

July 21, 2000

MEMORANDUM TO: Cynthia A. Carpenter, Chief  
Generic Issues, Environmental, Financial  
and Rulemaking Branch  
Division of Regulatory Improvement Programs  
Office of Nuclear Reactor Regulation

FROM: Peter C. Wen, Project Manager/**RA**  
Generic Issues, Environmental, Financial  
and Rulemaking Branch  
Division of Regulatory Improvement Programs  
Office of Nuclear Reactor Regulation

SUBJECT: SUMMARY OF JULY 11, 2000, MEETING WITH THE NUCLEAR  
ENERGY INSTITUTE AND NUCLEAR UTILITY BACKFITTING &  
REFORM GROUP REGARDING COMPLIANCE BACKFIT PROVISION  
ISSUES

On July 11, 2000, a public meeting was held at the Nuclear Regulatory Commission (NRC) offices in Rockville, Maryland, between members of the Nuclear Energy Institute (NEI) and the Nuclear Utility Backfitting & Reform Group (NUBARG), and Nuclear Regulatory Commission (NRC) staff. Attachment 1 lists attendees at the meeting.

The purpose of the meeting was to permit NEI to present its views regarding the intended application of the compliance exception in the backfitting rule (10 CFR 50.109) and to identify what it asserts were inappropriate applications of the compliance exception. This provision allows the staff to impose a requirement on licensees without needing to perform a value-impact analysis if "a modification is necessary to bring a facility into compliance with a license or the rules or orders of the Commission, or into conformance with written commitments by the licensee." During a previous NRC/NEI Senior Management Meeting held on April 26, 2000, NEI expressed a need to understand the staff's interpretation and use of this provision. As a result, this meeting was arranged to provide opportunities for NEI to present its views on this subject.

Before the meeting, NEI sent a draft white paper, "Backfit Rule - Use of the Compliance Exception," to the staff on July 7, 2000. This document describes NEI's understanding of the compliance exception provision of the backfitting rule and was used as a discussion reference during the meeting. This document is available in NRC's ADAMS under Accession Number ML003730562, and is included in this meeting summary as Attachment 2.

The meeting was held in open discussion format. The discussions pertaining to the "compliance exception" issue are summarized as follows:

C. Carpenter

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- NEI's Position on Application of Compliance Exception As Described in Its White Paper

The staff said that it did not intend to comment, formally or informally, on NEI's position as described in the white paper. The staff's current practice is to have the Committee to Review Generic Requirements (CRGR) and the Office of the General Counsel (OGC) review all proposed regulatory actions in order to ensure that the legal requirements of the backfitting rule are satisfied.

- New Technology

The issue of whether or not the staff could require a licensee to use new technology using a compliance exception argument was discussed during the meeting. The staff commented that new technology can be (and is) adopted all the time by licensees. The staff's position is that new technology, by itself, would not be the basis for invoking the compliance exception. However, if the staff determines that a new technology shows that a regulatory requirement is not being met, this would be an acceptable basis for invocation of the compliance exception. The staff generally has asked licensees via generic letter whether licensees plan to adopt the new technology or if licensees believe they are still in compliance using the old technology in light of the new data. In the future, the staff would ask whether industry would address an issue through a voluntary industry initiative, as long as it met the criteria for voluntary initiatives. Appropriate regulatory actions, if any, would be taken after the staff reviews the responses from licensees.

- Voluntary Regulatory Approach

If a licensee is not meeting a commitment, the burden is on the staff to determine whether or not, because of the licensee's inaction, the licensee is not meeting Commission requirements in either the license, an applicable order, or the Commission's regulations.

- General Requirements Cited in the Backfit Discussion

The industry representatives expressed concern that the staff in the past may have relied upon general requirements, such as General Design Criteria and Appendix B to Part 50, as a basis for invoking the compliance exception.

- Clarity of Discussion in Compliance Backfit Documental Evaluations

The industry representatives expressed concern that NRC has not sufficiently identified and explained how backfits met the Commission's intent with respect to the compliance exception to the backfit rule. However, industry did not identify any specific examples during the meeting. NRR staff management indicated that it is their intent to show how compliance backfits meet the Commission's intent for invoking the compliance exception. NRR staff management said that they would look closely at any future compliance exception backfit to be sure that the basis, in particular, how it meets the Commission's intent, is fully explained.

- NRC's New Generic Communication Program

Since June 1999, the staff has implemented a new generic communication program. The new program guides the staff to engage with the nuclear power industry in the early stages when an emergent generic issue arises. Through close dialogue between the staff and the nuclear industry, the concern of misusing the compliance exception provision in the backfitting rule can be reduced or eliminated. The representatives of NEI acknowledged the staff's improvement in this area of the generic communication process.

