

SAFETY EVALUATION REPORT

DOCKETS: 70-754; 70-1113; 70-2872; 72-1; 50-73, 50-70; 50-18; 50-183

LICENSES: SNM-960; SNM-1097; SNM-1826; SNM-2500; DPR-1; R-33; TR-1; DR-10

LICENSEE: GENERAL ELECTRIC COMPANY

SUBJECT: GENERAL ELECTRIC COMPANY PARENT COMPANY GUARANTEE ANNUAL
FINANCIAL TEST CERTIFICATION

BACKGROUND

Pursuant to Title 10 of the *Code of Federal Regulations* (10 CFR) Section 70.25, "Financial Assurance and Recordkeeping for Decommissioning," Subsection (f)(2), and Appendix A to 10 CFR Part 30, "Criteria Relating to Use of Financial Tests and Parent Company Guarantees for Providing Reasonable Assurance of Funds For Decommissioning," General Electric Company (GE) provided a Parent Company Guarantee (PCG) package to the U.S. Nuclear Regulatory Commission (NRC) to demonstrate financial assurance for decommissioning. General Electric is a holder of Part 50 and 70 licenses. This Safety Evaluation Report addresses GE's licensees which include: the Wilmington Global Nuclear Fuel – Americas Fuel Manufacturing Facility; GE Reuter-Stokes Facility; Vallecitos Nuclear Center; Vallecitos Boiling Water Reactor; Nuclear Test Reactor; General Electric Test Reactor; Empire States Atomic Development Associates Vallecitos Experimental Superheat Reactor (reactor facilities); and the Morris Operation.

By letter dated May 1, 2017 (Agencywide Documents Access and Management System [ADAMS] Accession Number ML17135A000), GE provided to the NRC for review, the required documentation in support of its PCG in accordance with NUREG-1757, Volume 3, "Financial Assurance, Recordkeeping, and Timeliness" (ADAMS ML12048A648) and 10 CFR Part 30, Appendix A, "Criteria Relating to Use of Financial Tests and PGC's for Providing Reasonable Assurance of Funds for Decommissioning." This financial test provides assurance that GE can continue maintaining \$448,000,000 in PCG coverage for decommissioning funding assurance

The PCG method of assurance and associated terms were previously determined to be acceptable by the NRC on October 5, 2016 (ADAMS ML16273A548).

REGULATORY REQUIREMENTS

Nuclear facilities licensed under 10 CFR Part 70 are required to establish adequate financial assurance for decommissioning, decontamination and reclamation pursuant to 10 CFR 70.25. Section 70.25 of 10 CFR requires that licensees that provide reasonable assurance of available funds for decommissioning costs through a PCG are required to annually provide a PCG agreement and pass a financial test pursuant to Appendix A to 10 CFR Part 30.

The requirements of 10 CFR 70.25(f)(2), state, in part, that "[a] parent company guarantee of funds for decommissioning costs based on a financial test may be used if the guarantee and test are as contained in appendix A to part 30 of this chapter." Appendix A to 10 CFR Part 30 establishes criteria for passing the financial test for the PCG and establishes its terms. Section 50.75 of 10 CFR establishes the requirements for licensees to provide reasonable assurance to the NRC that funds will be available for the decommissioning process. General Electric has

Enclosure

elected the PCG, a surety method outlined in 10 CFR 50.75(iii)(B), which identifies the financial test required as outlined in Appendix A to 10 CFR Part 30.

REGULATORY GUIDANCE

Regulatory guidance contained in NUREG-1757, Volume 3, Revision 1, "Consolidated Decommissioning Guidance: Financial Assurance, Recordkeeping, and Timeliness," states, in part, that a submittal used to satisfy the requirements of Appendix A to 10 CFR Part 30 can be verified through the use of the Chief Financial Officer's (CFO) Certification, the Independent Auditor's Report, and Audited Financial Statements with Auditor's Opinion.

