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January 28, 2004

UPS SECOND DAY AIR

James E. Dyer, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555-0001

**RE: Nuclear Electric Insurance Limited Request for Generic Determinations
Regarding the Acceptability of Decommissioning Insurance Policy and Use of
Non-Qualified Decommissioning Funds**

Dear Mr. Dyer:

Nuclear Electric Insurance Limited ("NEIL"), at the request and with the significant interest of a number of its utility members, has been working with its members to develop a decommissioning insurance product for commercial nuclear power plants. The proposed coverage has been structured to meet the NRC rules for an acceptable funding mechanism, while increasing the level of financial assurance and offering a tax-advantaged structure. The availability of this insurance would therefore both enhance financial assurance for decommissioning and provide an alternative means available to licensees to provide such assurance.

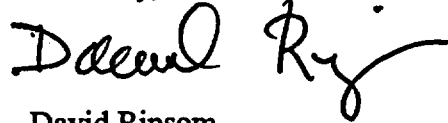
In order to proceed further, NEIL needs an NRC determination that the proposed insurance meets NRC requirements, and that a reactor licensee may utilize its non-qualified decommissioning funds to pay the premiums for the policy. As discussed below, the insurance policy would have a policy limit that exceeds, to a meaningful degree, the projected final amount of the non-qualified fund. NEIL respectfully requests that the NRC provide a generic determination (by a safety evaluation or such other means as the NRC determines is appropriate) that this arrangement is acceptable and that the NRC provide this generic determination by April 30, 2004. Information supporting this request is attached.

Appendix B of this submittal presents a financial analysis of the coverage provided by the Policy as applied to a particular utility. The information in this Appendix, enclosed under separate cover, is confidential commercial and proprietary information. NEIL requests, pursuant to 10 C.F.R. § 2.790, that this proprietary information for a prospective customer be withheld from public disclosure. An affidavit, enclosed as Appendix D hereto, justifies this request.

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If you have any questions or need further information, please contact me at 302-573-2292. In addition, we would welcome an opportunity to meet with your staff to discuss the proposed coverage further. NEIL greatly appreciates your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "David Ripsom". The signature is fluid and cursive, with a prominent "D" and "R".

David Ripsom
Vice President and General Counsel

cc: D. Matthews
B. Thomas
S. Hom
S. Uttal

**Nuclear Electric Insurance Limited Request for
Generic Determinations Regarding the Acceptability of
Decommissioning Insurance Policy and Use of Non-Qualified Decommissioning Funds**

I. INTRODUCTION

A. Nature of the Request for Generic Approval

Nuclear Electric Insurance Limited ("NEIL") requests that the Nuclear Regulatory Commission ("NRC" or "Commission") make a generic determination that the decommissioning insurance policy described herein and appended to this request as Appendix A ("the Policy") meets the requirements of 10 C.F.R. § 50.75. Specifically, NEIL requests that the NRC: (1) determine that the Policy satisfies the requirements of 10 C.F.R. § 50.75(e)(1)(iii); and (2) confirm that licensees may use Non-Qualified Decommissioning Funds ("NQ Funds") to purchase the coverage as a "transfer to another financial assurance method acceptable under paragraph (e) of [10 C.F.R. § 50.75(e)]." 10 C.F.R. §50.75(h)(1)(iv).

Section II describes and explains the proposed insurance. Section III explains the proposed benefits and tax advantage of the coverage. Section IV describes NEIL's qualifications and the financial soundness of the insurance.

B. Commission Policy Objectives Furthered by a Generic Review and Approval of the Policy

A generic NRC approval of the Policy would further important NRC policy objectives. The NRC has long provided under its regulations and guidance documents that financial assurances for decommissioning funds can be satisfied by the use of insurance policies that meet NRC regulatory standards. Yet, as the Commission has noted in regard to decommissioning under 10 C.F.R. Parts 30, 40, 70, and 72, such qualified insurance has been unavailable from commercial insurance providers. *See, e.g.,* Draft Guidance, DG-3014 §1.4.2 ("DG-3014"). The same is true for Part 50 facilities. *See, e.g.,* "Decommissioning Trust Provisions: Final Rule," 67 Fed. Reg. 78,332, 78,347 (2002) ("Trust Funds Rule"). NEIL, however, has determined that there is substantial broad-based industry interest in using insurance as a means of providing financial assurance for decommissioning costs.

Providing generic approval for an insurance policy that will satisfy NRC regulations would allow the development of commercial insurance as a viable financial assurance mechanism for decommissioning. This would further the Commission's objective of realizing "the benefit of allowing alternatives for achieving rule compliance that do not have any adverse impact on the public health and safety." Trust Funds Rule, 67 Fed. Reg. at 78,335.

Generic consideration and approval of the Policy would also assist the Commission in reviewing the appropriateness of the use of decommissioning insurance policies under Commission regulations. The Commission has noted in regard to other NRC-licensed facilities that licensee attempts at using "insurance policies to assure their decommissioning costs have met with little if any success," and that the NRC has not yet "developed model insurance policy wording that is acceptable to insurers and to NRC." DG-3014 at 89. The present request for a

generic approval provides the Commission with the opportunity to remedy both situations and define the key terms of a policy that is acceptable to the NRC.

In addition to achieving these important Commission policy objectives, generic approval of the Policy will also further other decommissioning policy objectives, including: (1) providing licensees with another option to use as a financial assurance mechanism for decommissioning; (2) reducing regulatory uncertainty for licensees in regard to the possibility of using commercial insurance for decommissioning purposes; (3) providing greater financial assurance for both the public and licensees that decommissioning costs will be met; (4) providing greater efficiency in financing decommissioning costs; and (5) pooling the risk of decommissioning cost increases among multiple licensees and units.

A generic NRC approval would increase the number of prospective licensees interested in such a policy and reduce the regulatory costs to both the NRC and licensees of using insurance as part of decommissioning financial assurance. The more licensees that participate in such an insurance policy, the greater the financial assurance for the individual licensee that decommissioning costs will be met, due to the nature of the policy, as described below, which provides for funding assurances in excess of projected decommissioning costs. As a practical matter, as discussed in section IV.B.1 below, participation by a minimum of twenty nuclear units is probably necessary to issue this insurance, and arranging such participation will be very difficult without the generic determinations sought herein.

II. DESCRIPTION OF THE PROPOSED INSURANCE COVERAGE

A. The Terms of the Policy

The insurance policy will be issued by a newly formed, wholly owned subsidiary of NEIL ("Newco"), which will not issue any other type of policy. The Policy is not intended to replace the Qualified Fund established by the insured, but will pay a fixed percentage of all decommissioning costs, in excess of a deductible amount to be borne by the insured, up to a fixed policy limit (e.g., a policy may reimburse the insured for 40% of all decommissioning costs incurred in excess of \$100 million, up to a total reimbursement of \$460 million). The insured will be reimbursed for expenses incurred in decommissioning regardless of whether decommissioning occurs at the end of the current or extended licensing period for the unit or at an earlier date, for whatever reason. Decontamination expenses due to an accident are covered by other policies issued by NEIL and not by the proposed policy.

1. The coverage

a. Definition of "Decommissioning" Covered by the Insurance

The policy has been designed to cover all expenses the insured would be required to incur to decontaminate, decommission and dismantle the insured unit after permanent cessation of operations, including where required by law returning the site to "green field" status even though not required by NRC regulations. Thus, the term "Decommission" has been given the following, broad definition within the policy:

[T]he process each licensee of a nuclear plant must undergo to fully decontaminate and dismantle the Insured Unit after it permanently ceases operation. For the purpose of this Policy, decommissioning shall include all radiologic decontamination required by the NRC and all steps necessary to take the Insured Unit to the level of clean-up required by the [NRC, Environmental Protection Agency, and any applicable state or local authorities], including but not limited to removal of non-radiological structures and site restoration or "greenfielding." Decommissioning shall be regarded as concluded upon completion of all items listed in the Insured's Decommissioning Plans, including any amendments thereto.

This definition is intended to encompass all decommissioning activities that may be required not only by the NRC but also by other federal or state authorities. Coverage for storage, removal, transportation and disposal of spent fuel, however, is excluded under section II(e) of the Policy. Under the NRC regulations, spent fuel storage and disposal are not part of decommissioning but are funded under a separate regulation.¹

b. Insurance Pays Fixed Percentage of Decommissioning Costs Above a Deductible Amount

The Policy will pay a fixed percentage of an insured's decommissioning costs above a deductible amount. The terms of each Insured's policy will be actuarially determined based on a site-specific analysis of decommissioning costs for each insured unit. Typically, the site-specific estimates used for the actuarial analysis would typically be those studies submitted to state public utility commissions or FERC to set the recovery from ratepayers.²

¹ See 53 Fed. Reg. 24,018, 24,021, 24,031, 24,038 (1988) ("Decommissioning activities do not include the removal and disposal of spent fuel which is considered to be an operational activity. . . ."); NRC Regulatory Issue Summary 01-007 (Feb. 15, 2001) ("The [NRC] formulas [establishing decommissioning funding requirements] do not include the . . . the costs of managing and storing spent fuel on site."); NUREG-1221, "Summary, Analysis and Response for Public Comments on Proposed Amendments to 10 CFR Parts 30, 40, 50, 51, 70 and 72: Decommissioning Criteria for Nuclear Facilities" (May 1988) at B-3.

While the spent fuel storage is not considered part of decommissioning, the NRC has a separate regulation at 10 C.F.R. § 50.54(bb) that requires a reactor licensee, within two years following permanent cessation of the operation of a reactor, to submit for NRC approval a program by which the licensee will manage and provide funding for the management of spent fuel until it is accepted for disposal by DOE.

² While NRC regulations allow for decommissioning funding to be computed using a formula, virtually all utilities have site-specific estimates of decommissioning costs for each unit to determine cost recovery amounts from ratepayer rates. An up-to-date site-specific decommissioning cost estimate would be required by Newco as a prerequisite to entering into a policy.

c. Qualified Fund Pays Deductible and Uninsured Percentage

NEIL anticipates that the insured will pay the deductible amount and the insured's percentage of the decommissioning expenses from its Qualified Decommissioning Trust Fund or another approved financial assurance mechanism; however, the source of funds utilized to pay the insured's portion of the decommissioning expense is irrelevant for the purposes of the Policy. NEIL expects premiums for the insurance policy to be paid from an insured's NQ Fund, or anticipated payments to it, but premiums will not be based on the amount in or projected to be in the NQ Fund. Premiums will be set in the manner discussed in Section II.A.2 below. Once set, there will be no additional premiums.

d. Policy Amount Will Exceed the Eventual Amount of the NQ Fund

The policy limit will exceed to a meaningful degree the currently anticipated ultimate amount of the NQ Fund. As such, the Policy will cover a fixed portion of any costs that exceed the combined projected Qualified and NQ Funds. In the event of non-payment of premiums, or material fraud, the policy limit will be reduced to the amount of the premiums paid, less any amounts paid by the Newco under the Policy. In the event of a cancellation for non-payment of premiums or material breach by the insured, the policy limit (reduced to the premiums paid, less any amounts paid by Newco under the Policy) will be deposited into a designated trust fund as discussed in Section II.3, below.

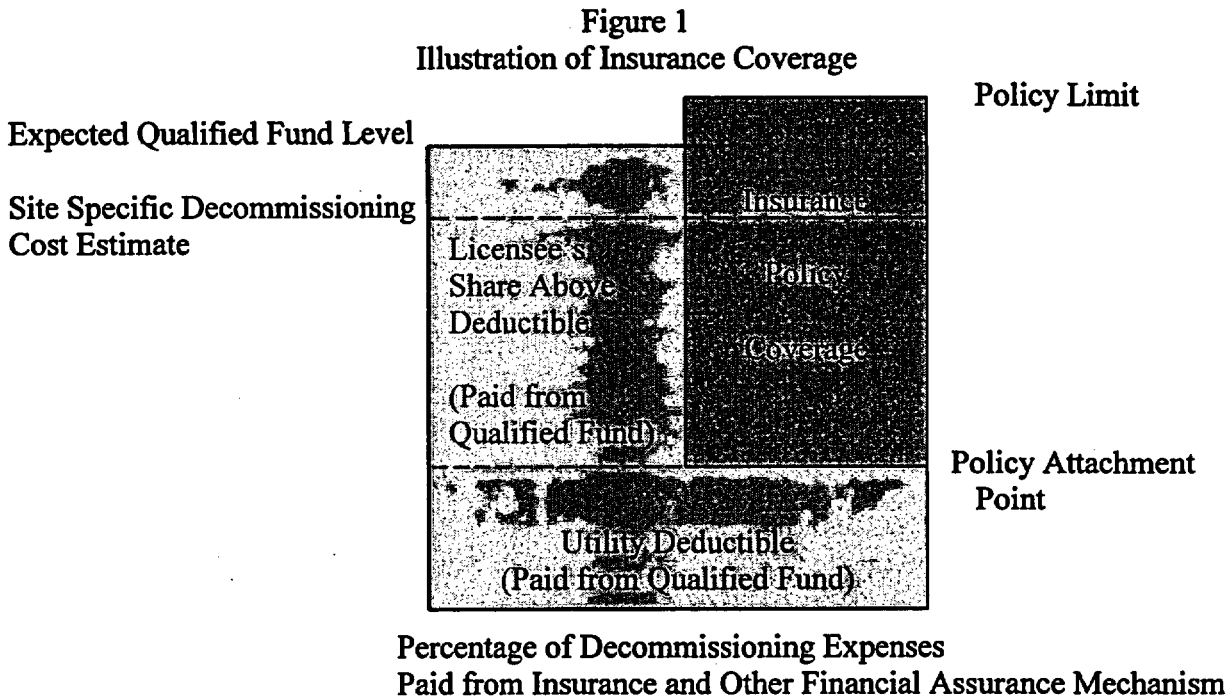
e. Effect of License Extension

Nuclear power plants are licensed for a period of forty years. Prior to the expiration of that period, the owner may apply for a license extension, which would extend the license for an additional twenty years. The decision on whether to apply for a license extension, and whether to operate the unit for the extended period, if an extension is granted, is within the discretion of the licensee/insured. In order to deal with the possibility of license extension, the Policy when originated will provide for two different fixed amounts of decommissioning expenses that must be paid by the insured before the Policy becomes payable (attachment points) depending on whether the license is extended. The first attachment point will apply if the license is not extended, and the second will apply if the license is extended and the unit is operated in the extension period. In other words, the amount of the deductible will change if the license is extended. The Policy will likewise provide two limits, the first of which will apply if the license is not extended and the second of which will apply if the license is extended and the unit is operated in the extension period. Both attachment points and both limits will be actuarially determined and fixed at the inception of the Policy with both the attachment point and the policy limit being higher in the event that the license is extended. The coinsurance percentage may stay the same, regardless of whether the license is extended. No additional premium would be charged in the event of license extension.

