

UNITED STATES OF AMERICA NUCLEAR REGULATORY COMMISSION

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UNITED STATES OF AMERICA
NUCLEAR REGULATORY COMMISSION

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BRIEFING BY IG ON FEE AUDIT

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PUBLIC MEETING

Nuclear Regulatory Commission
One White Flint North
Rockville, Maryland

Friday, December 10, 1993

The Commission met in open session,
pursuant to notice, at 9:30 a.m., Ivan Selin,
Chairman, presiding.

COMMISSIONERS PRESENT:

IVAN SELIN, Chairman of the Commission
KENNETH C. ROGERS, Commissioner
FORREST J. REMICK, Commissioner
E. GAIL de PLANQUE, Commissioner

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STAFF SEATED AT THE COMMISSION TABLE:

DOCTOR ANDREW BATES, Office of the Secretary

TRIP ROTHSCHILD, Office of the General Counsel

DAVID C. WILLIAMS, Inspector General

THOMAS BARCHI, Assistant IG for Audits

WILLIAM GLENN, Team A Leader, OIG

GARY JANOSKO, Senior Auditor, OIG

CORENTHIS KELLEY, Senior Auditor, OIG

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P-R-O-C-E-E-D-I-N-G-S

9:30 a.m.

CHAIRMAN SELIN: Good morning, ladies and gentlemen.

The Commission is meeting at this time to receive a briefing from the Inspector General on the review of the fees that we charge licensees. He provided a report of his review to the Commission in late October. This review is actually, at least in part, a request from the Commission because we have a lot of information and it seemed like a management audit was really called for to take a look at both our performance and to sort of step back half a step and look at the numbers and what's happening. There were a number of specific questions, to see if such questions as the number of licensees goes down in some area. In fact, are our costs going down or are we just saddling those who are left such that the last person pays for the entire program, and a number of other questions.

The report was quite interesting. We've all had a chance to review the report, so we look forward to the presentation and particularly the opportunity to discuss with you in this forum some of the points that you gave.

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1 Commissioners?

2 Mr. Williams, the floor is yours.

3 MR. WILLIAMS: Thank you, sir.

4 I've asked Tom Barchi to provide the
5 presentation this morning and I'll turn it over to
6 him. Since it's a lengthy presentation, I'll defer to
7 him immediately.

8 MR. BARCHI: We certainly appreciate the
9 offer to meet with you this morning and discuss that
10 audit report. We'd also like to talk with you this
11 morning about additional audit work that we've done in
12 looking --

13 CHAIRMAN SELIN: Introduce your
14 colleagues.

15 MR. BARCHI: Yes, sir.

16 We'd also like to discuss additional audit
17 work that we've completed, looking at the various
18 systems that feed into the audit, into the fee-setting
19 process and the methodology in which we employ to
20 establish our licensee fees.

21 Thirdly this morning, we'd like to share
22 with you some observations that we had spelled out in
23 the memo transmitting the report to you which would
24 suggest possibly a new way of looking at how we go
25 about establishing license fees.

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1 This will be a fairly comprehensive
2 briefing and I would ask, if we could, to hold our
3 questions until the end, naturally recognizing though
4 if there is a need for point of clarification, please
5 feel free to ask for that.

6 Finally, to get to the introduction of my
7 staff, and it's with great pleasure that I have the
8 opportunity to introduce them to you this morning.
9 They've done some superb work for us and it's always
10 fun to bring them out and give the a chance to strut
11 their stuff, so to say.

12 Bill Glenn is our team leader for the team
13 that handles financial management issues. In addition
14 to that, Ren Kelley at the far end of the table, is a
15 senior auditor, and Gary Janosko is also a senior
16 auditor. Gary will initiate the briefing this
17 morning.

18 Gary?

19 MR. JANOSKO: The Chairman requested the
20 NRC Office of the Inspector General to assist the
21 Commission and staff in performing a comprehensive
22 review of NRC fee policy by conducting an audit of the
23 basis by which license fees are established. We
24 reviewed NRC's development of license fees for fiscal
25 years 1992 and 1993 in order to answer specific

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1 questions raised by the Chairman and assess the fee
2 development process.

3 To accomplish this objective, we examined
4 applicable documentation, interviewed cognizant NRC
5 personnel, and held discussions with several other
6 federal regulatory agencies that possess fee systems.
7 We conducted our review from July through October 1993
8 and issued our report on October 26th, 1993.

9 (Slide) Our work effort can be divided
10 into five major areas: overhead costs and fees; direct
11 costs and fees; determination of direct hours;
12 effectiveness of small entity fee; and increases in
13 annual fees for materials licensees.

14 (Slide) Background. NRC assesses two
15 types of license fees on its facilities and materials
16 licensees. The first type is a fee for specific
17 licensing actions and inspection services provided to
18 the licensees. The amount of the fee must bear a
19 direct relationship to the cost of providing
20 regulatory services to an identifiable license. This
21 fee, which is covered under Part 170 of Title X of the
22 Code of Federal Regulations, is authorized by Title V
23 of the Independent Offices Appropriate Act of 1952.
24 Approximately 20 percent of NRC's annual budget,
25 excluding the nuclear waste fund, is currently

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1 recovered through the assessment and collection of
2 Part 170 fees.

3 The second type of license fee assessed by
4 NRC on its licensees is an annual fee which is covered
5 under Part 171 of Title X of the Code of Federal
6 Regulations. The amount of the annual fee charged to
7 a licensee must bear a reasonable relationship to the
8 cost of providing regulatory services.

9 With the advent of the Omnibus Budget
10 Reconciliation Act of 1990, otherwise known as OBRA
11 '90, and the requirement for NRC to recover
12 approximately 100 percent of its annual budget through
13 collection of fees, the annual fee is designed to
14 collect the balance of the budget, not recover through
15 Part 170 fees.

16 (Slide) Overhead costs and fees. NRC
17 license fees are calculated based primarily on
18 budgetary data. The NRC budget is divided into seven
19 mission areas and within these mission areas are four
20 categories of costs: salaries/benefits; program
21 support, administrative support; and travel. The
22 administrative support and travel categories are
23 classified as overhead, whereas salaries/benefits and
24 program support contain both direct and overhead
25 costs.

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1 (Slide) All overhead costs included in
2 NRC's annual budget are factored into the calculation
3 of the professional hourly rate. The professional
4 hourly rate is multiplied by applicable direct labor
5 hours to determine Parts 170 and 171 fees for NRC
6 licensees.

7 Typically, unless the number of licensees
8 changes dramatically, it is our opinion that overhead
9 costs will not vary significantly in relation to the
10 number of licensees.

11 CHAIRMAN SELIN: That's a finding that you
12 made based on your review or is it an assumption that
13 you made going into the study?

14 MR. JANOSKO: It's an assumption going
15 into the study.

16 Overhead consists of such costs as
17 facilities, secretarial support, contract
18 administration and the accounting and personnel
19 operations. These activities are not affected by a
20 modest change in the number of licensees. In other
21 words, the new workload can be accommodated without
22 adjusting the amount of existing resources. However,
23 if the change is dramatic, NRC would be forced to
24 increase or reduce resources within these activities
25 to compensate for the new work load, thereby impacting

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1 overhead costs.

2 (Slide) Direct costs and fees. All other
3 things being equal, if the number of licensees in a
4 given category decreases, direct costs for those
5 licensees should decrease. However, as priorities
6 change within NRC and as new issue areas arise, a
7 shift in resources may negate any decreases in direct
8 costs which would have otherwise been achieved.

9 CHAIRMAN SELIN: I don't understand that.
10 What do you mean by that?

11 MR. JANOSKO: If in certain --

12 CHAIRMAN SELIN: Give me an example.

13 MR. JANOSKO: Sure. For instance, in the
14 materials area, the number of materials licensees has
15 decreased significantly over the last couple of years,
16 but the actual budget amount dedicated to materials
17 licensees increased due to the fact that materials
18 inspection activity has increased over those last
19 couple of years as well. So, we have an offset
20 whereby even though there was a decrease in the number
21 of licensees, the emphasis was placed on increasing
22 the magnitude and the comprehensiveness of the
23 inspections and that resulted in an overall increase
24 in resources.

