

THE NUCLEAR NEWS INTERVIEW

Sellman: Banding together in Wisconsin and Minnesota

The Nuclear Management Company was formed in late February by utilities operating nuclear power plants in Minnesota and Wisconsin. The new company—which someday may have a different name, according to the company president—is intended to improve safety, reliability, and operational performance of the utilities' plants by pooling expertise in technical matters and other areas.

The utilities are Northern States Power Company (headquartered in Minnesota), Wisconsin Electric Power Company, and Wisconsin Public Service Company. A fourth utility, Alliant Energy (headquartered in Wisconsin), is seeking approval from the Securities and Exchange Commission to join the company at a later date.

Michael Sellman has been named president of the new company. He is senior vice president and chief nuclear officer of Wisconsin Electric Power Co., in Milwaukee, where the new company's offices will be temporarily located. Prior to joining Wisconsin Electric, he held positions with Entergy Nuclear, Inc., Maine Yankee Atomic Power Company, and Northern States Power Company.

The new company will establish a senior management team to focus exclusively on consolidating the expertise and talents of employees, tapping the best practices at each site, controlling the costs of commonly used services, and integrating the resources of all seven nuclear plants.

The utilities will continue to own their own plants, be entitled to the energy generated by them, and retain the financial obligations for their safe operation, maintenance, and decommissioning. Overall plant operations will continue to be provided by the same plant personnel.

Each utility is required to obtain state and federal regulatory approvals before it engages with the new company. Approval will also be required from the Nuclear Reg-

A handful of nuclear operating companies may remain after deregulation of the electric utility industry—the Nuclear Management Company plans to be one of them.

ulatory Commission if any of the utilities elects to transfer a plant's operating license to the new company.

Combined, the four utilities operate seven nuclear units:

■ Monticello, a 593-MWe (net) General Electric boiling water reactor, located in Monticello, Minn. The unit started commercial operation in June 1971, and is operated by Northern States Power Co.

■ Prairie Island-1, a 503-MWe (net) Westinghouse pressurized water reactor, located in Red Wing, Minn. It started commercial operation in December 1973, and is operated by Northern States Power Co.

■ Prairie Island-2, a 500-MWe (net) Westinghouse PWR, located in Red Wing, Minn. The unit began commercial operation in December 1974, and is operated by Northern States Power Co.

■ Kewaunee, a 510-MWe (net) Westinghouse PWR, located in Carlton, Wis. It started commercial operation in June 1974, and is operated by Wisconsin Public Service Corp.

■ Point Beach-1, a 485-MWe (net) Westinghouse PWR, located in Two Rivers, Wis. The unit began commercial operation in December 1970, and is operated by Wisconsin Electric Power Co.

■ Point Beach-2, a 485-MWe (net) Westinghouse PWR, located in Two Rivers, Wis. It started commercial operation in October 1972, and is operated by Wisconsin Electric Power Co.

■ Duane Arnold, a 538-MWe (net) GE BWR, located in Palo, Iowa. The unit began commercial operation in February 1975, and is operated by Alliant Energy.

The interview was conducted by NN Senior Associate Editor Rick Michal.



Sellman: There's been talk about consolidating services for at least 15 years.

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Is your new company being formed in response to the challenges of electric utility deregulation?

Actually, we've been talking about consolidating nuclear services, management, and assets for at least 15 years, long before deregulation was imminent. Many of us felt in those days that there were obvious gains made in safety, reliability, and efficiency by working together. So deregulation is not so much a driving force for this as it is a catalyst.

With deregulation coming, some in the industry have said there will be only six or seven nuclear operating companies remaining. Was your new company formed to be one of those remaining operating companies? Further, was the company formed because there is strength in numbers, as opposed to being a single nuclear plant that could ultimately be sold for a fraction of the book value?

In answer to the first question, I am one of those who believes there will be a handful of nuclear companies operating all the nation's nuclear plants in a deregulated environment. Our intent is to be one of those companies.

