

July 26, 1994

RIF

refer to EDO

MEMORANDUM FOR: William T. Russell, Director
Office of Nuclear Reactor Regulation

FROM: James. M. Taylor
Executive Director for Operations

SUBJECT: NRR STAFF ACTIONS RESULTING FROM THE
DIAGNOSTIC EVALUATION AT SOUTH TEXAS PROJECT 930013

Your memorandum to me dated June 1994 provided the status of open NRR actions resulting from the Diagnostic Evaluation Team inspection at the South Texas Project. Four of the six items discussed were reported as closed (Actions 2, 5, 6, and 7). Two items remain open (Actions 1.b and 4). In accordance with the original memorandum of August 3, 1993, and my second memorandum on the subject dated December 1, 1993, I request that you discuss all NRR's open items in an annual report to be submitted in January of each year until all open items are resolved.

Please reflect consideration of this comment in your January 1995 report.

Original signed by
James M. Taylor
James M. Taylor
Executive Director
for Operations

cc: J. Milhoan
E. Beckjord
E. Jordan

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SOUTH TEXAS PROJECT

LIBERTY TESTIMONY

**PRESENTED BY: THOMAS ALEXION, PROJECT MANAGER
LAWRENCE KOKAJKO, SR. PROJECT MANAGER
DIVISION OF REACTOR PROJECTS III/IV
OFFICE OF NUCLEAR REACTOR REGULATION**

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12/94*

SOUTH TEXAS PROJECT - BACKGROUND INFORMATION

- * NRC PLACES STP UNDER CONFIRMATORY ACTION LETTER, AS SUPPLEMENTED, AND ULTIMATELY PLACES STP ON NRC "WATCH LIST;" NRC INSTITUTES RESTART PANEL AND INCREASES INSPECTION ACTIVITY (FIRST-HALF 1993)
- * NRC ISSUES DIAGNOSTIC EVALUATION TEAM REPORT (JUNE 10, 1993)
- * HL&P'S SUBMITS OPERATIONAL READINESS PLAN, WHICH ADDRESSES RESTART-RELATED ISSUES, AND BUSINESS PLAN, WHICH ADDRESSED LONG-TERM IMPROVEMENTS (AUGUST 1993)
- * NRC COMPLETES OPERATIONAL READINESS INSPECTIONS, LIFTS CALs, AND ALLOWS UNITS TO RESTART; HL&P RESTARTS UNIT 1 (FEBRUARY 18, 1994) AND UNIT 2 (MAY 22, 1994)
- * CONGRESSIONAL INTEREST INCREASES DURING SPRING 1994; CONGRESSIONAL STAFF BRIEFINGS ON MARCH 13, 1994, AND APRIL 29, 1994, LEADS TO FORMATION OF TWO SPECIAL NRC TEAMS:
 - STP ALLEGATION REVIEW TEAM (MAY 31, 1994)
 - STP INSPECTION PROGRAM EFFECTIVENESS REVIEW TEAM (JULY 8, 1994)
- * CITY OF AUSTIN ENGAGES IN LITIGATION WITH HL&P OVER RECOVERY OF FUEL REPLACEMENT COSTS AND O&M COSTS; ALTHOUGH HL&P TRIES TO BLOCK IT, CITY OF SAN ANTONIO LATER JOINS SUIT (MARCH 1994)
- * TWO RATE CASES (HL&P AND CP&L) BEFORE TX PUC (SPRING 1994)

SOUTH TEXAS PROJECT - LIBERTY REPORT

- * TESTIMONY FROM OFFICER OF LIBERTY CONSULTING GROUP PRESENTED BEFORE TX PUC, WHICH INCLUDES "AN ASSESSMENT OF HL&P MANAGEMENT PRUDENCE AT SOUTH TEXAS PROJECT," AKA "LIBERTY REPORT" (JULY 13, 1994)
- * DURING BRIEFING, CONGRESSIONAL STAFFERS INFORM NRC OF LIBERTY REPORT; NRC REQUESTS COPY OF REPORT (AUGUST 18, 1994)
- * HL&P PROVIDES COPY OF THE LIBERTY TESTIMONY TO THE NRC AND EXPLAINS ITS USE IN PRUDENCY HEARINGS (AUGUST 25, 1994)
- * NRC REQUESTS HL&P TO EXPLAIN THE DIFFERENCES IN FACTS BETWEEN THE DET REPORT AND THE LIBERTY REPORT, HOW THESE DIFFERENCES ARE PERCEIVED BY HL&P, AND IDENTIFY ISSUES ADMITTED TO THE LITIGATION RECORD BY THE CITY OF AUSTIN IN ITS LAWSUIT (OCTOBER 24, 1994)
- * WALL STREET JOURNAL PUBLISHES ARTICLE, "NRC FEARS HL&P TOLD TWO VERSIONS OF SAME STORY" (NOVEMBER 9, 1994); ADDITIONALLY, PERSONNEL FROM PRUDENTIAL SECURITIES AND ATTORNEYS REPRESENTING THE CITY OF AUSTIN CONTACT THE NRC STAFF (NOVEMBER/DECEMBER 1994)
- * HL&P "DIPLOMATICALLY" RESPONDS TO NRC LETTER; HL&P EMPHASIZES COMMITMENT TO OPERATIONAL READINESS PLAN AND BUSINESS PLAN, BUT DOES NOT RESPOND TO THE DETAILED QUESTIONS (NOVEMBER 22, 1994)

