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December 7, 1990

Mr. Samuel J. Chilk
Secretary
U.S. Nuclear Regulatory Commission
Docketing and Service Branch
Washington, DC 20555

RE: Nuclear Regulatory Commission (NRC) Draft Policy Statement
on Possible Safety Impacts of Economic Performance
Incentives

Dear Mr. Chilk:

The purpose of this letter is to provide our comments on the NRC's Draft Policy Statement on Possible Safety Impacts of Economic Performance Incentives. 55 Fed. Reg. 43231-43233 (October 26, 1990). As you are aware, the Arkansas Public Service Commission (APSC) has had a performance incentive for Arkansas Power & Light Company's (AP&L's) Arkansas Nuclear One Units 1 and 2 (ANO) since 1980. ANO's reward-and-penalty performance incentive, as modified in 1983, rewards AP&L for surpassing target capacity factors for the two units and penalizes AP&L for outages other than for refueling. The primary reason the APSC put such an incentive into effect was to provide partial protection to AP&L's ratepayers from replacement power costs resulting from unplanned outages at ANO. ANO's performance incentive was modified in 1983 when it was determined that the original performance incentive was penalizing the company for things beyond its control, with little or no reward being achievable. From 1980 through 1983, AP&L paid cumulative penalties of \$40 million; however, since the modification in 1983, AP&L has achieved rewards on an annual basis which have resulted in a cumulative gain of \$5 million through June 1990. Thus, we have experience with a performance incentive which overemphasized the penalty aspect.

As the regulators of a nuclear electric utility, we share your concerns for establishing economic performance incentives which reward the long-term goals of improving plant reliability and operational safety. Although it is possible that sharp thresholds between rewards and penalties and short-term performance measurements might have the potential to adversely affect the long-term performance or safety of a nuclear unit, it is to be hoped

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that these features of performance incentives can be fine-tuned to achieve the twin goals of economic and safe operation of nuclear power plants. Judging from the results obtained from the revisions the APSC made to ANO's performance incentive, this type of fine-tuning could be used for other reward-and-penalty incentives. The possibility of plant life extension for nuclear power plants emphasizes the importance of the concept put forth in your draft policy statement of rewarding a utility's long-term operation and maintenance program.

We are supportive of your monitoring program to identify new or changed performance incentives and to ascertain the effects of implementing them, particularly the penalties. We are also supportive of the objective you have stated in asking licensees and state PSCs to inform you of new or changed incentives: that is, to allow the NRC to assess the impact on plant safety of the proposed incentive. We recognize the importance of your proposal for state PSCs and the NRC to exchange information because, even though our jurisdiction is divided, our goals are common: the safe and economic operation of nuclear power plants.

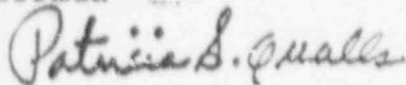
Although we have no objection to your participation in reviewing economic incentives for impacts on plant safety and performance, we, as state regulators of public utilities, have the ultimate authority over and responsibility for the implementation or modification of those incentives and, thus, have no desire to have that authority pre-empted at the federal level. After all, the state public service commissions are charged with balancing the interests of all of the parties in a utility rate case in an impartial forum. However, the NRC should have an integral role in any review of incentives for nuclear power plants.

Thank you for requesting our input concerning your draft policy statement.

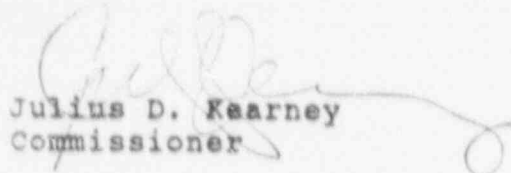
Sincerely,



Sam I. Bratton, Jr.
Chairman



Patricia S. Qualls
Commissioner



Julius D. Kearney
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