DISCUSSION

In its May 1, 2017 submittal, GE provided supporting documentation consistent with the guidance in NUREG-1757, Volume 3, and required by 10 CFR Part 30, Appendix A, to perform the financial test for a PCG related to the subject facilities. This information included:

- The PCG agreement;
- A letter from the chief executive officer of licensee;
- A letter from the CFO of the parent company, including PCG financial test;
- The auditor's special report confirming the CFO letter and reconciling amounts in the CFO letter with the parent company's financial statements;
- The parent company's audited financial statements for the most recent fiscal year, including the auditor's opinion on the financial statements; and
- The standby trust agreement with supporting documentation.

Pursuant to the guidance in NUREG-1757, Volume 3, the staff reviewed the submittal and found that the PCG submission met the following additional acceptance criteria:

- Supporting documentation as described above;
- The parent company guarantor has majority control of the licensee's voting stock (greater than 50 percent);
- The parent company guarantor meets the applicable financial test specified in 10 CFR Part 30, Appendix A;
- The parent company guarantor's annual financial statements have received a "clean" opinion from an independent certified public accountant;
- The PCG is not being used in combination with any other financial assurance methods (except for an external sinking fund, as applicable);
- The standby trust fund submitted with the PCG meets all applicable NRC requirement. The PCG is in an amount that is at least as great as the amount of decommissioning funds being assured by a PCG for the total of all nuclear facilities or parts thereof;
- No credit was taken for earnings on any financial assurance mechanisms that does not set aside funds as prepayment for site control and maintenance activities.

The staff reviewed GE's submittal pursuant to the elements specified in Appendix A to 10 CFR Part 30 regarding Additional Requirements and Self-Guarantee requirements contained in Sections II(A)(1), II(B), and III, respectively, and the guidance contained in NUREG-1757.

SUFFICIENCY OF FINANCIAL TEST

In order for GE to qualify for use of a PCG, it must satisfy the criteria found in 10 CFR Part 30, Appendix A, Section II.A.1 or A.2. General Electric's submission intends to demonstrate compliance with 10 CFR Part 30, Appendix E, Section II.A.2 (the "Financial Test"). The Financial Test requires that:

- GE has a current rating for its most recent bond issuance of AAA, AA, A as issued by Standard & Poor's or Aaa, Aa, or A as issued by Moody's;
- Total net worth at least six times the amount of decommissioning funds being assured by the PCG for all nuclear facilities;
- Tangible net worth of at least \$21 million; and
- Assets located in the United States amounting to at least 90 percent of the total assets or at least six times current decommissioning cost estimates for the total of all facilities.

Per its submission, GE's latest independently audited year-end financial statements as of December 31, 2016, state that its current rating for its most recent bond issuance is AA as issued by Standard & Poor's. General Electric's total net worth of \$79.8 billion (excluding net book value and goodwill for nuclear facilities) is greater than six times the total net worth of all decommissioning funds being assured (\$448 million x 6 = \$2.7 billion). General Electric's tangible net worth of \$2.2 billion exceeds the requirement of at least \$21 million. General Electric's total assets in the United States of \$141.7 billion is greater than six times the current decommissioning cost estimates for the total of all facilities of \$2.7 billion. These calculations were reviewed and verified by GE's independent auditor KPMG and documented in its "Independent Auditors' Report on Applying Agreed-Upon Procedures" on May 1, 2017.

SUFFICIENCY OF ADDITIONAL REQUIREMENTS

The staff also notes that Subsection II(C)(1) of Appendix E to 10 CFR Part 30 requires the licensee's independent certified public accountant to evaluate the licensee's off-balance sheet transactions and render an opinion on whether those transactions could adversely affect the licensee's ability to pay for decommissioning costs. The guidelines established by the American Institute of Certified Public Accountants prohibit an accountant from rendering such an opinion. However, in its Independent Auditors' Report, KPMG calculated the difference between tangible net worth to total "Maximum Potential Future Payments" related to off-balance sheet transactions such as contractual obligations to fund investments or guarantees, revolving lines of credit, credit support, indemnification agreements and other indemnification commitments as disclosed in note 23 and note 21 of GE's 2016 Annual Report on the Form 10-K. KPMG determined that GE's tangible net worth of \$2.2 billion was greater than its "Maximum Potential Future Payments" by \$180 million.

