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NOV 07 2005

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Mail Station OP1-17
Washington, DC 20555

**Submitted pursuant
to 10 CFR 2.390**

**SUSQUEHANNA STEAM ELECTRIC STATION
DECOMMISSIONING REPORT OF
FINANCIAL ASSURANCE
SUPPLEMENTAL INFORMATION
PLA-5979**

**Docket Nos. 50-387
and 50-388**

*Reference: 1) PLA-5863, B. T. McKinney (PPL) to Document Control Desk (USNRC),
"Decommissioning Report of Financial Assurance," dated March 21, 2005.*

This letter provides supplemental information requested in a teleconference held between PPL and NRC on October 19, 2005. This supplemental information was requested to support NRC's review of the PPL Susquehanna LLC decommissioning report of financial assurance submitted on March 21, 2005 [Reference 1].

During the teleconference, NRC requested PPL to provide additional information related to the SAFSTOR decommissioning option. The information requested is included herein as Attachments 1 and 2.

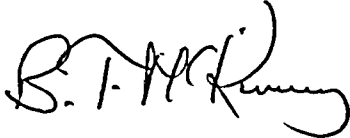
Attachment 1 consists of the "Nuclear Trust Fund Earnings Rate" discussion from Section M, "Nuclear Decommissioning Costs," of the 1995 Pennsylvania Public Utility Commission (PUC) order.

Attachment 2 contains proprietary information and therefore PPL requests that this information be withheld from public disclosure pursuant to 10 CFR §9.17(a)(4) and the policy reflected in 10 CFR §2.390, as described in my enclosed Affidavit. The information provided on Attachment 2 is only related to the SAFSTOR decommissioning option. Also, note that the cash disbursements are for 100% of the units with the PPL share being 90%.

APDI

Should you have any questions regarding this submittal or require additional information, please contact Mr. Duane L. Filchner at (610) 774-7819.

Sincerely,

A handwritten signature in black ink, appearing to read "B. T. McKinney". The signature is fluid and cursive, with the first name "B. T." and the last name "McKinney" clearly distinguishable.

B. T. McKinney

Attachments:

- Attachment 1 1995 PUC Order Section M Nuclear Decommissioning Costs, Part 5
- Attachment 2 Affidavit and Cost Estimate Summary

Copy: Regional Administrator – Region I
Mr. B. A. Bickett, NRC Sr. Resident Inspector
Mr. R. V. Guzman, NRC Project Manager
Mr. R. Janati, DEP/BRP

ATTACHMENT 1 TO PLA-5979

**1995 PUC ORDER
SECTION M, Part 5
NUCLEAR TRUST FUND EARNINGS RATE**

Consequently, the OTS concludes that the proper approach is to allow for recovery of prior accruals over the life of the plant and to remove the inflation factor from PP&L's decommissioning expense claim. (OTS Exc., p. 17). This, in OTS' view, would result in a \$18,297,000 decommissioning expense, as opposed to \$30,042,000, which, in Pennsylvania, would translate into a \$8,541,000 adjustment and a \$9,040,000 revenue requirement. (OTS Exc., p. 17, n. 8).

After examination of the parties' position, we affirm the ALJ's recommendation that the decommissioning expense be recovered using PP&L's annual annuity accrual method. (R.D. p. 99; PP&L M.B., p. 124). We do so here for several reasons.

First, the use of the OTS' truncated amortization recovery period, unlike PP&L's annual annuity accrual method, would result in significant cost increases if either a one year period, consistent with the approach taken in the 1985 rate case, or a multiple year period approach were taken. In addition, PP&L's approach reasonably tries to mitigate "back-end load" expense recovery that could unfairly burden customers in the future with ever-increasing revenue requirements for decommissioning prior plants. Finally, we share PP&L's fundamental concern that cost escalation is a significant consideration, which PP&L accounts for in its inflation estimate, precisely because future earnings may not necessarily keep pace with the general inflation rate or, even more importantly, industry-specific decommissioning costs. Taken in toto, we conclude that affirming the ALJ's recommendation is in the public interest in this case.

5. Nuclear Trust Fund Earnings Rate.

The last issue concerns the appropriate earnings rate

imputed to the nuclear decommissioning trust created by virtue of this Opinion and Order. (R.D., pp. 81-107).

