

Internal Revenue Service

Number: **202441012**
Release Date: 10/11/2024
Index Number: 468A.01-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:B6
PLR-118971-22
Date: July 10, 2024

Re: Schedule of Deduction Amounts

LEGEND:

- Taxpayer =
- Company A =
- Company B =
- Company C =
- Company D =
- Company E =
- Unit =
- Location =
- Commission =
- Method =
- A =
- B =
- C =
- D =
- E =
- F =
- Study =

- Date A =
- Year 1 =
- Year 2 =

Year 3 =
Year 4 =
Fund =

Dear :

This letter responds to your request, dated October 3, 2022, for an initial schedule of deduction amounts pursuant to section 468A(f) of the Internal Revenue Code and § 1.468A-8 of the Income Tax Regulations and for a mandatory revised schedule of ruling amounts under section 468A(f)(3). The request for a schedule of ruling amounts is mandatory, within the meaning of § 1.468A-3(f)(1)(iii), on behalf of Taxpayer and its subsidiaries. Taxpayer submitted supplemental information by email on October 3, 2023. Information was submitted pursuant to § 1.468A-3(e)(2).

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

Taxpayer, a corporation for federal income tax purposes, is a holding company and the sole owner of Company A, a limited liability company, which is a disregarded entity for federal income tax purposes. Company A indirectly owns the entirety of Company B, which has elected to be treated as a corporation for federal income tax purposes, through its subsidiaries, Company C and Company D, both of which are treated as disregarded entities for federal income tax purposes. Company B is the sole owner of Company E, which is treated as a disregarded entity for federal income tax purposes and is the sole owner of the Unit. Company E and Company A are the licensees of the Unit under the regulation of Commission. Accordingly, for federal income tax purposes, the Unit is owned by Company B. The rulings below are given to Taxpayer and the subsidiaries described above and we refer to these entities collectively below as "Taxpayer."

The Unit is situated at Location. The Unit's amended operating license is scheduled to expire on Date A. The Unit is not currently subject to the ratemaking authority of any jurisdiction. Therefore, the estimated base cost for decommissioning Plant is based on a Study and the proposed method of decommissioning the Plant is Method.

The estimated cost of \$B (Year 1 dollars) was used as a base cost for decommissioning the Unit. The estimated cost of decommissioning the Unit in future dollars is \$C. It is estimated that substantial decommissioning costs will first be incurred in Year 2 and that decommissioning will be substantially complete at the end of Year 3. The methodology used to convert the Year 1 dollars to future dollars was by escalating the estimated costs at an inflation rate of A percent to the year of estimated expenditure.

Unit was originally placed in service in Year 4. In the first ratemaking proceeding in which costs of Unit were allowed to be recovered, the estimated useful life of Unit was E years. Prior to amendment in 2005, § 468A limited the percentage of the total expected costs of decommissioning that owners could contribute to a fund qualified under § 468A to the percentage representing the useful life of the nuclear plant remaining as of 1984, when § 468A was first enacted. Taxpayer has demonstrated that the percentage of the total anticipated decommissioning costs allowed to be contributed under the 2005 addition of § 468A(f) is F percent.

Section 468A(a), as amended by the Energy Tax Incentives Act of 2005 (the Act), Pub. L. 109-58, 119 Stat. 594, allows an electing taxpayer to deduct payments made to a nuclear decommissioning reserve fund.

Section 468A(b) limits the amount that may be paid into the nuclear decommissioning fund in any year to the ruling amount applicable to that year. Prior to the changes made by the Act, the deduction was limited to the lesser of the amount included in the utility's cost of service for ratemaking purposes or the ruling amount. Generally, as a result, only regulated utilities could take advantage of section 468A. The Act amendment of section 468A eliminated the cost-of-service limitation. Accordingly, decommissioning costs of an unregulated nuclear power plant may now be funded by deductible contributions to a qualified nuclear decommissioning fund.

Section 468A(d)(1) 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 tax year is defined under § 468A(d)(2) as the amount which the Secretary determines to be necessary to fund the total nuclear decommissioning cost of that nuclear power plant over 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.

Prior to the changes made by the Act, deductible contributions were limited to the amount necessary for an electing taxpayer to fund the plant's post-1983 nuclear decommissioning costs (determined as if decommissioning costs accrued ratably over the estimated useful life of the plant), provided that the taxpayer elected to establish a fund in 1984. Prior law also did not allow a taxpayer electing to establish a fund later than 1984 to contribute to that fund any amount in excess of that amount necessary to fund the ratable portion of the plant's nuclear decommissioning costs beginning in the year the fund is established.

