

# UNITED STATES OF AMERICA NUCLEAR REGULATORY COMMISSION

Title: BRIEFING BY U.S. ENRICHMENT CORPORATION

Location: ROCKVILLE, MARYLAND

Date: AUGUST 31, 1994

Pages: 41 PAGES

**SECRETARIAT RECORD COPY**

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UNITED STATES OF AMERICA  
NUCLEAR REGULATORY COMMISSION

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BRIEFING BY U.S. ENRICHMENT CORPORATION

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PUBLIC MEETING

Nuclear Regulatory Commission  
One White Flint North  
Rockville, Maryland

Wednesday, August 31, 1994

The Commission met in open session,  
pursuant to notice, at 10:00 a.m., Ivan Selin,  
Chairman, presiding.

COMMISSIONERS PRESENT:

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

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## STAFF AND PRESENTERS SEATED AT THE COMMISSION TABLE:

KAREN CYR, General Counsel

ANDREW BATES, Office of the Secretary

WILLIAM H. TIMBERS, JR., President and Chief Executive Officer, U.S. Enrichment Corporation

J. WILLIAM BENNETT, Vice President, Production, USEC

ROBERT WOOLLEY, Nuclear Regulatory Assurance and Policy Manager, USEC

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

10:00 a.m.

CHAIRMAN SELIN: Good morning, ladies and gentlemen.

Commissioner Rogers, Commissioner de Planque and I welcome you here, Mr. Timbers, as President and Chief Executive of the U.S. Enrichment Corporation, to brief us on the current state of affairs at the Corporation.

We were last briefed in June of '93 by Mr. Timbers. Since that time, a great deal has happened and the Corporation has entered into its lease agreement with the Department of Energy to accept responsibility for both gaseous diffusion plants. The Board of Directors has been confirmed by the Senate. A great deal of activity has happened both at home and abroad.

We'd be interested in your views of what's happened, Mr. Timbers, but especially on your plans and where you see the corporation going. And if you had some hints for what you're going to ask us in the future, that would be greatly appreciated.

Welcome. The floor is yours, sir.

MR. TIMBERS: Thank you, Mr. Chairman. It's a pleasure to be here, and Commissioners.

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1 First, before I start, I'd like to  
2 introduce my colleagues who are here with me today.  
3 On my right is J. William Bennett, Bill Bennett, who  
4 is Vice President for Production for the USEC, and on  
5 my left is Robert Woolley, Bob Woolley, who is manager  
6 for Nuclear Regulatory Assurance and Policy. In  
7 addition, we have added staff in the audience as well.

8 My name is William Timbers, Jr, quite  
9 often known around as Nick Timbers. I'm the President  
10 and Chief Executive Officer of the United States  
11 Enrichment Corporation. It's a pleasure to meet with  
12 you today to update the Commission on USEC's  
13 activities and operations since I last appeared before  
14 you in June of last year.

15 When I spoke to you last June, the  
16 Corporation was engaged in lease negotiations with the  
17 Department of Energy and was preparing to assume  
18 management of the Paducah and Portsmouth Gaseous  
19 Diffusion Plants and we'll talk a lot about gaseous  
20 diffusion plants today and we refer to these as GDPs.

21 Since that time, we've successfully  
22 completed those negotiations, entered into a lease of  
23 the GDPs with DOE and have affected a smooth  
24 transition to USEC's management of the GDPs in  
25 accordance with the July 1, 1993 statutory deadline.

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1           As part of the lease, we entered into a  
2           comprehensive regulatory oversight agreement -- again,  
3           we'll talk a lot about this today. We refer to this  
4           as the ROA -- with DOE that will provide for the  
5           continued safe operation of the GDPs under DOE's  
6           nuclear safety, safeguards, security controls, pending  
7           NRC's assumption of regulatory oversight.

8           Today I would like to summarize the  
9           current state of the corporation, including our plans  
10          for privatization, update you on the progress of  
11          preparing for NRC's certification of the GDPs and  
12          describe our current plans for commercialization of  
13          the AVLIS technology.

14          Over the last 15 months, USEC has become  
15          a fully diversified \$1.5 billion international  
16          corporate enterprise with significantly enhanced  
17          production and marketing capabilities. We have  
18          created corporate functions that did not previously  
19          exist, including finance, legal function, planning and  
20          development and human resources. We have had great  
21          success in the production performance and in reducing  
22          cost. I would like to emphasize, however, that while  
23          our commercial success will be achieved by providing  
24          unmatched attention to our customer needs and  
25          operating efficiency, our corporate vision can only be

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1 met by also meeting high safety and environmental  
2 standards and by fostering the personal and  
3 professional success of our employees. These issues  
4 are so critical to us that they are part of our  
5 mission and vision of this corporation.

6 Earlier this year our Board of Directors  
7 was confirmed by the United States Senate and sworn  
8 into office. Our Chairman is Mr. William Rainer, who  
9 is co-founder and former managing director of  
10 Greenwich Capital Markets. The Board also includes:  
11 Ms. Greta Joy Dicus, who is Director of the Division  
12 of Radiation Control and Emergency Management for the  
13 Arkansas Department of Health; Ms. Margaret Hornbeck  
14 Green, who is President of the Kentucky Division of  
15 South Central Bell Telephone Company; and Doctor  
16 Kneeland Youngblood, a practicing emergency room  
17 physician in Texas. Mr. Frank Zarb has stepped down  
18 from the Board and we're working closely with the  
19 White House to fill that vacancy as soon as possible.

