

Internal Revenue Service

Department of the Treasury

Number: **200302023**
Release Date: 01/10/2003
Index Number: 468A.04-02
468A.03-04

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:PSI:6- PLR-115727-02

Date:

September 30, 2002

Re: Request for a Revised Schedule of Ruling Amounts

Legend:

Taxpayer =

OLD Co. =

Co.2 =

Plant =

Location =

Commission A =

Commission B =

Commission C =

Commission D =

Commission E =

Director =

Fund =

Dear :

This letter responds to the request of Taxpayer, dated , and supplemental information as submitted by Taxpayer, for a revised schedule of ruling amounts in accordance with section 1.468A-3(i) and 1.468A-6(e)(2)(ii) of the Income Tax Regulations. Taxpayer was previously granted a revised schedule of ruling amounts on Information for the schedule of ruling amounts was submitted on behalf of the Taxpayer pursuant to section 1.468A-3(h)(2).

Taxpayer represents the facts and information relating to its request for a revised schedule of ruling amounts as follows:

Taxpayer has a direct ownership interest of percent in Plant, which is situated at Location. Taxpayer is under the audit jurisdiction of the Director.

PLR-115727-02

On _____, Taxpayer's predecessor (OLD Co.) and Co.2 entered into a merger agreement which resulted in the transfer of OLD Co's assets, including its funds, to Taxpayer in a transaction qualifying for nonrecognition treatment pursuant to § 351 of the Code. Further, as part of the merger, as approved by the Commissions, Taxpayer has accepted the rights and obligations of OLD Co. through the change in corporate structure without the regulatory agencies having to re-establish new rate structures or depreciation recovery associated with nuclear decommissioning in place before the merger. Taxpayer represents that this transaction qualifies for the treatment specified in section 1.468A-6 and has, for the year of transfer (_____), allocated the prior schedule of ruling amounts between Old Co. and the Taxpayer.

Plant's operating license expires on _____. Taxpayer is subject to the jurisdiction of Commission A which covers _____ percent of the Taxpayer's total electric sales, Commission B which covers _____ percent, Commission C which covers _____ percent, Commission D which covers _____ percent, and Commission E which covers _____ percent, for a total of _____ percent. These percentages may vary slightly from year to year. The estimated base cost for decommissioning the Plant is based on an independent study and is premised on the prompt removal/immediate dismantling method.

Commission A, in Docket No. _____, effective _____, authorized nuclear decommissioning costs to be included in cost of service for ratemaking purposes for the Plant in the amount of \$ _____ for _____ (_____ dollars) and estimated an after-tax rate of return on assets of _____ percent. The Commission also determined the total estimated cost of decommissioning to be \$ _____ (_____ dollars). This base cost escalated using an estimated inflation rate of _____ percent results in an estimated future decommissioning cost of the Commission A portion of the Plant of \$ _____ (_____ dollars). The tax and investment changes made to section 468A of the Internal Revenue Code made by section 1917 of the Energy Policy Act of 1992 were taken into consideration in setting these rates.

Commission B, in Docket Nos. _____, effective _____, authorized nuclear decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes for the Plant in the amount of \$ _____ for _____ (_____ dollars) and estimated an after-tax rate of return on assets of _____ percent. The Commission also determined the total estimated cost of decommissioning to be \$ _____ (_____ dollars). This base cost escalated using an estimated inflation rate of _____ percent results in an estimated future decommissioning cost of the Commission B portion of the Plant of \$ _____ (_____ dollars). The tax and investment changes made to section 468A of the Internal Revenue Code made by section 1917 of the Energy Policy Act of 1992 were not taken into consideration in setting these rates.

PLR-115727-02

Commission C, in Docket No. _____, effective _____, authorized nuclear decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes for the Plant in the amount of \$ _____ for _____ (_____ dollars) and estimated an after-tax rate of return on assets of _____ percent. The Commission also determined the total estimated cost of decommissioning to be \$ _____ (_____ dollars). This base cost escalated using an estimated inflation rate of _____ percent results in an estimated future decommissioning cost of the Commission C portion of the Plant of \$ _____ (_____ dollars). The tax and investment changes made to section 468A of the Internal Revenue Code made by section 1917 of the Energy Policy Act of 1992 were not taken into consideration in setting these rates.

Commission D, in Docket No. _____, effective _____, authorized nuclear decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes for the Plant in the amount of \$ _____ for _____ (_____ dollars) and estimated an after-tax rate of return on assets of _____ percent. The Commission also determined the total estimated cost of decommissioning to be \$ _____ (_____ dollars). This base cost escalated using an estimated inflation rate of _____ percent results in an estimated future decommissioning cost of \$ _____ (_____ dollars). The tax and investment changes made to section 468A of the Internal Revenue Code made by section 1917 of the Energy Policy Act of 1992 were not taken into consideration in setting these rates.

