

VIRGINIA ELECTRIC AND POWER COMPANY
RICHMOND, VIRGINIA 23261

November 23, 1998

United States Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, D. C. 20555-0001

Serial No. 98-695
NL&OS/SLW R0
Docket Nos. 50-280, 281
50-338, 339
License Nos. DPR-32, 37
NPF-4, 7

Gentlemen:

VIRGINIA ELECTRIC AND POWER COMPANY
SURRY AND NORTH ANNA POWER STATIONS UNITS 1 AND 2
DECOMMISSIONING FINANCIAL ASSURANCE

The Nuclear Regulatory Commission's final rule on financial assurance requirements for decommissioning nuclear power reactors was published September 22, 1998 in the Federal Register, Vol. 63, No. 183, with corrections published on October 27, 1998, Federal Register, Vol. 63, No. 207. In compliance with the revised regulations contained in the final rule, Virginia Electric and Power Company (Virginia Power) is notifying the Commission that a parent company guaranty has been established¹, in combination with the current sinking fund method, for the purpose of providing nuclear decommissioning financial assurance.

Virginia Power collects amounts for the future decommissioning of its four nuclear power reactors from essentially three classifications of customers; those whose rates are established under the jurisdiction of state rate regulatory authorities, those whose rates are negotiated between the parties and approved by the Federal Energy Regulatory Commission (FERC), and those whose rates are established through individual proceedings and/or negotiations.

For the company's customers who are served under the jurisdictions of the Virginia State Corporation Commission (Virginia SCC) and the North Carolina Utilities Commission, the final rule allows the continued use of the sinking fund method for meeting decommissioning financial assurance requirements. Therefore, Virginia Power will continue to rely upon the sinking fund method for this classification of customers.

Virginia Power's wholesale customers, whose rates are approved by the FERC, are served under contracts that do not provide the level of assurance required under the final rule that would allow Virginia Power to continue to rely solely upon the sinking fund method. We base this conclusion on the fact that decommissioning collections, during the remaining terms of the respective contracts with these FERC customers, are not sufficient to cover total decommissioning costs as allocated to them. Thus, we are providing the surety method as enclosed to supplement the current sinking fund method

¹ The parent company guaranty is subject to ratification by the Dominion Resources Inc. Board of Directors.

for the company's FERC classification of customers. Virginia Power will continue to make deposits into external trusts on behalf of this classification of customers, regardless of the amount included in current contracts designated for decommissioning, such that sufficient funds will be available for decommissioning the nuclear units when needed.

The final classification of customers that Virginia Power serves are retail customers whose facilities are physically located in Virginia but whose rates are not established by the Virginia SCC. These customers include Virginia state and local governmental facilities, the Washington Metropolitan Airport Authority, and certain federal facilities. The rates for these customers are negotiated between Virginia Power and a particular customer or group of customers yet they are based upon traditional cost of service methodologies. These customers are located within our franchised service territory, therefore, Virginia Power must serve them and Virginia Power remains their sole source for electric service until deregulation is implemented within Virginia.

Each customer or customer group within this classification of Virginia retail customers serves as its own regulatory authority. For example, the rates for the counties and the municipalities in Virginia are established through proceedings between the company and the Virginia Association of Counties (VAC) and the Virginia Municipal League (VML). These two entities were organized pursuant to Section 15.1-20 of the Code of Virginia. The ratemaking proceeding begins with a rate request by Virginia Power, which is supported by a cost of service study. The VAC/VML then establishes the rates for service through protracted negotiations. Most of the counties and municipalities then sign the form contract delineating the rates as established by the VAC/VML. Some, however, do not sign such a contract but instead pay for electricity pursuant to invoices that reflect the rates established by the VAC/VML.

These customers, although not included in the rate case proceedings of the Virginia SCC, have been and will continue to be a part of the traditional ratemaking environment in Virginia until the effective date of any Virginia legislation that addresses deregulation of the electric utility industry. As such, Virginia Power believes that these customers meet the definition of "cost of service regulation" included in the final rule. Therefore, we will continue to use the sinking fund method for providing decommissioning financial assurance for this portion of the total decommissioning obligation.