Section 468A(f)(1) now allows a taxpayer to contribute to a nuclear decommissioning fund the entire cost of decommissioning the plant, including both the pre-1984 amount that was denied under the law prior to the Act as well as any amount attributable to any year after 1983 in which a taxpayer had not established a fund under § 468A. Section 468A(f)(2)(A) provides that the deduction for the contribution of the

previously-excluded amount is allowed ratably over the remaining useful life of the nuclear plant.

Section 468A(h) provides that a taxpayer shall be deemed to have made a payment to the nuclear decommissioning fund on the last day of a taxable year if the payment is made on account of such taxable year and is made within 2 ½ months after the close of the tax year. This section applies to payments made pursuant to either a schedule of ruling amounts or a schedule of deduction amounts.

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

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

Section 1.468A-3(a)(1) provides that, in general, a schedule of ruling amounts for a nuclear decommissioning fund is a ruling specifying annual payments that, over the tax years remaining in the "funding period" as of the date 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) provides that, to the extent consistent with the principles and provisions of this section, each schedule of ruling amounts shall be based on reasonable assumptions concerning the after-tax rate of return to be earned by the amounts collected for decommissioning, the total estimated cost of decommissioning the nuclear plant, and the frequency of contributions to a nuclear decommissioning fund for a taxable year. Under § 1.468A-3(a)(3), the Internal Revenue Service shall provide a schedule of ruling amounts 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 that section.

Section 1.468A-3(a)(4) provides that the taxpayer bears the burden of demonstrating that the proposed schedule of ruling amounts is consistent with the principles of the regulations and that it is based on reasonable assumptions. That section also provides additional guidance regarding how the Service will determine whether a proposed schedule of ruling amounts is based on reasonable assumptions. For example, if a public utility commission established or approved the currently applicable rates for the furnishing or sale by the taxpayer of electricity from the plant, the taxpayer can generally satisfy this burden of proof by demonstrating that the schedule of ruling amounts is calculated using the assumptions used by the public utility

commission in its most recent order. In addition, a taxpayer that owns an interest in a deregulated nuclear plant may submit assumptions used by a public utility commission that formerly had regulatory jurisdiction over the plant as support for the assumptions used in calculating the taxpayer's proposed schedule of ruling amounts, with the understanding that the assumptions used by the public utility commission may be given less weight if they are out of date or were developed in a proceeding for a different taxpayer. The use of other industry standards, such as the assumptions underlying the taxpayer's most recent financial assurance filing with the NRC, are described by the temporary regulations as an alternative means of demonstrating that the taxpayer has calculated its proposed schedule of ruling amounts on a reasonable basis. Section 1.468A-3(a)(4) further provides that consistency with financial accounting statements is not sufficient, in the absence of other supporting evidence, to meet the taxpayer's burden of proof.

Section 1.468A-3(b)(1) provides that, in general, the ruling amount for any tax year in the funding period shall not be less than the ruling amount for any earlier tax year. Under § 1.468A-3(c)(1), the funding period begins on the first day of the first tax 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 last day of the estimated useful life of the nuclear power plant to which the fund relates.

Section 1.468A-3(c)(2) provides rules for determining the estimated useful life of a nuclear plant for purposes of § 468A. In general, under § 1.468A-3(c)(2)(i)(A), if the plant was included in rate base for ratemaking purposes for a period prior to January 1, 2006, the date used in the first such ratemaking proceeding as the estimated date on which the nuclear plant will no longer be included in the taxpayer's rate base is the end of the estimated useful life of the nuclear plant. Section 1.468A-3(c)(2)(i)(B) provides that, if the nuclear plant is not described in § 1.468A-3(c)(2)(i)(A), the last day of the estimated useful life of the nuclear plant is determined as of the date the plant is placed in service. Under § 1.468A-3(c)(2)(i)(C), any reasonable method may be used in determining the estimated useful life of a nuclear power plant that is not described in § 1.468A-3(c)(2)(i)(A).

Section 1.468A-3(d)(1) 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. Section 1.468A-3(d)(3) provides that a taxpayer's share of the total estimated cost of decommissioning a nuclear power plant equals the total estimated cost of decommissioning such plant multiplied by the taxpayer's qualifying interest in the plant.

Section 1.468A-3(e)(2) 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(f)(1) describes those situations in which a taxpayer must request a revised schedule of ruling amounts. Section 1.468A-3(f)(1)(iii) provides that

any taxpayer requesting a schedule of deduction amounts under § 1.468A-8 must also request a revised schedule of ruling amounts for that fund. Such a request must be made in accordance with the rules of § 1.468A-3(e).