EXAMPLES OF DET AND LIBERTY REPORT DIFFERENCES

- * IN THE MAINTENANCE AREA, THE DET REPORT STATES THAT THE ONLY REVIEW PERFORMED TO DETERMINE WHICH INDIVIDUAL PREVENTATIVE MAINTENANCE TASKS WOULD BE CLASSIFIED AS ACTIVE OR INACTIVE, WAS A NON-TECHNICAL REVIEW BY MAINTENANCE PERSONNEL. HOWEVER, THE LIBERTY TESTIMONY STATES THAT THIS STATEMENT IS INCORRECT.
- * THE DET REPORT STATES THAT AS MANY AS THREE YEARS HAD PASSED BETWEEN VIBRATION READINGS ON THE UNIT 1 AUXILIARY FEEDWATER PUMPS. THE LIBERTY TESTIMONY STATES THAT AVAILABLE DATA INDICATED THAT VIBRATION READINGS HAD BEEN TAKEN QUARTERLY.
- * IN THE ENGINEERING AREA, THE DET REPORT STATES THAT TEMPORARY MODIFICATIONS WERE NOT AGGRESSIVELY PURSUED TO CLOSURE. THE LIBERTY TESTIMONY INDICATES THAT TEMPORARY MODIFICATIONS WERE BEING REDUCED AT AN INCREASING RATE, PARTICULARLY DURING THE SIX MONTHS PRIOR TO THE DET INSPECTION.
- * THE DET REPORT STATES THAT HL&P DID NOT HAVE AN EFFECTIVE METHOD TO DETERMINE THE SIZE AND COMPOSITION OF THE ENGINEERING BACKLOG. IT ALSO STATES THAT THE DATA GIVEN TO THE TEAM WAS INACCURATE, AND THAT IT TOOK MORE THAN 4 WEEKS TO PROVIDE REASONABLY ACCURATE DATA. THE LIBERTY TESTIMONY STATES THAT THIS IS INCORRECT, AND THAT THE ELAPSED TIME WAS A RESULT OF THE DET'S EVALUATION PROCESS AND FOLLOW-ON REQUESTS, NOT A LACK OF PERTINENT INFORMATION AT STP.

NRC OPTIONS

1. **THANK-YOU RESPONSE - INFORMATIVE, BUT NOTE MISSING INFORMATION, BUT NOT IMPORTANT GIVEN RESPONSE (NOT RECOMMENDED)**

PROS: NRC DOCUMENTS REVIEW AND UNDERSTANDING OF HL&P'S POSITION
NRC APPARENTLY AGREES WITH HL&P'S POSITION
NRC TAKES HANDS-OFF APPROACH TO CONTRACTUAL/LEGAL MATTERS

CONS: CRITICISM THAT NRC ACCEPTED INADEQUATE RESPONSE
NRC APPEARS TO BE IN FULL AGREEMENT WITH HL&P

LIKELY NEXT STEP: HL&P DOES NOT RESPOND

2. **REMINDER RESPONSE - REMINDS HL&P OF ITS RESPONSIBILITIES UNDER 10 CFR PARTS 21 AND 50, AND ACCURACY OF INFORMATION; NRC IR'S ARE THE WRITTEN RECORD UNLESS HL&P CONVINCES NRC OTHERWISE (RECOMMENDED)**

PROS: NRC STANDS BY THE REGULATIONS AND THE WRITTEN RECORD
NRC PUTS THE BURDEN ON HL&P
NRC DOESN'T COMMENT ON HL&P'S POSITION
NRC TAKES HANDS-OFF APPROACH TO CONTRACTUAL/LEGAL MATTERS

CONS: NRC MAY NOT GET FURTHER INFORMATION

LIKELY NEXT STEP: HL&P MAY NOT RESPOND

NRC OPTIONS - CONTINUED

3. **RESPONSE INSUFFICIENT - PLEASE PROVIDE ANSWERS TO QUESTIONS (NOT ACCEPTABLE; RE-REQUEST RESPONSE TO ALL QUESTIONS), COULD USE 50.54(F) (NOT RECOMMENDED)**

PROS: NRC OBTAINS FULL RESPONSE
NRC DISPLAYS TOUGH REGULATORY STANCE
INFORMATION COULD IMPROVE REGULATORY PROCESSES

CONS: WHAT WOULD NRC DO WITH INFORMATION?
NRC STAFF REVIEW WOULD BE SIGNIFICANT
50.54(F) JUSTIFICATION REQUIRES SIGNIFICANT STAFF RESOURCES
NRC DISPLAYS TOUGH REGULATORY STANCE
ADVERSELY AFFECTS LICENSEE WO/COMMENSURATE SAFETY BENEFIT
DRAWS NRC FURTHER INTO LITIGATION

LIKELY NEXT STEP:

wo/50.54(F): HL&P DECLINES TO RESPOND TO SPECIFICS (AGAIN)
w/50.54(F): HL&P MUST RESPOND, BUT MAY DECLINE TO RESPOND
TO SPECIFICS; NRC MUST NOW WRITE AN ORDER

