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JUN 15 1984

MEMORANDUM FOR: R. W. Starostecki, Director, Division of Project and Resident Programs

FROM: R. J. Urban, Reactor Engineer, Reactor Projects Section 3B

SUBJECT: MONTHLY STATUS REPORTS ON CONSTRUCTION PLANTS IN REGION I

The enclosed report on construction progress at Region I facilities has been prepared for the period of May 12, 1984 through June 8, 1984. Input for this report was provided by EPB inspectors and resident inspectors from Beaver Valley 2, Hope Creek, Limerick, Millstone 3, Nine Mile Point 2, Seabrook, and Shoreham.

One item of major interest reported during this period is the postponement of Shoreham's low power license hearing by a 4-0 vote by the Commissioners; it has been tentatively rescheduled for mid-August.

Richard J. Urban
 R. J. Urban
 Reactor Engineer

Enclosure: As Stated

- cc w/encls:
- T. Murley
- T. Martin
- S. Ebner
- DPRP Branch Chiefs
- DPRP Section Chiefs
- EPB Section Chiefs
- Construction Resident Inspectors
- N. Blumberg
- L. Briggs
- J. Chung
- D. Holody
- H. Nicholas
- DPRP File 12.1

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 PDR FDIA
 CURRAN84-531 PDR

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SEABROOK

The situation at Seabrook Station has remained essentially status quo during the past month. The present work force consists of approximately 1000 site personnel (100 of whom are craft), 300 engineers dedicated in the UE&C home office, plus the PSNH staff (400+ in operations, 100 in start-up and construction management). A 6/1/84 New Hampshire PUC decision allowed PSNH to issue bonds and borrow \$135 million to restart construction and prevent bankruptcy. This was the first step in the Newbrook plan that also calls for \$200 million more in a few months and ultimately \$1 billion or more to establish the Newbrook Corporation to complete Seabrook 1. Cash flow is expected to commence on 6/15/84 with the rehiring of approximately 100 craft on 6/25/84. Most work will be pointed toward the next major construction milestone - Reactor Coolant System Cold Hydro.

Seabrook 2 remains in a state of limbo. Plans are being formulated for an extended construction delay. Until a decision is made, regular preventive maintenance of equipment continues. Certain fixed bid work (e.g., seal welding of the open containment liner seams) continues; this will facilitate a long-term shutdown, if necessary. On 6/12/84, the NH Supreme Court issued a ruling that prevents PSNH from recovering their investment in the cancelled Pilgrim 2 plant. This will significantly impact any future cancellation decision on Seabrook 2.

On 5/15/84, Nielsen and Wurster Group, a consulting firm hired by the New England Governors' Power Planning Committee to conduct an independent review of Seabrook 1 cost and completion data, released the results of their month-long study. The report indicated that Seabrook 1 could be completed by July 1986 at a cost of \$4.5 billion. The report also described the quality of design and construction in positive terms, but criticized past management inefficiencies and below-average productivity.

On 5/25/84, PSNH announced that the electrical, painting, civil/structural, and HVAC contractors were being released from any further work at Seabrook. They will join the I&C contractor, released earlier, as the cost-plus contractors who will be replaced on a direct employment basis, probably by UE&C. The only major contractor remaining on a cost-plus basis is Pullman-Higgins, retained for ASME piping and pipe support installation because of their ASME Code "NA" stamp. UE&C will most likely pick up all the non-ASME piping work.

On 5/25/84, the NRC Construction Appraisal Team (CAT) conducted an exit meeting, reporting the preliminary results of their inspection that commenced on 4/23/84. Significant discussion items included: (1) concerns regarding postponing major design verification programs until a date close to fuel load; (2) interfacing and communication problems among the disciplines and engineering and construction; and (3) concerns of perceived major changes to plant design and programs for a plant that is 75% complete.

Specific CAT findings of a significant nature included:

-- Indeterminate nature of cable tray support installations.

- Identification of unstatused cable separation violations.
- Structural bolted connections with Hilti anchor bolted connections with torque checks recording below minimum installation requirements.
- Generic problem in the duplication of cable footage markings (a corrective action problem rather than actual hardware deficiency).

