



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

October 26, 1983

NOTE TO: Harold R. Denton
FROM: Frank H. Rowsome
SUBJECT: LETTER TO CPUC ON THE PRODUCTIVITY INCENTIVE

I understand that you want me to ghost a letter for you to the California Public Utilities Commission on the productivity incentive program they instituted for SONGS-2. A draft is Attachment 1 to this note. Jim Petersen of OSP has summarized the CPUC decision in a draft memo, which is enclosed as Attachment 2 for background.

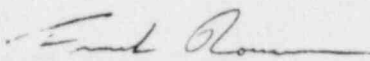
I did not get a clear picture of your objectives in writing to CPUC, though I inferred that you wanted a non-argumentative "we note with interest" flavor, communicating the thoughts in the Stoller briefing package. Note that CPUC has already had access to the briefing memo I prepared for you prior to the Stoller interview; Stoller attached it to his report to CPUC.

Petersen's draft memo and Stoller's report both note that a number of nuclear plants have been subjected to or are being considered for economic availability incentives. Some of the incentive formulas being employed elsewhere are less desirable from the point of view of safety than the one developed by CPUC for SONGS-2. They seem to have followed our advice to Stoller. You may wish to re-think whether the CPUC ruling is the arena in which you wish to surface with a show of interest.

We should encourage Jerry Saltzman to proceed with further inquiry into availability incentive programs elsewhere, as suggested by Petersen in his draft memo. Following that, I think we should a) prepare a preliminary assessment of the potential significance to safety of the several productivity incentive formulas in use or under study, b) give some thought

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to making our views known to the several PUC's and states involved, and
c) sensitize the Regions and IE to be alert to symptoms that the incentive
programs may be affecting safety, and solicit their assistance in evaluating
whether there is a problem.


Frank H. Rowsome

Attachments:
As stated

cc w/attachments:

T. Speis

W. Minners

J. Saltzman, OSP

D. Nash, OSP

~~J. C. Petersen, OSP~~

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Mr. Leonard M. Grimes, Jr., President
 California Public Utilities Commission
 350 McAllister Street
 San Francisco, CA 94102

Dear Mr. Grimes:

I note with interest the productivity incentive program that the California Public Utilities Commission has established for San Onofre, Unit 2, and commend the concern that you have shown for reactor safety in this matter.

Economic incentives for high capacity factors, applied to reactor owner-operators, can have both positive and negative effects on reactor safety, although neither are likely to have a strong influence on safety. On the positive side, better protection of the investment in the facility correlates positively with better accident prevention. A regulatory climate favoring sound preventive maintenance and plant betterment tends to enhance safety. On the negative side, situations do arise in which safety considerations favor a shutdown that would not otherwise take place. A penalty for voluntary shutdowns to deal with degraded performance in equipment important to safety could have an undesirable effect upon safety. Generally, shutdowns are formally required for safety significant problems by the terms of reactor operating licenses issued by the NRC. There are, however, some situations of marginal importance to safety not explicitly covered by license conditions.

We are pleased to see that the formula adopted by CPUC for San Onofre contains no sharp thresholds at which the owners' profitability would incur a large step change. Should a plant happen to be operating near such a threshold, the owners may be subject to an incentive to keep the plant on line "at all costs."

On balance, we believe the productivity incentive program for San Onofre Unit 2 is consistent with reactor safety. Nonetheless, we shall remain alert to symptoms of adverse influences on safety.

Sincerely,

Harold R. Denton, Director
 Office of Nuclear Reactor Regulation

OFFICE	AD/T:DST	OSP	OSP	DD:NRR	D:NRR		
SURNAME	FRowsome/LLM	JPetersen	JSaltzman	EGCase	HRDenton		
DATE	10/26/83	10/ /83	10/ /83	10/ /83	10/ /83		

Urgent
To: Frank Rowsome
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DRAFT/JCPetersen.cu
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Name: Memo to JS

Please in draft
D. Space

MEMORANDUM FOR: Jerome Saltzman
Assistant Director for
State and Licensee Relations
Office of State Programs

THRU: Darrel Nash, Section Leader
Licensee Relations Section, SLR
Office of State Programs

FROM: Jim C. Petersen
Licensee Relations Section, SLR
Office of State Programs

SUBJECT: INCENTIVE REGULATION OF SONGS 2 AND OF GENERATION
FACILITIES BY STATE PUCS NATIONALLY

In accordance with your request we have reviewed both (1) the recent California PUC decision that specifies a target capacity ^{factor} ~~factor~~ and related financial rewards/penalties for SONGS 2; and (2) the recent NARUC study on construction and operating performance incentives in the electric utility industry nationally. Following are brief summaries of each document and suggestions for possible additional staff action.

In its September 7, 1983 decision, the California PUC softened the reward/penalty provisions that its staff had suggested in the proceeding. The PUC provided that additional fuel costs resulting from SONGS 2 capacity factor below 55% and fuel cost savings for capacity factor above 80% would be shared equally (50/50) between the company (stockholders) and ratepayers. The PUC staff had recommended that additional costs and savings above and

✓ below ^a~~65~~ 65% capacity factor should accrue entirely to the company. The California PUC thought that standard was too harsh, particularly in the ✓ relatively untested area of incentives. The Commission ^{emphasized}~~employed~~ the utility's obligation to adhere to all NRC rules and regulations and stated that the record of its proceedings included examples of other jurisdictions that have instituted nuclear performance standards without apparent detriment to nuclear safety. The PUC agreed with its staff that a performance standard such as a target capacity factor would not comprise ✓ safety ~~plant~~ operation. The PUC also recognized that nuclear plant outages ✓ may be due solely to factors outside the utility's control and that it would be flexible toward considering the causes and effects of such events on a case-by-case basis.

The working NARUC staff subcommittee^f on electricity published a report on September 20* that summarized incentive regulation of electric utilities by states of the U.S. The report's summary characterized incentive regulation and state studies that may lead to incentive regulation as representing "a ✓ very significant level of regulatory effort~~x~~." "Currently, the greatest ✓ regulatory effort appears to be directed at the efficiency of operation and utilization of generation facilities." My review of the report and discussions with the California PUC author indicate that 36 States either

* "Report to the NARUC Committee on Electricity on Incentive Regulation in the Electric Utility Industry," NARUC Subcommittee on Electricity, September 1983.

✓ have some form of incentive regulation in effect or are studying various
✓ incentive regulation plans. According to the ^{NARUC} ~~California~~ study, seven States ✓
have incentives aimed specifically at nuclear plants and another ^{twelve} ~~eight~~ ✓
States have incentives aimed at generating plants generically.

Additional OSP effort in this area could include more research and reporting
on the specifics of incentive plans in operation or under study in the
various States. We presently have only very brief summaries of State
activity except for California where we have somewhat more information.
Significant additional work has been done by the National Regulatory
Research Institute and published studies are available that could be
✓ obtained and summarized. My contacts with NRR indicate that ^{that} ~~the~~ office's ✓
activity has essentially been limited to comments by Denton and other
✓ officials. [?] ~~Apparently~~ There is no NRR staff study underway. [?] My contacts at ✓
DOE indicate that a group there is pretty much up-to-date on monitoring ✓
State PUC activity in this area. DOE has no intervention or enforcement
authority in the area.

Jim C. Petersen
Licensee Relations Section, SLR
Office of State Programs