NRC ACTIONS

- * NRC STAFF HAS REVIEWED OPTIONS, AND RECOMMENDS OPTION #2 (REMINDER RESPONSE), WHICH DELINEATES FOUR (4) THEMES:
- REMIND HL&P THAT THE NRC IS A PUBLIC AGENCY AND TAKES RESPONSIBILITY FOR COMPLETENESS AND ACCURACY OF INFORMATION IN AGENCY DOCUMENTS; REMIND HL&P THAT IT HAS A RESPONSIBILITY TO PROVIDE COMPLETE AND ACCURATE INFORMATION TO THE NRC (10 CFR SECTION 50.9); REMIND HL&P OF ITS RESPONSIBILITY TO CORRECT ANY INACCURATE INFORMATION, AND NRC POSITION THAT AGENCY INFORMATION WILL BE ASSUMED TO BE CORRECT UNLESS CONVINCED OTHERWISE
 - REAFFIRM THAT NRC'S PRIMARY CONCERN IS NUCLEAR SAFETY, AND IT DOES NOT WISH TO BECOME INVOLVED IN ECONOMIC, CONTRACTUAL, OR OTHER LEGAL MATTERS UNLESS THOSE ISSUES ADVERSELY AFFECT NUCLEAR SAFETY; FURTHER PURSUIT OF THESE MATTERS WILL NOT ENHANCE NUCLEAR SAFETY
 - REMIND HL&P (AND CO-LICENSEES) OF ITS RESPONSIBILITY TO REPORT DEFECTS IN SAFETY-RELATED EQUIPMENT, MATERIALS, AND SERVICES IN ACCORDANCE WITH 10 CFR PART 21 AND PART 50 (SECTIONS 50.72 AND 50.73) (NOTE: STAFF ADVISED LICENSEE OF THIS ONCE BEFORE IN A LETTER DATED MAY 2, 1994)
 - REMIND HL&P THAT WE WILL CONTINUE TO CLOSELY MONITOR HL&P'S COMMITMENTS TO IMPROVE PERFORMANCE

12/94

BACKGROUND INFORMATION TO SUPPORT MEETINGS ON HL&P'S 11/22/94 LETTER
REGARDING LIBERTY TESTIMONY, SOUTH TEXAS PROJECT

Attached is the following information:

- Attachment 1: Point-by-point comparison of 10/24/94 questions from Jack Roe and 11/22/94 answers from William Cottle.
- Attachment 2: The 10/24/94 letter from Jack Roe.
- Attachment 3: The 11/22/94 response from William Cottle.
- Attachment 4: The 08/25/94 letter from William Cottle that explained and provided a copy of the Liberty testimony to the NRC.
- Attachment 5: A Wall Street Journal newspaper article.

ATTACHMENT 1

POINT-BY-POINT COMPARISON OF NRC QUESTIONS
AND HL&P ANSWERS

Point-by-Point Comparison of 10/24/94 Questions from Jack Roe
and 11/22/94 Response from William Cottle Regarding
Liberty Testimony

Question 1:

Please (1a) identify and (1b) address the most significant differences and (1c) why these differences were not identified and communicated earlier.

Answer 1:

- 1a. Response declined (see first sentence in 1c below).
- 1b. Response declined (see first sentence in 1c below).
- 1c. Rather than reinvestigating the bases for statements in the DER, or initiating debate about their merits, HL&P focused on developing Operational Readiness Plans and a Business Plan that, among other things, encompassed all actions necessary for a complete response to the DER. STP remains committed to the course of action set forth in those documents, and nothing filed at either the PUC or the State courts will affect those commitments or our dedication to these action plans in any way.

However, we are now involved in other regulatory and legal proceedings in which our past conduct will be judged. To the extent that specific statements made in the DER are at issue in those other proceedings, it is necessary for us to look into their specific factual underpinnings and context in light of the legal standards relevant to the particular proceeding.

The Liberty report was prepared by an independent consultant, not the STP staff. It was prepared for use in litigation, not for the ongoing operation of the plant. The authors of the Liberty report had two benefits not available to the DET: an additional year of perspective and a longer time within which to do their work. The Liberty report is not a response to the DER but is instead a review of decisions made and actions taken at STP under the standards applied by the PUC, not those applied by the NRC. As your letter correctly points out, the NRC uses its current knowledge of results to assess the effectiveness of prior project decisions, procedures and practices. The PUC, on the other hand, is prohibited from using hindsight and is required to assess whether management decisions or actions were reasonable in light of the information and options available at the time. STP's commitments to the NRC in response to the DER are forward looking and designed to improve management's future effectiveness in operating STP in a safe, reliable and cost efficient manner. In contrast, Liberty's retrospective review of reasonableness or prudence requires a greater emphasis on the facts as reasonably understood by management at the time decisions were made. This is the fundamental difference between the approaches taken by HL&P before the NRC and the Texas PUC.

Question 2:

Include your view on how the DET and Liberty report differences on plant performance have been reconciled at STP to assure continuation of an effective improvement program.

[The paragraph that concludes with question 2 also raises other related points (whether there are sufficient differences in fact to change HL&P and NRC's view of performance; how performance in that time period is perceived, in retrospect, by the current HL&P management and plant staff), however, responses to the other related points were not specifically requested from the licensee.]

Answer 2:

STP remains committed to the course of action set forth in the Operational Readiness Plans and the Business Plan, and nothing filed at either the PUC or the State courts will affect those commitments or our dedication to these action plans in any way. However, we are now involved in other regulatory and legal proceedings in which our past conduct will be judged. To the extent that specific statements made in the DER are at issue in those other proceedings, it is necessary for us to look into their specific factual underpinnings and context in light of the legal standards relevant to the particular proceeding. This analysis, however, has not and will not affect the plan of action set forth in the Operational Readiness Plans and the Business Plan.