Routine resident and regional preoperational inspections have continued with no significant adverse findings.

The following NRC actions are being planned to resolve some outstanding questions.

- DPRP is considering a potentially Generic Problem Letter to IE and other regions, based upon a generic deficiency in the Westinghouse steam generator tube "full-expansion" process.
- A conference between Region I and NRR is planned to discuss a past TIA response on cable tray testing and adequacy. This item was highlighted by a CAT inspection of this area.
- Management meeting between Region I and Mr. Derrickson (PSNH) is planned to discuss major organizational and program changes occurring at Seabrook.

NEWS

-- FROM SEABROOK JOINT OWNERS

FOR IMMEDIATE RELEASE: June 23, 1984

CONTACT: Joseph Roppo -- United Illuminating 203-787-7234

Seabrook Construction To Resume Under New Organization and Leadership

The joint owners of the Seabrook nuclear project voted today to restart construction on Seabrook Unit 1 on July 2 through a new organization called New Hampshire Yankee.

According to John D. Fassett, chairman of United Illuminating and spokesman for the owners, New Hampshire Yankee will start out as a division of Public Service Company of New Hampshire, but will become a separate, independent company as soon as an orderly transition can be effected.

Fassett announced that Edward A. Brown will become chairman and chief executive officer of New Hampshire Yankee and that William B. Derrickson, the Seabrook project manager who has been widely recognized for his successful track record in completing a large nuclear project in Florida, will become the new organization's president.

Fassett also announced that the joint owners had established an executive committee and charged it with controlling project expenditures. The owners have authorized expenditures of up to \$4 million per week, Fassett said. The executive committee will work closely with the New Hampshire Yankee management team.

According to Fassett, the members of the executive committee include Richard Byrne, Massachusetts Municipal Wholesale Electric Company; John Rowe, Central Maine Power Company; James Griffin, Central Vermont Public Service Company; Robert Harrison, Public Service Company of New Hampshire; and John Eichorn, Montaup Electric. Fassett is the chairman of the committee.

Fassett said today's vote will trigger the return to work of hundreds of construction workers idled some eight weeks ago when the project's lead owner, Public Service Company of New Hampshire, suspended payment of its share of the construction costs.

The decision to restart construction, Fassett explained, was made possible when Public Service Company was able to sell some \$90 million in short-term securities earlier this week.

Fassett said today's vote to restart construction was preceded by approval of the individual financing plans submitted by each joint owner. "Without a workable plan to complete the financing of the project," he said, "it would not have been possible to carry the vote to restart construction.

"Under the plans approved today," Fassett continued, "those owners able to secure favorable financing on their own can do so.

"Others," he said, "will retain Merrill Lynch Capital Markets to accomplish the financing of their share. Such financings, referred to as "Newbrook" financings, involve sale of long-term bonds using as security a guaranteed contract with the involved utility calling for the purchase of power from the plant. The revenue from these contracts will guarantee repayment of the bonds," Fassett explained.

"The joint owners are very encouraged by the events of the past week," Fassett said. "Public Service Company seems to be on the road to recovery, the project has been streamlined and reorganized, the owners have tight control over project expenditures and construction is about to begin again under the firm hands of Ed Brown and Bill Derrickson."

NEWS

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FOR IMMEDIATE RELEASE: June 23, 1984

CONTACT: Joseph Roppo -- United Illuminating 203-787-7234

Brown To Become Chairman and
Chief Executive Officer
Of New Hampshire Yankee

The owners of the Seabrook nuclear project today announced that Edward A. Brown will become chairman and chief executive officer of New Hampshire Yankee -- a new organization formed to complete construction of Seabrook Unit 1. Brown will also hold the position of chairman of Yankee Atomic Electric Company, which is headquartered in Framingham, Massachusetts. He will assume his new positions within the next several weeks.

Brown, 54, will resign as chairman of New England Power Service Company, a position he has held since 1982. New England Power Service Company provides engineering, construction, and administrative services for the New England Electric System companies.