The policy limits that would apply both without and with a license extension will be computed such that the total decommissioning costs necessary to reach the policy limit will be in excess of the projected decommissioning expense, as determined by a site-specific study for the unit.

f. Illustration of Policy Coverage

Figure 1 graphically illustrates how the coverage would work. The actual amounts of the utility deductible and policy limit will vary among insureds based upon individual plant, risk, and funding circumstances. However, in each case, a fixed percentage of decommissioning costs incurred will come from the Policy after the insured's deductible amount has been exceeded. As discussed above, the deductible and remainder percentage of decommissioning costs would be paid through some other financial assurance mechanism, most likely a licensee's Qualified Fund.



As Figure 1 also indicates, the Policy will cover a fixed percentage of decommissioning costs in excess of the estimated decommissioning costs, up to the policy limit. Figure 1 shows that the attachment point occurs once the utility deductible has been spent.

2. The Premiums

The insurer will establish premiums after consultation with internal and/or external actuaries, engineers and other consultants. Prior to issuing a policy, the insurer will actuarially determine the possibility that it will incur a loss on the policy. The insurer will set all premiums on all policies in a commercial manner, and with the expectation of profit. However, the insurer will establish premiums such that, under factual assumptions and taking into account the present value of all anticipated future cash flows under the Policy, there will be a 10-15% chance that the insurer will suffer a 10-15% loss on an individual Policy. These tests will be met, based upon anticipated cash flows established at the time the Policy is issued, assuming no license extension (with the applicable retention and policy limit) and assuming license extension (with the retention and policy limit which would be applicable in the event of a license extension).

Accordingly, NEIL expects the Policy to pass the appropriate tests to be treated as insurance for accounting purposes and U.S. Federal Tax purposes.

It is anticipated that the premium will be payable by the insured in a lump sum at the inception of the policy. However, any insured will be allowed to pay in fixed installments, over a fixed period of years. In the event that technology or regulation applicable to the decommissioning of nuclear power plants change after the issuance of the Policy, such that the anticipated costs to decommission the unit are substantially lower than anticipated at the time the Policy was issued, the premiums due under the Policy may be reduced (or, if already paid, partially refunded) to take into account such reduction in anticipated costs. No such reduction in premium will take place unless the NRC has agreed to reduce the minimum amount of decommissioning costs required to be funded, for regulatory purposes, for the unit. The insurer will not be able to adjust premiums upward for changes in regulation or technology which increase the anticipated cost to decommission the unit, or for any other reason.

3. Cancellation/termination provisions

The Policy is open-ended and, unless canceled, will remain in effect until all decommissioning work is complete. The insurer may not cancel the Policy for any reason except non-payment of premiums or material breach of the policy by the insured. The insured may cancel the Policy only upon giving 180 days notice to the NRC and the insurer. However, a cancellation by the insured will not be effective and the insurance will remain in effect if the NRC so directs after receiving notice of the cancellation. In the event of a cancellation (either by the insurer for the insured's non-payment of premiums or material breach, or by insurer upon 180 days notice and absence of objection by the NRC), the amount of the premiums previously paid by the insured, less any insurance payments made by the insurer, will be repaid to the insured by deposit into a designated standby decommissioning trust fund as required by NRC regulations.

III. ADVANTAGES OF THE POLICY FOR LICENSEES

A. Benefits of the Policy to Licensees and NRC Policy Objectives

Over the years, NEIL has received broad-based industry requests to review the viability of a decommissioning expense insurance policy. The proposed product is the result of an extensive effort by NEIL to develop the requested coverage. NEIL's analysis determined that there is a diversified, industry-wide need for such an insurance policy that was not present a few years ago due to the deregulation of the electric generation industry. There are plants now operating that do not draw decommissioning funds through ratepayer assessments, and the expectation is that any new nuclear power plants would be built as "merchant" units and would not fund decommissioning through rate payer assessments. Additionally, the nuclear industry is actively seeking better funding assurance and efficiency. NEIL believes the Policy responds to the needs of the industry and achieves the objective of providing financial assurance for decommissioning in an efficient manner.

The Policy would increase both individual plant and industry-wide funding assurance for decommissioning activities. The Policy would spread the risk of decommissioning cost

increases among a number of licensees. Additionally, the pooling of the licensees' funds reduces the risk of funding shortfalls for any participating facility. Because risk is pooled across all policies, higher than expected costs at one facility may be offset by lower than expected costs at other sites. The Policy would also provide protection against the risk of increased labor, storage and materials costs and the risk of lower than expected asset growth in Decommissioning Funds. By structuring the Policy to carry limits above currently projected decommissioning costs, higher than expected increases in the major expense categories would be covered, at least in part, by the insurance. Further, the licensee would be assured of having available the amount of its policy limit, as opposed to experiencing a shortfall in funding if the assets grow at lower rates than currently expected. The Policy also provides greater assurance for decommissioning in the event of a premature plant shutdown, because the full policy amount continues to apply in such event, with the licensee continuing to pay any remaining premiums after plant closure.

B. Tax Advantage

Utilities currently fund their decommissioning expenses through contributions to Qualified Funds and to NQ Funds. Amounts contributed to Qualified Funds are currently deductible for tax purposes, and income of the Qualified Fund is generally taxed at the 20% rate. Amounts contributed to NQ Funds are not currently deductible, and the utility is currently taxed at its normal tax rate (35% maximum corporate tax rate) on the income of the NQ Funds. The taxation of NQ Funds makes the current sinking fund scheme very inefficient for licensees, by requiring them to use after-tax dollars to fund the NQ Fund and then annually report and pay taxes on the NQ Fund income at a higher rate. The Policy would provide significantly improved funding efficiency because an insurance policy would remove these inefficiencies and provide a mechanism that would allow for better fund growth. Thus, the expected beneficial tax treatment, compared to existing tax treatment of NQ Funds would result in higher growth rates than similarly invested NQ Funds would achieve under current tax treatment.

The Internal Revenue Code provides a deduction for all ordinary and necessary expenses incurred in carrying on a trade or business. Utilities generally may not deduct amounts placed in NQ Funds until those amounts are actually paid or incurred for decommissioning expenses. Insurance premiums paid in a trade or business are generally deductible business expenses, subject to the capitalization rules of the Internal Revenue Code. The timing of the deduction for premiums paid by a utility purchasing a Policy is one of the subjects of the Private Letter Ruling Request submitted to the Internal Revenue Service. It is expected that the use of an insurance policy will allow the utilities a significantly earlier deduction for premiums than they are currently entitled to using NQ Funds, which provides a significant time-value-of-money benefit.

Newco will be fully subject to United States tax laws, and premiums received from utilities will generally be fully taxable to Newco on receipt. However, as an insurance company Newco would be entitled to establish loss reserves, which are currently deductible, equal to the present value of losses it expects to pay. That reserve would increase each year, under U.S. tax rules, with the increase being deductible, and effectively reducing or eliminating the tax on investment income. The favorable tax treatment afforded to insurance transactions under the Internal Revenue Code (effectively an acceleration of the deductions an insured would be entitled to if it paid the expenses itself) provides an economic cushion which allows Newco to provide greater financial assurance to utilities than would otherwise be the case.

Because the nuclear decommissioning policy is unique, its tax treatment is somewhat uncertain. Accordingly, NEIL has met with the Internal Revenue Service to discuss the tax treatment of the proposed policy. NEIL and a utility have submitted a Request for a Private Letter Ruling to the Internal Revenue Service to confirm the tax treatment of both the insured and the insurer with respect to the policy. The Policy likely would not be issued if a favorable tax ruling is not received. If a favorable ruling is received, NEIL believes the overall cost to the insureds will be lower than NQ Funds, yet the insureds will have greater protection against unexpected variability in plant decommissioning costs.

C. Financial Benefits of the Policy

NEIL anticipates that the Policy would provide a significant financial benefit to the insured through the more efficient use of decommissioning funds. The calculation below provides an example of the financial benefits the Policy is expected to provide to licensees. The example assumes that the cost to decommission a unit will be \$1.4 billion and that the insurance policy pays 60% of costs in excess of a \$50 million deductible, up to \$460 million.

Example Policy Outcome (millions of \$)

	<u>Expected</u>
Final Cost to Decommission Plant (total cost of decommissioning out to 2045)	1,400
Payments by Utility Note 1	1,055
Payments by Insurance Note 2	345
Cost of Insurance (\$160-55m) Note 3	105
Value Added by Insurance Coverage (\$345-105m)	240

- Note 1 \$50m + 40% of excess decommissioning costs above deductible and 100% of any additional costs beyond \$460m policy limit
- Note 2 60% of decommissioning expenses in excess of \$50m up to \$460m limit
- Note 3 \$56m is the expected tax savings realized by the utility after taking a deduction for the gross premiums paid, leaving a net cost of insurance of \$104m.

The projected premiums for the insurance policy in this example would be \$160 million on a gross basis. Taking into account the insured's projected tax benefits totaling \$55 million, the net cost of insurance to the insured would be \$105 million. Without insurance, the licensee would have to fund decommissioning out of the Qualified and NQ Funds. With the Policy, the insured would use \$1,055 million (\$50 million deductible + 40% of remaining costs covered by the policy and the costs not covered (spent fuel)) of the Qualified Fund, with the remaining costs paid by the Policy. The value added by insurance coverage is calculated by subtracting the net cost of the insurance to the licensee (\$105 million) from the amount paid by the insurer for decommissioning (\$345 million). The result is that an extra \$240 million is made available for decommissioning through the use of the insurance policy. This analysis demonstrates the

benefits of the NEIL policy to a utility for expected (mean values) of the decommissioning funding.

Where unexpected or extreme circumstances might occur in the decommissioning process, the NEIL policy provides added financial risk transfer benefits to the utility. In instances where the cost of decommissioning might be significantly higher, the payments by the insurer can potentially reach the policy limit of \$460 million. In these extreme cases the value added by the insurance product increases to over \$350 million (\$460 million policy limit minus the \$105 million cost of insurance). If you were to apply the NRC minimum expected growth to the current \$98 million NQ fund, the expected NQ balance at the beginning of decommissioning would be approximately \$245 million which translates to a value added range of between \$100 and \$215 million.

IV. INSURER QUALIFICATIONS

A. Nuclear Electric Insurance Limited

NEIL is a mutual insurance company organized under the laws of Bermuda, has its place of business in Wilmington, Delaware, and is a licensed insurer in Bermuda and Delaware. NEIL insures United States electric utilities for the costs associated with certain long-term interruptions of electricity supply and damages to insured sites; decontamination expenses incurred at such sites arising from nuclear contamination; other risks of direct physical loss at such sites; and certain premature decommissioning costs. NEIL has been accepted by the NRC as an insurer for post-accident cleanup expenses since the early 1980s.³

NEIL traces its roots to 1973 and the formation of Nuclear Mutual Limited ("NML") in Bermuda. NML was formed by a group of U.S. electric utilities as an alternative to the commercial nuclear insurance market. NML offered its Members primary property insurance only. NEIL was formed in 1980 by many of the same Members of NML in response to the accident at the Three Mile Island Nuclear Station. NEIL's initial policies were issued for extra expense coverage resulting from accidents at insured sites. In 1981, NEIL began issuing excess property policies to complement the policies being issued by NML. By 1984, NML/NEIL's total property limits exceeded \$1 billion.

In 1988, NEIL and NML moved their operations from Bermuda to Wilmington, Delaware, and in 1997 NML was merged into NEIL. Over the years, NEIL has increased the limits in each of its programs. Currently, NEIL issues property policies with limits totaling up to \$2.75 billion (\$500 million per site on NEIL's primary property program and \$2.25 billion on NEIL's excess property insurance) and business interruption coverage of approximately \$490 million. NEIL's property insurance expressly complies with 10 C.F.R. § 50.54(w), which requires nuclear power plants to be insured for at least \$1.06 billion.

In late 1998, NEIL expanded its operations to insure approved overseas nuclear power plants and formed Overseas NEIL Limited ("ONEIL"), a wholly owned subsidiary of NEIL in

³ See, e.g., Changes in Property Insurance Requirements for Nuclear Power Plants, Final Rule, 52 Fed. Reg. 28,963 (1987).

Ireland. ONEIL's Irish insurance license authorizes ONEIL to provide insurance to the other countries in the European Union. ONEIL commenced operations on January 1, 1999, and currently provides insurance on a NEIL Member basis for seven units in Belgium and two units in Spain. NEIL and ONEIL also provide coverage, on a non-Member basis, to plants in Germany, Sweden and South Africa, and reinsure risks in other countries including Japan and South Korea. NEIL reinsures ONEIL for up to 2.735 billion Euros after ONEIL's annual losses exceed 15 million Euros.

