



Bankruptcy Code. Great Bay is a non-operating, 12.1324-percent co-owner of Seabrook and sells its proportionate share of power from Seabrook on the wholesale electricity market. In January 1997, Great Bay became a wholly owned subsidiary of BayCorp Holdings, Ltd. (BayCorp).

By letter dated May 8, 1996, North Atlantic requested, for itself and as agent for the joint owners of Seabrook, approval of the indirect transfer of control of Great Bay's interest in Operating License NPF-86 through the formation of a holding company above Great Bay. In connection with its review of the requested action, the NRC staff determined that Great Bay does not meet the definition of "electric utility" as provided in 10 CFR 50.2. As a non-electric utility, Great Bay must meet the requirements of 10 CFR 50.75(e)(2) for assurance for decommissioning funding. In Great Bay's case, a surety method would be required to supplement Great Bay's existing external sinking fund.<sup>1</sup> On January 22, 1997, the Commission issued a 6-month temporary exemption from the requirements of 10 CFR 50.75(e)(2) to North Atlantic and Great Bay, thereby allowing Great Bay an opportunity to obtain a surety method, and to allow the Commission to approve, without further delay, the indirect transfer of control permitting Great Bay to become a wholly owned subsidiary of BayCorp, which restructuring the staff believed would likely enhance Great Bay's financial viability.

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<sup>1</sup>New Hampshire statutes provide for the establishment of a Nuclear Decommissioning Financing Fund (the Fund) in the office of the State Treasurer for each nuclear electric generating facility in the state. New Hampshire statutes also provide for the establishment of a Nuclear Decommissioning Financing Committee (NDFC) with the responsibility to review the adequacy of the Fund periodically and to establish or revise the funding schedule. Each joint owner is required by the Seabrook Joint Ownership Agreement to pay monthly at least their respective ownership share of decommissioning costs into the Fund as established by the NDFC funding schedule.

On February 21, 1997, Great Bay requested reconsideration of the staff's finding that Great Bay does not meet the NRC's definition of "electric utility," and on June 4 and 16, 1997, Great Bay submitted supplemental financial information to support its request. Also included in the June 4 submittal was a request that the NRC consider granting an extension to the temporary exemption as an alternative to reconsidering at this time whether Great Bay is an electric utility under the NRC's definition.

### III.

"Electric utility" is defined at 10 CFR 50.2 as "...any entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority." As required by 10 CFR 50.75, an entity that is not an electric utility must provide a financial assurance mechanism for decommissioning funding purposes in the form of prepayment, or an external sinking fund coupled with a surety method or insurance, the value of which may decrease by the amount being accumulated in the external sinking fund. Electric utilities do not have to obtain a surety instrument to compensate for balances in the external sinking fund that are below the total estimated cost of decommissioning.

In determining originally that Great Bay is not an electric utility, the staff took note of the fact that Great Bay sells most of its share of power from Seabrook on the spot market at market-based rates. As Great Bay notes, the Federal Energy Regulatory Commission (FERC) has "accepted" Great Bay's tariffs providing for market-based rates without regard to whether sales of power are through contracts of varying lengths or on the spot market.

However, the FERC has not "established" rates based on a traditional ratemaking process that provides for the recovery of reasonable and prudently incurred costs as an underlying objective. It is upon this traditional ratemaking process that the NRC's definition of electric utility is based.

There is no distinction between long-term and short-term sales in connection with the definition of electric utility, as Great Bay correctly points out in its February 21 submittal. To the extent the staff previously has suggested that there is any such distinction bearing on whether Great Bay met the definition of electric utility, the staff takes this opportunity to clarify that the definition of electric utility hinges solely upon whether or not an entity sells power at rates based on and established through a traditional reasonable and prudent cost-of-service ratemaking process. Although, as Great Bay argues, FERC may "accept" market-based tariffs consistent with FERC's statutory responsibilities to ensure that rates are just and reasonable, the FERC's fulfillment of its responsibilities does not necessarily mean that the particular electricity seller involved thereby meets the NRC's definition of electric utility.

