

Department of Water and Power



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August 10, 2001

Secretary
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555-0001

DOCKET NUMBER
PROPOSED RULE **PR 50**
(66 FR 29244)

Attention: Rulemaking and Adjudication Staff

Re: Proposed Amendments to Regulations Relating to Decommissioning Trust Provisions under 10 CFR Part 50 Appearing in 66 Fed. Reg. 29, 244 (May 30, 2001)

Ladies and Gentlemen:

The Department of Water and Power of the City of Los Angeles (the "Department") offers the following comments on the proposed amendments (the "Amendments") to the U.S. Nuclear Regulatory Commission's (the "Commission") regulations relating to decommissioning trust funds for nuclear power plants established pursuant to 10 CFR 50.75 (e) ("Decommissioning Trusts"). The Department points out that the application of proposed 10 CFR 50.75 (h)(1)(i)(D) ("Subparagraph D") (limiting the right of nuclear plant owners to direct the investment of Decommissioning Trusts) to governmental owners of nuclear power plants, whose investments of public funds are strictly regulated by State law, is inconsistent with current practice and is unnecessary to achieve the stated purposes of the Amendments. The Department, therefore, requests that an exception from Subparagraph D be made for governmental agencies where the investments directed by the governmental agency are limited to investments permitted for the investment of public funds under applicable State law.

The Department owns a 5.7% direct ownership interest in the Palo Verde Nuclear Generating Station ("PVNGS") and, in addition, through its participation in the Southern California Public Power Authority, the Department owns an additional indirect interest of 3.95% of PVNGS. The Department contributes to external decommissioning trusts established with respect to PVNGS in accordance with the Arizona Nuclear Power Plant Participation Agreement among the owners of the PVNGS and also in accordance with Commission requirements.

The Supplementary Information relating to the Amendments included in the Federal Register indicates the purpose of the Amendments is to increase assurance that an adequate amount of decommissioning funds will be available for their intended purposes in light of the potential loss of stringent accounting and financial control of owners of nuclear generating plants by state public utility commissions ("PUCs") and/or the Federal Energy Regulatory Commission ("FERC") due to the deregulation of the electric utility industry. In addition, such Supplemental Information indicates the Commission believes the general limitations on investments contained in trust law do not

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provide sufficient specific guidance as to permitted investments to replace State PUC or FERC control. As proposed, the Amendments fail to recognize the safeguards to the availability of moneys in Decommissioning Trusts established by governmental owners of nuclear power plants and funded with public funds resulting from strict investment limitations of State law which will continue notwithstanding any deregulation of the electric utility industry. These safeguards are quite specific as to permitted investments and do not rely on general principles of trust law.

Further support for allowing governmental owners of nuclear power plants to direct investment of public funds in Decommissioning Trusts is found in Section 10 CFR 50.75 (e)(1)(ii) which provides that such funds must be maintained with an entity that is an appropriate State or Federal government agency or an entity whose operations relating to such funds are regulated and examined by a Federal or State agency. Thus, the security of trust funds held by appropriate State agencies and investing in investments permitted under State law is explicitly recognized and is consistent with the goals of the proposed Amendments.

The Amendments are premised on the proposition that deregulation will remove existing accounting and financial controls on owners of nuclear power plants. Virtually all governmental owners of nuclear power plants are not currently regulated in this regard by either a State PUC or FERC. However, such governmental owners are bound by stringent restrictions on investments of public funds, including public funds deposited in Decommissioning Trusts. This situation will not change as a result of the deregulation of the electric industry.

In its discussion of the purposes of the Amendments, the Commission notes the necessity to insure that special care is taken to safeguard the trust corpus from investment risks. In this regard, the California statute regarding investment goals found in Section 53600.5 of the California Government Code provides that the primary objective shall be to safeguard the principal of the funds. This type of provision, or comparable guidance as to investment objectives, is generally consistent with other State statutes regarding the investment of public funds.

As with all investments of public funds, the permitted investments for public funds in Decommissioning Trusts is strictly limited by State law designed to protect the availability of such funds. Section 53601 of the California Government Code contains a specific list of permitted investments for Department funds, including funds deposited in Decommissioning Trusts.

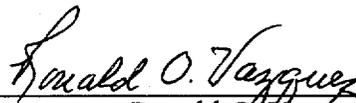
The success of the current regulatory program for the investment of public funds in Decommissioning Trusts, and the fact that such program is neither affected by electric industry deregulation nor dependent on general principles of trust law, clearly warrants the exception to Subparagraph D for governmental agencies directing investment of Decommissioning Trusts where such investments are permitted investments of public funds under applicable State law.

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We would welcome the opportunity to discuss this matter further with you or answer any questions you may have on our comments if you would contact me at (213) 367-4301.

Thank you for your attention in this matter.

Very truly yours,



Ronald G. Vazquez
Chief Financial Officer
Department of Water and Power
of the City of Los Angeles