In 2001, NEIL expanded its insurance product lines and began to provide conventional insurance coverages to its Members. NEIL decided to provide this coverage as a service to its Members, but does so under strict guidelines with respect to the amount and type of risk NEIL will accept as discussed more fully below.

1. Membership

NEIL has approximately 70 Members, which include all U.S. energy companies that currently own or operate commercial nuclear plants in the United States, Electrabel in Belgium and two Spanish utilities, Nuclenor and Union Fenosa. NEIL provides some form of insurance for all nuclear power plants in the United States. Some of NEIL's Members have sold or transferred their interests in the nuclear plants, but remain Members of NEIL because they maintain an insurance relationship through NEIL's conventional insurance program.

Because NEIL is a mutual insurance company, NEIL's Members control NEIL, hold all the rights to vote for the election of the directors, and have rights to policyholder distributions as declared by NEIL and to share in NEIL's assets upon liquidation. NEIL is governed by a Board of Directors that meets every quarter. Each Member has one Member's Representative to represent it, and vote on its behalf, at NEIL Annual and Special General Meetings. Input to the Board is provided through three Members' advisory committees: the Engineering Advisory Committee, the Insurance Advisory Committee, and the Legal Advisory Committee.

2. Financial Resources

As of September 30, 2003, NEIL had assets of \$3.70 billion and a surplus of \$3.22 billion. NEIL is A-rated by Best's Rating system and is one of the largest property and casualty insurers in the world in terms of surplus. A copy of this current rating and report is attached

NEIL's mission is to maintain a financial position sufficient to cover two full-limit losses under its policies and continue to provide insurance coverage for its insureds. NEIL has the right to call retrospective premiums against its nuclear Member Insureds, as discussed below. NEIL strives to provide the necessary level of coverage for the lowest cost and to maximize investment income without undue risk.

NEIL limits its exposure under the Nuclear Property policies through reinsurance. NEIL currently has in place a \$1 billion reinsurance treaty for losses exceeding \$1 billion. NEIL does not reinsure any of its Accidental Outage coverage. NEIL also has the right to declare a retrospective premium assessment against its Members in the event that its surplus declines due to significant claims. NEIL can call a retrospective premium assessment against a particular policy for a period of up to six years after the expiration of that policy. The retrospective

premium assessment would be applied to all Members who were insured under the designated policies under which a call is made. NEIL cannot declare a retrospective premium against an individual insured. Currently, the maximum assessment that NEIL could call is 10 times a Member's premium. As of November 2003, a maximum assessment on all current policies would provide NEIL approximately \$1.7 billion in funds.

B. Insurer, Number of Insured Units, and Financial Strength of Insurer

Under the current proposal, the insurance policies will be written by a new company, Newco, that NEIL will form as a wholly owned subsidiary, and manage. NEIL will provide the initial funding for Newco. This would adequately capitalize the new company, while preserving NEIL's primary mission of providing insurance coverage for two full limit losses.

NEIL proposes to form Newco as a wholly owned stock subsidiary that would be incorporated in Bermuda and licensed to write insurance by the Bermuda Monetary Authority. Newco will meet the capital requirements for its insurance license in Bermuda, pursuant to the Bermuda Insurance Act 1978 and related regulations (the "Insurance Act"), and will be adequately capitalized for the risks it writes. Newco's initial funding from NEIL is expected to be at least \$100 million in addition to the premiums Newco will receive under the policies. Newco will elect to be taxed as a U.S. company, and intends to join with NEIL in the filing of a consolidated federal income tax return, with NEIL as the common parent.

1. Minimum Number of Insured Units

Newco does not anticipate issuing any policies unless it insures decommissioning risks for at least 20 units, none representing more than 15% of the total risk insured, in the first year. As discussed below, entering into insurance policies with 20 units should not be a problem due to significant, broad-based industry interest in the Policy.

The reason for a minimum of 20 units is twofold. First, 20 units would clearly be sufficient to make the venture economically viable and diversify risk.⁴ Each of the insured units may be owned by more than one utility, and certain owners may choose to purchase insurance policies, while others may not. The 20-unit number, therefore, does not presume that all owners of each of those units purchase insurance. Likewise, if a utility has ownership interests in more than one unit, it may choose to insure some units and not others. Second, NEIL believes that the Internal Revenue Service will require a minimum of approximately 20 insured units in order to issue a favorable Private Letter Ruling that the Policy will be treated as insurance for tax purposes.

⁴ While NEIL has yet to come to a definitive view on this matter, it is believed that insuring 20 units would provide a comfortable level of funding for the entity to withstand any potential early plant closing, and would provide what NEIL would consider a prudent spreading of the risk. A similar analysis was done when NEIL was formed.

2. Industry interest

The nuclear industry's long-standing request for NEIL to examine the prospect of developing a decommissioning insurance product evidences historical industry interest. NEIL's recent analysis of the industry's interest indicates that this interest is significant. NEIL conducted a survey of its U.S. Members in mid-2003, requesting their feedback on their level of interest in a decommissioning insurance product and the amount of decommissioning funds they would want to put into such a product. Specifically, NEIL asked its U.S. Members to evaluate their level of interest in such a product under two scenarios: (1) assuming that proposed nuclear-related tax provisions, that would allow Licensees to roll their NQ Funds into their Qualified Funds without any tax consequences, were passed; and (2) if those tax provisions did not pass. NEIL received responses on behalf of every U.S. nuclear power plant, with the following results:

Table 1
Responses if the NQ Funds Are Not Allowed to Be Rolled into the Qualified Funds

Interest Level	None	Low	Moderate	High
Number of Units	4	23	42	34
NQ Funds (current and to be paid)			\$3,695,843,825	\$3,946,725,921

Table 2
Responses if the NQ Funds Are Allowed to Be Rolled into the Qualified Funds without Tax Consequence

Interest Level	None	Low	Moderate	High
Number of Units	5	42	30	26
NQ Funds (current and to be paid)			\$3,379,842,361	\$2,813,644,921

These results show that regardless of whether the proposed tax provisions allowing for the rollover of NQ Funds into Qualified Funds without tax consequences are enacted into law, the nuclear industry's interest in the insurance policy remains significant.

3. Financial strength

Due to NEIL's capitalization of Newco and the premiums from the minimum number of units described above, Newco's financial strength will be significantly greater than NEIL's strength when it was accepted by the NRC as an insurer for post-accident cleanup expenses. In addition, Newco will have the thirty years of experience that NEIL has acquired in insuring the nuclear industry.

Newco will establish loss reserves, at the inception of each Policy, equal to the amount it expects to ultimately pay in claims under the Policy.⁵ Newco's calculation of both its insurance

⁵ Newco's ability to establish loss reserves for tax purposes is one of the issues the Internal Revenue Service has been asked to address in the recently filed Private Letter Ruling request.

regulatory reserves and tax reserves will begin with a determination at the end of the calendar year of the estimated unpaid decommissioning costs for which it is liable under the Policies, including any unpaid loss adjustment expenses. The estimated unpaid decommissioning costs will be determined for each Policy by reference to the decommissioning cost studies done for the covered unit, the estimated time of decommissioning, changes in regulations or technology that may increase or decrease costs, and other source materials with respect to labor, materials, shipping, burial, and other miscellaneous costs. It is anticipated that Newco will review the decommissioning cost studies, and the underlying assumptions in those studies such as wages, disposal costs, inflation, applicable regulation, etc., as well as any changes in applicable law and available technology, at least annually, and will retain actuarial, financial and engineering experts as appropriate in order to ensure the appropriateness of its reserves.

V. THE POLICY COMPLIES WITH ALL NRC REGULATORY REQUIREMENTS

A. The Policy meets the NRC requirements under 10 C.F.R. 50.75(e)(1)(iii)(A)

The NRC allows a licensee to provide reasonable assurance that funds will be available for the decommissioning process by means of an insurance policy that meets the following conditions:

(1) The . . . insurance must be open-ended, or, if written for a specified term, such as 5 years, must be renewed automatically, unless 90 days or more prior to the renewal day the issuer notifies the NRC, the beneficiary, and the licensee of its intention not to renew. The surety or insurance must also provide that the full face amount be paid to the beneficiary automatically prior to the expiration without proof of forfeiture if the licensee fails to provide a replacement acceptable to the NRC within 30 days after receipt of notification of cancellation; and

(2) The . . . insurance must be payable to a trust established for decommissioning costs. The trustee and trust must be acceptable to the NRC. An acceptable trustee includes an appropriate State or Federal government agency or an entity that has the authority to act as a trustee and whose trust operations are regulated and examined by a Federal or State agency.

10 C.F.R. § 50.75(e)(1)(iii)(A)(1) – (2). The Policy complies with each of the provisions of this regulation.

First, the Policy complies with § 50.75(e)(1)(iii)(A)(1) in that it is open-ended, rather than for a specified period of years, as discussed above. The policy cannot expire and cannot be canceled by the insurer except for non-payment of premiums or material breach of the policy by the insured. Policy at IV.S. In the event that the policy is terminated due to nonpayment of the premium or material breach of the policy by the insured, the policy limit will equal the total of

all premiums paid by the insured under the Policy, less any amounts paid by Newco under the Policy, and this amount will be paid to a Standby Trust acceptable to the NRC. Policy at Items 5 and 6, and section IV.S.3.

The Policy may also be terminated by the Insured upon 180 days written notice to Newco, the NRC, and the licensee's designated Payee (the decommissioning trustee). However, the cancellation will not be effective and the insurance will remain in effect if the NRC so directs during this notice period. In the event that the cancellation becomes effective, the amount of the previously paid premiums, less any insurance payments previously made, will be deposited in the licensee's designated standby decommissioning trust.

Second, the Policy complies with § 50.75(e)(i)(iii)(A)(2). The Policy is written so that the proceeds are paid to a decommissioning trust acceptable to the NRC.⁶ Policy at Item 5. Any premium refunds are likewise paid to a decommissioning trust acceptable to the NRC. Policy at Item 5 and section IV.S. The Policy thus conforms in all respects to NRC regulations.

B. Transfer of Funds from an NQ Fund to the Policy Constitutes an Appropriate Transfer under 10 C.F.R. § 50.75(h)(1)(iv)

Under the Commission's recently promulgated 10 C.F.R. § 50.75(h)(1)(iv), licensees that are not "electric utilities" as defined in 10 C.F.R. § 50.2 that have NQ Funds are allowed to transfer such NQ Funds to another financial assurance method that is acceptable under 10 C.F.R. § 50.75(e). NEIL requests that the NRC confirm that use of non-qualified funds to pay the premiums for the insurance described herein would be considered a transfer to another financial assurance method within the meaning of 10 C.F.R. § 50.75(h)(1)(iv), and thus would not require further NRC approval or exemption. Each reactor licensee using its NQ funds to pay for the policy premiums would provide a prior written notice of the disbursement, in accordance with 10 C.F.R. § 50.75(h)(1)(iv).

VI. CONCLUSION

NEIL respectfully requests that the NRC issue a generic determination by April 30, 2004, finding that the Policy meets NRC requirements and may be purchased using NQ Funds.

⁶ The Policy provides that an alternative Payee may be established consistent with NRC requirements or authorizations. Policy at Item 5. This provision would allow the NRC to authorize direct reimbursement of decommissioning expenses if appropriate.

Appendices

- A. **Form of the Insurance Policy**
- B. **Proprietary Example of Coverage and Benefit for a Prospective Utility Client**
- C. **AM Best Report for 2003**
- D. **Affidavit Supporting Non-Disclosure of Proprietary Information**

[INSURER NAME]
[CITY, STATE]

DECOMMISSIONING EXPENSE LIABILITY POLICY

Declarations attached to and made a part of Policy No. _____

Item 1. Insured _____
Mailing Address _____
Respective Interest _____

Item 2. Insurer: [INSURER]
Mailing Address: 1201 Market Street, Suite 1200, Wilmington, Delaware, 19801

Item 3. Policy Inception Date:
From _____ (Time) on _____ (Date),
Standard Time in Hamilton, Bermuda.

Item 4. Premium \$ _____

Decommissioning Expenses Payee Clause

A. Decommissioning Expenses shall be adjusted with the Insured and payable to:

[Payee will be a decommissioning trust established by the licensee and Acceptable to the NRC]

The Insured may, by written notice to the Insurer and consistent with NRC requirements or authorizations, designate other payees.

In the event of cancellation, the policy limit is reduced in accordance with Item 6 of these Declarations and shall be paid to the following Standby Trust:

Item 6. Amount of Insurance

- A. If the Insured Unit ceases to operate prior to or at the expiration of the Insured's current license or due to an accident, the Policy limit shall be \$X.
- B. If the Insured Unit continues to operate beyond the expiration of its original operating license, and ceases to operate prior to or at the expiration of the operating license extension, or due to an accident during such period, the Policy limit shall be \$Y.
- C. If the Policy is cancelled due to nonpayment of premium by the Insured, the Insured is in material breach of the policy, or the Insured cancels the Policy, the Policy limit shall automatically be reduced to the total of all premiums paid by the Insured under this Policy, less any amounts paid by the Insurer under this Policy.

\$X WILL BE ABOVE THE NRC MINIMUM FINANCIAL ASSURANCE AMOUNT AS REQUIRED BY 10 C.F.R. 50.33(K) AND 50.75, AND ABOVE THE UTILITY'S BEST ESTIMATE, AT THE EFFECTIVE DATE, OF THE COST TO DECOMMISSION THE PLANT AT THE EXPIRATION OF THE INITIAL OPERATING LICENSE LIFE. \$X WILL BE DERIVED BY ADDING IN THE COSTS NOT INCLUDED IN THE NRC MINIMUM FINANCIAL ASSURANCE AMOUNTS, SUCH AS COST OF REMOVAL AND DISPOSAL OF NON-RADIOACTIVE STRUCTURES AND SITE RESTORATION, AND ADDING IN FACTORS FOR POTENTIAL REGULATORY CHANGES, HIGHER THAN ANTICIPATED COSTS AND INFLATION. \$Y WILL BE DETERMINED IN A SIMILAR FASHION, BUT WILL APPLY ONLY IF THE INSURED UNIT CONTINUES OPERATING INTO THE LICENSE EXTENSION PERIOD.

