

July 14, 2006

MEMORANDUM TO: James E. Dyer, Director  
Office of Nuclear Reactor Regulation

FROM: Stephen D. Dingbaum */RA/*  
Assistant Inspector General for Audits

SUBJECT: STATUS OF RECOMMENDATIONS: FOLLOW-UP AUDIT  
OF THE NUCLEAR REGULATORY COMMISSION'S  
DECOMMISSIONING FUND PROGRAM (OIG-06-A-07)

REFERENCE: DIRECTOR, OFFICE OF NUCLEAR REACTOR  
REGULATION MEMORANDUM DATED JUNE 16, 2006

Attached is the Office of the Inspector General's analysis and status of recommendations from the Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program, as discussed in the agency's response dated June 16, 2006. Based on this response, recommendations 1, 2, 3, and 4 are closed. Recommendation 5 remains resolved.

If you have any questions or concerns, please call me on 415-5915 or Steven Zane at 415-5912.

Attachment: As stated

cc: William Dean, OEDO  
Melinda Malloy, OEDO  
Patty Tressler, OEDO

## Audit Report

### Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)

#### Status of Recommendations

Recommendation 1:

OIG recommends that the EDO seek, and the Commission provide, direction whether to:

Require verification of decommissioning trust fund balances from trustees.

Response dated  
June 16, 2006:

The staff prepared a Commission paper, SECY-06-0065, dated March 23, 2006, on Recommendations 1 and 2. In SECY-06-0065, the staff recommended that the Commission make no changes with regard to the verification of trust balances by trustees, which has never been required, or the imposition of new specific investment restrictions as proposed by the OIG. In response to SECY-06-0065, the Commission issued a staff requirements memorandum (SRM) dated May 17, 2006. In the SRM, the Commission approved the staff's recommendations. Accordingly, the staff does not plan to take any action at this time with respect to Recommendations 1 and 2.

In the SRM, the Commission also directed the staff to provide a more detailed discussion of oversight activities performed by the Federal Energy Regulatory Commission, State public utility commissions, and other organizations, as appropriate, regarding decommissioning trust fund balances and trust fund investments. The staff is to provide the Commission this information with any recommendations for further Commission action no later than the next staff paper to the Commission summarizing the March 31, 2007, decommissioning funding status reports for nuclear power reactors. The staff will provide the OIG a copy of the requested information and any recommendations at the same time these items are sent to the Commission.

OIG Analysis:

The EDO prepared a Commission paper, SECY-06-0065, dated March 23, 2006, seeking direction on the above recommendation. The

## **Audit Report**

### **Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)**

#### **Status of Recommendations**

Commission issued an SRM, dated May 17, 2006, approving the staff's recommendation to make no changes with regard to verification of decommissioning trust fund balances from trustees. Accordingly, this recommendation is closed.

The OIG notes that NRC assumes all risks associated with taking no action to verify decommissioning trust fund balances.

**Status:** Closed.

## Audit Report

### Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)

#### Status of Recommendations

Recommendation 2:

OIG recommends that the EDO seek, and the Commission provide, direction whether to:

Require specific prudent investment restrictions for decommissioning trust funds.

Response dated  
June 16, 2006:

The staff prepared a Commission paper, SECY-06-0065, dated March 23, 2006, on Recommendations 1 and 2. In SECY-06-0065, the staff recommended that the Commission make no changes with regard to the verification of trust balances by trustees, which has never been required, or the imposition of new specific investment restrictions as proposed by the OIG. In response to SECY-06-0065, the Commission issued a staff requirements memorandum (SRM) dated May 17, 2006. In the SRM, the Commission approved the staff's recommendations. Accordingly, the staff does not plan to take any action at this time with respect to Recommendations 1 and 2.

In the SRM, the Commission also directed the staff to provide a more detailed discussion of oversight activities performed by the Federal Energy Regulatory Commission, State public utility commissions, and other organizations, as appropriate, regarding decommissioning trust fund balances and trust fund investments. The staff is to provide the Commission this information with any recommendations for further Commission action no later than the next staff paper to the Commission summarizing the March 31, 2007, decommissioning funding status reports for nuclear power reactors. The staff will provide the OIG a copy of the requested information and any recommendations at the same time these items are sent to the Commission.