A registered professional engineer, Brown joined New England Electric in 1955 and has held a variety of engineering and management positions. He became vice president of New England Power Service Company in 1973 and served in that capacity until he was elected president of New England Power Service Company in 1976.

A native of Salem, Mass., Brown graduated from St. Mary's High School in Lynn, Mass., and the U.S. Military Academy at West Point, New York. He is a graduate of the Advanced Management Program of the Harvard Graduate School of Business Administration.

A resident of Lexington, Mass., Brown is a member of the board of directors of Yankee Atomic Electric Company, Maine Yankee Atomic Electric Company, Vermont Yankee Nuclear Power Corporation, New England Energy, Inc. and NEES Energy.

NEWS

-- FROM SEABROOK JOINT OWNERS

FOR IMMEDIATE RELEASE: June 23, 1984

CONTACT: Joseph Roppo -- United Illuminating 203-787-7234

Derrickson To Become President Of New Hampshire Yankee

The joint owners of the Seabrook nuclear project today announced that William B. Derrickson will become president of New Hampshire Yankee -- a organization formed to complete Seabrook Unit 1.

Derrickson is presently senior vice president - nuclear energy for Public Service Company of New Hampshire (PSNH), headquartered in Manchester, New Hampshire. He joined PSNH on March 1, 1984.

Derrickson will continue to be responsible for all phases of the construction and start-up of the Seabrook Station nuclear power plant in his new position.

Prior to joining PSNH, he served as project general manager for St. Lucie 2, and in March 1983 was promoted to director of projects with Florida Power & Light Company (FP&L). St. Lucie 2, an 802-megawatt nuclear power plant, was completed on schedule in just six years, setting an industry benchmark. With FP&L, he was also responsible for major contributions to three operating nuclear plants.

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New Hampshire Yankee

FACT SHEET

What is New Hampshire Yankee?

New Hampshire Yankee will be the managing agent for the construction of Seabrook Unit 1.

How will New Hampshire Yankee relate to Public Service Company of New Hampshire?

Initially, New Hampshire Yankee will be a division of Public Service Company of New Hampshire (PSNH). However, as soon as an orderly transition can be effected, New Hampshire Yankee will become an independent corporate entity led by a new chairman and chief executive officer.

How will New Hampshire Yankee improve the Seabrook situation?

The formation of New Hampshire Yankee will eventually remove the responsibility for managing the Seabrook project from PSNH's shoulders. This will allow PSNH to focus its efforts on regaining its financial health. A healthy PSNH is vital to completion of Unit 1, which is in the best interests of the other joint owners and the customers they serve.

Who will the chief executive officer of New Hampshire Yankee be?

Edward A. Brown, presently chairman of New England Power Service Company -- a New England Electric subsidiary.

What effect will this have on the status of William Derrickson?

Derrickson will continue in charge of construction as president of New Hampshire Yankee.

How will project costs be controlled?

Derrickson will continue to exercise tight management control of construction activities. In addition, the owners have appointed an executive committee to control project expenditures. The executive committee will work closely with the New Hampshire Yankee team. The owners have authorized up to \$4 million per week in expenditures for the time being.

Who serves on the executive committee?

Richard Byrne, Massachusetts Municipal Wholesale Electric Company; John Rowe, Central Maine Power Company; James Griffin, Central Vermont Public Service Company; Robert Harrison, Public Service Company of New Hampshire; John Fassett, United Illuminating Company, and John Eichorn, Montaup Electric Company.

How soon will work begin at the site?

The level of activity will be increased in an orderly fashion over the next several weeks beginning on July 2. The speed with which construction resumes will depend to a great degree on the availability of skilled workers.

How does New Hampshire Yankee relate to Newbrook?

The two are entirely different. New Hampshire Yankee will be the company charged with building Seabrook Unit 1. Newbrook is a name Merrill Lynch Capital Markets has employed to describe the financing vehicles it has developed to sell long-term bonds in order to pay for a portion of Unit 1.

Will all owners employ the Newbrook plan to accomplish their financing?

No. Owners have the option of financing on their own, conditioned on acceptance of their plan by all other owners. Several are expected to utilize the Merrill Lynch plan.

