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Tel. 301-504-2240

REMARKS BY
IVAN SELIN
CHAIRMAN, U.S. NUCLEAR REGULATORY COMMISSION
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I would like to spend a few moments this morning discussing my thoughts on what must be done to establish an environment that can support the continuation of, and perhaps even a renaissance within, the nuclear industry. Before there can be any serious consideration of new growth in the nuclear industry, there must be an increase in trust between the public and the utility industry. While this does not necessarily mean acceptance of or agreement with industry actions, it does mean that there must be procedures for public input into the decision-making processes.

For the nuclear option to be revitalized, along with an increased sense of trust, the American public will demand that four issues be addressed. First, the issue of nuclear waste -the ultimate NIMBY. Progress in this area is essential. Growth will not occur until a solution for high level waste disposal is found. Second, there must be an increase in electricity conservation. Attention to demand side management will be required. Third, operational efficiency and other supply side management techniques will need to continue to be improved, even though 1991 was a very good year for the industry's capacity factor. Finally, current nuclear investments will have to be pushed as far as is safe and economical. Examples could include the full use of current facilities, perhaps through license extension and the cost-effective completion of partially built facilities. It is my view that only when all of these expectations have been met will any serious consideration of constructing new nuclear power plants be possible.

I would be remiss if, at this time, I did not reiterate my number one priority as Chairman of the NRC: the safe utilization of nuclear materials and the safe operation of all nuclear reactors. The NRC's principal responsibility, as a regulator, is to help assure that existing power plants are operated safely. However, this assurance of safety is not just the NRC's responsibility. Indeed, it is the first and foremost responsibility of each and every utility licensed to operate a nuclear power plant; it is the responsibility of each and every person who works at, or for, a nuclear facility; it is the responsibility of the entire nuclear industry, including its economic regulators.

This morning I want to focus on how safety is related to financial health. I believe that America's utilities will be both safe and financially successful if three conditions are met. First, utilities must have solid and predictable cash flows. Second, utilities must have good, sound, and efficient operations. Third, utilities must have both safety and ratesetting regulators who understand the financial structure of those whom they regulate and appreciate the impacts that they, as regulators, can have on financial health.

A utility without a solid and predictable cash flow is of great concern to all of us. This does not mean that a utility experiencing financial difficulties should have its operating licenses immediately revoked and its power plants shut down. Our concern is based more upon the long-term implications that inadequate cash flows can have.

Over the past six months, I have visited 20 nuclear plants in the United States and nine in western and eastern Europe. During these visits, I have discussed capital expenditure programs, O&M (Operating and Maintenance) budget allocations, and the financing options that these utilities have available. I have noticed that those utilities considered to be good safety performers generally have a dedicated and planned program of capital re-investment for their plants. They recognize the value of their capital assets and actively work to ensure that these interests are protected and remain strong.

On the other hand, the facilities considered to be poorer performers seem to have more sporadic capital investment strategies. Graphs of their capital investment history resemble roller-coasters -- up and down, back and forth. The physical plant forces management into making decisions reactively, whereas management should be implementing programs proactively to preempt problems and maintain effective and efficient plant conditions.

My second point is one that I believe deserves special emphasis: Sound and efficient operations are directly related to safety. Plants considered to be the best economic performers are, by and large, the same plants that are committed to safe and prudent operations. This apparent contradiction, safety and prudence correlating with efficiency and cost-effectiveness, if reviewed closely, is not a surprise. An economically successful plant must be well-designed, well-built, and properly maintained. If the plant's design and construction do not support optimal operation, if the plant is not maintained so that it can generate as much energy as possible, it cannot maximize revenues.

The staff must be qualified and well trained. If they can't conduct normal plant operations and minimize the effects of abnormal operating conditions -- if they can't recognize when to shut down the plant rapidly to preclude unnecessary damage to equipment (or strong NRC actions) -- then, the plant will not be able to sustain long-term operations. Finally, management must be farsighted and creative and the entire workforce must be committed to quality. If management does not instill a sense of pride and commitment within the workforce -- if it doesn't provide the facilities and incentives necessary to support effective and efficient operations -- if the entire organization is not committed to operating the plant in the best manner possible -- then, the facility will lose its direction and drive, and become a liability to the owners. In sum, I see that those attributes which are key for an operationally safe facility as being the very same attributes needed for financial success!

This brings me to my third point. No regulator -- federal, state, or local -- can be responsive to the utilities they regulate nor to the American public they serve if they do not fully understand the financial operations of the companies they oversee. Responsible regulation cannot be conducted unless both the short-term and long-term ramifications of decisions are thoroughly considered. Neither the industry nor the regulators can afford to let generating capacity become inadequate due to decisions which serve the immediate concerns of interest groups while not serving the overall interests of the public. Neither the industry nor the regulators can allow stagnation to occur by encouraging or requiring power plants to operate with out-dated or inefficient equipment when more modern, more efficient, environmentally superior investments can be justified both on safety and economic grounds. Neither the industry nor the regulators can afford to lose sight of the fact that decisions concerning the health and safety of the public can be undercut by unwise economic decisions.

