

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF THE EXECUTIVE DIRECTOR

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EXECUTIVE DIRECTOR

April 24, 2007

Mr. James Latham
President, Barnwell Disposal Operations
Chem-Nuclear Systems, LLC
740 Osborn Road
Barnwell, SC 29812

Dear Mr. Latham:

I am writing to request that Chem-Nuclear prepare a detailed draft plan by June 30, 2007, for reducing operating costs at the Barnwell disposal facility commensurate with the reduction in waste to be received at the site beginning July 2008.

Under the Atlantic Compact Act of 2000 (Section 48-46-40(B)(7)(a), South Carolina Code of Laws), the South Carolina Budget and Control Board is required to take certain actions if it concludes that disposal revenues from the Barnwell disposal facility may not be sufficient to cover operating costs for a forthcoming period. This section of the law states:

“If the board, upon the advice of the compact commission or the site operator, concludes based on information provided to the board, that the volume of waste to be disposed during a forthcoming period of time does not appear sufficient to generate receipts that will be adequate to reimburse the site operator for its costs of operating the facility and its operating margin, then the board shall direct the site operator to propose to the compact commission plans including, but not necessarily limited to, a proposal for discontinuing acceptance of waste until such time as there is sufficient waste to cover the site operator’s operating costs and operating margin. Any proposal to suspend operations must detail plans of the site operator to minimize its costs during the suspension of operations. Any such proposal to suspend operations must be approved by the Department of Health and Environmental Control with respect to safety and environmental protection.”

On March 19, 2007, the Atlantic Compact Commission advised the Board that disposal revenues may not be sufficient to cover operating costs beginning in either Fiscal Year 2009 or Fiscal Year 2010. Chem-Nuclear’s “Least Cost Operating Plan,” for Fiscal Year

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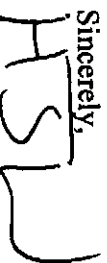
2006/2007 also discusses this potential shortfall in operating revenue and states that, "unless significant changes are made to operational approach and pricing structures, under the requirements of the Atlantic Compact Law, CNS expects to notify the S.C. Budget and Control Board some time in 2008 that suspended operations will be required within the first year of in-region operations." (p. 75)

Based on this information and our statutory mandate, the Board, therefore, requests Chem-Nuclear to prepare plans to reduce operating costs to those strictly necessary for continued operation of the Barnwell site for Atlantic Compact waste. While suspension of site operations is one option that is mentioned in the law, it would be reasonable to examine other options as well, such as a campaign-style operations of the type discussed in the Least Cost Operating Plan.

Because operating costs of the Barnwell site are drawn from disposal income paid by disposal customers on an ongoing basis, there is a potential for cash-flow issues very early in Fiscal Year 2009. Your prompt attention to this potential problem will provide the other parties to the Public Service Commission proceedings on operating costs an opportunity to review the draft plans with you and to develop specific proposals for consideration prior to the onset of any negative cash flow situation.

As you prepare the draft plan, please do not hesitate to call upon my staff for any information or assistance that we can provide. If you find that you require additional time to complete the draft report, please let us know. Thank you for your participation in this important planning activity.

Sincerely,


Henry J. White

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