Commission E, in Docket No. _____, effective _____, authorized nuclear decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes for the Plant in the amount of \$ _____ (_____ dollars) and estimated an after-tax rate of return on assets of _____ percent. The Commission also determined the total estimated cost of decommissioning to be \$ _____ (_____ dollars). This base cost escalated using an estimated inflation rate of _____ percent results in an estimated future decommissioning cost of the Commission E portion of the Plant of \$ _____ (_____ dollars). The tax and investment changes made to section 468A of the Internal Revenue Code made by section 1917 of the Energy Policy Act of 1992 were not taken into consideration in setting these rates.

There are no proceedings pending before any of the Commissions that may result in an increase or decrease in the amount of decommissioning costs for the Plant to be included in Taxpayer's cost of service for ratemaking purposes.

The funding period and level funding limitation period for the Plant extends from _____ through _____. The estimated period for which the Fund will be in effect is _____ years (_____ through _____) for Commission A, Commission B and Commission C, and _____ years (_____ through _____) for Commission D and Commission E. The estimated useful life of the Plant is _____ years (_____ through _____) for Commission A, Commission B and Commission C, and _____ years (_____ through _____) for Commission D and Commission

PLR-115727-02

E. Thus, the Taxpayer has calculated its qualifying percentage to be _____ percent for Commission A, Commission B and Commission C, and _____ percent for Commission D and Commission E.

Section 468A(a) of the Internal Revenue Code provides that a taxpayer may elect to deduct the amount of payments made to a qualified nuclear decommissioning fund. However, § 468A(b) limits the amount paid into the fund for any taxable year to the lesser of the amount of nuclear decommissioning costs allocable to the fund that is included in the taxpayer's cost of service for ratemaking purposes for the taxable year or the ruling amount applicable to that year.

Section 468A(d)(1) of the Code provides that no deduction shall be allowed for any payment to the nuclear decommissioning fund unless the taxpayer requests and receives from the Secretary a schedule of ruling amounts. The "ruling amount" for any taxable year is defined under § 468A(d)(2) as the amount which the Secretary determines to be necessary to fund that portion of nuclear decommissioning costs which bears the same ratio to the nuclear power plant as the period for which the fund is in effect bears to the estimated useful life of the plant. This term is further defined to include the amount necessary to prevent excessive funding of nuclear decommissioning costs or funding of these costs at a rate more rapid than level funding, taking into account such discount rates as the Secretary deems appropriate.

Section 468A(g) of the Code provides that a taxpayer shall be deemed to have made a payment to the nuclear decommissioning fund on the last day of the taxable year if the payment is made on account of the taxable year within 2½ months after the close of the taxable year.

Section 1.468A-1(a) of the regulations provides that an eligible taxpayer may elect to deduct nuclear decommissioning costs under § 468A of the Code. An "eligible taxpayer," as defined under § 1.468A-1(b)(1), is a taxpayer that has a qualifying interest in a nuclear power plant. As defined under § 1.468A-1(b)(2), a "qualifying interest" is, among other things, a direct ownership interest, including an interest held as a tenant in common or joint tenant.

Section 1.468A-2(b)(1) of the regulations provides that the maximum amount of cash payments made (or deemed made) to a nuclear decommissioning fund during any taxable year shall not exceed the lesser of (i) the cost of service amount applicable to the nuclear decommissioning fund for such taxable year; or (ii) the ruling amount applicable to the nuclear decommissioning fund for such taxable year.

Section 1.468A-3(a)(1) of the regulations provides that, in general, a schedule of ruling amounts for a nuclear decommissioning fund is a ruling specifying annual payments that, over the taxable years remaining in the "funding period" as of the date

PLR-115727-02

the schedule first applies, will result in a projected balance of the nuclear decommissioning fund as of the last day of the funding period equal to (and in no event more than) the "amount of decommissioning costs allocable to the fund."

Section 1.468A-3(a)(2) of the regulations provides that each schedule of ruling amounts shall be based on the reasonable assumptions and determinations used by the applicable public utility commission(s) in establishing or approving the amount of decommissioning costs to be included in the cost of service for ratemaking purposes, taking into account amounts that are otherwise required to be included in the taxpayer's income under § 88 of the Code and the regulations thereunder. Each schedule of ruling amounts shall be based on the public utility commission's reasonable assumptions concerning (i) the after-tax rate of return to be earned by the amounts collected for decommissioning; (ii) the total estimated cost of decommissioning the nuclear power plant; and (iii) the frequency of contributions to the nuclear decommissioning fund for a taxable year.