Item 7. Description and location of property covered:

Item 8. Insured Retention and Quota Share

Retention under initial operating license \$ _____

Retention if operating license is extended and Insured Unit operates into extension period \$ _____

Insured's share of Decommissioning Expenses above Retention under initial operating license ___%

Insured's share of Decommissioning Expenses above Retention if the Unit operates into extension ___%

RETENTION AMOUNT WILL BE DETERMINED BY REFERENCE TO THE AMOUNT THE QUALIFIED FUND OR OTHER FINANCIAL ASSURANCE AND NON-QUALIFIED FUNDS ARE EXPECTED TO REACH BY THE END OF THE INSURED'S LICENSE FOR THE INSURED UNIT, INCLUDING ANY RENEWAL OR EXTENSION THEREOF. THE PROJECTED AMOUNT OF THE FUNDS INCLUDES ANTICIPATED FUTURE CONTRIBUTIONS. HOWEVER, THE ACTUAL AMOUNT IN THE FUNDS COLLECTIVELY, AT ANY TIME, SHALL HAVE NO EFFECT ON THE RETENTION AMOUNT.

Item 9. Insureds: _____

Item 10 Service of Process of Insured (see Section IV.G.5)

[INSURER NAME]
[CITY, STATE]

DECOMMISSIONING EXPENSE LIABILITY POLICY

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Policy No. _____

[INSURER NAME]
[CITY, STATE]

DECOMMISSIONING EXPENSE LIABILITY POLICY

This Policy is made by and among the Insured (specified in Item I of the Declarations) and _____ (the "Insurer").

The Insurer is only licensed in Bermuda and the Insureds (those Insureds specified in Item 9 of the Declarations together with the Insured) will not be protected by the guaranty funds of any U.S. jurisdiction.

The Insured will be required to execute the Policy at the Insurer's offices, or as otherwise agreed. The Policy will become effective only upon the acceptance by the Insured of the delivery of the Policy at the Insurer's office or as otherwise agreed.

INSURING AGREEMENT

In consideration of the premium paid, and subject to the terms and conditions of this Policy, the Insurer agrees to pay the Insured, subject to the Retention Amount and Quota Share in Item 8, Decommissioning Expenses as defined in the Policy, for Decommissioning the Insured Unit identified in Item 7.

In Witness Whereof, the Insurer and the Insured have caused this Policy to be executed and attested on their behalf.

INSURER NAME

Date as of _____

Attest _____

By _____

INSURED

Date as of _____

Witness _____

By _____

I. COVERAGE

The Insurer agrees to indemnify the Insured for Decommissioning Expenses necessarily incurred by the Insured in decommissioning the Insured Unit specified in Item 7 of the Declarations up to the Amount of Insurance designated in Item 6 of the Declarations, subject to the terms and conditions of this Policy, including the retention and quota share specified in item 8 of the Declarations. Decommissioning Expenses shall be paid as they are incurred by the Insured. Coverage applies only for Decommissioning Expenses that arise from appropriate Decommissioning measures, in accordance with the Decommissioning Plans filed with and approved by the appropriate Regulatory Body, or as otherwise required or permitted by applicable statute, rule or order.

II. EXCLUSIONS

The coverage provided under this Policy does not apply to:

- (a) any expenses resulting from or associated with any fraudulent, dishonest, or criminal act done by or at the instigation of any Insured, any Operator, a partner or joint venturer in or of any Insured or Operator, or an officer, director or trustee of any Insured or Operator;
- (b) any expenses resulting from or associated with the Repair or Replacement of damaged property, whether covered under another policy issued by the Insurer or not;
- (c) any sums which the Insured may be obligated to pay as damages
 - (i) because of bodily injury or personal injury, or
 - (ii) because of damage to property not located at the insured Unit identified in the Declarations, or
 - (iii) for which the Insured is covered or would be entitled to coverage under a nuclear energy liability policy issued by the Nuclear Energy Liability Insurance Association or Mutual Atomic Energy Liability Underwriters or any other third party liability insurer;
- (d) any expenses the Insured may incur resulting from or associated with the defense and/or investigation of any obligation for Decommissioning Expenses hereunder.
- (e) any expenses resulting from or associated with the storage (short-term, long-term and permanent), removal, transportation, and disposal of spent nuclear fuel, including, but not exclusive to, expenses
 - (i) that are the obligation of the United States Federal Government, or agency thereof, under the terms of any legislation, act, order, or contract, in effect at the time the parties execute this Agreement, or

- (ii) that are direct or consequential damages payable by the United States Federal Government, or agency thereof, for the violation of, or the failure to fulfill the obligations to the Insured under, any legislation, act, order, or contract with the Insured.
- (f) expenses incurred by the Insured and covered by Nuclear Electric Insurance Limited ("NEIL") under the Decommissioning Liability Coverage component of NEIL's Decontamination Liability, Decommissioning Liability and Excess Property Insurance Policy ("NEIL II Policy").
- (g) any legal costs or fees relating to claims under contracts relating to Decommissioning, and any consequential or punitive damages.
- (h) expenses incurred by the Insured for decontamination, cleanup, or removals prior to the permanent cessation of operation of the Insured Unit.

III. PREMIUM

- A. The Insured agrees to pay to the Insurer the Premium under the terms and conditions hereinafter set forth. The Premium shall be paid to the Insurer by wire transfer or other method acceptable to the Insurer. The Premium may be paid either in a lump sum or through annual payments, to be determined between the Insurer and Insured, and set forth in Item 4 of the Declarations.
- B. If the Insured selects annual premium payments and the Insured Unit ceases operations prior to completion of all premium payments, all scheduled premium payments shall continue to be paid until the completion of the scheduled payments.
- C. Premiums may be adjusted downward to reflect changes in the risk being undertaken by the Insurer, and changes to the Insured's cost estimate for decommissioning the Insured Unit. A downward adjustment in premium will be permitted only in the event that technology or regulation applicable to the decommissioning of nuclear plants change after the issuance of this Policy, such that the anticipated costs to Decommission the Insured Unit become substantially lower than anticipated at the time the Policy was issued, and the NRC reduces the regulatory minimum amount that must be funded by the Insured to Decommission the Insured Unit. Any premium refund will be paid to the Payee in Item 5.A of the Declarations, unless otherwise authorized by the NRC.
- D. The insurer will not be able to adjust premiums upward for changes in regulation or technology that increase the anticipated cost to Decommission the unit, or for any other reason.

IV. CONDITIONS

A. Abandonment

There shall be no abandonment to the Insurer of any property.

B. Allocation of Resources

1. The resources of the Insurer that are available to pay Decommissioning Expenses under this Policy consist of:
 - (a) the premiums paid to the Insurer under this Policy, and the premiums paid to the Insurer under all other decommissioning expenses liability insurance policies issued by the Insurer, and the income earned thereon;
 - (b) the surplus, including the income earned thereon accumulated by the Insurer less expenses and losses previously paid by the Insurer; and
 - (c) the proceeds of any applicable reinsurance policy purchased by the Insurer.
2. The ability of the Insurer to pay the amount of insurance specified in the Declarations to the Insured under the conditions hereinafter set forth is limited to the foregoing resources. Each expense of the Insurer and each claim payment related to this Policy or claim payments related to other Decommissioning Expenses liability insurance policies issued by the Insurer reduces the resources available to pay future expenses or such decommissioning expenses. Such resources could at any time be reduced or entirely eliminated by expenses incurred by the Insurer or Decommissioning Expenses paid under this Policy or loss incurred under any other decommissioning expenses liability insurance policy issued by the Insurer.
3. In the event that the Insurer is required to make payments for Decommissioning Expenses, whether under this Policy or under any other decommissioning expenses liability insurance policy issued by the Insurer, that exceed the available resources of the Insurer, the amounts payable by the Insurer under this Policy shall be determined by multiplying the resources of the Insurer determined under subsection IV.B.1 above by a fraction, the numerator of which is the net amount of such Decommissioning Expenses payable by the Insurer under this Policy and the denominator of which is the total amount of such Decommissioning Expenses reserved under all decommissioning expenses liability insurance policies, including this Policy, issued by the Insurer. The Insurer's resources and loss reserves shall be fixed as of the date ____ days preceding the date the Insurer determines that it is required to make payments that exceed its available resources. The amount of the Decommissioning Expenses payable under each

policy shall be determined by reference to the loss reserves carried by the Insurer on its books as of the date fixed herein.

4. The Insured expressly acknowledges that claims under, arising out of, or relating to this Policy are limited to and may only be paid out of the foregoing resources. No claims may be made upon any other resources of the Insurer or its parent company. The Insured also agrees that the determination of the Insurer's auditor as to the resources available to pay claims under this Policy shall be final and binding. The Insured agrees that any payment made under this Policy before the determination of the Insurer's auditor as to the resources available shall be deemed provisional. If such provisional payment is found to exceed the Decommissioning Expenses payable by the Insurer pursuant to the limitations calculated under subsection IV.B.3 above, such excess shall be refunded to the Insurer on demand.

C. Assignment

Assignment or transfer of this Policy, including but not limited to the assignment or transfer in connection with the sale or transfer of the Insured Unit, shall not be valid except with the prior written consent of the Insurer, which shall not be unreasonably withheld.

D. Choice of Law

1. In view of the diverse locations of the parties hereto and the desirability of unified regulation, the Insureds and Insurer agree that the terms of this Policy shall determine their respective rights and duties and that this Policy shall be construed and enforced in accordance with and governed by the internal law of the State of New York, United States of America.
2. The parties intend that the Insurer conduct its activities so as not to be subject to the insurance regulation of any jurisdiction other than Bermuda. Accordingly, the parties expressly recognize and agree that paragraph 1 above does not evidence intent by the parties to
 - (a) give jurisdiction over the Insurer to the insurance regulatory authority of any jurisdiction other than Bermuda; or
 - (b) make applicable to this Policy any of the insurance laws or regulations (including those which specify the terms of the by-laws and contracts of mutual insurance companies) of any jurisdiction, including New York, other than to the extent such laws of Bermuda are applicable; or
 - (c) otherwise have the laws of Bermuda apply to the construction or enforcement of this Policy.

E. Concealment, Fraud

If, whether before or after the Insured Unit ceases to operate, any Insured has willfully concealed or misrepresented in writing any material fact or circumstance concerning this insurance or the subject thereof, or the interest of any Insured therein, or in the case of any fraud or false swearing by any Insured relating thereto, the Insurer shall have no obligations to make payments under this Policy over the limits set forth in Item 6.C. of the Declarations, to the extent such concealment, misrepresentation, fraud, or false swearing resulted in any increase in the Decommissioning Expenses; provided, however, the Insurer shall be obligated to pay Decommissioning Expenses up to the limits set forth in Item 6.C. of the Declarations notwithstanding such concealment, misrepresentation, fraud or false swearing.

F. Decommissioning Plans and Cost Studies

The Insured shall have an ongoing obligation to provide to the Insurer a copy of any and all updates to the Insured's Decommissioning Plans for the Insured Unit and all decommissioning costs studies regarding the Insured Unit that are completed after the inception of this policy. Each cited document should be provided to the Insurer within 90 days of completion.

G. Dispute Resolution

1. The Insurer and the Insured mutually acknowledge that the form, terms and conditions of the Policy have been formulated in order to provide insurance coverage that is vital to all participants. It was desired that the Insurer serve as a financially stable and reliable entity, responsive to the coverage needs of its participants, and providing coverage fairly and equitably as to each Insured, but taking equally into account fairness and equity as to all insureds as a group. While every effort has been made to define with clarity and precision the scope of coverage and other policy provisions, the Insurer and the Insured mutually acknowledge that situations may arise where the terms of the Policy are disputed. For the foregoing reasons, the Insurer and the Insured agree that the following principles shall govern the interpretation of the Policy:
 - (a) Even-handedness and fairness to both the Insurer and the Insured;
 - (b) The intentions of the Insurer and the Insured, including any extrinsic evidence of intent;
 - (c) The practice of the Insurer and the Insured in interpreting and applying the Policy;
 - (d) The cooperative rather than adversarial relationship between the Insurer and the Insured; and
 - (e) The contract construction rule of contra proferentem is not applicable to this insurance policy.