Let me close by reemphasizing our commitment to making STP a world class performer. HL&P has responded vigorously to the findings of the DER, and the effectiveness of that response has been the subject of numerous NRC on-site inspections and evaluations. We are pleased with the progress we have made to date, as reflected in the NRC's restart decisions, NRC inspection results, recent SALP and INPO ratings, our own self assessments, and the operating record of the units since restart. Nevertheless, we do not plan to stand on these accomplishments, but rather to continue our efforts at improvement. As noted above, current and future filings before the Texas PUC and the courts relate to prudence and contractual matters and do not affect the status of HL&P's commitments to the NRC. In particular, HL&P continues to implement those commitments made in response to the DER as described in the STP Business Plan.

[The other related points mentioned above under question 2, for which responses were not requested, were not addressed by the licensee.]

Question 3:

Please (3a) identify the issues admitted to the record by the City of Austin and (3b) HL&P's response to them, and (3c) provide the basis for the action HL&P has taken, and (3d) provide any supplemental information necessary for us to get an accurate picture of HL&P's perspective on this issue.

Answer 3:

- 3a. The issues are single sentences taken generally, but not always accurately from the DER.
- 3b. Since these statements are potentially misleading and likely to be misunderstood out of context, the "deny" response is the only appropriate answer.
- 3c. Under legal practice in Texas courts, HL&P was placed in the position of admitting or denying, without effective qualification or explanation, single sentences taken generally, but not always accurately, from the DER. Since these statements are potentially misleading and likely to be misunderstood out of context, the "deny" response is the only appropriate answer.
- 3d. For example, DET statements taken out of context might suggest to the average person not familiar with the NRC inspection process that STP was operated in an unsafe manner. This was not the case and neither the DET nor other NRC inspections reached such a conclusion. To prevent misunderstandings such as these, HL&P is required to deny the statements as presented by the City of Austin for purposes of its lawsuit.

ATTACHMENT 2

10/24/94 LETTER FROM JACK ROE



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20545-0001

October 24, 1994

Mr. William T. Cottle
Group Vice President, Nuclear
Houston Lighting & Power Company
South Texas Project Electric Generating Station
P.O. Box 289
Madsworth, TX 77483

SUBJECT: TESTIMONY BY LIBERTY CONSULTING GROUP AND LITIGATION WITH THE CITY
OF AUSTIN, SOUTH TEXAS PROJECT (STP)

Dear Mr. Cottle:

On August 25, 1994, you provided to the NRC a copy of the testimony prepared by Liberty Consulting Group in connection with the rate case/fuel reconciliation proceeding now pending before the Public Utility Commission of Texas. This information was provided in response to a verbal request from the NRC. In your cover letter, you explained that the difference between a diagnostic evaluation and an assessment of management prudence is that the former focuses on results and takes full advantage of all available facts to identify weaknesses and areas needing improvement on licensee performance, while the latter must evaluate the reasonableness of decisions and actions of management only in light of the information and options reasonably available at the time those decisions were made and actions were taken.

In our review of the report, we noted differences in the facts as we understood them at the time of the South Texas Project diagnostic evaluation. For example, the following differences were noted:

- In the maintenance area, the Diagnostic Evaluation Team (DET) report states that the only review performed to determine which individual preventative maintenance tasks would be classified as active or inactive, was a non-technical review by maintenance personnel. However, the Liberty testimony states that this statement was incorrect (p. III-13).
- The DET report states that as many as three years had passed between vibration readings on the Unit 1 auxiliary feedwater pumps. The Liberty testimony states that available data indicated that vibration readings had been taken quarterly (p. III-50).
- In the engineering area, the DET report states that temporary modifications were not aggressively pursued to closure. The Liberty testimony indicates that temporary modifications were being reduced at an increasing rate, particularly during the six months prior to the DET inspection (p. IV 7-10).

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- The DET report states that Houston Lighting & Power Company (HL&P) did not have an effective method to determine the size and composition of the engineering backlog. It also states that the data given to the team was inaccurate, and that it took more than 4 weeks to provide reasonably accurate data. The Liberty testimony states that this is incorrect, and that the elapsed time was a result of the DET's evaluation process and follow-on requests, not a lack of pertinent information at STP (p. IV-42).

These are only a few of the examples of differences in fact, or interpretation of information, that we noted during our review. At the time of the DET, HL&P had opportunities to identify differences in facts to us at daily meetings, exit meetings after the first and second onsite inspection periods, and the public exit. For example, as part of the DET validation activities, the team manager and functional area leaders routinely solicited from their HL&P contacts, additional factual information regarding the observations discussed at the daily counterpart debriefings. These discussions led the DET to revise its initial observations in selected areas. Additionally, in its formal written response to the DET report, HL&P had an opportunity to identify the differences later identified in the Liberty report. Please identify and address the most significant differences and why these differences were not identified and communicated earlier.

The NRC's DET report compiles and documents several facts as a basis for a finding in a functional area, which are analyzed to establish root causes for performance problems. We question whether there are sufficient differences in fact to change HL&P and NRC's view of performance. Also the differences in performance as stated in the DET and Liberty reports raise another question as to how performance in that time period is perceived, in retrospect, by the current HL&P management and plant staff. We would appreciate if your response would include your view on how the DET and Liberty report differences on plant performance have been reconciled at STP to assure continuation of an effective improvement program.

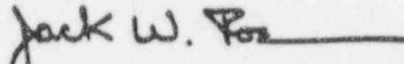
Finally, on October 4, 1994, your staff advised the NRC that in HL&P's current litigation with the City of Austin, many items attributed to the DET report regarding STP were admitted into the record, and that HL&P has denied them in accordance with the State of Texas civil procedure. Please identify the issues admitted to the record by the City of Austin and HL&P's response to them. Additionally, please provide the basis for the action HL&P has taken, and provide any supplemental information necessary for us to get an accurate picture of HL&P's perspective on this issue.