What will provide security for their bonds?

Those owners who adopt the Newbrook plan will sign guaranteed contracts to purchase the power from Unit 1. These contracts will provide security for its bonds.

How does this affect Seabrook Unit 2?

The status of Unit 2 is uncertain at present. No money is being spent on Unit 2 and many owners consider it effectively cancelled. It requires an 80 percent vote of the ownership to cancel it, but construction on Unit 2 cannot be restarted without a vote of 51 percent of its owners. On March 30, 1984, 59 percent of the owners voted for unconditional cancellation of Unit 2, and a resolution approving cancellation of Unit 2 effective December 1, 1984, if certain conditions are satisfied, was adopted by vote of more than 90 percent of the owners.

NEWS BRIEFS

A CAPSULE OF CURRENT NEWS
ITEMS CONCERNING THE COMPANY
AND THE INDUSTRY

June 25, 1984 B6-2

As reported on Grapeline 2999, the joint owners of the Seabrook nuclear project voted Saturday to restart construction on Seabrook Unit 1 through a new organization called New Hampshire Yankee. According to John D. Fassett, chairman of United Illuminating and spokesman for the owners, New Hampshire Yankee will start out as a division of PSNH, but will become a separate independent company as soon as an orderly transition can be effected.

Fassett announced that Edward A. Brown, chairman, New England Power Service Company, will become chairman and chief executive officer of New Hampshire Yankee and that Bill Derrickson, senior vice president, will become the new organization's president.

Fassett also announced that the joint owners had established an executive committee and charged it with controlling project expenditures. The owners have authorized expenditures of up to \$4 million per week, Fassett said. The executive committee will work closely with the New Hampshire Yankee management team. The members of the executive committee include Richard Byrne, Massachusetts Municipal Wholesale Electric Company; John Rowe, Central Maine Power Company; James Griffin, Central Vermont Public Service Company; John Eichorn, Montaup Electric; and Bob Harrison, PSNH.

Fassett said Saturday's vote will trigger the return to work of hundreds of construction workers idled about eight weeks ago when PSNH suspended payment of its share of the construction costs. The decision to restart construction, Fassett explained, was made possible when PSNH was able to sell some \$90 million in short-term securities last week.

Fassett said Saturday's vote to restart construction was preceded by approval of the individual financing plans submitted by each joint owner. "Under the plans approved Saturday," Fassett continued, "those owners able to secure favorable financing on their own can do so. Others will retain Merrill Lynch Capital Markets to accomplish the financing of their share. Such financings, referred to as 'Newbrook' financings, involve sale of long-term bonds using as security a guaranteed contract with the involved utility calling for the purchase of power from the plant. The revenue from these contracts will guarantee repayment of the bonds," Fassett explained.

"The joint owners are very encouraged by the events of the past week," Fassett said. "Public Service Company seems to be on the road to recovery, the project has been streamlined and reorganized, the owners have tight control over project expenditures and construction is about to begin again under the firm hands of Ed Brown and Bill Derrickson."

(OVER)



CALL GRAPELINE 2999 FOR NEWS AND INFORMATION

PRIORITY ATTENTION REQUIRED

MORNING REPORT - REGION 1

PRIORITY ATTENTION REQUIRED

DATE 6/26/84

TO: James Blaha, Director, Program Support and Analysis Staff
FROM: Thomas E. Murley, Regional Administrator, Region 1

