



UNITED STATES  
**NUCLEAR REGULATORY COMMISSION**  
 WASHINGTON, D.C. 20555-0001

July 17, 1996

The Honorable John McCain  
 United States Senate  
 Washington DC 20510

Dear Senator McCain:

I am responding to your letter of June 4, 1996, to the Department of Energy (DOE), which DOE forwarded to the U.S. Nuclear Regulatory Commission (NRC). In your letter, you transmitted an inquiry dated September 30, 1995, from Ms. Patricia Birnie. Ms. Birnie raised concerns about the potential effect on the U.S. taxpayer of the debt currently borne by Tennessee Valley Authority (TVA) and the costs associated with its nuclear power program, particularly costs to complete construction of the Watts Bar Unit 1. She stated that if Watts Bar Unit 1 is finished, its cost would cause a rate shock to users. She requested an investigation of the TVA program, with special emphasis on Watts Bar, and apparently endorses a proposal to scrap Watts Bar and replace it with wind and natural gas energy sources. She also expressed concern about the treatment of Ms. F. Young and Ms. J. Honicker at a TVA board meeting on August 30, 1995.

Following completion of plant construction and a rigorous preoperational testing program, the NRC approved and issued a low-power operating license to TVA for Watts Bar Unit 1 on November 9, 1995. Following successful completion of reactor startup and low-power testing, an operating license for full-power operation of the plant was issued on February 7, 1996.

In general, the issues raised by Ms. Birnie concerning the effect of TVA debt on the U.S. taxpayer, the economic costs of electricity to consumers, and economic alternatives to the use of the Watts Bar plant are beyond the regulatory purview of the NRC. The NRC does evaluate the financial qualifications of certain types of licensees pursuant to 10 CFR 50.33(f). In 1972, the NRC performed a financial qualification review of TVA under this regulation and found them acceptable prior to granting TVA a construction permit to construct the Watts Bar facility. However, the Commission revised its regulations in 1982 (Federal Register at 47 FR 13750) to eliminate this review for electric utility applicants. Specifically, applicants licensed under 10 CFR 50.21(b) and 10 CFR 50.22 are exempt from financial qualification reviews in the revised version of 10 CFR 50.33(f). This exemption was based on the fact that electric utilities either have their rates regulated or they are able to set their own rates. Watts Bar Unit 1 was licensed to operate under 10 CFR 50.22. Therefore, the NRC did not review TVA's financial qualifications at the time it evaluated the operating license application for Watts Bar Unit 1.

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The NRC staff does, however, review utility financial information, along with reports and periodic updates found in the financial trade press. NRC uses this information to determine whether financial ratings, trends, or major changes in expenditure philosophy and other key economic issues could be indicative of present or future stresses on a licensee that could potentially affect public health and safety. All power reactor licensees are required to submit their annual financial reports pursuant to 10 CFR 50.71(b). Moreover, on June 21, 1996, the NRC staff issued Administrative Letter 96-02, in part, to remind licensees of their responsibility to assure that information regarding their financial qualifications and decommissioning funds assurance that may have a significant implication for public health and safety is promptly reported to the NRC. The NRC staff considers the overall financial well-being of the utility rather than a breakdown and correlation of specific liabilities, expenditures, and assets. The NRC staff attempts to distinguish changes and trends in major economic factors relative to a licensee's overall financial health rather than assess detailed accounting data for specific plants. The financial information, in combination with other performance indicators, may warrant additional NRC inspection activity at specific sites. The NRC staff believes that NRC's inspection program will be effective in this regard in identifying potential operational safety problems. The NRC staff intends to use this approach with TVA, as necessary.

With respect to the potential need for a bailout of TVA, we do not believe that the levels of TVA's debt necessarily indicate that TVA has, or will have, serious financial problems. Unlike its neighboring utilities, which are investor owned and can, therefore, issue stock, TVA must rely on debt or internally-generated cash to provide funds for financing capital projects. The NRC notes that Moody, a major debt-rating company, has consistently rated TVA's bonds as "Aaa." (See, for example, Moody's Public Utility News Reports, November 7, 1995, p. 4882.) This is Moody's highest rating and indicates that it believes that TVA has substantial underlying financial strength adequate to be able to repay the principal and interest on its bonds.

Ms. Birnie provided no information that suggested that the attendance of Ms. F. Young and Ms. J. Honicker at the TVA board meeting involved any safety-related aspects pertaining to operation of Watts Bar Unit 1. Accordingly, we consider those events to be beyond the scope of the NRC's regulation of the Watts Bar Nuclear Plant.

I trust this information is useful in responding to Ms. Birnie's concern. Please do not hesitate to contact us if you have any questions on this matter.

Sincerely,

Original signed by  
 James M Taylor  
 James M. Taylor  
 Executive Director  
 for Operations

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