William T. Cottle

- 3 -

The NRC requests a response within 30 days of receipt of this letter. The reporting and/or recordkeeping requirements of this letter affect fewer than ten respondents; therefore, OMB clearance is not required under Public Law 96-511.

Sincerely,



Jack W. Roe, Director
Division of Reactor Projects III/IV
Office of Nuclear Reactor Regulation

Docket Nos. 50-498
and 50-499

cc: See next page

ATTACHMENT 3

11/22/94 RESPONSE FROM WILLIAM COTTLE

HOUSTON LIGHTING & POWER COMPANY

P. O. Box 289

WADSWORTH, TEXAS 77483

W. T. COTTLE
GROUP VICE PRESIDENT, NUCLEAR

November 22, 1994

ST-HL-AE-4940

File No.: G25

10CFR2

50-488/499

Mr. Jack W. Roe
Director, DRP III/IV/V
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Dear Mr. Roe:

This is in response to your letter of October 24, 1994 regarding the report prepared by the Liberty Consulting Group in connection with proceedings at the Texas Public Utility Commission (PUC) and certain pleadings filed in the ongoing litigation between Houston Lighting & Power Company and the City of Austin over the operation of the South Texas Project (STP). You have asked about the relationship between the Liberty Report and the lawsuit pleadings and the report issued in June 1993 by the NRC's Diagnostic Evaluation Team (DER).

As you know, HL&P's response to the DER is set forth in the Operational Readiness Plans for STP Units 1 and 2 and the STP Business Plan. At the time HL&P received the DER, it was apparent to us that changes were warranted in a number of areas at STP, and we had already undertaken to address many of those issues. Accordingly, our efforts were directed toward restart of the STP units and laying the ground work for strong long-term performance. Rather than reinvestigating the bases for statements in the DER, or initiating debate about their merits, HL&P focused on developing Operational Readiness Plans and a Business Plan that, among other things, encompassed all actions necessary for a complete response to the DER. STP remains committed to the course of action set forth in those documents, and nothing filed at either the PUC or the State courts will affect those commitments or our dedication to these action plans in any way.

However, we are now involved in other regulatory and legal proceedings in which our past conduct will be judged. To the extent that specific statements made in the DER are at issue in those other proceedings, it is necessary for us to look into their specific factual underpinnings and context in light of the legal standards relevant to the particular proceeding. This analysis, however, has not and will not affect the plan of action set forth in the Operational Readiness Plans and the Business Plan.

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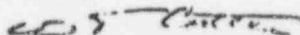
The Liberty Report was prepared by an independent consultant, not the STP staff. It was prepared for use in litigation, not for the ongoing operation of the plant. The authors of the Liberty Report had two benefits not available to the DET: an additional year of perspective and a longer time within which to do their work. The Liberty Report is not a response to the DER but is instead a review of decisions made and actions taken at STP under the standards applied by the PUC, not those applied by the NRC. As your letter correctly points out, the NRC uses its current knowledge of results to assess the effectiveness of prior project decisions, procedures and practices. The PUC, on the other hand, is prohibited from using hindsight and is required to assess whether management decisions or actions were reasonable in light of the information and options available at the time. STP's commitments to the NRC in response to the DER are forward looking and designed to improve management's future effectiveness in operating STP in a safe, reliable and cost efficient manner. In contrast, Liberty's retrospective review of reasonableness or prudence requires a greater emphasis on the facts as reasonably understood by management at the time decisions were made. This is the fundamental difference between the approaches taken by HL&P before the NRC and the Texas PUC.

As to the Requests for Admissions referred to in the last paragraph of your letter, our attorneys advise that under legal practice in Texas courts, HL&P was placed in the position of admitting or denying, without effective qualification or explanation, single sentences taken generally, but not always accurately, from the DER. Since these statements are potentially misleading and likely to be misunderstood out of context, the "deny" response is the only appropriate answer. For example, DET statements taken out of context might suggest to the average person not familiar with the NRC inspection process that STP was operated in an unsafe manner. This was not the case and neither the DET nor other NRC inspections reached such a conclusion. To prevent misunderstandings such as these, HL&P is required to deny the statements as presented by the City of Austin for purposes of its lawsuit.

Let me close by re-emphasizing our commitment to making STP a world class performer. HL&P has responded vigorously to the findings of the DER, and the effectiveness of that response has been the subject of numerous NRC on-site inspections and evaluations. We are pleased with the progress we have made to date, as reflected in the NRC's restart decisions, NRC inspection results, recent SALP and INPO ratings, our own self assessments, and the operating record of the units since restart. Nevertheless, we do not plan to stand on these accomplishments, but rather to continue our efforts at improvement. As noted above, current and future filings before the Texas PUC and the courts relate to prudence and contractual matters and do not affect the status of HL&P's commitments to the NRC. In particular, HL&P continues to implement those commitments made in response to the DER as described in the STP Business Plan.

I hope this letter addresses your concerns. Should you need further information, please do not hesitate to contact me.