Section 1.468A-3(a)(3) of the regulations permits the Internal Revenue Service to provide a schedule of ruling amounts that is identical to the schedule proposed by the taxpayer, but no such schedule shall be provided by the Service unless the taxpayer's proposed schedule is consistent with the principles and provisions of this section.

Section 1.468A-3(b)(1) of the regulations provides that the ruling amount, specified in a schedule of ruling amounts, for any taxable year in the level funding limitation period shall not be less than the ruling amount specified in such schedule for any earlier taxable year. Under § 1.468A-3(b)(2), the level funding limitation period begins on the first day of the first taxable year for which a deductible payment is made to the nuclear decommissioning fund and ends on the last day of the taxable year that includes the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes.

Section 1.468A-3(c)(1) of the regulations provides that the funding period for a nuclear decommissioning fund is the period that begins on the first day of the first taxable year for which a deductible payment is made (or deemed to be made) to such nuclear decommissioning fund and ends the later of (i) the last day of the taxable year that includes the estimated date on which decommissioning costs of the nuclear power plant to which the nuclear decommissioning fund relates will no longer be included in the taxpayer's cost of service for ratemaking purposes; or (ii) the last day of the taxable year that includes the estimated date on which the nuclear power plant to which the nuclear decommissioning fund relates will no longer be included in the taxpayer's rate base for ratemaking purposes.

PLR-115727-02

Section 1.468A-3(d)(1) of the regulations provides that the amount of decommissioning costs allocable to a nuclear decommissioning fund is the taxpayer's share of the total estimated cost of decommissioning the nuclear power plant multiplied by the qualifying percentage.

Section 1.468A-3(d)(2) of the regulations provides that, in general, the total estimated cost of decommissioning a nuclear power plant is the reasonably estimated cost of decommissioning used by the applicable public utility commission in establishing or approving the amount of these costs, to be included in cost of service for ratemaking purposes.

Section 1.468A-3(d)(3) of the regulations provides that a taxpayer's share of the total estimated cost of decommissioning a nuclear power plant equals the total estimated cost of decommissioning the plant multiplied by the taxpayer's qualifying interest in the plant.

Section 1.468A-3(d)(4)(i) of the regulations provides that the qualifying percentage for any nuclear decommissioning fund is equal to the fraction, the numerator of which is the number of taxable years in the estimated period for which the nuclear decommissioning fund is to be in effect and the denominator of which is the number of taxable years in the estimated useful life of the applicable nuclear power plant.

Section 1.468A-3(d)(4)(ii) of the regulations provides that the estimated period for which a nuclear decommissioning fund is to be in effect begins on the later of (1) the first day of the first taxable year for which a deductible payment is made to the nuclear decommissioning fund (or deemed made); or (2) the first day of the taxable year that includes the date that the nuclear power plant begins commercial operations (as determined by the applicable public utility commission at the time the plant was first included in the taxpayer's rate base); and ends on the last day of the taxable year that includes the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes. According to § 1.468A-3(e)(3), the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes is determined under the ratemaking assumptions used by the applicable public utility commission in establishing or approving rates during the first ratemaking proceeding in which the nuclear power plant was included in the taxpayer's rate base.

Section 1.468A-3(d)(4)(iii) of the regulations provides that the estimated useful life of a nuclear power plant begins on the first day of the taxable year that includes the date that the plant begins commercial operations (as determined by the applicable public utility commission at the time the plant was first included in the taxpayer's rate base); and ends on the last day of the taxable year that includes the estimated date on

PLR-115727-02

which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes. According to § 1.468A-3(e)(3), the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes is determined under the ratemaking assumptions used by the applicable public utility commission in establishing or approving rates during the first ratemaking proceeding in which the nuclear power plant was included in the taxpayer's rate base.

Section 1.468A-3(f)(1) of the regulations provides that if two or more public utility commissions establish or approve rates for electric energy generated by a single nuclear power plant, then the schedule of ruling amounts shall be separately determined pursuant to the rules of §§ 1.468A-3(a) through (e) for each public utility commission that has determined the amount of decommissioning costs to be included in the cost of service for ratemaking purposes for this plant. Under § 1.468A-3(f)(2), this separate determination shall be based on the reasonable assumptions and determinations used by the relevant public utility commission and shall take into account only that portion of the total estimated cost of decommissioning that is properly allocable to the ratepayer whose rates are established or approved by the public utility commission. According to § 1.468A-3(f)(3), the ruling amounts for any taxable year is the sum of the ruling amounts for such taxable year determined under the separate schedules of ruling amounts.

