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Public Service
Company of Colorado

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July 5, 1985
Fort St. Vrain
Unit No. 1
P-85237

Secretary of the Commission
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

Attn: Docketing and Service Branch

Docket No. 50-267

SUBJECT: Comments on Proposed Rule Setting Forth Decommissioning Criteria for Nuclear Facilities

Gentlemen:

Public Service Company of Colorado (PSC) has reviewed the proposed Decommissioning Criteria for Nuclear Facilities as published in the Federal Register (Vol. 50, No. 28, dated Monday, February 11, 1985) and offers several comments for consideration. The comments which are contained in the attachment to this letter address the financial assurance portion of the proposed rulemaking.

If there are any questions, please contact Mr. M.H. Holmes at (303) 571-8409.

Very truly yours,

Lawrence Brey

H.L. Brey, Manager
Nuclear Licensing & Fuels Division

HLB/SLG:mb

Attachment

Acknowledged by card JUL 16 1985

1. Section 50.33 (k)(2) - This proposed rule would require an electric utility to submit "either a proposed decommissioning funding plan or a certification that financial assurance for decommissioning will be provided in an amount at least equal to $100,000,000 (1984 dollars) adjusted annually for inflation using an inflation rate twice that indicated by the change in the Consumer Price Index published by the U.S. Department of Labor, Bureau of Labor Statistics".

   PSC has two concerns with this proposed rule. The first concern has to do with the use of the Consumer Price Index as the basic inflation indicator; the second concern has to do with the stipulation that annual adjustments for inflation use an inflation rate twice that indicated by the change in the Consumer Price Index. Each concern is discussed below:

   The Consumer Price Index is one of several measures of the inflation rate reported by the government on a monthly or quarterly basis which are helpful in determining how much inflation is present in the economy. Other widely used measures of inflation are the Producer Price Index and the Gross National Product Implicit Price Deflator.

   a. Consumer Price Index (CPI) is a monthly measure of the market price of a "basket of goods" commonly purchased by a consumer. The CPI assumes that everyone spends the same percentage of their income in each of seven major categories (food, housing, transportation, medical, apparel, entertainment, and other). The priced goods are weighted to approximate the percentage a consumer might actually spend on them. The increase is assumed to be the inflation rate. The biggest flaw to this statistic is that it is inordinately influenced by new housing prices and the current level of mortgage rates. Since most households do not purchase or refinance their homes each month, the index exaggerates the amount of inflation.

   b. The Producer Price Index (PPI) is a measure of the price of raw materials for manufacturers of finished goods. Again, it is a weighted index and is heavily influenced by raw material prices to heavy industry. It has a tendency to reflect the inflation rate on a smaller and smaller percentage of the economy.

c. The Gross National Product Implicit Price Deflator (GNP Deflator) is a quarterly measure of inflation in the entire economy. The GNP Deflator measures the increase in cost only of goods actually produced. Because it is reported at the same time as monthly Gross National Product figures (quarterly), it is difficult to use as a short-term measure for planning purposes without keeping track of all the factors which make up the GNP on a monthly basis. One of the shortcomings of the GNP Deflator is that it only measures domestic economic activity and not imported items such as oil. Many authorities consider the GNP Deflator to be the most accurate measure of real inflation because, whereas the CPI is based on the budget of a typical urban family, the GNP Deflator is constructed from a market basket that includes every item that is included in the GNP--that is, every final good and service produced by the economy. Thus in addition to the prices of consumer goods, the GNP Deflator includes the prices of goods purchased by business, including government services. For purposes of adjusting the $100,000,000 figure annually, the fact that the GNP Deflator is reported on a quarterly basis should pose no problem.

Because the GNP Deflator measures inflation over the entire domestic economy, it would seem to be the most appropriate inflation indicator for the proposed rules.

The section of the Federal Register entitled "Rationale for the Proposed Changes" states that the use of an inflation rate of twice that indicated by the CPI is based upon a comparison of net increases in decommissioning costs to the general inflation rate over the last several years. PSC believes that such comparisons, made during a period of unprecedented national inflation, produce distorted figures that are not necessarily indicative of long-term inflationary trends. There is no valid reason to expect decommissioning costs in future years to inflate at a rate that is higher than other economic goods and services as measured by the GNP Deflator. However, if decommissioning costs are found to differ significantly in the future from that approximated by the prescribed amount (adjusted for inflation by the GNP Deflator), then action can be taken to modify the regulation.

Based on the foregoing, PSC recommends that Section 50.33(k)(2) be revised as follows:

"...or a certification that financial assurance for decommissioning will be provided in an amount at least equal to \$100,000,000 (1984 dollars) adjusted annually for inflation in accordance with the following formula:

$$X = 100{,}000{,}000 + \frac{(100{,}000{,}000)\quad(I_n - I)}{I}, \text{ where}$$

X = the adjusted decomissioning fund applicable to a calendar year after 1984

I_n= U.S. Gross National Product Implicit Price Deflator at the end of the second quarter of the year immediately preceding the calendar year for which a calculation is being made.

I = U.S. Gross National Product Implicit Price Deflator at the end of the second quarter of 1984 (222.40)

2. <u>Section 50.33(k)(2)(i)</u> - If a licensee submits a certification of financial assurance for decommissioning that utilizes the prepayment method, it is quite possible that as time elapses, the principal plus accumulated earnings in the segregated account will reach a level larger than is required to reflect the annual adjustment for inflation. This situation could arise because the proposed rule fails to recognize that the accumulated earnings will consist of an inflation adjustment component, a pure interest rate component and a premium-associated-with-risk component. It is recommended that the proposed rule for the prepayment method be revised to permit a licensee to withdraw the pure interest rate component and the premium-associated-with-risk component periodically from the trust, escrow account, etc.