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UNITED STATES
NUCLEAR REGULATORY COMMISSION
REGION IV
1600 EAST LAMAR BLVD
ARLINGTON, TEXAS 76011-4511

February 21, 2012

EA-2011-256

Randall K. Edington, Executive
Vice President, Nuclear/CNO
Arizona Public Service Company
P.O. Box 52034, Mail Stop 7602
Phoenix, AZ 85072-2034

SUBJECT: PALO VERDE NUCLEAR GENERATING STATION, UNITS 1, 2, AND 3 –
NRC SPECIAL INSPECTION REPORT 05000528/2011404, 05000529/2011404
AND 05000530/2011404; PRELIMINARY GREATER THAN GREEN FINDING

Dear Mr. Edington,

On January 20, 2012, the U.S. Nuclear Regulatory Commission (NRC) completed a reactive inspection at your Palo Verde Nuclear Generating Station, Units 1, 2, and 3. The enclosed inspection report documents the inspection results, which were discussed on January 20, 2012, with Mr. B. Bement, Senior Vice President, Site Operations, and other members of your staff.

The inspection was commenced on November 14, 2011, in accordance with NRC Management Directive 8.3, "NRC Incident Investigation Program," and Inspection Manual Chapter 0309, "Reactive Inspection Decision Basis for Reactors," based on the initial deterministic criteria evaluation made by the NRC on November 9, 2011.

The inspection reviewed the circumstances surrounding an issue which occurred on September 8, 2011, and examined activities conducted under your license as they relate to security and compliance with the Commission's rules and regulations and with the conditions of your license.

The attached report documents one finding that has preliminarily been determined to be Greater than Green, (i.e., a finding of greater than very low security significance) that may result in the need for further evaluation to determine significance, and therefore the need for additional NRC action. The finding was assessed based on the best available information, using the Physical Protection Significance Determination Process (PPSDP). The deficiencies were promptly corrected or compensated for, and the plant was in compliance with applicable physical protection and security requirements within the scope of this inspection before the team arrived onsite.

Enclosure transmitted herewith contains SUNSI. When separated from enclosure, this transmittal document is decontrolled.

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The finding is also an apparent violation of NRC requirements and is being considered for escalated enforcement action in accordance with the Enforcement Policy, which can be found on the NRC's Web site at <http://www.nrc.gov/reading-rm/doc-collections/enforcement>.

In accordance with NRC Inspection Manual Chapter (IMC) 0609, we intend to complete our evaluation using the best available information and issue our final determination of security significance within 90 days of the date of this letter. The significance determination process encourages an open dialogue between the NRC staff and the licensee; however, the dialogue should not impact the timeliness of the staff's final determination.

Before we make our final significance of determination, we are providing you with an opportunity to: (1) attend a Regulatory Conference where you can present to the NRC your perspective on the facts and assumptions the NRC used to arrive at the finding and assess its significance or (2) submit your position on the finding to the NRC in writing. If you request a Regulatory Conference, it should be held within 30 days of the receipt of this letter and we encourage you to submit supporting documentation at least one week prior to the conference in an effort to make the conference more efficient and effective. In the interest of protecting sensitive, security-related information, if a Regulatory Conference is held, it will not be open for public observation. If you decide to submit only a written response, such submittal should be sent to the NRC within 30 days of your receipt of this letter. If you decline to request a Regulatory Conference or submit a written response, you relinquish your right to appeal the final SDP determination, in that by not doing either, you fail to meet the appeal requirements stated in the Prerequisite and Limitation sections of Attachment 2 of IMC 0609.

Please contact Mr. Michael Hay, Chief, Plant Support Branch 1, Division of Reactor Safety, at (817) 200-1527, and in writing, within 10 days from the issue date of this letter, to notify the NRC of your intentions. If we have not heard from you within 10 days, we will continue with our significance determination and enforcement decision. The final resolution of this matter will be conveyed in separate correspondence.

Because the NRC has not made a final determination in this matter, no Notice of Violation is being issued for this inspection finding at this time. In addition, please be advised that the number and characterization of the apparent violation described in the enclosed inspection report may change as a result of further NRC review.

One cross-cutting aspect was assigned to the finding in the area of human performance regarding work practices involving the failure to ensure personnel follow procedures [H.4.(b)]. If you disagree with a cross-cutting aspect assignment in this report, you should provide a response within 30 days of the date of this inspection report, with the basis for your disagreement, to the Regional Administrator, Region IV, and the NRC Resident Inspector at Palo Verde Nuclear Generating Station, Units 1, 2, and 3.

In accordance with 10 CFR 2.390 of the NRC's "Rules of Practice," a copy of this letter will be available electronically for public inspection in the NRC Public Document Room or from the Publicly Available Records (PARS) component of NRC's Agencywide Document Access and Management System (ADAMS). ADAMS is accessible from the NRC Web site at <http://www.nrc.gov/reading-rm/adams.html> (the Public Electronic Reading Room).

