



Nuclear Regulatory Commission
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Docket # - 04003392
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Admitted: 12/15/2011
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Stricken:

HNY000004
10/14/2011

Honeywell
P.O. Box 1053
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December 1, 2006

ATTN: Document Control Desk
Director, Office of Nuclear Material Safety and Safeguards
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Subject: HONEYWELL METROPOLIS WORKS (DOCKET NO. 40-3392) – REQUEST
FOR EXEMPTION FROM DECOMMISSIONING FINANCIAL ASSURANCE
REQUIREMENTS

References: 1. Letter dated November 3, 2006, from J. Neuman (Honeywell International
Inc.) to Director, Office of Nuclear Material Safety and Safeguards (NRC)
regarding a review of historical financial data.

Dear Mr. Strosnider,

By letter dated November 3, 2006 (Reference 1), Honeywell International, Inc. (Honeywell) notified the NRC of its intent to request an exemption under 10 C.F.R. § 40.14 from a portion of the financial test in 10 C.F.R. Part 30, Appendix C. That test requires Honeywell's tangible net worth to be equal to at least ten times its total decommissioning liabilities for the year ended December 31, 2005. The exemption request is Attachment 1 to this letter.

As discussed in the November 3, 2006 notification, Honeywell must provide evidence of interim compliance within 120 days, or prior to February 27, 2007. In a telephone conversation on November 9, 2006, the NRC informed Honeywell that the NRC will toll the 120-day interim compliance requirement while this exemption request is pending. The NRC stated that if Honeywell's request for an exemption is rejected, Honeywell will need to provide evidence of interim compliance within 120 days less the number of days after October 30, 2006 (the official notice date) that the exemption request is submitted.

Honeywell recognizes the importance of assuring that decommissioning of the Metropolis Works facility will be accomplished in a safe and timely manner and that adequate funds will be available for that purpose. To provide such financial assurance for decommissioning, Honeywell has relied on the self-guarantee mechanism authorized by 10 C.F.R. § 40.36(e). To continue to use this method, Honeywell must satisfy the financial test criteria in 10 C.F.R. Part 30, Appendix C, which are designed to reflect the financial strength and stability of the company providing the self-guarantee. In the attached request for an exemption, Honeywell proposes an alternate method of performing one of the financial tests in Appendix C.

Use of the proposed alternate method to meet the financial tests will satisfy the intent of the decommissioning funding requirements without imposing a significant and unnecessary burden on Honeywell. The other financial tests will remain unchanged. As is discussed in detail in the

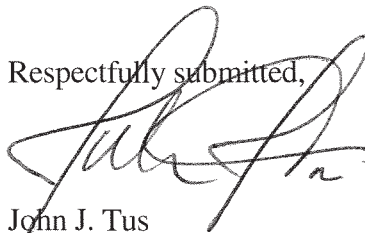
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attached request, the exemption should be granted because the exemption is authorized by law, does not endanger life or property or the common defense and security, and is otherwise in the public interest. Further, granting the exemption does not result in any significant impact to the environment.

In its exemption request, Honeywell provides supporting information that includes confidential commercial and financial information. Honeywell, as the owner of this information, is requesting withholding of both the exemption request and the affidavit accompanying this letter from public disclosure. The affidavit sets forth the bases on which this information may be withheld from public disclosure by the Commission and addresses with specificity the considerations listed in 10 C.F.R. § 2.390(b)(4).

Honeywell is fully-committed to the safe and proper operation of our Metropolis Works Facility, including providing financial assurance for decommissioning funding. This is consistent with our corporate commitment to the continued safety of our workers and the public, and the protection of the environment. This letter does not contain any new regulatory commitments.

Respectfully submitted,



John J. Tus
Vice President and Treasurer
Honeywell International Inc.

Attachments: Request for an Exemption from Decommissioning Funding Assurance
Requirements
Affidavit of John J. Tus, Treasurer, Honeywell International Inc.

cc: Mr. Michael Raddatz, NMSS
Mr. John Riley, Honeywell International Inc.
Mr. Jeffrey Neuman, Honeywell International Inc.

