



SMUD

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MPC&D 08-006

February 5, 2008

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

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

RANCHO SECO REPORT ON DECOMMISSIONING FUNDING STATUS

Attention: John Hickman

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

Background

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

The current plan is to fully fund the decommissioning trust fund by the end of 2008. However, based upon the lack of a radioactive waste disposal facility acceptable to the District, SMUD plans to store some Class B and C radioactive waste in our Interim Onsite Storage Building beyond 2008, awaiting disposal at a later date.

Decommissioning Financial Assurance Method and Trust Fund Status

SMUD had maintained an internal decommissioning fund since the early 1980s. In 1991, SMUD transferred \$90 million from the internal fund into an "External Sinking Decommissioning Trust Fund" currently maintained by Wells Fargo Bank. Table 1 shows the amount of the trust fund annual contribution and disbursements for the years 1991 through 2007. The total disbursements between 1994 and 2007 are \$441.8 million. At the end of 2007 the trust fund contained \$69.8 million.

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TABLE 1

YEAR	ANNUAL CONTRIBUTION	ANNUAL DISBURSAL
1991	\$90 Million ¹	\$0
1992	\$12 Million	\$0
1993	\$12 Million	\$0
1994	\$12 Million	\$35,327,974
1995	\$15 Million	\$24,375,399
1996	\$15.5 Million	\$17,950,000
1997	\$16.5 Million	\$18,400,000
1998	\$17.5 Million	\$21,920,000
1999	\$18.5 Million	\$34,693,319
2000	\$18.5 Million	\$45,847,250
2001	\$24.5 Million	\$36,213,871
2002	\$27 Million	\$40,869,137
2003	\$27 Million	\$23,886,458
2004	\$27 Million	\$31,360,571
2005	\$27 Million	\$34,446,586
2006	\$27 Million	\$31,901,184
2007	\$27 Million	\$44,614,663

Cost Estimate

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

SMUD staff performed the 1998 update. TLG performed the 1999 and 2000 annual updates. SMUD staff began performing the annual update beginning with the 2001 cost estimate update through the 2005 cost estimate update with TLG providing quality reviews. The 2006 cost estimate was the first to be finalized without outside agency review. With approximately 1 year left for the project, major dismantlement projects are near completion and remaining project scope quantified, staff has determined that outside review would not provide additional confidence in the cost basis. The total decommissioning costs are now estimated to be \$522.9 million, including a reduction to future costs of \$17 million in project savings. The portion of this total that is not NRC-defined decommissioning activities (e.g., non-radiological dismantlement, spent fuel storage, etc.) is \$133.2 million, most of which is related to dry fuel storage at our Independent Spent Fuel Storage Installation (ISFSI).

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

¹ Initial contribution

TABLE 2

YEAR OF COST STUDY	ESTIMATED DECOMMISSIONING COST
1991	\$281 Million
1993	\$365 Million
1995	\$441 Million
1997	\$452 Million
1998	\$459 Million
1999	\$458 Million
2000	\$495 Million
2001	\$504 Million
2002	\$519 Million
2003	\$524.3 Million
2004	\$529.7 Million
2005	\$534.1 Million
2006	\$538.1 Million
2007	\$522.9 Million

Accumulation of Funds

SMUD has accumulated funds in the external trust fund as shown in Table 1. Based on the current decommissioning cost estimate and funding rate, there are sufficient funds to complete decommissioning Rancho Seco and terminate the 10 CFR Part 50 license.

As stated above, SMUD expects to store some Class B and C radioactive waste in our Interim Onsite Storage Building beyond 2008. Long term storage and disposal costs of the Class B and C radioactive waste are included in the decommissioning costs.

Funding to store the spent nuclear fuel at the ISFSI beyond 2008 is not included in the decommissioning fund. SMUD will fund site restoration separately.

Certification of Financial Assurance

Certification is hereby made that financial assurance is being provided through an external sinking fund for \$81.1 million to complete decommissioning at Rancho Seco and terminate the 10 CFR Part 50 license.

Adjustments to Cost Estimate and Trust Fund

With active decommissioning in progress, we now perform annual updates to the cost estimate. Historically, TLG performed the cost estimate updates as requested by SMUD. However, after several years of decommissioning experience, and with relatively long-term contracts in place, SMUD staff began performing the annual cost estimate update in 2001. The current cost update has an overall decrease due to project savings less inflation.

Administration of the Decommissioning Fund

The trust fund holdings were reviewed at the end of 2007, and the trust fund contained \$69.8 million. The annual contribution amount is reviewed and adjusted as appropriate, to meet the needs of the total estimated decommissioning cost as indicated in Table 1. SMUD will continue to monitor the adequacy of the annual contribution to assure that adequate funds will be available to complete decommissioning and terminate the 10 CFR Part 50 license.

Assumptions Regarding Rates of Trust Fund Escalation and Earnings

SMUD has made the following assumptions regarding trust fund escalation and earnings. Based on historical portfolio performance, SMUD has estimated the rate of return at 4.5%. The decommissioning cost escalation rate is currently estimated at 2.5%. This rate is within an established range and congruent with rates used for other business plans at SMUD. Therefore, SMUD's estimated real rate of return is 2.0%.

Contractual Obligations

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

Modifications to Financial Assurance Method

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

Material Changes to the Trust Fund Agreement

In July 2003, the trust fund moved from Bankers Trust, N.Y. to Wells Fargo Bank, N.A.

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

Sincerely,



Steven J. Redeker
Manager, Plant Closure and Decommissioning

Cc: B.S. Mallett, NRC, Region IV, Arlington