Memorandum from the Office of the Inspector General

August 4, 2026

Brian M. Child

FINAL REPORT – AUDIT 2026-17625 – ASSET RETIREMENT OBLIGATIONS

According to Title 10 of the Code of Federal Regulations, Section 50.75 (10 CFR § 50.75), nuclear licensees that operate nuclear facilities will provide reasonable assurance that funds will be available for the decommissioning of its licensed nuclear units and provides guidance for a minimum funding amount for the decommissioning. The Tennessee Valley Authority (TVA) established the Nuclear Decommissioning Trust (NDT) to be used to retire long-lived nuclear assets. Additionally, TVA established an Asset Retirement Trust (ART) to cover any additional decommissioning costs not covered by the minimum required funding of the NDT. The ART can also be used to cover decommissioning costs of non-nuclear long-lived assets. As of December 31, 2025, the investment assets of these two trusts totaled about $5.6 billion ($3.8 billion for the NDT and $1.8 billion for ART). Due to the critical importance of managing asset retirement obligations for accurate financial reporting, regulatory compliance, and ensuring sufficient funds are available for the substantial costs associated with retiring long-lived assets, we conducted an audit to evaluate the operational effectiveness of controls for managing the NDT and ART.

We identified eight key controls related to the administration of the NDT and ART in the following categories: (1) analysis of funding levels and projected liabilities, (2) investment manager performance evaluation, and (3) investment asset valuation. We determined the eight key controls tested were operating effectively as intended. In response to our draft report, TVA management did not have any changes. See the Appendix for TVA management's complete response.

BACKGROUND

The Nuclear Regulatory Commission (NRC) regulations, specifically, 10 CFR § 50.75, requires nuclear licensees to provide reasonable assurance that funds will be available for the decommissioning of its licensed nuclear units and provides a minimum funding amount for the decommissioning. TVA established the NDT to be used to retire long-lived nuclear assets. The NDT is used to satisfy the NRC minimum funding requirements. Additionally, TVA established an ART to cover any additional decommissioning costs not covered by the minimum required funding of the NDT. The ART can also be used to cover decommissioning costs of non-nuclear long-lived assets.

Both the NDT and ART have an overall investment objective to earn returns consistent with standards of reasonable risk/return and prudent investment practices. As of December 31, 2025, the investment assets of these two trusts totaled about $5.6 billion ($3.8 billion for the NDT and $1.8 billion for ART). We identified eight key controls TVA had in place for the administration of the NDT and ART:

- Biennially, Treasury & Risk reviews the current nuclear decommissioning cost estimates for accuracy and reasonableness prior to submission to the NRC.
- Annually, Corporate Investments performs an analysis of current funding levels and projected liability costs for the NDT and ART.
- On an as-needed basis, the Investment Trust Board or an authorized party approves the NDT and ART asset allocations policy under the counsel of staff and a third-party investment advisor.
- Annually, Corporate Investments meets with investment managers to review performance and strategy.
- Quarterly, Corporate Investments reviews investment manager performance and strategy with the investment advisor.
- Quarterly, Corporate Investments estimates the net asset value for alternative investments.
- Quarterly, Corporate Investments prepares a memorandum to the Assistant Controller summarizing the procedures performed to validate the estimated fair values used to record and disclose investments.
- Quarterly, Treasury reviews randomly selected securities from bank statements for reasonableness and validation of the third-party pricing information.

Due to the critical importance of managing asset retirement obligations for accurate financial reporting, regulatory compliance, and ensuring sufficient funds are available for the substantial costs associated with retiring long-lived assets, we conducted an audit to evaluate the operational effectiveness of controls for managing the NDT and ART.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the operational effectiveness of controls for managing the NDT and ART. Our audit scope focused on key controls governing the management of the NDT and ART during calendar year 2025. To achieve our objective, we:

- Reviewed TVA's *N.10 Process Narrative,* which documents TVA's process for the administration of the NDT and ART, to identify key controls significant to our audit objective.
- Interviewed TVA personnel to (1) obtain information related to the internal controls tested and (2) gain an understanding of the controls tested and how they were performed.

- Reviewed documentation for each of the eight controls determined to be significant to our audit objective to verify each control was performed and was operating as intended for the:
  - Three controls related to the analysis of funding levels and projected liabilities, we tested each control based on its expected frequency of occurrence in calendar year 2025 (biennially, annually, or as needed). If the control occurred biennially or had no regular cadence, we reviewed the most recent occurrence of the control.
  - Two controls related to the investment managers' performance evaluation, we judgmentally selected 35 of 129 investment managers to test the (1) annual performance review performed by TVA and (2) quarterly review of investment manager performance prepared by TVA's investment advisor for TVA.
  - Three controls related to the investment asset valuation, we tested each quarterly performance of the control in calendar year 2025.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDING

We identified eight key controls related to the administration of the NDT and ART in the following categories: (1) analysis of funding levels and projected liabilities, (2) investment manager performance evaluation, and (3) investment asset valuation. We determined the eight key controls tested were operating effectively as intended.

TVA Management's Comments – In response to our draft report, TVA management did not have any changes. See the Appendix for TVA management's complete response.

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This report is for your review and information. No response to this report is necessary.

If you have any questions or wish to discuss our observations, please contact Rick C. Underwood, Director, Financial and Operational Audits, at (423) 785-4824. We appreciate the courtesy and cooperation received from your staff during the audit.

Greg Stinson

Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

RLT:KDS
cc: See page 4

cc: TVA Board of Directors
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OIG File No. 2026-17625

July 22, 2026

Greg Stinson, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS - Draft Audit 2026-17625 – Asset Retirement Obligations

This letter is in response to the Draft Evaluation 2026-17625 – Asset Retirement Obligations. Treasury and Risk appreciates the professional and collaborative efforts of Rick Taylor, Rick Underwood, and the Office of the Inspector General's (OIG) audit team throughout this engagement.

We acknowledge and appreciate the OIG's conclusion that no findings or recommendations resulted from this audit. This outcome reinforces our continued commitment to strong internal controls, compliance with applicable requirements, and consistent operational discipline.

While no corrective actions are required, we remain committed to continuous improvement and will continue to monitor the processes reviewed during this audit to ensure they remain effective and aligned with TVA policies and expectations.

Thank you again for your partnership and the insight provided through this review.

Sincerely,

Brian M. Child

Brian M. Child
Vice President
Treasurer & Chief Risk Officer

cc: Eric J. Davis
Edward C. Meade
Thomas C. Rice
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OIG File No: 2026-17625