



**UNITED STATES
NUCLEAR REGULATORY COMMISSION**
REGION II
245 PEACHTREE CENTER AVENUE NE, SUITE 1200
ATLANTA, GEORGIA 30303-1257

March 12, 2012

Mr. Joseph G. Henry
President
Nuclear Fuel Services, Inc.
P. O. Box 337, MS 123
Erwin, TN 37650

**SUBJECT: NUCLEAR FUEL SERVICES, INC., LICENSEE PERFORMANCE REVIEW OF
LICENSED ACTIVITIES (NRC INSPECTION REPORT 70-143/2012-001)**

Dear Mr. Henry:

The U.S. Nuclear Regulatory Commission (NRC) Region II and Headquarters staff completed a review of your performance in conducting NRC licensed activities at the Nuclear Fuel Services (NFS) facility in Erwin, TN. The review evaluated your performance during the period beginning January 1, 2011, and ending December 31, 2011. Nuclear Fuel Services' performance was evaluated in five major areas: Safety Operations, Safeguards, Radiological Controls, Facility Support, and Special Topics. This letter and the enclosure provide the results of our review, and constitutes report 70-143/2012-001. This report will be used as a basis for establishing the NRC oversight program for your facility during the next review period. The details regarding the safeguards portion of the review are documented in a separate letter marked Official Use Only – Security-Related Information due to the sensitive nature of the subject matter.

During the previous review period, the NRC staff identified two areas needing continued focus on the part of NFS management. The first of these areas was in Safety Operations. NRC's inspection findings for 2010 demonstrated that the corrective actions to address the underlying causes had not been fully effective and sustainable. In addition, a number of commitments identified in the 2010 Confirmatory Action Letter (CAL) remained incomplete. These issues included the readiness of the uranium hexafluoride processing line to restart, the thoroughness with which NFS conducts causal evaluations, and the process for incorporating the results of these evaluations into operational decisions. As a result, the NRC concluded that the area of Safety Operations remained an Area Needing Improvement.

The second area requiring continued focus of NFS management was in the area of Facility Support. In November 2010, NRC issued a Confirmatory Order (ML103210213) in response to NFS providing the NRC with inaccurate information and the lack of demonstrable progress in the area of safety culture as evidenced by the events that led to the Confirmatory Action Letter. These issues indicated that additional effort by NFS management was needed to improve management oversight of facility operations. As a result, the NRC concluded that the area of Facility Support remained an Area Needing Improvement.

The NRC review of the current Licensee Performance Review (LPR) period concluded that NFS conducted its activities safely and securely, protecting public health and the environment. In our assessment, the NRC considered the results of the core inspection program, and the additional inspections performed to ensure that NFS met its commitments as documented in the CAL and the Order. The additional inspections focused on the areas of restart readiness, problem identification and resolution, and design verification. Based on our current review of activities covering the period January 1, 2011 through December 31, 2011, no areas needing improvement were identified.

Nuclear Fuel Services' 2011 safety culture performance has demonstrated improvements. Nuclear Fuel Services implemented a formal process for responding to upset conditions in a methodical and conservative manner. NRC inspection staff noted that NFS' actions in 2011 were properly focused on safety, and were consistent with their improved processes. In addition, the NRC's in depth review of NFS' safety conscious work environment identified no significant deficiencies.

As a result of your performance during the assessment period, the NRC plans to conduct the core inspection program for a Category I Fuel Facility as described in NRC Inspection Manual Chapter 2600, "Fuel Cycle Facility Operational Safety and Safeguards Inspection Program," for the period of January 1, 2012 to December 31, 2012. All of the actions for the CAL have been inspected and the NRC has concluded that the actions taken by NFS have been sufficient to provide reasonable assurance that all process lines could be operated safely. An additional inspection will be conducted during the 2012 performance period in the area of problem identification and resolution (PI&R) as a follow-up to the Order issued in 2010.

The results of this performance review will be discussed with you in a public meeting on May 8, 2012. During this meeting, NFS management should discuss its on-going efforts to improve the overall safety culture on site. The NRC will conduct the next LPR assessment following the end of the current assessment period, which is scheduled to end on December 31, 2012.

In accordance with 10 CFR 2.390 of NRC's "Rules of Practice," this document and its enclosures may be accessed through the NRC's public electronic reading room, Agency-Wide Document Access and Management System (ADAMS) on the Internet at <http://www.nrc.gov/reading-rm/adams.html>.

Questions and comments about NRC's review of NFS' performance should be referred to Mr. Manuel Crespo, Acting Chief, Fuel Facility Inspection Branch 1, at 404-997-4733.

Sincerely,

/RA/

Anthony T. Gody, Director
Division of Fuel Facility Inspection

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

Enclosure:
Licensee Performance Review Summary Outline
cc w/encl (See page 3):

J. Henry

3

cc w/encl:

Christa Reed
Director, Operations
Nuclear Fuel Services, Inc.
Electronic Mail Distribution

Mark Elliott
Director, Quality, Safety and Safeguards Department
Nuclear Fuel Services, Inc.
Electronic Mail Distribution

Debra Shults
Director, TN Dept. of Environment & Conservation
Electronic Mail Distribution

The NRC review of the current Licensee Performance Review (LPR) period concluded that NFS conducted its activities safely and securely, protecting public health and the environment. In our assessment, the NRC considered the results of the core inspection program, and the additional inspections performed to ensure that NFS met its commitments as documented in the CAL and the Order. The additional inspections focused on the areas of restart readiness, problem identification and resolution, and design verification. Based on our current review of activities covering the period January 1, 2011 through December 31, 2011, no areas needing improvement were identified.