ATTACHMENT 1: EXEMPTION REQUEST

**REQUEST FOR EXEMPTION FROM
DECOMMISSIONING FINANCIAL ASSURANCE REQUIREMENTS**

I. Introduction

In accordance with 10 C.F.R. § 40.14, “Specific Exemptions,” and 10 C.F.R. § 30.11, “Specific Exemptions,” Honeywell requests an exemption from certain provisions of 10 C.F.R. § 40.36, “Financial assurance and recordkeeping for decommissioning,” paragraph (e), and 10 C.F.R. Part 30, Appendix C, “Criteria Relating to Use of Financial Tests and Self-Guarantees for Providing Reasonable Assurance for Decommissioning Funding” for its Metropolis Works facility in Metropolis, Illinois. Specifically, 10 C.F.R. § 40.36(e) states that a licensee may provide a guarantee of funds for decommissioning costs based on a financial test “if the guarantee and funds are as contained in appendix C to Part 30.” Appendix C to Part 30 states that for a self-guarantee a licensee must, among other requirements, have a “[t]angible net worth at least 10 times the total current decommissioning cost estimate for the total of all facilities or parts thereof” to pass the financial test.

II. Summary of Exemption Request

Traditionally, licensees such as Honeywell have not been permitted to include goodwill in the definition of tangible net worth under Appendix C to Part 30. Honeywell requests that it be permitted to include goodwill in the determination of tangible net worth for several reasons. First, the tangible net worth test — as typically applied — does not accurately reflect the financial strength, stability and low risk of default of a multi-industry conglomerate such as Honeywell which has been able to grow and diversify through a strategy of acquisitions. Honeywell’s diverse business activities, the value of which is reflected in goodwill as well as other forms of intangible assets such as patents, know how and brand recognition, are a source of financial strength, not weakness. These assets have consistently generated significant cashflow and financial stability as evidenced by Honeywell’s maintenance of an “A” rating from both Moody’s and Standard & Poor’s since 1992. Honeywell should not be inadvertently penalized under the tangible net worth test of Appendix C to Part 30 because of the nature of its business activities, corporate history and growth strategy. Second, rigid application of the tangible net worth test would require Honeywell to divert substantial financial resources to obtain a letter of credit or some other third party credit support. No benefit to operational or public safety or the common defense and security would accrue from this expenditure, and funds needed for operational improvements would be needlessly diverted.

III. Exemption Request

In support of its request for an exemption from the standard formula used to calculate tangible net worth for the financial test in 10 C.F.R. Part 30, Appendix C, Section II.A.1, Honeywell provides the following information relative to the criteria in 10 C.F.R. § 40.14 and 10 C.F.R. § 30.11.

A. Granting the Exemption is Authorized by Law

There is no statutory prohibition to providing decommissioning funding assurance based on a definition of tangible net worth which includes goodwill under the financial test in 10 C.F.R. Part 30, Appendix C. Accordingly, granting the exemption is authorized by law.

B. Granting the Exemption Will Not Endanger Life or Property or the Common Defense and Security

The objective of the NRC's decommissioning funding assurance regulations is to ensure that licensees maintain adequate financial assurance so that timely decommissioning can be carried out following shutdown of a licensed facility. The ability of a licensee to provide a self-guarantee was intended to reduce the licensee's cost burden while maintaining assurance that funds would be available for decommissioning. The financial tests for a self-guarantee in Part 30, Appendix C include specific criteria (*e.g.*, tangible net worth test, minimum bond rating, and total asset test) that are intended to reflect the licensee's underlying financial strength and also impose related reporting and oversight requirements. However, not all of the criteria are necessary to ensure a licensee's financial strength in every case. The Commission has previously recognized that because a company's "tangible net worth" is an important factor comprising its bond rating, the bond rating itself — combined with the other reporting requirements — may be a sufficient indicator of financial stability." 58 Fed. Reg. 3515, 3518 (Jan 11, 1993); *see also*, 68 Fed. Reg. 68726, 68727 (Dec. 29, 1993) (The qualification to use a self-guarantee "is based in large part on a specified bond rating.").