Section 1.468A-3(g) of the regulations provides that the Internal Revenue Service shall not provide a taxpayer with a schedule of ruling amounts for any nuclear decommissioning fund unless the public utility commission that establishes or approves the rates for electric energy generated by the plant to which the nuclear decommissioning fund relates has determined the amount of decommissioning costs to be included in the taxpayer's cost of service for ratemaking purposes; and has disclosed the after-tax rate of return and any other assumptions and determinations used in establishing or approving the amount.

Section 1.468A-3(h)(2) of the regulations enumerates the information required to be contained in a request for a schedule of ruling amounts filed by a taxpayer in order to receive a ruling amount for any taxable year.

Section 1.468A-3(i)(1)(iii) of the regulations provides that a taxpayer is required to request a revised schedule of ruling amounts for a nuclear decommissioning fund if (A) any public utility commission that establishes or approves rates for the furnishing or sale of electric energy generated by a nuclear power plant to which the nuclear decommissioning fund relates: (1) increases the proposed period over which decommissioning costs of the nuclear power plant will be included in cost of service for ratemaking purposes; (2) adjusts the estimated date on which the nuclear power plant will no longer be included in the taxpayer's rate base for ratemaking purposes; or (3) reduces the amount of decommissioning costs to be included in cost of service for any

PLR-115727-02

taxable year; and (B) the taxpayer's most recent request for a schedule of ruling amounts did not provide notice to the Service of such action by the public utility commission.

Section 1.468A-3(i)(2) of the regulations provides that any taxpayer that has previously obtained a schedule of ruling amounts can request a revised schedule of ruling amounts. Such a request must be made in accordance with the rules of § 1.468A-3(h). The Internal Revenue Service shall not provide a revised schedule of ruling amounts applicable to a taxable year in response to a request for a schedule of ruling amounts that is filed after the deemed payment deadline date for such taxable year.

Section 1.468A-6 generally provides rules for the transfer of an interest in a nuclear power plant (and transfer of the qualified fund) where after the transfer the transferee is an eligible taxpayer. Section 1.468A-6(e)(2)(ii) of the regulations provides that a transferee of a qualifying interest in a nuclear power plant must file a request for a revised schedule of ruling amounts with respect to that interest on or before the deemed payment deadline for the first taxable year of the transferee beginning after the disposition. See section 1.468A-2(i)(1)(ii)(B). If the transferee does not timely file such a request, the transferee's ruling amount with respect to that interest for the affected year or years will be zero, unless the Internal Revenue Service waives the application of section 1.468A-6(e)(2)(ii) upon a showing of good cause for the delay.

Section 1.468A-7(a) of the regulations provides, in general, that an eligible taxpayer is allowed a deduction for the taxable year in which the taxpayer makes a cash payment (or is deemed to make a cash payment) to a nuclear decommissioning fund only if the taxpayer elects the application of section 468A. A separate election is required for each nuclear decommissioning fund and for each taxable year with respect to which payments are to be deducted under section 468A. In the case of an affiliated group of corporations that join in filing a consolidated return for a taxable year, the common parent must make a separate election on behalf of each member whose payments to a nuclear decommissioning fund during such taxable year are to be deducted under section 468A. The election under section 468A for any taxable year is irrevocable and must be made by attaching a statement ("Election Statement") and a copy of the schedule of ruling amounts provided pursuant to the rules of section 1.468A-3 to the taxpayer's federal income tax return (or, in the case of an affiliated group of corporations that join in filing a consolidated return, the consolidated return) for such taxable year. The return to which the Election Statement and a copy of the schedule of ruling amounts is attached must be filed on or before the time prescribed by law (including extensions) for filing the return for the taxable year with respect to which payments are to be deducted under section 468A.

PLR-115727-02

Section 1917(a) and (c)(1) of the Energy Act eliminated, for taxable years beginning after December 31, 1992, the investment restrictions contained in section 468A(e)(4)(C) of the Code. Section 1917(b) and (c)(2) of the Energy Act revised section 468A(e)(2) by lowering the tax rate applicable to a nuclear decommissioning fund for taxable years beginning after December 31, 1993.