Licensee/Facility	Notification/Subject	Description of Items or Events
Pilgrim DN 50-293	RRI phone 6/25; Thermal Sleeve Cracking	On June 24 & 25, 1984, the licensee noted dye penetrant indications on the outer surfaces of two reactor vessel nozzle thermal sleeves. The sleeves are inside two 12-inch reactor vessel inlet nozzles for the recirculation system. The licensee is evaluating the indications and has not yet determined their significance.
Seabrook Unit 1 DN 50-443	Licensee Press Release 6/23	The joint Owners of the Seabrook nuclear project voted on 6/23 to restart construction of Unit 1 on July 2 under a new organization called New Hampshire Yankee. Current plans have New Hampshire Yankee starting out as a division of Public Service of New Hampshire but becoming a separate independent company as soon as an orderly transition can be effected. Edward A. Brown will become the Chairman and Chief Executive Officer of the new company. William B. Derrickson, the current Seabrook project manager, will become the new organization's president. The joint owners also authorized expenditures of up to \$4 million per week following the recent sale of some \$90 million in short-term securities. This funding level is expected to permit restart of construction activity on Seabrook Unit 1.
J. A. FitzPatrick DN 50-333	6/26 SRI Fax/Plant Trip	At 10:22 p.m. on 6/25, during a plant startup, the reactor tripped from approximately 20% power on high reactor pressure when all bypass valves rapidly shut following a turbine control malfunction. Reactor pressure peaked at 1060 psig. All systems functioned normally, no ECCS systems were initiated. The licensee is troubleshooting the EHC system to determine the cause of the trip and restart time has not been set.
Three Mile Island Unit 1 50-289	6/26 Site Fax/Steam Generator Tube Leakage	Following the identification of boron in the secondary system, the licensee conducted tube leakage tests of the Once Through Steam Generators (OTSG) on 6/25/84. To date, 4 leaking plugs and 3 tube leaks have been identified in the A OTSG and 2 leaking plugs and 6 tube leaks in the B OTSG. All leaks were determined to be within 6 inches of the top of the tube sheet. Leakage testing and analyses of results is continuing. PNO-1-84-54 was issued on 6/25/84. Region 1 will continue to follow the licensee's actions regarding the OTSGs.
Maine Yankee 50-309	SRI Phone Call	The plant was phased on line at 6:06 a.m. on 6/26 at the conclusion of Cycle B outage.

Thinking of moving the scheduled board meeting from 1/85 to 9/84. However, since the suspension, Harry Dexter & he are recommending to their management to stick with the published 1/85 board meeting schedule. Therefore, inputs to the board should be around 10/84-11/84. He told me that as soon as Stars & Stripes acts on ~~Harry Dexter's~~ Gilla's recommendation of sticking to the published date, he'll let me know.

5/29/84 Mairand noted that WE is facing a critical shortage of power this summer & PSNH was approached to see if they would have D.G. on Unit 1 available for the summer in case of peaking demand. He wanted to know if WE has any concern in this area. Mairand noted that WE does not really have any say in it until go commercial. Furthermore, PSNH does not intend to op. the D.G. such that it voids the warranty. ^(looking for warranty) As Knox & I told him that we would need to check with the staff for specific info and if we had a problem with what PSNH was doing we will get back to him in the meantime Mairand said he would keep Tony Cenne informed of what PSNH is doing. Seckly called to tell me PUC did

not act on the PSN request for approval of the short term financing. PUC agreed to act on it by 6/1/84. Today is one of the cutoff date for "Newbrook" plan. Joint owners agreed to extend it to 6/1/84. The short term financing approval will allow PSNH to go out for loans up to \$135 x 10⁶.

6/1/84 Called Mastrand about the ~~text~~^{use} of the DG this summer (after 5/29/84 telephone conversation). Talk him we need the applicant to ^{formally} submit a letter ^{for our consideration} informing us of all the details and why it would be ok to use what will be designated later as safety related equipment. He said he needed to get PSNH in the before he could send something formally to us. He told me that each DG gives out 6 megawatts.

6/5/84 Called Bruce Buckley to find out what the PUC action was. He said PUC unanimously approved PSNH to obtain short term, high yield loans (~20%) up to \$135 x 10⁶. He said PUC also said that some part of the loan must be used to build coal pile reserve + conversion of some old oil fired units to coal fired units. He said that PSNH has been promised \$45 x 10⁶ in loans already and another \$30 x 10⁶ may be coming soon.

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6/28/84 Called a Register to find out if the new organization
is being changed by Public Service of New Hampshire
is expected to be an TSPR however. He said yes
that DSAH will continue to register the
construction of building but the donor will
be titled "New Hampshire Center" + this will
be an TSPR arrangement

6/28/84 Register called to tell me TSPR is prepared
to meet with the staff next week to discuss
the status of the Seaboard Project, when the
Project is ready, when the organization is
ready, and construction completion date
schedule. He intends to write me a letter
providing an agenda of what for the meeting
and the persons attending (eg. Brown, Blumson,
DeLo, Hanson, etc). From him Aug 2, 9
of 16 no date he could commit for meeting
with our people.

