

**NRC Budgeting and Fees Management Improvements**  
 Improving Predictability for Regulatory Budgets

March 10, 2011 – 10:30 am




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## PRESENTERS

Session Coordinator

- **Jim Dyer**, CFO, U.S. Nuclear Regulatory Commission

Panelists

- **Reggie Mitchell**, Controller, U.S. Nuclear Regulatory Commission
- **Keith Jury**, Vice President, Licensing and Regulatory Affairs, Exelon Nuclear
- **Edward Halpin**, President and CEO, STP Nuclear Operating Company
- **Jennifer Golder**, Budget Director, U.S. Nuclear Regulatory Commission

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## AGENDA

- NRC Fees Cycle (Reggie Mitchell)
- Industry Perspective on Budget and Fee Management (Keith Jury)
- Regulatory Financial Impact Key Points to Consider (Edward Halpin)
- NRC Budget Development (Jennifer Golder)





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Presenter: Reggie Mitchell

# NRC Fees Cycle

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## LAWS GOVERNING NRC FEES

- ▶ **Independent Offices Appropriation Act (IOAA)**
  - ▶ NRC is Authorized to Charge Fees for Services
  - ▶ Fee is Billed as Hours Expended Times NRC Professional Hourly Rate
- ▶ **Omnibus Budget Reconciliation Act (OBRA-90), as Amended**
  - ▶ NRC is Required to Recover Approximately 90 Percent of Its Budget
  - ▶ Annual Charges Reflect the Budgeted Costs of Providing Services to Licensees or Classes of Licensees
  - ▶ NRC Recovers Through Annual Fees the Budget Not Recovered Through Fees for Services under IOAA

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## FEE RULE MILESTONES

### FY 2010 Fee Rule:

Preliminary Fee Calculations Completed	Dec 09
Proposed Fee Rule Published	Mar 10
30 Day Public Comment Period Ended	Apr 10
Final Fee Rule Published	Jun 10
Final Rule Effective	Aug 10*

\*The prior year's (FY 2009) Hourly Rate was used to bill Part 170 charges for most of FY 2010, (Oct thru July). The Part 171 annual fee invoice was adjusted in the last quarter to ensure NRC recovered 90% of its budget authority by September 30, 2010

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FEE DETERMINATION METHODOLOGY

- ▶ Compute Total Amount to be recovered as 90 Percent of the Annual Budget Appropriation Signed by the President
- ▶ Compute 10 CFR 170 Hourly Rate for Fees for Services by Dividing Total Budget Less Directly Billed Contract Costs by total Direct FTE Hours
- ▶ Compute 10 CFR 171 Annual Fees Based on Total Budgeted Costs for Class of License, Less 10 CFR 170 Estimated Fees for Services

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NRC Fee Management Challenges

- ▶ Delay in Receiving annual appropriation
- ▶ Actual Budget amount received different from budget submitted to Congress
- ▶ Budget Execution lags Budget Formulation by more than 12 months that may result in:
  - Unused budgeted resources in current year due to changes in regulatory priorities
  - Changes in Actual 10 CFR 170 Fees for Services billings compared to Fee rule estimates
  - Large Variations in Fees Collected compared to the mandated Fee Recovery Amount

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Presenter: Keith Jury

# Industry Perspective on Budget and Fee Management

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Topics

- ▶ Utility Budget and Planning Cycles
- ▶ Regulatory Related Budget Impacts / Vulnerabilities
- ▶ Looking Forward

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Long Range (Strategic) Planning

- ▶ Financial and production planning horizon (typically 5 years), includes
  - ▶ Financial projections
  - ▶ Critical costs
  - ▶ Risk and opportunity assessment
- ▶ Long term vision and strategic focus objectives and goals reconfirmed / established (May)
- ▶ Project prioritization based on economic, resource, schedule, and importance factors (September)
- ▶ Implementation plans developed for regulatory projects and integrated into station budget

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Annual Budget Cycle

- ▶ Annual budget development begins in July
  - ▶ Based on long term strategic planning and target setting performed in first half of the year
- ▶ Site and corporate budgets for subsequent calendar year established
  - ▶ Development between July and October
  - ▶ Annual budget finalized in November

