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# SHAW, PITTMAN, POTTS & TROWBRIDGE

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June 16, 1997

Mr. Albert W. De Agazio  
Project Manager  
Nuclear Regulatory Commission  
OWFN, Room 14 12D  
14 C7  
Rockville, MD

**Re: Great Bay Power Corporation**

Dear Mr. De Agazio:

On June 4, 1997, Great Bay Power Corporation filed a "Supplement to Great Bay Power Corporation's Petition for Partial Reconsideration of Exemption Order to Submit Requested Cost Data and to Request, in the Alternative, a Further Exemption" with the NRC. After a preliminary review, the NRC staff responded with three inquiries:

- a) What is the meaning of the term "Decommissioning Accretion Expense" as it appears on the financial submittal of BayCorp Holdings, Ltd., the parent corporation of Great Bay?
- b) Why were the actual results for the final quarter of 1996 less than those projected in Great Bay's forecast dated October 10, 1996?
- c) Why are the financial projections proffered by Great Bay considered conservative and attainable?

Great Bay respectfully responds to these inquiries in Attachment "A" hereto.

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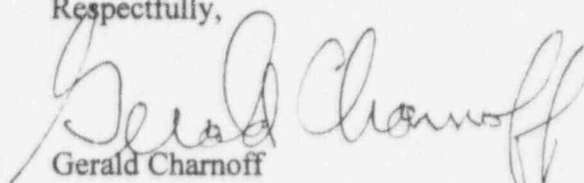


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Mr. Albert W. De Agazio  
June 16, 1997  
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We trust this additional information will enable the staff to either promptly determine that Great Bay is an "electric utility" as defined in 10 CFR § 50.2 or to grant the extended exemption requested, "in the alternative" by Great Bay.

Respectfully,

A handwritten signature in cursive script, appearing to read "Gerald Charnoff".

Gerald Charnoff  
Counsel for Great Bay Power Corporation

Enclosures

cc: Frank Getman  
Ted Feigenbaum (without Exhibit "A")

## Attachment "A"

- 1) What is the meaning of the term "Decommissioning Accretion Expense" as it appears on the financial submittal of BayCorp Holdings, Ltd., the parent corporation of Great Bay?

### Decommissioning Accretion Expense Description

Unlike any other utility in the nation, Great Bay already complies with the new proposed FASB rules for accounting for decommissioning. Great Bay currently recognizes the entire present value of its future decommissioning liability on its balance sheet. This figure was \$53.2 million as of 12/31/96. Since it is a present value number, this liability must grow to reflect the passage of time until the actual time of decommissioning in 2026. Accordingly, Great Bay "accretes" a portion of its decommissioning liability each year. This accretion is a non-cash charge which recognizes the Company's decommissioning liability in current year dollars over the license life of the plant. The accretion expense, however, does not reflect the actual growth of the funds in the decommissioning trust fund. The accretion expense is an accounting accrual and not a reporting of the actual funds deposited by the Company in the trust fund during the period. While it is true that the Decommissioning Liability and Decommissioning Trust Fund asset on the Company's balance sheet will equal one another at the end of the license life, the Decommissioning Liability grows at a steady escalation rate whereas the Trust Fund grows geometrically due to compounding. The Decommissioning Trust Fund line item on the Company's balance sheet is a "real" number which reflects the actual dollar amount in the fund. By 2026, the current Decommissioning Trust Fund of approximately \$6.7 million will "catch-up," due to the annual contributions to the Trust Fund and compounding over time, and equal the Decommissioning Liability, which will have increased due to the annual accretion expense. Contributions to the Decommissioning Trust Fund are not shown as an "expense," but rather a use of cash on the Company's cash flow statement.

- 2) Why were the actual results for the final quarter of 1996 less than that projected on Great Bay's forecast dated October 10, 1996?

The largest single reason for the differential between the October 10, 1996 projection and actual fourth quarter results was due to an acceleration of the 1997 scheduled refueling outage from August 1997 to May 1997 due to reliability concerns of the New England Power Pool and the potential lack of generating capacity during the peak summer season. As a result, the outage expense accrual and the nuclear fuel amortization were increased by \$519,000.00 in the final quarter of 1996. Other factors contributing to the difference between the October projection and the actual higher costs were the NRC's § 50.54 (f) requirement for

design basis documentation, which was not in the Seabrook budget as of October 1996, certain Seabrook year-end material write-offs, and a catch-up in billings by vendors.

- 3) Why are the financial projections proffered by Great Bay considered conservative and attainable?

Exhibit "A" to this Attachment is a table<sup>1</sup> showing Wholesale Price Projections by various parties for calendar years 1998-2001. Included are the Low, Base and High projections submitted for the New Hampshire Public Utilities Commission on January 3, 1997 by LaCapra Associates. The LaCapra projections are based on an analysis of the least cost combination of NEPOOL generating sources, by hour. LaCapra identified the highest-cost generating unit that is chosen to operate by the Pool in each hour in the forecast years. That unit's variable cost was defined by LaCapra as the "hourly energy clearing price." By definition, any unit with a variable cost below the "energy clearing price" can successfully market its generated electricity. The variable costs at Seabrook are significantly below all of the projections in Exhibit "A"; accordingly, Exhibit "A" demonstrates that Great Bay's wholesale price projections used in constructing the projections in Exhibit 1 to Great Bay's "Supplement to Great Bay Power Corporation's Petition for Partial Reconsideration of Exemption Order to Submit Requested Cost Data and to Request, in the Alternative, a Further Exemption" are conservative and can be realized.

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<sup>1</sup> The information in Exhibit "A" pertinent to Great Bay is identical to some of the sensitive, confidential, commercial and financial information contained in the unredacted version of Exhibit 1 to Great Bay's June 4, 1997 Supplement for which Great Bay requested proprietary withholding from public disclosure, and Great Bay's request for such withholding dated June 3, 1997 is equally applicable to it.