

POLICY ISSUE
(Notation Vote)

June 8, 2016

SECY-16-0075

FOR: The Commissioners

FROM: Victor M. McCree
Executive Director for Operations

Maureen E. Wylie
Chief Financial Officer

SUBJECT: PROPOSED MERGER OF THE OFFICES OF NEW REACTORS AND
NUCLEAR REACTOR REGULATION

PURPOSE:

The purpose of this paper is to provide the U.S. Nuclear Regulatory Commission (NRC) with a reorganization plan, including a business case, for a merger of the Office of New Reactors (NRO) and the Office of Nuclear Reactor Regulation (NRR). The staff is presenting the plan for Commission review and approval as directed by the Commission in Staff Requirements Memorandum (SRM)-SECY-15-0015, "Project AIM 2020 Report and Recommendations," (Agencywide Document Accession Management System (ADAMS) Accession No. ML15159A234).

BACKGROUND:

The licensing and oversight of nuclear power reactors have been prominent activities of the NRC since its creation in 1975. The intervening years have included periods of both increased and decreased interest in the deployment and operation of commercial nuclear power reactors. The passage of the Energy Policy Act of 2005 reflected a potential change to the nuclear landscape in the U.S. and various U.S. Department of Energy programs contributed to

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an increased level of interest in nuclear construction and the development of the next generation nuclear plant program. These activities led some to predict a “nuclear renaissance” reminiscent of the period in the 1970s before an economic downturn, and the accident at Three Mile Island led to the cancellation of many nuclear projects. By 2005, the increase in new reactor licensing workload and the expected future growth in the new reactor business line resulted in the NRC staff recommending a restructuring of NRR in SECY-05-0146, “Proposed Reorganization of the Office of Nuclear Reactor Regulation,” (ADAMS Accession No. ML052130406).

The NRC staff subsequently recommended in SECY-06-0144, “Proposed Reorganization of the Office of Nuclear Reactor Regulation and Region II,” (ADAMS Accession No. ML061770296) that the office be reorganized to form NRO. The purpose of the reorganization was to better prepare the agency for the anticipated new reactor licensing and construction inspection work while ensuring that the agency maintained an undiminished focus on the safety, security, and emergency preparedness of currently operating facilities. In SRM-SECY-06-0144 (ADAMS Accession No. ML062050196), the Commission approved the staff’s recommendation to reorganize NRR into two offices, leading to the creation of NRO in August 2006.

Starting around 2009, changes in the economy and the domestic energy sector altered the outlook for both operating and new reactors. In particular, a decline in natural gas prices affected the cost-effectiveness of constructing and operating nuclear power plants. Data from the Energy Information Agency projects that the nuclear contribution to the U.S. energy mix will remain stable or decline through 2040. These overall energy trends led some new reactor applicants to suspend or withdraw their applications. The economic conditions also led licensees for several operating reactors to begin or announce plans for decommissioning before the expiration of operating licenses, with three more operating plants having announced plans to potentially close in 2017. Plant owners have identified several other operating reactors that may close because of market structures, rising costs, and other issues.

The NRC recognized that these factors, along with the resolution of Fukushima-related activities and the reduced workload for license renewal activities, would directly affect the workload of the agency. In response to the changing conditions, the NRC established Project Aim in June 2014 to enhance the agency’s ability to plan and execute its mission and improve in such areas as effectiveness, efficiency, agility, and flexibility. As part of the improvements identified by Project Aim, SECY-15-0015 included a recommendation for the agency to develop an approach to merge NRO and NRR. In its SRM for SECY-15-0015, the Commission directed the NRC staff to develop a plan to conduct a merger of NRO and NRR, at the appropriate time.

DISCUSSION:

In SRM-SECY-15-0015, the Commission directed the NRC staff to develop a plan that includes business case for the merger, a description of the efficiencies achieved and any special challenges posed by a merger as well as how the staff intends to address any challenges. Enclosure 1 provides the requested business case describing the benefits of a consolidated office, including discussions of efficiency, effectiveness, agility, and flexibility. The reorganization plan in Enclosure 2 includes a notional organizational structure, reorganization process, and challenges along with mitigation measures. The plan stresses the importance of

coordinating the consolidation of NRO and NRR with improvement efforts identified by Project Aim and other ongoing office-level initiatives.

The business case evaluates the current and future workload of NRO and NRR and concludes that the combined resources of the offices would, over the next several years, approach the size of NRR before the creation of NRO. A consolidated office would provide flexibility and improved agility to deal with uncertainties associated with the workloads in both the new and operating reactor business lines. These observations contributed to the Project Aim recommendation to merge the offices at an appropriate time. As described in Enclosure 1, the staff identified the following factors to be used in evaluating the appropriate time to merge the two offices:

- senior management confidence in the ability to consolidate the offices while maintaining the safety and security mission of each business line and reasonable spans of control within the organization
- a manageable number of regulatory issues (e.g., a reduced number of new reactor hearings, resolution of generic issues) projected for both business lines
- a manageable number of policy issues under development for both business lines
- significant benefits observed from other Project Aim and office-level initiatives
- projected flat or declining workloads for the combination of operating reactor and new reactor business lines
- projected resources comparable to the historical, pre-NRO size of NRR
- the ability to harmonize practices and processes in NRO and NRR within the reorganization period
- mature processes in place for licensing and oversight for most of the new reactor business line (e.g., light water reactors)

