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U.S. NUCLEAR REGULATORY
Commission

To: SECRETARY OF THE Commission

U.S. Nuclear Regulatory Commission
WASHINGTON, D.C. 20555

ATTN: DIRECTOR, RECORDS BRANCH

Docket # 50-466

IN THE MATTER

of H.L.P.

(ACNGS Unit)

Additional material in support of
contentions of Bryan T. Fisher



Enclosed are newspaper articles covering the first two days of H.L.P. rate hike hearings before the Texas Public Utilities Commission (PUC) which has direct bearing on my Contention #1 now before the Licensing Board of NRC. This contention concerns the financial qualification of H.L.P. to construct ACNGS.

As I note in contention #1, the H.L.P. comptroller has said that "100% inclusion [of CWIP] is required to maintain the Company's financial integrity...." As can be seen from an examination of the newspaper record, 100% inclusion is being fought not only by H.L.P.'s natural enemies but also by the staff of the P.U.C. and attorneys for the City of Houston. Additionally, the rate increase generally is opposed by representatives of Channel industries.

By H.L.P.'s own admission, without 100% CWIP, the company will not be in a position to weather the various financial burdens placed on the company.

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Additional material to
contention of O. J. Baker

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Petitioner also notes that the South Texas Nuclear Project, which HLP priced at \$1.6 billion just last July (1979) is now expected to cost at least \$2.7 billion. This \$1.1 billion discrepancy is equal to the entire (projected) cost of ACNWS, and as already noted in my contention, HLP's share of this overrun will cut deeply into funds available for ACNWS, even in the doubtful case that 100% of CWIP is allowed in the rate base.

Testimony of Don Jordan before PUC indicates that HLP will need to return to P.U.C. again and again to obtain necessary construction funds, and growing opposition to HLP's bottomless appetite for money makes applicant's ability to get such money highly doubtful.

Incidentally, I neglected to sign & date my contention mailed ~~on~~ on Sept. 14, 1979. They should be dated Sept 13, 1979, and I hereby certify that they are indeed my contentions.

Bryan J. Baker
Sept. 29, 1979

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DUCKET # 50-466
ADDITIONAL MATERIAL FOR
CONTINUATION OF BL. BANK

HL&P says Brown & Root report on N-project work was deceptive

By FRED BONAVENTA
Post Austin Bureau

AUSTIN — The president of Houston Lighting & Power Co. said here Thursday that Brown & Root Inc. gave his firm misleading information on the status of engineering work on the troubled South Texas Nuclear Project, which has cost overruns amounting to hundreds of millions of dollars.

Don D. Jordan said Brown & Root officials assured HL&P and its three partners in the multibillion-dollar project that engineering work was 60 percent completed in March 1976, when the first sack of concrete was poured.

But, Jordan said, HL&P later discovered the engineering work at that point was "something less than 10 percent actually completed by the architect-engineer (Brown & Root) at the time construction started."

Jordan, who also is chief executive officer of HL&P, which is the managing partner in STNP,

made the disclosure in sworn testimony before a Texas Public Utility Commission examiner as a public hearing opened into the utility's application for a \$178.3 million rate increase.

The hearings, which are expected to last more than two weeks, were punctuated Thursday by some 200 chanting Houston-area residents who protested the rate-increase request, saying the poor would be forced to choose between heating their homes and cooking their meals this winter if their electric bills were raised.

The status of the STNP was a major point of interest among HL&P's opponents on the rate increase issue, since the company is asking the PUC to include all of the \$690 million in "construction work in progress" — or CWIP — in its rate base. One opponent charged CWIP alone accounted for \$79 million of the requested rate hike, while another said HL&P wants its customers instead of investors to pay for construction projects.

The PUC staff has recommended HL&P get

only a \$63 million rate hike, and the city of Houston approved a \$44 million increase within its jurisdiction. A PUC official said the staff recommended only 45 percent of CWIP be included in the rate base.

Jordan said the staff's recommendation was inadequate and would hurt the company in attracting investment capital, selling bonds or selling its stock, which already is going for less than book value. He said HL&P has a construction program of about \$3 billion planned for 1980-82, and most of the projects cannot be delayed if the firm is to meet demand.

But Nancy Leshnikar, a PUC attorney, quizzed Jordan at length about the cost overruns of the STNP, their impact on HL&P's rate base, the involvement of Brown & Root in the matter and what HL&P was doing about the situation.

It was disclosed late last month that STNP has

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run into another cost overrun — this one at least \$400 million — that threatens to at least double the original \$1 billion cost of the project and delay use at least until 1984. HL&P's share of costs in the nuclear-powered, electric generating plant in Matagorda County south of Bay City is part of the CWIP it wants passed on to its customers now through this rate increase.