25 CHAIRMAN SELIN: Do you have a sense as to

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1 whether this increase effort per licensee was because
2 we decided the program needed to be buttressed or did
3 we just have more resources and people looking for
4 work?

5 MR. JANOSKO: Well, the comprehensiveness
6 of the inspection activity was increased markedly
7 since the last review of the inspection fees was
8 conducted. Back in 1984 was the time when the
9 inspection fees were last evaluated. In conjunction
10 with the CFO Act requirements, in 1993 the inspection
11 fees were reviewed again to determine if they were
12 adequate. Because a number of changes in the
13 inspection program have been made since 1984, that
14 caused the inspection fees to increase a great deal.

15 CHAIRMAN SELIN: Was it your impression
16 these are program-driven changes or as the number of
17 licensees went down or the inspectors are looking for
18 work to fill out their --

19 MR. BARCHI: We did analyze it to make
20 that kind of a determination, sir. We didn't try to
21 evaluate the rationale behind it. What we asked for
22 was, what was the rationale and that's what was
23 presented to us. These were programmatic changes.

24 CHAIRMAN SELIN: So, at least it was
25 sufficient to explain the --

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1 MR. JANOSKO: It seemed reasonable.

2 CHAIRMAN SELIN: Okay.

3 MR. WILLIAMS: We do know though that the
4 determination was nearly ten years ago and a great
5 deal has happened since that time in terms of
6 expansion and emphasis of other areas. We wouldn't
7 expect that kind of thing to occur now that it's being
8 adjusted so frequently.

9 CHAIRMAN SELIN: Okay. Thank you.

10 COMMISSIONER REMICK: I'm not sure I
11 understand the first bullet, unless it means that the
12 total of the direct cost should decrease. It seems
13 like if we reduce licensees and kept our direct effort
14 the same, the cost would go up per licensee.

15 MR. WILLIAMS: I'm speaking in total.

16 COMMISSIONER REMICK: But you're talking
17 total, okay.

18 MR. WILLIAMS: The idea we meant to
19 communicate is that although logic would tell you that
20 it should go down, we don't want to eliminate the
21 possibility that it remain stable if program
22 expansions are made.

23 MR. JANOSKO: (Slide) Determination of
24 direct hours. As our next slide shows, direct hours
25 are determined in different ways for Parts 170 and 171

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1 fees. For Part 170 fees, direct hours are calculated
2 using two methodologies. For some licensing actions
3 and inspections, average hours are utilized which are
4 determined by the program offices and are to be
5 reviewed biennially in accordance with the Chief
6 Financial Officers Act.

7 This method of calculating Part 170 fees
8 typically pertains to materials licensees and the
9 resultant fees are called flat fees. The other method
10 used to determine direct hours for Part 170 fees is to
11 track the actual hours spent performing certain
12 licensing actions and inspections. The resultant Part
13 170 fees are called full cost fees.

14 COMMISSIONER ROGERS: Excuse me. Have you
15 done a dual calculation? In other words, in this
16 method that you're talking about here, is this the
17 method that the staff uses for assessing fees or is
18 this that there are two different methods, a flat fee
19 method and a full cost fees method that are applied
20 differently to different kinds of activities? Is that
21 the case?

22 MR. JANOSKO: The staff utilizes that
23 current methodology.

24 COMMISSIONER ROGERS: Right. Now, have
25 you ever done two calculations for those different

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1 situations? In other words, to look at a situation
2 where average hours, flat fees are used and actually
3 tried to do a full cost analysis and see how they
4 compare?

5 MR. JANOSKO: We did not do that, sir, no,
6 but the average hours are based on a determination of
7 what it would physically take to do that work. The
8 average hours are based on a best guess in terms of
9 what the actual hours would be for that particular
10 action.

11 COMMISSIONER de PLANQUE: On average?

12 MR. JANOSKO: Yes, correct.

13 COMMISSIONER ROGERS: Yes, on average.
14 But that's the point.

15 MR. JANOSKO: Right. Right.

16 COMMISSIONER ROGERS: It's always -- I
17 assume somebody did it at one time, but it would be a
18 good idea to check where there are average type
19 calculations done to actually do it all out in detail
20 on a full cost basis and see what the difference is.
21 They're not going to be identical, I'm sure, and how
22 much fluctuation is reasonable there?

23 Go ahead.

24 MR. JANOSKO: (Slide) For Part 171 fees,
25 direct hours are determined as follows. Based on

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1 input received from the program offices, the NRC's
2 activities and subactivities are broken down into the
3 classes of licensees that utilize the greatest amount
4 of agency resources in these areas. The direct FTEs
5 associated with these activities and subactivities are
6 also identified. The number of direct FTEs are then
7 multiplied by annual productive hours as specified by
8 OMB to obtain direct hours for fee purposes.

9 (Slide) Effectiveness of small entity
10 fee. A significant amount of effort was expended in
11 developing NRC's initial definition of small entity
12 during the early to mid-1980s. This initial
13 definition was developed in response to the Regulatory
14 Flexibility Act of 1980 which required federal
15 agencies to consider the impact of regulatory actions
16 on small entities. Substantial input was received
17 from the Small Business Administration and through
18 public comment via the Federal Register.

19 The onset of the requirement for NRC to
20 collect approximately 100 percent of its annual
21 appropriation resulted in the need for NRC to
22 reconsider its definition of small entity to determine
23 if changes were necessary, given the new environment.
24 In order to achieve 100 percent recovery, NRC greatly
25 increased the fees, especially the annual fees,

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1 assessed to its licensees.

2 This created a hardship for many
3 licensees, especially the small entities. NRC's
4 response to this new environment, keeping in mind the
5 somewhat conflicting requirements of OBRA '90 versus
6 the Regulatory Flexibility Act, was to establish
7 during fiscal year 1992 a lower tier category of small
8 entity. Lower tier licensees are charged a
9 significantly lower annual fee than other small
10 entities. A determination as to whether NRC's small
11 entity fee has been effective would depend upon one's
12 perspective. The reduced fees certainly demonstrate
13 that the agency has attempted to be responsive to the
14 concerns raised by smaller materials licensees and
15 have likely enabled some of these entities to retain
16 their licenses. However, given the requirement for
17 NRC to recover approximately 100 percent of its annual
18 budget, the implementation of the small entity fee has
19 resulted in the assessment of significant surcharges
20 to other materials licensees and especially power
21 reactors. Although these larger licensees may have
22 the capability to pay the surcharges, the end result
23 is that they are subsidizing the small entities.

24 CHAIRMAN SELIN: My remembrance of the
25 staff's calculations when they proposed this fixed

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1 schedule for small entities was that the total amount
2 of money we were talking about was really quite small
3 compared to what the other licensees were already
4 being assessed. Did you do that calculation, in fact?
5 Do you know what the difference would have been if the
6 small entities had not gotten this dispensation? In
7 other words, if we hadn't gone below the \$1800.00
8 level. As I remember, it was less than one percent of
9 the base for the other licensees. Did you check that
10 figure?

11 MR. JANOSKO: In an overall sense the
12 percentage is fairly small, but the dollars are fairly
13 large too as well, the surcharge that is being
14 assessed to the power reactors.

15 CHAIRMAN SELIN: Large with respect to
16 what?

17 MR. JANOSKO: I believe the surcharge to
18 the power reactors was somewhere around \$100,000.00,
19 in that vicinity.

20 CHAIRMAN SELIN: Per --

21 MR. JANOSKO: Per reactor.

22 COMMISSIONER ROGERS: Did you have any
23 feeling about introducing this new small entity fee,
24 to what extent that actually increased our cost of
25 carrying it out? In other words, once we've

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1 established this new system, perhaps there were
2 additional costs, I don't know, in following this over
3 and above the earlier assessment method that we used.
4 In other words, did this increase the overhead costs
5 by -- that then had to be shared by everybody? In
6 other words, did we increase the cost of our overhead
7 by introducing this new small entity fee?

8 MR. JANOSKO: In my opinion, all we're
9 doing is reallocating the existing fees or the
10 existing budget already.

11 COMMISSIONER ROGERS: But it didn't
12 require considerably more effort to do that, is that
13 what you're saying?

14 MR. JANOSKO: Based on what I saw, no. I
15 can't specifically say directly that that's the case,
16 but in my opinion it would not result in any
17 additional costs.