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### Budget Impacts/Vulnerabilities

- ▶ Cost impact to licensees related to regulatory compliance
  - ▶ Annual reactor fee / inspector hourly rate changes
  - ▶ Rulemaking implementation
  - ▶ Emergent inspection / regulatory issues

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### Budget Impacts / Vulnerabilities (cont)

- ▶ Annual Reactor Fee / Inspector Rate changes
  - ▶ Annual reactor fee / hourly inspector rate must be estimated by utilities in second half of calendar year
  - ▶ Significant increases (47%) in annual reactor fee from FY2005 to FY2009 – challenges utility long term planning
- ▶ Utility versus NRC budgeting cycle example
  - ▶ Utility budget for CY2009 finalized in November 2008
  - ▶ NRC annual reactor fee for FY2009 finalized in July 2009
    - ▶ Invoice 2009 fees and rates beginning in Q4 FY2009 (Q3 CY2009)
    - ▶ Invoice includes 2009 fees plus difference for prior three FY quarters

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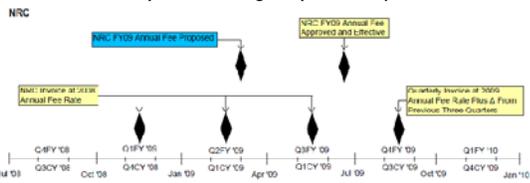
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### Budget Impacts / Vulnerabilities (cont)

#### Utility / NRC Budget Cycle Example



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### Budget Impacts / Vulnerabilities (cont)

- ▶ **Rulemaking**
  - ▶ Costs of coincident, financially significant regulations
  - ▶ NRC regulatory analyses have drastically underestimated financial impact of some regulations
    - ▶ Work Hour Rule
    - ▶ Security Rule
    - ▶ Emergency Preparedness Rule
  - ▶ Increased costs due to changes in intent / interpretation between approval of final rule and development of implementation or inspection guidance
    - ▶ Cyber Security records retention expectations
    - ▶ LAR for EP decrease in effectiveness

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### Budget Impacts / Vulnerabilities (cont)

- ▶ **Emergent Regulatory Issues**
  - ▶ Issuance of NRC generic communications (Generic Letters, RIS, etc.) result in process and physical plant changes
    - ▶ Generic Letter 2008-01 – Managing Gas Accumulation
    - ▶ Generic Letter 2003-01 – Control Room Habitability
    - ▶ RIS 2006-17 – Requirements of Technical Specifications regarding LSSS during instrument testing and calibration
- ▶ Emergent inspection challenges result in increased resource impact
- ▶ Unexpected fee increases, coupled with rulemaking implementation and emergent regulatory issue costs, exacerbates budget impact
  - ▶ Directly impacts resources available to be utilized for the facility

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### Looking Forward

- ▶ Earliest possible insights into potential annual reactor fee / hourly rate changes would better inform utility budgeting process
- ▶ Holistic review of timing and impacts of rulemaking
- ▶ Active industry engagement during regulatory action development stage

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Presenter: [Edward Halpin](#)

# Regulatory Financial Impact Key Points to Consider

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## Desired Outcome

- ▶ Understand Licensee budget process
- ▶ Raise awareness of impact of NRC and regulatory fees on station operation
- ▶ Advocate that Integrated Planning is an opportunity to lower the impact while improving safety

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## Licensee Financial Management

- ▶ Safety remains paramount
- ▶ New factors have changed the landscape
  - ▶ Deregulation
  - ▶ Merchant owners
- ▶ Many licensees cannot “pass through” cost for regulatory change

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## Planning is Continuous

- ▶ STP maintains a 5-Year Business Plan
- ▶ Budget is finalized in 4th Quarter of the preceding year
- ▶ Considered a commitment to our owners
- ▶ Prioritized for safe, reliable operation

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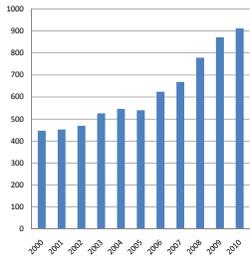
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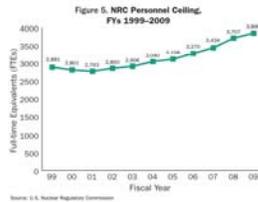
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## NRC Continues to Grow and Fees Increase

Fee Recovery in \$Millions



- ▶ NRC hourly rate: \$259
- ▶ NRC continues to add new staff



Does NRC do Lean thinking?

