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Subject: Wall Street Journal Page 1

Dear Friends:

Sorry for the delay but this is yeaterday's front page article from the Wall Street Journal. I have unconfirmed information that one of the NU Trustees has called for Fox's resignation.

Current Events:

Regulators, Trustees
Put Pressures on Chief
Of Northeast Utilities

Flaws in Nuclear Operations
Prompt Board to Mull
Bernard M. Fox's Tenure

Focus on 'Integrity and Trust'

By Ross Kerber and Steve Stecklow
Staff Reporters of The Wall Street Journal

At a special meeting of Northeast Utilities' trustees Sept. 4, Chairman and Chief Executive Bernard M. Fox tried to explain how New England's largest electric company went from being one of the country's best-managed nuclear utilities to one besieged by regulators.

Mr. Fox said he had been too soft -- not getting rid of enough ineffective managers at Northeast's troubled nuclear plants. And, fearful of impending utility deregulation, top management had become too obsessed with cutting costs, he added.

Several board members weren't impressed. One, William J. Pape II, publisher of the Waterbury (Conn.) Republican-American, spoke out. "You've got a terrible credibility problem with regulators and the public," he told Mr. Fox at the meeting at company headquarters in Berlin, Conn., according to several participants. Now, the board is talking about replacing Mr. Fox.

"I don't think that should come as a surprise to anyone," one Northeast trustee says. "I think a majority of the board has participated in the discussions."

Mr. Fox, a 30-year company veteran, is in the middle of a nuclear-operations nightmare. The utility's four reactors in Connecticut are shut down for safety reasons. At least one of them, Connecticut Yankee -- which Northeast operates as 49% owner -- may never reopen. Costs for replacement energy and plant fixes already exceed \$350 million and are expected to top \$600 million by the end of 1997. Two federal criminal investigations are exploring operations at the

company's Millstone plant in Waterford, the Justice Department and the company say.

The company and the Nuclear Regulatory Commission say they have no idea when the plants can go back on-line, despite Northeast's many earlier forecasts.

Members of an independent "corrective verification team" -- which the NRC demanded in August to make sure Northeast fixed the problems -- haven't even been selected yet. Restarting the plants "really depends on the utility getting its act together," NRC Chairman Shirley Jackson says. Mr. Fox concedes that "I do not have dates" for restarts.

Relations between the NRC and Northeast have grown so strained that one agency supervisor says he questions the trustworthiness of management. "One of the most significant problems is the issue of integrity and trust," says Wayne Lanning, who directs a special nine-person NRC team overseeing Northeast's Millstone plant. "I cannot recall other problem plants that had that issue so visible as at Millstone."

NRC inspectors have said in recent months that they and the company have turned up hundreds of safety problems at the three Millstone reactors, which are on the agency's "watch list" of troubled plants. Even while closed, Northeast's plants haven't been incident-free. For four days in late August, Connecticut

Yankee operators failed to notice the reactor's coolant water was leaking because they had disconnected the water-level gauges, the NRC said last week. Left unchecked, it could have led to a serious accident, the agency says.

Although Mr. Fox says Northeast has enough "availability of cash to carry us well into the future," its financial condition is worsening. The board has slashed its common-stock dividend to 25 cents from 44 cents. Shutdown-related costs drove second-quarter earnings to \$11.7 million, or nine cents a share, down 72% from the year-earlier \$42.4 million, or 34 cents a share. Standard & Poor's and Moody's Investors Services have downgraded the company's debt, and Moody's says it is reviewing about \$2 billion of it for possible further downgrade. Since January, Northeast's stock has lost more than half its value; it closed Friday in New York Stock Exchange composite trading at \$12.125 a share, up 12 1/2 cents on the day.

Now, Northeast trustees -- who named Mr. Fox chairman just 14 months ago -- are talking about possible replacements. "I don't think that the board is wed to

Bernie Fox, and if we see a path that looks better for the company, we'll take it," says one trustee, one of several on the 11-member board who spoke to this newspaper despite efforts by Northeast's public-relations personnel to have all calls referred to the public-relations department. Adds another, "We have sort of arrived at a consensus that we'll look at his performance in January, and if we don't think he's pulling things together . . . the board has got to do something."