Sincerely,



ATTACHMENT 4

08/25/94 LETTER FROM WILLIAM COTTLE THAT EXPLAINED
AND PROVIDED THE LIBERTY TESTIMONY

The Light Company

Houston Lighting & Power South Texas Project Electric Generating Station P. O. Box 289 Wadsworth, Texas 77483

AUG 25 1994

ST-HL-AE-4877

File No.: G25

10CFR2

W. H. Bateman
Team Leader, Effectiveness Review Team
U. S. Nuclear Regulatory Commission
Washington, DC 20555


South Texas Project
Units 1 and 2
Docket Nos. STN 50-498; STN 50-499
Testimony by Liberty Consulting Group

In response to your verbal request, attached is a copy of the testimony prepared by Liberty Consulting Group in connection with the rate case/fuel reconciliation proceeding now pending before the Public Utility Commission of Texas. In that proceeding, issues have been raised as to the prudence of the management of South Texas Project (STP) operations and the extent to which Houston Lighting & Power Company (HL&P) may recover replacement fuel costs incurred during the recent extended outage at STP.

Liberty Consulting Group was engaged to provide an independent assessment of management prudence, utilizing the standard adopted by the Public Utility Commission of Texas:

The exercise of that judgment and the choosing of one of that select range of options which a reasonable utility manager would exercise or choose in the same or similar circumstances given the information or alternatives available at the point in time such judgment is exercised or option is chosen.

This prudence review was particularly important given the extensive attention surrounding the 1993 NRC Diagnostic Evaluation Team Report. As you know, there are significant differences between the standards utilized by the NRC as a safety regulator and those used by an economic regulator such as the Public Utility Commission of Texas. The most significant differences between the Diagnostic Evaluation and a prudence review are that the former focuses on results and takes full advantage of all available facts to identify weaknesses and areas needing improvement in licensee performance. A prudence review of management, on the other hand, must evaluate the reasonableness of decisions and actions of management only in light of the information and options reasonably available at the time those decisions were made and actions were taken.


Project Manager on Behalf of the Participants in the South Texas Project

While HL&P believes that, based upon the information available at the time, its management actions and decisions were reasonable under the standards established by the Public Utility Commission of Texas, HL&P has aggressively pursued performance improvement at STP. These improvement efforts have been documented in the Operational Readiness Plans executed in connection with the restart of each STP unit and in the STP Business Plan, which collectively address the issues described in the Diagnostic Evaluation Team Report. These efforts have also been subject to extensive NRC review through multiple team inspections and real-time monitoring. HL&P is committed to continuing these performance improvement efforts.

Please call me should you require additional information or wish to discuss these matters further.

Sincerely,

[Handwritten signature]

W. T. Cottle
Group Vice President,
Nuclear

Attachment: Direct Testimony of Robert L. Stright

ATTACHMENT 5

WALL STREET JOURNAL NEWSPAPER ARTICLE

NRC Fears HL&P Told Two Versions of Same Story

By Susan Warren

Staff Reporter of THE WALL STREET JOURNAL.
The Nuclear Regulatory Commission is demanding that Houston Lighting & Power Co. get its story straight.

The NRC last year put the South Texas Project, operated by HL&P, on its "watch list" of problem nuclear plants, where it remains. The action came after an extensive inspection of the plant uncovered many operating and maintenance problems that the NRC says jeopardized safety. Until taken off the watch list, the South Texas Project will remain under close NRC supervision.

According to the NRC, HL&P officials acknowledged the problems and have been doing a satisfactory job of correcting them since then. The project's status will be reviewed again early next year, says an NRC spokesman.

But now NRC officials are concerned that HL&P is apparently denying much of what the NRC found in its inspection.

New Reviews

The Houston utility, a subsidiary of Houston Industries Inc., is currently tied up in a separate review of its management practices by the Texas Public Utility Commission, as well as a lawsuit by two of its partners in the plant.

The city of Austin, which owns 38% of the South Texas Project, has filed suit in state district court in Houston to recover millions of dollars it claims it incurred in extra expenses when the power plant was shut down due to mechanical problems. In May, City Public Service of San Antonio, which owns 36% of the plant, joined the lawsuit, which claims the losses were due to HL&P's mismanagement.

An HL&P spokesman says the utility won't comment on the specific charges, but adds that all partners had a role in managing the plant.

In preparation for its review by the Public Utility Commission, HL&P hired Liberty Consulting Group, Baltimore, to take another look at its management of the South Texas Project and to review the results of the NRC's inspection. According to Liberty's executive summary of its written testimony provided to the PUC, the consultants concluded that at no time had HL&P made any "unreasonable decisions or taken unreasonable actions."

"Liberty found that STP's management had been prudent according to the standard of prudence used by the Texas Public Utility Commission and by utility commissions in general," the summary says.

In reviewing Liberty's testimony, NRC officials were alerted to find that HL&P had apparently given its consultants a different set of facts than it had given the agency. At the same time, the NRC learned that HL&P had denied the findings of the

agency's inspection in its response to its partners' lawsuit.

In an Oct. 27 letter to William T. Cottle, an HL&P vice president, the NRC's regional director for regulation, Jack W. Rice, cited four of three factual differences and demanded an explanation within 30 days.

"At the time of the DET [diagnostic evaluation team inspection], HL&P had opportunities to identify differences in facts to us at daily meetings," Mr. Rice wrote. "Additionally, in its formal written response to the DET report, HL&P had an opportunity to identify the differences later identified in the Liberty Report."

Lawrence Kozajko, senior project manager for the NRC, says the agency wants to know why, if HL&P disagreed with their findings, they didn't tell the NRC. Rather, he says, HL&P on numerous occasions indicated it had no dispute with the inspection results. Now, says Mr. Kozajko, it appears that HL&P is second-guessing the agency's findings.

