



UNITED STATES
NUCLEAR REGULATORY COMMISSION

REGION III
2443 WARRENVILLE RD. SUITE 210
LISLE, IL 60532-4352

August 6, 2014

MEMORANDUM TO: Cynthia D. Pederson, Regional Administrator
Region III

THRU: Patrick L. Loudon, Director */RA/*
Division of Nuclear Materials Safety

FROM: Patricia J. Pelke, Chief */RA/*
Materials Licensing Branch
Division of Nuclear Materials Safety

SUBJECT: ANNUAL EVALUATION OF REGION III DECOMMISSIONING
FINANCIAL ASSURANCE INSTRUMENT SECURITY PROGRAM

In accordance with U.S. Nuclear Regulatory Commission (NRC) Management Directive (MD) 8.12, entitled "Decommissioning Financial Assurance Instrument Security Program," the Division of Nuclear Materials Safety (DNMS) completed the required annual evaluation of the decommissioning financial assurance instrument (FAI) security program.

This was the first evaluation of the FAI security program performed using the revised MD 8.12, issued on November 22, 2013. The frequency and scope of the FAI security program evaluations are examples of the significant changes made with the revision. The frequency of the evaluations was reduced from semi-annual and annual to only an annual evaluation. In addition, the scope of the evaluation was expanded to include verification of supporting documents for certain FAIs, which are discussed in greater detail later in this report. The revision clarified processes and procedures for cancelling and returning FAIs, placing documents into the Agencywide Document Access and Management System (ADAMS), appropriate marking for internally generated inventory lists, and eliminated the daily security check of the safe.

The evaluation was conducted in June 2014, by Kevin Null, Financial Assurance Instrument Custodian (FAIC), and Cassandra Frazier, Assistant Financial Assurance Instrument Custodian (AFAIC), and involved a review of 100 percent of the FAIs, which are secured in the fire-rated safe and are identified in the financial assurance inventory-controlled list.

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There are 48 entries in Region III's financial assurance inventory-controlled list. Financial assurance instruments for three Region III licensees, Dow Chemical Company, the Curators of the University of Missouri, and GE Reuter-Stokes are currently held and managed in NRC headquarters. These three licensees also have licenses issued by NRC headquarters. Financial assurance is required for each license held by RIII and by NRC headquarters, and the financial assurance for these three licensees has been consolidated into one FAI that is maintained in NRC headquarters. The auditors contacted the Financial Assurance Project Manager in the Division of Waste Management and Environmental Protection (DWMEP), Reginald Augustus, to confirm these FAIs were updated and secured. Mr. Augustus confirmed that DWMEP has the original FAIs for Dow Chemical Company and GE Reuter-Stokes appropriately secured. He also confirmed that NRR has the original FAI for the Curators of the University of Missouri appropriately secured.

A fourth RIII licensee, Cardinal Health 414, LLC, has licenses issued by Region I and Region III. The FAI (Surety Bond) for the license issued by RIII is maintained and secured here and the Standby Trust Agreement (STA) for both licenses is maintained and secured in Region I. Region I also maintains the FAI (Surety Bond) for the Cardinal Health 414, LLC license they issued, and the STA supports both FAIs submitted to Region I and Region III.

The auditors contacted DWMEP and Region I and confirmed that the three FAIs and one STA for the four licenses described above were current and secured in a fire-rated safe. A copy of these documents for each of the four licensees is maintained in the RIII safe.

The evaluation involved the review of the security of decommissioning FAIs and the decommissioning financial assurance inventory-controlled list. Specific areas that the auditors evaluated included: (1) Security of the FAIs; (2) Security Container Check Sheet; (3) Key Access Control to the Safe; (4) Financial Assurance Inventory Log; (5) Financial Assurance Inventory-Controlled List; and (6) Web-Based Licensing (WBL) Information.

The auditors verified that all Region III FAIs were accounted for and properly secured. In addition, the auditors did not identify any issues that would impact the security of the FAIs or the agency's ability to draw on the funds for decommissioning purposes. The evaluation did not disclose any deficiencies in the implementation of the decommissioning FAI security program.

The results of the evaluation are enclosed for your review. In addition, as a result of the revisions made to the annual evaluation process described in MD 8.12, the auditors have the following recommendations to enhance the efficiency for future audits:

1. Place supporting documents in the safe instead of the FA files;
2. Revise the Financial Assurance Inventory-Controlled List (CIL) to include entries for the supporting documents identified below:
 - a. For licensees with FAIs which require a STA - include an entry in the CIL for Schedules A (identifies the name and address of the licensee, NRC license number, and the amount of the financial assurance), B (lists the assets used to establish the fund), and C (specifies the compensation to be paid by the licensee to the trustee); an unexecuted specimen certificate of events and resolution (which provide the format for instructing the trustee to release money to fund decommissioning

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- activities); and a notarized letter of acknowledgement (which verifies the execution of the STA and certifies the trustee's signature and authority to enter into the agreement);
- b. For licensees with a Parent Company Guarantee (PCG) - include an entry for the letter from the Chief Executive Officer of the licensee (which certifies that the licensee is a going concern, identifies the licensee's net worth, etc.); a letter from the Chief Financial Officer of the corporate parent (which identifies the name and license number and estimated decommissioning costs, and the parent company's ability to pass the financial test required in 10 CFR Part 30); the last date of the licensee's financial test as described in 10 CFR Part 30; an auditor's special report by a certified public accountant (which compares data used in the financial test to the amounts in its annual financial statements); and documentation that the PCG has a majority ownership interest in the licensee;
 - c. For licensees with a Self-Guarantee - include an entry for the letter from the Chief Executive Officer or Chief Financial Officer of the licensee (which certifies that the licensee is a going concern, identifies the licensee's net worth, demonstrates that the licensee can pass the financial test required in 10 CFR Part 30 etc.); and an auditor's special report by a certified public accountant (which compares data used in the financial test to the amounts in its annual financial statements);
 - d. For licensees with a Surety Bond - include an entry for the broker's/agent's power of attorney (which authorizes the broker/agent to issue bonds on behalf of the issuing company); and
 - e. For licensees with a Statement of Intent - include an entry for the documentation that the signatory has the authority to request and obtain funds for decommissioning when needed.
3. Review the "issuance date" information on the CIL and the "approved date" in WBL for all of the FAIs maintained by the region and correct any inaccuracies.

These recommendations were discussed with me and will be implemented no later than December 31, 2014.

Please contact me if you have any questions regarding this evaluation and/or the associated corrective actions that address the findings.

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