For Honeywell, which has maintained an "A" rating from both Moody's and Standard & Poor's for the past 14 years, the minimum bond rating criteria in the financial test is, by itself, an effective surrogate for financial strength and stability. For example, a company with rating of A or better (Moody's) in the past three years has a default rate of less than 0.09% (1982-2005). *See* MOODY'S SPECIAL COMMENT, DEFAULT AND RECOVERY RATES OF CORPORATE BOND ISSUERS, 1920-2005 (Jan. 2006). For ratings of A or better (Moody's), there have only been defaults in 4 of the last 35 years. According to S&P, for the past 25 years, companies with an A rating have a 0.23% cumulative average default rate over a 3-year time horizon. *See* ANNUAL 2005 GLOBAL CORPORATE DEFAULT STUDY AND RATINGS TRANSITIONS, at 17 (Jan. 2006). Further, the bond rating companies — through committees chartered to track a particular company — continuously monitor a company to determine whether the rating should be changed and downgrade or upgrade the rating as appropriate. In short, Honeywell's steady bond rating clearly demonstrates both its financial strength and its financial stability. Honeywell is not requesting an exemption from the bond rating criterion of the self-guarantee financial test.

The ongoing reporting and oversight goals of the financial assurance test are satisfied by Honeywell's obligation to report bond rating downgrades (Part 30, Appendix C, Section III.E) as well as the annual recertification (Part 30, Appendix C, Section II.B.3) and SEC report

submission obligations (Part 30, Appendix C, Section III.D).¹ 68 Fed. Reg. at 68727. Because the minimum bond rating and reporting requirements in the self-guarantee financial test will remain unchanged if the requested exemption is granted, there continues to be assurance that adequate funds will be available at any point in time to decommission the facility.

The worldwide shortage of conversion capacity makes it almost inconceivable that MTW would permanently cease to operate anytime in the foreseeable future; every pound of conversion capacity at MTW is sold out for many years to come. Honeywell also generates significant annual free cash flow that is available for decommissioning the MTW when necessary.² Accordingly, in the extremely unlikely event that MTW permanently ceases operation in the near future, life, property, or common defense and security would not be endangered even if the tangible net worth test were eliminated entirely.

Nevertheless, Honeywell is not proposing to eliminate the “tangible net worth test” in its entirety. Instead, Honeywell proposes an adjustment to the presumptive formula used to calculate tangible net worth so that it will more accurately reflect Honeywell’s ability to satisfy its decommissioning obligations at MTW. Although tangible net worth is not defined in the NRC regulations, that term as commonly used refers to a company’s net worth less its intangible assets. Examples of intangible assets could include goodwill, brand value, or patents. For a diversified technology and manufacturing company like Honeywell (and a non-electric utility licensee), the tangible net worth test does not accurately reflect its financial stability or risk of default. Accordingly, Honeywell requests an exemption from the implicit method of calculating tangible net worth and proposes an alternate formula that includes the asset of goodwill in tangible net worth.

Financial Accounting Standard (“FAS”) 141, *Business Combinations*, paragraph 43, defines goodwill as “the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.” This excess is recognized as an asset. FAS 141 provides that assets acquired and liabilities assumed be recorded at their fair value. In almost all business combinations, the consideration paid by the acquiring company exceeds the book value of the assets acquired and liabilities assumed from the target. The reason for this excess of goodwill is that the acquired company is valued on the basis of its cashflow or net income generating potential, not on the simple book value of its assets and liabilities. Thus, in the case of an acquisitive company like Honeywell, goodwill reflects the cash generating potential of the businesses acquired.

¹ For example, under Part 30, Appendix C, Section III, a licensee must notify NRC within 20 days if its rating ceases to be in any category of A or above for Moody’s and S&P. Such a change triggers a further requirement to seek alternate financial assurance within 120 days.

