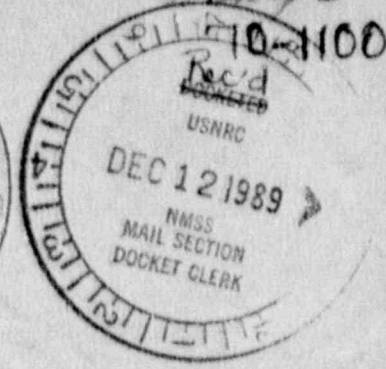
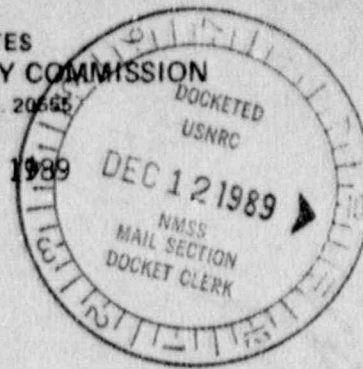




UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D. C. 20545

December 7, 1989



MEMORANDUM FOR: Leland C. Rouse, Chief  
Fuel Cycle Safety Branch  
Division of Industrial and Medical Nuclear Safety  
Office of Nuclear Material Safety and Safeguards

FROM: Eileen M. McKenna, Acting Chief  
Policy Development and Technical Support Branch  
Program Management, Policy Development  
and Analysis Staff  
Office of Nuclear Reactor Regulation

SUBJECT: PTSB REVIEW OF PROPOSED PURCHASE OF COMBUSTION  
ENGINEERING BY ASEA BROWN BOVERI

This responds to a request from your staff to review the subject proposed purchase. We have evaluated the advanced copy of a letter to Mr. James Taylor, with attachments, from Combustion Engineering (C-E). C-E stated in this letter that, after its merger with Asea Brown Boveri (ABB), it currently intends to maintain its existing management and corporate structure, remain intact as a separate corporate entity, and "continue to be the licensee responsible for compliance with all of the requirements and obligations imposed under C-E's NRC licenses." (C-E letter, p. 2). Further, it appears that the merger represents a straight-forward purchase of C-E's stock by ABB and does not involve significant capital restructuring. Based on this and the more detailed commitments contained in pages 3-4 of C-E's letter, we conclude that ABB's proposed purchase of C-E will not adversely affect either public health and safety or the common defense and security. To increase assurance that this conclusion will remain valid, we recommend that NMSS consider incorporating C-E's commitments either directly or by reference into C-E's NRC licenses.

We note, however, that both C-E and ABB have potential financial weaknesses that could adversely affect their ability to decommission if the financial assurance measures afforded by NRC's decommissioning rule were not in place. For 1988, C-E had a current ratio (i.e. current assets divided by current liabilities) of 0.83.<sup>1</sup> Normally, a ratio of less than 2.0 indicates potential liquidity problems and a ratio of less than 1.0 even more serious short-term problems. C-E also sustained a net loss of \$245 million in 1988, although it realized net income in 1986 and 1987. However, Moody's has rated C-E's

<sup>1</sup> Financial data is from Moody's Industrial Manual, Vol. I, 1989.

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outstanding long-term debt as Baa which is still investment-grade. Moody's defines this rating as indicating that "interest payment and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time."<sup>2</sup> As calculated from information submitted by C-E, ABB's current ratio is 1.01. If transfers to and from corporate affiliates are excluded, the current ratio is 1.67. In 1988 ABB sustained a net loss of \$31 million and had negative cash flow. Moody's rating of ABB's long-term debt was not available.

As part of its commitments, C-E stated that "ABB is also prepared to provide the NRC with additional reasonable assurances that C-E will have the necessary financial resources available to decontaminate and decommission its nuclear facilities in accordance with all applicable legal requirements." (C-E letter, p. 3). In view of this commitment and C-E's and ABB's potential financial weaknesses, NMSS may wish to consider requiring C-E/ABB to base financial assurance for decommissioning their licensed facilities on site-specific studies by July 26, 1990, rather than the certification amounts contained in 10 CFR Parts 30 and 70. Although we do not perceive significant risk that C-E or ABB would not be able to meet eventual decommissioning costs, in view of their commitment, such a step would provide additional assurance.

Additionally, we note that the C-E standard reactor design will be the subject of rulemaking to certify the design for referencing on reactor license applications. The ABB PIUS advanced design is under review by RES and potentially will be subject to NRC approval. We recommend that the Department of Justice be notified of these ongoing processes for information of potential use to its antitrust responsibilities.

If you have any questions on this, please contact Robert Wood on x21280 or William Lambe on x21277.

*Eileen M. McKenna*

Eileen M. McKenna, Acting Chief  
Policy Development and Technical Support Branch  
Program Management, Policy Development  
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Office of Nuclear Reactor Regulation

cc: R. Fonner, OGC

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<sup>2</sup> Moody's, p. vii

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DATE OF DOC. Dec. 7, 1989

DATE RCVD. Dec. 12, 1989

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