20 In addition to my selection as President  
21 and CEO, we have retained Mr. George Rifakes as our  
22 Executive Vice President for Operations, and Mr.  
23 William Bennett, who is here with me today again, as  
24 Vice President for Production. George Rifakes joined  
25 us from his position as Vice President at Commonwealth

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1 Edison and Bill Bennett was Director of DOE's Office  
2 of Uranium Enrichment Operations.

3 The Corporation is now staffed by an  
4 experience group of 112 employees. I might mention  
5 that I think the last time that I was here that we had  
6 a staff of probably about 25 employees, so that we've  
7 grown considerably in terms of headquarters staff.  
8 These employees have been drawn from both private  
9 industry and government. We are continuing to  
10 integrate our staff with that of our operating and  
11 maintenance contractor for the GDPs, Martin-Marietta  
12 Utility Services, in order to develop a coordinated  
13 operating organization focused on safety and  
14 efficiency of the operation of our plants.

15 In addition to completing the transition  
16 to USEC's management of GDPs, we have achieved several  
17 other notable accomplishments in our first year of  
18 operation. During this time we completed negotiations  
19 with the Russian Federation for the purchase of low  
20 enriched uranium derived from approximately 500 metric  
21 tons of highly enriched uranium from dismantled  
22 nuclear weapons. This is a contract that will extend  
23 over a period of 20 years and represents approximately  
24 \$11.9 billion in value.

25 As a result of a separate agreement with

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1 the Russian Federation, we have already taken receipt  
2 of about 155 metric tons of low enriched uranium.  
3 These were delivered over the past year in four  
4 separate deliveries. We have also restructured our  
5 contract with Martin-Marietta in order to provide more  
6 incentives for efficient and safe operations and to  
7 encourage excellence in performance.

8 On the financial side, USEC paid a \$30  
9 million dividend to the U.S. Treasury after our first  
10 three months of operation. We are presently  
11 evaluating a number of alternatives to privatize the  
12 corporation. USEC will submit a privatization plan to  
13 the President of the United States by July of 1995 in  
14 accordance with the Energy Policy Act of 1992.

15 Over the last year, the USEC has also been  
16 preparing for NRC certification and regulatory  
17 oversight of the GDPs. We have provided detailed  
18 written comments on the NRC standards contained in  
19 proposed Part 76. While a decision on that rulemaking  
20 is currently pending before the Commission, we  
21 recognize that the rulemaking has been accomplished  
22 under very substantial time constraints imposed by the  
23 Energy Policy Act.

24 We appreciate the hard work that NRC staff  
25 has performed in developing a comprehensive set of new

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1 regulatory standards in such a relatively short period  
2 of time for facilities that have been operating for 40  
3 years. The development of appropriate regulatory  
4 policies and programs for the inspection and oversight  
5 of these facilities will be equally challenging. The  
6 presence of resident NRC observers, Ken O'Brien at  
7 Paducah and Charlie Cox at Portsmouth, should assist  
8 in the transition to NRC regulation.

9 USEC has already commenced work on our  
10 applications for NRC Certificates of Compliance for  
11 the GDPs, as well as the accompanying compliance plans  
12 that will address those areas where full compliance  
13 with applicable NRC requirements will not have been  
14 achieved by the time the applications are filed.  
15 Teams of subject matter experts at both plants,  
16 supplemented by experienced contractor personnel, are  
17 currently working on the applications. We are  
18 utilizing a format and approach similar to that used  
19 for NRC fuel cycle facility license applications in  
20 order to aid the NRC staff in efficiently reviewing  
21 the applications. Assuming timely issuance of final  
22 Part 76 standards, we are currently anticipating  
23 submitting the applications to the NRC in April of  
24 1995.

25 Substantial efforts are already underway

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1 to modify and upgrade programs, procedures and  
2 training in order to provide the necessary  
3 infrastructure to assure compliance with NRC  
4 requirements and to further enhance the safety of the  
5 operational working environment of the GDPs. While  
6 the GDPs have been operating safely for almost 40  
7 years, we believe that improvements in the discipline  
8 of the operations are necessary to meet the  
9 corporation's expectations and to ensure that the GDP  
10 operations are on a par with NRC's best fuel cycle  
11 licensees. Our efforts include benchmarking visits to  
12 NRC-licensed facilities, including reactor and fuel  
13 cycle facilities.

14 We are working to instill in the corporate  
15 and plant organization attributes that we believe  
16 characterize other successful operations regulated by  
17 NRC. Among these attributes are effective involvement  
18 of senior management in nuclear safety matters, clear  
19 communication with NRC, a company-wide commitment to  
20 safety, personal accountability and performance-based  
21 evaluation criteria, and an effective self-assessment  
22 capability. Improvements in our self-assessment  
23 capability are essential if USEC is to achieve our  
24 desired level of performance. Changes of this nature  
25 required a sustained effort, but we are working hard

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1 to achieve them.

2 Finally, I would like to touch on our  
3 plans for commercialization of the AVLIS technology.  
4 On July 12th of this year, our Board of Directors  
5 unanimously voted to authorize management to begin  
6 taking steps necessary to commercialize AVLIS. We  
7 have begun to take the necessary actions to effectuate  
8 the technology transfer from DOE and we're now  
9 considering numerous relevant issues including  
10 licensing, plant location, size, timing and financing.  
11 We hope that our interaction with the NRC staff on  
12 AVLIS will be characterized by the same constructive  
13 and creative dialogue that has characterized our  
14 interaction to date on the GDPs.

15 I want to thank you again for the  
16 opportunity to update you on the Corporation's recent  
17 activities and progress. We look forward to the  
18 continued interaction with NRC as USEC moves forward  
19 with certification of the GDPs and ultimately with the  
20 AVLIS technology.

