Industry Comments on the Proposed Methodology for Calculating Parent Company Guarantees

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NUCLEAR ENERGY INSTITUTE

Industry Position

- NRC should retain the net present value method for determining the required value of parent company guarantees (PCGs)
- The proposed future value method is overly conservative since PCGs can include terms that require annual adjustments to ensure sufficient funds
- The financial test requires 6x the value of the PCG in unpledged assets to be available which significantly increases the burden of the future value method

Methods for Meeting NRC Certification Amount for Decommissioning

- Certification amount for decommissioning funding assurance requires an amount at least equal to the decommissioning cost of a facility plus earnings at 2% real rate of return* for the number of years left until decommissioning**
- Utilities may meet the minimum certification amount by a combination of a number of funding mechanisms, including:
  - Cash contributions to a decommissioning trust fund
  - Parent company guarantee
  - Letter(s) of credit

*real rate of return nets escalation costs from projected fund earnings

** when a site specific cost estimate is used, time until decommissioning may include a 60 year SAFSTOR period

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Parent Company Guarantee

- 10 C.F.R. 50.75(e)(1)(iii)(B) states that a parent guarantee of funds for decommissioning costs may be used if the guarantee meets the requirements of appendix A to 10 CFR Part 30
- Paragraph II of appendix A to Part 30 contains two alternative financial tests. Companies providing a parent guarantee (guarantor) must meet one of these two tests.

Financial Tests for Parent Company Guarantee

- Test one requires (in part) a parent company to:
  - Have net working capital and tangible net worth each at least 6 times the amount of decommissioning funds being assured by the parent; and
  - Assets located in the United States in an amount at least 6 times the amount of decommissioning funds being assured by the parent
- Test two requires (in part) a parent company to:
  - Have tangible net worth at least 6 times the amount of decommissioning funds being assured by the parent; and
  - Assets located in the United States in an amount at least 6 times the amount of decommissioning funds being assured by the parent

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NRC Staff Positions for Parent Company Guarantee

- NRC precedent has allowed parent company guarantees to be implemented using a net present value method (i.e., the amount that would be necessary to put in a fund today to assure full decommissioning funding at the time of plant shutdown)
  - Beaver Valley and Perry license transfers to First Energy
  - Nine Mile Point license transfer to Constellation Energy
  - Millstone Station license transfer to Dominion
- Use of net present value method is conditioned on annual review of guarantee amount to ensure continued funding assurance provided
- Proposed regulatory guidance suggests parent company guarantees should be the future value of a shortfall in the decommissioning fund (e.g., the guarantee would need to cover unfunded costs incurred at the end of decommissioning)

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Example #1 – Applying Future Value Approach to Operating Reactors

- As of December 31, 2010 a plant discovered a $100 million shortfall for decommissioning activities commencing on December 31, 2040
  - Using the staff's proposed future value method, after applying the 2% earnings credit, the parent company guarantee would need to be $181 million
  - Thus, to meet the financial test, the new future value method would require $1,086 million ($181 million x 6) in net working capital and/or tangible net worth
  - In comparison, using the previously approved net present value method, a parent company would need to maintain $600 million ($100 million shortfall x 6) in net working capital and/or tangible net worth to continue to meet the financial test
  - Proposed future value method would require an additional $486 million in secured assets

Example #2 – Applying Future Value Approach to New Reactors

- As of December 31, 2010 a new reactor would need to provide decommissioning funding assurance of $466 million to provide decommissioning funds after a 40 year license period
  - The present value method requires the value of the guarantee to be $198 million as of December 31, 2010 (assumes the fund will grow at 2% per NRC guidance) and the company needs $1,188 million in net working capital and/or tangible net worth to meet the financial test
  - Using the staff's proposed future value method the parent company guarantee would need to be the full $467 million (no earnings credit) and the company needs $2,802 million in net working capital and/or tangible net worth to meet the financial test
  - Proposed future value method would require an additional $1.6 billion in secured assets

Negative Impact of Future Value Approach

- The staff's proposal gives no credit for future earnings which is contrary to the rest of program guidance
- Annual review of PCGs ensures the value will be escalated appropriately to meet the NRC's minimum requirements
- The impact of the future value approach is magnified in the financial test and can create a significant unnecessary financial burden for licensees
- Mixing present and future value for the same liability is out of step with good accounting practices