There is one final portion of the decommissioning financial assurance obligation that, due to the varying methodologies for determining allocation factors across the different classifications of customers, is not attributable to any particular customer classification. Only coincidentally will the sum of the allocation factors for each of the customer classifications equal 100%. Sometimes the sum is greater than 100% by a small margin. Sometimes the sum is less than 100% by a small margin. Since the final rule requires segregation of the financial assurance obligation by source of revenue, and there is no revenue source for this "unallocated" portion, Virginia Power is also relying upon the enclosed surety method for this portion of the total financial assurance obligation.

Attachment 1 to this letter details the apportionment of the company's decommissioning financial assurance obligation for 1998 across the above referenced classifications of

customers for each of the company's four nuclear reactors. Attachment 2 to this letter contains the parent company guaranty for the portion allocated in Attachment 1.

Please contact us if you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, reading "James P. O'Hanlon". The signature is fluid and cursive, with the first name "James" being the most prominent.

James P. O'Hanlon
Senior Vice President - Nuclear

Attachments

Commitments made in this letter: None.

cc: US Nuclear Regulatory Commission
Region II
Atlanta Federal Center
61 Forsyth Street, S.W., Suite 23T85
Atlanta, Georgia 30303

Mr. R. A. Musser
NRC Senior Resident Inspector
Surry Power Station

Mr. M. J. Morgan
NRC Senior Resident Inspector
North Anna Power Station

Attachment 1

VIRGINIA ELECTRIC AND POWER COMPANY
SURRY AND NORTH ANNA POWER STATIONS UNITS 1 AND 2
DECOMMISSIONING FINANCIAL ASSURANCE

1998 NUCLEAR DECOMMISSIONING FINANCIAL ASSURANCE

DECOMMISSIONING FINANCIAL ASSURANCE

1998 Nuclear Decommissioning Financial Assurance

Table I: 1998 NRC Minimum Financial Assurance Amount

<u>Customer Classification</u>	Surry Unit 1 DPR-32	Surry Unit 2 DPR-37	North Anna † Unit 1 NPF-4 (Millions of Dollars)	North Anna † Unit 2 NPF-7	Total All Units
Virginia State Corporation Commission (VSCC)	\$ 339.3	\$ 339.3	\$ 328.6	\$ 328.6	\$1,335.8
North Carolina Utilities Commission	20.8	20.8	19.7	19.7	81.0
Federal Energy Regulatory Commission	33.6	33.6	20.3	20.3	107.8
Virginia Retail Not Under VSCC Jurisdiction	49.2	49.2	47.3	47.3	193.0
Unallocated	<u>3.7</u>	<u>3.7</u>	<u>-3.2</u>	<u>-3.2</u>	<u>1.0</u>
Total	<u>\$ 446.6</u>	<u>\$ 446.6</u>	<u>\$ 412.7</u>	<u>\$ 412.7</u>	<u>\$1,718.6</u>

Table II: Funds Held in External Trusts at December 31, 1997 *

<u>Customer Classification</u>	Surry Unit 1 DPR-32	Surry Unit 2 DPR-37	North Anna † Unit 1 NPF-4 (Millions of Dollars)	North Anna † Unit 2 NPF-7	Total All Units
Virginia State Corporation Commission (VSCC)	\$ 120.6	\$ 114.1	\$ 105.2	\$ 99.1	\$ 439.0
North Carolina Utilities Commission	7.3	7.8	7.6	7.2	29.9
Federal Energy Regulatory Commission	6.4	6.8	2.5	2.4	18.1
Virginia Retail Not Under VSCC Jurisdiction	<u>15.3</u>	<u>15.8</u>	<u>14.3</u>	<u>13.3</u>	<u>58.6</u>
Total	<u>\$ 149.6</u>	<u>\$ 144.5</u>	<u>\$ 129.6</u>	<u>\$ 122.0</u>	<u>\$ 545.6</u>

* Excludes amounts designated for the future decommissioning of the ISFSI's

† The North Anna Power Station is jointly owned by Virginia Electric and Power Company (88.4%) and Old Dominion Electric Cooperative (11.6%). However, Virginia Electric and Power Company is responsible for 89.6% of the decommissioning obligation. The amounts stated in the above tables reflect only that portion of the decommissioning obligation attributable to Virginia Electric and Power Company.