OIG Analysis:

The EDO prepared a Commission paper, SECY-06-0065, dated March 23, 2006, seeking direction on the above recommendation. The

## **Audit Report**

### **Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)**

#### **Status of Recommendations**

Commission issued an SRM, dated May 17, 2006, approving the staff's recommendation to not require specific prudent investment restrictions for decommissioning trust funds. Accordingly, this recommendation is closed.

The OIG notes that NRC assumes all risks associated with taking no action to require specific prudent investment restrictions for all decommissioning trust funds.

**Status:** Closed.

## Audit Report

### Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)

#### Status of Recommendations

<u>Recommendation 3:</u>	OIG recommends that the EDO:  Prescribe and implement a timeframe within which quality assurance will be performed.
Response dated June 16, 2006:	The staff revised NRR Office Instruction LIC-205, "Procedures for NRC's Independent Analysis of Decommissioning Funding Assurance for Operating Nuclear Power Reactors," and issued it on April 24, 2006 (ML060940529) (LIC-205, Revision 1). LIC-205, Revision 1, among other things, prescribes a timeframe within which quality assurance will be performed. As stated on page 2 of LIC-205, Revision 1, the "Quality Assurance (QA) audit will be initiated following the completion of the staff's independent analysis [of the biennial reports] and will be completed by the end of the fourth month [after the biennial reports were received]." LIC-205, Revision 1, also specifically requires clear documentation of quality assurance work performed. See Attachment 3 to LIC-205, Revision 1, which describes the Quality Assurance Plan's review process and required documentation. Accordingly, the staff has fully addressed Recommendations 3 and 4 with LIC-205, Revision 1.
OIG Analysis:	LIC-205, Revision 1, dated April 24, 2006, was reviewed by OIG auditors. LIC-205, Revision 1, includes a prescribed timeframe within which quality assurance will be performed. This revision addresses the intent of OIG's recommendation. This recommendation is therefore closed.
<b>Status:</b>	Closed.

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### Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)

#### Status of Recommendations

Recommendation 4:           OIG recommends that the EDO:  
  
Clearly document quality assurance work performed.

Response dated  
June 16, 2006:                The staff revised NRR Office Instruction LIC-205, "Procedures for NRC's Independent Analysis of Decommissioning Funding Assurance for Operating Nuclear Power Reactors," and issued it on April 24, 2006 (ML060940529) (LIC-205, Revision 1). LIC-205, Revision 1, among other things, prescribes a timeframe within which quality assurance will be performed. As stated on page 2 of LIC-205, Revision 1, the "Quality Assurance (QA) audit will be initiated following the completion of the staff's independent analysis [of the biennial reports] and will be completed by the end of the fourth month [after the biennial reports were received]." LIC-205, Revision 1, also specifically requires clear documentation of quality assurance work performed. See Attachment 3 to LIC-205, Revision 1, which describes the Quality Assurance Plan's review process and required documentation. Accordingly, the staff has fully addressed Recommendations 3 and 4 with LIC-205, Revision 1.

OIG Analysis:                 LIC-205, Revision 1, dated April 24, 2006, was reviewed by OIG auditors. LIC-205, Revision 1, specifically requires clear documentation of the quality assurance work performed. This revision addresses the intent of OIG's recommendation. This recommendation is therefore closed.

**Status:**                     Closed.

## Audit Report

### Follow-Up Audit of the Nuclear Regulatory Commission's Decommissioning Fund Program (OIG-06-A-07)

#### Status of Recommendations

<u>Recommendation 5:</u>	OIG recommends that the EDO:  Update NRC's decommissioning formula considering the relationship between formula based and site-specific estimates.
Response dated June 16, 2006:	The staff informed the OIG previously that the staff planned to assess, beginning in Fiscal Year 2008, whether the formula needs to be updated. In the SRM, the Commission, however, directed the staff to review the formula and adjust it, if necessary, "[i]n the future (circa 2011) when more cost return information is available..." The staff anticipates that the completion date of any such effort is 3 years (approximately 2014) after initial efforts are to be undertaken as directed by the Commission. The 3 year completion time is based on the amount of time that was needed to complete the most recent re-analysis of the formula (1993-1995), and time allowed for necessary contracting efforts.
OIG Analysis:	While the agency's planned action addresses the intent of this recommendation, the timeframe for completion of the corrective action is of particular concern to the OIG. Therefore, this recommendation remains resolved pending further analysis by OIG.
<b>Status:</b>	Resolved.