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July 15, 2011



Docket Nos.: 50-348
50-364

NL-11-1357

U. S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D. C. 20555-0001

Joseph M. Farley Nuclear Plant
Response to Request for Additional Information -
Decommission Funding Status Report

Ladies and Gentlemen:

Pursuant to 10 CFR 50.75(f)(1), each power reactor licensee is required to report to the NRC the status of its decommissioning funding for each reactor, or part of each reactor it owns, on a calendar year basis, beginning on March 31, 1999, and every two years thereafter. Southern Nuclear Operating Company (Southern Nuclear) holds operating licenses NPF-2 and NPF-8 for the Joseph M. Farley Nuclear Plant (Farley). On behalf of the licensed owner, Alabama Power Company, Southern Nuclear provided the required information by letter NL-11-0450, dated March 29, 2011, for Farley.

By letter dated June 15, 2011, the NRC requested additional information associated with the above referenced letter. Southern Nuclear's response to the request for additional information is enclosed and is provided on behalf of Alabama Power Company. The enclosed response provides further assurance that adequate funding for the decommissioning of Farley Nuclear Plant will be available as required by 10 CFR 50.75 upon permanent termination of operation for each unit.

This letter contains no NRC commitments. If you have any questions, please contact Jack Stringfellow at (205) 992-7037.

Sincerely,

A handwritten signature in black ink that reads "Mark J. Ajluni".

M. J. Ajluni
Nuclear Licensing Director

MJA/LWW/lac

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Farley Decommissioning Funding Status Report

cc: Southern Nuclear Operating Company
Mr. J. T. Gasser, Executive Vice President
Mr. L. M. Stinson, Vice President – Farley
Ms. P. M. Marino, Vice President – Engineering
RTYPE: CFA04.054

U. S. Nuclear Regulatory Commission
Mr. V. M. McCree, Regional Administrator
Mr. R. E. Martin, NRR Project Manager – Farley
Mr. E. L. Crowe, Senior Resident Inspector – Farley
Mr. P. G. Boyle, NRR Project Manager

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Response to Request for Additional Information - Farley Decommissioning Funding Status Report

RAI #1: Minimum DFA calculation

Provide the basis for the use of the December 2009 values for the labor and energy factors used in calculating the minimum requirement for decommissioning financial assurance. If necessary, provide the values in 2010 dollars or provide a corrected submittal for that part of the DFS report.

The March 29, 2011, the Farley 1 and 2 DFS reports contain amounts of decommissioning funds estimated to be required under 10 CFR 50.75(b) and (c) that are less than the amounts calculated by the NRC staff.

According to 10 CFR 50.75(f)(1), the amount provided in the DFS report should be "the amount of decommissioning funds estimated to be required under 10 CFR 50.75(b) and (c)." The formulas for the factors used by the NRC staff can be found using NUREG-1307, Rev. 14, "Report on Waste Burial Charges: Changes in Decommissioning Waste Disposal Costs at Low-Level Waste Burial Facilities." For example, the calculations for the Labor and Energy Adjustment Factors can be found on pages 7 and 8 of NUREG-1307, Rev. 14.

RAI #1: Southern Nuclear Response

Operators of power reactors under the provisions of 10 CFR Part 50 are required by §50.75(b)(1) to provide certification that financial assurance for decommissioning will be provided in an amount not less than the amount stated in §50.75(c)(1). Licensees are also required by §50.75(b)(2) to adjust the certified amount annually using a rate at least equal to that stated in §50.75(c)(2). Specifically, §50.75(c)(2) states:

An adjustment factor at least equal to $0.65 L + 0.13 E + 0.22 B$ is to be used where L and E are escalation factors for labor and energy, respectively, and are to be taken from regional data of U.S. Department of Labor Bureau of Labor Statistics and B is an escalation factor for waste burial and is to be taken from NRC report NUREG-1307, "Report on Waste Burial Charges."

At least once every two years, licensees are required by §50.75(f) to report the status of its decommissioning funding for each reactor including the amounts estimated to be required by §50.75(b) and (c), the amount accumulated to the end of the calendar year preceding the date of the report, and a schedule of annual amounts remaining to be collected.

In accordance with the requirements of §50.75(b)(2), Southern Nuclear adjusts the required amount for decommissioning funding based on regional data of the U. S. Department of Labor Bureau of Labor Statistics (BLS) for labor and energy, and an escalation factor for waste burial taken from the latest revision of NRC report NUREG-1307, Report on Waste Burial Charges, on an annual basis.

