction of which commenced before November 19, 1975.

The provisions of section 1.103-8(g)(2)(i)(b) of the regulations, regarding certification that a facility is in furtherance of the purpose of abating or controlling pollution, are the same as in section 1.103-8(g)(2)(i) of the proposed regulations.

Under section 1.103-8(g)(2)(ii) of the regulations, property is described in this subdivision if it is property to be used, in whole or in part, to abate or control water or atmospheric pollutants or contamination by removing, altering, disposing, or storing pollutants, contaminants, wastes or heat.

Section 1.103-8(g)(2)(iii) of the regulations provides that in the case of an expenditure for property that is designed for no significant purpose other than the control of pollution, the total expenditure for such property satisfies the test of this subdivision. Thus, where property that is to serve no function other than the control of pollution is to be added to an existing manufacturing or production facility, the total expenditure for that property satisfies the test of this subdivision. Also, if an expenditure for property would not be made but for the purpose of controlling pollution, and if the expenditure has no significant purpose other than the purpose of pollution control, the total expenditure for that property satisfies the test of this subdivision even though that property serves one or more functions in addition to its function as a pollution control facility.

Our analysis of the represented facilities is as follows:

1. The Project is described in sections 1.103-8(a)(5)(iv) and (v) of the regulations although the Bonds may not be issued within one year after the chemical waste basin of the Sediment Retention System was placed in service. This is valid only if the Bonds are issued as soon as practical after this letter ruling is received by the Company.

Mr. Edwin Lupberger

2. The Company has made a proper election under section 1.103-8(g)(4) of the proposed regulations as the election has been made with respect to each series of obligations.
3. The Circulating Water System, Oily Waste System, Chemical Waste System, and Sediment Retention System are water pollution control facilities under section 1.103-8(g) of the proposed regulations.
4. The Sewage System is a sewage disposal facility under section 1.103-8(f)(2)(i) of the regulations.
5. The Solid Radwaste System is a solid waste disposal facility under section 1.103-8(f)(2)(ii)(a) of the regulations.
6. The Gaseous Radwaste Management System and the Skyshine Shielding System are air pollution control facilities under section 1.103-8(g) of the regulations.

In summary, the following expenditures for Subproject A qualify as water pollution control facilities under section 1.103-8(g) of the proposed regulations or solid waste or sewage disposal facilities under section 1.103-8(f) of the regulations. The allocations pursuant to section 1.103-8(g)(3) are shown for the Circulating Water System.

1. Circulating Water System	\$22,593,374	
2. Solid Radwaste System	3,321,033	
3. Oily Waste System	709,646	
4. Chemical Waste System	469,420	
5. Sewage System	1,915,452	
6. Sediment Retention System	541,841	
7. Interest During Construction	<u>10,747,870</u>	
Subtotal		40,301,703
8. Insubstantial Portion		4,477,957

Mr. Edwin Lupberger

9. Issuance and Sale Expenses	<u>1,384,938</u>
Subtotal	46,164,611
10. Less Anticipated Earnings from Investment of Series A Proceeds	<u>(118,626)</u>
Total	<u><u>\$46,045,983</u></u>

In summary, the following expenditures for Subproject B qualify as air pollution control facilities under section 1.103-8(g) of the regulations.

1. Gaseous Radwaste Management System	\$15,409,376
2. Skyshine Shielding System	425,542
3. Interest During Construction	<u>5,816,093</u>
Subtotal	\$21,651,011
4. Insubstantial Portion	2,405,668
5. Issuance and Sale Expenses	<u>744,021</u>
Subtotal	24,800,700
6. Less Anticipated Earnings from Investment of Series B Proceeds	<u>(55,965)</u>
Total	<u><u>\$24,744,735</u></u>

Based upon the documents and information submitted, it is concluded that:

1. For purposes of sections 103(b)(4) of the Code and 1.103-8(a)(1) of the regulations, substantially all of the proceeds of the Series A Bonds, to be issued in the approximate amount of \$46,046,000, will be used to provide water pollution control facilities or sewage or solid waste disposal facilities under section 1.103-8(g) of the proposed regulations and section 1.103-8(f) of the regulations.

Mr. Edwin Lupberger

2. For purposes of sections 103(b)(4) of the Code and 1.103-8(a)(1) of the regulations, substantially all of the proceeds of the Series B Bonds, to be issued in the approximate amount of \$24,745,000 will be used to provide air pollution control facilities under section 1.103-8(g) of the regulations.

Ruling 1 is valid only if a federal, state, or local agency exercising jurisdiction has certified, in accordance with section 1.103-8(g)(2)(i)(b) of the proposed regulations, that the Circulating Water, Oily Waste and Chemical Waste Systems, as designed, are in furtherance of the purpose of abating or controlling water pollution.

A copy of this letter should be filed with the income tax return for the taxable year in which the transaction covered by this ruling is consummated.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to Mr. Mark L. Regante of Simpson Thacher and Bartlett.

Sincerely yours,

(s) Geoffrey J. Taylor

Geoffrey J. Taylor  
Chief, Engineering and  
Valuation Branch