

OFFICE OF NUCLEAR REACTOR REGULATION
DIVISION OF REGULATORY IMPROVEMENT PROGRAMS
LICENSE RENEWAL APPLICATION
FINANCIAL EVALUATION - PEACH BOTTOM ATOMIC POWER STATION UNITS 2 and 3
DOCKET NOS. 50-277 and 50-278

1.0 INTRODUCTION

By letter dated July 2, 2001, Exelon Generation Company, LLC (Exelon or Licensee) requested, pursuant to Title 10 of the *Code of Federal Regulations* (CFR) Part 54, that the U.S. Nuclear Regulatory Commission (NRC or the Commission) issue renewed operating licenses for the Peach Bottom Atomic Power Station (PBAPS), Units 2 and 3 located in York and Lancaster Counties, Pennsylvania. Pursuant to 10 CFR 50.33(f)(2), both Exelon and the co-licensee of PBAPS, PSEG Nuclear LLC (PSEG), submitted certain financial information in connection with the license renewal application. This information is evaluated below.

The current operating licenses for Units 2 and 3 (Facility Operating Licenses Nos. DPR-44 and DPR 56) expire on August 8, 2013 and July 2, 2014 respectively. Both Units 2 and 3 of PBAPS are General Electric boiling-water reactors and are licensed to operate up to 3458 MW thermal.

2.0 BACKGROUND

Although the July 2, 2001 submittal described Exelon, PSEG and Atlantic City Electric Company (ACE) as the co-owners, by letter dated October 18, 2001, NRC issued license amendments that revised the licenses for PBAPS Units 2 and 3 to remove ACE as a licensee. The amendments reflected the approved transfer of the minority ownership interests of ACE to the majority owners, Exelon and PSEG. As a result of the transfer and conforming amendments, Exelon and PSEG are now the joint owners, each owning 50% interests of PBAPS Units 2 and 3.

Exelon, the licensed operator of both Units 2 and 3, acting for itself and as agent for PSEG, a possession only licensee, requested NRC's approval to extend the operating license for each unit by 20 years.

As part of the initial application, Exelon submitted a Projected Income Statement for Exelon operations from January 1, 2001 through December 31, 2005, and a Key Assumptions statement supporting the Income Statement. On August 23, 2001, Exelon updated this information, extending the financial projections through 2006. On August 16, 2002, NRC requested additional information related to Exelon and PSEG's financial qualifications. Between December 2002 and January 2003, both Exelon and PSEG submitted their responses separately. Exelon submitted an Amendment to the Owners Agreement (Peach Bottom), an updated Projected Income Statement for 2003 through 2008, and a supporting Key Assumptions statement. PSEG submitted its Projected Income Statement and supporting Key Assumptions statement for 2003 through 2008. On April 11, 2003, Exelon submitted Operating

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Expenses and the Capacity Factor projections from 2003 through 2007 on PBAPS, Units 2 and 3 in response to a conference call with the NRC staff on March 28, 2003 and a follow-up letter from the staff dated April 3, 2003.

In all of the submittals containing the financial projections and the key assumptions, both Exelon and PSEG requested that the confidential financial information be treated as proprietary and be withheld from public disclosure pursuant to 10 CFR 2.790 and 10 CFR 9.17(a)(4).

Exelon is a limited liability company formed to own, operate, and acquire nuclear and other electric generating stations. Exelon is a wholly-owned subsidiary of Exelon Ventures Company, which in turn is wholly owned by Exelon Corporation, a corporation organized under the laws of the Commonwealth of Pennsylvania with its headquarters and principal place of business in Chicago. Exelon Corporation is a publicly-traded corporation whose shares are widely traded on the New York Stock Exchange.

PSEG is a limited liability company organized under the laws of the State of Delaware. PSEG is a wholly-owned subsidiary of PSEG Power, which is a wholly-owned subsidiary of Public Service Enterprise Group, Inc., with its principal office in Newark, New Jersey. PSEG is engaged principally in the nuclear generation of electricity as an exempt wholesale generator, authorized to sell electricity at market-based rates.

