

It is, first, important to note that no funds have at any time been withdrawn or disbursed from the Master Trust except, as permitted by NRC regulations, for those necessary to pay ordinary administrative costs or other incidental expenses in connection with the operation of the trust. Second, absolutely no funds in the Master Trust have been adjusted, reallocated or in any way designated for nonradiological purposes and/or for spent fuel management. To the extent that the NRC staff has come to understand that radiological decommissioning funds may have been otherwise earmarked, as NRC's December 20 letter suggests, we wish to clarify that such is not the case.

TVA's Master Trust is divided into six separate Funds covering each of TVA's licensed operating nuclear units. In the period of time between TVA's issuance of its 2005 and 2007 decommissioning funding reports, TVA's total trust Funds balance increased significantly - from \$797.6 million (117.2 percent of the projected Funds total balance needed to meet NRC radiological decommissioning funding levels) to \$1,003.9 million (143 percent of the projected Funds total balance needed to meet NRC funding levels). The projected Funds individual balances at the end of calendar year 2006 (set forth in the tables provided in Enclosure 1 of TVA's March 28, 2007, decommissioning funding report) reflected, among other things, the fact that TVA had obtained 20-year license extensions in 2006 for each of the three Browns Ferry units. In order to avoid significant overfunding of the Browns Ferry units' accounts, which would have occurred as a result of 20 reactor years per unit of additional Funds earnings, a portion of the Browns Ferry funds were reallocated for accounting purposes to TVA's other operating units. This resulted in a decrease in the Browns Ferry units' Funds from the levels reported by TVA in March 2005.

With the reallocation, the Browns Ferry units' individual Funds continue to exceed each of their projected Fund balances and satisfy NRC's decommissioning funding requirements. Even without the reallocation of the amounts in the Browns Ferry units' Funds, the Sequoyah Units 1 & 2 and Watts Bar Unit 1 Funds would still have exceeded each of their projected Fund balances needed to satisfy NRC funding requirements based on the funding adjustment methodology described in TVA's 2005 report. In short, the accounting change was made for the sole purpose of addressing the increased years of Browns Ferry earnings accumulation.

We want to emphasize that adequate funding levels for each operating unit's Fund have always been maintained. We now understand that the reallocation of funds from the Browns Ferry units to the other units for accounting purposes could be considered a disbursement under NRC's regulations. Accordingly, we respectfully ask that the NRC allow TVA to maintain its current funding levels and allocations as reported in our March 28, 2007, decommissioning funding report. In doing so, full decommissioning funding will continue to be assured for each of TVA's operating units and their Funds will be able to accrue value on a measured, properly graduated schedule.

We would also like to point out that our projections at this time do not indicate the need for additional contributions to any of TVA's decommissioning Funds to satisfy NRC decommissioning funding obligations. As a result, the option of adjusting funding levels through future contributions would not be a reasonable alternative to the reallocation of funds. Finally, the funding adjustment methodology and commitment thereto described in TVA's

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October 30, 2003, letter to the NRC (referenced in TVA's 2005 and 2007 funding reports) remains in place to adjust funding levels if needed in the future. In sum, reasonable assurance continues to exist that sufficient decommissioning funding levels will be maintained for each of TVA's licensed power reactors.

Please feel free to direct any questions to Fred Mashburn at (423) 751-8817.

Sincerely,

Original signed by

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Senior Licensing Manager

cc: See page 4

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