



July 30, 2007

Mr. Henry J. White, Executive Director
South Carolina State Budget & Control Board
P.O. Box 12444
Columbia, SC 29211

Reference: B&CB Letter dated April 24, 2007, White to Latham

Dear Mr. White:

This letter responds to your April 24, 2007 letter requesting Chem-Nuclear Systems prepare a detailed plan for reducing costs at the Barnwell disposal facility commensurate with the expected reduction in waste to be received at the site beginning in July 2008. On June 13, 2007, we requested an extension of the deadline for preparation of our draft plan until July 31, 2007.

In contrast to conclusions that could have been drawn from our FY 2006/0007 Least Cost Operating Plan, it now appears that for at least the first few years of in-region operations, waste volumes will be sufficient to generate receipts that will be adequate to reimburse Chem-Nuclear Systems, as the site operator, for its costs of operating the facility and its operating margin. The FY 2007/2008 Least Cost Operating Plan reflects this revised conclusion.

The costs of disposal site operations have been assessed based on updated operational costs and waste volume projection information. The projections of waste types and volumes are based on information provided by the Budget and Control Board staff in recent discussions and correspondence. Our anticipated operating costs have been reduced to the extent practicable. We examined fixed costs on a project-by-project basis and reduced costs where appropriate for the anticipated reduced tempo of operations. Variable costs were based on the most recent approved variable cost rates multiplied by the appropriate variable parameter based on anticipated waste types and volumes. The projected costs described in this letter include nominal inflation factors.

We also made assumptions on the prices to be charged for waste received for disposal. These pricing assumptions were based on the Uniform Schedule of Maximum Disposal Rates for Atlantic Compact Regional Waste which is adjusted each year in accordance with the Producer Price Index (PPI). We applied a two-year historical average adjustment to the rates assumed for billing purposes during the first three years of in-region operations.

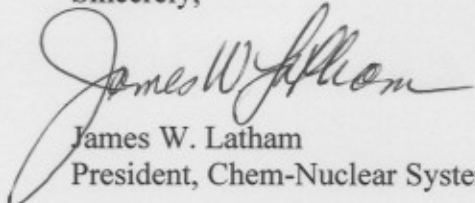
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The anticipated wastes in the first three years of in-region operations include base load waste, stored waste, and certain large components. If these volumes and types of waste are received at the site, the financial projections are positive. After the first three years of in-region operations, only base load volumes and waste types are projected. If all base load wastes are received at the disposal site, revenue is marginally sufficient to cover the cost of operations in the future years.

Since the rates to be charged are adjusted each year in accordance with the PPI, that is a factor outside Chem-Nuclear Systems' control. There are also a number of variables affecting costs that may be outside the company's control. We anticipate reexamining estimated costs and invoiced amounts each year as part of the process to develop the Least Cost Operating Plan as required by statute. As each year comes into closer focus (about 3 to 4 years in the future), we will be able to better determine anticipated invoice amounts and appropriate cost reductions and the likelihood for suspended operations.

The attachment to this letter provides details of our cost estimates for the first three years of in-region operations. We also used these cost estimates as part of the FY 2007/2008 Least Cost Operating Plan.

Sincerely,



James W. Latham
President, Chem-Nuclear Systems

Attachment

c: Mr. Benjamin Johnson, Atlantic Compact Commission
Ms. Claire Prince, DHEC
Mr. Jay Jashinsky, Office of Regulatory Staff

**Barnwell Low-Level Radioactive Waste Disposal Site
Operating Costs for FY 2008-2009, FY 2009-2010, and FY 2010-2011**

1. Volumes Assumed: The following table summarizes the base load volume assumptions by waste classification based on recent discussions with South Carolina Budget and Control Board staff.
 - a. One slit trench offload will be received in FY 2008-2009; zero slit trench offloads in FY 2009-2010; and one slit trench offload in FY 2010-2011
 - b. Three steam generators will be received in FY 2009-2010
 - c. One steam generator will be received in FY 2010-2011

Waste Volume Projections by Waste Class

	Class A Waste	Class B Waste	Class C Waste	Total Volume
Base Load Volume	8,763 cu. ft.	1,265 cu. ft.	1,316 cu. ft.	11,344 cu. ft.
Volume Hold Waste (FY 08-09 only)	4,725 cu. ft.	1,387.5 cu. ft.	1,387.5 cu. ft.	7,500 cu. ft.
Slit trench			57.4 cu. ft.	57.4 cu. ft.
Total FY 08-09				18,901.4 cu. ft.

2. Billed Activity Assumptions: Disposal pricing is assumed to be at the Maximum Uniform Rate Schedule (MURS) for Base Load waste and Slit Trench waste. Volume Hold Waste pricing is assumed to be at an average of \$280 per cubic foot.
 - a. The average rate for 23 in-compact shipments of waste (849.39 cubic feet) received between July 2006 and May 2007 and billed using the MURS was \$714.04 per cubic foot.
 - b. The average rate for 2 in-compact shipments of slit trench waste (115.6 cubic feet) received between July 2006 and May 2007 and billed using the MURS was \$4,895.27 per cubic foot.
 - c. The MURS is adjusted each year in accordance with the Producer Price Index. The average rate of adjustment for the past two years (FY 05/06 to FY 06/07 and FY 06/07 to FY 07/08) was 4.3%. This average rate of adjustment was used to estimate the MURS for future years.
 - d. The disposal price for each steam generator is assumed to be \$1,000,000.