NFS' 2011 safety culture performance has demonstrated improvements. NFS implemented a formal process for responding to upset conditions in a methodical and conservative manner. NRC inspection staff noted that NFS' actions in 2011 were properly focused on safety, and were consistent with their improved processes. In addition, the NRC's in depth review of NFS' safety conscious work environment identified no significant deficiencies.

As a result of your performance during the assessment period, the NRC plans to conduct the core inspection program for a Category I Fuel Facility as described in NRC Inspection Manual Chapter 2600, "Fuel Cycle Facility Operational Safety and Safeguards Inspection Program," for the period of January 1, 2012 to December 31, 2012. All of the actions for the CAL have been inspected and the NRC has concluded that the actions taken by NFS have been sufficient to provide reasonable assurance that all process lines could be operated safely. An additional inspection will be conducted during the 2012 performance period in the area of problem identification and resolution (PI&R) as a follow-up to the Order issued in 2010.

The results of this performance review will be discussed with you in a public meeting on May 8, 2012. During this meeting, NFS management should discuss its on-going efforts to improve the overall safety culture on site. The NRC will conduct the next LPR assessment following the end of the current assessment period, which is scheduled to end on December 31, 2012.

In accordance with 10 CFR 2.390 of NRC's "Rules of Practice," this document and its enclosures may be accessed through the NRC's public electronic reading room, Agency-Wide Document Access and Management System (ADAMS) on the Internet at <http://www.nrc.gov/reading-rm/adams.html>.

Questions and comments about NRC's review of NFS' performance should be referred to Mr. Manuel Crespo, Acting Chief, Fuel Facility Inspection Branch 1, at 404-997-4733.

Sincerely,

/RA/

Anthony T. Gody, Director
Division of Fuel Facility Inspection

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

Enclosure:
Licensee Performance Review Summary Outline
cc w/encl (See page 3):

PUBLICLY AVAILABLE NON-PUBLICLY AVAILABLE SENSITIVE NON-SENSITIVE
ADAMS: Yes ACCESSION NUMBER: ML12072A191 SUNSI REVIEW COMPLETE XFORM 665 ATTACHED

OFFICE	RII:DFFI	RII:DFFI	NMSS			
SIGNATURE	/RA/	/RA/	/RA M. Bailey for via email/			
NAME	D. Edwards	M. Crespo	J. Kinneman			
DATE	3/8/2012	3/8/2012	3/9/2012			
E-MAIL COPY	YES NO	YES NO	YES NO			

Letter to Mr. Joseph G. Henry from Anthony T. Gody dated March 12, 2012.

Subject: NUCLEAR FUEL SERVICES, INC., LICENSEE PERFORMANCE REVIEW OF
LICENSED ACTIVITIES (NRC INSPECTION REPORT 70-143/2012-001)

DISTRIBUTION:

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Webwork.resource@nrc.gov (NFS website)

**LICENSEE PERFORMANCE REVIEW
NUCLEAR FUEL SERVICES, INC. (NFS)
ASSESSMENT PERIOD: JANUARY 1, 2011 TO DECEMBER 31, 2011**

The following is a summary of the performance of NFS in the conduct of NRC licensed activities.

PERFORMANCE AREA: SAFETY OPERATIONS

This area is comprised of nuclear criticality safety (NCS), fire protection, and plant operations.

Program Areas Needing Improvement

- Although performance related findings were identified during the assessment, the NRC determined that the causes of the findings were not related. None were considered significant enough to warrant the identification of an area needing improvement. The review showed that NFS continued to conduct its activities safely and securely, protecting public health and the environment. No specific areas needing improvement were identified in Safety Operations.

Recommended NRC inspection Effort in Safety Operations

- Maintain the annual core inspection program in Safety Operations.

PERFORMANCE AREA: RADIOLOGICAL CONTROLS

This area is comprised of radiation protection, environmental protection, waste management, and transportation.

Program Areas Needing Improvement

- Although a performance related finding was identified during the assessment, the NRC determined that this was without commonality in processes, root causes, or personnel. It was not considered significant enough to warrant the identification of an area needing improvement. The review showed that NFS continued to conduct its activities safely and securely, protecting public health and the environment. No specific areas needing improvement were identified in Radiological Controls.

Recommended NRC inspection Effort in Radiological Controls

- Maintain the annual core inspection program in the area of Radiological Controls.

Enclosure

PERFORMANCE AREA: FACILITY SUPPORT

This area is comprised of maintenance and surveillance, training, emergency preparedness, management organization and controls, and permanent plant modifications.

Program Areas Needing Improvement

- Although a performance related finding was identified during the assessment, the NRC determined that this was a single, isolated failure without commonality in processes, root causes, or personnel. It was not considered significant enough to warrant the identification of an area needing improvement. The review showed that NFS continued to conduct its activities safely and securely, protecting public health and the environment. No specific areas needing improvement were identified in Facility Support.

Recommended NRC inspection Effort in Facility Support

- Maintain the annual core inspection program in Facility Support
- A Problem Identification and Resolution (PI&R) inspection in 2012 will be scheduled as follow-up to the Order (EA-10-076) issued in 2010.
- As a result of actions taken by NFS in 2010 and 2011 to restart all process lines and close the 2010 Confirmatory Action Letter (CAL), the NRC will significantly reduce the regional initiative oversight in 2012. Although oversight beyond the core inspection program will still be required to verify that NFS is complying with the 2010 Order, these activities will be significantly less extensive than the oversight conducted in 2010 and 2011 in response to the CAL.

PERFORMANCE AREA: SPECIAL TOPICS

This area is comprised of safety licensing.

Program Areas Needing Improvement

No specific areas needing improvement were identified in Special Topics.