

STATE OF SOUTH CAROLINA  
*State Budget and Control Board*  
SOUTH CAROLINA ENERGY OFFICE

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December 4, 2007

William Levis, President and COO  
PSEG Nuclear LLC  
P.O. Box 236  
Hancock Bridge, NJ 08038-1236

Dear Mr. Levis:

I am writing to organizations within the Atlantic Compact region that have shipped significant amounts of waste to the Barnwell disposal site over the past few years. The purpose of this letter is to request information by February 15, 2008, that will help us in developing recommendations to the South Carolina Budget and Control Board (the Board) regarding the future operation of the Barnwell disposal facility.

Section 48-46-40(B)(7)(a), South Carolina Code of Laws, requires that the Board direct the suspension of disposal operations if it appears that disposal revenues received at the facility will not be sufficient to meet operating costs. Beginning July 1, 2008, the Barnwell facility may receive waste only from organizations in the three-State compact region. The disposal site can continue operating for Atlantic Compact waste if income received from regional disposal customers covers all facility operating costs and obligations.

The disposal site operator, Chem-Nuclear, LLC, recently briefed the Atlantic Compact Commission in a public meeting on its plans and cost projections for managing the disposal facility for the smaller volumes of waste expected from regional generators. Since 2000, when South Carolina joined the Atlantic Compact, there have been major changes in the market for radioactive waste treatment and disposal. Chem-Nuclear's proposals for low-volume operation of the Barnwell site are feasible only if they are consistent with the plans and preferences of the region's waste generators in today's evolving market.

In view of these changes, we need to determine whether the major waste generators within the Compact region are still committed to supporting a regional disposal facility. The disposal site operator can make plans for operating the site for smaller volumes of

waste, but ultimately the waste generators, themselves, must decide whether sustaining a regional disposal facility is their best option for management of radioactive waste into the future. If disposal operations at Barnwell must be suspended due to a lack of support on the part of regional waste customers, the decision might not be reversible, due to the expense and regulatory complexity of resuming operations at a later date.

We request that those generators who want the Barnwell site to remain available for disposal of Atlantic Compact regional waste propose a financial arrangement by February 15, 2008, for ensuring that disposal revenue will be adequate to cover all disposal facility operating costs. A workable plan might include:

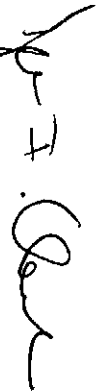
- As the basis for a revenue requirement, the amount of operating costs, margin, surcharges and other obligations identified by the disposal site operator, and the staffs of the Atlantic Compact Commission, the South Carolina Department of Health and Environmental Control and the State Budget and Control Board.
- An equitable disposal rate structure or fee methodology designed to generate enough income to meet the revenue requirement. The Budget and Control Board will be required to adopt a disposal rate schedule prior to July 2008, and it will be important to consider the views of the generators on how such a fee system should be structured.
- A legally binding mechanism for covering operating costs, in the event that the income derived from the Board-approved rate schedule falls short of the revenue requirement. Income could fall short during any period, for example, due to additional operating costs that were unanticipated, or due to fluctuations in the volume of waste received.
- Any proposed actions that might be taken by the Atlantic Compact Commission, the Budget and Control Board, or the disposal site operator within the current statutory framework that might be necessary or helpful in executing the plan.

South Carolina has no means to use tax dollars to subsidize the operating costs of the Barnwell facility in the event that disposal income falls short of the amount needed to cover costs. Therefore, if we do not have on hand information indicating that regional waste generators are committed to covering all facility operating costs through disposal revenues or financial assurance mechanisms, then our staff will need to advise the Board of this fact ahead of time, so that they may consider appropriate actions under the law.

If you believe that the Atlantic Compact generators should continue to use and support a regional disposal facility, please ask your representatives to work with their counterparts in the region to submit a plan for ensuring the economic viability of the regional disposal site not later than February 15, 2008.

If you would like further information, or if we can assist you in support of your planning, please do not hesitate to contact me or Bill Newberry at 803-737-8030.

Sincerely,

A handwritten signature in black ink, appearing to read "J.F. Clark". The signature is written in a cursive style with a large, sweeping initial "J".

John F. Clark  
Director