21 That concludes my remarks and I'd be glad  
22 to answer any questions that you have.

23 CHAIRMAN SELIN: Thank you very much, Mr.  
24 Timbers. Without putting in the specific questions,  
25 I wondered if you might sketch the economic situation

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1 that you're facing for the next several years and, as  
2 appropriate, the process that you'll go through in  
3 deciding how many plants the Corporation will  
4 eventually operate.

5 MR. TIMBERS: The uranium enrichment  
6 market is one that's characterized by excess capacity  
7 over demand. It's about 50 percent excess capacity to  
8 demand. It's a highly competitive environment  
9 characterized by three major competitors: one,  
10 Eurodif, a consortium based in France; URENCO, a  
11 consortium based in London; and the Russian  
12 Federation. There are minor other players, but those  
13 are the major competitors in the world marketplace.

14 The competitive market is exacerbated even  
15 more because of the open demand in the next five to  
16 seven years. That is the open demand where there are  
17 no contracts in place and utilities are putting out  
18 for bid enrichment requirements. Approximately 70 to  
19 75 percent of that open demand is here in the United  
20 States, which historically has been our dominant  
21 marketplace. So, it is a competitive environment. It  
22 also is one where the greatest challenge in terms of  
23 our marketing capability rests with our historical  
24 marketplace here in the United States.

25 In addition to just the supply/demand

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1 characteristics also is the element of what I would  
2 call the Russian supply, which I mentioned briefly in  
3 my remarks. That is that we are committed to purchase  
4 from Russia LEU derived from highly-enriched uranium  
5 derived from weapons. From one standpoint, this is --  
6 as a public citizen of the world, I think this is one  
7 of the greatest things that has occurred in the last  
8 several years where we can be an instrumental player  
9 in reducing the nuclear threat worldwide. At the same  
10 time, it's our responsibility to incorporate this new  
11 Russian supply into our production mix.

12 Now, we had some time to carefully  
13 evaluate this and it's structured so that in the next  
14 five years we'll be taking the equivalent of ten  
15 metric tons of HEU. I always characterize this in the  
16 marketplace as that in the year 6 through 20 is when  
17 the rubber hits the road and that's when that amount  
18 will increase to 30 metric tons or three times  
19 individually over the next five years.

20 We'll have to carefully take a look at  
21 what is the best integration of this Russian supply  
22 together with our own production capabilities. And  
23 also you have to recognize that there is an economic  
24 performance capability of these plants where you can't  
25 run the plants full out because the cost of

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1 electricity. The cost of electricity is the dominant  
2 cost element of a gaseous diffusion plant and we have  
3 very attractive and economical electric contracts with  
4 power suppliers right now. To the extent that we  
5 would operate at a full capacity level, it would  
6 increase our operating cost significantly.

7 CHAIRMAN SELIN: Because the unit cost  
8 would go up above the current --

9 MR. TIMBERS: Significantly. We  
10 characterize it sort of like a hockey stick, it would  
11 go up very sharply at a certain given level. So, we  
12 need to look very carefully about how to increase the  
13 production efficiency at our plant and integrate the  
14 Russian supply.

15 CHAIRMAN SELIN: Could I just stop you?  
16 Is the Russian supply purely a marketing  
17 responsibility for the Corporation or do you have some  
18 production or processing or transformation  
19 responsibilities to do with --

20 MR. TIMBERS: As it stands right now under  
21 the contract, we take the Russian supply FOB St.  
22 Petersburg and we take it as LEU. One of the basic  
23 elements that I feel in terms of the future of this  
24 corporation is that we want to deal only with LEU and  
25 so we don't want to take possession at any time of

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1 weapons grade material. So, the plan now is for  
2 Russia to blend it with natural uranium in  
3 Yekaterinburg, transport it to St. Petersburg and we  
4 pick it up at the dock and take it FOB at that point,  
5 so that we take it as LEU and will pay for the  
6 transportation cost to get it here.

7 There's one additional element that I want  
8 to mention to this that complicates this. It's like  
9 complication on complication on complication. It is  
10 nominally a 20 year contract, but it is a contract  
11 that has renewal clauses to it every year and  
12 basically that renewal is based upon annual  
13 negotiations with the Russian federation on price and  
14 quantities to be delivered. If there is not an  
15 agreement at any given year, the previous quantities  
16 in price will stay in place for the succeeding year.  
17 If that is not -- if there's not a resolution in  
18 succeeding year or in the second year, there is rights  
19 of termination by both Russia and the United States.

20 So, it is nominally ten two year contracts  
21 that roll and roll and roll as opposed to a fixed take  
22 or pay contract for 20 years. So that you can see  
23 that it is not something that has a fixed schedule of  
24 deliveries over a specified period of time and so that  
25 it complicates how we look at our production mix. I

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1 know that's a long answer, but it also is a  
2 complicated issue regarding how we run our production  
3 facilities relative to the Russian supply.

4 CHAIRMAN SELIN: You take possession and  
5 ownership of the --

6 MR. TIMBERS: Yes.

7 CHAIRMAN SELIN: And then it's something  
8 to be marketed along with the enriched uranium from  
9 the --

10 MR. TIMBERS: Yes. It comes into our  
11 supply and as we see it it should be transparent to  
12 our customers as to whether it is -- where the  
13 enriched uranium is derived from. One of the most  
14 important transparencies that I would describe would  
15 be price, is that regardless of whatever price the  
16 United States government and the U.S. Enrichment  
17 Corporation resolve with the Russian Federation, we  
18 have to price our product on the market on a  
19 competitive basis. We have no other choice. So,  
20 that's why we have to -- we cannot segregate this into  
21 domestic production price and then a foreign purchase  
22 price and sell two different elements. We're selling  
23 a commodity, a commodity in the world market. It has  
24 to be a unified price.

