Internal Revenue Service

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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:ECE:B02
PLR-116544-24
PLR-116545-24

Date:
December 09, 2025

In Re:

LEGEND

Seller	=
Buyer	=
Parent	=
Plant	=
Entity A	=
Entity B	=
Entity C	=
City A	=
City B	=
State	=
Trust A	=

Trust B	=
a	=
b	=
c	=
d	=
e	=
f	=
g	=
h	=
i	=
j	=
k	=
Date 1	=
Date 2	=
Date 3	=
Date 4	=
Date 5	=
Commission A	=
Commission B	=
Commission B Rule	=

Dear :

This letter responds to your letter dated Date 1, as supplemented with additional information submitted on Date 2, Date 3, and Date 4, requesting a private letter ruling concerning the tax consequences of a sale of a partial interest in a nuclear power plant and associated assets and liabilities, including nuclear decommissioning liabilities, between Seller and Buyer. Specifically, you have requested rulings regarding the tax consequences of this sale under sections 468A, 671, and 1001 of the Internal Revenue Code.[1]

Buyer and Seller, in a jointly filed ruling request, have represented the following facts and information relating to the ruling request:

[1] Unless otherwise specified, all "section" or "§" references are to sections of the Internal Revenue Code (Title 26 U.S.C.) or the Income Tax Regulations (26 C.F.R. part 1).

Background and Facts

Seller is a limited liability company formed under State law and a subsidiary of Parent. For federal income tax purposes, Seller is treated as a disregarded entity of Parent and joins Parent in the filing of a consolidated federal income tax return on a calendar-year basis using the accrual method of accounting. Buyer is an electric and gas utility owned by City A, a political subdivision and municipal corporation of State. City A owns Buyer's assets and, as allowed under State law, has delegated management and control of those assets to Buyer's board of trustees.

City B, Entity A, Entity B, and Entity C are not part of this ruling and are discussed solely to provide the background necessary to this ruling.

Plant is a nuclear power plant consisting of two units and associated assets located together on a single property in State. Seller, Buyer, and City B own a, b, and c percent undivided tenant-in-common interests in Plant, respectively. Commission A and Commission B have jurisdiction over Plant.

Seller's a percent interest and Buyer's b percent interest originate from three prior ownership sales, each sale occurring years apart. Before the first sale, Plant had the following ownership (each owner owning an undivided tenant-in-common interest): Entity A (d percent), Entity B (e percent), Buyer (f percent), and City B (c percent). Each owner maintained a nuclear decommissioning trust whose assets were dedicated exclusively to satisfying the owner's decommissioning obligations for Plant. Entity A sold g percentage points of its d percent interest to Buyer and the remaining h percentage points to Entity B. Entity A also transferred its trust assets to Buyer and Entity B, allocated according to the interests purchased, which assets Buyer and Entity B placed in separate trusts. Following the sale, Entity B, Buyer, and City B owned a, b, and c percent interests in Plant, respectively. Entity B maintained two trusts: one for its e percent interest and another for its h percent interest (in total, a percent). Similarly, Buyer maintained a trust for its f percent interest and another trust for its g percent interest (Trust B), which two trusts totaled b percent. Buyer maintains under Trust B a sub-trust for each unit of Plant; each sub-trust is a nonqualified fund as defined in § 1.468A-1(b)(4). Because Buyer is not subject to federal income tax, it does not maintain a qualified nuclear decommissioning fund (qualified fund), as defined in § 1.468A-1(b)(4).

The second sale consisted of Entity B selling its entire a percent interest to Entity C, thereby fully divesting Entity B of any interest in Plant. Entity C created two separate nuclear decommissioning trusts to hold the assets in Entity B's two trusts: one for the e percent interest and another for the h percent interest (Trust A).

In the third sale, Entity C sold its entire a percent interest to Seller, after which Entity C no longer held any interest in Plant. Seller thereafter took ownership of Entity

C's two trusts. Under Trust A, Seller maintains, for each unit of Plant, two sub-trusts: one that is a qualified fund and another that is a nonqualified fund.