18 MR. BARCHI: Any significant --

19 MR. JANOSKO: That's correct.

20 CHAIRMAN SELIN: Especially since we don't
21 audit the statement. When somebody comes in and says
22 he's a small licensee, we assume he's telling the
23 truth. It may be that we should do more to determine
24 that, but the way we do it today there's essentially
25 no cost.

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1 MR. JANOSKO: (Slide) NRC is currently
2 compiling the results of a survey that was recently
3 conducted to obtain information to update the
4 financial profiles of its materials licensees. These
5 financial profiles were initially developed
6 approximately ten years, when NRC conducted its first
7 and only such survey. Since the financial profiles
8 are not current, the agency cannot be certain as to
9 whether qualified small entities are taking advantage
10 of the small entity fee until compilation of the
11 recent survey results is completed. NRC intends to
12 analyze the compiled survey results in order to make
13 this determination.

14 (Slide) NRC has invested considerable
15 resources in order to determine how best to define
16 small entity. This definition is based on achieving
17 a middle ground between the requirements of OBRA '90
18 and the Regulatory Flexibility Act and is very
19 opinionated in nature. In other words, it is not
20 based on compliance with specific statutory
21 pronouncements. Also, the Small Business
22 Administration has recently solicited comments on
23 proposed changes to its size standards. Once
24 promulgated, the final rule on this matter may impact
25 NRC's definition of small entity.

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1 CHAIRMAN SELIN: It would increase the
2 number of firms that would be eligible to be called a
3 small entity, I assume.

4 MR. JANOSKO: They have increased the size
5 standards, correct, to allow for inflation since they
6 last made those categories.

7 (Slide) Increases in annual fees for
8 materials licensees. The amount of annual fees
9 charged some categories of materials licensees
10 increased significantly from 1992 to 1993. After
11 reviewing the calculation of materials licensees
12 annual fees, we concluded that the significant
13 increases were due to two occurrences, increases in
14 inspection fees charged to materials licensees and
15 increases in the budgeted amount attributable to
16 materials licensees. As our slide shows, the
17 increases in inspection fees were due to the fact that
18 these fees had not been reviewed since 1984 and major
19 changes have been made to the materials inspection
20 program since then to improve safety.

21 The inspection fees were reviewed for
22 fiscal year 1993 in accordance with the Chief
23 Financial Officers Act which requires a biennial
24 review of fees charged by a federal agency for
25 services provided. Therefore, materials inspection

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1 fees will now be reviewed on an biennial basis in the
2 future.

3 An increase in the budgeted amount
4 attributable to materials licensee was caused by
5 increases in license and inspection efforts and
6 increases in general government costs.

7 In conclusion --

8 CHAIRMAN SELIN: Wait a minute. So
9 basically you said one is there's been some price
10 adjustment, that the fixed fees just didn't reflect
11 current prices.

12 MR. JANOSKO: Correct.

13 CHAIRMAN SELIN: And then the second is
14 there's just been some increase in actual activity in
15 terms of hours as opposed to prices.

16 MR. JANOSKO: Yes, sir.

17 CHAIRMAN SELIN: It's been a kind of a
18 double whammy, to update the current pricing, but then
19 also to look at the current level of activity for
20 changing a licensee's address or what have you.

21 MR. JANOSKO: Correct.

22 (Slide) In conclusion, our review
23 disclosed that NRC is unable to determine whether
24 qualified small entities are taking advantage of the
25 small entity fee because the financial profiles

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1 maintained for materials licensees are not current.
2 These financial profiles were initially established
3 approximately ten years ago and have not been updated.

4 Efforts are underway to compile the
5 results of a recent survey of materials licensees
6 which was conducted in part to update this
7 information. No other reportable exceptions were
8 noted during our review.

9 Now, Ren will present additional
10 information gained during our review of the licensee
11 billing process, including cost data related to
12 assessing Part 170 fees, automated systems that
13 provide fee data, and correspondence between NRC and
14 licensees.

15 CHAIRMAN SELIN: Good morning, Ms. Kelley.

16 MS. KELLEY: Mr. Chairman, Commissioners.

17 In addition to OIG's review of the fees
18 for licensees conducted at the request of the
19 Chairman, OIG has completed phase 1 of a two phase
20 assessment of the license fee billing process. Phase
21 1 of this assessment was to gain an understanding of
22 the processes for calculating the various fee
23 categories, the quality controls associated with the
24 processes, the information systems from which data is
25 downloaded for fee determination purposes, and the

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1 extent to which licensees have complained about the
2 assessed fees.

3 The second phase of the assessment will
4 encompass a more in-depth review of selected systems
5 from which license fee information is obtained and the
6 use of the systems by the program offices in the
7 decision making process.

8 This portion of our assessment of the
9 license fee billing process disclosed that the process
10 is resource intensive and cumbersome. We know that
11 the resource intensity and the cumbersome nature of
12 the license fee billing process is due in part to the
13 provisions of the related regulations and the rules
14 which reflect the laws and court decisions regarding
15 fees. For example, some activities are fee bearing,
16 some are not. Some activities are recovered at full
17 cost, others are at an established flat rate. Fees
18 are dependent on licensing decisions and the type of
19 licensee in question. Some positions have been
20 designated as fee bearing, others are not.

21 The agency collects two types of fees.
22 The amount of one fee depends on what's recovered from
23 the other type of fee. These and other provisions
24 require an exhaustive record keeping system and close
25 scrutiny of the staff hours applicable to each of

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1 these categories. The agency expends substantial
2 effort to ensure the accuracy and the equity of the
3 billing process.

4 We will discuss the information obtained
5 during our assessment regarding the cost to process
6 Part 170 and Part 171 fees, the automated systems from
7 which data is taken during the fee determination
8 process, and the results of our analysis of the fee-
9 related correspondence between NRC and the licensees.

10 (Slide) We are unable to bring a great
11 deal of precision to the cost to process Part 170 and
12 Part 171 licensee fees primarily because the agency
13 generally does not maintain cost data in this manner.
14 Therefore, the figures presented represent best
15 estimates provided by the headquarters and regional
16 offices involved in this process. We found that
17 approximately \$1 million and about 11 FTE were
18 expended by the agency to process Part 170 fees which
19 generated about \$105 million for fiscal year 1993.

20 The \$1 million cost includes about
21 \$500,000.00 expended by the license fee and debt
22 collection branch for staff salaries and contractor
23 effort. The portion of the \$500,000.00 for staff
24 effort equates to about 11 FTEs, or about 62 percent
25 of the FTEs devoted to fees by the License Fee and

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1 Debt Collection Branch.

2 The \$1 million estimate to process fees
3 also includes about \$225,000.00 in contractor support
4 and two FTEs for the Office of Information Resources
5 Management to maintain the fee billing systems. The
6 estimate also includes an undetermined portion of the
7 cost to maintain the regulatory information tracking
8 system, better known as RITS. The RITS costs are
9 shown in the next slide.

10 (Slide) RITS is the primary system used
11 to supply labor hours for Part 170 fee determination.
12 NRC's program and regional offices spend about nine
13 FTE per year to maintain RITS. NRC spends an
14 additional \$313,000.00 per year in contract cost for
15 RITS data entry.

16 CHAIRMAN SELIN: Let me see if I
17 understand this.

18 MS. KELLEY: Okay.

19 CHAIRMAN SELIN: Going back to the
20 previous chart, you said it's \$1 million and 11 FTE.
21 Are you saying that the million dollars is not for
22 personnel costs, that's just contract and
23 administrative costs?

24 MS. KELLEY: The million dollars -- yes,
25 the million dollars does include personnel cost.

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1 CHAIRMAN SELIN: But it include the cost
2 of the 11 FTE?

3 MS. KELLEY: The million dollars for the
4 170 fees does include the cost of FTE for the people
5 that are in the License Fee and Debt Collection
6 Branch. It does not include a calculation of the nine
7 FTE for the people that assist in maintaining RITS
8 data.