PP&L proposes a four percent (4%) annual escalation of cost offset by estimated earnings of five and one-half (5 1/2%) percent to derive a sum of money PP&L must accrue by the time the Susquehanna plants are retired. (R.D., pp. 81-82). PP&L claims that their trust fund earnings estimate is premised on an interrelationship between its proposed earnings rate on trust fund assets and the projected cost of decommissioning the nuclear plants. PP&L also claims that their 5.5 percent trust fund earnings rate represents its attempt to make sure that sufficient funds are available to decommission the plants, at retirement, using a cautious and conservative investment strategy. PP&L bases this approach on the fact that funds will be needed over a relatively brief period of time, when decommissioning occurs, and that the funds must be adequate. (R.D., pp. 83-84, 94). PP&L disagrees with the OCA's proposal of a 7.5 percent trust fund earnings rate as a consequence of the OCA's investment strategy which assumes an eight percent return on bonds and 12 percent on equities. PP&L claims that the ratios and returns will evolve over time. (R.D., pp. 81-106).

The OCA presses for an earnings rate of 7.5 percent on the funds set aside to meet the total decommissioning cost estimate of \$804 million. (R.D., p. 86). The OCA notes that it will take 10 to 12 years to decommission the units, that interest will accrue on those funds in the interim and during decommissioning, and that PP&L's proposal is not overly aggressive. (R.D., pp. 86-87). In particular, the OCA counters PP&L's claims concerning an investment strategy by noting the conservative 30% equity premise in the OCA's earnings analysis. (R.D., p. 90).

The OTS would support a 5.5 percent earnings figure but, unlike PP&L, the OTS would also begin with a lower \$18 million allowance (as opposed to PP&L's \$30 million allowance) by factoring out contingencies. (R.D., pp. 84-85). The OTS prefers to use the Commission methodology used in the last PP&L rate case proceeding. (R.D., p. 85).

PPLICA states that the 5.5 percent figure is well below the return the Company claims on its own rate base. PPLICA would increase the estimate. PPLICA suggests a rate of return equal to that requested by the Company, 10.23 percent. (R.D., pp. 90-91). The DOD and Mr. Epstein briefly discuss the issues generically without proposing a specific trust fund earnings rate. (R.D., pp. 90-106).

The ALJ, based on the earlier recommendation on eliminating the contingency factor, recommended a cautious approach to the earnings estimate. While noting that PP&L might well do better than their proposed 5.5 percent earnings rate, the ALJ went on to recommend retention of PP&L's reasonable, if conservative, 5.5 percent proposal. (R.D., pp. 99-100).

PP&L dismisses the parties challenges to the recommendation. (PP&L R. Exc., p. 17). PP&L claims that the OCA's and PPLICA's proposals to increase the earnings rate above 5.5 percent are not sustainable because it is inappropriate to equate the earnings rate on a trust fund with claimed returns on equity. (PP&L R. Exc., p. 17). PP&L further claims that the OCA and PPLICA ignore the complex interrelationship between the inflation and earnings rates in the annuity calculation. (PP&L R. Exc., p. 17).

The OCA contests the ALJ's recommendation for a 5.5 percent earnings rate on the trust fund. (OCA Exc., pp. 36-37). The OCA explains that PP&L will be placing the decommissioning

funds collected from ratepayers into an external Nuclear Decommissioning Trust Fund. This Fund will then generate earnings which will be incorporated into the fund. The OCA reiterates their claim that PP&L's estimate of trust fund earnings is too low, particularly in light of PP&L's request to utilize a prudent person standard for fund investment as a result of a change in federal law. (OCA Exc., pp. 36-37 citing OCA M.B., pp. 169-176; OCA R.B., pp. 85-86). The OCA further claims that use of PP&L's "conservative" estimate is inappropriate -- especially in light of the additional recommendation to remove the "black lung" restrictions on investments. The OCA further claims that allowing PP&L to understate the return on the Trust Fund results in a significant increase in the decommissioning revenue requirements sought from ratepayers in this case. (OCA Exc., pp. 36-37 citing OCA M.B., pp. 169-176).

