

## Internal Revenue Service

## Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:PSI:6-PLR-116179-02

Date:

June 6, 2002

Re: Revised Schedule of Ruling Amounts

Taxpayer =

Corporation =

Parent =

Plant =

Location =

Commission A =

Commission B =

Fund =

Settlement =

Dear :

This letter responds to the request of Taxpayer, filed , for a revised schedule of ruling amounts that were issued in a ruling letter dated , pursuant to section 1.468A-3(i)(1)(iii)(A)(3) of the Income Tax Regulations. Commission A has decreased the amount of decommissioning costs to be included in Taxpayer's cost of service for ratemaking purposes. Moreover, while the instant request was pending with this office: (1) Commission B approved decommissioning costs for the Plant on a basis consistent with the decommissioning costs approved by Commission A; and (2) subsequently, Commission A approved a Settlement which provided that, from , through , Taxpayer will suspend accruals to its reserves for collections of nuclear decommissioning amounts. Information was submitted pursuant to section 1.468A-3(h)(2).

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We understand the facts as submitted by Taxpayer to be as follows:

The Taxpayer owns a \_\_\_\_\_ percent interest in the Plant as a tenant in common. The Plant is situated in Location. Taxpayer is a wholly-owned subsidiary of Corporation, and files a consolidated Federal income tax return with its ultimate parent, Parent. The Plant's operating license expires on \_\_\_\_\_. The allocable jurisdictional percentages for Commission A is \_\_\_\_\_ percent and for Commission B, \_\_\_\_\_ percent, for a total of \_\_\_\_\_ percent. These percentages may fluctuate slightly from year to year. The estimated cost for decommissioning the Plant is based on an independent study and is premised on the prompt removal/dismantlement method.

The estimated date on which the Plant will no longer be included in Taxpayer's rate base for ratemaking purposes, as determined under the ratemaking assumptions that were used to determine the last rates that were established or approved by Commission A prior to the instant request (Docket No. \_\_\_\_\_), is \_\_\_\_\_. The estimated date on which the Plant will no longer be included in Taxpayer's rate base for ratemaking purposes, as determined under the ratemaking assumptions that were used by Commission A in establishing or approving rates during the first ratemaking proceeding (Docket No. \_\_\_\_\_) in which the Plant was included in Taxpayer's rate base, was \_\_\_\_\_. Commission A did not adjust the estimated life of the Plant prior to \_\_\_\_\_.

In Docket No. \_\_\_\_\_, Commission A authorized Taxpayer to include \$ \_\_\_\_\_ in its cost of service for ratemaking purposes. In determining the decommission costs for the Plant, Commission A estimated the total cost of decommissioning the Plant to be \$ \_\_\_\_\_ (\_\_\_\_\_ dollars). This estimated cost escalated at \_\_\_\_\_ percent annually results in a future decommissioning cost of \$ \_\_\_\_\_ (\_\_\_\_\_ dollars). Taxpayer's Commission A jurisdictional portion of this future expense is \$ \_\_\_\_\_.

By letter dated \_\_\_\_\_, Commission B approved decommissioning costs for the Plant on a basis consistent with the decommissioning costs approved by Commission A in Docket No. \_\_\_\_\_.

Subsequently, in Docket No. \_\_\_\_\_, Commission A approved the Settlement which provides that, from \_\_\_\_\_, through \_\_\_\_\_, Taxpayer will suspend accruals to its reserves for collections of nuclear decommissioning amounts.

As of \_\_\_\_\_, the after-tax fair market value of the Fund was \$ \_\_\_\_\_, allocated \$ \_\_\_\_\_ to Commission A and \$ \_\_\_\_\_ to Commission B. The annual after-tax rate of return earned by the assets of the Fund between the date of the initial contribution to the Fund and \_\_\_\_\_, was \_\_\_\_%.

