



Nuclear Regulatory Commission
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11.0 PLANT DECOMMISSIONING

11.1 Purpose

The goal of the decommissioning process is to remove a facility or site safely from service, and to reduce residual radioactivity to a level that permits either release of the property for unrestricted use or for release under restricted conditions, with eventual termination of the NRC license.

11.2 Regulatory Requirements

When Honeywell decides to permanently cease NRC-licensed activities at the MTW, it will be required to submit a decommissioning plan in accordance with 10 CFR 40.42. However, under 10 CFR 40.36, Honeywell has already been required to submit a decommissioning funding plan containing a cost estimate for decommissioning and a description of the method of assuring that sufficient funds for decommissioning will be available. Cost estimates must be adjusted at intervals not to exceed three years. The decommissioning funding plan must also contain a certification, by the licensee, that financial assurance for decommissioning has been provided in the amount of the cost estimate for decommissioning, and a signed original of the financial instrument obtained to satisfy the requirements of this section. To meet these requirements, the licensee provided both a reclamation cost estimate and a financial assurance mechanism.

11.3 Reclamation Cost Estimate

10 CFR 40.36(d) requires the cost estimate to be adjusted at intervals not to exceed three years. NRC received the most recent cost estimate on January 10, 2007. The reclamation cost estimate is under review, and it will be dispositioned outside of the license renewal process.

Therefore, for the purposes of license renewal, the staff will continue to rely upon the previously submitted "Site Reclamation Cost Estimate" dated June, 2000. This estimate was updated in December 2000, to reflect a 3% cost increase to \$103,000,000.00, and again in December 2001 to reflect a further 3% increase to \$106,000,000.00. The January 10, 2007, cost estimate contains an estimated decommissioning cost estimate, as measured in 2006 dollars of \$156,440,898.00.

As required by 10 CFR 30, Appendix C.II.B, Honeywell has, in the past, submitted supporting documentation that verified that it met the financial test allowing it to utilize the self-guarantee. However, in order to meet the same financial test this year Honeywell found that it needed an exemption to 10 CFR Part 30, Appendix C, Section II.A.1 (as made applicable by 10 CFR Part 40.36(e)(2)). If granted the exemption would allow it to utilize goodwill assets, in addition to tangible assets, to meet the 10 to 1 ratio of tangible net worth to meet the decommissioning obligation. As detailed in the findings associated with Section 11.5 which follows, this exemption has been granted.

11.4 Finding

Until such time that the staff completes its review of the Site Reclamation Cost Estimate dated January 10, 2007, the staff believes that adequate funding continues to be available for the decommissioning of the Honeywell facility.

11.5 Financial Assurance

In the past, Honeywell has provided the required financial assurance mechanism for decommissioning funding through a corporate self-guarantee. The self-guarantee, as a financial assurance mechanism, was first approved by NRC on May 26, 1994, by License Amendment 17 (1985 license). MTW has incorporated this amendment, by reference, into Chapter 6 of the renewal application.

However, in a letter dated November 3, 2006, Honeywell notified NRC that it was unable to meet the tangible net worth leg of the financial test as set forth in 10 CFR Part 30, Appendix C, Section II (as made applicable by 10 CFR Part 40.36(e)(2)). The regulation requires, among other things, that the licensee have tangible net worth of at least 10 times the decommissioning obligation. Honeywell's tangible net worth no longer meets the 10 to 1 criterion. This means that it is no longer eligible to use the self-guarantee. The regulations require that Honeywell provide alternate financial assurance within 120 days after notifying the NRC that it is no longer qualified to use the self-guarantee.