FILE

PRIORITY ATTENTION REQUIRED

MORNING REPORT - REGION I

PRIORITY ATTENTION REQUIRED

DATE 7/2/84

TO: James Blaha, Director, Program Support and Analysis Staff
FROM: Thomas E. Murley, Regional Administrator, Region I

Licensee/Facility	Notification/Subject	Description of Items or Events
Peach Bottom Units 2 and 3 50-277; 50-278	7/2 SRI Phone	A thunderstorm and torrential rains occurred from 3:00 a.m. to 6:00 a.m., 7/1. A portion of the access road to the adjacent Unit 1 (decommissioned HTGR) site was washed out. The only significant onsite effect was a spurious Halon Injection into the Security Building Central Alarm Station (CAS). The CAS was evacuated, compensatory measures were taken, and the NRC Duty Officer was notified.
Oyster Creek 50-219	6/29 ENS Call; 6/29 RI Fax	An electrical circuit lead was lifted on a primary containment isolation valve for the plant computer modification installation. This resulted in 15 primary containment isolation valves and MSIV's opening. The lifted lead (neutral loop) had created a backfeed circuit through energized relays to complete a circuit to energize the solenoid valves controlling the air operated primary containment isolation valves. This report was made under 50.72. The plant is in cold shutdown with fuel in the vessel and the reactor vessel head removed. Primary containment was not required at the time of the event. Region I will follow up on this event.
Three Mile Island Unit 1 50-289	7/2 SRI Fax/Inadvertant (Partial) Safety Features Actuation	On 6/30/84, a replacement relay (#62X2B/RC1A) in the Engineered Safety Actuation System (ESFAS) failed causing the "1A" Decay Heat Removal Closed Cycle Cooling Pump (DC-P-1A) to start. The other safety components associated with that relay group were out of service at the time of the actuation. This is the second such event since 6/3/84, and other similar events are described in LER 83-24, dated 10/10/83. Region I is reviewing these events. A 10 CFR 50.72 report was made at 7:50 a.m., 6/30/84. The plant is in a cold shutdown condition.
Seabrook Unit 1 50-443	Resident Inspector to Region I. Resumption of Construction Activities	Current planning has delayed the recall of craft personnel to resume construction activities at Seabrook Unit 1 from 7/2/84 to 7/11/84. A meeting has been scheduled in Washington, D. C., on 7/10/84 to finalize the Nuclear Stabilization Agreement between the licensee and union officials.
Millstone 3 50-423	Licensee to Region I	On June 29, 1984, at 11:40 a.m., the licensee reported the identification of six cut electrical cables at the 37' level in the turbine building. The six cables are not safety related. Preliminary investigation of Incident identified cut cables as those serving main feedwater instrument and MOV controls. Further investigation is under way by NUSCO security. The SRI is following.



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WAL-1000

For Costs of Unfinished Plants, Court Says

By WILLIAM M. BULKELLY

Staff Reporter of THE WALL STREET JOURNAL

The New Hampshire Supreme Court dealt a blow to Public Service Co. of New Hampshire, ruling that state law prohibits it from recovering from its customers the costs of uncompleted power plants.

The ruling came on a request by the utility that it be allowed to bill ratepayers for its \$16.5 million investment in the canceled Pilgrim 2 nuclear plant in Plymouth, Mass.

More importantly, it complicates efforts by Public Service and its partners in the Seabrook nuclear power plant to cancel the second unit of the troubled project. Public Service has said it is unwilling to cancel that unit if it can't recover its costs, and the court ruling appears to make that difficult.

Public Service officials couldn't be reached for comment on the ruling.

New Hampshire law prohibits utilities from recovering costs for construction work in progress, and the court ruled that the law applies to uncompleted plants. Charges for construction work in progress have been extremely controversial in New Hampshire, and several political races have hinged on the issue.