Additionally, the independent auditor stated that GE's 2016 financial statements present fairly, in all material respects, the financial position of GE and its consolidated affiliates as of December 31, 2016.

SUFFICIENCY OF THE PARENT COMPANY GUARANTEE AGREEMENT

Part 30 of 10 CFR, Appendix A, Section III A through G, describes the terms that are required in a PCG:

- A. The guarantee will remain in force unless the licensee sends notice of cancellation by certified mail, and/or return receipt requested to the NRC;
- B. If the licensee fails to provide alternate financial assurance as specified in the NRC's regulations within 90 days following receipt by the licensee and the NRC of a notice of cancellation of the guarantee by the guarantor, the guarantor will provide alternative financial assurance that meets NRC regulations in the name of the licensee;
- C. The guarantee and financial test provisions must remain in effect until the NRC has terminated the license, accepted in writing the parent company's alternate financial assurance, or accepted in writing the licensee's financial assurances;
- D. A standby trust must be established to protect public health and safety and the environment for decommissioning costs prior to the PCG being submitted;
- E. The guarantor must agree that it would be subject to NRC orders to make payments under the guarantee agreement;
- F. The guarantor must agree that if the guarantor admits in writing its inability to pay its debts generally, or make a general assignment for the benefit of creditors, or any proceeding is instituted by or against the guarantor seeking to adjudicate it as bankrupt or insolvent, or seeking dissolution, liquidation, winding-up, re-organization, or any other relief of debtors, then the NRC may: (i) declare the financial assurance arrangement immediately due and payable to the standby trust; or (ii) exercise any and all of its rights under applicable law; and
- G. The guarantor must agree to notify the NRC, in writing, immediately following the filing of a voluntary or involuntary petition for bankruptcy under any chapter of title 11 of the United States Code, or the occurrence of any other event listed in paragraph F of this Appendix, by or against: (i) the guarantor; (ii) the licensee; (iii) an entity controlling the licensee or listing the license or licensee as property of the estate; or (iv) an affiliate of the licensee.

In part, the licensee provided: a letter from its parent GE's CFO containing the PCG financial test; an independent auditor's report confirming the CFO letter, and reconciling amounts, with the parent company's financial statements; and the parent company's audited financial statements for the most recent fiscal year. The PCG (originally signed duplicate) was submitted as required by the guidance, and included the language, as required in 10 CFR Part 30, Appendix A, Section III A through G.

General Electric has previously submitted multiple Standby Trust Agreements (STA) that have been approved by NRC staff. The STA Schedule A amounts will need to be updated to reflect all current decommissioning costs identified in GE's latest PCG submission. This Schedule A update for each facility should be submitted with the re-submittal of the next decommissioning funding plan or license renewal, whichever comes first.

FINDINGS

Based on its review, the staff finds that the licensee provided complete documentation, including: a letter from parent company GE's CFO containing the PCG financial test; an independent auditor's report confirming the CFO letter, and reconciling amounts, with the parent company's financial statements; and the licensee's audited financial statements for the most recent fiscal year. In addition, the staff finds that the amount of the PCG exceeds the required

coverage level. In consideration of the exceptions noted above, the staff finds that PCG agreement meets the financial test criteria for a licensee using a PCG, is sufficient for providing financial assurance, conforms to the guidance in NUREG-1757, Vol. 3, Rev. 1, and meets the requirements of 10 CFR 70.25 and Appendix A of 10 CFR Part 30.

CONCLUSION

On the basis of the staff's review, as discussed above, GE has demonstrated that: (1) it's financial condition meets the requirements of 10 CFR Part 30, Appendix A; and (2) the language of the CFO letter, independent auditor's report, and previously submitted and approved PCG agreement and STA, with the exception noted above, are consistent with NRC guidance. Therefore, the staff finds that GE's PCG and supporting documentation are acceptable, and are therefore, approved.

Principal Reviewers

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