Asked by Leshnikar how much of the STNP engineering work had been completed when construction work began, Jordan replied, "We got that construction permit in December of 1973 or November or December of 1973. . . . We went into the field on that project. . . . (Brown & Root indicated) there was 60 percent of the engineering completed, and the project was kicked off and the first concrete was poured in March of 1976."

"I understand that subsequent reports have been given to us that there was not 60 percent of the engineering completed at the time that the project started, and that there was something less than 10 percent actually completed. . . ."

Jordan said HL&P caught on in a very short time that something was amiss and hired a con-

sulting firm by the spring of 1977 to oversee the work. From first to last, he said, the consultants' reports said "the engineering work was certainly behind."

But the HL&P president would not go beyond that point when he was cross-examined a short time later by attorney Mike Shirley, representing Community Public Service Co., and declined to characterize Brown & Root's actions as either misrepresentation or a mistake.

Asked by Shirley what HL&P intended to do about the situation, Jordan replied, "What we intend to do is get that project built as quickly as we can get it built and at the lowest cost."

"Is there anything going to be done by HL&P to see that the people responsible for the delays bear the cost of the delays?" Shirley asked.

"You are assuming that we find fault. . . .," Jordan said. "We obviously are not going to waive any of our rights, but we are not in a position to say whether we have any recourse at this time."

Jordan also said Brown & Root got the architectural, engineering and construction contract through negotiations with HL&P and other builders and not through competitive bidding.

George W. Oprea Jr., HL&P executive vice

president who has had direct dealings with STNP took the witness stand late Thursday and echoed much of Jordan's testimony about the engineering work being at least partly responsible for the delays. But he also blamed soil conditions and the need to buy more steel.

In protesting the rate increase request, members of the Houston chapter of the Association of Community Organizations for Reform Now complained poor persons in HL&P's service areas could not afford another increase in their electric service.

"ACORN members want justice," one of them testified. "We want to be able to heat our homes and cook our meals. Do we heat or do we eat?"

Emily Lewis of Houston told the hearing: "No amount of charitable contributions will ever erase HL&P's reputation of taking from the poor and giving to the rich."

Glenn Van Slyke of Houston, representing ACORN, said the reason HL&P wants 100 percent of its CWIP included in the rate base is that the Three Mile Island nuclear power plant scared banks and other lenders from lending money on nuclear-powered projects.

"So HL&P is turning to the PUC and demanding that the people pay for it," he charged.

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ADDITIONAL MATERIAL
For Commission of
Bryan L. Baker

CHRONICLE 9/28/79

HL&P hearing focuses on management policies

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BY RICHARD FISH
Chronicle Austin Bureau

AUSTIN — A hearing on the request of Houston Lighting and Power Co. for a \$178.4 million rate increase turned into an examination of the company's management practices.

The staff of the Public Utility Commission recommended Thursday that HL&P receive only a \$63 million annual increase, or about one-third of what the huge utility is seeking.

The main difference in the proposals, said a PUC staff attorney, is that HL&P is asking that all of some \$690 million worth of construction work in progress be counted in determining its allowable rate of return.

The PUC staff recommended including only 45 percent of current construction.

The utility commission's staff also recommended that a management review of HL&P be conducted.

Questions about the utility's operations ranged from pointed queries on the purchase of a luxury motor home to interrogation about whether the company is doing an adequate job of overseeing construction of the South Texas Nuclear Project near Bay City.

HL&P is project manager for the nuclear generating plant, which is being built by Brown & Root of Houston for a consortium of utilities that includes the City of Austin, City Public Service Board in San Antonio and Central Power and Light Co. on the Gulf Coast.

George Oprea, HL&P operations vice president, testified here Thursday that his company didn't realize how little engineering work had been done on the nuclear plant at the time it received a construction permit from the Nuclear Regulatory Commission.

Oprea said the company thought 80 percent of the engineering and architecture work had been done by Brown & Root at the time the project was licensed.

A later audit found that only 8 percent of the engineering actually had been completed at the time.

Cost overruns and a four-year delay in completion of the plant have caused Austin and San Antonio to demand independent audits of the project management as well as the contractor. Officials in both cities also have raised the possibility of lawsuits over the expensive delays.

HL&P's role in STNP was examined even though the cost of delays is not reflected in the current rate increase request.

PUC lawyer Nancy Leshkar said the agency staff is interested because its recommendation for a rate order by the three-member regulatory commission "probably will save that we need to take a closer look at HL&P from a management point of view."

Oprea said HL&P already is taking a closer look at Brown & Root's performance on STNP, and has tripled the number of HL&P support staff and inspectors "looking over their (Brown & Root's) shoulders."

Oprea said he sensed two years ago that a more stringent audit of the plant construction was required.