² Honeywell expects to generate \$2.2 billion in free cash in 2006, up from \$1.8 billion in 2005 and \$1.7 billion in 2004.

Under recently imposed amendments to FAS 142, *Goodwill and Other Intangible Assets*, the recognition of goodwill on a company's balance sheet must be annually tested and adjusted to reflect any impairment. Paragraph 18 of FAS 142 specifically states that "[g]oodwill shall not be amortized. Goodwill shall be tested for impairment." This impairment test is performed at least annually and is required to be performed more frequently if there is any material indication of impairment. Impairment testing requires a reporting company and its outside auditors to compare the historical value of goodwill to its current fair value. If there has been a material deterioration in the income-earning capability of the assets to which goodwill has been allocated, an appropriate write-down in the value of goodwill is required. Stated simply, each year a company must verify that the value of its goodwill can be objectively demonstrated by the earnings potential of its underlying businesses.

This independent test of the "fair value" of goodwill, which is audited annually by the company's independent accountants, ensures that the underlying businesses of a company can support the amount of goodwill reflected on its balance sheet. The annual impairment test required by FAS 142 (and concomitant write-down of goodwill) puts investors and other consumers of a company's financial reports on notice that the value of a company's business is deteriorating. Because any impairment of goodwill would be reflected in a lower tangible net worth (using the alternate formula proposed in this exemption request), the financial tests in Part 30, Appendix C, will continue to capture any significant changes in Honeywell's financial strength and stability. Any changes that result in Honeywell no longer satisfying the financial test criteria would trigger the requirement to establish alternate financial assurance within 120 days (Part 30, Appendix C, Section II.C).

Like nearly all multi-industry conglomerates, Honeywell seeks to grow and diversify its businesses through acquisitions or other business combinations. Indeed, since the end of fiscal year 2002, Honeywell has made approximately 39 acquisitions and seen its revenues grow from \$22 billion to over \$30 billion. These acquisitions, which have generated approximately \$3 billion of goodwill, have contributed to Honeywell's success in two ways. First, Honeywell's share price has increased from \$24 per share as of December 31, 2002 to approximately \$42 per share today. Second, Honeywell's earnings per share over that period has grown from a *loss* of \$0.31 per share for the fiscal year ended December 31, 2002 to \$2.42 per share for the 12-month period ended September 30, 2006.

While the traditional test of tangible net worth focuses exclusively on "brick and mortar" assets which may or may not be saleable at their book value, the test which Honeywell seeks in its exemption application includes an asset category, goodwill, that must be annually tested for impairment in its cash-generating ability. While a traditional tangible net worth test may be appropriate for electric utilities or mining companies which rely on a relatively narrow category of tangible assets to generate cash, it is not appropriate for a diversified, multi-industry conglomerate such as Honeywell that manufactures a wide range of products: from high-technology products such as avionics (which require extensive intellectual property) to consumer products such as Fram oil filters (which depend on the value of a brand name).

The following table includes relevant Honeywell financial data for calendar years 2003-2005 and shows the results of the tangible net worth ratio calculation using both the standard formula and the alternate formula proposed in this exemption request.

Self Guarantee Financial Test Alternatives (2003-2005)			
	CY 2003	CY 2004	CY 2005
Total Decommissioning Liabilities ³	\$231 million	\$240 million	\$243 million
Shareholder Equity	\$10,729 million	\$11,252 million	\$10,762 million
Goodwill	\$5,789 million	\$6,013 million	\$7,660 million
Other Intangible Assets	\$1,098 million	\$1,241 million	\$1,173 million
Tangible Net Worth (Standard) ⁴	\$3,842 million	\$3,998 million	\$1,929 million
Ratio (Standard)	16.6	16.7	7.9
Tangible Net Worth (Exemption) ⁵	\$9,631 million	\$10,011 million	\$9,589 million
Ratio (Exemption)	41.7	41.7	39.5

Allowing the decommissioning funding assurance for MTW to be provided based on an alternate calculation of tangible net worth continues to ensure that adequate funds are available at any point in time to decommission the facility. Accordingly, life, property, or common defense and security will not be endangered by the MTW once it permanently ceases operation if the requested exemption is granted.