We have examined the representations and information submitted by the Taxpayer in relation to the requirements set forth in the § 468A of the Code and the regulations thereunder. Based solely on these representations of the facts, we reach the following conclusions:

1. Taxpayer has a qualifying interest in the Plant and is, therefore, an eligible taxpayer under § 1.468A-1(b) of the regulations.
2. Commissions A, B, C, D, and E have determined the amount of decommissioning costs to be included in the Taxpayer's cost of service for ratemaking purposes as required by § 1.468A-3(g) of the regulations.
3. Taxpayer, as owner of the Plant, has calculated its share of the total decommissioning costs under § 1.468A-3(d)(3) of the regulations.
4. Taxpayer has determined that, pursuant to § 1.468A-3(d)(4) of the regulations, the qualifying percentage is percent for Commission A, Commission B and Commission C, and percent for Commissions D and E.
5. Taxpayer has proposed a schedule of ruling amounts which meets the requirements of §§ 1.468A-3(a)(1) and (2) of the regulations. The annual payments specified in the proposed schedule of ruling amounts are based on the reasonable assumptions and determinations used by Commissions A, B, C, D, and E and will result in a projected fund balance at the end of the funding period equal to or less than the amount of decommissioning costs allocable to the Fund.
6. The maximum amount of cash payments made (or deemed made) to the Fund during any taxable year is restricted to the lesser amount of the decommissioning costs applicable to the Fund or the ruling amount applicable to the Fund, as set forth under § 1.468A-2(b)(1) of the regulations.
7. Taxpayer, subject to the jurisdiction of public utility commissions for ratemaking purposes, has calculated its share of the total decommissioning costs allocable to Commissions A, B, C, D, and E, as

PLR-115727-02

required by § 1.468A-3(f)(2) of the regulations.

Based on the above determinations, we conclude that the Taxpayer's proposed schedule of ruling amounts satisfies the requirements of § 468A of the Code.

APPROVED SCHEDULE OF RULING AMOUNTS
TAXABLE YEARS THROUGH
COMMISSIONS A, B, C, D, AND E

<u>YEAR</u>	<u>COMM. A</u>	<u>COMM. B</u>	<u>COMM. C</u>	<u>COMM. D</u>	<u>COMM. E</u>	<u>TOTAL</u>
-------------	----------------	----------------	----------------	----------------	----------------	--------------

With agreement of the Taxpayer, this revised schedule of ruling amounts is limited to a 5-year period for the portion of the schedule of ruling amounts for Commission C, Commission D, and Commission E because these commissions have not taken into account the statutory changes made to section 468A of the Code by the Energy Act. The elimination of the investment restrictions and the reduction of the tax rate applicable to income earned by the Fund may result in a greater after-tax of return than was estimated, prior to the enactment of the Energy Act, by these commissions. This increased after-tax rate of return could, over the life of the Fund, result in a balance in the Fund on the last day of the funding period that could exceed the amount of decommissioning costs allocable to the Fund.

Thus, in order to prevent the excess accumulation in the Fund, this schedule of ruling amounts is being limited to a 5-year period, except the amounts for Commission A and Commission B, which took into account the amendments made by the Energy Act to section 468A of the Code. Approval of a revised schedule of ruling amounts may be granted after a determination by Commission C, Commission D, and Commission E of an after-tax rate of return that accounts for the reduced tax rate and unrestricted investments.

PLR-115727-02

Approval of the schedule of ruling amounts is contingent on there being no change in the facts and circumstances, known or assumed, at the time this ruling is issued. If any of the events described in § 1.468A-3(i)(1)(iii) of the regulations occur in future years, the Taxpayer must request a review and revision of the schedule of ruling amounts. Generally, the Taxpayer is required to file such a request on or before the deemed payment deadline date for the first taxable year in which the rates reflecting such action became effective. When no such event occurs, the Taxpayer must file a request for a revised schedule of ruling amounts on or before the deemed payment deadline of the tenth taxable year following the close of the tax year in which the most recent schedule of ruling amounts was received.

The approved schedule of ruling amounts is relevant only to those payments made to the Fund. Payments allocable to any funds other than the Fund cannot qualify for purposes of the deduction under the provisions of § 468A of the Code. As stated above, payments made to the Fund can qualify only to the extent that they do not exceed the lesser of the decommissioning costs applicable to the Fund or the ruling amounts applicable to the Fund in the taxable year.

This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that this ruling may not be used or cited as precedent.

Pursuant to the power of attorney on file with this office, a copy of this letter is being sent to your authorized legal representative. A copy of this letter ruling also is being sent to the Director.

Pursuant to § 1.468A-7(a) of the regulations, a copy of this letter must be attached (with the required Election Statement) to the Taxpayer's federal income tax return for each taxable year in which the Taxpayer claims a deduction for payments made to the Fund.

Sincerely yours,

PETER C. FRIEDMAN
Senior Technician Reviewer, Branch 6
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)