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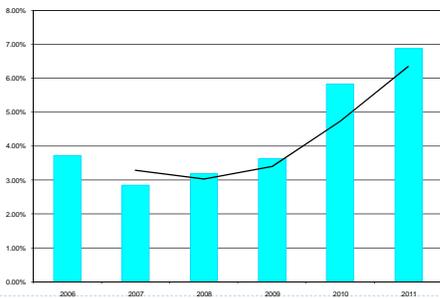
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## Regulatory Impact on Station Resources is Increasing

2006 - 2011 NRC Direct/Indirect Cost as Percent of STP Unit 1 & 2 Budget



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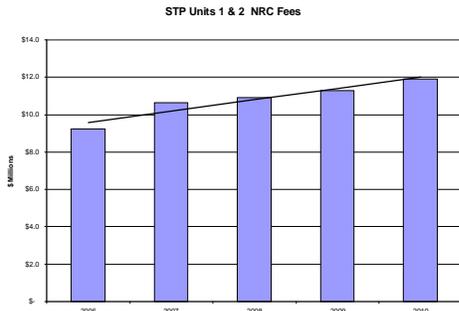
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## Need to Predict Costs for Planning



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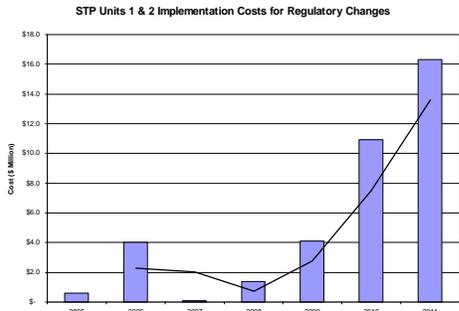
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## Need to Predict Costs for Planning



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## Emergent Costs Affect Long-Term Planning

*Projects deferred in 2011 due to emergent costs*

- ▶ Risk Informed Tech Spec Initiative 5 (b)
- ▶ TGB I35T Load Brake Reactor Coolant Pump Motor Refurbishments
- ▶ Safety Injection Test header valve modification
- ▶ Main Condenser ES Bellows Replacement
- ▶ Non-Safety Volt Reg Transformer Replacement
- ▶ ORAM Replacement
- ▶ Station Roof Maintenance
- ▶ Battery Replacement
- ▶ Rad Monitor Detector Replacement
- ▶ Crane Life Cycle Management Project
- ▶ RadWaste Truck Bay
- ▶ Remote Control Crane
- ▶ Rod Control Card Replacement
- ▶ Essential Chiller Reliability Improvement
- ▶ QDPS Power Supply upgrade
- ▶ Maintenance Procedure Upgrade
- ▶ Simulator Maintenance
- ▶ SGFP Digital Control System Upgrade
- ▶ Upgrade Obsolete CP PLC-3 Processors
- ▶ Automatic Multiple Rod Drop System Replacement

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## Integrated Predictable Planning Process

- ▶ Share lessons learned on cost mitigation strategies
- ▶ Discuss methods for avoiding duplication and unnecessary action which can lead to cost impacts
- ▶ Issue guidance concurrent with regulations to allow accurate assessment of impact
- ▶ Ensure the rollout period is based on safety significance and overall station impact
- ▶ Factor in impact of concurrent regulatory changes

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## Conclusion

- ▶ NRC and industry recognize the need to manage regulatory changes to assure safety while considering impact on resources
- ▶ Cost mitigation must be an industry and NRC strategy
- ▶ Integrated planning process can be an effective tool

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Presenter: [Jennifer Golder](#)

## NRC Budget Development

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NRC Strategic Planning and Budget Development Process Under the Government Performance and Results Modernization Act of 2010