9 CHAIRMAN SELIN: In that case, the cost
10 estimate is almost certainly too low. I mean 11 FTE
11 would have to use up the million dollars without the
12 contract.

13 COMMISSIONER ROGERS: Right, by
14 themselves.

15 CHAIRMAN SELIN: The more interesting
16 thing -- I mean that's important, but more interesting
17 is that sure they generate \$105 million in fees, but
18 we're going to get that \$105 million anyway. The
19 question that you raised in your report is what's the
20 variation between the most heavily billed and the
21 least heavily billed of the reactor licensees? It was
22 very small, wasn't it?

23 MR. JANOSKO: It was about two, three
24 percent.

25 CHAIRMAN SELIN: So, this would almost --

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1 one could almost suggest that while we're spending \$1
2 million or \$2 million to collect \$105 million, but
3 that's not right. We're going to collect \$105 million
4 anyway. We're spending the \$2 or \$3 million to make
5 distinctions between the most heavily visited
6 licensees and the most lightly visited licensees. Not
7 to collect \$105 million, but to get relatively small
8 variations from one to the other. Is that correct?

9 MS. KELLEY: That's correct. The cost
10 figures are conservative that we're presenting to you.
11 They are conservative.

12 MR. BARCHI: But your point is right on
13 target.

14 CHAIRMAN SELIN: Well, it's your point.
15 I'm just trying to show you I read your report.

16 MR. BARCHI: Yes.

17 CHAIRMAN SELIN: If this were an IRS
18 calculation and you went to the Commissioner and said,
19 "For \$2 million we could collect another \$100 million
20 in taxes," he'd probably say that's a good idea. But
21 we're going to collect \$100 million. Now, the
22 question is, "For a couple million dollars we think we
23 can allocate that a little more fairly. Is that
24 worthwhile?" That's a very different question.

25 MS. KELLEY: In addition to what is shown

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1 on the chart, the Office of Information Resources
2 Management also expends another \$200,000.00 a year for
3 time sharing and other operating costs for the RITS
4 system.

5 CHAIRMAN SELIN: I really would like you
6 to go back and look at those costs, taking more
7 generous assumptions of what an FTE really costs us
8 and what the contract -- because these tend -- I know
9 you're being conservative, but in this case that's not
10 serving us that well.

11 MS. KELLEY: Okay.

12 CHAIRMAN SELIN: There have to be sort
13 of -- if you have say \$50,000.00 in salary costs and
14 you've got another \$25,000.00 in benefits, but then
15 you also have a share of space, supplies, telephones,
16 et cetera, and you have supervisors. They shouldn't
17 be as fully loaded as the inspectors cost because they
18 shouldn't carry overhead on overhead. But we want to
19 use reasonable cost allocation factors. Not to
20 tightly conservatively audit one, but reasonably to
21 say, "What is it really costing us to run this
22 program?" In the long run, if we did it differently,
23 that's money we could save. You couldn't save it just
24 by dropping a person.

25 MR. WILLIAMS: We will do that.

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1 CHAIRMAN SELIN: Thank you.

2 MS. KELLEY: We note that since RITS is
3 used for other purposes, not all costs associated with
4 RITS relate directly to fees. The offices that
5 provided cost data on RITS were unable to state what
6 portion of those costs relate directly to fees. It is
7 clear that the agency cannot calculate Part 170 fees
8 without manpower data and RITS contains the manpower
9 data which is used in determining these fees.

10 CHAIRMAN SELIN: Let me make clear,
11 personally I'm willing to accept your FTE estimates
12 without saying go back and redo those. It's really
13 the cost per FTE when you take sensible allocations of
14 long-term variable costs, like supplies, space, et
15 cetera, into account, which we don't usually when we
16 put our budgets --

17 MS. KELLEY: We've been told by the Office
18 of the Controller that \$75,000.00 is an estimated
19 amount per FTE to factor that.

20 CHAIRMAN SELIN: I don't think that's
21 right. I think that's just the average salary and
22 benefits. If you take a look at the rest, it's got to
23 be at least twice the direct salaries.

24 MS. KELLEY: Okay.

25 MR. WILLIAMS: We'll do a good emphasis on

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1 that and, as you said, we'll focus on overhead.

2 CHAIRMAN SELIN: Thank you.

3 MS. KELLEY: (Slide) Part 171 fees
4 required about \$800,000.00 in salaries and contractor
5 support and generated about \$415 million in fiscal
6 year 1993. Almost all of the costs were expended by
7 the License Fee and Debt Collection Branch. The
8 \$800,000.00 includes staff and contractor effort. The
9 portion of the \$800,000.00 for staff effort equates to
10 about 6.5 FTEs or about 38 percent of the FTEs devoted
11 by the License Fee and Debt Collection Branch. The
12 \$25,000.00 a year expenditure by IRM is for contractor
13 costs to maintain one of the fee billing systems for
14 Part 171 fees.

15 We were intrigued by the cost estimates in
16 that information previously provided by the agency
17 indicated that about 80 percent of the fee processing
18 effort is devoted to collecting Part 170 fees.
19 However, as shown, the estimates provided by the
20 License Fee and Debt Collection Branch showed that the
21 branch devoted more of its total resources for
22 processing fees to Part 171 fees than it did for
23 processing Part 170 fees. This is true primarily
24 because of the overwhelming majority of the contractor
25 support dollars were used to generate Part 171 fees.

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1 CHAIRMAN SELIN: But the overall costs are
2 only the 171 program, given that we know the cost of
3 running the agency is trivial compared to --

4 MS. KELLEY: Yes.

5 CHAIRMAN SELIN: It's basically rough and
6 ready justice, is what we're talking about.

7 MS. KELLEY: We also point out that
8 although a substantial amount of resources are
9 expended to process fees and maintain fee-related
10 systems, the process is streamlined over what it
11 previously was.

12 The flow charts in the next two slides
13 illustrate how detailed or involved the fee billing
14 process is, and the various information systems that
15 feed data to the fee billing systems.

16 (Slide) The first slide displays the
17 systems from which data is downloaded during the
18 process for determining Part 170 fees. Our first
19 impressions upon looking at this flow chart was that
20 there must be a more efficient way to collect the data
21 and calculate the fees. However, upon closer
22 examination, we came to appreciate the agency's
23 decision to, where practical, capitalize on the
24 information systems developed for other purposes
25 rather than duplicating efforts by initially capturing

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1 fee data directly into fee systems.

2 The three systems to the far left were not
3 developed for the purposes of fees. However,
4 information is taken from these systems either by
5 electronic transfer or manually and uploaded into the
6 fee systems shown in the center of the chart. These
7 systems process the calculations for the different
8 categories of fees. Once the bills are issued, they
9 are entered into the collect system of open accounts
10 receivables. The accounts receivable balances are
11 manually entered into the federal financial system.

12 The Office of the Controller estimates
13 that the data that is entered into the federal
14 financial system will be automatically downloaded by
15 the end of the fiscal year. Obviously,
16 vulnerabilities are inherent in a process of this
17 sort. However, our assessment disclosed that the
18 License Fee and Debt Collection Branch, the Office of
19 the Information Resources Management, and the other
20 offices, have put in place various management controls
21 to protect the integrity of the data that flows to and
22 from these systems.

23 Slide number 19 also indicates the fees
24 that are involved in the process of calculating the
25 Part 170 fees. Here again the systems that are on the

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1 left side of the chart are the ones that were not put
2 in place for fee purposes, but where data is taken in
3 the fee calculation process. The fee systems are also
4 in the middle. Again, after the bills are issued, the
5 information goes to the collect system and the
6 accounts receivables go to the federal financial
7 system.

8 This flow chart does not show data for the
9 Office of Nuclear Material Safety and Safeguards as it
10 does for the Office of the Nuclear Reactor Regulation
11 because, according to NMSS officials, the contract
12 data for NMSS is a part of the RITS data.

