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Mr. Craig Erlanger, Director
Division of Fuel Cycle Safety, Safeguards, and Environmental Review
Office of Nuclear Material Safety and Safeguards
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

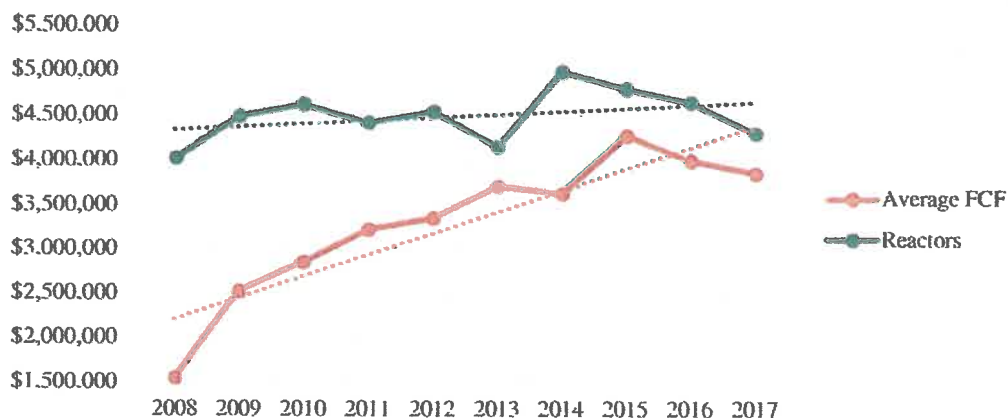
Re: Comments on Fuel Cycle Facility Fee Matrix and Fee Calculation Methodology

Dear Mr. Erlanger:

Honeywell is the Part 40 licensee for the Metropolis, Illinois UF₆ conversion facility known as the Metropolis Works facility (“MTW”). MTW is the only operating uranium conversion facility in the United States. At a December 13, 2017 public meeting, the NRC discussed alternative approaches to the current fee matrix and sought comments on both the current fee matrix and alternative approaches. Honeywell appreciates both the NRC’s willingness to hold the public meeting and its engagement with stakeholders at this early stage. In particular, the NRC provided useful background and explanation at the public meeting that helped to inform our comments below.

Before turning to our comments, we wanted to first note that we welcome the NRC’s decision that any changes to fee matrix would not occur in the FY18 fee rule. Given the current state of the nuclear fuel market, regulatory stability and cost predictability is critical to long-term business planning. In the same vein, we appreciate the efforts that the NRC has made to date to identify efficiencies and cost savings that result in a reduction in the overall agency budget. We believe that these efforts should continue, with a particular focus on identifying significant reductions in the Fuel Facilities Business Line. The seven operating fuel cycle facilities already support a disproportionate cost load—supporting a higher NRC staff to licensee ratio than the reactor line of business, but with a much lower risk profile. Moreover, over the past 10 years, annual fees for fuel cycle facilities have been increasing at a rate nearly seven times that of reactors.

NRC Annual Fees



Accordingly, Honeywell agrees with NEI that the NRC should make every effort to first reduce the overall budget for the Fuel Facilities Business Line before considering any changes to the fee matrix methodology.¹