Great Bay has cited the staff's earlier statements concerning the status of Great Bay as an electric utility immediately following bankruptcy proceedings involving its predecessor EUA Power Corporation. Although at one time the staff believed Great Bay to be an electric utility, upon further analysis the staff has concluded that if Great Bay or its predecessor did not sell power at rates established by FERC through a traditional cost-of-service ratemaking process, that fact alone would have compelled a finding that Great Bay was not an electric utility. Thus, although the staff's recent reasoning for its original conclusion that Great Bay is not an electric utility did not

focus on whether in fact rates were being established through a traditional cost-of-service ratemaking process, the staff's analysis now compels the same conclusion.

Great Bay states that it recovers the cost of the electricity it sells. Although the staff agrees that Great Bay has provided evidence that it can generate sufficient cash to pay for its share of Seabrook-related expenses, Great Bay has not indicated that it will recover full costs, including non-cash costs. The NRC's definition of electric utility, again, is based on cost recovery as a result of the action of an independent rate-setting authority, such as FERC, rather than merely a positive cash flow resulting from then favorable market conditions.

Great Bay has provided evidence that it will continue to be able to fund its proportionate share of operating costs and decommissioning funding for Seabrook for the next 5 years. After reviewing Great Bay's current and projected financial statements submitted on June 4, 1997, the staff concludes that it appears Great Bay will be able to generate cash flow in excess of that needed to fund its proportionate share of operating costs and decommissioning funding obligations. Great Bay has projected operating income and cash flow based on what appear to be reasonable projections of the spot market price of power from Seabrook through 2001. The projections indicate that Great Bay very likely will be able to meet its operating and decommissioning cost obligations for Seabrook through 2001 and likely will have excess cash to meet many unforeseen contingencies. However, Great Bay's present unfunded decommissioning liability for its share of Seabrook is approximately \$47.2

million<sup>2</sup> which is in excess of Great Bay's present working capital of about \$30 million.<sup>3</sup> Thus, in the near term, a permanent shutdown, and possibly an extended temporary shutdown, of Seabrook would mean that Great Bay would have difficulty meeting its operational and decommissioning funding obligations for Seabrook.

In response to the January 22, 1997, temporary exemption, Great Bay initiated efforts to find available and economically feasible decommissioning funding assurance arrangements. In its June 4, 1997, submittal, Great Bay reported that underwriting specifications had been prepared and issued to the insurance market by AON Risk Services. Subsequently, on July 7, 1997, Great Bay reported upon the status of the efforts to locate a suitable assurance arrangement. Great Bay reported that a surety bond does not appear to be available, and the only insurance mechanism available to Great Bay at the present time is for Great Bay to prefund its entire outstanding decommissioning obligation. Great Bay asserts that because there is no pool of similarly situated entities requiring decommissioning funding assurance, arrangements such as surety bonds for such entities are unavailable. Great Bay asserts further that prefunding the entire obligation would put Great Bay at a undue competitive disadvantage.

Great Bay appears to have made a good faith effort to secure a surety bond at reasonable cost but has been unsuccessful in this effort so far, and

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<sup>2</sup>Great Bay's share of currently estimated decommissioning costs is approximately \$53.9 million, and Great Bay has already paid approximately \$6.7 million into the decommissioning fund.

<sup>3</sup>As part of the EUA Power bankruptcy settlement, Eastern Utility Associates (EUA), the former parent of Great Bay's predecessor, EUA Power, has guaranteed a maximum of \$10 million at the time of decommissioning to make up for any shortfall in Great Bay's payments for its decommissioning obligation.

it does not appear that Great Bay feasibly can meet the NRC's requirement that non-electric utility power reactor licensees obtain a surety bond or some other third-party guarantee mechanism to provide decommissioning funding assurance.

#### IV.

In consideration of the foregoing, the Commission is granting an extension to the temporary exemption issued to Great Bay and North Atlantic on January 22, 1997. This extension to the temporary exemption from the requirements of 10 CFR 50.75(e)(2) is granted to allow Great Bay more time in which to obtain the additional assurance for decommissioning funding required by the regulation.

