

SEP 13 1993

License No. 37-03572-06
Docket No. 030-12704
Control No. 115031

SMH (US) Services Incorporated
ATTN: Thomas G. Frasso
Director of Logistics
941 Wheatland Avenue
Lancaster, Pennsylvania 17604

Dear Mr. Frasso:

Subject: Financial Assurance

This is in reference to your submittal dated March 7, 1991 with attached Letter of Credit, to telephone calls between Eric H. Reber of this office and Kenneth Nolt on August 20, 1992 and September 16, 1992 and to a letter dated October 28, 1992, all regarding financial assurance for License No. 37-03572-06.

We have reviewed the documents and request that you modify your submission to address the following specific matters:

1. Your decommissioning cost estimate of \$40,249 was derived using unit cost estimates based on the 1991 decontamination of the third floor of your facility located at 941 Wheatland Avenue. Your unit cost estimates appear substantially lower than those found in Appendices A and E to NUREG/CR-1754, Addendum 1 (enclosed). For example, using these tables and applying them to just one portion of the licensed facilities, the SMH Assembly Operation at 1817 William Penn Way, we estimate decommissioning costs for the Assembly Operation at \$427,315 (including disposal of 63.54 m³ of waste) versus your estimate of \$14,578.

Please demonstrate that you have considered all major decommissioning activities, have included all costs incurred for the previous decommissioning activities and have appropriately scaled the estimate for the differences in facilities and the changes in costs, especially for waste disposal, since 1991.

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For example, although you outlined the work required to decommission the three facilities, you did not detail your total cost estimate by major decommissioning activity (e.g., planning and preparation, decontamination of facility components, packaging and waste disposal, final radiation survey, etc.). In particular, you did not submit clear cost estimates for the costs of planning and preparation. The NRC therefore, cannot evaluate whether you have included reasonable cost estimates for all major decommissioning activities in the overall decommissioning cost estimate.

Please use or adapt the "Cost Estimating Tables" in Appendix F of Regulatory Guide 3.66 (enclosed), to demonstrate that you have provided reasonable cost estimates for all major decommissioning activities, including the costs of planning and preparation.

2. Your total cost estimate for decommissioning is \$40,349. You provided financial assurance in the amount of \$75,000. This "implies" a contingency factor of 85 percent which has not been incorporated into the cost estimate. Since the NRC-approved cost estimate is the basis for the required level of financial assurance, please revise your cost estimate to account for unanticipated costs. Regulatory Guide 3.66, page 1-10, recommends that a contingency factor be included as part of the decommissioning cost estimate. NUREG/CR-1754 uses a contingency factor of 25 percent in its cost estimates for each six reference laboratories, although licensees may choose to use lower contingency factors if they can show why a lower factor is appropriate. Please incorporate a contingency factor into the total decommissioning cost estimate.
3. 10 CFR 30.35(e) requires that licensees describe the means they will use to adjust their decommissioning cost estimates and associated funding levels over the lives of the licensed facilities. You did not provide such a description in your DFP. Regulatory Guide 3.66 suggests that adjustments be made for inflation and for site-specific factors at the time of license renewal, or when the amounts and types of material at the facility change. Please describe the means you will use for adjusting cost estimates and associated funding levels over the life of the facility.
4. The submitted Letter of Credit requires a signed statement to draw on the Letter of Credit, reading as follows:

"I certify that the amount of the draft is payable pursuant to regulations issued under authority of SMH (US) Inc., AKA SMH (US) Services, Inc."
[emphasis added]

The decommissioning regulations were issued under the authority of the U. S. Nuclear Regulatory Commission. Although a signed statement reciting the submitted language

should be adequate to draw on the instrument, the submitted language invites error because it is obviously incorrect. Under the terms of the submitted Letter of Credit, a signed statement that correctly attributed the regulations to NRC would not be honored. Please modify the Letter of Credit to replace the phrase underlined above with the phrase "the Nuclear Regulatory Commission."

5. The submitted Letter of Credit omits paragraph 2 of the recommended wording found on page 4-33 of Regulatory Guide 3.66. The recommended wording states:

"This Letter of Credit is issued in accordance with regulations issued under the authority of the U.S. Nuclear Regulatory Commission (NRC), an agency of the U.S. Government, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974. The NRC has promulgated regulations in Title 10, Chapter I of the Code of Federal Regulations, Part 30 which require that a holder of, or an applicant for, a license issued under 10 CFR Part 30 provide assurance that funds will be available when needed for decommissioning."

This paragraph helps ensure that the financial assurance mechanism was executed to assure only decommissioning costs, and that it will not be drawn upon for other purposes. The paragraph also ensures that the NRC regulations will be considered as applicable to interpreting any ambiguities in the terms of the mechanism. Please modify the Letter of Credit to include the recommended language.

6. 10CFR 30.35(f)(2)(ii) requires that licensees using a surety method of financial assurance make the financial assurance mechanism payable to a trust fund established for decommissioning costs since funds paid directly to the NRC must be deposited in the U.S. Treasury and would not be available for decommissioning costs. To avoid the possibility that a trust fund will not be readily available if and when needed, Regulatory Guide 3.66 states that a standby trust fund should be established and submitted with the Letter of Credit. Please submit the Standby Trust Agreement, acknowledgement, and related documents and closely follow the recommended wording found on pages 4-18 through 4-27 of Regulatory Guide 3.66.
7. Please submit originally signed, completely executed copies of any modified documents.

We will continue our review upon receipt of this information. Please reply in duplicate to my attention at the Region I office and refer to Mail Control No. 115031. If you have any

questions regarding this letter please call David Everhart at (215) 337-6936. Since your license requires financial assurance, we request that you respond within 30 calendar days of the date of this letter.

Sincerely,

Original Signed By
John D. Kinneman

John D. Kinneman, Chief
Research & Development and
Decommissioning Section
Division of Radiation Safety
and Safeguards

Enclosures:

1. Regulatory Guide 3.66
2. NUREG/CR-1754
3. NUREG/CR-1754, Addendum 1

cc: (w/o enclosures)

Kenneth W. Nolt, Radiation Safety Officer