Joe Egan, an attorney representing the city of Austin in its lawsuit, says he believes the letter spells trouble for HL&P. "What the letter says is, 'Either you were lying then or you're lying now. Please tell us which it is.'"

Not to Blame?

Mr. Egan says he believes HL&P is trying to say that they're not to blame for any of the problems at the South Texas Project. "So you have to ask yourself: if they're not to blame, and they were the operator [of the plant], then who is to blame?" Mr. Egan says.

HL&P won't comment on the NRC's letter; a spokesman says the utility is still preparing its official response. But in an Aug. 25 cover letter to the agency that accompanied a copy of Liberty's testimony, Mr. Cottle distinguished between the purposes of the NRC inspection and the Liberty review for the PUC case.

"As you know, there are significant differences between the standards utilized by the NRC as a safety regulator and those used by an economic regulator such as the Public Utility Commission of Texas," Mr. Cottle wrote. The NRC inspection focused on results to identify weaknesses and areas that need improvement, Mr. Cottle explained, while the Liberty review focused on the "prudence" of management decisions that led to those results.

"Their theory is, I guess, that they took appropriate action given the information they had," says Mr. Kozajko. "But our thoughts are that the results were not effective."

The NRC isn't buying that distinction without further explanation. What action the agency may take, says Mr. Kozajko, "depends on the answers that we get."

U. S. NUCLEAR REGULATORY COMMISSION
OFFICE OF PUBLIC AFFAIRS
REGION IV - ARLINGTON, TEXAS

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August 3, 1993

MEMORANDUM FOR: Thomas E. Murley, Director, NRR
James L. Milhoan, Regional Administrator, RIV
Edward. L. Jordan, Director, AEOD

FROM: James M. Taylor
Executive Director for Operations

SUBJECT: STAFF ACTIONS RESULTING FROM THE DIAGNOSTIC EVALUATION AT
SOUTH TEXAS PROJECT

A copy of the report for the subject evaluation and the proposed staff actions were transmitted to you by previous memoranda. The report documents performance deficiencies and probable root causes, together with findings and conclusions which form the basis for identifying followup actions.

The purpose of this memorandum is to identify and assign responsibility for generic and plant-specific actions resulting from the diagnostic evaluation at South Texas Project. You are requested to resolve each of the items in your area of responsibility and, if appropriate, identify additional staff actions or revisions to the identified actions based on your review of the report. Based on briefings on the diagnostic evaluation results, I recognize that actions to address some of these issues may already have been initiated by the staff.

In view of the importance of this subject, your offices should monitor and track the status of each assigned action item until final resolution. Within 90 days, please provide a written summary of the schedule and status of each item within your area of responsibility, as identified in the enclosure, or that you have additionally identified. Further, I request that you provide a written status report on the disposition of your items (and anticipated actions for uncompleted items) by the end of January each calendar year, until all items are resolved. Every effort should be made to resolve these issues promptly. Copies of all status reports should be forwarded to Stuart Rubin (Branch Chief, DEIIB, AEOD) to facilitate AEOD's responsibility for independent verification.

If there are any questions regarding individual action items, please contact Stuart Rubin (492-4147).

Original signed by
James H. Sniezek for
James M. Taylor
Executive Director for Operations

Enclosure: As stated
DISTRIBUTION: (w/enc1)
EDO r/f JMTaylor AEOD r/f ELJordan
DFRoss RLSpessard DOA r/f SDRubin
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HThompson JLieberman JBlaha MTaylor
DCS File D912. DEIIB Chron File

*See Previous Concurrence

OFFICE:	DEIIB:DOA	DEIIB:DOA	DOA/AEOD	AEOD	NRR
NAME:	*RLLloyd	SDRubin <i>SR</i>	*Spessard <i>730</i>	DFRoss	*TEMurley
DATE:	07/2/93	07/30/93	07/2 /93	07/ /93	07/2/93
OFFICE:	RIV	AEOD	EDO		
NAME:	*JLMilhoan	ELJordan	JMTaylor		
DATE:	07/2/93	07/30/93	07/3/93		

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NRC STAFF ACTIONS: SOUTH TEXAS PROJECT

1. ISSUE: A number of operator workload issues were raised as a result of the diagnostic evaluation at STP. Given the conditions that were prevalent at STP, the design of the facility, and operator workarounds, the scope of responsibilities and administrative work of the operating staff was excessive. For example, the team concluded that operator staffing, although it exceeded TS minimum requirements, was strained in accomplishing the complex tasks for a scenario involving shutdown from outside the control room.

ACTIONS: (a) Assess operating staff workload issues at STP and the management actions to resolve them.

RESPONSIBLE OFFICE: Region IV

- (b) Assess the generic implications of assigning conflicting multiple responsibilities to the operating staff for response to resource-intensive accidents such as fire brigade responsibilities plus support for shutdown from outside the control room.

RESPONSIBLE OFFICE: NRR

2. ISSUE: The capability of the essential chilled water (ECW) system to perform its safety function during a design basis accident under low heat load conditions was never demonstrated, either through system testing or engineering analysis. The system design cooling capacity of 450 tons per train exceeds the requirements for the highest expected heat load, and greatly exceeds the expected heat load for cold weather conditions. The licensee has experienced surging and vibration of chillers, particularly when throttling ECW flow because of cool weather conditions. If an accident occurred during cold weather and all chillers operated as designed, in response to an engineered safety feature actuation, the chillers would be significantly under-loaded, potentially causing surging and failure. Failure of the chillers would result in loss of ECW system cooling of safety-related equipment. The piping design configuration did not allow the system to be tested with heat loads representative of those anticipated during accident conditions. The licensee indicated that the existing analysis did not adequately address the issue of

chiller operation during a design basis accident under low heat load conditions, and agreed to perform an engineering analysis by September 1993.

