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Remarks by
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Good morning ladies and gentlemen. I am delighted to be here today to provide my view of the future of nuclear energy. Within the nuclear industry, there exists an opportunity today unlike any other in the history of NRC-industry relations. I would like to explain to you my views and challenge you, the pacesetters for your industry, to seize that opportunity.

This opportunity lies in the fact that several forces have converged to open the way for industry to develop a new, more cooperative relationship with the NRC and to reap significant benefits from such a new relationship.

When I appeared before you three years ago I invited you to see the economic benefit of significantly improved reactor operations and how excellence in operating safety leads to reduced operating and maintenance costs. I am happy to say that the industry responded well to that invitation. Our evaluations of industry performance, as well as industry's own indicators, clearly show that operating plant safety is at an all-time high. The number of plants with which we have significant safety concerns has decreased steadily. Our watch list today is comprised of only two plants, and one of those is showing a positive trend toward removal. Furthermore, the number of plants with SALP 1 performance in all areas has approximately doubled in the past few years. Many of you who lead the industry in operating performance also lead the industry in low cost -- clearly demonstrating that good operations contribute to sound finances.

Such positive performance by the industry allows me to place before you a new and more strategic challenge. I would like to challenge you, the industry Presidents and CEOs, to see the value

of leading your companies and industry organizations from the top to establish and work in an improved regulatory environment.

THE FUTURE ENVIRONMENT

Before I expand on this challenge and its benefits, I'd like to describe my view of the environment in which the nuclear industry and the NRC will need to co-exist better. This environment is shaped by at least three forces: the changing regulatory activities at the NRC, the changing Federal Government, and the changing utility business climate.

Regulation at the NRC is undergoing significant change. Design certification efforts are slowing, and Watts Bar 1 is likely to be the last reactor to commence operation this decade. As a result of these factors, the NRC will soon find itself without significant resources committed to reactor design review, construction inspection, or initial plant licensing. As utilities are faced with the need for capital improvements, more decisions will be made regarding early decommissioning or license renewal, and these activities will require a substantial shift in NRC resources. Additionally, I am convinced that aging issues are likely to continue to arise at operating reactors, requiring significant licensee actions and NRC reviews. All these issues will provide new challenges and new opportunities for the industry to become more efficient by working cooperatively with the NRC.

Unfortunately, our record of cooperation is mixed in many of these areas where I see future NRC activities. For example, as I review how we have handled generic aging issues in the past, I am convinced that the industry may continue to experience difficulties if the NRC and industry cannot improve their relationship. We must learn a lesson from our past errors, such as in the handling of motor-operated valve issues, and our successes, such as in the handling of BWR internals cracking issues. The lesson is that effective resolution requires an early scoping of the problem along with prompt corrective actions by industry and the NRC working together. Without positive industry leadership, generic issues are left to be pushed by the NRC alone. This has often resulted in overly-prescriptive requirements, delay in reducing risk, and unnecessary industry and NRC expense. To gain the optimum benefits in efficiency and safety, the industry must move toward more cooperation with the NRC when generic issues first emerge.

Certainly, the last two years have brought major changes in the Federal Government, and with them, a drive for regulatory efficiency. The NRC was working with industry to streamline regulations before streamlining became fashionable, and the staff has done an excellent job of identifying and implementing improvements. However, though our progress on site-specific

measures has been significant, many opportunities remain available to make generic improvements in the way we regulate reactors.

But current moves to reform regulations are driven by the desire for greater efficiency, not by safety concerns. Our current regulations, prescriptive though they may be, have proved effective in protecting public health and safety, and would continue to do so without reform. Therefore, although there is a benefit in these reforms, it is not a health and safety imperative, and the NRC does not have the authority to impose them on its own. The industry must keep in mind that these changes are intended to simplify licensees' jobs and reduce costs -- therefore they rely on active industry cooperation for success. Furthermore, as we pursue regulatory reform, we will insist that it be accomplished without compromising our past joint successes in reactor safety.

The maintenance rule is an excellent example of new rulemaking using this cooperative and results-oriented approach. Recognizing that our regulation of plant maintenance was deficient, we developed a simple rule requiring licensees to set goals and establish programs for maintaining safety system reliability. Then we proceeded to work with industry to define acceptable ways to meet these goals, leading to the publication of a regulatory guide as a joint NRC-industry product. We are now seeing that licensees with good maintenance programs can satisfy the new requirements with only minor changes. I believe the rule will achieve its goal of ensuring that effective maintenance programs are in place to protect public health and safety without being overly prescriptive as to the nature of those programs. I expect that we will continue this approach in areas such as fire protection, inservice inspection, and quality assurance. The success of these efforts hinges on how the industry works with us to prioritize and implement these initiatives and to identify additional areas for regulatory reform. I believe we have just scratched the surface of the potential for regulatory reform.

The forces changing the Federal Government have also affected the nuclear industry in ways outside of NRC-regulated areas. I know that as officers of your utilities, much of your time these days is occupied by dealing with a new emerging business climate brought on by changing economic regulation. Electric utilities face a prospect of large financial unknowns. These unknowns take many forms, but all result in pressure to control both capital costs and operating and maintenance costs.

This financial climate may affect the NRC's relationship with industry in several ways. Financial pressures are leading utilities to face major licensing decisions today that in the past most of the industry thought would not have to be made for

decades. These decisions include whether to shut down plants prematurely due to high operating costs or the high costs of needed capital improvements; they include possible early consideration of license renewal in order to spread the cost of capital investments. For decisions reached on these issues to be implemented successfully, the NRC and utilities must work efficiently together to process license renewals or to plan and execute plant decommissionings.

Also, although safety regulations are not the source of the most significant costs at power plants, they can be an important factor. In seeking to reduce costs, new motivations can be found for licensees to pursue the regulatory reforms I have earlier described. The focus of these reforms again is to reduce costs and provide stability without sacrificing our successful safety record.

THE INDUSTRY'S ROLE IN FUTURE REGULATION

Let's finally discuss the challenge and opportunity that lies before the nuclear industry in light of these factors. Within the context of the future environment I have described, it is in the industry's best interest to improve its relationship with the NRC. For several years we have been successful in establishing a licensee-regulator relationship that is respectful of each others' goals, mostly cooperative, and open to public scrutiny. That relationship now needs to take additional steps forward in the area of cooperation.

In order to gain the most from the future environment, industry must shed the notion that the NRC is an adversary opposed to industry goals. Improvements in operating plant safety performance allow us to move beyond this point, from adversarial to cooperative. This shift in thinking needs to be driven by you, the leaders of your companies and the industry in general, down through every level of your organizations that are involved with nuclear energy. Additionally, the leaders of the industry can aid this process by guiding their organizations into a new relationship with the NRC. Let me detail a few examples of past efforts and specific future opportunities.

I previously mentioned the maintenance rule as a positive example of NRC and industry cooperation in performance-based regulation. Those from NEI who led the effort to work with us on the regulatory guide deserve to be commended for their efforts.

The shutdown rule is an area in which industry currently has before it a similar opportunity to work with the NRC. We have concluded that the originally proposed rule was too prescriptive. As a result, we are now preparing a more flexible rule and plan to place the details into an accompanying regulatory guide. Both

the industry and the NRC will benefit if we can work together to develop the regulatory guide as we did on maintenance rule.

The license renewal rule is another example of a significant improvement in regulations that was accomplished when the industry and the NRC recognized the need and worked together to accomplish necessary changes. There is much to be gained in the future if industry leadership is strong in establishing working groups and common alliances in pursuing renewal activities with the NRC.

As I suggested earlier, an area which provides significant opportunities for improvement in NRC-industry cooperation is in anticipating generic problems and in solving them early. I might point out that this was also one of the findings of the Towers-Perrin study - three-quarters of the written survey respondents stated that the NRC and industry did not work effectively and efficiently together to resolve important generic issues. This need will become increasingly acute as the universe of regulated reactors gets older and more generic issues emerge.

One example of how <u>not</u> to deal with emerging issues and problems was the issue of motor-operated valves. When confronted with the problem, the industry's response was to deny its existence without investigation, forcing the NRC to spend much time and resources to prove the problem's existence. Later, when the NRC was able to show that its concern was valid, both of us found ourselves in a position where a safety issue had been known for several years, but corrective action had not yet been taken. A similar pattern has sometimes been seen in the way the industry has handled steam generator tube issues and BWR level instrument problems. When generic problems such as these are not addressed promptly and fully, both the NRC and the industry find themselves under justifiable criticism. Additionally, unnecessary financial and organizational resources are often required to deal effectively with such long-festering problems.

On the other hand, the problem of cracking of BWR internals stands as a positive example of industry and NRC cooperation in a generic problem. I believe the BWR Owners' Group was appropriately aggressive in reviewing the issue, defining the problem, planning corrective actions, and implementing repairs. As a result, this safety issue is being addressed effectively by licensees working together through owners' groups and with us as regulators. Both the NRC and the industry must continue this approach on future generic issues: anticipate the problem, determine its scope without delay, and provide quick and effective solutions.

Another area in which industry leadership can drive cooperation is in Standard Technical Specifications. Licensees frequently underestimate the benefits of this option because

their analysis is too narrowly focused on implementation costs. Executives should clearly see that adopting Standard Technical Specifications is not only a question of direct financial benefits to on-site organizations. They also allow NRC project management resources to be reduced, resulting in savings that are then passed on to licensees in the form of reduced license fees. Additionally, with Standard Technical Specifications many facility changes could be accomplished under 10 CFR 50.59 without prior NRC approval and without the need for license amendments. Finally, if enough plants adopted Standard Technical Specifications, this would offer the NRC a more uniform basis for a consistent approach with regard to inspection and compliance. When all these factors are considered, I believe adopting Standard Technical Specifications becomes an excellent licensing decision, and I urge more licensees to take advantage of this opportunity.

In general, I believe that there is much to be gained whenever utilities join in cooperative efforts with the NRC on issues and initiatives. For the new regulatory environment to function optimally, strong industry leadership in fostering a new cooperative relationship would be invaluable.

I have attempted briefly today to provide you with a vision of the future regulatory environment and the opportunities it presents. Until recently, the NRC's role has been to push licensees to an acceptable level of safety performance. Now, almost all licensees are there, and our goal becomes one of maintaining performance. Furthermore, the NRC is being driven by many internal and external factors to pursue efficiency in regulation. These will succeed or fail based on the scope and nature of industry participation. Additionally, with the aging population of reactors before us, the industry will continue to struggle in the resolution of generic issues unless significant improvements are made in how we work together to solve generic problems.

I leave you now with the challenge to make the most out of these opportunities by exerting the leadership to redirect your organizations' fundamental relationships with the NRC. I believe that if you are successful and the NRC-industry relationship takes on a new dimension, future efficiency and stability will be your rewards. And throughout all these changes, we must all certainly maintain the outstanding past safety accomplishments for which the industry can justifiably be proud.

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