Table III: 1998 NRC Minimum Financial Assurance Amount Minus Funds Held in External Trusts

<u>Customer Classification</u>	Surry Unit 1 DPR-32	Surry Unit 2 DPR-37	North Anna † Unit 1 NPF-4 (Millions of Dollars)	North Anna † Unit 2 NPF-7	Total All Units	Method for Providing Financial Assurance
Virginia State Corporation Commission (VSCC)	\$ 218.7	\$ 225.2	\$ 223.4	\$ 229.5	\$ 896.8	Sinking Fund
North Carolina Utilities Commission	13.5	12.9	12.1	12.5	51.0	Sinking Fund
Federal Energy Regulatory Commission	27.2	26.8	17.8	17.9	89.7	Parent Co. Guaranty w/ Sinking Fund
Virginia Retail Not Under VSCC Jurisdiction	33.9	33.5	33.0	34.0	134.4	Sinking Fund
Unallocated	<u>3.7</u>	<u>3.7</u>	<u>-3.2</u>	<u>-3.2</u>	<u>1.0</u>	Parent Co. Guaranty
Total	<u>\$ 297.0</u>	<u>\$ 302.1</u>	<u>\$ 283.1</u>	<u>\$ 290.7</u>	<u>\$1,172.9</u>	

† The North Anna Power Station is jointly owned by Virginia Electric and Power Company (88.4%) and Old Dominion Electric Cooperative (11.6%). However, Virginia Electric and Power Company is responsible for 89.6% of the decommissioning obligation. The amounts stated in the above table reflect only that portion of the decommissioning obligation attributable to Virginia Electric and Power Company.

Attachment 2

VIRGINIA ELECTRIC AND POWER COMPANY
SURRY AND NORTH ANNA POWER STATIONS UNITS 1 AND 2
DECOMMISSIONING FINANCIAL ASSURANCE

PARENT COMPANY GUARANTY:

Copy of Dominion Resources, Inc. Limited Guaranty. (3 Pages)

Copy of letter from Dominion Resources, Inc. to U.S.N.R.C. dated November 23, 1998, titled Decommissioning Financial Assurance Certification. (2 Pages)

Copy of Independent Accountants' Report on Applying Agreed-Upon Procedures. (3 Pages)

LIMITED GUARANTY

This Limited Guaranty, effective as of November 23, 1998, by Dominion Resources, Inc., a Virginia corporation ("Guarantor") and sole common shareholder of Virginia Electric and Power Company, a Virginia public service corporation, ("Virginia Power") is established for the purpose of supporting Virginia Power's financial assurance obligation as it relates to nuclear decommissioning pursuant to 10 CFR §50.75.

WHEREAS, Virginia Power is a licensee of four nuclear power reactors; namely, Surry Nuclear Power Station Units 1 and 2, and North Anna Nuclear Power Station Units 1 and 2 (collectively, the "Reactors"); and

WHEREAS, Virginia Power has established external trusts for the purpose of collecting sufficient funds over the respective Reactors' licensed operating periods for their ultimate decommissioning; and

WHEREAS, the name of one of the trusts, as established by a Trust Agreement dated December 31, 1986, amended and restated April 18, 1989, and further amended and restated May 4, 1994, is VIRGINIA ELECTRIC AND POWER COMPANY NON-QUALIFIED NUCLEAR DECOMMISSIONING TRUST ("Nuclear Decommissioning Trust"); and

WHEREAS, the Nuclear Decommissioning Trust includes separate Reserve Funds for each nuclear operating unit such that each Reserve Fund is established as a trust under state law; and

WHEREAS, the Nuclear Regulatory Commission ("NRC"), through its regulations contained in 10 CFR §50.75, requires certain amounts and methods to be used in the demonstration of financial assurance for decommissioning of nuclear power reactors; and

WHEREAS, pursuant to 10 CFR §50.75 as amended by regulations effective November 23, 1998, Virginia Power's total nuclear decommissioning financial assurance amount does not qualify for continued use of the sinking fund method as the sole method for satisfying the obligation; and

WHEREAS, pursuant to 10 CFR §50.75 as amended by regulations effective November 23, 1998, Virginia Power's nuclear decommissioning financial assurance obligation may be satisfied via a parent company guaranty in addition to the sinking fund method; and

WHEREAS, Guarantor is willing to guarantee payment for an amount not to exceed \$91 million and for which it is qualified under the financial tests contained in appendix A to 10 CFR Part 30 for Virginia Power's nuclear decommissioning financial assurance obligation.