ACTIONS: (a) Assess the licensee's engineering analysis for chiller operation under low heat load accident conditions.

RESPONSIBLE OFFICE: NRR

(b) Assess the need and scope of baseline testing of the ECW system that would more closely simulate design basis accident heat load conditions and validate operability. Issue generic correspondence as appropriate.

RESPONSIBLE OFFICE: NRR

(c) Assess the need and scope of periodic testing of the ECW system to ensure that it can perform its safety function. Issue generic correspondence as appropriate.

RESPONSIBLE OFFICE: NRR

3. ISSUE: A limited review of the fire protection area identified deficiencies at STP associated with: the fire protection computer alarm system and operator training on the system, a large backlog of service requests on fire protection systems, control of transient combustibles in the plant, and fire brigade leader qualification. STP management did not oversee and direct the efforts to resolve the above deficiencies in a timely manner.

ACTION: Conduct a followup inspection of the fire protection deficiencies at STP.

RESPONSIBLE OFFICE: Region IV with NRR assistance

4. ISSUE: At STP collapse of the HVAC ductwork would prevent cooling of safety-related components and systems. To protect the HVAC ductwork from collapse during a tornado, the outside ventilation intake dampers are designed to close automatically within .25 seconds, at a differential pressure of 3 psi. Thirty dampers had not been tested to verify that they would operate as designed. An STP

preventive maintenance action was scheduled on a ten year frequency, but had not yet been performed. STP agreed to motion test the dampers to verify operability.

ACTIONS: (a) Evaluate the licensee's surveillance test procedures and results.

RESPONSIBLE OFFICE: NRR

(b) Assess the extent and frequency of damper motion testing at licensed facilities. Evaluate the need to establish technical specification damper motion testing requirements, and subsequent motion testing of ventilation dampers affecting safety-related equipment. Issue requirements as appropriate.

RESPONSIBLE OFFICE: NRR

(c) Assess the need and scope of periodic testing of the dampers to ensure that they can perform their safety function. Issue guidance as appropriate.

RESPONSIBLE OFFICE: NRR

5. ISSUE: STP has a unique design feature called "the rapid refueling system." This system was designed with a "one-lift concept" in which the missile shield, reactor vessel head, upper core-support structure, and rod cluster control assemblies would be removed as a single unit. One feature of this design was to withdraw all of the rod cluster control assemblies into the head and upper internals package where they would be held for the duration of the refueling process. This feature was called "rod lockout" and was usually performed with the plant in mode 5. However, the licensee has documentation from Westinghouse (dated June 17, 1992) that indicated that the safety analysis for the boron dilution event did not address the condition with the control rods fully out in mode 5. Additionally, there were no TS requirements governing mode restrictions for this operation.

ACTIONS: (a) Evaluate the adequacy of the safety analysis associated with the rapid refueling method at STP with the control rods "locked out."

RESPONSIBLE OFFICE: NRR

- (b) Evaluate the adequacy of the STP TS during rapid refueling activities. Take licensing action as appropriate.

RESPONSIBLE OFFICE: NRR

6. ISSUE: At STP nine failures of standby diesel generator (SDG) high pressure fuel injection pump hold down studs occurred from 1987 through 1993. Each time a failure occurred, the SDG was declared inoperable. Subsequent licensee operability reviews determined that failure of the fuel injector hold down studs would render the associated cylinder inoperable, but would not render the SDG inoperable. The licensee received correspondence from Cooper-Bessemer indicating that as many as 2 cylinders could be out of service and the SDG would still be operable. However there was no analysis available for team review.

The licensee attributed the failures to various root causes such as, faulty material, use of improper installation tools and improper lubrication of the hold down studs prior to torquing. Preliminary indications from the licensee also indicated that other utilities with Cooper-Bessemer SDGs have experienced fuel injector hold down stud failures. However, to date no formal industry notification has been issued by the licensee or the vendor.

- ACTIONS: (a) Evaluate the licensee's SDG operability analysis for various scenarios involving multiple inoperable cylinders during accident conditions.

RESPONSIBLE OFFICE: NRR

- (b) Evaluate the need to provide additional generic regulatory correspondence for multiple fuel injector hold down stud failures. Issue guidance as appropriate.

RESPONSIBLE OFFICE: NRR

7. ISSUE: The standard TS guidance regarding overtime appears to have been developed based on a normal 8-hour shift. The licensee was on site-wide 12-hour shifts. As a result, any need to hold an operator over resulted in exceeding the TS overtime guidance by working more than 24 hours in

a 48 hour period. This situation had occurred relatively frequently, largely because of minimally staffed shift crews.

ACTION: Evaluate the applicability of TS overtime requirements for plants on 12-hour shifts. Issue additional guidance as appropriate.

RESPONSIBLE OFFICE: NRR

8. ISSUE: In the transmittal letter forwarding the diagnostic evaluation report, HL&P was requested to review the report and respond within 60 days describing actions they intend to take to address root causes of identified weaknesses.

ACTION: Review and evaluate the licensee's response to the diagnostic evaluation report for completeness. Prepare an appropriate reply for EDO signature.

RESPONSIBLE OFFICE: Region IV, with assistance from NRR and AEOD