2. **The Insurer and Insured agree to endeavor to resolve any dispute between them by means of voluntary proceedings to be agreed upon between them. In the event of a dispute, either the Insurer or the Insured may request the other to participate in an alternative dispute resolution proceeding. The Insurer and the Insured acknowledge, depending upon the circumstances, that an appropriate proceeding may include but is not limited to one or more of the following: early neutral evaluation, mediation, mini-trial, neutral fact finding, or senior peer review. In the absence of the parties agreeing to participate in an alternative dispute resolution process, the Insurer will agree, at the request of the Insured, to submit the dispute to senior peer review, unless otherwise determined by the Insurer's Board of Directors. The Insurer agrees to pay the fees and expenses of any neutral party associated with the procedures. The use of any such or other proceeding is voluntary to both the Insurer and Insured, but each acknowledges that it is in the best interests of the mutual enterprise to resolve disputes by such voluntary means where possible, and without the need for final and binding arbitration between them.**
3. **The Insured and Insurer agree in good faith to consider, in connection with any dispute, the Statement of Dispute Resolution Principles adopted by the Insurer's Board of Directors and Members, as it may be amended from time to time.**
4. **Any claim or controversy between the Insured and the Insurer as to any matters arising out of or relating to this Policy, which is not settled between themselves, pursuant to paragraph 2 above or otherwise, shall be submitted at the request of either the Insured or the Insurer to arbitration in New York City unless the parties agree as to another location. Arbitration of a dispute is final and binding. The Insured and the Insurer shall try in good faith to agree on the appointment of a sole arbitrator to settle the dispute. In the event the parties cannot agree on the appointment of a sole arbitrator, they can agree to have a sole arbitrator appointed by the then President of the Association of the Bar of the City of New York or in the absence of agreement to do so, a three-person arbitration panel shall be appointed. In the event that either the Insured or the Insurer determines that the dispute is not appropriate for a sole arbitrator, a three-person arbitration panel shall be appointed. In such instance, the Insured shall appoint one arbitrator and the Insurer another; the two so appointed shall select the third. If the two arbitrators fail to agree on a third arbitrator for a period of sixty calendar days from the date of appointment of the second arbitrator, then on request of the Insured or the Insurer such third arbitrator shall be selected by the then President of the Association of the Bar of the City of New York. The Insured and the Insurer may by express agreement determine the arbitral procedures to be followed; in the event the parties do not agree, New York law, including the statutory rules on arbitration, shall govern all matters of procedure. The arbitrators shall first determine the liability of the parties as to the dispute, claim or controversy, and then, only if necessary, determine the type and amount of relief to be granted. The arbitrators shall award reasonable attorney's fees and costs to the prevailing party in such amount as they determine appropriate, not to exceed the amount of fees and costs incurred by the non-prevailing party. For this**

purpose, the fees incurred shall be calculated at reasonable prevailing hourly billing rates and include all reasonable out-of-pocket expenses.

5. To the extent that any dispute, claim or controversy between the Insured and the Insurer hereunder is not subject to arbitration for any reason whatever, the United States District Court for the Southern District of New York shall have exclusive jurisdiction thereof. For such purpose, the Insured agree to accept, without objection to form or manner, service of process to the person identified in Item 10 of the Declarations.

For such purpose, the Insurer agrees to accept, without objection to form or manner, service of process by registered mail directed to Nuclear Electric Insurance Limited, 1201 Market Street, Suite 1200, Wilmington, Delaware 19801. The foregoing consents to service of process are not intended nor shall they be construed to extend to any dispute, claim, controversy, cause of action, or other matter other than as stated in this paragraph.

H. Headings

The headings in this Policy are inserted for convenience only and shall not be deemed to constitute a part hereof.

I. Inspection and Suspension

1. The Insurer shall be permitted, but not obligated, to perform or to have performed on its behalf, inspections of the Insured Unit at any reasonable time. All inspections and inspection reports made by or on behalf of the Insurer are made solely for insurance purposes. Inspection reports are based upon conditions, practices and property observed and information made available at the time of the inspection, and shall not be deemed to identify all issues or to indicate that other issues do not exist. The Insurer and those performing inspections on its behalf shall not be responsible for the correction or control of any conditions, practices or property. Notwithstanding any other agreement, express or implied, to the contrary, neither the right to make an inspection nor the making of an inspection, nor any advice or report resulting therefrom, shall constitute or be construed as an undertaking on behalf of or for the benefit of the Insureds or others to determine or warrant that the facilities, operations or property are safe or healthful, or are in compliance with any law, rule, regulation, procedure or standard.
2. Upon discovery of a condition or practice that may prejudice the interests of the Insurer hereunder, a representative of the Insurer may request that such condition or practice be corrected without delay, consistent with regulation by the appropriate Regulatory Body, if applicable.
3. It shall be the obligation of the Insureds to ensure that the Insurer is accorded the right of inspection under paragraph 1 above and to ensure compliance with any requests by the Insurer pursuant to paragraph 2 above.

J. Limits

1. The Insurer shall not be liable for more than the applicable Amount of Insurance in Items 6A, 6B, or 6C of the Declarations, as each Item may respectively apply, and the Insurer's obligation to pay for Decommissioning Expenses shall terminate upon completion of Decommissioning the Insured Unit.
2. The amount of insurance for the Insured Unit stated in the Declarations is the limit of the Insured's liability for all Decommissioning Expenses resulting from the Decommissioning of the Insured Unit. Every expense paid hereunder reduces the amount of insurance available to the Insured under this Policy. There shall be no reinstatement of the insurance available under this Policy.
3. Notwithstanding anything contained herein to the contrary, the Insurer's liability hereunder shall be the amount payable to the Insured, but for this provision, less any amount owed to the Insurer by the Insureds under this Policy.

K. Other Insurance

If the Insured has any other insurance that would attach if this insurance had not been effected, this insurance shall apply only as excess and in no event as contributory insurance, and then only after all other insurance has been exhausted. Other insurance, as referenced in this Section, does not include any Property or Accidental Outage policies issued by Nuclear Electric Insurance Limited.

L. Policy Decisions and Notice

Except as provided in paragraph N of Section IV, all decisions or actions made or taken with respect to this Policy may only be taken or made by the first named Insured and all such decisions or actions shall be binding on all Insureds. Such decisions or actions shall include, without limitation, decisions to file or not file Proofs of Expenses and to bring or not bring an action under the dispute resolution provision. No decision or action with respect to this Policy may be made or taken by anyone other than the Insurer and the first named Insured. The first named Insured shall be that Insured whose name is listed first in Item 1 of the Declarations. The Insurer and the Insureds agree that all communications between them as to any matter arising under or relating to this Policy shall be made as follows:

1. **If to the Insurer:** The communication must be sent by the first named Insured and must be sent, by facsimile, mail or courier to the Insurer at the address listed in Item 2 of the Declarations.
2. **If to the Insureds:** The communication must be sent by the Insurer to the first named Insured and must be sent, by facsimile, mail or courier to the address listed in Item 1 of the Declarations or to the address of such Insured's Delaware Representative. It shall be the obligation of the first named Insured to communicate the contents of any notification from the Insurer to the other Insureds.

The Insured's compliance with the provisions of this paragraph is a condition precedent to the Insurer's obligations under this Policy.

M. Policy Modifications

This Policy embodies all agreements between the Insured and the Insurer or any of their agents relating to this insurance. There shall be no change in the terms, provisions and stipulations of this Policy except in writing hereon or by endorsement added hereto by the Insurer and the Insured.

N. Requirements for Reporting Decommissioning Expenses

1. Within twelve (12) months after any particular Decommissioning Expense is incurred, unless such time is extended in writing by the Insurer, which extension shall not to be unreasonably withheld, the Insureds shall render to the Insurer a proof of expense ("Proof of Expense"), in a form approved by the Insurer, signed and sworn to by the Insured, stating the knowledge and belief of the Insureds as to the interest of the Insureds and all others in the Insured Unit, the amount of such expense, the work performed that generated the expense, all other contracts of insurance, whether valid or not, covering any of such expense, and with respect to such expense, an attestation by the Insured that the work relating to such expense constitutes a Decommissioning Expense and has been completed fully.
2. The Insureds shall exhibit or cause to be exhibited to any person designated by the Insurer, as often as may be reasonably required, all records and documents detailing the work performed and expense claimed, and shall submit to examinations under oath by any person named by the Insurer, and shall subscribe the same. The Insureds shall, as often as may be reasonably required, produce for examination all books of accounts, bills, invoices and other vouchers, or certified copies thereof if originals be lost, or other documents needed by the Insurer to determine its liability, at such reasonable time and place as may be designated by the Insurer or its representatives, and shall permit extracts and copies thereof to be made.
3. The Insured shall provide to the Insurer estimated Decommissioning Expenses the Insured incurs on a calendar quarterly basis (i.e.: March 31, June 30, September 30 and December 31) if the Insured intends to submit Proofs of Expense that encompass Decommissioning Expenses incurred for periods longer than three months.

O. Retention

The Insurer will not be obligated to make any payments to the Insured until the Insured certifies that it has paid Decommissioning Expenses equal to or greater than the Retention Amount stated in Item 8 of the Declarations. The Insured shall provide Insurer with written notice of when the Insured's incurred Decommissioning Expenses are within \$10 million of reaching the Insured's Retention Amount, as set forth in Item 8 of the Declarations. The Insured shall also provide the Insurer with copies of audited reports

showing the Decommissioning Expense amounts the Insured has paid on an annual basis, beginning when the Insured begins Decommissioning of the Insured Unit.

P. State Taxes

The Insureds shall be responsible for the reporting and payment of all state taxes due with respect to this Policy, including but not limited to state premium taxes. The Insured shall, upon request of the Insurer, furnish Insurer with proof that all applicable state taxes have been paid.

Q. Subrogation

1. Except as provided in paragraph 3 below, the Insurer may require from the Insureds an assignment of all right of recovery against any party for Decommissioning Expenses to the extent that payment therefor is made by the Insurer, and the Insureds shall execute and deliver all necessary instruments and do all things necessary or desirable on behalf of the Insurer to secure such rights. The Insureds shall take no action that may prejudice the Insurer's rights under this paragraph.
2. The Insurer hereby waives any right of subrogation acquired by reason of any payment under this Policy arising out of any Decommissioning Expenses paid to the Insureds.
3. It is a condition of this Policy that the Insureds shall repay to the Insurer any recoveries made by the Insureds on account of any Decommissioning Expenses to the extent that the Insurer would have been entitled to such recoveries had this waiver not been included in this Policy. The proceeds of any recovery shall be applied first to any uncompensated Decommissioning Expenses incurred by the Insured, including reimbursement of any Retention Amount, under this Policy, and then, to the extent any proceeds of such recovery remain, to reimburse the Insurer for any payments made by it to the Insureds.

R. Suit

No suit, action or proceeding on this Policy for the recovery of any claim shall be sustainable in any court of law or equity or any arbitral tribunal unless all the requirements of this Policy shall have been complied with, and unless commenced within eighteen (18) months after incurring the Decommissioning Expenses giving rise to such claim; provided, however, an extension of time granted by the Insurer for rendering a Proof of Expense shall extend the eighteen-month (18) period for bringing suit with respect to such claim by the period of the extension.

S. Term and Cancellation

1. This Policy shall commence on the date specified in Item 3 of the Declarations and may not be cancelled by the Insurer for any reason, except for the Insured's non-payment of premiums or a Material Breach of this policy by the Insured.
2. This Policy may be canceled at any time by the Insured upon giving one hundred eighty (180) days' written notice of cancellation mailed or delivered to the Insurer, the NRC and the Decommissioning Expenses Payee. If the Insured cancels this Policy, it shall provide the same notice to the Insured, the NRC and the Decommissioning Expenses Payee. This Policy will not be canceled by the Insured and shall remain in effect if within the 180-day notice period, the NRC directs that the coverage remain in effect.
3. Upon cancellation of this Policy, the policy limits shall be reduced in accordance with Item 6 of the Declarations, and said amount shall be paid to the Standby Trust.

T. Valuation

[THERE WILL LIKELY BE A PROVISION ESTABLISHING A BASIS AGAINST WHICH DECOMMISSIONING EXPENSES SUBMITTED BY THE INSURED ARE COMPARED IN ORDER TO DETERMINE THE REASONABLENESS OF THE EXPENSES].

U. Waiver Provisions

No provision, stipulation or forfeiture shall be held to be waived by any requirement or proceeding on the part of the Insurer relating to appraisal or to any examination provided for herein.

V. When Decommissioning Expenses are Payable

The amount of Decommissioning Expenses for which the Insurer may be liable shall be payable as soon as practicable and in any event within sixty (60) days after each individual Proof of Expenses is received by the Insurer and ascertainment of the Expense is made either by agreement between the Insured and the Insurer expressed in writing or by the filing with the Insurer of an award as herein provided.

VI. MEMBERSHIP

Each Insured becomes a Member of the Insurer's parent company, Nuclear Electric Insurance Limited ("NEIL") as part of obtaining insurance from the Insurer, and as such, is entitled to the privileges and benefits, and by entering into this Policy agrees to be subject to and bound by the obligations and duties of Membership in NEIL. These are more fully set forth in NEIL's Memorandum of Association, Bye-Laws and any amendments thereto, each of which is hereby incorporated into and made a part of this

Policy. In no event shall any amendment to the Memorandum of Association or the By-Laws increase the amount of Premium payable hereunder.

VI. DEFINITIONS

For purposes of this Policy, unless otherwise stated to the contrary, the following capitalized terms shall have the meanings set forth below. Other capitalized terms are included in the Declarations. Unless otherwise stated or required for the meaning of any provision, the singular shall include the plural and the plural, the singular. Whenever a Section or Paragraph number is included in the Policy, it refers to a Policy Section or Paragraph number.

- A. "Decommissioning" means the process each licensee of a nuclear plant must undergo to fully decontaminate and dismantle the Insured Unit after it permanently ceases operation. For the purpose of this Policy, Decommissioning shall include all radiological decontamination required by the NRC and all steps necessary to take the Insured Unit to level of clean-up as required by the applicable Regulatory Bodies, including but not limited to removal of non-radiological structures and site restoration or "greenfielding". Decommissioning shall be regarded as concluded upon completion of all items listed in the Insured's Decommissioning Plans, including any amendments thereto.
- B. "Decommissioning Expenses" means all expenses the Insured is obligated to incur by reason of the determination of the Insured, with approval of the applicable Regulatory Body, to complete all Decommissioning, at the Insured Unit identified in Item 7 of the Declarations, and as such are covered under this Policy.
- C. "Decommissioning Plans" mean the Post-Shutdown Decommissioning Activities Report, Spent Fuel Management Plan, and the License Termination Plan required by the NRC, plans that may be required for the closure of waste management units or under a corrective action program pursuant to the Resource, Conservation and Recovery Act, and any other similar plans required by Regulatory Bodies for clean-up of non-radiological contaminants, removal of structures, and restoration of the site.
- D. "Insured Unit" means the nuclear power generating station specified in Item 7 of the Declarations and situated at a location specified therein.
- E. "Operator" means those persons, entities, departments, agencies, or political subdivisions, if any, other than the Insured, responsible for operating a Unit covered by the Policy.
- F. "Regulatory Body" means the Nuclear Regulatory Commission ("NRC"), the Environmental Protection Agency ("EPA"), and any other federal, state or local authority with responsibility to oversee or regulate the decommissioning process undertaken by the Insureds.