Board members say they worry they won't be able to find a qualified successor, given the company's present predicament. Mr. Fox -- the sole trustee from inside the company -- says he has no intention of resigning and believes he has the full support of the board. "I feel we're very unified and

we're trying to work on the problems we face," he says.

Mr. Fox's travails couldn't come at a worse time for Northeast. Like nearly all U.S. electric utilities, it is facing the daunting task of adjusting to an overhaul of the way power is sold. Within a few years, many consumers will choose an electric company the way they choose long-distance telephone service, and demonopolized utilities will have to compete on price. New England states are moving especially aggressively in this direction.

Mr. Fox and other Northeast officials say deregulation is at the root of Northeast's troubles; in recent years, the company became so obsessed with cutting costs and preparing to offer attractive prices that it failed to act swiftly when problems at its nuclear plants grew. Many of the country's 45 other nuclear utilities could face a similar dilemma because nuclear power is generally more expensive than fossil-fuel power.

According to the NRC, Northeast ignored repeated warnings, dating back 10 years, that valves used to prevent radioactive water from escaping the reactor-containment building in the event of an accident at Millstone Unit 3 didn't function properly. The company "didn't do anything about it," Mr. Lanning says, and the defective valves led to the reactor's shutdown in March.

Northeast also delayed and scaled back a program to verify that its nuclear plants worked as designed. As a result, the company didn't learn until recently that another crucial safety component, the recirculation-spray system, didn't work at Millstone Unit 3. In the event of an accident in which pipes carrying cooling-water break, the system is supposed to recirculate the water and keep the reactor cool. That problem alone, which the NRC says should have been caught long ago, could take up to six months to fix.

"Cost containment has been an overriding consideration for managers," Mr. Lanning says. "What's the old saying? Penny-conscious and pound-foolish." Mr. Fox says poor communication caused employees to believe that Northeast was emphasizing "cost over operational excellence," but "that's not what I wanted."

The NRC concedes it deserves some blame for Northeast's woes because of lax oversight. Nine years ago, the NRC ranked the utility one of the best in the nuclear industry and rarely imposed fines on it. When Northeast took over the troubled Seabrook nuclear plant in 1992 from Public Service Co. of New Hampshire, then in bankruptcy reorganization, Northeast was considered a white knight. "We regarded them as a very effective licensee," Mr. Lanning says.

But in the late 1980s, many Northeast nuclear managers retired or quit. The company embarked on a mission to bring its costs more in line with those of other nuclear utilities. In a highly critical report in July, Mario V. Bonaca, a

Northeast engineer, and two consultants wrote, "Starting in the late 1980s, there was a perception that excellence was too expensive." Mr. Bonaca says

Mr. Fox and William B. Ellis, who retired as Northeast's chairman last year, didn't understand the impact their cost-cutting drive was having on the nuclear operations.

"The message from Fox and Ellis was, 'Cut costs, focus on running the plants,

I don't want to hear about all the baloney,'" Mr. Bonaca says. Nuclear vice presidents were left to decide on specific cutbacks. "I don't think it was the intent of management not to do the right thing; I just think it was a lack of appreciation of what the consequences would be," Mr. Bonaca adds. His report doesn't indicate why many managers who had "successfully guided NU's nuclear program" left during the 1980s. The report does say they were replaced by managers from within the company with less nuclear experience.

Mr. Ellis says he has given a lot of thought to the past, but has reached no conclusions. "The judgment of mistakes is a matter of hindsight, and I don't have it," he says.

Beginning in 1990, the plants were beset with safety problems. Pipes leaked, corroded drain lines failed, and plants had to be shut down. Control-room operators couldn't pass tests to show they knew how to do their jobs. The NRC fined Northeast more than a dozen times for safety violations between 1990 and 1994.

Workers who brought problems to management's attention were rebuffed, harassed or laid off, the NRC says. George Galatis and George Betancourt, two Millstone engineers, say that when they raised concerns about the plant's refueling practices, managers dismissed their complaints and instead suggested they see company-approved psychologists to work on their teamwork skills. Messrs. Galatis and Betancourt refused; their concerns later were upheld by the NRC.

Mr. Fox says he accepts the NRC finding that Northeast employees who raised safety concerns were harassed. "That's an area where improvements must be made, and we're trying to make those improvements," he says.