Public Service has been hit hard by the Seabrook costs. In recent months, it halted work on the plant and omitted dividends on both common and preferred stock to conserve cash. It and its partners are proceeding with a refinancing plan created by Merrill Lynch & Co. to complete Unit 1 of the nuclear project. The complex plan involves establishing a new entity called Newbrook to build the plant and establishing various guarantees for Public Service debt.

Public Service, which has a 35.6% stake in the plant, and its partners all want to complete Unit 1 of the plant, which is about 80% finished and is expected to go into operation by August 1986. The final cost is expected to be between \$4.2 billion and \$4.4 billion.

Some owners have favored canceling the second unit, currently about 22% complete, for several years. But Public Service, which has a veto over any cancellation, opposed all such proposals until March, when it said it would accept cancellation if its partners would help make up its losses from cancellation.

Other utilities, and regulators in other New England states, said that condition was unacceptable. The question of the second unit has faded from the spotlight as Public Service skirted a bankruptcy-law filing.

The court ruling isn't likely to change the Seabrook partners' opposition to completing Unit 2. In March, partners holding a 60% interest voted to cancel it immediately and unconditionally, although Public Service's veto blocked that plan. Most other partners wouldn't be affected by the court ruling as regulators in other states generally let utilities recover most of their costs for canceled plants. While New England utilities expect to need the power that Unit 1 will generate,

the need for Unit 2 is questionable. A recent report by the Congressional Research Service of the Library of Congress concluded that Seabrook Unit 2 could be canceled "without serious problems" for the region.

The court ruling appears to eliminate the possibility that Public Service and its partners will find an easy way to extricate themselves from Unit 2. Public Service has invested \$300 million in the plant, and given its precarious financial condition is unlikely to declare cancellation unless it can recover a major portion of the funds.

Public Service's latest round of financial troubles started in March, when estimates for completing the two units soared more than 70% to \$9 billion. The utility's bankers then refused to make new short-term loans, and Public Service said it might have to seek protection of the bankruptcy courts. It then started its cash-conserving measures.

Independent Agency For Social Security Is Urged by a Panel

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—Creation of an independent Social Security agency outside the Department of Health and Human Services could provide better, more-efficient service to the elderly and disabled, a congressional advisory panel reported.

The panel, headed by former Comptroller General Elmer Staats, recommended that an independent agency run the basic Social Security retirement and disability programs, as well as the Supplemental Security Income program for the aged, blind and disabled. Currently, the three programs provide about \$200 billion annually in benefits.

Four other Social Security programs within HHS should remain within the department, the report said. They are: Aid to Families with Dependent Children, child-support enforcement, low-income energy assistance and refugee resettlement.

The realignment of programs and creation of an independent agency would strengthen Social Security operations and make them more "coherent," the panel concluded.

Breaking Social Security away from HHS is an old idea that attracted renewed interest on Capitol Hill, partly because of the controversy over Reagan administration disability claims reviews. Although the reviews were mandated by Congress, they caused thousands of truly disabled persons to lose benefits. Some lawmakers believe that an independent agency might have avoided such errors. The advisory panel was authorized by the Social Security amendments that Congress passed last year.

Rep. J.J. Pickle (D., Texas) chairman of the House Social Security subcommittee, plans hearings on the panel's report later this year, an aide said.

AAA

Consumers Power Revising Its Plan To Save Midland

By a WALL STREET JOURNAL Staff Reporter

JACKSON, Mich. — Consumers Power Corp. said it will make a last-ditch attempt to save its Midland, Mich., nuclear plant at a meeting with state officials today.

The company said it will offer a revised plan to continue construction, but wouldn't provide details.

Meanwhile, Moody's Investors Service Inc. lowered ratings on the utility's debt, preferred and preference stock. The rating agency said its action reflects "the high probability that a construction halt or abandonment (of the project) will occur soon and the apparent failure of negotiators to agree on a suitable plan for recovery of the plant investment."