Buyer held a right of first refusal as to Entity C's interest that was not honored at the time Entity C sold its interest to Seller, leading to dispute that was later settled. As part of the settlement, Buyer and Seller executed an Asset Purchase Agreement dated Date 5 (Agreement). The Agreement obligates Seller to transfer to Buyer a i percent undivided tenant-in-common interest in Plant in exchange for a cash payment from Buyer; Buyer must assume the Seller's nuclear decommissioning liabilities associated with the i percent interest; and Seller must transfer approximately j percent of the combined fair market value of its two trusts (as of the sale closing date) to Buyer, which transfer represents the proportionate share of nuclear decommissioning assets associated with the i percent interest. Buyer and Seller have agreed that the assets shall be transferred from Trust A's two qualified funds to Trust B's two nonqualified funds.

Following the sale closing date, Buyer and Seller will become equal co-owners, each owning k percent of Plant. Buyer and Seller represent that the sale will not otherwise alter Plant's operational and ownership structures, that City B has waived its right of first refusal with respect to the sale, and that Commission A and Commission B have approved the sale. Seller represents that it will report the sale as a taxable sale under section 1001 for federal income tax purposes.

As explained above, Seller's and Buyer's interests in Plant started with a sale involving Entity A. Entity A was a regulated utility subject to Commission B's jurisdiction and collected its share of Plant's nuclear decommissioning costs in a nonbypassable charge to its ratepayers. Commission B regulates nuclear power plant sales between regulated and unregulated parties. Commission B Rule requires the parties to the sale to enter into a collection agreement governing the administration, collection, and remittance of nuclear decommissioning costs collected from ratepayers. Among other requirements, the agreement must provide that the seller's nuclear decommissioning responsibilities and rights to accumulated and future decommissioning cost collections from ratepayers are transferred to buyer at the sale's closing, and that seller will remit to buyer any future decommissioning costs collected from ratepayers. Generally, Commission B Rule requires these funds to be placed in a separate trust that is subject to Commission B's oversight.

Pursuant to Commission B Rule, Entity A executed separate collection agreements with Entity B and Buyer, then with Entity C when it acquired its interest from Entity B, and finally with Seller when it acquired its interest from Entity C. Because Seller is transferring funds that are subject to Commission B's oversight, Buyer and Seller represent that they will amend their respective collection agreements with Entity A to reflect the transfer of the i percent interest and execute a collection agreement between themselves.

Rulings Requested

1. Pursuant to section 671, Trust B is a grantor trust and Buyer will be treated as the grantor of Trust B.
2. Pursuant to § 1.468A-5(c)(1), the transfer of a proportionate amount of assets from Trust A's qualified funds to Trust B's nonqualified funds will disqualify that portion of Trust A's qualified funds.
3. Pursuant to § 1.468A-5(c)(3), the proportionate amount of assets of Trust A's qualified funds transferred to Trust B's nonqualified funds will be deemed to be distributed to Seller on the date of the transfer and be included in Seller's gross income, net of taxes paid by Trust A's qualified funds. Seller will take a fair market value basis in the assets deemed distributed.
4. Pursuant to § 1.468A-5(c)(3), Trust A's qualified funds will be treated as disposing of the proportionate amount of the assets deemed distributed from Trust A's qualified funds under section 1001. In determining the amount of gain or loss from such disposition, the amount realized by Trust A's qualified funds from such disposition will be the fair market value of such assets as of the date of the transfer.
5. Neither Buyer nor Trust B will recognize any gain or loss, or otherwise take any income into account, by reason of the transfer of assets from Trust A's qualified funds to Trust B's nonqualified funds, and neither Buyer nor Trust B will recognize income upon the receipt of decommissioning costs collected in a nonbypassable charge to customers on behalf of Buyer and remitted to Buyer or Trust B.

Law and Analysis

Requested Ruling No. 1: Pursuant to section 671, Trust B is a grantor trust and Buyer will be treated as the grantor of Trust B.

