



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

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Mr. William F. Conway  
Executive Vice President  
Nuclear  
Arizona Public Service Company  
P. O. Box 53999  
Phoenix, Arizona 85072-3999

Dear Mr. Conway:

I am responding to your letter dated May 22, 1990, in which you refer to recent instances where you believe that diagnostic evaluation findings associated with Palo Verde have been taken out of context and misused. Your letter also requested clarification on information documented in the Palo Verde Diagnostic Evaluation Team (DET) report. The purpose of this letter is to respond to these areas.

As background, and as discussed in the Palo Verde report, a primary objective of the evaluation was to determine the probable root causes for any performance problems observed by the DET at the time of the evaluation. Knowledge of the probable root causes enables the Commission staff to evaluate the adequacy and completeness of the ongoing or planned corrective actions and thus the likelihood for sustained and permanent performance improvement.

The two observations contained in the DER cover letter and in the report that you find troublesome are:

- (1) insufficient technical and management depth to support startup and operation of a three-unit facility, and
- (2) during startup, management and technical resources were focused on the next unit to go on line at the expense of the operational units resulting in a backlog of technical and programmatic issues.

In retrospect, I would agree that the statements would be clearer and more useful if placed in an overall context. During the startup and operation of the Palo Verde units, the question of management depth and technical capability was a topic of discussion. Improvements were made by Palo Verde during the course of this progression; however, with each additional unit, the demands grew as well. Except for the scale of the Palo Verde project, there is nothing unusual about this compared to other new plants going through the initial startup and operation. Although the issue of improvements in management and technical depth was discussed during this period, the staff repeatedly found that the capability was satisfactory. Comparing the startup and initial operation of Palo Verde with others in the Region such as San Onofre, Diablo Canyon, and WNP-2, Palo Verde is considered about average.

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Concerning item (2), we agree that there was, in general, a diligent effort to resolve problems on each unit and forward fit these resolutions prior to startup of subsequent units. But in the context of continually increasing management and technical challenges, associated with the magnitude of the increasing project, the staff believes there were some areas that were not dealt with completely and subsequently became urgent (system engineering programs, maintenance). Again, this has been a situation common to other multi unit sites. The problem was that at the end of the startup phase, the reorganization in 1987 did not position the utility well to complete resolution of the backlog of technical and programmatic issues expeditiously.

Another area you requested be reconsidered was the comments regarding "instability" and "insecurity" at Palo Verde due to the Pinnacle West business situation. The staff agrees that this is not a significant concern and would not appear to be having any adverse affect on plant personnel. As you point out, the staff made this clear in the report. The staff agrees that any insecurity or uncertainty that exists is considered normal to that usually attending management changes and improvements.

Finally, the NRC has expressed its concern regarding the misuse of staff evaluations. This concern has principally been directed at the potential safety effects of performance incentives established by State Public Utility Commissions for nuclear power plants. In order to make their views known on this issue, the Commission, following a briefing on April 3, 1990, directed the staff to develop a policy statement on the potential impacts of the policies and actions of state regulatory bodies, emphasizing that such actions can have either a positive or negative impact on safety and to establish a tracking system to monitor proposals for, and implementation of, performance incentives applicable to nuclear power plants.

In conclusion, as I stated in my March 16, 1990 letter which transmitted the Palo Verde DET report to you, we believe APS now has a good understanding of the major performance problems affecting Palo Verde. We also believe that the 1989 management changes combined with the numerous initiatives underway have shown progress in resolving Palo Verde management issues. I look forward to receiving your formal response to the DET report.

Sincerely, Original Signed By:

James M. Taylor

James M. Taylor

Executive Director for Operations

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