Section 1.468A-8(a)(3) provides that the taxpayer is not required to transfer the entire amount eligible for the special transfer in one year but must take any prior special transfers into account in calculating the pre-2005 qualifying percentage.

Section 1.468A-8(b) provides that the deduction for the special transfer is allowed ratably over the remaining useful life of the nuclear plant. Under § 1.468A-8(b)(2)(i), the deduction for property contributed in a special transfer is limited to the lesser of the fair market value of the property or the taxpayer's basis in the property. Under § 1.468A-8(b)(5), the taxpayer recognizes no gain or loss on the special transfer of property, the taxpayer's basis in the fund is not increased by reason of the special transfer of property, and the fund's basis in the property transferred in the special transfer is the same as the transferee's basis in that property immediately prior to the special transfer.

Section 1.468A-8(c) provides that taxpayer may not make a special transfer to a qualified nuclear decommissioning fund unless the taxpayer requests from the IRS a schedule of deduction amounts in connection with such transfer. A request for a schedule of deduction amounts may be made in connection with a request for a schedule of ruling amounts but in such case, the calculations for both the schedule of ruling amounts and the schedule of deduction amounts must be separately stated.

As stated above, prior to the changes made by the Act, deductible contributions were limited to the lesser of (1) the amount necessary to fund the plant's post-1983 nuclear decommissioning costs, or (2) the amount necessary to fund the plant's decommissioning costs for that portion of the plant's estimated useful life for which a fund had been established. Section 468A(f)(1) now allows a taxpayer to contribute to the nuclear decommissioning fund the entire cost of decommissioning the plant, including both the pre-1984 amount that was denied under the law prior to the Act as well as any amount attributable to any year after 1983 in which a taxpayer had not established a fund under § 468A.

We have examined the representations and information submitted by the Taxpayer in relation to the requirements set forth in § 468A and the regulations thereunder. Based solely upon these representations of the facts, we conclude that the Taxpayer may make a special transfer to the fund as set forth below.

APPROVED SCHEDULE OF DEDUCTION AMOUNTS

Year	Deduction Amount
Year 1	\$D

The special transfer amount stated above is the maximum permitted to be transferred to the Fund under § 468A(f)(1) for that special transfer. If Taxpayer transfers a lesser amount to the Fund, the Taxpayer may deduct the lesser amount in Year 1. Further, in the event that the Taxpayer transfers a lesser amount, in order to make an additional special transfer in a later year (including a special transfer of the difference between the special transfer amount stated above and the lesser amount actually transferred), Taxpayer must request a new schedule of deduction amounts and that in that request must take all special transfers made into account and recalculate the pre-2005 qualifying percentage in such request.

We note that, if Taxpayer elects to make a special transfer of property for all or a portion of this special transfer, the amount of the transfer is the lesser of the fair market value of the property transferred or the basis of the property in the hands of the Taxpayer immediately prior to the transfer. In either event, the deduction of the Taxpayer with respect to the property is limited to the Taxpayer's basis in the property.

Section 1.468A-3(f)(1)(iii) requires that a taxpayer requesting a schedule of deduction amounts under § 1.468A-8 must also request a revised schedule of ruling amounts for the applicable fund. However, § 1.468A-3(f)(1)(v) provides that if a taxpayer is required to request a revised schedule of ruling amounts and each ruling amount in the revised schedule would equal zero, a taxpayer may, instead of requesting a revised schedule of ruling amounts, begin treating the ruling amount as equal to zero dollars. Taxpayer has no schedule of ruling amounts in effect for the current or future years and therefore its annual ruling amount is zero. Pursuant to § 1.468A-3(f)(1)(v), Taxpayer will continue to treat its annual ruling amount as equal to zero dollars and, accordingly, has not made a request for a revised schedule of ruling amounts.

Except as specifically determined above, no opinion is expressed or implied concerning the Federal income tax consequences of the transaction described above.

This ruling is directed only to the Taxpayer who requested it. Section 6110(k)(3) of the Code provides it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your designated representatives. Pursuant to § 1.468A-7(a), a copy of this letter must be attached (with the required Election Statement) to the Taxpayer's federal income tax

PLR-118971-22

return for each tax year in which the Taxpayer claims a deduction for payments made to the Fund.

Sincerely,

/s/

Patrick S. Kirwan
Branch Chief, Branch 6
Office of Associate Chief Counsel
(Passthroughs & Special Industries)

cc: