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Good morning. I am pleased to be here today and to have this opportunity to share my thoughts and impressions after my first year as Chairman. As you may remember, I started the year by focusing on several areas -- I referred to them as "One Plus Four." They included operational safety, high level waste management, license renewal, licensing reform, and design standardization. While you all have heard me address these issues on other occasions, I would like to summarize my thoughts on these areas after this first year.

The first priority of the entire nuclear industry is to operate the country's nuclear reactors safely. As good a job as the licensees and the NRC have done and are doing, this has to remain the number one priority. There is no reason for becoming lethargic or complacent. We have seen operations continue to improve -- and with no apparent conflict between operational safety and economic efficiency. This is a tribute to the competence and dedication of the nuclear utilities, the NSSS vendors, and, I believe, the NRC staff.

While there has been operational improvement over the past year, one area that I feel still needs attention is improving the public's trust and belief in the nuclear industry and the NRC's regulation of it. Alexander Dubcek, in commenting on the '68 revolution in Czechoslovakia, said, "We began to trust the people and then the people began to trust us". I believe that is where the nuclear industry, the NRC, and the public are today. We need to trust each other enough to foster an open exchange of views. Over the past year there have been many examples of this precept. Most notably, in the Yankee Rowe case, a public interest group brought forward their concerns, and both the NRC and industry stopped to listen. While the final result was controversial, the

process followed was both necessary and proper. The Commission is dedicated to making NRC activities open and listening to opposite points of view. This does not mean there will always be total agreement between ourselves and our critics, but it does mean that there will be an open process and genuine consideration of input into the decision-making.

Open and appropriate communications, however, are not limited to interactions with the public. Communicating with the individual utilities and the industry is also important and is emphasized by our Systematic Assessment of Licensee Performance (SALP) program. SALP is one of the most important means our agency has of periodically apprising you, the nuclear industry, of how your performance looks to us. I realize SALP ratings cause controversy. They are used, and sometimes misused, by intervenors, the media, and economic regulators. For that reason, it is important that the score be fair, accurate, and impartial.

The NRC staff has been reviewing the SALP process during the past months and is examining procedural changes and refinements to the process. The issues under consideration include reducing the number of SALP categories from seven to four, improving the convergence between SALP ratings and the "reality" of reactor safety, and providing more interaction between the Regional and Headquarters senior management to ensure consistency and coherence in the process. Whatever changes the staff may eventually propose, I can assure you that before the changes are implemented, the regulated community and members of the public will have the chance to make their views known.

Improvements in operations should generate improvements in overall efficiency and plant capacity factors. From the vantage point of an interested observer, rather than that of a regulator, it seems clear that if new nuclear plants are ever to be built, the public will expect some preconditions. For instance, the industry must become as efficient as possible, with the proviso that increases in capacity factors must be consistent with safety considerations. As prudent managers, you may see the need to reexamine the status and economic feasibility of completing partially constructed sites. In addition to increased efficiency, there must be an aggressive effort in electricity conservation and all demand side management potential. I believe it may be difficult to renew old licenses or approve new licenses until the public is convinced that all reasonable avenues for conservation have been considered.

Once trust has been improved and safety has been demonstrated, longer term technical issues can be addressed. I believe the public will be more willing to address the issue of plants operating beyond their current 40 year license, especially if the component aging and environmental issues have been

reviewed and addressed in an appropriate manner. The Commission issued its final license renewal rule in December 1991. The NRC staff worked long and hard to develop the regulatory framework for license renewal and is now working on how to implement the rule. When completed, this regulatory framework will be used during the review of all license renewal applications. Let me repeat that the NRC is fully committed to the license renewal process and stands ready to work with any licensee who wants to proceed with license renewal, even in the face of the practical problems you have raised with me in the past.

