

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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April 11, 1991

Dr. Thomas E. Murley, Director
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Document Control Desk
Washington, D.C. 20555

Dear Dr. Murley:

We understand that Long Island Lighting Company (LILCO) today is submitting a request for approval of its decommissioning funding plan for Shoreham. The purpose of this letter is to explain the Public Service Commission's approval of LILCO's recovery of decommissioning costs from ratepayers, which is consistent with the overall Shoreham Settlement.

Under the Amended and Restated Asset Transfer Agreement and the Site Cooperation and Reimbursement Agreement, LILCO will transfer Shoreham to the Long Island Power Authority (LIPA), which in turn will decommission the facility. The Site Agreement requires LILCO to pay all "costs attributable to Shoreham," which are essentially all costs incurred by LIPA or the New York Power Authority (NYPA), as well as all "LILCO costs," which are costs incurred by the utility in connection with Shoreham-related activities contemplated by the agreements. LILCO must remit funds to LIPA-controlled accounts, which cover a three-month cash flow projection of actual decommissioning and Shoreham-related costs.

On June 7, 1990, the Public Service Commission approved the Site Agreement. The Commission's Order found that LILCO's payment of such costs was consistent with the overall Shoreham Settlement and reimbursable from

1/ Case 90-E-0087, Order Approving Petition.

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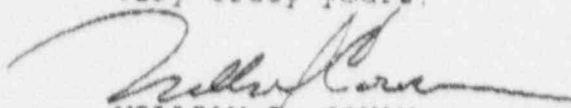
ratepayers. ^{1/} The Commission explicitly recognized that LILCO would be obliged to pay the power authorities' decommissioning costs and that, unlike the situation involving a regulated utility, it would not have the legal authority to assess the "prudence" of such costs. But, considering that the Shoreham Settlement resolved the longstanding controversy while protecting LILCO's ratepayers, and the Site Agreement provides for Commission monitoring of LIPA budgets, the Commission found that on balance the funding plan was reasonable. Moreover, even before approving the Site Agreement, the Commission had authorized LILCO's recovery of actual (rather than "estimated" or "projected") decommissioning costs under the Shoreham Settlement. ^{2/}

The current cost estimate of approximately \$186 million, spread over a 27-month period, is a relatively small fraction of LILCO's expected electric revenues in the period. For example, LILCO's electric revenues are forecast to be approximately \$5 billion for the period October 1, 1991 - December 31, 1993 (the period of decommissioning), which means that decommissioning costs would be slightly more than 3% of LILCO's electric revenues.

Finally, LILCO's financial condition has steadily improved under the Shoreham Settlement, and it has ready access to the financial markets. Moreover, it has an unused line of credit of \$300 million, which could be tapped in a cash emergency.

The Public Service Commission remains committed to the effectuation of the Shoreham Settlement, including taking the steps necessary to ensure LILCO's access to and recovery of funds necessary for decommissioning.

Very truly yours,


WILLIAM J. COWAN
General Counsel

^{1/} In Opinion No. 89-8, in Cases 29484 and 88-E-084, Opinion and Order Approving Agreement and Rate Plan, issued April 13, 1989, the Commission approved the Shoreham Settlement and a "Rate Moderation Agreement" that included a three-year package of rate increases.

^{2/} This provision was set forth in the "Rate Modification Agreement."