The funding period and level funding limitation period extends from \_\_\_\_\_ through \_\_\_\_\_. The estimated useful life of the Plant is \_\_\_\_\_ years (\_\_\_\_\_ through \_\_\_\_\_) and the

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estimated period for which the Fund will be in effect is      years (      through      ). Therefore, the qualifying percent is      percent. The assumed after-tax rate of return expected to be earned by the assets of the Fund is      percent. The amount expected to be earned by the assets of the Fund over the period that begins on the first day of the first taxable year to which the revised schedule of ruling amounts will apply (      ) and the last day of the funding period (      ) is \$      related to Commission A and \$      related to Commission B.

Section 468A(a) of the Internal Revenue Code provides that a taxpayer may elect to deduct the amount of payments made to a qualified nuclear decommissioning fund. However, section 468A(b) limits the amount paid into the fund for any tax year to the lesser of the amount of nuclear decommissioning costs allocable to the fund that is included in the taxpayer's cost of service for ratemaking purposes for the tax year or the ruling amount applicable to this year.

Section 468A(d)(l) of the Code provides that no deduction shall be allowed for any payment to the nuclear decommissioning fund unless the taxpayer requests and receives from the Secretary a schedule of ruling amounts. The "ruling amount" for any tax year is defined under section 468A(d)(2) as the amount which the Secretary determines to be necessary to fund that portion of nuclear decommissioning costs which bears the same ratio to the nuclear power plant as the period for which the fund is in effect bears to the estimated useful life of the plant. This term is further defined to include the amount necessary to prevent excessive funding of nuclear decommissioning costs or funding of these costs at a rate more rapid than level funding, taking into account such discount rates as the Secretary deems appropriate.

Section 468A(g) of the Code provides that a taxpayer shall be deemed to have made a payment to the nuclear decommissioning fund on the last day of the tax year if the payment is made on account of this tax year within 2 1/2 months after the close of the tax year.

Section 1.468A-1(a) of the regulations provides that an eligible taxpayer may elect to deduct nuclear decommissioning costs under section 468A of the Code. An "eligible taxpayer", as defined under section 1.468A-1(b)(1), is a taxpayer that has a qualifying interest in a nuclear power plant. As defined under section 1.468A-1(b)(2), a "qualifying interest" is, among other things, a direct ownership interest, including an interest held as a tenant in common or joint tenant.

Section 1.468A-2(b)(1) of the regulations provides that the maximum amount of cash payments made (or deemed made) to a nuclear decommissioning fund during any tax year shall not exceed the lesser of the cost of service amount applicable to the nuclear decommissioning fund for such tax year; or the ruling amount applicable to the nuclear decommissioning fund for such tax year.

Section 1.468A-3(a)(l) of the regulations provides that, in general, a schedule of ruling amounts for a nuclear decommissioning fund is a ruling specifying annual

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payments that, over the tax years remaining in the "funding period" as of the date the schedule first applies, will result in a projected balance of the nuclear decommissioning fund as of the last day of the funding period equal to (and in no event more than) the "amount of decommissioning costs allocable to the fund."

Section 1.468A-3(a)(2) bases the schedule of ruling amounts on the reasonable assumptions and determinations used by the applicable public utility commission(s) in establishing or approving the amount of decommissioning costs to be included in the cost of service for ratemaking purposes, taking into account amounts that are otherwise required to be included in the taxpayer's income under section 88 of the Code and the regulations thereunder. Each schedule of ruling amounts shall be based on the public utility commission's reasonable assumptions concerning; (i) the after-tax rate of return to be earned by the amounts collected for decommissioning, (ii) the total estimated cost of decommissioning the nuclear power plant, and (iii) the frequency of contributions to the nuclear decommissioning fund for a tax year.

Section 1.468A-3(a)(3) of the regulations permits the Internal Revenue Service to provide a schedule of ruling amounts identical to the schedule proposed by the taxpayer, but no such schedule shall be provided by the Service unless the taxpayer's proposed schedule is consistent with the principles and provisions of this section.

Section 1.468A-3(a)(4) of the regulations provides that the Service will approve, at the request of the taxpayer, a formula or method for determining a schedule of ruling amounts (rather than a schedule specifying a dollar amount for each taxable year) that is consistent with the principles and provisions of section 1.468A-3.

