



**PUBLIC
SERVICE
INDIANA**

S. W. Shields
Senior Vice President -
Corporate Services

Applicant.....
Check No. 05517-86005
Amount \$932,607.
Date of Check 5-31-85
Date Check Rec'd 6-3-85
Received By PA

May 31, 1985

Mr. William O. Miller, Chief
License Fee Management Branch
Office of Administration
U. S. Nuclear Regulatory Commission
Washington, D.C. 20555

Dear Mr. Miller:

We are in receipt of your response dated April 12, 1985 to my letter disputing the billed amounts by the NRC for the operating license reviews of Marble Hill Units 1 and 2.

With reference to our proposal that certain errors and questionable items noted during the Company's limited review be resolved in accordance with generally accepted auditing standards (e.g. a review of time reports to support payroll charges and a review of invoices to substantiate contractual costs), it should be noted such request is consistent with Company policy practiced for verifying amounts billed under other cost reimbursable arrangements and it is our understanding, the audit approach is similar to that which the federal government requires of private businesses under similar contractual arrangements. Through discussion with the Defense Contract Audit Agency of the federal government, we have learned they require, at a minimum:

1. Contractual costs be fully supported by invoices (equivalent to your laboratory business letters) or otherwise disallow claim, and
2. Payroll charges be fully substantiated by time reports or supported by an effective system of internal controls to assure the accuracy beyond a reasonable doubt in transferring such records to summary reports.

Surely, you must agree if a federal audit agency requires substantive documentation prior to payment of an amount due in order to protect the government's and taxpayers' interests, we should likewise expect to be provided similar support from a government agency billing for services rendered, to provide reasonable assurance to our ratepayers the Company is conscientiously protecting their interests. Your assertion that NRC

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records are not subject to audit is of little comfort to our over half a million ratepayers and certainly suggests a double standard at a time when the Defense Department is actively seeking and securing various contractors' records through the court system.

As such, we are herewith enclosing a check in the amount of \$932,607 subject to final resolution (pursuant to 10 CFR Section 15.31) of the following exceptions:

I. NUCLEAR REACTOR REGULATIONS (NRR)

- A. Company auditors noted an inspector (P. O'Conner) charged 1691 and 80 hours to Marble Hill Units 1 and 2, respectively in 1983. As past experience indicates that inspectors normally work on 1-4 plants per year, such hours (approximately 98% of annual available hours) appear excessive. Amount withheld \$35,000. Additional adjustments to any final payment to be made unless reasonable explanation is provided.
- B. During the review of NRR professional staff hours expended, our auditors noted the NRC had included 254 hours for "evaluation and Q1's (operating license) inspection work" performed after January 31, 1984. Per my letter dated January 18, 1984 to H. Denton, Director of NRR, PSI gave notice to the NRC it had suspended construction on Marble Hill and requested the NRC inspect only quality assurance programs applicable to retention of records and maintenance of material and equipment. Therefore, no operating license inspection was to be continued. Amount withheld \$9,906.
- C. During the review of NRR contractual costs, the Company's auditors noted the following:
 - 1. \$14,055 charge (NRC FIN B 2351) to Marble Hill Unit 1 was not supported by source documentation. After discussion with M. Kaltman, an NRR representative, he determined such cost was applicable to Three Mile Island (T.M.I.), not Marble Hill. Subsequent to our auditors' work in your Bethesda, MD, office, M. Kaltman regressed and forwarded to the auditors what was considered support for the charge as Marble Hill related instead of T.M.I.. However, upon review of such it was noted the documentation pertained to NRC FIN B 2357. No documentation has been provided to date to substantiate FIN B 2351 as a Marble Hill charge. Amount withheld \$14,055.

2. No supporting documentation (i.e. laboratory business letters) was provided by NRR for contractual work (Marble Hill Unit 1) performed by Lawrence Livermore National Laboratory (LLNL-FIN A 0413), pertaining to human factors control room audit reviews. Amount withheld \$3,600.
3. Contractual work billed to PSI performed by Argonne National Laboratory (ANL-FIN A 2309) for Unit 2 assessment of power plant noise impact, was found to be applicable to Beaver Valley Unit 2 (per ANL business letter). Amount withheld \$539.
4. Business letters from Idaho National Engineering Laboratory (INEL-FIN A 6458) indicated February 1984 charges for Marble Hill Unit 1 totaled \$102 "credit". The NRC billed PSI \$102 in error. Additionally, the auditors noted correspondence from INEL indicated no charges applicable to Marble Hill Unit 1 for November 1983. The NRC billed PSI \$99 in error. (Note: Such charge was applicable to Limmerick Unit 2.) Amount withheld \$204 and \$99, respectively.
5. Contractual work performed by Pacific Northwest Laboratory (PNL-FIN B 2544) pertaining to FSAR (Section 4.2 Fuel) review, replicated contractual work performed on the Byron plant. Accordingly, such contractual costs (\$1700/Unit 1) would not be considered necessary or reasonably incurred by the NRC on behalf of PSI. Amount withheld \$1,700.
6. No supporting documentation (i.e. laboratory business letters) provided by NRR for contractual costs (\$148,242) incurred prior to October 1983. Amount withheld \$148,242.