25 COMMISSIONER ROGERS: If I could just ask

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1 a question on that.

2 MR. TIMBERS: Sure.

3 COMMISSIONER ROGERS: I've heard some  
4 reports that the LEU that is coming has some small  
5 degree of contamination with plutonium but also has  
6 unexpectedly large other isotopes of uranium in it  
7 that cause some questions about how this would  
8 actually be used in current U.S. reactors. Can you  
9 comment on that at all?

10 MR. TIMBERS: Those reports are rather  
11 accurate. The initial testing is that there are  
12 excess supplies of plutonium and also U-234, U-236 as  
13 well. Again I would say to commercial users of our  
14 enriched uranium that we supply is that that is our  
15 responsibility to ensure the product we deliver meets  
16 specs for all reactors here and abroad. We're trying  
17 to run and we are running the USEC like a business.

18 The way that I view this is that we signed  
19 a contract with the Russian Federation. We're  
20 representing the United States government in doing  
21 this. The contract has very specific technical  
22 specifications as to how -- what the material should  
23 be delivered in. We are engaged in discussions with  
24 the Russian Federation to meet those specifications.  
25 Our belief now is that those specifications will be

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1 met and so by the time that we take possession of  
2 this, that those issues of plutonium and the other  
3 isotopes will be resolved.

4 COMMISSIONER ROGERS: The material you've  
5 received so far, does that meet the specs?

6 MR. TIMBERS: The material that we  
7 received was really actually LEU. It was not derived  
8 from HEU. So, it was a primer of the pump, so to  
9 speak, in terms of the political and also the economic  
10 exchange with the United States government and the  
11 Russian Federation. So, that LEU was just the normal  
12 enriched uranium that they would sell on the  
13 commercial marketplace, so that it had no derivation  
14 from the HEU that this deal that we're talking about  
15 has.

16 CHAIRMAN SELIN: You've talked a little  
17 bit about qualitatively the considerations that you're  
18 facing. I wonder if you might continue to translate  
19 those into rough numbers. Do you see demand going up,  
20 going down, sort of constant and then go on to what  
21 that means for how you're looking at the continued  
22 viability of both production. I'm not asking you for  
23 a guess as to whether you're going to close one or the  
24 other, which one, but just how are you looking at that  
25 issue, what's the process. Would you go from

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1 projections of demand to looking at your posture, at  
2 your structure?

3 MR. TIMBERS: Well, we believe that demand  
4 is going to be fairly flat in the future. There will  
5 be --

6 CHAIRMAN SELIN: Total demand for which  
7 you were --

8 MR. TIMBERS: Total demand worldwide, yes,  
9 that there will be a number of reactors that will be  
10 shut down according to schedule and that also we're  
11 anticipating advanced shutdown of reactors, of a  
12 variety that have occurred in the past year. In  
13 addition, there are new reactors coming on mostly in  
14 the Far East and Europe, significantly in Japan, Korea  
15 and Taiwan. So, that all on a net basis that we're  
16 looking to a fairly flat demand out well into the  
17 first quarter of the 21st Century.

18 We believe that our future is based upon  
19 being a competitive supplier and to that extent one of  
20 the major tenets of this organization now and in the  
21 future is to reduce our cost of operations. We have  
22 implemented a fairly aggressive program to, in fact,  
23 reduce those costs. Both continued efficient  
24 utilization of power and also the operating cost of  
25 how we run the plant so that it will bring down, based

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1 upon this demand level that exists, our unit costs  
2 significantly and significantly so that we will  
3 continue to be a very competitive supplier in the  
4 world marketplace, if not the lowest cost supplier  
5 with the existing GDPs.

6 I will note that we look at this from a  
7 global standpoint and a long-term standpoint. Part of  
8 that production mix is, I think, a very carefully  
9 evaluated decision to move, on taking the next steps  
10 on AVLIS, the AVLIS technology. The AVLIS technology  
11 was decided on two basic reasons. One, it can provide  
12 the U.S. Enrichment Corporation with a significantly  
13 lower cost of production. Second of all, it can  
14 provide a reliable source of domestic supply well into  
15 the 21st Century.

16 This year we celebrate the 40th  
17 anniversary of the operation of the Portsmouth plant.  
18 As any businessman would do, we're looking at how much  
19 we invest in old technology and upgrades to the old  
20 technology for efficient operation, but also in terms  
21 of regulatory compliance, together with how much we  
22 want to invest in new technology that will extend  
23 beyond what may be perceived as a useful life of these  
24 plants.

25 But all these things come into play in a

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1 fairly complex matrix of running both of these  
2 facilities. As it stands now, we view running both of  
3 these facilities in the near future, both the existing  
4 facilities.

5 CHAIRMAN SELIN: Is there -- given  
6 limitations on maximum power, et cetera, are there big  
7 cost differences between getting a certain amount of  
8 output all from one plant versus splitting them up in  
9 both plants of the total outputs within the capacity  
10 of either --

11 MR. TIMBERS: Yes. What you'd find if you  
12 went to just one plant right now in the current power  
13 supply arrangements is that you'd have to -- the cost  
14 of power would go up significantly if it all was in  
15 one plant right now.