- ▶ **Development of Agency Strategic Plans**
  - ▶ Plans to cover four year period, due one year after the President's inauguration
  - ▶ Plans establish near-term agency priorities and goals – in consultation with Congress and Industry
  - ▶ Explains how agencies will contribute to government-wide priorities
- ▶ **Fiscal Year Budgets**
  - ▶ Aligns agency resources with the priorities identified in the Strategic Plan
  - ▶ Establishes measurable goals that serve as leading indicators in achieving the broader priorities and goals contained in the Strategic Plan
- ▶ **Further guidance from OMB on government wide implementation of GPRA legislation is expected in late Spring**

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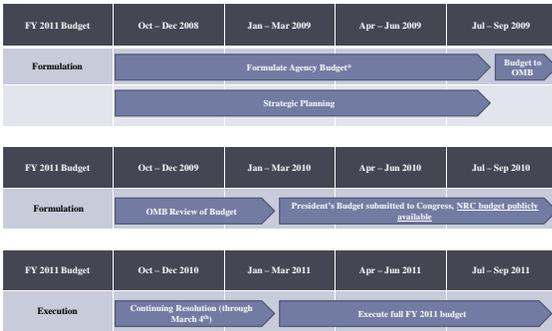
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NRC FY 2011 Budget Process  
October 2008 – September 2011



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\*Outreach to industry to determine agency workload expectations

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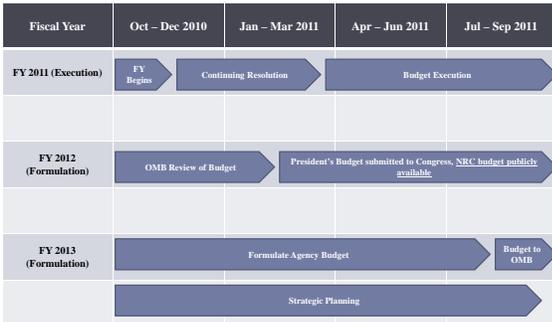
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NRC Budget Process  
October 2010 – September 2011



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Questions?

**U.S. NRC**  
Nuclear Reactor Safety  
Waste Management and Environmental Protection

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Appendix

**Background Information**

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FY 2010  
STEP 1: CALCULATE FEE RECOVERABLE AMOUNT

	<b>FY 2010</b>
Total Budget Authority (including OIG)	\$1066.9M <sup>1</sup>
Less, Nuclear Waste Fund	- \$29.0M
Waste Incidental to Reprocessing	- \$ 2.1M
Generic Homeland Security	- \$22.2M
Subtotal	\$1,013.6M
Total Amount to be Recovered @ 90%	\$912.2M
	↙                      ↘
	Operating Reactors <sup>2</sup> Others <sup>2</sup>
Total Fees to be Collected	\$787.3                      \$123.8M
	(86%)                      (14%)

<sup>1</sup>The NRC annual budget authority signed by the President does not always match the NRC's budget request to Congress ("Congressional Budget Justification").

<sup>2</sup>The Total Amount to be Recovered is adjusted for prior year unpaid invoices to compute Fees to be Collected (\$912.2M, less \$1.1M adjustment).

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FY 2010  
STEP 2: CALCULATE FY 2010 HOURLY RATE

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Mission Direct Program Salaries and Benefits	\$343.8M
Mission Indirect Salaries and Benefits and Contract Activity	\$135.6M
Agency Management and Support, and IG	<u>\$330.4M</u>
Total Budget Included in the Hourly Rate	\$809.8M
 Mission Direct FTEs	 2,276
 Budgeted FTE Rate per Direct FTE per Hour	 \$259 per Hour
[Total Budget Included in the Hourly Rate	
+ (Mission Direct FTE × 1,371 Annual Direct Hours Per FTE)]	

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FY 2010  
STEP 3: CALCULATE ANNUAL FEES FOR POWER REACTORS

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Total Budgeted Reactors Resources	\$787.3M
Less, Fee-Relief Surcharge	\$7.5M
Adjustments	<u>-\$0.2M</u>
Recoverable Amount from Reactors	\$794.6M
Less: Part 170 Revenue Estimate	<u>-\$312.5M</u>
Total Required Annual Fee Recovery	\$482.1M
 Annual Fee per Reactor for 104 Reactors	 \$4.7M

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