Section 1.468A-3(b)(1) of the regulations provides that the ruling amount, specified in a schedule of ruling amounts, for any tax year in the level funding limitation period shall not be less than the ruling amount specified in such schedule for any earlier tax year. Under section 1.468A-3(b)(2), the level funding limitation period begins on the first day of the first tax year for which a deductible payment is made to the nuclear decommissioning fund and ends on the last day of the tax year that includes the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes.

Section 1.468A-3(d)(1) of the regulations provides that the amount of decommissioning costs allocable to a nuclear decommissioning fund is the taxpayer's share of the total estimated cost of decommissioning the nuclear power plant multiplied by the qualifying percentage.

Section 1.468A-3(d)(2) of the regulations provides that, in general, the total estimated cost of decommissioning a nuclear power plant is the reasonably estimated cost of decommissioning used by the applicable public utility commission in establishing or approving the amount of these costs, to be included in cost of service for ratemaking purposes.

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Section 1.468A-3(d)(3) of the regulations provides that a taxpayer's share of the total estimated cost of decommissioning a nuclear power plant equals the total estimated cost of decommissioning such plant multiplied by the taxpayer's qualifying interest in the plant.

Section 1.468A-3(f)(1) of the regulations provides that if two or more public utility commissions establish or approve rates for electric energy generated by a single nuclear power plant, then the schedule of ruling amounts shall be separately determined pursuant to the rules of sections 1.468A-3(a) through (e) for each public utility commission that has determined the amount of decommissioning costs to be included in the cost of service for ratemaking purposes for this plant. Under section 1.468A-3(f)(2), this separate determination shall be based on the reasonable assumptions and determinations used by the relevant public utility commission and shall take into account only that portion of the total estimated cost of decommissioning that is properly allocable to the ratepayer whose rates are established or approved by the public utility commission. According to section 1.468A-3(f)(3), the ruling amounts for any tax year is the sum of the ruling amounts for such tax year determined under the separate schedules of ruling amounts.

Section 1.468A-3(g) of the regulations provides that the Internal Revenue Service shall not provide a taxpayer with a schedule of ruling amounts for any nuclear decommissioning fund unless the public utility commission that establishes or approves the rates for electric energy generated by the plant has determined the amount of decommissioning costs to be included in the taxpayer's cost of service for ratemaking purposes and has disclosed the after-tax rate of return and any other assumptions and determinations used in establishing or approving the amount.

Section 1.468A-3(i)(1)(i) of the regulations provides that any taxpayer that has obtained a schedule of ruling amounts must file a request for a revised schedule of ruling amounts on or before the deemed payment deadline for the 10th taxable year that begins after the taxable year in which the most recent schedule of ruling amounts was received. The first taxable year to which the revised schedule of ruling applies shall be the 10th taxable year that begins after the taxable year in which the most recent schedule of ruling amounts was received.

Section 1.468A-3(i)(1)(iii) of the regulations provides that a taxpayer is required to request a revised schedule of ruling amounts for a nuclear decommissioning fund if: (1) any public utility commission that establishes or approves rates for the furnishing or sale of electric energy generated by a nuclear power plant to which the nuclear decommissioning fund relates (a) increases the proposed period over which decommissioning costs of such nuclear power plant will be included in cost of service for ratemaking purposes, (b) adjusts the estimated date on which such nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes, or (c) reduces the amount of decommissioning costs to be included in cost of service for

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any taxable year; (2) the taxpayer's most recent request for a schedule of ruling amounts did not provide notice to the Service of such action by the public utility commission; and (3) in the case of a taxpayer that determines its schedule of ruling amounts under a formula or method obtained under section 1.468A-3(a)(4), the item increased, adjusted, or reduced is a fixed (rather than a variable) element of that formula or method.