PPLICA supports an increase in trust fund earnings rates for several reasons. (PPLICA Exc., pp. 30-32). PPLICA claims that PP&L should be required to manage their trust fund investments, at levels comparable to those approaches taken to manage their own rate base investments. From an investor's perspective, PPLICA claims that the ratepayers are essentially providing advance funding for this known expense and that, as advance investors of these funds, they are entitled to a return on their investment similar to that which PP&L proposes for PP&L's investments. PPLICA, unlike the OCA, proposes an even higher rate of 9.26% based on the fact that this figure is the rate of return recommended by the ALJ for PP&L's own investment. (PPLICA Exc., pp. 30-32).

After due consideration of the positions, we determine that the 7.5% figure proposed by the OCA is an appropriate earnings rate for the decommissioning trust fund that will be funded as a result of today's decision. We do so for several reasons. First, we agree with the parties that this known

expense also contains components whose exact costs may not exactly be established at this time. Consequently, the holder of the funds expected to meet this known and measurable, but not precisely quantifiable, expense should be encouraged to exercise their market sophistication in order to generate an adequate return to meet this expense. By holding PP&L to 7.5%, we underscore the importance attached to generating returns adequate to help meet this obligation. This figure also strikes a balance between the higher 9.26% proposed by PPLICA and the overly cautious 5.5 percent rate proposed by PP&L. Furthermore, we have also approved removal of the black lung restrictions even as we hold PP&L to ERISA standards. This additional flexibility will provide PP&L with more opportunities to meet this 7.5% rate notwithstanding our approval of the ALJ's recommendation that PP&L be held to ERISA standards on these funds.

N. Fossil Decommissioning Expense

PP&L proposes to establish an annuity, similar to the one used for nuclear decommissioning, to recover the cost of dismantling and demolishing its fossil-fired generating plants, following their retirement from service. (R.D., p. 100). This would include 14 units in service and two units that are now deactivated. (R.D., pp. 100). The jurisdictional expense claim would be \$45 million and payments to a fossil decommissioning trust are not deductible for federal income tax purposes. (R.D., pp. 100-101).

PP&L's estimate was developed by Mr. LaGuardia. PP&L concedes this approach represents a departure from the conventional method of de-commissioning non-nuclear units. Absent Commission approval of the proposal, the costs would continue to be recoverable as a form of net negative salvage. (R.D., pp. 100-102).

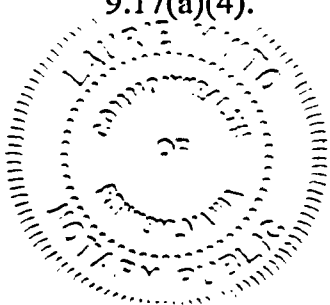
ATTACHMENT 2 TO PLA-5979

COST ESTIMATE SUMMARY

AFFIDAVIT OF BRITT T. McKINNEY

I, Britt T. McKinney, Senior Vice President & Chief Nuclear Officer of PPL Susquehanna, LLC (PPL), do hereby affirm and state:

1. I am an officer of PPL authorized to execute this affidavit on its behalf. I am further authorized to review information submitted to the Nuclear Regulatory Commission and apply for the withholding of information from disclosure.
2. PPL is providing information which constitutes proprietary financial information that should be held in confidence by the NRC pursuant to the policy reflected in 10 CFR §§ 2.390(a)(4) and 9.17(a)(4), because:
 - i. This information is and has been held in confidence by PPL.
 - ii. This information is of a type that is held in confidence by PPL, and there is a rational basis for doing so because the information contains sensitive financial information.
 - iii. This information is being transmitted to the NRC in confidence.
 - iv. This information is not available in public sources and could not be gathered readily from other publicly available information.
 - v. Public disclosure of this information would create substantial harm to the competitive position of PPL by disclosing PPL's internal cost projections to other parties whose commercial interests may be adverse to those of PPL.
3. Accordingly, PPL requests that the designated documents be withheld from public disclosure pursuant to the policy reflected in 10 CFR §§ 2.390(a)(4) and 9.17(a)(4).



PPL Susquehanna, LLC

Britt T. McKinney
Senior Vice President &
Chief Nuclear Officer

Subscribed and sworn before me,
a Notary Public in and for the
Commonwealth of Pennsylvania
this 7th day of November, 2005