13 Correspondence review.

14 CHAIRMAN SELIN: Before you get off that,
15 basically what you've pictured is a fairly cumbersome
16 but pretty cheap system to operate where a relatively
17 large share of what is not a great deal of money is
18 going into doing the Part 170 variable, the variable
19 part, but the difference is that 170 bills, at least
20 to reactor licensees, are very small after all that.
21 What I interpreted your last remarks to be are there
22 isn't a lot to be gained by trying to streamline the
23 system. The basic question is should we be running it
24 at all. What you didn't say, but I think another
25 reasonable assumption is that if we're going to run

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1 the system, that we should strive to make more of the
2 costs variable so that -- I mean if only 20 percent of
3 the costs are variable, why are we going to all this
4 trouble? Either the cost should be more variable and
5 more of the cost should be collected in 170 or it's
6 hardly worth the trouble to run the system.

7 MR. WILLIAMS: That is a good -- that's
8 exactly the point we're making.

9 CHAIRMAN SELIN: Are you suggesting these
10 things or am I just putting words in your mouth?

11 MR. WILLIAMS: No. I was about to say
12 that that's exactly the points we were making. We did
13 see some value in using this integrated system for
14 manpower kinds of purposes and billing kinds of
15 purposes. We think it's the general trend of
16 government and under this agency. You're right, one
17 of the unintended results is it is a bit cumbersome,
18 but it seems so much better than creating parallel,
19 possibly conflicting systems. We were glad for the
20 fact that the decision had been made.

21 CHAIRMAN SELIN: Ms. Kelley?

22 MS. KELLEY: (Slide) Correspondence
23 review. As of September 30, 1993, licensees owed NRC
24 approximately \$4.8 million in assessed license fees.
25 A significant portion, or about \$3 million, consisted

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1 of about 700 accounts more than 180 days old. We
2 reviewed these accounts and a sample of the
3 correspondence between NRC and licensees to determine
4 whether the non-payment of fees was attributable to
5 errors in NRC's processing of fee data or within the
6 data itself. We found that less than one percent of
7 the accounts receivable balances was due to NRC
8 billing errors.

9 The outstanding accounts were primarily
10 for materials annual fees. The delays in payments
11 were due for the most part to the failure of licensees
12 to timely notify NRC of desired changes in licensing
13 status. One specific example was delays by licensees
14 in accurately completing the required paperwork to
15 obtain small entity status.

16 CHAIRMAN SELIN: I'm sorry.

17 MS. KELLEY: Go ahead.

18 CHAIRMAN SELIN: I was just saying we were
19 talking about roughly \$3 million late out of \$100
20 million in materials licensees.

21 MS. KELLEY: That's not a lot of money.

22 CHAIRMAN SELIN: It's about three percent.
23 No, that's not bad for any kind of a receivable
24 operation, even though ten percent of the accounts are
25 more than 700 out of roughly 7,000 or 8,000 accounts.

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1 MS. KELLEY: That's for over a two year
2 period. The 700 is taken from '91 and '92. So,
3 actually, the 700 compares more to 1400 or roughly
4 five percent of those. The 700 accounts came from two
5 years of billing rather than from a single year.

6 CHAIRMAN SELIN: So, it's 14,000.

7 MS. KELLEY: 14,000, yes.

8 CHAIRMAN SELIN: Okay. So it's five
9 percent of the accounts.

10 MS. KELLEY: Roughly five percent, yes.

11 CHAIRMAN SELIN: That's not bad.

12 COMMISSIONER REMICK: Are they all 170 or
13 both 170 and 171?

14 MS. KELLEY: Most of them are materials
15 annual fees which would be 171.

16 COMMISSIONER REMICK: Okay. So it's not
17 \$100 million. The base is not \$100 million. The 171
18 were what? How many?

19 CHAIRMAN SELIN: It's 80 percent of it.
20 But if you looked at the materials area in general,
21 say we collected about \$100 million in license fees
22 between 170 and 171, mostly at 171, it says about
23 three percent are significantly overdue, which there's
24 room for improvement. That's a lot of money, but it's
25 not bad. But what you're really saying is only five

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1 percent of the accounts are significantly overdue.

2 MS. KELLEY: Yes.

3 COMMISSIONER REMICK: I'm confused. The
4 \$100 million is for what, 170 fees?

5 CHAIRMAN SELIN: 170 plus 171, but just
6 for materials licensees.

7 COMMISSIONER REMICK: Is that correct, for
8 materials licensees, \$100 million?

9 MS. KELLEY: I'm sorry, I don't understand
10 the question that you're asking.

11 CHAIRMAN SELIN: What is the amount of
12 license fees that we get just from the materials
13 licensees in total?

14 MR. GLENN: It should be approximately
15 \$200 million.

16 CHAIRMAN SELIN: \$200 million.

17 MR. GLENN: It's going to be somewhere
18 around there. But one thing, if you look at these old
19 accounts receivable, there's a lot that are in
20 litigation, firms are bankrupt. So, the agency is
21 doing something to collect these fees. I think you
22 have to go back and look at it and you can see the
23 record that we looked at where they are in litigation
24 and something is going on where maybe NRC has to make
25 a decision through the General Counsel's Office or

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1 something like this.

2 CHAIRMAN SELIN: But let's just go back.
3 You're saying there's \$3 million overdue over two
4 years?

5 MS. KELLEY: Yes. Right.

6 CHAIRMAN SELIN: So it's over two years of
7 licenses.

8 MS. KELLEY: Yes, two years of licensees,
9 two years of billing.

10 CHAIRMAN SELIN: So, it's even less.

11 MS. KELLEY: So, if you compare it to the
12 total for two years, then you -- to factor the
13 percentage, which we did not think that it was very
14 high.

15 CHAIRMAN SELIN: Right.

16 MS. KELLEY: Okay. As Bill indicated, the
17 various open accounts were at different processes
18 along the way in terms of being resolved by the
19 agency. We note that the 700 outstanding accounts
20 receivable balances were about five percent of the
21 approximate 14,000 bills that were processed in the
22 two year period.

23 To conclude this segment of our briefing,
24 phase 1 of our assessment disclosed that the license
25 fee assessment and billing process consumed

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1 substantial resources and is cumbersome.
2 Surprisingly, the License Fee and Debt Collection
3 Branch expends more resources to determine and collect
4 Part 171 fees than for Part 170 fees. The agency uses
5 a substantial number of information systems during the
6 fee determination process and has put in place
7 controls to mitigate the vulnerabilities. The
8 outstanding accounts receivable balances for fees are
9 not due to NRC processing errors.

10 Now, Gary Janosko will summarize the two
11 segments of this briefing and provide observations on
12 ways of streamlining NRC's license fee process.

13 COMMISSIONER REMICK: Before we go to
14 that, I have one question. The costs of administering
15 the Part 170 fees, do you know what portion of that
16 cost is due to nuclear power plants compared to all
17 other licensees?

18 MS. KELLEY: We did not do the calculation
19 in that way. So, I don't have our figure of how that
20 breaks down in terms of reactors versus --

21 MR. BARCHI: I'm not sure that we could
22 necessarily do it either.

23 COMMISSIONER REMICK: Okay.

24 MR. BARCHI: Frankly. We didn't capture
25 the costs that way.

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1 COMMISSIONER REMICK: How about the
2 variability among material licensees? The chairman
3 referred to the fact that among power reactor
4 licensees there was not much variation as a result of
5 all of the auditing and looking at it. How about
6 material licensees? Is there much variation in the
7 170 fees?

8 MR. BARCHI: In terms of the cost to bill?

9 CHAIRMAN SELIN: No, the collections.

10 MS. KELLEY: The collections? It does
11 vary, I believe, yes. Because of the size of the
12 licensee in question, some would --

13 COMMISSIONER REMICK: Well, isn't it
14 possible that a larger portion of the 170 fees, the
15 costs of administering it are due to a larger number
16 of material licensees and a lot more variables?

17 MR. BARCHI: That's plausible.

18 COMMISSIONER REMICK: Now, whether that's
19 justified or not, I'm not sure. But I don't think you
20 can draw conclusions just on the fact that nuclear
21 power reactor fees might not vary it by much or differ
22 by much. If you include material licensees, there
23 might be some justification. Thank you.