Representatives of the NRC and the industry agreed that this meeting had been useful for the exchange of information on this subject.

Project No. 689

Attachments: As stated

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cc: Mr. Ralph Beedle  
Senior Vice President  
and Chief Nuclear Officer  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

Ms. Lynnette Hendricks, Director  
Plant Support  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

Mr. Alex Marion, Director  
Programs  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

Mr. Charles B. Brinkman, Director  
Washington Operations  
ABB-Combustion Engineering, Inc.  
12300 Twinbrook Parkway, Suite 330  
Rockville, Maryland 20852

Mr. David Modeen, Director  
Engineering  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

Mr. H. A. Sepp, Manager  
Regulatory and Licensing Engineering  
Westinghouse Electric Company  
P.O. Box 355  
Pittsburgh, Pennsylvania 15230-0355

Mr. Anthony Pietrangelo, Director  
Licensing  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

Mr. Jim Davis, Director  
Operations  
Nuclear Energy Institute  
Suite 400  
1776 I Street, NW  
Washington, DC 20006-3708

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Harry Tovmassian

Joe Murphy

Stuart Treby

Geary Mizuno

Roger Davis

Maria Lopez-Otin

MSatorious, OEDO

OPA

**COMPLIANCE EXCEPTION MEETING  
LIST OF ATTENDEES  
July 11, 2000**

<u>NAME</u>	<u>ORGANIZATION</u>
Brian Sheron	NRC/NRR/ADPT
Jon Johnson	NRC/NRR/ADIP
Dave Matthews	NRC/NRR/DRIP
Tad Marsh	NRC/NRR/DRIP/REXB
James Lyons	NRC/NRR/DRIP/REXB
Eric Benner	NRC/NRR/DRIP/REXB
Joe Birmingham	NRC/NRR/DRIP/RGEB
Harry Tovmassian	NRC/NRR/DRIP/RGEB
Peter Wen	NRC/NRR/DRIP/RGEB
Joe Murphy	NRC/RES (CRGR)
Stuart Treby	NRC/OGC
Geary Mizuno	NRC/OGC
Roger Davis	NRC/OCM/NJD
Maria Lopez-Otin	NRC/OCM/NJD
Alex Marion	NEI
Dave Modeen	NEI
Bob Bishop	NEI
Sheldon Trubatch	NUBARG
Patricia Campbell	NUBARG
Donald Woodlan	TXU Electric
Marcia Lesnick	Com Ed
Ed Wenzinger	NUS
Nancy Chapman	Bechtel

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**DRAFT**

**BACKFIT RULE**

**USE OF THE COMPLIANCE EXCEPTION**

**July 2000**

# DRAFT

## BACKFIT RULE

### USE OF THE COMPLIANCE EXCEPTION

#### Background

In 1985, the NRC revised its regulations governing nuclear power plant licensees "to establish standards and an agency discipline for future management of backfitting of power reactors."<sup>1</sup> The Commission's position was codified in 10 CFR 50.109, *Backfitting*. The backfit rule requires that the NRC conduct a systematic and disciplined review of any proposed rule or new or changed regulatory staff position to ensure that it meets one of three criteria.

To justify imposition of a backfit, a cost-benefit analysis must be performed to demonstrate that the proposed backfit will achieve a "substantial increase in overall protection" of public health and safety and that the direct and indirect costs of implementation of the proposed backfit are justified in view of the substantial safety benefit that will result. The Commission's intent in this regard in the 1985 backfit rule is pertinent:

The standard against which proposed backfits would be measured is stated in § 50.109(a)(3) as "substantial increase in the overall protection of the public health and safety or the common defense and security." Substantial means "important or significant in a large amount, extent, or degree." Under such a standard the Commission would not ordinarily expect that safety improvements would be required as backfits which result in an insignificant or small benefit to public health and safety or the common defense and security, regardless of implementation cost. On the other hand, the standard is not intended to be interpreted in a manner that would result in disapprovals of worthwhile safety or security improvements, having costs that are justified in view of the increased protection that would be provided.<sup>2</sup>

The backfit rule provides two exceptions – where the regulatory action is necessary to provide the minimum level of "adequate protection" required by the Atomic Energy Act, or where it is necessary to bring a licensee's facility into compliance with its license, written commitments or the Commission's regulations (the "compliance exception").

<sup>1</sup> 50 Fed. Reg. 38097, September 20, 1985. Final Rule, *Revision of Backfitting Process for Power Reactors*. Reversed on other grounds, *Union of Concerned Scientists v. NRC*, 824 F.2d 108 (1987). The backfit rule was revised in response to the court's decision and reissued as a final rule effective July 6, 1988, 53 Fed. Reg. 20503 (June 6, 1988), and subsequently upheld by the court in *Union of Concerned Scientists v. NRC*, 880 F.2d 552 (1989).