Exelon stated that both Exelon and PSEG are equal financial partners in PBAPS Units 2 and 3. The Owners Agreement requires that the operation and maintenance costs shall be allocated among the signatories in proportion to their ownership.

3.0 EVALUATION

3.1 FINANCIAL QUALIFICATIONS ANALYSIS

Both Exelon and PSEG do not qualify as electric utilities under 10 CFR 50.2. In accordance with 10 CFR 50.33(f), a non-electric utility applicant must provide information sufficient to demonstrate its financial qualifications to carry out the activities for which the license is sought.

Pursuant to 10 CFR 50.33(f)(2), an application to renew or extend the term of an operating license must include the same financial information as is required in an application for an initial license. If the application is for an operating license, the applicant shall submit information that demonstrates that the applicant possesses or has reasonable assurance of obtaining the funds necessary to cover estimated operation costs for the period of the license. The applicant shall submit estimates for total annual operating costs for each of the first five years of operation of the facility. For license renewals, the staff construes this five year period to correspond to the first five years of operation after the issuance of a renewed license.

The NRC staff evaluated Exelon's and PSEG's financial qualifications consistent with the guidance provided in NUREG-1577, Rev. 1, "Standard Review Plan on Power Reactor Licensee Financial Qualifications and Decommissioning Funding Assurance," dated March 1999 (SRP). The staff has reviewed the financial projections submitted with the application for (1) reasonableness of estimated operating costs and (2) reasonableness of assumptions used in

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projections of revenues or sources of funds. To evaluate operating costs, Section III.1 of the SRP states, in part, that “the reviewer will evaluate . . . information for reasonableness and will compare it to plants of similar size, design, and location.”

In the subject license renewal application, the applicant stated that Exelon possesses, or has reasonable assurance of obtaining, the funds necessary to cover the estimated operating costs for the period of the facility operating licenses, including the period of operation under renewed licenses, in accordance with 10 CFR 50.33(f)(2). Exelon provided the estimated total annual operating costs for all of its facilities, which included costs for its nuclear facilities. Exelon stated that the source of funds to cover its nuclear operating costs will be nuclear operating revenues, and that the anticipated revenues from sales of capacity and energy from its nuclear facilities will provide reasonable assurance of adequate funds to meet its ongoing nuclear operating expenses. Exelon further stated that there are substantial additional revenues available from sales of electricity from more than 5000 MWe of capacity in the fossil-fired and hydroelectric generating stations owned by Exelon, as well as revenue from power marketing and other business operations. Furthermore, the applicant stated that Exelon has an investment-grade bond rating, which would enable it to raise additional funds as necessary.

The staff evaluated Exelon's Key Assumptions and Projected Income Statement. Exelon stated that the assumed average market price is based on its financial model that includes many different factors, one being the current business environment. The assumed capacity factor is a function of the past performance, the expected increase of power up-rates, and the scheduled outages for maintenance and refueling. The staff compared the average market price of electricity sales assumed in the projections from \$■■■■ for 2003 to \$■■■■ for 2008 and found that the average price is in line with the 2002 national overall wholesale price range. The staff evaluated Exelon's projected nuclear capacity factor for all of its nuclear plants and found that its assumption is consistent with its historical average. The most recent three year records show that Exelon's entire nuclear fleet has been generating at an average capacity of ■■%, which is consistent with its 2003 projection and slightly above its 2004 through 2008 projections. The Projected Income Statement exhibits the estimated annual operating revenue and expenses for all of its generation facilities (including nuclear, fossil, hydro, and purchases) and the estimated annual net income for 2003 through 2008. The projected operating revenues are the product of the expected market sales from generation and the assumed average market price. The staff found that both projected operating revenues and expenses for 2003 are reasonable and in proportion to Exelon's annualized Unaudited Consolidated Statements of Income for nine months ending September 30, 2002. The projection shows that the operating revenues will exceed total operating expenses and that the net income will be positive for each year of the projected period. This demonstrates that Exelon will have adequate funding to cover the expected expenses, which includes fuel and purchased power, operation and maintenance, depreciation and amortization, administrative, and decommissioning costs.