Beyond making current plants more safe and efficient and extending their operating lives, we also need to be ready to license the next generation of nuclear power plants. While I can not predict a near-term renaissance of power plant orders, I am confident that some construction will occur in the next few years. To support this, the Commission has long sought nuclear power plant standardization and a more predictable, stable licensing regime. This effort culminated in the promulgation of 10 CFR Part 52 and the more recent vote on H.R. 776 in the House. As you know, H.R. 776 endorses essentially the same nuclear licensing reform legislation as the Senate previously approved. Our regulations and the Congressional legislation will provide an environment that is good for all parties. The industry will obtain a more predictable licensing process in which uncertainties are resolved early on. This process will have a statutory foundation as well as a regulatory one. The NRC will have a vehicle to license plants in a one-step process. The public will still have the right to participate and to provide meaningful input to the licensing process, and will benefit from having a full design and a complete construction and operations plan available before licensing.

However, plans for renewing current licenses and issuing licenses for new plants may be academic if a solution to the high level waste disposal question is not assured. Toward this end, the NRC has been working with the Department of Energy, the Environmental Protection Agency, the State of Nevada, and public interest groups to develop standards for a disposal site. We have made and are continuing to make progress on the multi-faceted issues associated with choosing and licensing a site. In this area, as with nuclear power plants, building public confidence and ensuring appropriate state participation in the regulatory process are critical. The progress is slow.

I have given you a brief summary of those areas that seemed to me last July as being priority considerations. Obviously, over the past year, I have refined my initial observations. This has allowed me to expand my thoughts to areas which will need NRC follow-up. I would like to discuss one such area with you, namely financial considerations. I believe I can provide some focus and, hopefully, assuage some misgivings.

We have identified a continuing increase in Operation and Maintenance (O&M) costs in the 1970s and 1980s. In part, this was due to significant post-TMI improvements that were implemented. However, the Commission is concerned that in the past we might have inadvertently contributed to this increase by promulgating regulations which resulted in increased O&M costs without a corresponding safety benefit. As Federal regulators, it is our responsibility to both the public and the nuclear industry to require only those measures that reasonably contribute to achieving an adequate level of safety. Once this minimum level is reached, we should demand more only if the cost is justified by appropriate safety enhancements.

The staff is currently examining our regulations and requirements to identify those that may be unproductive from a safety benefit point of view. Any reduction in regulation may also have the added benefit of reducing O&M costs. You can help by taking a broad interpretation of our Federal Register announcement and identifying candidate areas for reduction, along with empirical analysis.

I believe capital investment, like preventive maintenance and other management initiatives designed to avoid unpleasant surprises, should be stable and predictable. I have also been curious whether there is a correlation between capital costs and safe operations. My fragmentary observations are sufficiently interesting that it may be worth asking our staff to do a more complete review of whether there is a relationship between resources and performance.

I look at capital spending like a parent looks at a child and his homework. As long as the child brings home A's, you don't worry about whether the homework is being done. But, when the grades start to slip to B's or C's, then you get concerned with the homework. As long as a plant has a good operating record I do not believe the NRC should become involved in looking at the finances of the utility. But, if in time the NRC sees early indications that performance is starting to slip, we will ask questions as to why. Some of those questions <u>will</u> involve whether the plant has adequate resources and how those resources are being spent. We may consider investment as a possible root cause if problems do arise. We may even condition our actions, such as we did in the Seabrook/Northeast Utilities merger. We want to ensure adequate attention goes to the financial side of running a safe plant.

By the same token, as the regulators, we have a responsibility to explain the effect that economic regulation has on the safe operations of a nuclear power plant. Over the past year we have discussed these issues with state regulators. We have tried to stress the safety significance of predictable fiscal regulation of utilities operating nuclear power plants and

why we believe the industry should strive to move toward an environment that fosters prudent review of rate base cases. Efforts are underway to increase the exchange of information between the state regulators, represented by the National Association of Regulatory Utility Commissioners, and the NRC staff. Utilities need a dedicated and proactive program of reinvestment -- that is your responsibility. To accomplish this, you need predictable and adequate sources of funds -- that is the responsibility of the economic regulators.

Summing up, my overall impression is that the industry was in pretty good shape on July 1, 1991, and is in somewhat better condition on June 25, 1992. However, there have been many areas needing improvement, including plant operations, candor and openness with the public, NRC project management, as reflected in progress on certification of standard designs; and the overall credibility of the industry. To me the top remaining issue is high level waste. We both have our parts to play in making these improvements.