



UNITED STATES  
NUCLEAR REGULATORY COMMISSION

REGION II  
SAM NUNN ATLANTA FEDERAL CENTER  
61 FORSYTH STREET, SW, SUITE 23T85  
ATLANTA, GEORGIA 30303-8931

[REDACTED]

August 23, 2006

CAL No. 02-06-003  
NRC Event Nos. 42393, 42411

Mr. Dwight B. Ferguson, Jr.  
President, Chief Executive Officer  
Nuclear Fuel Services, Inc.  
P. O. Box 337, MS 123  
Erwin, TN 37650

SUBJECT: PROCESSING OF SPECIAL NUCLEAR MATERIAL [REDACTED] IN  
THE BLEU PREPARATION FACILITY PHASE 2 SYSTEMS (DOCKET NO. 70-143)

Dear Mr. Ferguson:

On March 6, 2006, an event occurred at Nuclear Fuel Services, Inc. (NFS) in which high enriched uranium was inadvertently transferred to an unapproved location and spilled to the [REDACTED] floor of the blended low enriched uranium (BLEU) preparation facility (BPF) building. On March 18, 2006, the Nuclear Regulatory Commission (NRC) issued a Confirmatory Action Letter (CAL NO. 02-06-003) that documented an agreement that NFS would maintain the BPF shutdown until you completed your investigation, developed corrective actions, discussed these items with the NRC, and the NRC had no objection to restart. Since then, licensed material has been held up throughout the system in the various stages of production. In addition, you have indicated that the facility's plans were to implement its BPF restart reviews in two phases. Phase 1 consisted of your own operational readiness reviews (ORRs) of the [REDACTED] of the BPF, and Phase 2 consisted of your ORRs of the [REDACTED] processing systems [REDACTED].

Since the event, you have completed your root cause investigation, developed corrective actions, and discussed these items with the NRC. You have also provided an initial response to CAL No. 02-06-003 whereby the NRC requested that you provide a supplemental response. In addition, you have completed all of your ORRs. You have stated that you had completed those actions necessary to support the safe re-start of the [REDACTED] systems and associated equipment in the BPF (evaluated in the Phase 2 ORR). This will allow you to complete processing of the material currently stored in those systems and perform all activities to complete the physical inventory.

[REDACTED]

This letter confirms our discussion of August 23, 2006, during which you were advised that the NRC has no objection to the processing of high enriched uranium currently held up in the [REDACTED] processing systems [REDACTED] and associated equipment in the BPF (evaluated in the Phase 2 ORR). This NRC position is based on the results of the NRC operational readiness review inspections conducted during the period July 24-28, 2006, and on the issuance of Amendment 71 to License Number SNM-124 providing a one-time exemption from the physical inventory timeliness requirement.

Special NRC operational readiness team inspection was conducted at your Erwin plant to review your preparations for limited operation of this facility in order to prepare for and perform the physical inventory. The NRC staff reviewed the equipment, startup test results, procedures, process hazards, and associated safety analyses and controls. The staff also conducted interviews with NFS personnel who will be involved in the process restart including employees in operations, technical support and management. During these inspections, NRC management personnel toured the site, observed the readiness of processing equipment and interviewed senior management. Details from the operational readiness inspections will be discussed in an inspection report under separate cover.

As we have discussed, this letter authorizes only the processing of the material currently stored in the systems evaluated in the Phase 2 ORR in order to prepare for conducting a physical inventory of special nuclear material in the BPF. Authorization for any processing of material held in the [REDACTED] systems and associated equipment in the BPF (evaluated in the Phase 1 ORR) was addressed previously in separate correspondence dated July 25, 2006. With the release of Phase 1 and 2 systems, we understand that NFS will perform all activities to conduct and reconcile the physical inventory before NRC authorizes the introduction of any new licensed material into BPF processing systems. Accordingly, the 45-day period specified in License Condition SG-4.35 shall begin on the date of this letter.

It is also our understanding that you are in the process of implementing improvements to your configuration management process, and improvements to your problem identification and corrective action program that include ensuring all levels of line management are sensitive to and taking action when there are early indications of problems before they become safety issues. These program improvements need to be fully addressed by NFS and discussed with NRC management prior to NRC authorizing introduction of new material into the BPF process. This discussion is needed in order for us to maintain confidence in your ability to operate your facilities safely. The commitments you have made for program improvements will be tracked by us until we are confident that they are satisfactorily completed. These areas discussed will continue to be a major focus of future NRC inspection activities.

NRC would like to be kept apprised of the status of the physical inventory, including any issues concerning inventory differences. We appreciate your cooperation in this matter. Please provide the above requested information to the Senior Resident Inspector as it becomes available.

[REDACTED]

D. B. Ferguson, Jr.

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If you have any questions regarding the foregoing, please call Douglas M. Collins at 404-562-4700.

Sincerely,

/RA/

William D. Travers  
Regional Administrator

Docket No.70-143  
License No. SNM-124

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D.B. Ferguson Jr.

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