II. INSPECTION AND ENFORCEMENT/HEADQUARTERS (IE/HQ)

- A. Detail time reports were unavailable for our auditors' review due to NRC's policy of retaining time reports for only 3 months. We understand no supporting documents exist to substantiate the computer report detailing hours charged to Marble Hill. While original time reports to support billed hours would provide more definitive support for amounts billed, we do not wish to be unreasonable in this matter and are willing to rely upon the NRC's internal control system over the input/output process of payroll documents as described in your April 12, 1985 letter.

III. INSPECTION AND ENFORCEMENT/REGIONS (REGIONS)

A. During our auditors' review of Regions' professional staff hours expended, E. Greher IE/HQ representative, provided the auditors with computer generated labor schedules to substantiate the 14,257 hours billed for Marble Hill Units 1 and 2 (10,421.5 hrs./Unit 1, 3,835.5 hrs./Unit 2). Such schedule listed names and the type of inspection work performed by the NRC inspectors. Per reasonableness testing of names/hours (on your computer report) by comparing such to our Marble Hill site documents, the auditors noted the following exceptions:

1. 52 hours (26 hrs./Unit 1, 26 hrs./Unit 2) for W. Kropp during 1984. Our staff has no recollection or records of this NRC representative working on or at Marble Hill. Amount withheld \$1,872.
2. 16 hours (8 hrs./Unit 1, 8 hrs./Unit 2) for J. Norton during 1984. It is our understanding these hours are applicable to investigation work on concrete allegations, and thus, not billable to PSI. Amount withheld \$576.
3. 6 hours (Unit 2) for R. Strasma during 1979. R. Strasma worked in NRC/Public Relations, therefore, it is our position, his hours are not billable to PSI. Amount withheld \$216.
4. 6 hours for J. Kepler in 1979. J. Kepler is the NRC Regional Administrator. According to NRC regulations and supported by discussions with NRC personnel, the NRC hourly billing rates include administrative support (e.g. Regional Administrator) or clerical assistance. Amount withheld \$216.

IV. ADVISORY COMMITTEE ON REACTOR SAFEGUARDS (ACRS)

A. Detail time sheets were unavailable for review due to the NRC's policy as stated in II above. Again, we are willing to rely upon the internal control system described in your April 12, 1985 letter.

V. NUCLEAR MATERIALS SAFEGUARDS AND SECURITY (NMSS)

A. During the review of professional staff hours expended for NMSS, the Company's auditors noted hours billed for D. Kasun (week ending

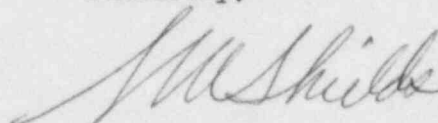
5.

5/19/84 - 4 hours) occurred after the January 1984 cutoff date (per my letter dated January 18, 1984). Amount withheld \$152.

Again, we are hopeful the disputed items can be mutually resolved as expeditiously as practical. We also request that the due date for any final payment be extended for a reasonable period of time to allow these issues to be resolved in accordance with Section 15.31(b).

Please direct all correspondence or questions with respect to this issue to my attention. If you have any questions, please feel free to call.

Sincerely,

A handwritten signature in cursive script, appearing to read 'S. W. Shields'.

S. W. Shields

SW

Attachment

cc: J. U. Bott
J. W. Leonard
L. A. Nicodemus
J. R. Pope

PUBLIC SERVICE INDIANA
 AUDIT OF NUCLEAR REGULATORY COMMISSION
 OPERATING LICENSE REVIEW COSTS APRIL 3, 1978 TO JUNE 23, 1984 --LEAD SCHEDULE
 FACILITIES: MARBLE HILL #1 & #2
 DOCKET NO'S.: 50-546 & 50-547

NRC PROPOSAL

PROGRAM OFFICE REVIEW	COSTS PER PROFESSIONAL STAFF-HOUR	PROFESSIONAL STAFF-HOUR EXPENDED	STAFF-HOUR COSTS	CONTRACTUAL COSTS	TOTAL COSTS	CHARGES WITH- OUT SUPPORTING DOCUMENTATION	CHARGES FOR REPLICATE TYPE WORK	ERRORS AND EXCEPTIONS	PSI AUDIT PROPOSED AMOUNT
	\$		\$	\$	\$	\$	\$	\$	\$
NRR	39	10,389.0	405,172.00	217,454.00	622,626.00	186,842.00	1,700.00	24,803.00	409,281.00
IE-HQ	36	119.0	4,284.00		4,284.00				4,284.00
REGIONS	36	14,257.0	513,252.00		513,252.00			2,880.00	510,372.00
ACRS	50	86.0	4,300.00		4,300.00				4,300.00
NHSS	38	119.0	4,522.00		4,522.00			152.00	4,370.00
TOTAL		24,970.0	931,530.00	217,454.00	1,148,984.00	186,842.00	1,700.00	27,835.00	932,607.00