- G. **“Regulatory Shutdown”** means any order to permanently cease operations prior to the end of the license life of the Insured Unit issued by any Regulatory Body.
- H. **“Repair”** means any repair or decontamination of property not associated with Decommissioning, including radiological decontamination of property necessitated by an accident or other event not part of Decommissioning.
- I. **“Replacement”** means any replacement of property not directly necessary for Decommissioning, including replacement of any property that may require replacement in the process of Decommissioning.
- J. **“Standby Trust”** means a Trust Fund set up pursuant to Nuclear Regulatory Commission regulations to receive funds from this Policy.
- K. **“Trust Fund”** means a three-party agreement whereby the licensee or applicant, called the grantor or trustor, transfers assets to a trustee, such as a bank, other financial institution, or governmental authority, to hold on behalf of the beneficiary.

APPENDIX B

PROVIDED UNDER SEPARATE COVER

NUCLEAR ELECTRIC INSURANCE LIMITED

1201 Market Street, Suite 1200, Wilmington, Delaware, United States 19801

Tel: 302-888-3000

Fax: 302-888-3007

AMB#: 11284

NAIC#: 34215

FEIN#: 98-0066503

Report Revision Date: 06/10/2002

BEST'S RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of A (Excellent). The company's Financial Size Category is Class XV.

RATING RATIONALE

Rating Rationale: This rating reflects the company's very strong capital position, positive operating results before distribution of dividends, conservative operating strategy and its exclusive leadership position in the U.S. nuclear industry. NEIL now provides essentially 100% of the nuclear utility property insurance coverage in the United States. The rating recognizes Nuclear Electric's history of maintaining sufficient capital to support its ongoing obligations and its capability of absorbing its retention on two full limit losses, should they occur. Over the past five years, prior to consideration of distributions issued to members, the operations of the company have been very profitable through a combination of strong underwriting results and an investment portfolio that focuses on a long term buy and hold strategy. A.M. Best also assigns a stable outlook to the rating.

Partially offsetting the positive rating factors is the company's primary focus on catastrophic property risks and related business interruption claims. In order to meet its obligations on two full limit claims, NEIL will need to rely on the anticipated long payout pattern of such claims, which could be as long as ten years. NEIL's financial flexibility is enhanced through its ability to suspend all distribution payments and the contractual right to assess a retrospective premium adjustment for up to ten times each member's annualized premium. A further concern is the company's reliance on one market and two principal product lines, though this is reflective of a captive insurer focused on a particular niche market. These concerns are mitigated by the company's dominant U.S. market share, strong capital position, as well as its recent successes in overseas markets and in expanding the types of coverages made available to members. The policy provisions also exclude claims determined to be the result of "wear and tear" or any event that is not an accident, including shutdowns mandated by regulatory authorities.

FIVE YEAR RATING HISTORY

<u>Date</u>	Best's <u>Rating</u>
06/03/02	A
06/21/01	A
06/26/00	A
08/30/99	A
06/15/98	A

KEY FINANCIAL INDICATORS

<u>Statutory Data (\$000)</u>			
Period	Direct	Net	Pretax
<u>Ending</u>	<u>Written</u>	<u>Written</u>	<u>Income</u>
1998	147,447	154,741	15,715
1999	204,330	200,445	-248,040
2000	134,173	124,734	-468,986
2001	171,929	167,600	-221,026
2002	156,453	198,275	-40,520

<u>Statutory Data (\$000)</u>			
Period	Net	Total	Policy-
<u>Ending</u>	<u>Income</u>	<u>Admitted</u>	<u>holders'</u>
		<u>Assets</u>	<u>Surplus</u>
1998	89,338	5,061,053	4,508,227
1999	-7,712	5,600,746	4,876,273
2000	-268,181	4,765,304	4,068,085
2001	-4,639	3,964,933	3,194,937
2002	-85,336	3,409,819	2,888,013

Period	<u>Profitability</u>		<u>Leverage</u>		<u>Liquidity</u>			Overall	Oper.
	Comb.	Inv.	Yield	Pretax	ROR	NA Inv	NPW			Net	Liq	Cash-
<u>Ending</u>	<u>Ratio</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>	<u>Lev</u>	<u>to PHS</u>	<u>Lev</u>	<u>(%)</u>	<u>flow (%)</u>
1998	213.3	5.1	8.1	76.7	0.0	0.2	915.9	84.4	
1999	294.8	3.0	-99.9	80.5	0.0	0.2	773.9	88.8	
2000	524.8	2.9	-99.9	79.9	0.0	0.2	683.7	41.2	
2001	307.5	2.8	-99.9	76.2	0.1	0.3	515.4	43.0	
2002	172.2	2.9	-20.1	67.1	0.1	0.2	653.8	69.5	
5Yr Avg	289.4	3.4	-99.9	...	...	...	...	...

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Property Casualty QAR Total.

CORPORATE OVERVIEW

Nuclear Electric Insurance Limited (NEIL) is an association captive owned by electric power providers which have an interest in nuclear power generating facilities. As a service to its members and as a means to prevent losses, the company pursues a comprehensive loss control program conducted by staff dedicated for that purpose. Furthermore, NEIL benefits from the extensive requirements imposed on nuclear plant operators by the Nuclear Regulatory Commission (NRC). These include a requirement that every utility perform an Individual Plant Examination for each of its sites to assess the risk of a severe reactor accident at that particular plant using a generally recognized approach called a Probabilistic Risk Assessment. Due to the nature of the risks involved in this industry, the member companies employ natural catastrophe mitigation efforts including safety systems at each plant that are designed to withstand the effects of the maximum natural phenomena events, including earthquake, wind, flood, etc., without loss of capability to perform their safety functions. In addition, to guard against the threat of an earthquake, it is a regulatory requirement that plant safety systems be designed to sustain an earthquake at least twice the most severe probable seismic occurrence based on a thorough geological study of the area. With regard to terrorist threats, NEIL's coverage was revised to a 12 month aggregate approach, similar to its natural hazards coverage approach. These provisions allow for only one full limit loss in the aggregate among all members during any 12 month period. Security features and procedures have received significant attention at all the power facilities since these threats became more palpable.

NEIL insures the nuclear power plants of electric utility companies for the costs associated with certain long-term interruptions of electric generation with its primary and accidental outage programs when such interruptions are due to accidental damage to insured sites. It also insures these companies for decontamination expenses incurred at such sites arising from accidental nuclear contamination. NEIL provides coverage for other risks of direct physical loss at such sites, including certain premature decommissioning costs under the property programs. Effective January 1, 1999, the company expanded into the insurance of foreign nuclear sites. In 2000, the company began providing certain non-nuclear coverages to existing members. This is provided on a quota-share basis, in conformity with the conventional programs and following the terms and conditions of the member's lead underwriter.

The company's goal is to provide cost effective insurance, suitable capacity, and a good core engineering standard by which to gauge the risk exposure at insured plants. NEIL distributes a very large portion of its profits to its members. NEIL currently provides property insurance coverage to all of the commercial nuclear power facilities in the United States.

CORPORATE STRUCTURE

<u>AMB #</u>	<u>COMPANY NAME</u>	<u>DOMICILE</u>	<u>%OWN</u>
11284	Nuclear Electric Insurance Ltd	DE	
56085	Nuclear Electric (Cayman) Ltd	Cayman Islands	100.00
	Overseas NEIL Limited	Ireland	100.00

BUSINESS REVIEW

The coverages provided by NEIL fall into three broad categories, business interruption, decontamination expenses, and other risks of direct physical loss at an insured site. As of January 1, 2002, the accidental outage program pays a weekly indemnity limit of up to \$4.5 million resulting from an accidental outage at any one unit. The Company's loss exposure on any single incident at a unit is limited to 100% of the weekly indemnity for 52 weeks and 80% for the subsequent 110 weeks, up to a maximum limit of \$490 million. Deductible options include 8, 12, 20, and 26 weeks. Under the primary property program for certain policyholders, NEIL's loss exposure on any single incident at a unit is limited to six weeks, following a seventeen-week deductible period.

Accidental outage policies are issued on a per unit basis, so that each unit at a multi-unit site is insured separately and apply only in full shutdown situations. In the event of covered outages of more than one unit at such a site because of the same incident, the weekly indemnity payable with respect to each such unit is reduced during the period when outages overlap. The company issues both participating and non-participating policies; however, a very high percentage of calendar year net premiums written represents participating policies.

The primary property program provides United States electric utilities with property insurance coverage during the construction and operation of nuclear generating plants and for insured property in transit to and from such plants. The maximum coverage available under each of these policies is \$500 million per occurrence. NEIL is the only insurance company in the U.S. that provides this property coverage.

The company presently provides four types of insurance policies under the primary program: Builders' Risk, Operating Facility, Combined Operating Facility and Builders' Risk, and Transit. The Operating Facility policy provides for priority of payment for expenses necessarily incurred in discharging the liability of the insured to stabilize the reactor, for the removal of debris and to decontaminate a damaged unit. Only the balance of the amount payable under the policy, if any, is available to meet property losses. Under the Operating Facility and the Combined Operating Facility and Builders' Risk policies, the company offers coverages from \$100 million to \$500 million with a minimum overall deductible of \$250,000. Minimum deductibles for turbine generator units range from \$250,000 to \$1 million, depending on the size of the unit. Builders' Risk Policies provide coverage for \$50 million to \$500 million with a minimum deductible of \$100,000. The company also offers optional higher deductibles with appropriate credits.

The excess property program provides property insurance coverage of up to \$2.25 billion for losses in excess of \$500 million per occurrence. The excess policy will also make payments with respect to losses in excess of \$500 million from earthquake, windstorm or flood even if it is not covered by the underlying policy held by the insured.

With policies incepting on and after January 1, 2000, members had the option of using a blanket limit structure for multiple nuclear sites. This provides \$1 billion of coverage from the top down. Premium varies based on limit, attachment point, and number of sites involved.

NEIL also provides direct insurance of foreign nuclear sites through its wholly-owned Irish subsidiary, Overseas NEIL Limited (ONEIL). When international utilities buy a member policy of insurance from ONEIL, they become full members of NEIL with all the rights and obligations associated with membership. This expansion of NEIL's membership will allow NEIL to continue to build on its success of the past, to the joint advantage of NEIL's current and prospective members. ONEIL currently provides coverage directly and as reinsurance to nuclear plants in Belgium, Germany, Japan, Korea, South Africa, Spain, Sweden, Switzerland, and the United Kingdom. Management sees this increase in NEIL's exposure to appropriate non-U.S. risks as a prudent way to diversify and to enhance the returns to the members.

In addition to its property insurance business, NEIL assumes a limited amount of reinsurance on certain property and liability risks. The business represents primarily small participations in the risks written by American Nuclear Insurers (ANI), Associated Electric and Gas Insurance Services (AEGIS), Energy Insurance Mutual (EIM), European Mutual Association of Nuclear Insurers (EMANI), the British pool, the Japanese Atomic Energy Insurance Pool (JAEIP), and the Korean Atomic Energy Insurance Pool (KAEIP).

NEIL utilizes an enhanced loss control program leveraging off the oversight of the Nuclear Regulatory Commission (NRC) and the Institute of Nuclear Power Operators (INPO). Through the use of advanced technologies, it enables the loss control staff to focus attention in areas where problems are identified. The inspections and reviews done by regulatory agencies and other groups focus primarily on protection of the public health and safety.

2002 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product <u>Line</u>	Premiums Written		Total	% of Loss	Pure & LAE	Loss
	Direct	Net	NPW	Ratio	Reserves	
Com'l MultiPeril	156,453	173,225	87.4	33.0	80,292	
Reins-Casualty	...	16,026	8.1	55.6	12,699	
Reins-Property	...	9,024	4.6	87.5	6,674	
Totals	156,453	198,275	100.0	36.9	99,666	

Major 2002 Direct Premium Writings By State (\$000): Delaware, \$ 156,453 (100.0%).

FINANCIAL PERFORMANCE

Overall Earnings: Overall operating results have been favorable in each of the past five fiscal years when considering results prior to policyholder distributions. These figures are derived from the few losses to date, the low expense posture and NEIL's strong capital position. Financial performance results have benefited from the accumulation in earlier years of unrealized capital gains from equity market investments. Although in fiscal years 2000 through 2002, the change in unrealized capital gains was negative, this has not affected the company's financial strength materially as its investment portfolio strategy is to buy and hold for long term growth in value.

Earnings would have been significantly higher if not for the \$2.38 billion in policyholder distributions paid over the latest five year period. The level of distributions is determined by the board of directors and is made in the company's sole discretion reflecting the favorable experience of the company with respect to the insurance coverage provided to its members. Distributions have resulted in a significantly decreased net cost of insurance to its members over the years.