NOW, THEREFORE, because of the above Recitals, which are incorporated herein, Guarantor hereby unconditionally guarantees the following:

1. Guarantor shall make on behalf of Virginia Power, for the benefit of its Nuclear Decommissioning Trust, any and all required payments or obligations under the nuclear decommissioning financial assurance regulations contained in 10 CFR §50.75 to the extent Guarantor qualifies under appendix A to 10 CFR Part 30, such payments or obligations in an aggregate amount not to exceed \$91 million.

2. Based upon the financial tests as contained in appendix A to 10 CFR Part 30, specifically paragraph II.A.2, and applied to Guarantor's December 31, 1997 audited financial statements, the limit to which Guarantor qualifies to guarantee is currently \$200 million. Such limitation will vary from time to time based upon the continued application of the financial tests on the financial statements of the Guarantor.
 - a) Guarantor's current implied unsecured bond ratings are A- and Baa1 for Standard and Poor's and Moody's, respectively.
 - b) Guarantor's tangible net worth at December 31, 1997 is \$1.204 billion, which would support a maximum decommissioning financial assurance amount of \$200 million.
 - c) Guarantor's total assets at December 31, 1997 are \$20.2 billion with assets located in the United States of \$14.9 billion, which would support a maximum decommissioning financial assurance amount of \$2.48 billion.
3. Guarantor agrees to submit revised financial statements, financial test data, and a special auditor's report and reconciling schedule annually within 90 days of the close of the succeeding calendar years.
4. If Guarantor fails to meet the financial test criteria contained in appendix A to 10 CFR Part 30 for an amount equal to or exceeding \$91 million, then Guarantor will send notice of cancellation by certified mail to Virginia Power and the NRC. Cancellation may not occur, however, during the 120 days beginning on the date of receipt of the notice of cancellation by both Virginia Power and the NRC, as evidenced by the return receipts.
5. If Virginia Power fails to provide alternate financial assurance as specified in 10 CFR §50.75 within 90 days after receipt of a notice of cancellation of this Guaranty, Guarantor agrees to provide such alternative financial assurance in the name of Virginia Power prior to cancellation of this Guaranty or make full payment under this Guaranty.
6. This Guaranty shall remain in effect until the NRC terminates the licenses of the Reactors or until such time as alternative financial assurance meeting the requirements of 10 CFR §50.75 is provided by either Guarantor or Virginia Power.
7. All notices and communications to Virginia Power under this Guaranty, until Guarantor is notified to the contrary in writing, shall be addressed to Virginia Electric and Power Company, P. O. Box 26666, Richmond, Virginia 23261.
8. All notices and communications to the Guarantor under this Guaranty, until Virginia Power is notified to the contrary in writing, shall be addressed to Dominion Resources, Inc., P. O. Box 26532, Richmond, Virginia 23261.
9. This Guaranty shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, without regard to principles of conflicts of laws.
10. The provisions of this Guaranty may not be waived, changed, modified or discharged orally, but only by an agreement in writing signed by Guarantor and Virginia Power.

11. Any delay by Virginia Power in exercising, or any failure of Virginia Power to exercise, any right hereunder shall not constitute either a waiver of the right of Virginia Power to exercise such option or a waiver of any other remedy to which Virginia Power may be entitled hereunder or under applicable law.
12. The provisions of this Guaranty shall be binding upon Guarantor and its successors and assigns. Guarantor shall not assign its rights nor delegate its obligations under this Guaranty in whole or part, without written consent of Virginia Power, which shall not be unreasonably withheld, and proper notice to the NRC.
13. A determination that any provision of this Guaranty is unenforceable shall not affect the enforceability of any other specific provision herein or of this Guaranty generally.
14. This Guaranty is the entire and only agreement between Guarantor and Virginia Power with respect to the guarantee of the nuclear decommissioning financial assurance obligations of Virginia Power by Guarantor. All representations, warranties, agreements, or undertakings heretofore or contemporaneously made, which are not set forth herein, are superseded hereby.
15. This Guaranty will be effective upon the approval and ratification of the Dominion Resources, Inc. Board of Directors.

Dominion Resources, Inc.

By: Edgar M. Roach, Jr.
Edgar M. Roach, Jr.
Executive Vice President and
Chief Financial Officer

Dated: November 23, 1998

I hereby certify that Edgar M. Roach, Jr. is the duly elected and incumbent Executive Vice President and Chief Financial Officer of Dominion Resources, Inc., and that the signature set forth above is his genuine signature.

By: Patricia A. Wilkerson
Name: Patricia A. Wilkerson
Title: Corporate Secretary

Dated: November 23, 1998