Section 671 provides that where it is specified in subpart E of part I of subchapter J that the grantor or another person shall be treated as the owner of any portion of a trust, there shall then be included in computing the taxable income and credits of the grantor or the other person those items of income, deductions, and credits against tax of the trust which are attributable to that portion of the trust to the extent that such items would be taken into account under chapter 1 in computing taxable income or credits against the tax of an individual.

Section 1.671-2(e)(1) provides that for purposes of part I of subchapter J, chapter 1 of the Internal Revenue Code, a grantor includes any person to the extent such person either creates a trust, or directly or indirectly makes a gratuitous transfer (within the meaning of § 1.671-2(e)(2)) of property to a trust. For purposes of § 1.671-2, the term property includes cash.

Section 1.671-2(e)(2)(i) provides that a gratuitous transfer is any transfer other than a transfer for fair market value.

Section 1.671-2(e)(2)(ii) provides that for purposes of § 1.671-2(e), a transfer is for fair market value only to the extent of the value of property received from the trust, services rendered by the trust, or the right to use property of the trust.

Section 677 provides that the grantor shall be treated as the owner of any portion of a trust, whether or not he is treated as such under section 674, whose income without the approval or consent of any adverse party is, or, in the discretion of the grantor or a nonadverse party, or both, may be distributed to the grantor, or held or accumulated for future distribution to the grantor.

Section 1.677(a)-1(d) provides that under section 677 a grantor is, in general, treated as the owner of a portion of a trust whose income is, or in the discretion of the grantor or a nonadverse party, or both, may be applied in discharge of a legal obligation to the grantor.

Because Buyer is treated as purchasing the assets of Trust A's qualified funds for federal income tax purposes, Buyer is treated as contributing those assets as Trust B's grantor. Under the terms of the Trust B agreement, all income, as well as principal of the nonqualified funds, is held to satisfy Buyer's legal obligation to decommission Plant. Accordingly, Trust B is a grantor trust and Buyer is treated as its grantor and owner under section 677 and § 1.677(a)-1(d).

Requested Ruling No. 2: Pursuant to § 1.468A-5(c)(1), the transfer of a proportionate amount of assets from Trust A's qualified funds to Trust B's nonqualified funds will disqualify that portion of Trust A's qualified funds.

Section 1.468A-1(b)(4) provides that a "qualified nuclear decommissioning fund" is a fund that satisfies the requirements of § 1.468A-5 and a "nonqualified fund" is a fund that does not satisfy those requirements.

Section 1.468A-5(a)(2) provides that a qualified fund is not permitted to accept any contributions in cash or property other than cash payments with respect to which a deduction is allowed under section 468A(a) and § 1.468A-2(a).

Section 1.468A-5(c)(1)(i) provides that, except as otherwise provided in § 1.468A-5(c)(2), the IRS may in its discretion disqualify all or any portion of a qualified fund if at any time during the fund's taxable year: (A) the fund does not satisfy the requirements of § 1.468A-5(a); or (B) the fund and a disqualified person engage in an act of self-dealing (as defined in § 1.468A-5(b)(2)).

Section 1.468A-5(c)(1)(ii)(A) provides that the date on which a disqualification under § 1.468A-5(c) will take effect is the date that the fund does not satisfy the requirements of § 1.468A-5(a) or the date on which the act of self-dealing occurs, whichever is applicable.

On the sale closing date, Trust A will transfer a proportionate amount of assets (i.e., approximately j percent of the combined fair market value of Seller's two nuclear decommissioning trusts determined as of the sale closing date) from its qualified funds to Trust B's nonqualified funds. These assets will no longer be maintained in a qualified fund and thus will fail to satisfy the requirements of § 1.468A-5. We will exercise our discretion under § 1.468A-5(c)(1) and disqualify only the assets transferred out of the qualified funds. Accordingly, the transfer of a proportionate amount of assets from Trust A's qualified funds to Trust B's nonqualified funds will disqualify that portion of Trust A's qualified funds.

Requested Ruling No. 3: Pursuant to § 1.468A-5(c)(3), the proportionate amount of assets of Trust A's qualified funds transferred to Trust B's nonqualified funds will be deemed to be distributed to Seller on the date of the transfer and be included in Seller's gross income, net of taxes paid by Trust A's qualified funds. Seller will take fair market value basis in the assets deemed distributed.