In a letter dated December 1, 2006, Honeywell submitted a request under the provisions of 10 CFR 40.14 for an exemption from 10 CFR Part 30, Appendix C. Honeywell requested that it be allowed to include the asset of goodwill in the tangible net worth test. Using its requested alternate definition of tangible net worth, Honeywell presented data showing the ratio of net worth to its estimated MTW decommissioning liabilities exceeded 35 to 1. If Honeywell is not allowed to use the alternate definition of tangible net worth to pass the test, it will incur significant costs to provide another method of financial assurance. Honeywell estimated it would cost about \$550,000 to \$700,000 per year to provide alternate financial assurance. Honeywell's exemption request stated that it continued to meet the other criteria of 10 CFR Part 30, Appendix C. In particular, its bonds are rated "A" by Moody's and Standard and Poor's. The NRC determined that the 120 day clock to provide alternate financial assurance would not be tolled during consideration of the exemption request.

10 CFR 40.14 states that: "The Commission may, upon application of any interested person or upon its own initiative, grant such exemptions from the requirements of the regulation in this part as it determines are authorized by law and will not endanger life or property or the common defense and security and are otherwise in the public interest."

The basis for decommissioning financial assurance is to assure that funds for decommissioning are available when needed. A self guarantee relies on the licensee's financial ability to fund decommissioning costs in a timely manner. The ability to pay may be considered in two parts: (1) ability under normal circumstances and (2) ability in cases of financial distress.

The licensee's financial ability to pay under normal circumstances is regularly rated by the bond rating agencies, such as Moody's and Standard and Poor's. A rating of "A" or higher indicates a very low probability of default on a company's bonds. The bond rating agency considers environmental obligations, such as decommissioning, in its rating of the licensee's ability to pay. The bond rating agency also considers the value of goodwill reflected in the licensee's balance sheet. An objective method to determine the value of goodwill is provided by Financial Accounting Standards Board (FASB) Standard No. 141, "Business Combinations." Honeywell uses the FASB standard to determine the value of its goodwill assets. Consequently, the "A" rating held by Honeywell is a reliable indicator that it has the ability to pay its decommissioning obligations under normal circumstances. The bond rating is supported by Honeywell's annual revenues of approximately \$27 billion, which generates about \$2.4 billion net annual cash flow. Total decommissioning liabilities are \$243 million, of which \$156 million represents radiological decommissioning governed by NRC regulations. In view of the bond rating and Honeywell's financial strength, its ability to pay for decommissioning under normal circumstances is adequate.

The likelihood that Honeywell will face financial distress during a particular time span can be assessed with the bond rating. For "A" rated and higher bonds, a transition from the "A" rating to a default has not occurred within a one year time span during the period 1983 to 2005 for bonds rated by either Moody's or Standard and Poor's. For the time period from 1920 to 2005, fewer than 0.08% of bonds rated "A" or better by Moody's defaulted within one year. (Standard & Poor's did not publish historical data as far back as Moody's.) The default rate rises as the time span for default extends greater than one year. Consequently, the financial test to qualify for using the self guarantee must be repeated annually, to assure that the risk of default remains low for the next year.

An NRC licensee's ability to pay under conditions of financial distress relates to the ratio of assets to decommissioning liability. Where tangible assets, as defined in the rule, are considered alone, a 10 to 1 ratio is adequate to assure that funds will be available if needed in case of financial distress. In the Honeywell case, the ratio of tangible assets to decommissioning cost is approximately 7 to 1. However, if goodwill assets are included in net worth, Honeywell's ratio exceeds 35 to 1. In view of the "A" bond rating and the high ratio of net worth (including goodwill) to decommissioning obligation, the likelihood that assets will be available for decommissioning in the event of financial distress in the next year is adequate.

In view of the above, an exemption to permit using goodwill assets to meet the 10 to 1 ratio of tangible net worth to decommissioning obligation will not endanger life or property or the common defense and security because there is no significant increase in the risk that funds for decommissioning will not be available when needed. The exemption is in the public interest because resources will not be expended on alternate financial assurance methods that would not increase the likelihood that funds for decommissioning will be available when needed.