24 MR. JANOSKO: (Slide) In summary, as
25 discussed earlier, NRC license fees have greatly

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1 increased with the advent of the requirement for the
2 agency to recover approximately 100 percent of its
3 annual budget through fee collection. It is likely
4 that this requirement and the resultant high license
5 fees will continue. This situation, combined with the
6 fact that the number of power reactors which pay the
7 highest fees will decrease due to decommissions could
8 have profound effects upon the agency's licensees and
9 license fee process.

10 It is our understanding that no long-range
11 plan has been prepared by NRC to address these
12 potential effects. The Commission may be interested
13 in determining the economic implications of future
14 higher license fees and a declining number of
15 licensees.

16 The agency's license fee development
17 process is very detailed and labor intensive. It has
18 been shaped over the years by the implementation of
19 new federal regulations and court decisions.
20 Substantial effort is expended in attempting to make
21 the process equitable and the costs reasonable.
22 However, these efforts are severely hampered by the
23 requirement for NRC to recover approximately 100
24 percent of its annual budget through fee collection.
25 If one category of licensees is exempted from paying

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1 the fees, a burden is created in the form of higher
2 fees which must be borne by other licensees. As an
3 alternative to the current process, NRC could consider
4 adopting an approach to fee development that we
5 identified during our work.

6 As part of our review, we conducted
7 discussions with several other federal regulatory
8 agencies that possess fee systems. Of particular
9 interest is the system used by the Federal Energy
10 Regulatory Commission, otherwise known as FERC. FERC
11 has been required to collect 100 percent of its annual
12 costs since fiscal year 1987. FERC assesses two types
13 of fees to recover its costs, as does NRC. The first
14 type of fee is called a filing fee, which is a user
15 fee established under the authority of the Independent
16 Offices Appropriation Act of 1952, similar to NRC's
17 Part 170 fees.

18 The other type of fee is an annual fee,
19 which was originally established to recover those
20 costs not collected through the filing fees, similar
21 to NRC's Part 171 fees. The amount of the annual fee
22 assessed to an FERC-regulated entity is based upon the
23 size of that entity. From the inception of the 100
24 percent cost collection requirement until fiscal year
25 1993, FERC recovered approximately 15 percent of its

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1 annual costs from filing fees and the remaining 85
2 percent from annual fees. This resembles NRC's
3 current situation in that approximately 20 percent of
4 the annual budget is recovered from Part 170 fees and
5 the remaining 80 percent from annual fees.

6 Starting in fiscal year 1993, in an effort
7 to simplify their fee schedule, FERC eliminated filing
8 fees for those entities who are required to pay annual
9 fees. This action was completed through a rule change
10 promulgated by their commission. Since the vast
11 majority of regulated entities are assessed annual
12 fees, the percentage of FERC's costs recovered from
13 annual fees rose to 99 percent. Since annual fees are
14 billed only once per year and are not as difficult to
15 calculate, versus filing fees which are billed more
16 frequently and require more detailed calculations,
17 FERC succeeded in simplifying their fee schedule with
18 minimal negative feedback from their regulated
19 entities, while maintaining a 100 percent cost
20 recovery rate.

21 NRC could reduce the resources devoted to
22 license fee development and recognize potential cost
23 savings by adopting a fee schedule similar to that
24 used by FERC. The Part 170 fees could be eliminated
25 completely or at least to the maximum extent

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1 practicable.

2 Secondly, the determination of the Part
3 171 fees could be simplified by eliminating much of
4 the detailed analyses performed as part of the
5 process. We believe that less time and effort could
6 be devoted to determining Part 171 fees while still
7 ensuring that these fees bear a reasonable
8 relationship to the cost of providing regulatory
9 services in accordance with the requirements of OBRA
10 '90.

11 Eliminating Part 170 fees and simplifying
12 the calculation of Part 171 fees would reduce the
13 volume of quarterly fee billings, lessen the burden of
14 tracking direct labor hours and contract support
15 dollars, reduce the number of automated systems needed
16 to process fee-related data and decrease the time
17 needed to calculate annual fees. Legislative relief
18 may be required to implement this fee schedule change.

19 This streamlining effort would also remedy
20 the material management control weakness associated
21 with the lack of timely billing of license fees. NRC
22 currently requires approximately 90 days after
23 completion of inspection activity to issue an invoice
24 to licensees for payment of Part 170 fees. Although
25 significant improvements have been made to this

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1 billing process in recent years, NRC remains in
2 violation of Department of the Treasury regulations
3 which require that federal agencies issue invoices to
4 non-federal entities within five business days after
5 services have been rendered. The adoption of a fee
6 schedule composed entirely of Part 171 fees would
7 remedy this material weakness, since annual fees can
8 be billed in advance.

9 This concludes our presentation.

10 CHAIRMAN SELIN: Before we go to more
11 general questions, we also have a third set of people
12 for whom we're doing certifications or other work that
13 are not -- vendors who are not licensees in the normal
14 sense. Is that a significant amount of money that we
15 collect from them, General Electric and Combustion
16 Engineering, et cetera? Not for their license work,
17 but for processing their certifications.

18 MR. JANOSKO: In my understanding, it's
19 not a very significant amount in relation to the
20 total.

21 CHAIRMAN SELIN: Okay.

22 Commissioner Rogers?

23 COMMISSIONER ROGERS: I don't have any
24 questions.

25 CHAIRMAN SELIN: Commissioner Remick?

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1 COMMISSIONER REMICK: On the FERC
2 question, do they charge fees to any really small
3 entities, the mom and pop industry that we might have,
4 the individual doctor, small hospital? Do they have
5 any entities like that that they deal with or are
6 these mostly utilities of some sort?

7 MR. JANOSKO: The size ranges considerably
8 and in discussing this with them they use the same
9 term, "mom and pop." They have some of those too, as
10 well.

11 COMMISSIONER REMICK: They do? What would
12 be the category, do you happen to know, of mom and pop
13 industries that FERC would --

14 MR. JANOSKO: One of the examples they
15 gave me is hydroelectric power.

16 COMMISSIONER REMICK: It wouldn't be an
17 individual though?

18 MR. JANOSKO: I think in some cases it
19 might be, but I'm surmising.

20 COMMISSIONER REMICK: Is that right? A
21 municipality I can understand.

22 COMMISSIONER ROGERS: Small dams.

23 COMMISSIONER REMICK: Yes.

24 MR. BARCHI: We can't give you precision
25 though in terms of how small small is, frankly.

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1 COMMISSIONER REMICK: Yes. And do they in
2 any way regulate things like non-profit universities,
3 hospitals and those type of entities? I don't think
4 they do.

5 MR. JANOSKO: I don't think -- to the best
6 of my knowledge, they regulate utilities, intrastate
7 utilities typically.

8 COMMISSIONER REMICK: Yes. Okay.

9 I found the presentation very interesting
10 and enlightening. Some things I didn't know about are
11 how we determine fees. Thank you very much.

12 CHAIRMAN SELIN: Commissioner de Planque?

13 COMMISSIONER de PLANQUE: I have no
14 additional questions.

15 CHAIRMAN SELIN: I know it's tough for you
16 guys to give any praise, but let me tell you what I
17 heard, that the Controllers Office really does a
18 pretty good job, given the difficult statutes that
19 they work with and the fact that management hasn't
20 really looked at the figures the way you have and say,
21 "Is this a pretty efficient thing?" But they have a
22 cumbersome system, but you said they showed some
23 common sense in not trying to duplicate it for
24 elegance. The financial performance is really pretty
25 good. The cost of the system -- you did say it's

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1 cumbersome and used a lot of resources, but I didn't
2 see that it used a lot of resources. I did see that
3 it was cumbersome. The performance problems, the 90
4 days, et cetera, are more inherent either in the
5 legislation or the guidance that the management gives
6 to the operation.

7 Now, is that unfair or did they come off
8 pretty well from the point of view of the way the
9 system is actually operated as opposed to conceived?

10 MR. BARCHI: Given the constraints that
11 they work under, we'd say yes, that they've struggled
12 long and hard and produced a meaningful approach to a
13 very, very difficult series of variables. Frankly
14 though, that's what does worry us though, because --

15 CHAIRMAN SELIN: Well, that's the next
16 point. You've pointed out some places where
17 management has just not been paying much attention to
18 this where we could make life somewhat simpler if we
19 were able to take on some of these pieces. In
20 addition to a mega recommendation there's some small
21 recommendations in here as well. It's really more the
22 higher level management that has to concentrate on
23 this more than operational improvements given the
24 structure that we've given them to operate.