The NRC's Mr. Lanning says Northeast still doesn't know how to deal with employees who raise safety problems. One Northeast supervisor complains that when he attended a meeting with Mr. Fox that was intended to put him in touch with employee concerns last spring, a "facilitator" screened questions before the chief executive arrived. "When the first 10 to 15 questions were all negative," the facilitator suggested some positive questions and watered down others to prevent "any personal attacks," the supervisor says. Mr. Fox says he uses a facilitator as a conduit to encourage employees to ask him tough questions.

Mr. Fox has been present throughout Northeast's nuclear ups and downs. The 53-year-old executive, who grew up in New York's rough Hell's Kitchen neighborhood, joined Hartford Electric Light Co. as a cadet engineer in 1964 after earning a master's degree in electrical engineering from Rensselaer Polytechnic Institute in Troy, N.Y.

The Hartford utility became part of Northeast Utilities shortly afterward, and Mr. Fox has worked for Northeast ever since. Mr. Ellis, the former chairman, says Mr. Fox impressed Northeast when he ran its natural-gas division in 1981.

"The business was a business that at some point or other we had to divest, but in the meantime, we had to operate very well, and he did a good job," Mr. Ellis says.

Northeast groomed Mr. Fox to become its chief financial officer, and he got the job in 1983. He later added the duties of chief operating officer and president. In 1991, Mr. Ellis says he learned that Mr. Fox was being courted by another utility. Afraid to lose him, Mr. Ellis says he told the board that he intended to retire early and that Mr. Fox should succeed him. "He had developed into a very competent utility executive," Mr. Ellis says. The board agreed; Mr.

Fox was promoted to chief executive in 1993 and succeeded Mr. Ellis as chairman in August 1995.

Colleagues and friends say Mr. Fox is consumed by his work; by his own account, he works on average 70 hours a week. His few outside activities generally involve local charitable causes. One board member says the utility's mounting problems have taken its toll on Mr. Fox. Because of the intense pressure he faces, board members say they recently suggested that he take a vacation. Mr. Fox says he doesn't recall the suggestion but took part of last week off. "I'm doing fine," he says.

Until recently, Mr. Fox maintained good relations with the board, which promoted him last year with little discussion. But in February, tension surfaced when Mr. Fox argued that despite the troubles at Millstone, he deserved 100% of his short-term bonus for 1995, one trustee says. In the end, the board ordered it reduced 25% to \$246,168. (His base salary is \$551,300.)

A Northeast spokeswoman differs with this account, saying the cutback was Mr.

Fox's idea. Mr. Fox could get the 25% if the company meets unspecified "nuclear-performance goals," according to the company's proxy statement. The board also is studying a proposal to tie Mr. Fox's future bonuses to performance goals for himself rather than for the whole company.

Board members say Mr. Fox does deserve credit for bringing in Bruce D. Kenyon, former president and chief operating officer of South Carolina Electric & Gas Co., to run the nuclear operations. Mr. Fox says he is counting on him "to lead the turnaround in our nuclear program" and attract "a new infusion of highly credible management."

NRC TO DISCUSS APPARENT VIOLATIONS

AT HADDAM NECK NUCLEAR PLANT

The Nuclear Regulatory Commission staff will meet with officials of Connecticut Yankee Atomic Power Company on Friday, October 18, to discuss apparent violations of NRC requirements at the Haddam Neck Nuclear Power Plant in Haddam, Connecticut. The predecisional enforcement conference, which is open to the public for observation only, will begin at 9 a.m. at the Hawthorne Inn, 2387 Berlin Turnpike in Berlin, Connecticut.

The apparent violations were identified during several

NRC regular and special inspections, starting last November. The apparent violations include errors in design basis documents, errors introduced by design changes, inadequate corrective actions, errors in evaluations required by NRC regulations, failure to update the Final Safety Analysis Report, and violations having to do with the operability of equipment, including the containment air recirculation fans and the residual heat removal system.

The decision to hold a pre-decisional enforcement conference does not mean that the NRC has determined that a violation has occurred or that enforcement action will be taken. Rather, the purpose is to discuss apparent violations, their causes and safety significance; to provide the licensee an opportunity to point out any errors that may have been made in the NRC inspection report; and to enable the licensee to outline its proposed corrective actions. No decision on the apparent violations will be made at this conference. Those decisions will be made by senior NRC officials at a later time.

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