PROFITABILITY ANALYSIS

Period	Company		Industry Composite		Pretax		Return	
	ROR	PHS(%)	Comb. Ratio	Oper. Ratio	ROR (%)	PHS(%)	on Comb. Ratio	Oper. Ratio
<u>Ending</u>	<u>(%)</u>	<u>PHS(%)</u>	<u>Ratio</u>	<u>Ratio</u>	<u>(%)</u>	<u>PHS(%)</u>	<u>Ratio</u>	<u>Ratio</u>
1998	8.1	14.0	213.3	92.6	8.4	12.5	106.0	91.3
1999	-99.9	7.7	294.8	220.3	5.7	7.7	107.8	93.8
2000	-99.9	-18.0	524.8	423.5	3.4	0.7	110.3	96.2
2001	-99.9	-17.5	307.5	233.9	-4.3	-8.0	115.9	103.6
2002	-20.1	-14.9	172.2	120.2	...	...	...	...
5-Yr Avg	-99.9	-4.7	289.4	206.0	...	...	...	...

Underwriting Income: Net underwriting results reflect the inclusion of substantial distributions to its members. Before policyholder distributions, NEIL would have posted a five year total underwriting gain of approximately \$655 million. Outstanding combined ratios, before distributions, have been posted with a five year average ratio of roughly 29% versus an industry average in excess of 100%. To date, NEIL has not experienced significant losses or loss adjustment expenses. In 1991, a loss in the amount of \$88 million was incurred for a turbine fire and resulting damage. In 1992, Hurricane Andrew caused damage to an insured member's site that resulted in a loss of approximately \$144 million, claimed under the primary property program. In 1993, a site experienced a turbine fire and explosion with damages resulting in the company's largest loss to date of \$183 million, claimed under the primary property and accidental outage programs. Finally, NEIL incurred a \$55 million turbine failure claim in 2001. Although the company has an extensive loss control and risk engineering program, total underwriting expenses have averaged 7.3% of net premiums written during the past five years.

UNDERWRITING EXPERIENCE

<u>Year</u>	<u>Net Undrw</u>	<u>Loss Ratios</u>	<u>Expense Ratios</u>		<u>Loss &</u>	<u>Net</u>	<u>Other</u>	<u>Total</u>	<u>Div.</u>	<u>Comb</u>	
	<u>Income</u>		<u>Pure</u>								<u>LAE</u>	LAE	Comm	Exp.	Exp.	Pol.	Ratio
1998	-219,238		4.9		-0.3	4.6	...	3.2	3.2	205.5	213.3
1999	-401,702		1.3		0.1	1.4	...	2.6	2.6	290.9	294.8
2000	-616,620		11.7		0.1	11.8	1.9	10.3	12.2	500.9	524.8
2001	-342,172		54.9		0.1	55.0	1.8	7.9	9.7	242.7	307.5
2002	-145,494		36.9		1.4	38.3	2.7	7.5	10.1	123.8	172.2
5-Yr Avg	...		21.3		0.3	21.6	1.3	6.0	7.3	260.6	289.4

Investment Income: The company's investment strategy continues to be based on the expectation that over the long-term, equity returns will exceed those from other core asset classes. The board and management believe that this view is compatible with the long-term nature of the company's possible liabilities from insurance risks. The stock portfolio, representing a diverse portfolio of industrial common shares with no significant concentration in any one issue, has nevertheless suffered significant losses as a result of the past three years' declines in the equity markets. The equity holdings, both foreign and domestic, now represent approximately 50% of invested assets. Due to the current state of the equity markets, management is postponing further investments in stocks rather than attempting to reach its long term target of 60% equity holdings. Bonds consist primarily of investment grade obligations with approximately \$1.5 billion invested in government and corporate securities with an average duration of 3 years. AEGIS has evaluated its fixed income investment strategy and has decided to pursue a somewhat more actively managed portfolio rather than one that is purely passive. Also, long term benefits are seen in placing more funds in corporate securities and less in lower yielding U.S. treasuries and agencies.

INVESTMENT INCOME ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>		
	<u>Net</u>	<u>Realized</u>	<u>Unrealized</u>
	<u>Inv</u>	<u>Capital</u>	<u>Capital</u>
	<u>Income</u>	<u>Gains</u>	<u>Gains</u>
1998	234,953	106,601	499,116
1999	153,661	204,584	368,995
2000	147,634	198,582	-536,222
2001	121,146	216,372	-631,409
2002	104,973	-47,100	-367,313

Year	Company	Industry Composite			
	Inv Inc Growth (%)	Inv Yield (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
1998	84.1	5.1	19.6	-3.8	5.2
1999	-34.6	3.0	14.9	-2.5	5.0
2000	-3.9	2.9	-3.6	5.8	5.3
2001	-17.9	2.8	-6.5	-6.7	4.9
2002	-13.3	2.9	-8.1	...	...
5-Yr Avg	-17.7	3.4	3.4	...	...

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2002 Inv Assets (\$000)	% of Invested Assets		Annual 2001	% Chg
		2002			
Long-Term bonds	1,323,318	39.0		35.8	-6.2
Stocks	1,691,729	49.9		55.0	-22.0
Affiliated Investments	20,000	0.6		0.5	...
Other Inv Assets	354,720	10.5		8.7	3.0
Total	3,389,768	100.0		100.0	-14.1

BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1 - 2 (%)	Class 3 - 6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	5.9	2.0	21.1	100.0	...	...	...
States, terr & poss	32.6	1.5	18.9	100.0	...	0.1	0.0
Corporates	61.5	2.1	6.7	94.1	5.9	3.4	1.1
Total all bonds	100.0	1.9	11.5	96.3	3.7	2.1	1.1

CAPITALIZATION

Capital Generation: A combination of factors during 2002, caused the decline in cumulative policyholder surplus. These include significant unrealized capital losses on investments and a policyholder distribution of \$250 million. In the prior two years, similar circumstances led to declines as well. Partially offsetting the decline in 2002, was a more robust net underwriting income before dividends, a smaller amount of net unrealized capital losses than in prior years, and a gain recognized from net deferred tax benefits. Further affecting surplus was the cumulative effect of a change in accounting principles, which led to a decline in surplus in the amount of \$461 million for fiscal year 2001. The accounting change resulted from the adoption of the new NAIC Accounting Practices and Procedures

Manual that became effective on January 1, 2001. The accounting change relates to the recognition of deferred income taxes. Modest growth in surplus is expected to return in the future. However, since distributions are paid only with board approval, the company could potentially allow surplus to rise rapidly if the need arose.

CAPITAL GENERATION ANALYSIS (\$000)

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Pretax Operating Income</u>	<u>Total Inv. Gains</u>	<u>Net Contrib. Capital</u>
1998	15,715	605,717	...
1999	-248,040	573,579	...
2000	-468,986	-337,639	...
2001	-221,026	-415,037	...
2002	-40,520	-414,413	...
5-Yr Total	-962,858	12,206	0

<u>Year</u>	<u>Source of Surplus Growth</u>		
	<u>Other, Net of Tax</u>	<u>Change in PHS</u>	<u>PHS (%)</u>
1998	-5,481	615,950	15.8
1999	42,507	368,046	8.2
2000	-1,563	-808,188	-16.6
2001	-237,083	-873,147	-21.5
2002	148,008	-306,925	-9.6
5-Yr Total	-53,613	-1,004,264	...

Overall Capitalization: The company's capital and surplus adequately supports its business risks. This is a reflection of NEIL's low underwriting leverage, which offsets the higher asset risk caused by NEIL's equity holdings. Given the anticipated scenario of claim payments and capital management steps taken following a full limit loss, the company's capital, as evidenced by a pro forma BCAR calculation of 325.1%, will remain very strong to support ongoing operations. Following two full limit losses, reliance is placed on predicted loss payout patterns, rate increases, and suspension of distribution payments for a period of time in order to maintain sufficient capital to support ongoing operations.

Further strength in capitalization is recognized by the company's ability to assess policyholder members. Upon the sole discretion of the board of directors, the company can call upon the members of each program for payment of proportionate retrospective premium adjustments, in whole or in part, to cover losses and related costs incurred by the company with respect to a policy year to which they have subscribed. Each insured has a contingent liability to the company for retrospective premium adjustments based on losses incurred each year. This could be equal to a maximum of ten times its annualized policy premiums under the primary, accidental outage, and excess programs. The liability of the members for the retrospective premium adjustment for any policy year ceases six years after the end of that

policy year unless prior demand has been made. Management believes that it is unlikely that any retrospective premium adjustments will be required for policies whose terms have expired.

QUALITY OF SURPLUS (\$000)

Year	Year-End PHS	% of PHS Cap Stk/ Contrib. Cap.	Dividend Requirements				
			Other	Un-assigned Surplus	Stockholder Divs	Div to POI (%)	Div to Net Inc. (%)
1998	4,508,227	0.0	...	100.0	...	...	...
1999	4,876,273	0.0	...	100.0	...	...	...
2000	4,068,085	0.0	...	100.0	...	...	...
2001	3,194,937	0.0	...	100.0	...	...	...
2002	2,888,013	0.0	...	100.0	...	...	...

Underwriting Leverage: Both net premiums written and net liabilities represent just a small portion of policyholders' surplus. NEIL maintains significant excess capacity to protect against adverse losses. By the very nature of the coverages written, losses incurred could be catastrophic in nature. Writings have fluctuated over the last five years. The company had reduced rates for most of its insureds in 1998 and 2000. Net aggregate premiums written increased in 2002, by over 18% through a combination of higher volume and rate increases. Net leverage measures indicate a very conservative position of written premiums in relation to policyholder surplus.

LEVERAGE ANALYSIS

Year	Company		Industry Composite					
	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev	NPW to PHS	Reserves to PHS	Net Lev	Gross Lev
1998	0.0	0.0	0.2	0.2	0.8	1.1	2.5	3.1
1999	0.0	0.0	0.2	0.2	0.8	1.1	2.5	3.2
2000	0.0	0.0	0.2	0.2	0.9	1.1	2.8	3.5
2001	0.1	0.0		0.3	1.1	1.3	3.3	4.3
2002	0.1	0.0	0.2	0.3	...	...	...	...

Current BCAR:
325.1

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period	DPW		GPW	
	Ending	(\$000)	(% Chg)	(\$000) (% Chg)
1998	147,447		-40.0	159,827 -39.4
1999	204,330		38.6	224,961 40.8
2000	134,173		-34.3	156,993 -30.2
2001	171,929		28.1	202,911 29.2
2002	156,453		-9.0	230,164 13.4
5-Yr CAGR	...		-8.6	... -2.7
5-Yr Change	...		-36.4	... -12.8
Period	NPW		NPE	
	Ending	(\$000)	(% Chg)	(\$000) (% Chg)
1998	154,741		-33.4	194,636 -26.6
1999	200,445		29.5	206,241 6.0
2000	124,734		-37.8	145,743 -29.3
2001	167,600		34.4	164,809 13.1
2002	198,275		18.3	201,986 22.6
5-Yr CAGR	...		-3.1	... -5.3
5-Yr Change	...		-14.6	... -23.8

Reserve Quality: The loss and loss expense reserves are composed primarily of case reserves. As a result of its close relationship with its policyholders (inherent in a captive insurer), members report losses expeditiously so that appropriate measures may be taken to minimize losses or to compensate the utility for the interruption of electricity generation capability. As a result, no significant time lag exists between occurrence of a loss and reporting of that loss. Historically, NEIL has not experienced significant losses or loss adjustment expenses. Nuclear program reserves are posted only when an actual loss occurs. The company uses its wholly-owned subsidiary, Nuclear Service Organization, Inc. (NSO), for site surveys and claims adjusting services. NSO determines damage amounts and recommends appropriate reserve levels.

LOSS & ALAE RESERVE DEVELOPMENT: CALENDAR YEAR (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2002	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @ 12/2002	Unpaid Resrv. to Dev. (%)
1997	23,262	29,156	25.3	0.2	11.0	2,290	7.9
1998	14,400	18,606	29.2	0.1	9.6	2,290	12.3
1999	10,600	16,908	59.5	0.1	8.2	4,790	28.3
2000	16,771	27,296	62.8	0.3	18.7	12,385	45.4
2001	42,459	65,067	53.2	0.7	39.5	44,904	69.0
2002	99,665	99,665	...	...	49.3	99,665	100.0

LOSS & ALAE RESERVE DEVELOPMENT: ACCIDENT YEAR (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2002	Develop. to Orig.(%)	Unpaid Reserves @12/2002	Acc Yr. Loss Ratio	Acc Yr. Comb Ratio
1997	5,450	9,162	68.1	2,290	3.5	156.3
1998	8,500	7,260	-14.6	...	3.7	212.4
1999	1,700	4,879	187.0	2,500	2.4	295.9
2000	15,471	21,194	37.0	7,595	14.7	527.7
2001	32,021	46,417	45.0	32,519	62.4	314.8
2002	54,761	54,761	...	54,761	27.1	161.0

Reinsurance Utilization: In the normal course of business, the company seeks to reduce its exposure to losses that may arise by reinsuring certain levels of risk with other insurance enterprises or reinsurers. The maximum potential aggregate costs resulting from a full limit loss include the coverage on a nuclear contamination accident and the associated business interruption claims. In total, one such incident could result in payments over time accumulating to \$3.24 billion. Of this amount, reinsurers would be responsible for \$1 billion. Ceded reinsurance costs are in the range of 1% of policyholder surplus. This low cost level is due to the very high limits retained by NEIL and the low probability of an occurrence breaching the retained layer. Annual premium is approximately \$32 million.

CEDED REINSURANCE ANALYSIS (\$000)

Year	Company		Industry Composite					
	Ceded Reins Total		Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS (%)	Business Retention (%)	Rein Rec to PHS (%)	Ceded Reins to PHS(%)
1998	5,305		96.8	0.0	0.1	85.8	39.1	55.3
1999	25,299		89.2	0.0	0.5	84.3	43.1	62.6
2000	32,478		79.6	0.0	0.8	82.9	48.9	72.3
2001	36,029		82.7	0.0	1.1	80.6	65.5	92.4
2002	32,157		86.2	0.0	1.1	...	...	...

2002 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates	219	...	219
US Insurers	49	...	49
Total (ex US Affils)	268	...	268
Grand Total	268	...	268

* Includes Commissions less Funds Withheld

Investment Leverage: NEIL's higher investment leverage is a reflection of its holdings in equities. Despite the unfavorable results over the last several years in the equity markets, management still believes a long-term investment strategy which focuses on diversification to reduce volatility and the maximization of after-tax total returns is appropriate and in the best interests of the company's members. Equities, both domestic and foreign, will continue to be emphasized, while bonds and real estate investments will play somewhat smaller roles. Management will position its fixed income portfolio to take advantage of higher yields from corporate securities rather than treasuries. In addition, part of the portfolio will be more actively managed than in the past.

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Year	Company	Industry Composite							
	Class	Real	Other	Non-Affil	Class		Common		
	3-6	Estate/	Invested	Common	Inv. Affil	3-6	Common		
	Bonds	Mtg.	Assets	Stocks	Lev. Inv.	Bonds	Stocks		
1998	1.1	...	5.0	70.6	76.7 2.2	4.1	43.8		
1999	2.2	...	4.7	73.6	80.5 2.0	4.3	46.8		
2000	0.8	...	5.5	73.6	79.9 0.5	4.3	44.9		
2001	1.9	...	6.5	67.8	76.2 0.6	5.8	42.0		
2002	1.9	...	6.8	58.5	67.1 0.7	...	...

LIQUIDITY

Overall Liquidity: Based on studies evaluating potential cash flows following a hypothetical severe reactor accident, management believes it could take years to restore a plant to full operating status. Claims for stabilization and decontamination expenses would be paid as they are incurred in the year of expenditure. The company will still collect premiums from its insureds during this process, thereby offsetting potential cash outflows. Consequently, management is confident of both their reserving methodologies and the cash flow strengths of the company.

NEIL maintains a liquid asset position. Partially offsetting this have been the unfavorable net cash flows as distribution payments recently exceeded the company's sources of cash. Overall, the fluctuating operating cash flows are due primarily to the variations in premiums collected and distributions paid to policyholders. Nonetheless, the company is able to meet its current operational needs and liabilities as demonstrated by its quick, current, and overall liquidity measures.

LIQUIDITY ANALYSIS

<u>Year</u>	<u>Company</u>	<u>Industry Composite</u>			Gross				Gross
	Quick	Current	Overall	Agents Bal	Quick	Current	Overall	Agents Bal	to
	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS(%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>Liq (%)</u>	<u>to PHS(%)</u>
1998	514.5	886.4	915.9	0.5	41.2	133.3	160.8	160.8	8.7
1999	434.7	747.7	773.9	0.5	38.2	131.9	160.8	160.8	9.7
2000	373.6	677.5	683.7	0.4	37.4	126.8	156.9	156.9	11.2
2001	250.1	510.1	515.4	0.6	32.8	116.3	147.0	147.0	11.7
2002	300.2	646.1	653.8	0.7	...	...	...	...	...

CASH FLOW ANALYSIS (\$000)

<u>Year</u>	<u>Company</u>	<u>Industry Composite</u>					
	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow(%)	Oper Cash Flow(%)	Underw Cash Flow(%)	Oper Cash Flow(%)
1998	-276,982	-71,646	87,935	34.5	84.4	95.2	105.4
1999	-216,896	-46,044	137,986	47.3	88.8	91.9	103.0
2000	-634,875	-452,610	-235,269	17.5	41.2	91.1	103.0
2001	-500,457	-380,257	-172,611	24.9	43.0	92.0	104.9
2002	-242,428	-134,360	-187,142	45.0	69.5	...	...

HISTORY

Nuclear Electric Insurance Limited (NEIL) was incorporated under the laws of Bermuda, has its place of business in Delaware. It is a registered insurer under the Bermuda Insurance Act of 1978 and the Captive Insurance Companies Act of Delaware. NEIL was formed in 1980 by the U.S. nuclear utility industry in response to the Three Mile Island accident. On January 10, 1980, the company changed its name from Energy Mutual Liability, Limited to its current form. In 1988, the company elected to seek on-shore status. As a result, NEIL was licensed on November 9, 1988, as an industrial captive by the Delaware Insurance Department.

On December 31, 1997, an affiliate, Nuclear Mutual Limited (NML) was merged into NEIL. The members of NML exchanged their membership interests for NEIL's membership interests based on the net assets of NML at the time of the merger. The reasons for having two separate companies largely disappeared and there were financial and operational benefits from having a single company with four core insurance programs. The NML insurance coverage program were written by NEIL effective January 1, 1998.

NML was a mutual insurance company incorporated in 1971, under the laws of Bermuda and commenced business in 1973. The company was formed by U.S. nuclear utilities in response to the high cost of insurance, lack of insurance capacity to cover the asset value of plants, and restrictive engineering requirements imposed by the existing nuclear insurers. It was a registered insurer under the Bermuda Insurance Act of 1978. NML operated domestically as a registered industrial captive insurer licensed by the Delaware Insurance Department under the Captive Insurance Companies Act of Delaware.

NEIL and NML were created to address the insurance needs of their members' nuclear power plants. The merged entity now provides its members with long-term self-determination in insurance matters affecting these plants. The primary goal is to maintain a financial position to cover two full-limit losses, as well as to ensure continuing coverage of nuclear sites. Other important goals include optimizing net insurance costs, maximizing investment income and fairly compensating the members for their premium contributions.

On January 1, 1999, NEIL established a wholly-owned subsidiary in Ireland, Overseas NEIL Limited (ONEIL), to expand into direct insurance of foreign nuclear sites. It received \$20 million of initial capital from NEIL.

MANAGEMENT

As a mutual insurer, ownership of the company is held by its members. The members of the company are United States electric utilities, one Belgian company, and two Spanish companies, each with an insurable interest in one or more nuclear generating units.

In addition to being owned by the nuclear utility industry, the company involves staff from its member utilities in the overall operation and management of the company. The Board of Directors is comprised largely of senior utility executives. An Engineering Advisory Committee, Legal Advisory Committee, and Insurance Advisory Committee, all with member representatives, provide additional guidance for the board.

The company has an agreement with its wholly owned subsidiary, Nuclear Service Organization, Inc. (NSO), by which NSO provides claims handling services and performs evaluations of nuclear power plants on the company's behalf. Such reviews serve a dual purpose; they are a prime loss prevention vehicle and they assist the company in determining premium rates.

Officers: President and chief executive officer, Quentin Jackson; vice president and general counsel, David B. Ripsom; vice presidents, Robert N. MacGovern (investments), Thomas G. Tannion (ONEIL), Gregory G. Wilks (loss control), Gerald Wilson (insurance); secretary, Timothy C. Faries.

Directors: Richard A. Abdoo, H. Peter Burg (vice chairman), Moray P. Dewhurst, Thomas F. Donovan, Donald C. Hintz, Gale E. Klappa, Quentin Jackson, Joshua W. Martin III, Randall E. Mehrberg, Michael G. Morris, Paula J. Mueller, Richard J. Osbourne, Fred M. Petersen, Christian H. Poindexter, William J. Post (chairman), Emmanuel van Innis.

REGULATORY

An examination of the financial condition was made as of December 31, 1998 by the Insurance Department of Delaware. An annual independent audit of the company is conducted by Deloitte & Touche, LLP. An annual evaluation of reserves for unpaid losses and loss adjustment expenses is made by Robert H. Munger, loss control and claims director, Overseas NEIL Limited.

TERRITORY

The company is licensed in Delaware.

REINSURANCE PROGRAMS

With respect to the accidental outage program, the company has no reinsurance protection.

Under the excess property program, the company has a reinsurance contract for a three year term. It provides reinsurance coverage of \$1.0 billion excess of \$1.0 billion. The contract also provides NEIL with the option to cancel and rewrite the agreement for an additional three years. Lead underwriters on the ceded reinsurance program include JAEIP, XL Reinsurance, ANI, Lloyds, ACE Ltd., Munich Re, KAEIP, Hannover Re, International Property Catastrophe Re, Montpelier Re, and Wellington Re.

BALANCE SHEET (\$000)

<u>ADMITTED ASSETS</u>	<u>12/31/2002</u>	<u>12/31/2001</u>	<u>2002 %</u>	<u>2001 %</u>
Bonds	1,323,318	1,410,665	38.8	35.6
Preferred stock	2,180	3,959	0.1	0.1
Common stock	1,689,548	2,165,309	49.5	54.6
Cash & short-term invest	147,535	118,887	4.3	3.0
Other non-affil inv asset	195,467	208,049	5.7	5.2
Investments in affiliates	20,000	20,000	0.6	0.5
Total invested assets	3,378,049	3,926,869	99.1	99.0
Premium balances	20,052	20,513	0.6	0.5
Accrued interest	11,719	17,551	0.3	0.4
Total assets	3,409,819	3,964,933	100.0	100.0
<u>LIABILITIES & SURPLUS</u>	<u>12/31/2002</u>	<u>12/31/2001</u>	<u>2002 %</u>	<u>2001 %</u>
Loss & LAE reserves	99,666	42,459	2.9	1.1
Unearned premiums	83,126	86,837	2.4	2.2
Conditional reserve funds	268	719	0.0	0.0
All other liabilities	338,748	639,982	9.9	16.1
Total liabilities	521,807	769,996	15.3	19.4
Capital & assigned surplus	250	250	0.0	0.0
Unassigned surplus	2,887,763	3,194,687	84.7	80.6
Total policyholders' surplus	2,888,013	3,194,937	84.7	80.6
Total liabilities & surplus	3,409,819	3,964,933	100.0	100.0

SUMMARY OF 2002 OPERATIONS (\$000)

<u>STATEMENT OF INCOME</u>	<u>12/31/2002</u>	FUNDS PROVIDED	<u>12/31/2002</u>
Premiums earned	201,986	<u>FROM OPERATIONS</u>	
Losses incurred	74,593	Premiums collected	198,168
LAE incurred	2,796	Losses paid	19,178
Undrw expenses incurred	20,090	LAE paid	1,004
Div to policyholders	250,000	Undrw expenses paid	20,414
	<hr/>	Div to policyholders	400,000
Net underwriting income	-145,494	Undrw cash flow	-242,428
Net investment income	104,973	Investment income	105,284
	<hr/>		<hr/>
Pre-tax oper income	-40,520	Pre-tax cash operations	-137,144
Realized capital gains	-47,100	Realized capital gains	...
Income taxes incurred	-2,285	Income taxes (pd) recov	2,785
	<hr/>		<hr/>
Net income	-85,336	Net oper cash flow	-134,360

APPENDIX D

10 C.F.R. § 2.790

AFFIDAVIT OF DAVID B. RIPSOM

STATE OF DELAWARE)

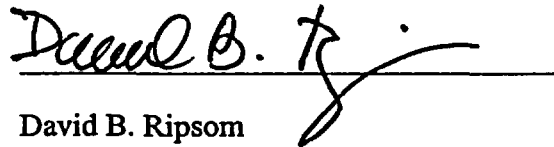
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COUNTY OF NEW CASTLE)

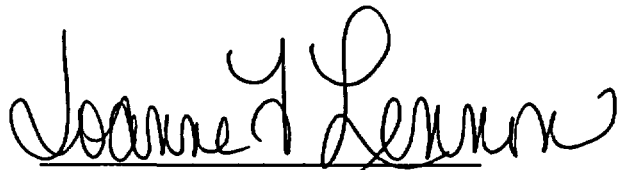
David B. Ripsom, upon being first duly sworn according to law, under oath, deposes and states:

1. I am the Vice President and General Counsel of Nuclear Electric Insurance Limited (“NEIL”). I am authorized to submit this affidavit on behalf of NEIL in support of the withholding from public disclosure of Appendix B – “Proprietary Example of Coverage and Benefit for a Prospective Utility Client” – to the document submitted to the U.S. Nuclear Regulatory Commission (“NRC”) entitled “Nuclear Electric Insurance Limited Request for Generic Determinations Regarding the Acceptability of Decommissioning Insurance Policy and Use of Non-Qualified Decommissioning Funds.”
2. Appendix B, contains proprietary commercial and financial information relating to the current and estimated future business operations of NEIL and its subsidiaries that is considered confidential by NEIL and should be held in confidence by the NRC pursuant to 10 C.F.R. § 9.17(a)(4) and the policy reflected in 10 C.F.R. § 2.790, because:
 - i. This information is and has been held in confidence by NEIL.

- ii. Other than its disclosure in the cited Appendix, the information in question is not available from public sources and is of a type customarily held in confidence by NEIL.
 - iii. This information is being submitted to the NRC in confidence.
 - iv. Public disclosure of the information contained in the cited Appendix would be likely to cause substantial harm to NEIL's competitive position in the insurance market by disclosing NEIL's proprietary decommission insurance pricing model, NEIL's financial projections regarding the provision of such insurance to utilities, prospective customers, and other sensitive business data that could be used by NEIL's competitors to the company's detriment and which absent such disclosure could not be properly acquired or duplicated by NEIL's competitors.
3. For these reasons, the information contained in Appendix B qualifies for withholding from public disclosure pursuant to 10 C.F.R. §§ 2.790(a)(4) and 9.17(a)(4) and 5 USC § 552(b)(4), and I hereby request that it be withheld from public disclosure in accordance with those provisions..


David B. Ripsom

SIGNED this 27th day of January 2004.


NOTARY PUBLIC IN AND FOR
THE STATE OF DELAWARE

My Commission Expires:

1/15/05

JOANNE F LENNON
NOTARY PUBLIC
STATE OF DELAWARE
My Commission Expires Jan. 15, 2005