The staff evaluated PSEG's Projected Income Statement and Key Assumptions. The projected income statement shows PSEG's estimated annual operating revenue and expenses, which are related to nuclear generation. The staff found that the projected operating revenue exceeded the total operating expenses and that the net income was positive for each of the projected years. This shows that PSEG will have adequate funds to cover the expected expenses related to its generation capacity including PBAPS. The staff evaluated PSEG's assumed average

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market price of electricity sales from \$[REDACTED] for 2003 to \$[REDACTED] for 2008 and found that the projections are reasonable and within the range of the 2002 national overall wholesale price. The staff compared PSEG's projected nuclear capacity factor with *NRC Information Digest* historical records on the five nuclear units owned by PSEG. The staff found that the assumptions for 2003, 2004 and 2006 are consistent with the industry-wide projection of [REDACTED]%. But PSEG's assumptions for 2005, 2007 and 2008 are approximately [REDACTED]% higher than its most recent three years average of [REDACTED]% and [REDACTED]% above the industry-wide projection. The staff independently performed a sensitivity analysis on PSEG's revenue for 2005 through 2008 by reducing the capacity factor to [REDACTED]% and maintaining the market price at \$[REDACTED] (2002 national overall wholesale price average) and found that PSEG's total operating revenues would still exceed total operating expenses and net income would be positive for each year of the projection period.

On the basis of information contained in the application of 5-year operating cost estimates and projected sources of funds to cover these costs, the NRC staff concludes that Exelon and PSEG have provided reasonable assurance of being able to obtain funds necessary to cover the estimated operating costs for the renewed period of the Peach Bottom Units 2 and 3 licenses in accordance with 10 CFR 50.33(f)(2).

3.2 FOREIGN OWNERSHIP, CONTROL, OR DOMINATION

Pursuant to 10 CFR 54.19(a), each application for a renewed license must provide the information specified in 10 CFR 50.33(a) through (e). The staff reviewed the ownership and control of the two co-owners, in light of the information presented in the renewal application pursuant to 10 CFR 50.33(d).

Exelon stated that all of its directors, management committee members, and principal officers are U.S. citizens and provided a list of their names, titles, and addresses. Similarly, PSEG stated that all of its directors and principal officers are citizens of the United States, and provided lists of their names, titles and addresses.

The applicant further stated that neither Exelon nor its parents, Exelon Ventures Company or Exelon Corporation, is owned, controlled or dominated by an alien, a foreign corporation, or a foreign government. Likewise, the applicant represented that PSEG, PSEG Power, and Public Service Enterprise Group, Inc. are neither owned, controlled, nor dominated by an alien, foreign corporation or foreign government. The NRC staff does not know or have reason to believe otherwise.

3.3 NUCLEAR INSURANCE AND INDEMNITY

In accordance with 10 CFR 54.19(b), "each application [for a renewed license] must include conforming changes to the standard indemnity agreement, 10 CFR 140.92, Appendix B, to account for the expiration term of the proposed renewed license." The applicant stated the following in its renewal application regarding this issue:

The current indemnity agreement for Peach Bottom Atomic Power Station, Units 2 and 3 states in Article VII that the agreement shall terminate at the time of

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expiration of the license specified in Item 3 of the Attachment to the agreement. Item 3 of the Attachment to the indemnity agreement, lists two license numbers, DRP-44 and DRP-56. Should the license numbers be changed upon issuance of the renewed licenses, Exelon requests that the conforming changes be made to Article VII and Item 3 of the Attachment, and to any other sections of the indemnity agreement as appropriate.

The staff will use the original license numbers for the renewed licenses. Therefore, there is no need to make conforming changes to the indemnity agreement. In this respect, the requirements of 10 CFR 54.19(b) have been met.

4.0 CONCLUSION

Based upon the foregoing discussions and the information and representations contained in the application regarding 5-year operating cost estimates and sources of funds to cover these costs, the NRC staff concludes that Exelon and its co-licensee, PSEG, have provided reasonable assurance that they can obtain funds necessary to cover the estimated operating costs of the PBAPS Units 2 and 3. Therefore, the staff finds that, in accordance with 10 CFR 50.33(f)(2), Exelon and PSEG are financially qualified to hold the licenses for Peach Bottom Atomic Power Station Units 2 and 3 during the renewal period.

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