



March 4, 2004

Mr. James Shepherd, Project Manager  
Facilities Decommissioning Section  
Office of Nuclear Material Safety  
and Safeguards  
11545 Rockville Pike  
Rockville, MD 20852-2738

Re: NRC License Number SMB-911; Docket #40-7580  
License Condition 26  
Remediation and Decommissioning Activities

Dear Mr. Shepherd:

Pursuant to Condition 26 of License SMB-911, FMRI, Inc. ("FMRI") has begun to undertake decommissioning activities at the Muskogee, Oklahoma site. These activities were initiated by FMRI on January 26, 2004, following the exit of Fansteel Inc. from bankruptcy on January 23, 2004 and upon the establishment of FMRI at that same time as the special-purpose entity solely responsible for fulfilling all obligations under License SMB-911, including the decommissioning of this site.

A number of decommissioning-related actions have been undertaken by FMRI at the Muskogee site since January 26, 2004, as provided for in FMRI's NRC-approved Decommissioning Plan. Among the actions that FMRI has carried out are several preparatory activities related to the selection of a contractor to carry out the Phase I decommissioning (removal of the WIP residues). In addition, FMRI continues to carry out all activities necessary to ensure the security of the Muskogee site, including all necessary monitoring and maintenance activities. Finally, FMRI continues to operate the collection interceptor trench (*i.e.*, the "French Drain") around the down gradient perimeter of the site, for the purpose of capturing and treating all shallow groundwater migrating towards the Arkansas River.

A. Fred Dohmann, President and CEO  
FMRI, Inc.  
#10 Tantalum Place, Muskogee, OK 74403  
Phone 918-687-6303 Fax 918-687-6112

Notwithstanding the progress that we have already made in carrying out the planned activities pursuant to our Decommissioning Plan, we have substantial work ahead of us if we are to achieve the timely remediation of this site. As I have previously conveyed to you, I am increasingly concerned about the prospect that the litigation and ultimate resolution of the issues raised by the State of Oklahoma in the pending adjudicatory proceeding before Judge Rosenthal (ASLBP No. 04-816-01-MLA) could delay the remediation of the Muskogee site.

In particular, I am concerned that the funds that are currently being expended by FMRI -- funds that must be marshalled carefully, as they are limited -- might prove to be imprudently spent if, depending upon the outcome of the pending litigation, FMRI might be directed to substantially alter the approach that it is taking to decommissioning this site, as approved by the NRC staff on December 4, 2003.

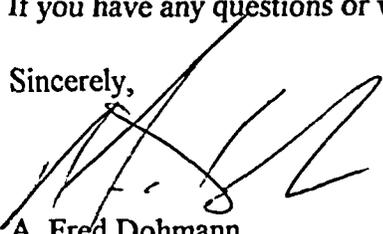
In view of our interest in moving forward with the timely remediation of the Muskogee site and at the suggestion of Judge Cole, FMRI undertook an effort to settle the issues raised by the State of Oklahoma, particularly those issues that are central to enabling FMRI to proceed with decommissioning activities without the risk of a substantial redirection of our effort depending upon the resolution of these issues by the Presiding Officer (*e.g.*, the adequacy of site characterization and the need for an environmental impact statement). Our discussions with the State began in mid-February, and progressed in a positive direction for the next several weeks. Indeed, we had reason to believe that we would be able to settle those issues necessary for us to proceed with decommissioning activities at Muskogee, having identified an approach to addressing the key issues of concern identified by the State. As late as Tuesday of this week, a representative of the State expressed confidence that we could achieve a settlement based upon the terms that had been discussed between FMRI and the State, noting that the Oklahoma Department of Environmental Quality had viewed the proposed terms favorably. Unfortunately, we were advised mid-day yesterday that, upon further review, the approach that had been discussed during the preceding three weeks was not acceptable. Moreover, there were additional terms that the State sought as a condition of settling their issues. In view of these last-minute demands, and facing a March 5th deadline for submitting to the Presiding Officer our reply to the State's areas of concern, we terminated further discussions with the State and have now focused our attention on the resolution of the contested issues in the pending proceeding.

In view of the necessity that we now devote resources to the litigation of the issues raised by the State, and in light of the uncertain outcome, both as to timing and result, of this litigation, I do not currently anticipate that FMRI will be in a position to commit additional resources to the activities contemplated under the Decommissioning Plan until these issues are resolved. We will commit the resources necessary to ensure that the Muskogee site remains secure. We will also continue to operate the "French Drain" system. However, in view of the unfortunate prospect that we now face of having to commit substantial resources to the litigation of the issues raised by the State, we simply do not have the funds to carry out the activities contemplated under the Decommissioning Plan, particularly, as I hope you appreciate, with the prospect that our approach to decommissioning the Muskogee site might be redirected in material aspects upon the completion of the pending litigation.

Finally, I would also note that it will be necessary, in the near future, to request access to funds from the standby trust, as was contemplated by the Plan of Reorganization, for the purpose of funding decommissioning activities, including operation of the French Drain system and to maintain the security of the Muskogee site, at least until June 30th, when FMRI is scheduled to receive funding from Fansteel.

If you have any questions or would like to discuss this further, please feel free to contact me.

Sincerely,



A. Fred Dohmann  
President and CEO

AFD/la

Copies to: Tom Fredrick, Nuclear Regulatory Commission  
Gary Tessitore, Fansteel, Inc.  
Jon Jackson, Fansteel, Inc.  
Keyton Payne, FMRI, Inc.  
Jim Curtis, Winston & Strawn  
File (NRC-030404-1Shepherd)