Your second question—regarding the potential sale of a single unit versus a fleet of plants—is very interesting and one I hadn't thought of before. But, in fact, our new company consists of seven units providing a total of 3700 megawatts. So it strikes me that you might find that the reverse is true, that someone wanting to build their nuclear portfolio might be more interested in this organization with 3700 megawatts than trying to acquire 500 megawatts here and 500 megawatts there.

When the formation of your company was announced at the press conference in late February, I was confused about its actual name, whether it was a generic name for now to be replaced by a new name later.

We've incorporated as the Nuclear Management Company. We're going to pick another name, but that's what we're going with for now.

How is the new company set up, and what are the ownership percentages?

The company is a joint venture of the four utilities, and it's an equal ownership: 25 percent each for Northern States, Alliant, Wisconsin Public Service, and Wisconsin Electric. The company will have a board of directors that at least initially will have four directors. They will be the four chief executive officers of the four utilities.

What is the main advantage of setting up the company?

Our theme for moving forward is having a balanced approach to three key factors: safety, reliability, and economy. We expect that by combining the intellectual capital from these utilities and by doing certain things in concert, the whole will be greater than the sum of the parts, and we'll be better off in the three areas I mentioned.

How does its formation enhance safety at the plants?

Two things come to mind, in particular. One is, as I mentioned, the sharing of intellectual capital. I think the whole is greater than the sum of the parts. The other thing is just the sharing of best practices. It's amazing when you get people together and you talk about things. The old saying is that two heads are better than one. Well, in this case, four heads are better than one. I think there are a lot of good ideas we can share. I would add that we will be forming a multiplant assessment and oversight program, and it is much easier for such a group to be self-critical than for a single-plant assessment group to be.

How does the new company differ from the alliance that the four nuclear utilities formed early last year?

The alliance allowed us to do a very limited number of things, such as sharing good practices, so that we could take those practices and apply them at our plants. What the alliance didn't let us do was provide substantial services to all the plants—something that was restricted by law. But by forming this new company, we are allowed to provide services up to and including operational management. As a company, we can apply to the states of Minnesota and Wisconsin for an affiliated interest agreement that allows us to provide services across service territories. Also, to get into operational management, we have to get a license, and that requires us to get approval from the Nuclear Regulatory Commission. So we have to have an entity—a company—to do both of those things.

Is your company modeled after an existing nuclear management company?

Yes. This is not the first of its kind. As a matter of fact, I worked for another nuclear management company, Entergy Operations, which I believe was formed in 1989. At that time, Entergy consolidated the nuclear operations of three nuclear plants: the two-unit Arkansas Nuclear One, owned by Arkansas Power and Light; Grand Gulf, owned by Mississippi Power & Light; and Waterford-3, owned by Louisiana Power & Light. That's been a very successful model, but it's not the only one. There was a consolidation done by the Southern Company that combined two nuclear plants of two units each in Georgia—Hatch and Vogtle—with the Farley plant in Alabama. So, there are models around.

But in those cases, oversight has been by one company over several nuclear facilities. This is different in that four utilities are joining together to form one management company. Is that correct?

That is correct. In that respect, this is a little different from what was done in the other cases. However, let me reiterate that at this point in time we are talking about a new company to provide services up to and including management—not a company that owns nu-

clear assets. That simplifies it somewhat.

Can you talk specifically about some of the services that will be offered to the plants by the new company?

We plan to provide a broad range of services, some nuclear and some non-nuclear. For example, we plan to develop a common core analysis and fuel procurement group. We also plan to combine engineering support services. In the non-nuclear service support area, we expect a common approach to contracting and materials procurement.

While most of our resources will be at the nuclear plants, we expect to provide some common services at offsite service centers, possibly one in eastern Wisconsin and another in eastern Minnesota or western Wisconsin.

What specifically is a service center, and how will it operate?