Section 1.468A-3(i)(2) of the regulations provides that any taxpayer that has previously obtained a schedule of ruling amounts can request a revised schedule of ruling amounts. Such a request must be made in accordance with the rules of section 1.468A-3(h). The Internal Revenue Service shall not provide a revised schedule of ruling amounts applicable to a tax year in response to a request for a schedule of ruling amounts that is filed after the deemed deadline date for such tax year.

We have examined the representations and data submitted by the Taxpayer in relation to the requirements set forth in the Code and the regulations. Based solely on these representations of the facts, we reach the following conclusions:

1. Taxpayer has a qualifying interest in the Plant and is, therefore, an eligible taxpayer under section 1.468A-1(b) of the regulations.
2. Commission A and Commission B have determined the amount of decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes as required by section 1.468A-3(g) of the regulations.
3. The Taxpayer, as one the owners of the Plant, has calculated its share of the decommissioning costs under section 1.468A-3(d)(3) of the regulations.
4. The Taxpayer, subject to the jurisdiction of two public utility commissions for ratemaking purposes, has calculated its share of the total decommissioning costs allocable to Commission A and Commission B, as required by section 1.468A-3(f)(2) of the regulations.
5. Commission A approved the Settlement which provides that, from \_\_\_\_\_, through \_\_\_\_\_, Taxpayer will suspend accruals to its reserves for collections of nuclear decommissioning amounts.
6. The Taxpayer has proposed a schedule of ruling amounts which meets the requirements of sections 1.468A-3(a)(1) and (2) of the regulations. The annual payments specified in the proposed schedule of ruling amounts are based on the reasonable assumptions and determinations used by Commission A and Commission B and will result in a projected fund balance at the end of the funding period equal to or less than the

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amount of decommissioning costs allocable to the Fund.

7. Pursuant to section 1.468A-3(d)(4) of the regulations Taxpayer has determined that            percent is the qualifying percentage.
8. The maximum amount of cash payments made (or deemed made) to the Fund during any tax year is restricted to the lesser amount of the decommissioning costs applicable to such Fund or the ruling applicable to this Fund, as set forth under section 1.468A-(2)(b)(1) of the regulations.

Based on the above determinations, we conclude that the Taxpayer's proposed schedule of ruling amounts satisfies the requirements of section 468A of the Code.

APPROVED SCHEDULE OF RULING AMOUNTS  
TAX YEARS        THROUGH  
COMMISSIONS A and B

<u>YEAR</u>	<u>A</u>	<u>B</u>	<u>TOTAL</u>
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Approval of the schedule of ruling amounts is contingent on there being no change in the facts and circumstances, known or assumed, at the time the current ruling is issued. If any of the events described in section 1.468A-3(i)(1)(iii) of the regulations occur in future years, the Taxpayer must request a review and revision of the schedule of ruling amounts. Generally, the Taxpayer is required to file such a request on or before the deemed payment deadline date for the first tax year in which the rates reflecting such action became effective. When no such event occurs, the Taxpayer must file a request for a revised schedule of ruling amounts on or before the deemed payment deadline of the 10th tax year following the close of the tax year in which the most recent schedule of ruling amounts was received.

The approved schedule of ruling amounts is relevant only to those payments made to the Fund. Payments allocable to any funds other than the Fund, cannot qualify for purposes of the deduction under the provisions of section 468A of the Code. As stated earlier, payments made to such Fund can qualify only to the extent that they do not exceed the lesser of the decommissioning costs applicable to such Fund or the ruling amounts applicable to this Fund in the tax year.

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This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent.

Pursuant to the power of attorney on file with this office a copy of this letter is being sent to Taxpayer. A copy of this letter is also being sent to the Industry Director, Natural Resources (LM:NRC). Pursuant to section 1.468A-7(a) of the regulations, a copy of this letter must be attached (with the required Election Statement) to the Taxpayer's Federal income tax return for each tax year in which the Taxpayer claims a deduction for payments made to the Fund.

Sincerely yours,  
PETER FRIEDMAN  
Senior Technician Reviewer, Branch 6  
Office of Associate Chief Counsel  
(Passthroughs and Special Industries)

cc: