



SMUD

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AN ELECTRIC SYSTEM SERVING THE HEART OF CALIFORNIA

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U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555

Docket No. 50-312
Rancho Seco Nuclear Generating Station
License No. DPR-54

RANCHO SECO REPORT ON DECOMMISSIONING FUNDING STATUS

Attention: John Hickman

As required by 10 CFR 50.75(f)(1), we are submitting this report on the status of decommissioning funding for Rancho Seco.

Background

Rancho Seco began commercial power operation in April 1975, and shutdown permanently in June 1989. In 1991, SMUD submitted the proposed Decommissioning Plan for Rancho Seco, along with a Revised Financial Assurance Plan. The NRC approved the Decommissioning Plan in March 1995. Due to revisions to 10 CFR 50.82, SMUD submitted the Post Shutdown Decommissioning Activities Report for Rancho Seco in March 1997. Rancho Seco has been undergoing plant dismantlement since February 1997.

The current plan is to fully fund the decommissioning trust fund and complete decommissioning by 2008. However, based upon available waste disposal options, we may store some Class B and C radioactive waste in our Interim Onsite Storage Building beyond 2008.

Decommissioning Financial Assurance Method and Trust Fund Status

SMUD had maintained an internal decommissioning fund since the early 1980s. In 1991, SMUD transferred \$90 million from the internal fund into an "External Sinking Decommissioning Trust Fund" maintained by Bankers Trust of New York. Table 1 shows the amount of the trust fund annual contribution and disbursements for the years 1991 through 2002. The total disbursements between 1994 and 2002 are \$275.6 million. At the end of 2002, the trust fund contained \$85.1 million.

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The primary reasons for the increase in the annual contribution from 2001 to 2002 were increases due to delays in the project to place spent fuel into dry storage.

TABLE 1

YEAR	ANNUAL CONTRIBUTION	ANNUAL DISBURSAL
1991	\$90 Million ¹	\$0
1992	\$12 Million	\$0
1993	\$12 Million	\$0
1994	\$12 Million	\$35,327,974
1995	\$15 Million	\$24,375,399
1996	\$15.5 Million	\$17,950,000
1997	\$16.5 Million	\$18,400,000
1998	\$17.5 Million	\$21,920,000
1999	\$18.5 Million	\$34,693,319
2000	\$18.5 Million	\$45,847,250
2001	\$24.5 Million	\$36,213,871
2002	\$27 Million	\$40,869,137

Cost Estimate

TLG Services, Inc. performed the initial cost estimate in 1991, and then performed biennial updates in 1993, 1995, and 1997. When SMUD began plant dismantlement in 1997, we also began performing annual updates to the decommissioning cost estimate.

SMUD staff performed the 1998 update. TLG performed the 1999 and 2000 annual updates. SMUD staff performed the cost estimate update in 2001. TLG did a cost estimate review in 2002. The total decommissioning costs are now estimated to be \$519 million (2002 dollars). The portion of this total that is not NRC-defined decommissioning activities (e.g., non-radiological dismantlement, spent fuel storage, etc.) is \$124.4 million, most of which is related to dry fuel storage at our Independent Spent Fuel Storage Installation (ISFSI).

Table 2 shows the history of estimated decommissioning costs for license termination. The estimated costs include spent fuel storage through 2008, but do not include site restoration costs.

¹ Initial contribution

TABLE 2

YEAR OF COST STUDY	ESTIMATED DECOMMISSIONING COST
1991	\$281 Million
1993	\$365 Million
1995	\$441 Million
1997	\$452 Million
1998	\$459 Million (1997 dollars)
1999	\$458 Million
2000	\$495 Million
2001	\$504 Million
2002	\$519 Million

Accumulation of Funds

SMUD plans to accumulate funds in the external trust fund, at the rate of \$27 million per year, until 2008. Based on the current decommissioning cost estimate and funding rate, collecting funds through 2008 will provide sufficient funds to complete decommissioning Rancho Seco and terminate the 10 CFR Part 50 license.

As stated above, the current plan is to complete decommissioning by 2008. However, based upon available waste disposal options, we may store some Class B and C radioactive waste in our Interim Onsite Storage Building beyond 2008.

Funding to store the spent nuclear fuel at the ISFSI beyond 2008 is not included in the decommissioning fund. SMUD will fund site restoration separately, after the NRC has terminated the 10 CFR Part 50 license.

Certification of Financial Assurance

Certification is hereby made that financial assurance will be provided through an external sinking fund in the amount of \$519 million to decommission Rancho Seco and terminate the 10 CFR Part 50 license.

Adjustments to Cost Estimate and Trust Fund

With active decommissioning in progress, we now perform annual updates to the cost estimate. Historically, TLG performed the cost estimate updates as requested by SMUD. However, after several years of decommissioning experience, and with relatively long-term contracts in place, SMUD staff began performing the annual cost estimate update in 2001, with TLG providing an independent quality review. Most changes in the recent update occurred due to increases in estimated future security costs, radioactive waste removal costs, and inflation.

Administration of the Decommissioning Fund

The trust fund holdings were reviewed at the end of 2002, and the trust fund contained \$85.1 million. As indicated in Table 1, the annual contribution amount is reviewed and adjusted, as appropriate, to meet the needs of the total estimated decommissioning cost. SMUD will continue to monitor the adequacy of the annual contribution to assure that adequate funds will be available to complete decommissioning and terminate the 10 CFR Part 50 license.

Assumptions Regarding Rates of Trust Fund Escalation and Earnings

SMUD has made the following assumptions regarding trust fund escalation and earnings. Based on historical portfolio performance, SMUD has estimated the rate of return at 5.4%. The decommissioning cost escalation rate is currently estimated at 2.7%. This rate is within an established range and congruent with rates used for other business plans at SMUD. Therefore, SMUD's real rate of return is 2.7%.

Contractual Obligations

There are no contractual obligations associated with SMUD's financial assurance plan or the operation of the decommissioning trust fund.

Modifications to Financial Assurance Method

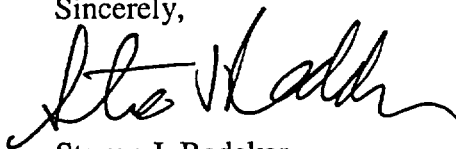
In 1991, SMUD submitted its Financial Assurance Plan to the NRC describing the use of an external sinking fund. There have been no significant modifications to SMUD's external sinking fund since our initial submittal.

Material Changes to the Trust Fund Agreement

There have been no changes to the Trust Fund Agreement.

If you or members of your staff have questions requiring additional information or clarification, please contact Bob Jones at (916) 732-4843.

Sincerely,



Steven J. Redeker
Manager, Plant Closure and Decommissioning

Cc: E.W. Merschoff, NRC, Region IV, Arlington