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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
TWO GATEWAY CENTER
NEWARK, N.J. 07102

December 5, 1990

Secretary
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Attention: Docketing and Services Branch

Dear NRC Secretary:

I am pleased for the opportunity to offer the following comments on behalf of the New Jersey Board of Public Utilities (NJBPU) regarding the proposed Policy Statement concerning economic performance incentive programs for commercial nuclear reactors, which was published in the October 26, 1990 Federal Register.

Let me state at the outset that the NJBPU shares the view expressed in the proposed Policy Statement that the establishment of economic performance incentives which encourage improved performance by utilities in operating nuclear facilities' can foster improved safety as well as operating performance. In short, we believe that the well run plants are generally the safer plants.

New Jersey has had nuclear performance standards in place since 1987. During 1989 and early 1990 the NJBPU conducted a review of the original standards. The standards were reviewed to examine a number of factors, including the proper allocation of risks of reactor performance between utility shareholders and ratepayers, the appropriateness of the target performance levels, as well as the impact of the standards on the safe operation of the plants.

As a result of the review, a number of program modifications were enacted by the NJBPU in early 1990. Most notably, the changes instituted this year included a reduction in the "null zone" to plus or minus five percent around the target aggregate annual capacity factor as well as modifications to the risk sharing formulas and calculation methodologies. Specifically, in the original standards a risk allocation of 20% of replacement power costs was assessed to utility shareholders

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when performance dropped below 60 percent (the lower end of the "null zone"). Replacement power costs were calculated back to the 70 percent target. Our review revealed that this methodology resulted in the potential for a sharp threshold or "hard shoulder", as it was referred to in our proceedings. The modified standards which took effect earlier this year have, as previously indicated, maintained the concept of a "null zone" but reduced the band to plus or minus 5 percent. Moreover, the replacement power costs subject to risk allocation are now calculated from the edge of the "null zone", rather than all the way back to the 70 percent target. These changes have eliminated the potential for sharp thresholds.

We believe that the standards in place in New Jersey comport with the guidelines for incentive programs as set forth in the Policy Statement. Indeed, the NJBPU and its staff have carefully monitored the NRC's views regarding the safety-related aspects of performance incentives expressed in various unofficial forums over the past few years, and these views were carefully considered in developing the present standards. The Policy Statement is in large measure in agreement with the previous views expressed by the NRC and its staff. Specifically, we have been aware for some time that the NRC, while judging the impact of performance standards on safety to be small, has had concerns with respect to the impact on safety of sharp thresholds, measurement of performance over very short time intervals, lack of a "null zone" and inappropriate reliance on SALP scores.

We support the effort undertaken by the NRC to develop an official Policy Statement with respect to nuclear performance incentive programs. Obviously, the safe operation of commercial nuclear reactors must be the top priority, and regulators must take cognizance of potential impacts on safe operations of their ratemaking policies. Indeed, we are encouraged that the Policy Statement seems to indicate the NRC's support of the notion that a properly designed performance standard can actually enhance the safe operation of nuclear facilities. Combining this aspect with the critical economic regulatory tools which such standards provide in terms of providing for an equitable sharing of the risks of poor nuclear performance between utility shareholders and ratepayers, the benefits of nuclear performance standards seem clear.

In conclusion, the NJBPU supports the effort of the NRC to provide policy guidelines on the safety impact of performance standards. We support the goal of avoiding certain program characteristics which may unintentionally create perverse short-term financial incentives for utility plant operators or managers to make decisions which compromise safety. I would note that, while we believe that the performance standards have heightened the utilities' awareness of the need to efficiently operate these plants, no information was brought forth in our recent review proceeding in New Jersey which would lead to the conclusion that the utility operation policies have been altered

in any manner which would impact on the safety of the facilities.

Again, thank you for the opportunity to comment on the proposed Policy Statement.

Very truly yours,

Scott A. Weiner, President
Board of Public Utilities

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Thank You.