A service center is a facility that provides services to multiple sites, the types of services that don't have to be "on site." I would envision our plants identifying service needs, and our service centers bidding against external vendors to provide those services.

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Will the new company have final say about the operations at the plants, such as when outages will be scheduled, or will individual plants retain operational autonomy?

Once we transfer the operating licenses of the plants, we will all be part of the same management, and so there won't be any distinction between plant management and Nuclear Management Company [NMC] management. However, while the parent utilities hold the nuclear assets, they ultimately will determine when the outages will be scheduled. I am sure they will seriously consider spacing the outages to optimize the opportunity for NMC support.

Which plants are initially transferring their operating licenses to the new company, and for those that aren't, why aren't they?

Kewaunee and Point Beach are initially transferring the licenses. They are separated by only four miles, and the advantages are abundantly clear. Northern States Power is evaluating the feasibility of one-step transfer of license and nuclear assets to NMC before moving forward. Alliant will be fully participating in the service company but is still evaluating if and when it makes sense to transfer Duane Arnold's operating license.

For the plants that are not yet going to apply for license transfer, are they going sign a management contract with the new company?

They will sign a service agreement with the new company. We've got some rough drafts

that aren't in final form yet, but will be finalized in the next few months as to exactly what that service agreement will be.

The ownership of the plants will remain with the owning utilities?

Yes.

So if Plant A's owners decided, for example, to shut the plant down after its initial operating license expires, there would be no liability or loss of book value to the remaining owners?

That is correct. Right now, it will stay much like it is today. Once we have a common nuclear management, we still will get funding for each of the plants from the parent utilities. What we're talking about now isn't asset transfer. So, yes, if one parent utility decided to do what you just suggested and close its plant down, that would have no effect on the costs of the other plants.

The new company will never own assets at the sites?

The company, as it is set up right now, will provide services only up to and including operational management. It's not being set up, at least right now, to hold nuclear assets. We may at some point decide to go into another phase that includes assets, but that's not initially what we're doing.

How much are the four utilities going to invest in this?

I can tell you what's happened with other utilities that have done this, based on my understanding. It has been, on the order of total formative costs, in the \$15–20 million range. My understanding from what has happened in other cases is that the benefits from services in common have offset that investment very quickly, in something like 18 months to two years.

Are the plant owners investigating license renewal, and how involved will the new management company be in that pursuit?

We certainly will look at that very quickly. The plants that we're talking about have been in operation since around 1970 or a few years after that. All the licenses currently expire somewhere between 2010 and 2016 or 2017. It is the right time frame to take a hard look at that and see what makes sense.

Besides the initial four utilities, what about others joining the new company?

We've had informal discussion with others. You know what this industry is like. We all get together and we all know each other, because we're getting to be a small club. I've had informal discussions, and other members of these four utilities have had them, too. We think that some other nuclear utilities are somewhat interested to varying degrees. But once again, we need to start by consolidating the nuclear plants of our own four utilities. And then after that, we're not opposed to growth and we're certainly going to entertain ideas that make sense for the owners and for the new company to include more utilities. But that's not the top priority right now.

Will it stay a regional company, or could it spread to the coasts, for example?

We haven't put any limit on that. In this day and age, there are certainly a lot of things you can do long distance. You can do so much electronically. I don't know if there are too many geographical barriers.

How many employees are there in total at the seven nuclear plants?

I believe it's 2600, and all the plants are unionized.

Will you be allowed to shift the union employees from plant to plant?

Let me go back to my days at Entergy. Three of the four sites—Grand Gulf, River Bend, and Arkansas Nuclear One—were unionized, while Waterford was not. We had an arrangement worked out with the three union plants, even though we had separate contracts at each of them. In fact, we had an arrangement where we shared people for outages—including the nonunion workers who came from Waterford—and it wasn't a problem. So what we'll do here is work very closely with the unions. Obviously, there are some advantages to being able to share people for various functions, including outage support. We just have to see how the unions feel about it. But, frankly, based on my experience at Entergy, I think there's a way we can work it out, and a lot of it would be voluntary. We don't want to be in a position where we force people to travel to various sites. We'll just look at where it makes sense to share people, including sharing union people.

