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U.S. Nuclear Regulatory Commission  
One White Flint North  
11555 Rockville Pike  
Rockville, Maryland

Attn: Docketing and Service Branch

Re: Comments on NRC Draft Policy Statement:  
Possible Safety Impacts of Economic Performance Incentives

Thank you for the opportunity to comment on the draft policy statement. I am a mechanical engineer with experience in naval and commercial nuclear power and have studied incentive regulation of nuclear plants by state public utility commissions (PUCs). The remarks are mine alone and do not necessarily represent those of other persons or organizations, although I have received the advice of many.

The draft policy statement consists in large part of a refined version of the language of SECY-85-260 with the addition of SALP-related material from SECY-90-046. These documents provide a good basis, but the formal policy statement would benefit from consideration of more recent experience with programs in Massachusetts and California. My comments are three:

1. Massachusetts. In its understandable criticism of the use of SALP ratings, the NRC has overlooked the beneficial effects of the use of performance indicators on utility management. The Settlement Agreement described in Mass. DPU Docket 88-28 (Pilgrim) involves a balanced group of five performance indicators that are a great improvement on the traditional use of capacity factor alone. In particular, I feel that the use of trip rate as one of the indicators should have a positive effect on safety. Massachusetts' use of automatic (as opposed to manual) scrams would also serve to limit the otherwise inherent pressure on operators not to initiate a manual scram when good practice calls for one. Such a balanced approach deserves more careful consideration than that provided in SECY-90-046 and the draft statement.

2. California. The Commission should address explicitly the type of ratemaking called "performance based pricing" in California (Diablo Canyon). Since it was established, the "rewards" to Pacific Gas & Electric have amounted to approximately \$500 million (second half of 1988), \$1.4 billion (in 1989), and \$800 million (through July 1990, the latest results available to me). Is such a program an extreme form of incentive program or is it something else? And if so, what is it? My point is that the PG&E rewards and penalties, described in Enclosure 2 to SECY-90-046 as "unknown", are now clearly known and qualitatively (an order of magnitude, say) larger than those of other incentive programs, themselves "of particular concern" to the NRC. The Commission should develop a position appropriate to these extraordinary circumstances.

3. All over. The NRC should accept the responsibility for establishing formal contact with a designated contact person at each of the 20 or so relevant PUCs (and FERC). Both contacts should speak the two languages of economic regulation and of safety regulation. Reliance on licensees and informal PUC communications for notice of incentive programs as proposed in the draft policy statement is no longer enough. The authors of NUREG/CR-5509, for example, were kind enough to acknowledge assistance from Mr. Don Beckham of Technical Analysis Corporation (my superior) in identifying responsible contacts at state PUCs, but the authors were forced to rely in part on his, and to a lesser degree on my, advice because there were not sufficient lines of communication between NRC and the states. Establishing and maintaining such a network is no small effort and will require encouragement and support from the Commission. Such a program would also improve the quality of economic regulation in the long term.

Sincerely,

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