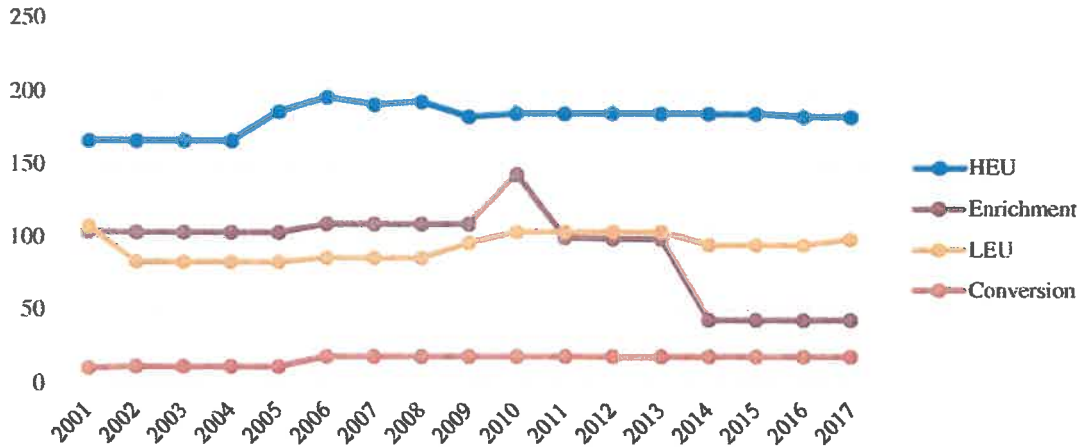
Current Fee Matrix Methodology

As an initial comment, Honeywell believes that the NRC's current fee matrix approach for fuel cycle facilities has been effective and reasonably fair and equitable. In the matrix and in the associated working papers, the NRC allocates effort according to the level, scope, depth of coverage, and rigor of the generic regulatory programmatic effort applicable to each category from a safety and safeguards perspective. And, the matrix accounts for the level of effort for each factor associated with the specific processes that exist at each facility, such as solid UF₆/metal, enrichment, liquid UF₆, HEU downblend, conversion powder, pellet, rod/bundle, scrap/waste, hot cell, and sensitive information. The budgeted resources for each category are then allocated in proportion to the total regulatory effort for safety and safeguards activities. This approach is reasonable and strikes an appropriate balance among the various factors affecting regulatory effort (and therefore fees). The reasonableness and overall fairness of the current approach is reflected in the fact that the fee matrix allocations among fuel cycle facilities has been relatively stable since the current fee matrix approach was adopted in 1999.²

¹ Honeywell endorses and incorporates the comments submitted by NEI. Our comments below are supplemental to the NEI comments.

² The changes in enrichment level of effort are related to the closures of the two USEC gaseous diffusion plants and the commissioning of the gas centrifuge National Enrichment Facility and reflect differences between the two types of enrichment technologies.

NRC Fee Matrix - Level of Regulatory Effort (2001-2017)



Moreover, there is no indication that the current fee matrix is inherently flawed or unreasonable. For example, Honeywell’s MTW site is listed as having activities in only seven of the fee matrix columns (the fewest of all fuel cycle facilities), while four other facilities have at least twice that many. The differences in annual fees for fuel cycle facilities reflect this difference in regulatory effort. And to the extent that there have been significant changes in annual fees from year to year, those changes have been driven more by reductions in the number of licensed facilities in the business line rather than changes in the matrix itself. Simply put, there does not appear to be a strong impetus for a change in the fee matrix at this time. To the contrary, as explained above, the current fee matrix allocates costs in a fair and equitable manner consistent with the cost of providing regulatory services.

In the absence of a demonstrably “better” way to fairly and reasonably allocate costs among fuel facilities than the current safety and safeguards factors for each applicable process, no change is warranted.³ In fact, expending agency resources to revise the fee matrix approach at this time would run counter to the NRC’s focus on reducing the overall agency budget in this time of economic stress for the nuclear industry at large.

Alternative Approaches Presented at Public Meeting

At the public meeting on December 13, 2017, the NRC presented information on several alternative approaches to the current fee matrix, including:

- Uniform approach (all fuel facilities pay the same annual fee)
- Combination approach (15% proportional linked to Part 170 charges; 85% uniform)

As discussed below, neither approach is preferable to the current fee matrix.

³ As discussed below, there may be certain categories of licensees that warrant separate treatment given various policy and federal budgetary constraints, but not to the detriment of other fuel cycle facilities.

Uniform Approach

A uniform, one-size-fits-all approach would not be a “fair and equitable allocation” of NRC regulatory costs as it would ignore the wide range of differences between fuel cycle facilities. For example, MTW is a Part 40 facility that does not possess any enriched uranium (only natural uranium), while all of the other fuel cycle facilities are Part 70 facilities that handle low- or high-enriched uranium in various forms. It is not fair or equitable to charge Honeywell the same fee as an HEU down-blending facility or enrichment facility, which will obviously require much greater regulatory control and oversight (if for no other reason than criticality risks, classified information, and tightly-controlled technology). Indeed, the current effort factor matrix shows that MTW has a moderate effort in only three processes, while one HEU facility has nine processes at a high effort and the other has five process at the high effort and another eight processes at the moderate level.