C. Granting the Exemption is Otherwise in the Public Interest

Honeywell's continued ability to provide a domestic source of conversion services in support of the nuclear power industry that supplies 20% of the nation's electricity is clearly in the public interest. Recent production problems at the Cameco and Areva conversion facilities and the resulting worldwide shortage in conversion capacity means that the ability of Honeywell to invest in the improved safety and performance of MTW is particularly critical. Were the

³ Total decommissioning liabilities include RCRA closure, post-closure and liability, underground storage tank liability, and NRC decommissioning costs. For calendar years 2003 to 2005, the NRC component of the total decommissioning liability was \$109 million. Based on an updated decommissioning cost estimate, that component will rise to \$156 million for 2006.

⁴ Shareholder equity includes goodwill and other intangible assets. Tangible net worth (standard) equals shareholder equity less goodwill and other intangible assets.

⁵ Tangible net worth (exemption) equals shareholder equity less other intangible assets.

Commission to insist upon a rigid application of the tangible net worth test and make a self-guarantee of Honeywell's decommissioning funding obligation unavailable, Honeywell would be required to expend funds on unwarranted compliance costs, which would inexorably reduce its ability to continue to invest in the MTW facility. For example, providing a letter of credit to cover the estimated decommissioning cost for the MTW would cost Honeywell between \$550,000 and \$700,000 per year (up to \$7 million over a 10-year license term).⁶ The annual savings to Honeywell from avoiding the cost of a third party letter of credit is almost as great as the estimated annual savings of \$750,000 for the *entire industry* used to justify the self-guarantee rulemaking. 58 Fed. Reg. at 68726. Moreover, because the cost of credit for A-rated companies is at a historic low, any future weakening in the credit market would likely increase the cost of a letter of credit.

Providing decommissioning funding assurance for the MTW using the alternate financial test ensures that adequate financial assurance is available when required. Imposing the requirement to provide third-party decommissioning funding assurance results in a significant and unnecessary hardship without any direct or indirect benefit or improvement to life, property, or common defense and security. Accordingly, the granting of the exemption is in the public interest.

D. Environmental Review

Since the granting of this exemption does not satisfy any of the criteria for categorical exclusion in 10 C.F.R. § 51.22, "Criteria for categorical exclusion; identification of licensing and regulatory actions eligible for categorical exclusion of otherwise not requiring environmental review," nor the criteria requiring an environmental impact statement in 10 C.F.R. § 51.20, "Criteria for and identification of licensing and regulatory actions requiring environmental impact statements," an environmental assessment is required in accordance with 10 C.F.R. § 51.21, "Criteria for and identification of licensing and regulatory actions requiring environmental assessments." Accordingly, Honeywell proposes that the NRC make a finding of no significant impact based on the following information addressing the provisions of 10 C.F.R. § 51.30, "Environmental assessment."

1. *Need for the Proposed Action*

Granting the requested exemption will allow Honeywell to satisfy the applicable decommissioning funding assurance requirements for the MTW without imposing an unnecessary financial burden on Honeywell.

2. *The Environmental Impacts of the Proposed Action*

Granting the requested exemption will not result in environmental impacts in addition to those described in the Environmental Report for Renewal of Source Material License SUB-526 for the

⁶ This cost estimate is based on a \$156 million decommissioning cost estimate and a cost of 35 to 45 basis points for the letter of credit.

MTW since adequate funds will continue to be available to decommission the MTW at any point in time after the facility permanently ceases operations. The exemption does not change the types or amounts of any effluents that may be released offsite, does not result in an increase in individual or cumulative occupational radiation exposure, and does not increase the potential for or consequences of a radiological accident.