Will the employees at the various plants become employees of the new company, for instance, will you pay them and will they get their benefits through you?

Eventually, yes. What we're going to do for awhile is not transfer employees. For instance, I'm a double-hatted employee. What we'll do this year is have a few of the managers who will also wear two hats. They'll continue in their role with their current utility, plus the role in the new nuclear management company. We will also begin, as time moves forward, leasing employees from utilities as we begin to transfer and provide services. What we eventually will see happening—probably at the earliest after we get approval to transfer licenses—is that we'll begin transferring employees to the nuclear management company. But that will happen only after we've made all the employees whole in terms of their benefits and pensions, and putting their minds at rest. I would say we're talking about a year from now at the earliest.

Do you see any downsizing taking place at the

plants?

When we look at the number of people per installed megawatts at our plants, or the number of people in general to run these nuclear programs, they are among the most lightly staffed of any plants in the country. We don't think that overstaffing is an issue at all.

What is the average cost of generation for these plants? How much do you think you'll be able to bring down the cost of the generation once the new company is on its feet?

I would guess right now that the average cost for the seven operating units probably runs a little under \$20 per megawatt-hour. That's for O&M plus fuel only. As to what it can be brought down to, I need to go back to my original point that we're going to make sure that we take a balanced approach here, and our key objectives, first and foremost, are going to be in terms of safety and reliability. We feel comfortable that economy will go with it. Actually, if you take a look at the way

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these plants have performed compared with other plants in the country, they've been cost-effective already. I think that at most of the larger organizations you talk with—whether it's Entergy or Duke or PECO or Southern Company—you'll find that they feel they can achieve an overall cost of about \$15 or even a little lower per megawatt-hour. Our company would look at the same ballpark.

What about the NRC's involvement? Could you encounter rough water in setting up the new company, or do you foresee smooth sailing?

We've talked with the NRC. I went down and met with the regional administrator and gave him a heads up. But with this industry, it's hard to ever say “smooth sailing.” I don't foresee any problems, but on the other hand, I know that in a situation like this, both the state and the NRC provide opportunity for public comment. They then have to deal with the comment they get. So, I don't foresee any rough water, but it would be foolish of me to say that there isn't any out there.

Five of the units are Westinghouse pressurized water reactors and two are General Electric boiling water reactors. How does that fact fit into the equation that makes up the new company?

It's an advantage. The PWRs are all not only Westinghouse plants, but they're the same vintage, meaning that all five units were built be-

tween 1970 and 1974. From a design standpoint, they're all two loopers and they're all about the same size. Also, it's a plus that the two BWRs are somewhat similar, both being built by General Electric in the 1970s. Now, as I recall when Entergy was formed, it was formed with three PWRs—two at ANO and one at Waterford—and one BWR, Grand Gulf. The reactors were built by General Electric, Babcock & Wilcox, or Combustion Engineering, and they ranged in size from 836 megawatts up to more than 1100 megawatts. But they still found a lot of synergies in very different types of reactors. So there are advan-

tages—such as combining contracts and procurement—even if you have dissimilar reactors. But it certainly does enhance things for us that we have such similar plants.

Will the formation of the new company affect the situation of spent fuel storage at the various plants?

That's a good question. Actually, I don't think so. We're still all subject to storing spent fuel on our own sites, and the government has an obligation to take it. But it will be awhile before they do. The bottom line is that there really is no effect on spent fuel storage and

the way we store it in connection with the formation of this company.

What's the next step for the company?

We will, over the next few months, develop a service organization, an infrastructure, and a management organization. We want to start providing services when we get the states' affiliated interests approval, which we expect by late 1999 or early 2000. We are also expecting to get NRC approval by then for license transfer. **■**