The difference in regulatory effort among fuel cycle facilities is further demonstrated by examining the table of “Guidance and Procedures for Fuel Facilities” provided in connection with the public meeting. Nearly all of the documents directed to fuel facilities were developed specifically for Part 70 facilities. In fact, not a single document listed is specific to conversion facilities, while every other facility type has multiple documents specific to its category. And when the table is revised to more accurately reflect the allocation of regulatory effort associated with development of the documents, the “usage” percentage for each category of licensee starts to much more closely mirror the current allocations. This includes eliminating documents that are generic to all NRC or all materials licensees, deleting documents applicable only to reactor licensees, and “unchecking” MTW for documents that focus on special nuclear material or that are applicable only to Part 70 facilities.

As importantly, the table in no way accounts for the different levels of regulatory effort associated with the development of each document. The level of effort required to prepare a new NUREG is not the same as that required to conduct a periodic review of a Regulatory Guide issued in 1974—particularly when the review recommends that the Regulatory Guide should be withdrawn. Accordingly, the results of the assessment in the “Guidance and Procedures for Fuel Facilities” is not indicative of a “reasonable relationship to the cost of providing regulatory services” and should not be used in setting the annual fee allocations among fuel facility licensees.

In sum, it is neither equitable nor fair to charge a uniform fee that treats the highest and lowest effort licensees the same given the large differences in the types of materials, processes, and hazards—and associated differences in regulatory effort—across the Fuel Facilities Business Line.

Combination Approach

The combination approach likewise would not reflect a “fair and equitable allocation” of NRC regulatory costs. On slide 10, the NRC summed the total Part 170 charges (fees charges for licensing and inspection activities) for each facility and facility type over the past four years. The NRC then used the resulting proportional percentage in developing the combination approach on slide 14. However, there is no information presented to suggest that the Part 170 billing data captures the same types of activities across the facility types. For example, the charges applied to Honeywell appear to include the extensive inspection and

licensing activities associated with the seismic shutdown at MTW.⁴ This calculation also does not account for various process changes or license amendments at a facility that, as one-off activities, skew the overall calculation. Accordingly, historical Part 170 billing data does not provide a valid basis for fairly and equitably assessing Part 171 fees.

Implementation of Any Changes

As you know, Honeywell is in the process of temporarily idling production of UF₆ at its Metropolis site, while maintaining minimal operations to support a future restart as business conditions improve. As a result, cost predictability is more important than ever. The NRC acknowledged this at the public meeting, indicating that any substantial changes in fees could be phased in over a period of years. While Honeywell does not believe that any changes in fuel facility fee methodology is warranted, should the NRC decide otherwise, Honeywell agrees that any changes in the fee matrix that lead to substantial increases in the annual fees paid by MTW should be phased in over a period of at least five years. A minimum of a five-year phase-in period is necessary given the terms of conversion contracts and the limited ability to pass-through changes in regulatory fees.

Conclusion

In summary, Honeywell appreciates the NRC's engagement with stakeholders on potential changes to the fee matrix. However, none of the alternative approaches described at the public meeting would meet the requirement that the NRC fairly and equitably allocate fees based on the level of regulatory effort and benefits. And none are an improvement over the current approach, which has proven to be fair, equitable, and relatively stable over the long-term. Moreover, further evaluation of the fee matrix and potential re-allocation of annual fees does not address the root cause of industry's budget concerns. Accordingly, Honeywell recommends that the NRC focus its limited resources on identifying further opportunities to reduce the overall budget for the Fuel Facilities Business Line in lieu of further action with respect to the fee matrix.

If you have any questions about these comments or would like to discuss further, please contact Mark Wolf at mark.wolf@honeywell.com or (618) 309-5013.

Sincerely,



Jeff Fulks
Plant Manager

cc: Maureen Wylie, Chief Financial Officer
Marc Dapas, Director, Office of Nuclear Material Safety and Safeguards

⁴ Honeywell disputed the licensing and inspection fees related to that effort (~\$2M). Had those fees been excluded as indicated by the fee rule, MTW's percentage billing would have been under 5%, which is similar to MTW's allocation under the current fee matrix.

