



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D. C. 20555

MAR 1 1983

MEMORANDUM FOR: Robert A. Purple, Deputy Director
Division of Licensing, NRR

FROM: William V. Johnston, Assistant Director
for Materials, Chemical and
Environmental Technology, DE

SUBJECT: BACKFITTING IMPACT COSTS

The Antitrust and Economic Analysis Section of the Site Analysis Branch has prepared the attached comments in response to question 7 of the January 17, 1983 memo from J. R. Tourtellotte to W. J. Dircks. Any questions you have may be directed to A. Toalston on x24891.

William V. Johnston
William V. Johnston, Assistant Director
for Materials, Chemical and
Environmental Technology
Division of Engineering

Attachment:
As stated

XA Copy Has Been Sent to PDR

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Backfitting Impact Costs

The following comments pertain to pages 5, 6, 7 and attachment A of the attachment to the January 7, 1983 memorandum to the Commissioners from J. Tourtellotte.

The derived regulatory impact costs on page 7 for the Oconee and Catawba nuclear plants hinge on the assumption that 60 per cent of the cost increase of nuclear plants between 1973 and 1982, other than inflation, are due to NRC regulatory changes. Thus the result is determined by that assumption. The questionability of the assumption is illustrated by comparing the resulting derived regulatory impact of \$1,135 million for McGuire (p. 7) to the actual costs of \$163.8 million for NRC imposed backfitting (p. 1 of attachment A.) Thus the value given on page 7 overstates the impact by a factor of about 7. Use of the \$163.8 million in Appendix A would indicate that only 8.7 per cent of the increase was due to regulatory requirements.

The Appendix A costs suggest that the increase in nuclear plant costs shown on page 7 between 1973 and 1982 are due more to other factors than regulatory backfitting or utility initiated backfitting. Such factors could be:

1. the \$185 per kW value for Oconee in 1973 dollars does not include interest during construction,
2. the escalation rate for nuclear plants has been higher than the labor inflation rate,
3. the \$828 per kW for McGuire already includes interest during construction and should not also include escalation on expended funds, and
4. a sizeable portion of the increase in costs is attributable to stretch-out of construction and higher interest rates.

¹ If the Appendix A figures do not include interest on the expenditures thru 1982, this value could be slightly higher. Conversely, when backfitting is partly due to regulatory requirements and partly due to utility requirements, utilities tend to assign it to regulatory requirements, thus probably overstating the value.