"Sometime in 1977 I had that little tug at the pit of my stomach that we ought to do something about taking a closer look," Oprea said.

Power company management also were quizzed by consumer group attorneys, and members of the Houston-based Association of Community Organization for Reform Now filled the hearing room briefly for a sign-carrying, chanting demonstration.

"We are fired up and we can't take it anymore," the group of mostly elderly persons called in unison, then began shouting, "The people united will never be defeated."

Representatives of the 200-member group read from prepared statements, condemning HL&P for giving approximately \$50,000 last year to charity.

"No amount of charitable contributions will erase HL&P's reputation of taking from the poor and giving to the rich," one ACORN member read.

Carol Barger of Austin, an attorney for ACORN and the Consumers Union, questioned HL&P president Don Jordan about the company's purchase earlier this year of a \$47,000 luxury motor home.

Jordan said the vehicle is used to transport community leaders and city council members to major HL&P facilities.

He said the Executive brand motor home was bought as a "reasonable" way of transporting the power company's distinguished guests and called it "a legitimate business expense."

Under Ms. Barger's interrogation, Jordan also testified that his company car is a 2-year-old Lincoln.

In its own "Rate Facts" publication ex-

plaining the rate hike request, the company said the need for new power plants to serve the fast-growing Houston area is a main factor in the rate request.

Jordan said Thursday "I think the country clearly is going to be looking at an inflated economy over the next several years. The price of everything is going to go up substantially for every delay. That's why we're trying to build as much stuff as possible as quickly as possible."

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HL&P official says nuclear plant cost to be \$2.7 billion

By FRED BONAVIDA
Post Austin Bureau

AUSTIN — An official of Houston Lighting & Power Co. said here Friday the estimated cost of completing South Texas Nuclear Project has risen to about \$2.7 billion and the project is about four years behind schedule.

George W. Oprea Jr., HL&P executive vice president, told a Texas Public Utility Commission examiner that when the first sack of concrete was poured in 1976, estimates were that the project would cost \$1 billion and be completed in 1980.

The latest estimate was \$300 million higher than one made a month ago which prompted an angry Austin Mayor Carole McClellan to demand an outside audit of HL&P's performance as managing partner in STNP. The cities of Austin and San Antonio and Central Power & Light Co. of Corpus Christi are the other partners in the venture.

Oprea gave the latest cost figures in the second day of testimony on HL&P's application to the PUC for a \$173 million rate increase. Most of the questioning of company witnesses both days centered on its management practices.

emphasis on its handling of the troubled STNP.

Oprea, who is the company's representative on a management committee that runs the construction program for STNP, on a daily basis, spent most of Friday on the witness stand being quizzed about how closely he monitored the engineering and architectural work done by Brown & Root Inc. of Houston, the prime contractor on STNP for those aspects and the construction.

He and Don D. Jordan, HL&P's president and chief executive officer, testified Thursday their firm had been led to believe by Brown & Root the engineering work was 60 percent completed in March 1976 when construction work was begun but later learned it was only between 3 and 10 percent complete then. Engineering work has only recently reached 63 percent of completion, both men testified.

Harriet E. Hubacker, attorney for the city of Houston in opposition to the rate increase, asked Oprea whether HL&P had attempted to "bring anyone in who had had some experience in nuclear

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power plants when the firm launched its first ventures in the field.

"We made no attempt to proselytize people, but we tried to hire people as they became available," Oprea told her.

He also told her he did not "sign off" on every engineering specification or drawing made in connection with the construction of STNP, although he did check the "milestones" in the project. He said he would have needed a staff of 700 to check every detail of the work.

Asked how HL&P expected to get an accurate cost estimate of the project without a complete set of plans, Oprea said he had to rely on Brown & Root's experience and expertise in the field and

that the firm's cost figures were checked against comparable figures for other nuclear-powered plants around the nation.

"When I hire a contractor to build a house, I don't give them a cost-plus contract," Hubacker told him. "I get a firm price, and any change in that price is due to a specific change order."

"You won't find any contractor that will take a nuclear contract on a fixed-price basis, mainly because of the constantly changing regulatory climate," Oprea shot back.

The HL&P official also was unable to tell Carol Barger, attorney for consumer groups opposing the full rate increase, what the costs were to correct 24 violations of Nuclear Regulatory Commission regulations found at STNP by inspectors, although he said he would get the figures.

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for her.

She also asked Oprea about reports from NRC inspectors in 1978 that they were not getting cooperation from quality control personnel and what was done about them. Oprea said he "vaguely remembered" some of the complaints and that they were handled by "staff" and not by him directly.

At one point Friday morning, Jonathan Day, representing a consortium of industries in the Houston area opposing the rate increase's effects on them, asked the PUC hearing examiner to curtail Barger's questions about cost overruns and other aspects of the STNP on the grounds they did not have a direct bearing on the rate case.