However, in view of revisions to 10 CFR 50.2 and 10 CFR 50.75 now being considered by the Commission, this exemption shall expire 90 days following the date any revisions to 10 CFR 50.2 and 10 CFR 50.75 become final agency action, or 1 year from the date of issuance of this exemption, whichever date is sooner.

The Commission has determined that pursuant to 10 CFR 50.12(a)(1), this exemption is authorized by law, will not present an undue risk to the public health and safety, and is consistent with the common defense and security. The Commission further has determined that special circumstances as provided in 10 CFR 50.12(a)(2)(ii) and 10 CFR 50.12(a)(2)(v) are present.

Under criterion (ii), special circumstances exist in that application of the regulation in this particular circumstance is not necessary, for the period of the exemption, to achieve the underlying purpose of the rule, which is to provide additional assurance that funds will be available for

decommissioning at the end of the license term or in the event of a premature shutdown. In this instance, Great Bay's projected income and cash flow indicate that Great Bay very likely will be able to meet its operating costs and monthly decommissioning fund payments for Seabrook through 2001. Furthermore, Great Bay's past contributions to the existing sinking fund along with its present working capital and its former corporate parent's guarantee, would currently cover nearly three quarters of Great Bay's proportionate share of Seabrook decommissioning costs.

Furthermore, application of the requirements of 10 CFR 50.75(e)(2) at this time would not serve the underlying purpose of the rule. The regulation would require Great Bay to prefund the remaining \$47.2 million decommissioning obligation or to obtain a surety bond or other third-party guarantee mechanism for the unfunded amount. No surety arrangement appears to be available to Great Bay at this time other than to fully fund or collateralize the insurer for the entire obligation which would make it difficult, if not impossible, for Great Bay to meet its day-to-day obligations. Thus, the underlying purpose of the rule would not be served by attempting to apply the rule under these circumstances.

Under criterion (v), special circumstances exist because the exemption provides only temporary relief from the applicable regulation(s), and Great Bay has made a good faith effort to comply with 10 CFR 50.75 by continuing to make payments into an external sinking fund while making good faith efforts to locate a suitable assurance mechanism.

Because this exemption is based on financial circumstances and projections that are subject to change and current market conditions for obtaining surety methods that are subject to change, this exemption is subject to the following conditions:

A. Great Bay is to continue efforts with due diligence to obtain a suitable decommissioning funding assurance arrangement that will meet the requirements of 10 CFR 50.75(e)(2) and is to provide a written report 6 months from the date of issuance of this exemption to the Director, Office of Nuclear Reactor Regulation, of the efforts underway and the progress made to obtain a suitable decommissioning funding assurance arrangement.

B. Great Bay shall provide the Director, Office of Nuclear Reactor Regulation, its next four unconsolidated quarterly financial reports, including statements of income and cash flow, and balance sheets within 45 days of the close of each calendar quarter.

C. In the event any circumstance or condition develops that threatens Great Bay's present or future ability to meet its decommissioning funding obligation, or if Great Bay is in default of any monthly payment to the Fund, Great Bay and North Atlantic are to inform the Director, Office of Nuclear Reactor Regulation, immediately in writing.

Pursuant to 10 CFR 51.32, the Commission has determined that granting this Exemption will not have a significant effect on the quality of the human environment (62 FR 39285).

This exemption is effective upon issuance.

FOR THE NUCLEAR REGULATORY COMMISSION

Original signed by

Samuel J. Collins, Director  
Office of Nuclear Reactor Regulation

Dated at Rockville, Maryland,  
this 23rd day of July 1997

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July 23, 1997

MEMORANDUM TO: Rules Review and Directives Branch  
Division of Freedom of Information and Publications Services  
Office of Administration

FROM: Office of Nuclear Reactor Regulation

SUBJECT: EXTENSION OF TEMPORARY EXEMPTION FROM CERTAIN REQUIREMENTS  
OF 10 CFR 50.75. (TAC NOS. M98049 AND M99072)

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