3. Key Cost Assumptions:

- a. Fixed Costs are based on FY 2005-2006 costs by project with appropriate reductions (in labor and other costs) on a project-by-project basis.
- b. Irregular Costs are based, in part, on A/B/C Trench Operations. The basic unit of A/B/C Trench construction provides for disposal of 8,000 cubic feet of waste. 2.36 units of A/B/C construction are assumed as an irregular cost to dispose of 18,901.4 cubic feet. The cost for constructing a slit trench for one offload is assumed to be comparable to A/B/C Trench construction costs for a similar volume of waste
- c. Variable Costs are based on variable cost rates for FY 06-07 as defined by PSC Order 2007-418 dated June 7, 2007.
 - i. The variable cost parameters (number of vaults, number of shipments, number of containers, etc) were developed from FY 06-07 data
 - 1. For FY 08-09, data was used from the period July 2006 through March 2007 when 19,032.1 cubic feet of Class A, B and C waste was received plus 1,378.4 cubic feet of slit trench waste. The amount of ABC waste is approximately equal to the anticipated FY 08-09 volume.
 - 2. For FY 09-10 and FY 10-11, data was used from the period July 2006 through November 2006.

Variable Cost Rate Parameters

Variable Cost Parameter.	FY 06-07 Jul – Mar	FY 08-09	FY 06-07 Jul-Nov	FY 09-10	FY 10-11
ABC volume	19,032.1 cu.ft.	18,844 cu.ft.	11,781.4 cu.ft.	11,344 cu.ft.	11,344 cu.ft.
Slit trench volume	1,378.4 cu.ft.	57.4 cu.ft.	918.4 cu.ft.	0	57.4 cu.ft.
ABC shipments	169 shipments	169 shipments	97 shipments	97 shipments	97 shipments
Slit trench shipments	24 shipments	1 shipment	16 shipments	0	1 shipment
Total Vaults	173 vaults	150 vaults	103 vaults	87 vaults	88 vaults
Total Shipments	193 shipments	170 shipments	113 shipments	97 shipments	98 shipments
Total Packages	376 packages	353 packages	204 packages	188 packages	189 packages

- d. Costs that are based on FY 05-06 costs are inflated by three years to FY 08-09 costs. Costs that are based on FY 06-07 costs are inflated two years to FY 08-09 when appropriate.
- e. The annual rate of inflation for CNS labor is assumed to be 3.5% and for other costs it is assumed to be 3.0%

4. Revenue and Cost Summary: Based on these assumptions, the costs of operations during the in-region period are expected to decrease significantly from current levels.

Revenue and Cost Summary
FY 2008-2009, FY 2009-2010, and FY 2010-2011

	FY 08-09	FY 09-10	FY 10-11
Total Billed Activity	\$11,285,734	\$12,258,616	\$10,986,682
Fixed costs	\$ 5,704,204	\$5,876,992	\$5,964,382
Fixed cost margin	\$ 1,644,568	\$1,694,676	\$1,720,019
Variable costs	\$ 271,871	\$92,575	\$106,846
Variable cost (vaults)	\$ 841,821	\$516,934	\$541,110
Variable Margin	\$ 322,971	\$176,758	\$187,907
Irregular Cost	\$ 247,107	\$819,760	\$353,639
Irregular Margin	\$ 71,661	\$237,730	\$102,555
Other Allowable Costs	\$ 1,640,606	\$1,839,086	\$1,623,315
Total costs plus margin	\$10,744,809	\$11,254,511	\$10,599,774
Estimated amount due to the state	\$540,925	\$1,004,105	\$386,907

Three Year Summary

	FY 08-09	FY 09-10	FY 10-11
Volume			
Base Load	11,344 cu.ft.	11,344 cu.ft.	11,344 cu.ft.
Volume Held Waste	7,500 cu.ft.	0 cu.ft.	0 cu.ft.
Slit Trench	57.4 cu.ft.	0 cu.ft.	57.4 cu.ft.
Steam Generators	0 cu.ft.	20,580 cu.ft.	6,860 cu.ft.
Total Volume	18,901.4 cu.ft.	31,924 cu.ft.	18,205 cu.ft.
Billed Activity			
Base Load	\$8,879,716.79	\$9,258,617.86	\$9,653,811.67
Volume Held Waste	\$2,100,000.00	0	0
Slit trench	\$306,017.62	0	\$332,870.70
Steam Generators	0	\$2,999,998.05	\$999,999.35
Total Billed Activity	\$11,285,734.41	\$12,258,615.91	\$10,986,681.73
Operating Costs plus Statutory Margin	\$10,744,809.42	\$11,254,511.16	\$10,599,744.47
Estimated Amount Due to the State	\$540,924.990	\$1,004,104.75	\$386,907.26