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However, the material enclosed herewith within contains Security-Related Information in accordance with 10 CFR 2.390(d)(1) and its disclosure to unauthorized individuals could present a security vulnerability. Therefore, the material in the enclosure will not be made available electronically for public inspection in the NRC Public Document Room or from the NRC's document system (ADAMS), accessible from the NRC Web site at <http://www.nrc.gov/reading-rm/adams.html>. If Security-Related Information is necessary to provide an acceptable response, please mark your entire response Security-Related Information in accordance with 10 CFR 2.390(d)(1) and follow the instructions for withholding in 10 CFR 2.390(b)(1). In accordance with 10 CFR 2.390(b)(1)(ii), the NRC is waiving the affidavit requirements for your response.

Sincerely,

/RA/

Anton Vegel, Director
Division of Reactor Safety

Docket Nos: 50-528; 50-529; 50-530
License Nos: NPF-41; NPF-51; NPF-74

Nonpublic Enclosure:
NRC Inspection Report 05000528/2011404,
05000529/2011404, and 05000530/2011404
w/Attachments:

1. Supplemental Information
2. Special Inspection Team Charter
3. Chronology for SGI Event

cc w/enclosure:
Mr. Randall Bramlett
Department Leader, Nuclear Security Programs
Arizona Public Service Co.
P.O. Box 52034, MS 7002
Phoenix, AZ 85072-2034

cc w/o enclosure:
Ronald A. Barnes, Director
Nuclear Regulatory Affairs/Environmental
Palo Verde Nuclear Generating Station
P.O. Box 52034 MS 7636
Phoenix, AZ 85072-2034

Other through Electronic Distribution

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Distribution w/enclosure:

Ronald Albert, (Ronald.Albert@nrc.gov), Chief, Reactor Security Oversight Branch
Shyrl Coker, (Shyrl.Coker@nrc.gov) NSIR/DSO/DDSO, TWFN/T-3A5M
Clay Johnson, (Clay.Johnson@nrc.gov), NSIR/DSO/DDSO/SPEB, TWFN/3D43
Douglas Garner, (Douglas.Garner@nrc.gov) NSIR/DSP/MWSB, TWFN/4 F6
Branch Chief, RI DRS (James.Trapp@nrc.gov)
Branch Chief, RII DRS/PSB2 (Binoy.Desai@nrc.gov)
Branch Chief, RIII DRS/PSB (Richard.Skokowski@nrc.gov)
Senior Resident Inspector (Tony.Brown@nrc.gov)

Electronic distribution by RIV w/o enclosure:

Regional Administrator (Elmo.Collins@nrc.gov)
Deputy Regional Administrator (Art.Howell@nrc.gov)
DRP Director (Kris.Kennedy@nrc.gov)
DRP Deputy Director (Troy.Pruett@nrc.gov)
DRS Director (Anton.Vegel@nrc.gov)
DRS Deputy Director (Tom.Blount@nrc.gov)
Resident Inspector (Mica.Baquera@nrc.gov)
Branch Chief, DRP/D (Ryan.Lantz@nrc.gov)
PV Administrative Assistant (Regina.McFadden@nrc.gov)
Project Engineer, DRP/D (David.You@nrc.gov)
Project Engineer, DRP/D (Brian.Parks@nrc.gov)
Public Affairs Officer (Victor.Dricks@nrc.gov)
Public Affairs Officer (Lara.Uselding@nrc.gov)
Project Manager (Lauren.Gibson@nrc.gov)
Acting Branch Chief, DRS/TSB (Ryan.Alexander@nrc.gov)
RITS Coordinator (Marisa.Herrera@nrc.gov)
Regional Counsel (Karla.Fuller@nrc.gov)
Branch Chief, ACES (Heather.Gepford@nrc.gov)
Sr. Enforcement Specialist (Ray.Kellar@nrc.gov)
Enforcement Specialist (Christi.Maier@nrc.gov)
Cyber Security Specialist (Mario.Fernandez@nrc.gov)
NRR Enforcement Specialist (MaryAnn.Ashley@nrc.gov)
Deputy Director, Office of Enforcement (Aida.Rivera-Varona@nrc.gov)
Congressional Affairs Officer (Jenny.Weil@nrc.gov)
OEMail Resource
RIV/ETA: OEDO (Lydia.Chang@nrc.gov)
DRS/TSB STA (Dale.Powers@nrc.gov)

Security Related Complete Report - OOU:

SUNSI Review Completed: ETB ADAMS: Yes Initials: ETB
 Non-Publicly Available Sensitive-Security- Related-Periodic Review Required

Letter Only:

SUNSI Review Completed: ETB ADAMS: Yes Initials: ETB
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