Section 1.468A-5(c)(3) provides that if all or any portion of a qualified fund is disqualified under § 1.468A-5(c)(1), the portion of the qualified fund that is disqualified is treated as distributed to the electing taxpayer on the date of the disqualification. Such a distribution shall be treated for purposes of section 1001 as a disposition of property held by the qualified fund. In addition, the electing taxpayer must include in gross income for the taxable year that includes the date of disqualification an amount equal to the product of the fair market value of the fund determined as of the date of disqualification (reduced by certain amounts including any tax that is imposed on the income of the fund, is attributable to income taken into account before the date of the disqualification or as a result of the disqualification, and has not been paid as of the date of the disqualification) and the fraction of the qualified fund that was disqualified under § 1.468A-5(c)(1).

Accordingly, the proportionate amount of assets of Trust A's qualified funds transferred to Trust B's nonqualified funds will be deemed to be distributed to Seller on the date of the transfer and be included in Seller's gross income, net of taxes paid by the qualified funds upon such deemed distribution. Seller will take fair market value basis in the assets deemed distributed.

Requested Ruling No. 4: Pursuant to § 1.468A-5(c)(3), Trust A's qualified funds will be treated as disposing of the proportionate amount of the assets deemed distributed under section 1001. In determining the amount of gain or loss from such disposition,

the amount realized by Trust A's qualified funds from such disposition will be the fair market value of such assets as of the date of the transfer.

As explained above, § 1.468A-5(c)(3) provides that the distribution of any portion of a qualified fund that is disqualified under § 1.468A-5(c)(1) shall be treated for purposes of section 1001 as a disposition of property held by the qualified fund. Section 1001(a) provides that the gain from the sale or other disposition of property is the excess of the amount realized from the disposition over the adjusted basis of the property. Amount realized is generally the amount of cash and other property received by the taxpayer for the property.

Pursuant to § 1.468A-5(c)(3), Trust A's qualified funds will be treated as disposing of the proportionate amount of the assets deemed distributed under section 1001. Accordingly, in determining the amount of gain or loss from the disposition, the amount realized by the qualified funds will be the fair market value of the assets as of the date of the transfer. *See* § 1.468A-4(c)(2).

Requested Ruling No. 5: Neither Buyer nor Trust B will recognize any gain or loss, or otherwise take any income into account, by reason of the transfer of assets from Trust A's qualified funds to Trust B's nonqualified funds, and neither Buyer nor Trust B will recognize income upon the receipt of decommissioning costs collected in a nonbypassable charge to customers on behalf of Buyer and remitted to Buyer or Trust B.

Buyer is an electric and gas utility owned by City A, a political subdivision and municipal corporation of State. City A owns Buyer's assets and, as allowed under State law, has delegated management and control of those assets to Buyer's board of trustees. Rev. Rul. 78-276, 1978-2 C.B. 256, states that the term "political subdivision" has been defined consistently for all federal tax purposes as denoting "either a division of a state or local government that is a municipal corporation or a division of such state or local government that has been delegated the right to exercise sovereign power." Further, Rev. Rul. 87-2, 1987-1 C.B. 18, states that income earned by a political subdivision of a state is generally not taxable absent a specific statutory authorization for taxing the subdivision's income.

Accordingly, because Buyer is owned by City A and City A is a political subdivision of State, neither Buyer nor Trust B will recognize any gain or loss, or otherwise take any income into account, by reason of the transfer of assets from Trust A's qualified funds to Trust B's nonqualified funds, and neither Buyer nor Trust B will recognize income upon the receipt of decommissioning costs collected in a nonbypassable charge to customers on behalf of Buyer and remitted to Buyer or Trust B.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that 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 authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

Maggie M. Stehn
Senior Counsel, Branch 2
Office of the Associate Chief Counsel
(Energy, Credits & Excise Tax)

Enclosure:
Copy for § 6110 purposes

cc:

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