16 CHAIRMAN SELIN: Because the deals are  
17 with different suppliers for different amounts?

18 MR. TIMBERS: Yes. And there are  
19 different suppliers, different markets that we derive  
20 the power from.

21 CHAIRMAN SELIN: How long do these deals  
22 hold and when would you have to renegotiate them?

23 MR. TIMBERS: 2005 is the length of the  
24 contracts, the power contracts. But we also buy in  
25 the spot market as well in terms of low-cost spot

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1 power and right now it's a big portion of our power  
2 mix. As we can --

3 CHAIRMAN SELIN: What portion is spot?

4 MR. TIMBERS: We operate seasonally very  
5 differently. This month, in August, in one of the  
6 plants a big part is purchasing spot power, if we can  
7 do it economically. You know, we are out there  
8 purchasing power just like a utility would be in terms  
9 of what is the best mix between existing paying demand  
10 and energy charges under a fixed contract and what  
11 would pay in the spot market.

12 CHAIRMAN SELIN: One would have to look at  
13 the numbers, but it sounds like there's a potential  
14 inconsistency between on the one hand being able to  
15 get large amounts of spot power cheaply and, second,  
16 not being able to support higher levels of output from  
17 a single plant. I guess you wouldn't want to be in  
18 the position of really being locked into the spot  
19 market for larger amounts of power.

20 MR. TIMBERS: I think that if you have a  
21 long-term strategy predicated on solely purchasing of  
22 short-term spot market power --

23 CHAIRMAN SELIN: It's the savings and loan  
24 stretch.

25 MR. TIMBERS: You're bound to get into

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1 trouble.

2 CHAIRMAN SELIN: Right. Borrow short,  
3 sell long.

4 MR. TIMBERS: Yes. But if there are  
5 opportunities that we can take advantage of and not be  
6 locked into that philosophy, that can be constructive  
7 to the corporation.

8 CHAIRMAN SELIN: Before I turn to my  
9 colleagues, I'd like to ask you one more question.  
10 You talked about the need to reduce operating cost.  
11 Can you translate that into safety considerations,  
12 where are these reductions likely to be things that  
13 would concern us as your regulators to be?

14 MR. TIMBERS: Well, I might ask Bill  
15 Bennett who is in charge of the program, of the cost  
16 reduction program, to comment a little bit about that.  
17 I will say that -- I want to give you one bit of  
18 philosophy about this, philosophy permeates through  
19 the organization. That is that in terms of public  
20 safety and health my philosophy is that from a  
21 business standpoint it makes best business sense to do  
22 it well and do it right up front, as opposed to trying  
23 to fix it later. I think that if you try to fix it  
24 later, it costs you more money wise and it costs you  
25 more in terms of your reputation. Both of those

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1 elements in terms of cost expenditure of our money and  
2 also our reputation are very dear to us. So, we want  
3 to be very careful that we're in full compliance  
4 because we think business-wise that makes the most  
5 sense.

6 But, Bill, do you want to talk a little  
7 bit about the cost reduction program vis-a-vis safety  
8 and regulatory requirements?

9 MR. BENNETT: Well, the biggest thing we  
10 are trying to do is bring equipment that has been  
11 inoperational back into operation. The way the plants  
12 function, it costs less to produce a unit of enriched  
13 uranium with the equipment fully operational than it  
14 does with half the equipment operational. So, most of  
15 what we've been doing this year and intend to do next  
16 year is to bring that equipment back into operation  
17 and to couple that with a strong program of  
18 preventative maintenance to keep the equipment  
19 operating.

20 The other thing we need to do is change  
21 the culture, the operational style of the plants to  
22 avoid many kinds of mistakes that have been made that  
23 have caused either safety problems or equipment going  
24 off-line. That's the biggest part of our effort is to  
25 keep that equipment operational.

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1           The second thing is to look throughout the  
2 operations and find remnants of 30 years of operations  
3 under a different structure under a non-competitive  
4 structure where things are being done because they  
5 always were done that way. Find those, change them,  
6 do them more efficiently. We find many things that  
7 just don't need to be done anymore that were done as  
8 part of the system. But we're stressing efficiency,  
9 excellence in operations, avoiding mistakes, adherence  
10 to procedures and we think that will both support our  
11 cost reduction efforts and our efforts to operate  
12 safely.

13           COMMISSIONER ROGERS: Well, yes. Thank  
14 you. Just following up on that, what is your  
15 engineering support for this kind of activity that  
16 you're engaged in now of looking at what you're doing  
17 because it's always been done and coming to the  
18 conclusion that maybe these are some things that don't  
19 have to be done this way.

20           Do you have an engineering group dedicated  
21 to this kind of thing? How large is it? What are the  
22 resources that you're using to validate a conclusion  
23 that something that was done in the past is not a good  
24 idea today?

25           MR. BENNETT: Well, let me separate

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1 something that's done in the past into I'll call them  
2 physical operational things and bureaucratic things.

3 COMMISSIONER ROGERS: Yes.

4 MR. BENNETT: I was focusing principally  
5 on ten reports being prepared and getting mailed to  
6 people who didn't look at them anymore and requiring  
7 therefore ten people, 20 people to collect the data  
8 for those ten reports. Those are the kinds of things  
9 we're going after first, the kinds of operational  
10 changes where we would decide, make something up if we  
11 were to decide we don't need a monitor of a certain  
12 kind, which we're doing very little of. We're going  
13 the other way where we're putting -- we're  
14 strengthening the safety envelope. Those kind of  
15 changes though, if we were to make such a change,  
16 that's where our engineering organization would be  
17 critical in deciding that it's an acceptable change,  
18 that it doesn't weaken our safety posture.

19 Now, to get to your question on how many  
20 people, we have engineering organizations at both  
21 plants and off the top of my head I would think  
22 between the two we probably have 100, 150 people at  
23 the two plants in the organizations and then we have  
24 standing contracts with external organizations that  
25 bring different specialties in that supplement our

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1 capabilities that we use depending on the issue that's  
2 being addressed.

3 COMMISSIONER ROGERS: Well, the reason I  
4 think that we're interested in it is that we are very  
5 much in the throes of reviewing our own requirements  
6 that have grown up historically in many cases to see  
7 where they make sense and where they don't make sense  
8 in light of 40 years of operating experience and in  
9 light of ability to analyze situations more completely  
10 than we could do in the past. I suspect that anybody  
11 who's looking at a large 40 year old piece of  
12 technology has got lots of opportunities there for  
13 raising questions of whether things need to be done  
14 the way they were done and whether there isn't a  
15 better way to do it. We're finding that in some cases  
16 we can relax some of our requirements and in some  
17 cases they weren't sufficiently rigorous. It works  
18 both ways.

19 On the AVLIS aspect of your work, when do  
20 you think you're going to have a time table for moving  
21 ahead with implementation of the program commercially?

22 MR. TIMBERS: What the Board of Directors  
23 has proved is authorizing management to take the  
24 necessary steps to move ahead on AVLIS. It is not a  
25 commitment to move ahead on AVLIS. We need to -- as

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1 a business, we're looking at this step by step and so  
2 that we're looking at having the technology  
3 transferred from DOE to us. We're looking at what is  
4 the best licensing approach to take.

5 For example, we believe that the most  
6 efficient licensing is the best way to do it  
7 consistent with public safety and health. One of the  
8 best ways to do that might be according to the process  
9 that LES is using in its licensing procedure, which I  
10 think is using Part 40 and Part 70 for a single  
11 materials license. Right now that may require some  
12 statutory change to allow AVLIS to be done that way.  
13 But each step along the way, if we find some  
14 roadblocks that are insurmountable or make the  
15 economics turn around, we reserve the right to change  
16 that decision.

17 Right now it's very, very attractive. But  
18 I think that when we get through this first hurdle of  
19 looking at the technology transfers, the determination  
20 if there are any patents outstanding, the relationship  
21 we have in terms of licensing, the plant location,  
22 things of that nature, each step along the way we'll  
23 make the determination if it still makes sense for us  
24 and I think that what our plan is to have beginning at  
25 the turn of the century, in the year 2000, 2001, a

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1 plant operating and so that we back out from that the  
2 timing necessary to construct and build a facility.

3 Also, one of the critical issues that has  
4 to be determined also is how we finance it as well and  
5 whether it's financed by USEC as a government  
6 corporation or whether it's financed as a private  
7 corporation. All these are major issues that still  
8 have to be addressed. But I think that we're talking  
9 in this preliminary stage of a couple of years in  
10 terms of these preliminary issues that I've talked  
11 about.

12 CHAIRMAN SELIN: That's very important  
13 because I don't believe that we, the NRC, are  
14 currently planning to be in a position to consider a  
15 license application on the schedule that you're  
16 talking about. It's not that it can't be done, but  
17 that's more aggressive than I was expecting to hear as  
18 an answer to that question.

19 COMMISSIONER ROGERS: Yes. Well, that was  
20 really the basis on which I was asking the question  
21 because I think that this is a totally new technology  
22 for us to deal with.

23 MR. TIMBERS: Right.

24 COMMISSIONER ROGERS: And what are the  
25 safety questions? Where should we be concerned?

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1 We'll have to get ready for that. So, I think that it  
2 is very important that we understand what your plans  
3 are in timing and particularly with respect to any  
4 kind of a license application. Also, it would be very  
5 helpful, I would imagine, for you to engage our staff  
6 in dialogue well before you intend to submit a license  
7 application just so you understand what our concerns  
8 are and we understand what we need to know to be able  
9 to deal with the issues. I would imagine that ought  
10 to start several years before one contemplates a  
11 license application.

12 So, when you start to back off from that,  
13 it's coming up very fast. I agree with the Chairman.

14 MR. TIMBERS: That would be my  
15 anticipation as well. I think as I mentioned in my  
16 prepared remarks that our approach to AVLIS licensing  
17 would be similar to that of the GDPs and I give you an  
18 idea of what our perspective. I started working here  
19 on March 9th of 1993 and I think it was on March 10th  
20 that I began discussing with some Commissioners about  
21 the licensing process of the GDPs and it was very  
22 clear to me from day one that there are long lead  
23 elements to this process. I think that as we  
24 anticipate submitting an application for certification  
25 of the GDPs in April of '95 and perhaps later on

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1 actually being certified and we first began addressing  
2 this in March of '93, there's a long lead for just  
3 this facility that has been operating for 40 years.  
4 But it gives you an indication that the management of  
5 this corporation knew right up front that the dialogue  
6 is very, very important to be conducted. I think that  
7 that dialogue, in my judgment, has been very effective  
8 over the past couple of years for this regulation of  
9 the GDPs. We have even more to do on the AVLIS so  
10 that starting early is -- I guess we're starting right  
11 now on that dialogue.

12 CHAIRMAN SELIN: Right. We're a little  
13 bit like economists. When we see something that works  
14 in practice, we want to figure out if it's feasible in  
15 theory. But you're right, it's been an enormous  
16 bureaucratic struggle and I think done very  
17 successfully by the staff to get these regulations  
18 together in effect. But we didn't just take over the  
19 DOE regulations, we wrote a new chapter from scratch.  
20 But with 40 years of experience, you pretty well know  
21 what the safety issues are. You don't have to do a  
22 lot of theorizing. You get right down to the job.

23 COMMISSIONER ROGERS: That's all I have.

24 CHAIRMAN SELIN: Commissioner de Planque?

25 COMMISSIONER de PLANQUE: Yes.

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1 Recognizing how big a role the cost of electricity  
2 plays, what potential ballpark do you see for  
3 decreasing that demand by improved operations or  
4 changing technology?

5 MR. TIMBERS: On the GDPs?

6 COMMISSIONER de PLANQUE: Yes.

7 MR. TIMBERS: Bill, do you want to take a  
8 shot at that in terms of --

9 COMMISSIONER de PLANQUE: I'm just looking  
10 for a figure.

11 MR. BENNETT: I didn't really follow the  
12 question.

13 COMMISSIONER de PLANQUE: How much  
14 potential do you have for decreasing the amount of  
15 electricity required for the operation by making  
16 improvements in the operation?

17 MR. BENNETT: Slim.

18 COMMISSIONER de PLANQUE: Slim.

19 MR. BENNETT: Slim chance to decrease the  
20 amount of electricity we require from where we are  
21 now. We've made -- what I mentioned before about  
22 bringing the equipment on-line has allowed us to  
23 decrease the amount that we needed by 10, 15 percent.  
24 But now that the equipment is operational, the big  
25 thrust will be buying cheaper electricity and finding

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1 ways to use it at night when it's cheaper and not  
2 operate during the day. But I don't think we have a  
3 lot of potential to reduce the amount we need to make  
4 a -- a few percent and that --

5 COMMISSIONER de PLANQUE: Sure.

6 MR. BENNETT: Over hundreds of millions,  
7 that's valuable and we'll be working to do that.

8 COMMISSIONER de PLANQUE: Okay. I wonder  
9 if you'd care to comment on the role of the NRC  
10 observers. Did you find that useful? If you had to  
11 redo it, would you suggest anything different in that  
12 process, either from your point of view or how you  
13 perceive it from our point of view?

14 MR. TIMBERS: Actually, I think that it  
15 has been a very constructive process. Charlie Cox has  
16 been at Portsmouth a very short period of time, but  
17 Ken O'Brien has been at Paducah for a longer period  
18 and has been providing, I think, effective input to  
19 the corporation both from a technical standpoint and  
20 also from a cultural standpoint as well. Charlie --  
21 Ken comes from a commercial reactor standpoint and as  
22 we've clearly expressed a number of times, we view  
23 that we're on a fuel cycle -- we're a fuel cycle  
24 company, which is a little different. But at least  
25 the rigor, the technical rigor and the cultural rigor

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1 that comes from a commercial facility has been an  
2 important input into the plant at Paducah and I think  
3 also will be at Portsmouth as well.

4 They have provided an insight as to some  
5 of the thinking of the NRC to help us prepare for  
6 this. You have to appreciate that these are plants  
7 that either on DOE or under their predecessor  
8 organizations never really had an outside oversight.  
9 So, there is a cultural change that is very important  
10 and I think that it's interesting. I think, in  
11 hindsight, it has turned out to be a fairly good idea  
12 because you can see that there needs to be some change  
13 on our part, some learning on our part about how, both  
14 from a regulatory requirement and an enforcement  
15 process what the NRC is looking for and this has  
16 provided us, I think, an important interim period for  
17 us to get ready for this, and so that it's not a black  
18 and white but it has gone from a segue into a  
19 regulatory process that is foreign to these plants  
20 after 40 years.

21 COMMISSIONER de PLANQUE: Would you have  
22 suggested any different way of doing it?

23 MR. TIMBERS: I don't think so at this  
24 point. I am the person who basically is the manager  
25 of this business. Doesn't necessarily look to hear

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1 all the good news, but I want to hear the bad news or  
2 things that need to be improved. I find that that's  
3 been an effective role that Charlie Cox and Ken  
4 O'Brien have served in doing that.

5 I think that without having that interim  
6 segue would have made the regulatory period that would  
7 begin somewhat of a shock. I think that also the  
8 process with DOE serving in it's regulatory function  
9 now has helped that process as well. There's a  
10 cultural change that I've described and it is taking  
11 some time to do that. I can clearly say to you that  
12 the USEC management and the GDP personnel have learned  
13 from this process. I think from the oversight  
14 process, I think DOE has learned from it as well.

15 So, I think by the time we get to a point  
16 where we're under NRC regulation, certification has  
17 been put into place, we'll be much better prepared  
18 because we have had that kind of due diligence input  
19 that NRC has provided in the past couple of months.

20 COMMISSIONER de PLANQUE: Okay. Thank  
21 you.

22 CHAIRMAN SELIN: We've heard over the last  
23 few years probably two or three dozen people  
24 discussing their cost cutting plans in different  
25 organizations. I have the impression that this is the

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1 first one where you didn't really concentrate on  
2 reducing personnel, or is it a wrong impression?

3 Everything you've talked about, Mr.  
4 Bennett, had to do with material condition and --

5 MR. TIMBERS: No. Actually that personnel  
6 labor is a component of it.

7 CHAIRMAN SELIN: It is a component?

8 MR. TIMBERS: Yes.

9 MR. BENNETT: But we're not going after  
10 personnel, we're going after functions that we don't  
11 need to do. As those functions are eliminated, we  
12 size the organization to match it.

13 CHAIRMAN SELIN: Sure. Yes.

14 MR. BENNETT: But the big gains have been  
15 equipment.

16 CHAIRMAN SELIN: As people get laid off,  
17 you know, you end up with more safety problems than  
18 otherwise. You have disgruntled employees. You have,  
19 you know, a tougher relationship, et cetera. In fact,  
20 anything that changes the relationship that workers  
21 are used to is always a potential source. I wonder if  
22 you'd talk a little bit about what kind of numbers  
23 you're talking about and how you're going to handle  
24 that, and then maybe talk a little bit about  
25 privatization because in the United States inevitably

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1 privatization also leads to reduced operating costs,  
2 from our point of view, from a safety point of view.

3 MR. TIMBERS: From the standpoint of the  
4 cost reduction program, we really are embarking on a  
5 five year program here of reducing the operating  
6 costs, which have a number of different components to  
7 it, power costs, as much as we can, labor, materials,  
8 things of that nature.

9 Bill, I don't know if you've identified  
10 the specific labor amounts. I think that we probably  
11 want to discuss that with our unions and organizations  
12 first before we go public with that.

13 CHAIRMAN SELIN: Sure. But the real  
14 question is, are they within attrition amounts or are  
15 you talking about eventually ending up --

16 MR. TIMBERS: It would be a combination of  
17 both attrition and layoffs as well over a five year  
18 period, but I put it in the context -- you know, you  
19 mentioned about privatization. I don't view  
20 privatization of this corporation when it would occur  
21 would be all of a sudden a black and white situation.

22 CHAIRMAN SELIN: Right.

23 MR. TIMBERS: I view this now as that we  
24 are embarking upon those commercial activities of  
25 restructuring a business, making it more efficient and

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1 more productive. We're doing that right now. We  
2 started that in March of '93 so that by the time that  
3 if privatization does occur it is more of an ownership  
4 change than a philosophy, cultural or procedural  
5 changes. We're putting those things into place now to  
6 create value in this corporation and we're doing it,  
7 I think, in a pretty careful way.

8 I have to emphasize too that we are very,  
9 very concerned, and I personally have expressed this  
10 to a number of different audiences and to the plant  
11 itself about the importance of public safety and  
12 health. I think it's short-sighted to make shortcuts  
13 in that, because we're going to have to pay for it  
14 later on in the future, so that whatever we do is  
15 going to be done with a great deal of care, a great  
16 deal of recognition of what is important, not only to  
17 run the plants carefully, but we're in a business.  
18 We're enriching uranium. We have cylinders of uranium  
19 hexafluoride out in the fields and we're in the  
20 nuclear environment here.

21 We are establishing our reputation today,  
22 and, like anybody who is new on the block, it's best  
23 to have a good reputation up front as opposed to  
24 trying to fix it in the future, and that's one of the  
25 basic principles that this management has put into

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1 this corporation. You can only lose your reputation  
2 once and we're very, very conscious of running a sound  
3 operation but one that is predicated on the good  
4 principles of running it safely in terms of the public  
5 health and safety. This is not just something I say  
6 here, but it's something that I've been saying myself  
7 for the past 20 months.

8 CHAIRMAN SELIN: Would you see the  
9 privatization as a Conrail kind of privatization where  
10 you really slim things down before you go public?

11 MR. TIMBERS: Yes.

12 CHAIRMAN SELIN: Not a savings and loan  
13 bail-out where you turn the mess over to somebody  
14 else?

15 MR. TIMBERS: No, because I think my --  
16 what I have been asked to do as running this  
17 corporation is to increase value to this corporation  
18 and its operations, and that's so as to maximize the  
19 value of the corporation to the Treasury, which is the  
20 shareholder today. In order to do that, I think the  
21 best way to do that is to have an efficient well-run  
22 organization so that the time that privatization  
23 occurs that all the benefits have been realized and  
24 can be realized in terms of the value of the  
25 corporation and the price that could be realized from

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1 it. Otherwise, I would think that that would be  
2 leaving value on the table that could be realized by  
3 shareholders in the future and I think that that would  
4 not be giving the best kind of work and effort into  
5 what basically the Congress and the Administration has  
6 asked us to do.

7 CHAIRMAN SELIN: Well, you must be a great  
8 public servant, Mr. Timbers, because most people who  
9 take on that job have a lot more compensation that  
10 goes with doing it. It's a very, very tough job that  
11 you've taken on. It's always hard to do just what you  
12 describe.

13 MR. TIMBERS: But I will say that the  
14 rewards are from a standpoint of taking a business  
15 that has been operating within the government gamut  
16 for 40 years and having been given the authority by  
17 the President and by the Congress to turn this thing  
18 around, run it as an efficient operating business and  
19 see if the assets of the government can be maximized  
20 for a sale. That's a unique situation that comes  
21 around in this government and I think that it's an  
22 opportunity. If it's done right, it can be a  
23 precedent for many other activities within the  
24 government so that we're running not just this  
25 government entity here, but I think that it has a lot

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1 of repercussions in the future as well.

2 CHAIRMAN SELIN: I'd like to make just one  
3 other remark. We operate in the private sector in a  
4 very complex environment. Cause and effect is pretty  
5 hard to ascertain, so correlation is usually the best  
6 that we can do.

7 Before you came on board, there seemed to  
8 be just hundreds of problems that were going to come  
9 up in doing the certification process. I have to say  
10 that once you became putative and then actual CEO of  
11 the USEC, not only have relations been smooth, but the  
12 work has been very smooth, so it's almost certain that  
13 you're due this credit and we're happy to acknowledge  
14 this.

15 Thank you for coming. We look forward to  
16 keeping in touch with you regularly. Maybe next time  
17 you'll have some numbers to go with some of these  
18 discussions about, you know, demand and manpower and  
19 things like that. So, thank you for appearing,  
20 especially on such short notice.

21 MR. TIMBERS: Thank you.

22 COMMISSIONER ROGERS: Thank you very much.

23 (Whereupon, at 10:58 a.m., the above-  
24 entitled matter was adjourned.)

25

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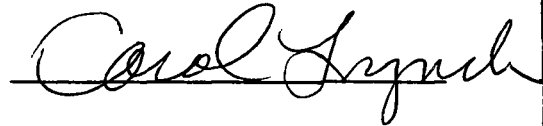
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