3. *Alternatives as Required by Section 102(2)(E) of the National Environmental Policy Act*

The only alternative to granting the exemption request is to not grant the request. The significant financial burden that would be imposed on Honeywell by not granting the requested exemption is unnecessary. There would be no difference in environmental impacts.

4. *A List of Agencies and Persons Consulted and Identification of Sources Used*

The NRC Project Manager for the MTW was contacted. The MTW's application for a renewed license was used as a source.

Based on the above information, Honeywell proposes that, if the exemption request is granted, the NRC reach a finding of no significant impact in accordance with 10 C.F.R. § 51.32, "Finding of No Significant Impact."

IV. Conclusion

The exemption should be granted because the exemption is authorized by law, will not endanger life or property or the common defense and security, and is otherwise in the public interest. Further, granting the exemption would not result in any significant impact to the environment.

AFFIDAVIT OF JOHN J. TUS

- (a) I am the Treasurer of Honeywell International Inc., and as such have the responsibility of reviewing the proprietary information sought to be withheld from public disclosure in connection with financial assurance for decommissioning. I am authorized to apply for the withholding of such proprietary information from public disclosure on behalf of Honeywell.
- (b) I am making this affidavit in conformance with the provisions of 10 C.F.R. § 2.390 of the regulations of the Nuclear Regulatory Commission (“NRC”), and in conjunction with Honeywell’s application for withholding which accompanies this affidavit.
- (c) I have knowledge of the criteria used by Honeywell in designating information as proprietary or confidential.
- (d) By this submittal, Honeywell seeks to protect from disclosure certain proprietary information contained in the following documents:

Request for an Exemption from Decommissioning Financial Assurance Requirements
dated December 1, 2006

Affidavit of John J. Tus

The exemption includes proposals regarding financial assurance and regulatory approaches that are not public. Because of the preliminary nature of the material with respect to potential decommissioning funding assurance planning, the information could create inappropriate financial speculation regarding Honeywell generally and the Metropolis business activity specifically. This affidavit discusses the bases for withholding the exemption request from public disclosure and therefore reveals the same proprietary information in the exemption request that Honeywell seeks to protect.

- (e) Pursuant to the provisions of 10 C.F.R. § 2.390(b)(4), the following is furnished for consideration by the NRC in determining whether the proprietary information sought to be protected should be withheld from public disclosure.
- (i) The information for which protection from disclosure is sought has been held in confidence by Honeywell. This information is proprietary to Honeywell, and Honeywell seeks to protect it as such. The information proprietary to Honeywell is found in the documents listed in paragraph (d), above. Honeywell has determined that it is not practicable to separate the proprietary information from non-proprietary information in these documents. Therefore, Honeywell seeks to protect these documents from public disclosure in their entirety.

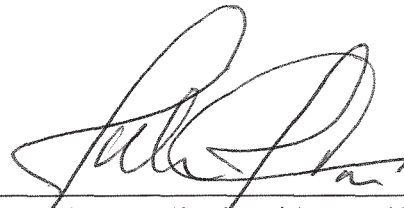
WITHHOLD FROM PUBLIC DISCLOSURE
UNDER 10 CFR § 2.390(a)(4)

- (ii) The information sought to be withheld is of a type that would customarily be held in confidence by Honeywell. The information consists of commercial and financial information that provides a competitive advantage to Honeywell.
- (iii) The information sought to be withheld is being provided to the NRC in confidence, and, under the provisions of 10 C.F.R. § 2.390, it is to be received in confidence by the NRC.
- (iv) The information sought to be withheld is not available in public sources, to the best of Honeywell's knowledge and belief.
- (v) Public disclosure of the proprietary information Honeywell seeks to protect is likely to cause substantial harm to Honeywell's competitive position within the meaning of 10 C.F.R. § 2.390(b)(4)(v). The proprietary information has substantial commercial value to Honeywell.

For all of the reasons discussed above, Honeywell requests that this proprietary information be withheld from public disclosure in its entirety.

I declare under penalty of perjury that the foregoing is true and correct

Executed on December 1, 2006



John J. Tus, Vice President and Treasurer
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