

From: Stephen Lewis
To: Thomas Fredrichs
Date: 2/8/02 1:22PM
Subject: Re: Draw Funds from American National Bank for Fansteel Trust

Tom:

Thanks for the excellent summary of the discussion we had. My sole purpose in the discussion was to advise you of the oral question posed by Fansteel's counsel to OGC as to why we were proceeding at this time to draw on the letters of credit, since they did not expire until two separate dates in August 2002. Fansteel expressly was not asserting that it would be able to replace the LOC's and it has previously advised us that it cannot, in fact, replace the LOC's.

Under these circumstances, there being no requirement in the LOC with American National Bank that affects our ability to draw on the LOC and have the money placed into the Standby Trust, OGC defers to the decision of the Bankruptcy Response Team, on which we sit, to proceed expeditiously to draw upon the two LOC's. We agree that it is in the NRC's best interest to accomplish expeditiously the additional assurance that there will be at least some funds available for decommissioning and that under our regulatory process, that is accomplished by getting the actual funds into the Standby Trust established for that purpose.

Thus, OGC has No Legal Objection to NMSS proceeding to draw upon the American National Bank LOC, as set forth in the letter and sight draft that you previously provided for our review. Please consider this e-mail to constitute our indication of No Legal Objection.

Steve

NOTE: PRIVILEGED INFORMATION AND ATTORNEY WORK-PRODUCT. LIMITED TO NRC UNLESS OTHERWISE DETERMINED BY THE COMMISSION.

>>> Thomas Fredrichs 02/08/02 12:26PM >>>

Steve,

As you requested, I wanted to document our discussion on the timing of the drawing of funds from the Letters of Credit submitted by Fansteel.

Regarding the issue of providing a courtesy notice to Fansteel before we draw funds from American National, I believe we gave that notice on Nov 27, 2001 when Fansteel came in for a drop-in visit. At that time they said that they expected we would draw the funds from the Letters of Credit (LOC) they submitted to us for financial assurance of decommissioning costs. We told them we would, in fact, draw the funds. That was over two months ago.

We did not draw the funds immediately, although we were free to do so both under our regulations and the terms of the LOC, because 1) the licensee had not yet filed a petition of bankruptcy, 2) drawing the funds would impose a carrying cost on the licensee, and 3) we had not received any notice of non-renewal from the banks who issued the LOC.

On December 5, 2001, the Bankruptcy Review Team (BRT) for Fansteel decided that we would draw the funds in the event that the banks issuing the LOC gave notice of cancellation or non-renewal.

On January 4, 2002, Northern Trust sent a defective Notice of Non-Renewal. That notice was followed by a corrected Notice dated January 10, 2002. In discussion with the licensee's attorney, we were informed that Fansteel received it January 14, 2002. Due to a provision of the LOC, Fansteel had 30 days after receipt of a notice of non-renewal to replace the LOC with another instrument before NRC could draw the funds. Fansteel has informed us that they do not believe they are able to obtain a replacement.

On January 15, 2002, Fansteel filed a petition for bankruptcy in the District of Delaware.

On January 17, 2002, the BRT met and decided to draw the funds from the LOC submitted by Fansteel. There was no restriction on drawing the funds from the American National Bank LOC. Thus, the American National LOC was the first to be acted on. The provisions of the Northern Trust LOC allowed Fansteel 30 days, or until February 13, 2002, to find a replacement. As noted above, Fansteel cannot do so. We will draw the Northern Trust LOC funds after the 30 day period has run out.

Therefore, I believe Fansteel has had ample notice that the funds will be drawn and placed in Trust as financial assurance for decommissioning.

We should note that Fansteel estimates it will take \$56.0 million to clean up its site. The total of the two LOC is just \$4.5 million. Given Fansteel's bankrupt condition, they cannot assure that funds for decommissioning will be available when needed.

In view of the financial difficulty Fansteel faces, the funds should be drawn now to remove any risk that they might not be available at a later date. Both LOC expire in August this year. After that time, the Northern Trust LOC will not be renewed, and the money will be lost. Although American National has not sent notice of non-renewal, it is necessary to draw all funds due to the significant shortfall in financial assurance provided by Fansteel.

As of today, a letter drawing the funds from American National Bank for deposit into the Standby Trust held by the Bank of Waukegan has been prepared and will be sent out soon. I'm also preparing a letter to draw the Northern Trust LOC funds for deposit in the Trust. You should see that early next week.

CC: Blair Spitzberg; Jared Heck; Michael Lamastra; Stuart Treby