Uncertainties associated with future workloads preclude, at this time, determining when a merger would be appropriate. Although the staff therefore believes it would be premature to immediately begin the merger-related reorganization, the analysis in the business case supports the conclusion that – absent substantial changes in the projected future activities covered by the offices – the consolidation should eventually occur on the basis of expected workloads, external factors, and the additional benefits of a merged office. The business case aligns the benefits of the merger to the four broad areas for improving regulatory efficiency that the Project Aim report identified. They are: (1) right-sizing the agency, (2) streamlining, (3) timeliness, and (4) unity. NRC senior management will periodically review projected conditions and will inform the Commission when circumstances are such that it is an appropriate time to merge the offices.

If the Commission approves, the eventual merger of NRO and NRR will be used as the baseline assumption in the planning processes for the agency. The eventual reorganization to merge the

offices will be coordinated with and complementary to other improvement efforts identified by Project Aim as well as ongoing office-level initiatives to improve performance and address changes in workload. The enclosed merger plan provides a framework for the reorganization to meet the desired efficiency and effectiveness gains while avoiding a detrimental impact on the ongoing and projected work within the new and operating reactor business lines. The reorganization plan includes four segments (merger plan development, ongoing initiatives and organizational changes, merger-related reorganization, and postmerger assessment) and supports a merger of the two NRC offices while the agency remains flexible enough to adjust to changes in specific areas (e.g., addition or withdrawal of applications), other tasks under Project Aim (e.g., potential centers of expertise), project schedules, and other factors.

It is important to view the eventual consolidation of NRO and NRR within the context of broader changes within the NRC and the nuclear industry. Establishing the eventual merger as the expected configuration of the offices at some point in the future allows for better planning and integration of activities. Project Aim and ongoing office-level initiatives are intended to improve performance and address shorter-term changes in workload, staffing, and budgets. Ongoing activities to improve the effectiveness and efficiency of NRO and NRR will provide benefits ahead of an eventual merger of the offices. Some of the changes, such as reductions in management and other overhead positions, could be helped by the organizational changes associated with the merger-related reorganization. Other initiatives within the offices are intended to address specific current challenges and improve longstanding practices. The staff will use performance measures, self-assessments, and external audits to determine if these initiatives are improving the effectiveness and efficiency of activities within NRO and NRR. The success of these initiatives and resulting improvements in flexibility, innovation, and efficiency will be important during and after the consolidation of the offices.

During the period leading up to the consolidation of NRO and NRR, the staff will continue to revise guidance documents (e.g., align or combine office instructions), increase cross-training, reassign staff and managers between the two offices, and address infrastructure issues such as completing the adoption of common information technology systems. Management and staff in both offices will continue their close collaboration throughout this period. In addition, where circumstances support consolidating branches or divisions within each office before formally implementing the merger-related reorganization, intermediate changes will be made at appropriate times.

As directed by the SRM, the staff also identifies challenges to the merger and associated mitigation strategies in areas such as change management, work prioritization, strategic staffing, organizational culture, and information technology. The staff will identify appropriate performance measures to monitor the effectiveness of the reorganization and ensure that the consolidation does not adversely affect the mission of the agency. As needed, additional performance measures will be developed to assess longer-term goals related to improving effectiveness, efficiency, agility, and flexibility. The staff will propose specific metrics as part of the performance planning process and will update the Commission on the status of the consolidation and the related performance monitoring as part of routine communications.

RESOURCES:

There are no resources budgeted for this effort. The recommendations in this paper would result in some transitional costs, but the majority of the efforts are associated with ongoing and planned initiatives addressed elsewhere in the agency's planning and budgeting process. The transitional costs are justified in light of the longer-term improvements. Resource requests for merging NRO and NRR will be included in the normal budgeting process.

RECOMMENDATIONS:

The staff recommends that the Commission approve plans for the merger of NRO and NRR and direct the Executive Director for Operations (EDO) to implement the consolidation of the offices at the appropriate time. The eventual merger of the offices will be used as the baseline assumption in the planning processes for the agency. The merger-related reorganization will be coordinated with and be complementary to other improvement efforts identified by Project Aim and ongoing office-level initiatives to improve performance and address changes in workload. The staff will notify the Commission when circumstances are such that the EDO finds that it is an appropriate time to merge the offices.

COORDINATION:

The Office of the General Counsel has reviewed this paper and has no legal objection.

/RA Michael R. Johnson Acting for/

Victor M. McCree
Executive Director
for Operations

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Maureen E. Wylie
Chief Financial Officer

Enclosures:

1. Business Case
2. Reorganization Plan

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ADAMS Accession Nos.: Package ML16083A028

SECY ML16083A485; Enclosure 1 ML16083A530; Enclosure 2 ML16084A155 *via emailSRM-S15-0015-10

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