Where--new construction is concerned, perhaps utilities can settle both their safety issues and their rate-setting issues at the earliest feasible time with information developed through a single process. Such a process could allow a utility to significantly reduce the uncertainties associated with the immense capital expenditures required for modern construction projects. There seems to me to be a synergy in obtaining a safety determination from NRC and a prudence finding from state regulators early on, using a coordinated review process. Both the NRC and the ratesetting commissions require that four questions be answered: First, does the electrical demand justify this construction project? Second, is nuclear an efficient and effective option? Third, is the overall capital plan justified and appropriate? And fourth, was the plant built as it was promised, both from a safety and a financial viewpoint?

The NRC's Part 52, issued in 1989, has streamlined the

entire process by which nuclear plants will be licensed in the future. The changes brought about by this regulation will enable the NRC to certify standard designs and grant combined licenses for the construction and operation of nuclear facilities.

To certify a standard plant design, the NRC must make an integrated safety determination on the underlying design of the plant. This requires that

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the NRC staff be provided details on the whole plant, not just data on the function of various systems or specific components. The submitted design will have to be complete, and a detailed set of "milestones," called generic ITAAC (Inspections, Tests, Analyses and Acceptance Criteria), will be needed so that we and the licensee will be able to verify that the design is implemented as planned. At this point, the Design Certification, the public's concerns about generic design safety issues will be addressed. It is important to have the public's full participation and input at this early stage of the proposed project.

The utility's application for a combined Construction Permit/Operating License (COL) supplements this process. To get a COL, the applicant will have to address the siting and environmental considerations, including all facility-specific issues and provide the facility-specific ITAAC to be met during construction. In particular, the applicant will have to prepare an Environmental Impact Statement (EIS). Once this is properly done, and if the case is persuasive, the next step will be to build the plant.

During facility construction, the ITAAC concept, those "milestones" that I just mentioned, will allow the licensee to demonstrate in an objective manner that the as-built plant complies with the certified design and the Construction Permit. Since the certified design and ITAAC will have already been approved by the Commission, if the plant meets the ITAAC criteria, there should be little left for a utility to do to obtain NRC approval to operate the plant. Public participation, at this time, would be limited to questioning whether the as--built facility meets the approved design and permit conditions.

Thus, a predictable licensing process would exist and it would have been accomplished early on. The process, nevertheless, must be responsive and accountable to the public in that the conformance of the as-built plant to the certified design and the combined construction/operating license would have to be demonstrated through ITAAC.

Let's take another look at the key elements of this process. The NRC, through design certification, resolves safety questions in depth before a plant is built. Through the ITAAC process, the

agency confirms that these resolutions have been properly included in the as-built plant before operation is authorized. However, as I mentioned earlier, during the initial portions of the facility-specific licensing process, the agency also requires the preparation of an EIS. Part of the EIS addresses the economic appropriateness of building a nuclear power plant as compared to pursuing other forms of energy generation. Now, it seems to me that the economic information required in the EIS would be appropriate, and most likely adequate, for use by Public Utility Commissions (PUCs) in making their decisions concerning the prudence of the plant's design and the inclusion of capital costs in the rate base.

In particular, PUCs could separate prudence issues into two questions: (1) At the design stage, are the intended costs of new plants justified? and (2) After construction, did the actual costs square with the budgeted (intended) costs? The NRC's streamlined process -- develop a complete plan, then monitor actual construction against that plan -- could allow prudence questions on intended, or budgeted, costs to be addressed before construction begins.

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Of course, in-process issues such as project management effectiveness, cost overruns, and design modifications would require subsequent consideration, but the base-line decision as to whether the plant should be constructed and whether the initial cost estimate seems appropriate could be agreed to, up front.

In short, I'm suggesting that with a common regulatory regime and a coordinated review process, the utilities, the ratepayers, and the public would be better off making this decision early on. The decision would be made by combining the regulatory predictability established through the implementation of the Part 52 process with the accompanying assurance of early prudence determinations by local PUCs.

A simple idea -- not a unique concept. Get all of the different regulatory agencies in agreement as to what the need is, and the proper way to address this need, before a utility invests millions or billions of dollars. The principle of equity supports public utility commissions making prudence decisions prior to significant capital investments by utilities; and, the principle of efficiency supports using the safety information required by the NRC in making this determination.

Perhaps the financial considerations I have expressed seem novel, coming from a Chairman of the NRC. I would suggest not. This philosophy does not reduce, in the least, the NRC's commitment to assuring public health and safety. The Commissions's commitment to the safe operation of nuclear power plants is not diminished and remains paramount. Instead, I am suggesting the expansion of the concept of safety beyond

previously defined, narrow boundaries. I am proposing a coordinated decision-making approach to safety and economic regulation, one that would consider both the physical and the fiscal well-being of the public and the utility industry at the same time.

I appreciate your time and consideration this morning. I hope that my thoughts will bring about some reflection and generate some creative thinking within the regulatory arena.

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