<sup>2</sup> 50 Fed. Reg. at 38102.

### The Compliance Exception

There have been numerous instances where new requirements have been imposed where the compliance exception has been cited as the basis for satisfying the requirements of the backfitting rule. It appears that the compliance exception frequently has been cited because neither of the other two criteria of the backfit rule – adequate protection or cost-justified substantial safety enhancement – can be satisfied for a new requirement or position that the NRC staff wants to adopt. In its justification to rely on the compliance exception, the NRC staff points to a very broad statement in regulation, and the staff then argues that the proposed new agency position is meant to accomplish what that regulation always intended.

The misuse of the compliance exception to the backfitting rule defeats the fundamental policy behind the backfitting rule. When the NRC promulgated the current backfitting rule in 1985 (and amended it in 1988), the Commission intended to promote greater regulatory stability so as not to require licensees to continually update their facilities to conform with any and all new developments or new ideas for improving the operation of nuclear power plants. The rule is structured to allow imposition of only those new requirements or NRC staff positions that offer substantial safety benefits for the costs involved in implementing the changes at existing facilities, unless required for adequate protection or compliance with existing regulatory requirements, the facility's license, or written commitments.<sup>3</sup> If new positions are routinely imposed under exceptions to the rule without the requisite cost-benefit analysis, the instability that led to the need for the backfitting rule will be created again. As the Commission recognized when it promulgated the backfitting rule in 1985, a proper cost-benefit analysis of proposed new initiatives will promote regulatory stability and overall safety by ensuring that only cost-justified, substantial safety enhancements are mandated and that they are assigned a proper priority and scheduled for action in view of existing licensee activities.

### Analysis

The fundamental purpose of the backfit rule is to require that a disciplined review be conducted of any proposed regulatory action that would impose new requirements on licensees. As the Commission observed in promulgating the 1985 rule, “[s]afety and sound management require that analysis precede imposition of a new or modified regulatory requirement or staff position.”<sup>4</sup> By its express terms, the backfit rule applies equally to NRC consideration of a proposed rule, a proposed generic communication, or any other regulatory mechanism sought to be used by the NRC staff to impose new requirements or to articulate a new NRC staff interpretation or position.

In the section of the backfit rule as promulgated titled *Supplementary Information*:

<sup>3</sup> 10 CFR 50.109(a)(3), (4).

<sup>4</sup> 50 Fed. Reg. at 38101

*Commission Position*, the Commission observed:

"Because there must be safety reasons for the agency to impose any changes to a regulatory requirement or a staff position, applicable to a licensee, because the safety consequences are unknown until analyzed, and because the Commission should fully understand the effects of a proposed backfit before its imposition, it is of little consequence how a backfit is imposed."<sup>5</sup>

This statement is clearly intended to ensure that the type of regulatory mechanism (e.g., proposed rule, generic communication, branch technical position) does not determine the backfit rule's applicability. The backfit rule applies to any proposed rule or position that the NRC is considering imposing on Part 50 licensees.

Additionally, whether the potential regulatory action under consideration is recommended by the NRC, an NRC licensee, or a member of the public is not material. The discipline of the backfit rule applies, regardless of the initiating source.

Turning specifically to the proper application of the compliance exception, the Commission's discussion of the compliance exception to the backfit rule provides clear guidance relevant to the rule's intended use:

The compliance exception is intended to address a situation in which the licensee has failed to meet known and established standards of the Commission because of omission or mistake of fact. It should be noted that new or modified interpretations of what constitutes compliance would not fall within the exception and would require backfit analysis and application of the standard.<sup>6</sup>

The compliance exception was intended to address situations where a licensee did not meet explicit requirements. It was not intended, for example, to allow the NRC staff to require that licensees use new technology as it becomes available to demonstrate compliance with an existing NRC regulation. In a similar vein, the compliance exception was not intended to be used to implement new regulatory methodologies that it subsequently deems necessary to satisfy a broad standard such as 10 CFR Part 50, Appendix A. Further, it cannot be appropriately cited to compel a licensee to comply with a new regulatory position or a new interpretation of what a previously adopted regulation requires or intended.

#### Conclusion

The intent of the Commission when it adopted the backfit rule is clear as to the scope of the backfit rule and how the compliance exception should be applied. The Commission should require NRC staff to strictly adhere to the Commission's stated intent regarding

<sup>5</sup> Id.

<sup>6</sup> 50 Fed. Reg. at 38103 (emphasis added)

the application of the compliance exception to the backfit rule as it reassesses existing regulations and implements new initiatives