"There is a limit to the relevance of the South Texas project here," warned Examiner Carolyn Shellman, but she al-

lowed the line of questioning to continue briefly.

Meanwhile in Houston, a Brown & Root official acknowledged the construction company had misinformed HL&P in March 1976 about the status of engineering work completed on the South Texas Nuclear Project.

Steve Grote, a vice president in Brown & Root's power division, said the 60 percent estimate was based on the company's analysis at that time of the scope of work involved in the plant.

"The figure was based on our own good-faith analysis at that time," he said, adding that it was checked against then-known scopes of work in other similar nuclear projects.

But a later retrospective analysis showed only about 20 percent of the engineering work was finished at that time.

Grote said.

"I know Jordan said 10 percent," he added, "but that's not our analysis."

Grote said the miscalculation resulted from changes in regulatory requirements and project design changes that greatly increased the amount of engineering work required.

"The scope of this job has increased by about 19 percent a year compounded annually," he said. "That compares favorably with other nuclear projects."

Grote said he does not feel the engineering situation caused any construction delays. "The job was just bigger than originally perceived."

He declined to estimate the percentage of engineering work currently completed, saying that is now being analyzed. He did say it is now "past 50 percent."

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contention of B. Baker

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N-power project target of questions on HL&P rate hike

BY RICHARD FISH
Chronicle Austin Bureau

AUSTIN — The South Texas Nuclear Project, its cost and delays — again was the target of sharp questions by participants in a public hearing on Houston Lighting and Power Co.'s request for a \$173 million rate increase.

Harriet Hubacker, assistant Houston city attorney, Friday asked HL&P Vice President George Oprea why the company wasn't aware earlier of factors that could cause delays in completion of the nuclear plant.

Oprea and HL&P President Don Jordan testified Thursday that they thought 60 percent of the engineering work on the project had been completed by Brown & Root Inc. of Houston at the time the plant received a construction permit from the Nuclear Regulatory Commission.

They said they found out after a later investigation that only 8 percent of the engineering was done at the time the project was permitted.

"When I hire a contractor to build a house, I expect to see a plan before I start building. How can there be such a disparity between thinking you're 60 percent done and finding you're only 8 percent," Ms. Hubacker asked.

"When you see your house plans, you don't see construction plans, you see a general layout," Oprea said. "You don't see all the details, the nails, the placement of conduits, the location of switch boxes and trusses."

"You depend on the expertise of the house builder," he said. "Likewise, with a nuclear power plant, you get an A&E (Architecture and Engineering) contractor who has built a number of plants."

The lawyer for Houston, which is intervening in the rate case, also questioned the cost-plus manner of payment of Brown & Root for the power plant work. "When I hire a contractor to build my house, I don't give them a cost-plus contract," she said.

"You won't find any contractor to take a nuclear project on a fixed-fee basis, mainly because of the changing regulatory climate" which can require unexpected expenditures, Oprea said.

When the South Texas Nuclear Project was begun, company officials testified here, the first generating unit was projected to be in operation in 1980 at a cost of \$1 billion.

Now completion is estimated for 1984, and HL&P is projecting a cost of \$2.7 billion for the project.

President Jordan was asked if HL&P would ask ratepayers to bear the additional cost of the project. "That's correct," he said.

The Houston power company is the managing partner of the STNP and will receive the bulk of its power output. Other partners in the STNP consortium are the city of Austin, San Antonio's City Public Service Board, and Central Power and Light Co.

Austin attorney Carol Barger, representing several consumer groups and an anti-nuclear organization, criticized what she called the "incredible overruns in the cost" of the STNP.

"Ratepayers shouldn't be absorbing all the costs of their poor planning," she said of HL&P.

Jordan was asked on the opening day of the hearing Thursday if anything could be done "to see that the people responsible for the delays are held responsible for the cost?"

"Now, four years away from completion, we're not in a position to say whether we have any recourse or any cause," Jordan said.

"What we're interested in doing is to get that project built as quickly and cheaply as we can considering the position we are presently in," he said.

HL&P says the need for construction funds is a major factor in this rate increase request, and company officials said they expect to return regularly to the PUC with further rate requests to allow them to keep pace with Houston-area growth.

The power company is seeking to have 100 percent of \$690 million worth of construction work in progress (CWIP) included in the rate base. That base is one factor from which the utility's permissible rate of return, and any rate increase, will be computed.

The PUC staff has recommended including only 45 percent of CWIP in the rate base, and has proposed allowing HL&P only a \$63 million rate increase.

The hearing is expected to take at least two more weeks. A final decision on any increase will be made by the three appointed PUC commissioners after they have reviewed the testimony and evidence from the hearing.