25 MR. BARCHI: Right.

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1 CHAIRMAN SELIN: As has Commissioner
2 Remick, I found this quite interesting. When the
3 Commission put these questions to you, of course we
4 expected some illumination, but I think you've
5 exceeded our expectations for what we expected in
6 information, but in some of the thought and ideas that
7 you've allied to them.

8 So, we thank you very much for the effort.

9 MR. WILLIAMS: Thank you.

10 CHAIRMAN SELIN: Thank you.

11 MR. WILLIAMS: Appreciate it.

12 (Whereupon, at 10:28 a.m., the above-
13 entitled matter was concluded.)
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TITLE OF MEETING: BRIEFING BY IG ON FEE AUDIT

PLACE OF MEETING: ROCKVILLE, MARYLAND

DATE OF MEETING: DECEMBER 10, 1993

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**COMMISSION BRIEFING
DECEMBER 10, 1993**



**OFFICE OF THE INSPECTOR GENERAL
REVIEW OF FEES FOR LICENSEES**

PURPOSE OF BRIEFING

- TO PROVIDE THE RESULTS OF OUR REVIEW OF FEES FOR LICENSEES
- TO PROVIDE ADDITIONAL INFORMATION GAINED DURING OUR ASSESSMENT OF THE LICENSE FEE BILLING PROCESS
- TO PROVIDE OBSERVATIONS ON NRC'S LICENSE FEE PROCESS

WORK PERFORMED DURING OIG REVIEW OF FEES FOR LICENSEES

- **OVERHEAD COSTS AND FEES**
- **DIRECT COSTS AND FEES**
- **DETERMINATION OF DIRECT HOURS**
- **EFFECTIVENESS OF SMALL ENTITY FEE**
- **INCREASES IN ANNUAL FEES FOR
MATERIALS LICENSEES**
- **CONCLUSION**

BACKGROUND

- NRC ASSESSES TWO TYPES OF FEES:
 - **PART 170:**
 - DIRECT RELATIONSHIP TO SERVICES PROVIDED
 - IOAA
 - RECOVERS 20% OF BUDGET
 - **PART 171:**
 - REASONABLE RELATIONSHIP TO SERVICES PROVIDED
 - DESIGNED TO COLLECT REMAINDER OF BUDGET

OVERHEAD COSTS AND FEES

- **LICENSE FEES BASED ON BUDGETARY DATA**
- **ADMINISTRATIVE SUPPORT AND TRAVEL CLASSIFIED AS OVERHEAD**
- **SALARIES/BENEFITS AND PROGRAM SUPPORT CONTAIN BOTH OVERHEAD AND DIRECT**

OVERHEAD COSTS AND FEES

- **ALL OVERHEAD COSTS FACTORED INTO PROFESSIONAL HOURLY RATE**
- **UNLESS NUMBER OF LICENSEES CHANGES DRAMATICALLY, OVERHEAD WILL NOT VARY SIGNIFICANTLY**

DIRECT COSTS AND FEES

- IF NUMBER OF LICENSEES DECREASES,
DIRECT COSTS SHOULD DECREASE
- BUT, AS PRIORITIES CHANGE, RESOURCE
SHIFT MAY NEGATE COST DECREASE

DETERMINATION OF DIRECT HOURS

- **DIRECT HOURS DETERMINED DIFFERENTLY
FOR PARTS 170 AND 171 FEES**
- **TWO METHODS FOR PART 170:**
 - **AVERAGE HOURS (FLAT FEES)**
 - **ACTUAL HOURS (FULL COST FEES)**

DETERMINATION OF DIRECT HOURS

- **FOR PART 171:**
 - **ACTIVITIES/SUBACTIVITIES BROKEN
DOWN BY CLASSES OF LICENSEES**
 - **DIRECT FTE'S MULTIPLIED BY ANNUAL
PRODUCTIVE HOURS**

EFFECTIVENESS OF SMALL ENTITY FEE

- **SIGNIFICANT EFFORT EXPENDED IN
DEVELOPING DEFINITION:**
- **ACHIEVES "MIDDLE GROUND" BETWEEN
OBRA '90 AND REGULATORY FLEXIBILITY
ACT**
- **LOWER TIER ESTABLISHED IN FY 1992**

EFFECTIVENESS OF SMALL ENTITY FEE

- **EFFECTIVENESS DEPENDS UPON
PERSPECTIVE:**
 - **DEMONSTRATES NRC RESPONSIVENESS**
 - **SIGNIFICANT SURCHARGES ASSESSED TO
OTHER LICENSEES**

EFFECTIVENESS OF SMALL ENTITY FEE

- **SURVEY OF MATERIALS LICENSEES
RECENTLY COMPLETED:**
- **RESULTS WILL BE USED TO DETERMINE
WHETHER QUALIFIED SMALL ENTITIES
ARE TAKING ADVANTAGE**

EFFECTIVENESS OF SMALL ENTITY FEE

- **SBA RECENTLY SOLICITED COMMENTS ON
PROPOSED CHANGES TO SIZE STANDARDS:**
- **MAY AFFECT NRC'S DEFINITION OF
SMALL ENTITY**

INCREASES IN ANNUAL FEES FOR MATERIALS LICENSEES

- **SIGNIFICANT INCREASES FOR SOME LICENSEES DUE TO TWO OCCURRENCES:**
 - **INSPECTION FEES INCREASED BECAUSE MAJOR SAFETY-RELATED CHANGES MADE SINCE LAST REVIEWED (1984)**
 - **INCREASE IN BUDGET DUE TO INCREASES IN LICENSE/INSPECTION EFFORTS AND GENERAL GOVERNMENT COSTS**

CONCLUSION

- **NRC UNABLE TO DETERMINE WHETHER SMALL ENTITIES ARE TAKING ADVANTAGE:**
 - **FINANCIAL PROFILES ARE NOT CURRENT**
- **RESULTS OF RECENT SURVEY WILL BE USED FOR THIS DETERMINATION**

ASSESSMENT OF LICENSE FEE BILLING PROCESS

- **PROCESS FOR ASSESSING AND COLLECTING LICENSE FEES IS RESOURCE INTENSIVE AND CUMBERSOME**
- **COST DATA RELATED TO ASSESSING FEES**
- **AUTOMATED SYSTEMS THAT PROVIDE FEE DATA**
- **CORRESPONDENCE BETWEEN NRC AND LICENSEES**

PART 170 FEES AND RELATED PROCESSING COSTS

- APPROXIMATELY \$1 MILLION AND 11 FTE TO GENERATE \$105 MILLION IN FEES:
 - \$498,000 - LICENSE FEE AND DEBT COLLECTION BRANCH
 - \$225,000 AND 2 FTE - OFFICE OF INFORMATION RESOURCES MANAGEMENT

