

November 4, 2005

Mr. Paul Crabtree
9229 East Cedar Waxwing Drive
Sun Lakes, Arizona 85248

Dear Mr. Crabtree:

On behalf of Mr. Dyer, Director of the Office of Nuclear Reactor Regulation, I would like to thank you for your letter expressing concerns about the NRC having access to plant level budgetary information and about plant level software and hardware with respect to Palo Verde.

The Nuclear Regulatory Commission's primary goal is to regulate the safe uses of radioactive materials for civilian purposes so as to ensure the protection of public health and safety and the environment. NRC regulations allow access to the financial and economic data of a licensee of a nuclear facility, to any extent necessary in order to provide reasonable assurance that a licensee has the financial resources to operate and maintain a nuclear facility safely. The NRC does not regulate commerce, and therefore, does not render any opinion about the profitability or efficiency of a licensee's operations. The NRC does not act as a consultant or a mediator between owners of a single license for a nuclear facility. NRC strength in regulating the safe use of radioactive materials, comes from the NRC's on-sight inspections and engineering oversight. The NRC has the authority to mandate the safe operations of facilities, but leaves wide latitude as to how the licensee will accomplish the safe operation and maintenance of its nuclear facilities with the licensee's associated financial resources.

The NRC is aware of studies that propose that there is a correlation between operation and maintenance budgets, and safety, but has not found these studies suitable for our regulatory purposes.

In the second part of your letter you cite concerns about hardware and software development at the plant level and the effects this may have on the NRC's ability to regulate. It is true that plants are aging and that many vendors that were around during plant construction no longer exist, and many utilities are updating older analog control and protection equipment with more advanced digital hardware and software.

You also mention plants designing, developing, manufacturing, and testing plant specific equipment as a reaction to these truths. All of our licensees are required to test equipment before it is installed in their plants, the testing required depends on the type of component and where it will be installed (ex. IEEE code testing for a circuit board or seismic testing for a valve). However, it is quite rare to have a single licensee design, develop, and manufacture significant quantities of plant equipment.

The nuclear industry and the NRC are aware of these challenges, our headquarters based Quality and Vendor Branch deals with licensees and vendors specifically concerning these issues. The NRC frequently inspects vendor facilities and participates in

conferences. All licensees are currently required to go through a dedication process when they replace any safety related components in their plants. For example, if a licensee wanted to replace a safety related valve or pump but the specific vendor that made it is no longer in business, they are allowed to use a similar component from another vendor given that the new component meets the same form, fit, and function of the old one. This is often referred to as "like for like" replacement and it requires that the new component be tested to ensure it will perform the same safety function under the same conditions as the old component. The dedication process for electronic equipment in safety related protection and control circuits is analogous to the process for a pump or valve. Also, there are now a handful of companies that serve only to dedicate equipment for utilities because many licensees do not have all the complex testing equipment needed (see Enertech <http://www.enertech.ws/>).

It's important to understand that these processes are not opaque to the NRC, we are involved at multiple points within them. We deal with the vendors directly by inspecting their facilities and testing procedures. All licensees and supplying vendors are required by Title 10 Code of Federal Regulations Part 21 to make a report to the NRC if they know or have reason to believe that any component supplied to them may be defective or unable to perform its safety function. Also, through our resident inspector program we are closely in tune with daily events and emerging issues at licensee sites.

We share your interest in safe operation of the Palo Verde station and are thankful to you for expressing your concerns.

Sincerely,

/RA/

Eileen McKenna, Chief
Financial, Policy & Rulemaking Branch
Division of Policy and Rulemaking
Office of Nuclear Reactor Regulation

cc: Mel Fields, NRR, Project Manager for Palo Verde

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cc: Mel Fields, NRR, Project Manager for Palo Verde

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