However, Appendix C to Part 30 is currently under evaluation for proposed rulemaking. The NRC staff is in the process of developing proposed amendments which, if approved

by the U.S. Nuclear Regulatory Commission, will be published for public notice and comment. After public comments are received, additional information may arise that could cause the staff to reconsider the adequacy of using goodwill assets to meet the ratio of tangible net worth to decommissioning obligation. Public comments may be received within a year after Honeywell's license renewal application is approved. In view of this factor, an exemption to permit use of goodwill assets to meet the ratio of tangible net worth to decommissioning obligation in Appendix C to Part 30 must be time limited to allow reconsideration of the basis for the exemption in the future.

Therefore, a time limited exemption to Appendix C to Part 30 will be granted to Honeywell. Honeywell is exempted from the requirement to exclude goodwill assets to meet the ratio requirement of Appendix C.II.A. Honeywell may include goodwill assets to meet the 10 to 1 ratio of tangible net worth to decommissioning obligation. Honeywell must meet all other requirements of Appendix C to Part 30 to use the self guarantee to provide financial assurance for decommissioning. This exemption is granted for a period of one year from the date of approval of this license renewal. This exemption will expire at the end of that time and Honeywell must either re-apply for the exemption 30 days prior to the expiration, meet the actual requirements of Appendix C to Part 30, or have an alternative surety in place when the exemption expires.

Honeywell is required by 10 CFR 40.36(d) to adjust the cost estimate for decommissioning at intervals not to exceed three years. Although it must perform the adjustment, the regulations are unclear as to whether it must submit the results for NRC review and approval. In order to ensure that NRC staff reviews the update to the cost estimate for decommissioning a License Condition requiring that the update be submitted for review and comment will be required.

Honeywell is also utilizing a self-guarantee financial assurance mechanism to ensure that funds are available for decommissioning. Therefore, 10 CFR 30 Appendix C.II.B requires Honeywell to verify that it meets the financial test allowing it to utilize the self-guarantee within 90 days of the close of each fiscal year. Although it must perform the test, the regulations are unclear as to whether it must submit the results for NRC review and approval. Therefore, NRC will impose License Condition 26:

11.6 Finding

Honeywell is required by 10 CFR 40.36(d) to adjust the cost estimate for decommissioning at intervals not to exceed three years. In order to verify that this requirement is met, the following License Condition is imposed:

LC-25 At intervals not to exceed 3 years, the Licensee must submit for NRC review an updated cost estimate for decommissioning. After resolution of any NRC comments on the estimate, a signed original of the financial instrument reflecting an amount sufficient to cover the approved cost estimate must be provided to the NRC.

Honeywell is also utilizing a self-guarantee financial assurance mechanism to ensure

that funds are available for decommissioning. Therefore, 10 CFR 30 Appendix C.II.B requires Honeywell verify that it meets the financial test allowing them to utilize the self-guarantee within 90 days of the close of each fiscal year. In order to verify that this requirement is met, the following License Condition is imposed:

LC-26 Honeywell shall submit to NRC, for review and approval, the results of the financial test and supporting documentation required by 10 CFR 30 Appendix C II.B(3) within 120 days of the close of each fiscal year.

Honeywell is granted an exemption to include goodwill assets to meet the 10 to 1 ratio of tangible net worth to decommissioning obligation to pass the financial test for a self-guarantee of financial assurance for decommissioning. The exemption is limited to a period of one year. Honeywell must continue to comply with the other requirements of 10 CFR Part 30 Appendix C. Therefore, NRC will impose the following License Condition:

LC-27 Honeywell is granted an exemption to 10 CFR Part 30, Appendix C, Section II.A.1 (as made applicable by 10 CFR Part 40.36(e)(2)). Specifically, as described in a letter dated December 1, 2006, Honeywell may include goodwill assets in its calculation of tangible net worth to meet the 10 to 1 ratio of tangible net worth to decommissioning obligation to pass the financial test. All other applicable conditions within 10 CFR Part 30, Appendix C remain. This license condition will expire one year from the date of approval of this license renewal.