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Each revision to NUREG-1307 provided guidance regarding the calculation for adjusting the NRC minimum decommissioning funding requirement for each reactor. The initial issuance of NUREG-1307 instructed licensees to use the January BLS Producer Price Index (PPI) data when calculating the adjusted NRC minimum funding requirement. Subsequent revisions to NUREG-1307 instructed licensees to use PPI data from various months with the December PPI data from the previous year being the predominate guidance (Revisions 2 through 10).

The owner of Farley Nuclear Plant, Alabama Power Company, is subject to cost of service regulation by the Alabama Public Service Commission (APSC). As such, Alabama Power Company is subject to periodic rate reviews that require cost of service to be based on calendar year periods ending in December for the applicable test years. Use of PPI data from various months could appear as an attempt to manipulate the decommissioning funding requirement for the purpose of affecting rates established by the APSC. For this reason alone, it is important that Southern Nuclear use consistent data when determining the annual NRC minimum decommissioning funding requirement. Accordingly, Southern Nuclear has elected to base adjustments to the NRC minimum decommissioning funding requirement on the December PPI data from the previous year, consistent with previous Southern Nuclear submittals made pursuant to §50.75(f)(1).

In summary, Southern Nuclear calculation of the adjusted NRC minimum decommissioning funding requirement fully complies with the requirements of §50.75(c)(2). That is, applicable escalation factors for labor and energy are based on the BLS PPI data and the escalation factor for waste burial based on NUREG-1307, Revision 14, are used, in conjunction with the corresponding formula provided in §50.75(c)(2), to determine the adjusted NRC minimum funding requirement.

RAI #2: Citation for real rate of returns

Provide the citation (e.g., an Order by the rate-regulatory authority) by the regulatory entity that allows for the assumptions used regarding rates of escalation in decommissioning costs, rate of earnings on decommissioning funds and rates of other factors assumed in your DFS report.

On March 29, 2011, Southern Nuclear reported the following for Farley 1:

4.5% rate of escalation in decommissioning costs;
7.0% rates of earnings on decommissioning funds.

On March 29, 2011, Southern Nuclear reported the following for Farley 2:

4.5% rate of escalation in decommissioning costs;
7.0% rates of earnings on decommissioning funds.

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As stated in 10 CFR 50.75(f)(1),

The information in this [DFS] report must include [...] the assumptions used regarding rates of escalation in decommissioning costs, rates of earnings on decommissioning funds, and rates of other factors used in funding projections...

RAI #2: Southern Nuclear Response

As the licensed owner of Farley Nuclear Plant, Alabama Power Company determines the applicable real rate of return assumed with regard to financial assurance of decommissioning funding. Accordingly, Southern Nuclear provides the following information on behalf of the licensed owner, Alabama Power Company.

In accordance with the provisions of §50.75(e)(1)(ii), Alabama Power Company utilizes the external sinking fund method for certification of financial assurance that funds will be available for the decommissioning process. The provisions of §50.75(e)(1)(ii) applicable to the external sinking fund method states:

A licensee that has collected funds based on the formulas in § 50.75(c) of this section may take credit for collected earnings on the decommissioning funds using up to a 2 percent annual real rate of return up to the time of permanent termination of operations. A licensee may use a credit of greater than 2 percent if the licensee's rate-setting authority has specifically authorized a higher rate.

The basis for the Alabama Power Company assumptions used in the decommissioning funding status report (i.e., 4.5% rate of escalation, 7% rate of earnings, and 2.5% real rate of return) is documented in Alabama Public Service Commission (APSC) Order dated June 23, 2005 (APSC Docket U-3295).

RAI #3: Amounts Accumulated

Provide the after-tax amount of funds accumulated through December 31, 2010.

Southern Nuclear did not provide the after-tax amount of funds accumulated through December 31, 2010.

The provisions of 10 CFR 50.75(f)(1) and (2) require the licensee to report the amount of funds accumulated to the end of the calendar year preceding the report.

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RAI #3: Southern Nuclear Response

The balances provided in Southern Nuclear letter, NL-11-0450, dated March 29, 2011, reflect the market value of the Farley Unit 1 and Farley Unit 2 Decommissioning Trust Funds for the year ending December 31, 2010. The balance for each fund includes unrealized appreciation and losses that have potential tax implications upon liquidation of the investment. The scope of the tax implications is based on the capital gains and capital losses, as applicable, and cannot be determined until the investment is liquidated. For this reason, a portion of the balance is based on the market value for investments that may incur a tax liability upon liquidation. For those investments that have been liquidated with realized appreciation, taxes have been paid, based on the corresponding gain or loss associated with the investment, and are considered to be after tax values.

In summary, it is more accurate to provide the balance for each Decommissioning Trust Fund and recognize that the balance includes investments with both unrealized appreciation for which taxes have not been paid, as well as investment with realized appreciation for which capital gains taxes have been paid.