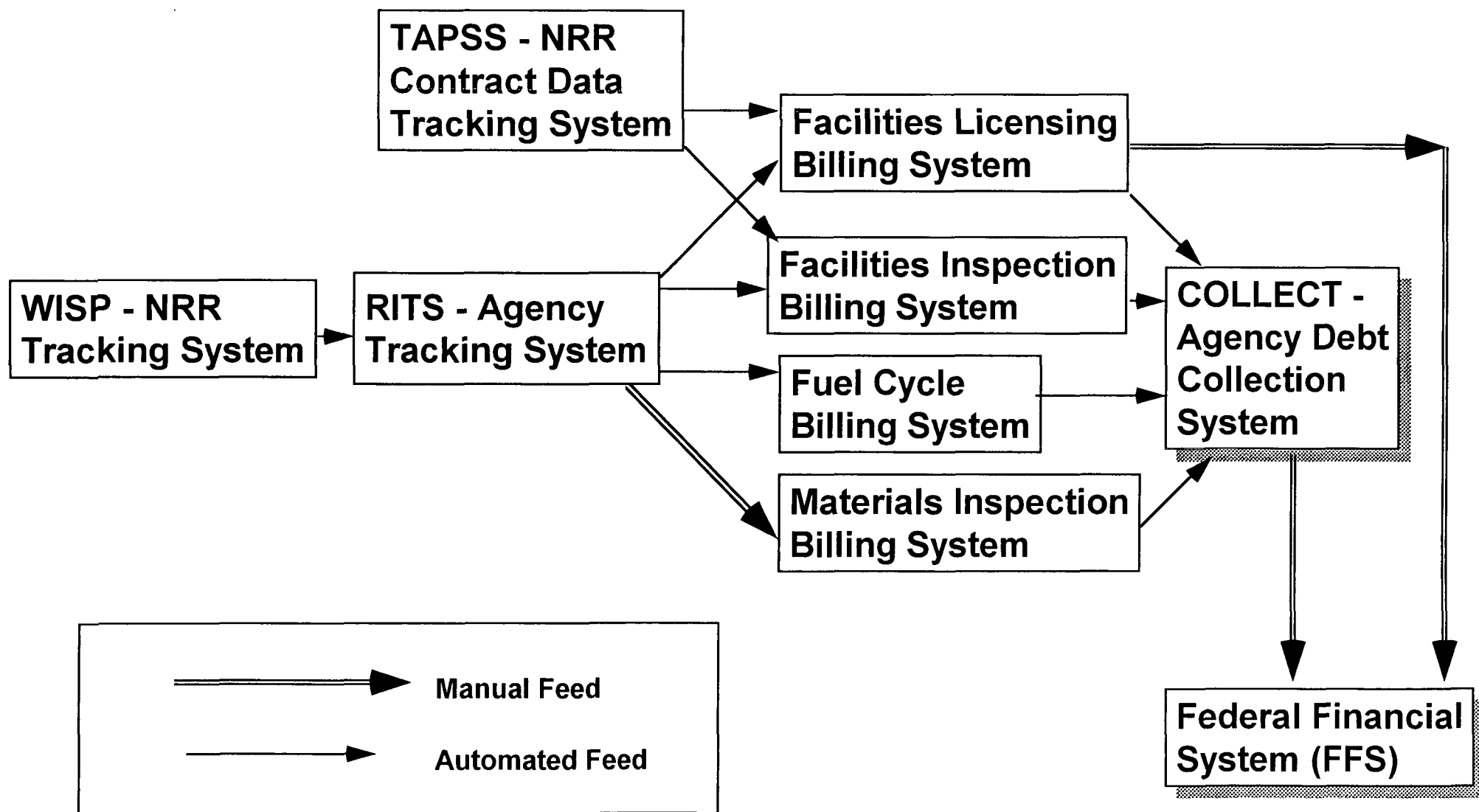
PART 170 FEES AND RELATED PROCESSING COSTS

- **RITS MAINTENANCE COSTS**
 - 9.25 FTE
 - \$313,000 ANNUAL CONTRACT COSTS
- **RITS IS THE PRIMARY SYSTEM
SUPPORTING PART 170 FEE
DETERMINATION--NOT ALL RITS COSTS
RELATE DIRECTLY TO FEES**

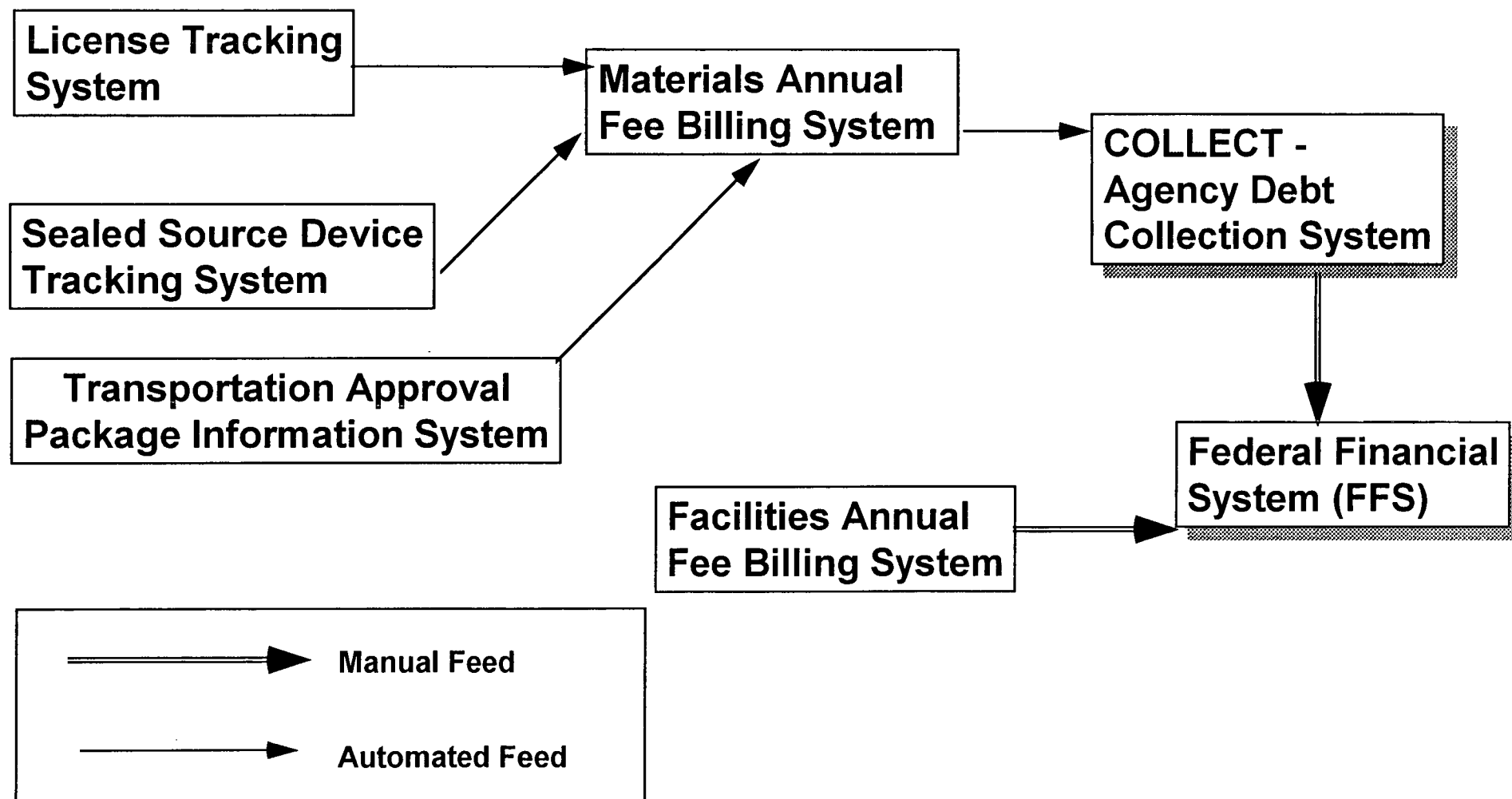
PART 171 FEES AND RELATED PROCESSING COSTS

- APPROXIMATELY \$813,000 EXPENDED TO GENERATE \$415 MILLION IN FEES:
 - \$788,000 - LICENSE FEE AND DEBT COLLECTION BRANCH
 - \$25,000 - OFFICE OF INFORMATION RESOURCES MANAGEMENT

AUTOMATED SYSTEMS FEEDING PART 170 FEE DETERMINATION/BILLING



AUTOMATED SYSTEMS FEEDING PART 171 FEE DETERMINATION/BILLING



CORRESPONDENCE REVIEW

- **OUTSTANDING ACCOUNTS RECEIVABLE BALANCES**
 - **ABOUT 700 ACCOUNTS OUTSTANDING FOR MORE THAN 180 DAYS**
 - **RELATED TO REQUESTS FOR CHANGES IN LICENSING STATUS AND RELIEF FROM AGENCY**
 - **ARE NOT DUE TO PROCESSING ERRORS**

SUMMARY

- **DECLINE IN NUMBER OF LICENSEES**
 - **EFFECT ON AGENCY BUDGET**
 - **EFFECT ON OTHER LICENSEES**
- **CURRENT FEE SYSTEM**
- **ONE FEE SYSTEM**
 - **DECREASE RESOURCE COSTS**