The utility's previous completion plan has been rejected by the Michigan attorney general and state Public Service Commission. Under that proposal, the utility wanted to raise \$4.3 billion through rate increases and to write off the rest of the \$5.5 billion cost to finish the plant.

At a meeting yesterday, Consumers Power rejected a sweetened proposal from the state attorney general that called for the utility to abandon the plant in exchange for recovering about \$2 billion through rate boosts over a period of 25 years and writing off the rest of the cost. Consumers Power has spent about \$3.6 billion on the project so far.

Consumers Power said the latest state offer would "bankrupt" the company.

A Consumers Power spokesman said the state's reaction to the revised plan to be presented today would be crucial in determining the fate of the project. The utility has scheduled a special board meeting for Friday, at which directors are expected to decide whether the 85%-complete nuclear project should be abandoned.

Moody's said it lowered Consumers Power's first mortgage bonds and secured pollution-control revenue bonds to single-B-1 from Ba-1, sinking fund debentures and unsecured pollution-control bonds to single-B-2 from Ba-2. The preferred stock was reduced to single-B-2 from Ba-2, and preference stock to Caa from Ba-3.

Richard Griswold, Consumers Power's treasurer, said the company was "surprised" by Moody's action. "Negotiations on Midland's fate are continuing and we remain hopeful that a negotiated settlement can be reached on Midland's future," he said.

Reaction from the state to the possibility of a compromise was mixed. After yesterday's meeting, a top public service commission official said there was still "some room" left. Hugh Anderson, the assistant attorney general, said, "I am not hopeful, but it is hard to speculate" on the outcome of today's scheduled negotiations.

RS New Hampshire Considers Challenging Cost-Recovery Law

By a WALL STREET JOURNAL Staff Reporter

MANCHESTER, N.H. — Public Service Co. of New Hampshire is considering challenging the constitutionality of a state law that prevents it from charging ratepayers for expenditures on Seabrook Nuclear power plant Unit 2 if the unit is canceled, as expected.

The New Hampshire Supreme Court ruled Tuesday that state statutes prohibit the utility from adding costs of the canceled Pilgrim 2 nuclear plant, in which Public Service had a small stake, to customer bills. The ruling makes it clear that if Seabrook Unit 2 is canceled, Public Service couldn't recover through rate increases the \$300 million it has spent on the unit.

Public Service had asked the court to determine whether a state law that keeps it from charging ratepayers for construction work in progress also applies to uncompleted plants if they are canceled. The court said the law did, but it specifically mentioned that the issue of constitutionality of the law wasn't examined.

Public Service and its partners have voted to cancel Unit 2, providing Public Service can recover most of its costs from other New England utilities. However, Public Service can veto cancellation if that condition isn't met.

A Public Service spokeswoman said, "Seabrook 2 hasn't been canceled. We'd still like to see it completed." However, financial pressure on Public Service, and the opposition to the unit by most of the 15 other utilities with stakes in Seabrook mean cancellation is likely.

Robert G. Hildreth Jr., the Merrill Lynch & Co. executive who crafted a rescue plan for Public Service, said the ruling shouldn't have any short-term impact on the utility. He added that he is confident that Public Service will be able to close within a week the sale of some short-term notes that the utility has said are needed to avoid a bankruptcy-court filing.

United Illuminating Co. of New Haven, Conn., whose 17.5% share of Seabrook is second only to Public Service's 35.6% stake, said it "still feels the unit is effectively canceled." A spokesman said it was "disappointed but not surprised" by the court ruling. He said United Illuminating and other owners will continue to seek financial solutions for Public Service's problems to allow the cancellation.

If the unit is formally canceled, Public Service would have to write off Seabrook Unit 2, which the company has said would nearly wipe out its retained earnings.

Mr. Hildreth, managing director of Merrill Lynch Capital Markets utility group, said Public Service "could hold it in mothballs for five years." By that time Seabrook Unit 1 could be operating, leaving Public Service in much better financial shape because it would be charging ratepayers for its electricity. Unit 1 is scheduled for completion in 1986.

As reported, Public Service has regulators' permission to sell as much as \$135 mil-

rates as high as 20%.

Sale of those securities is the first of several steps in the Merrill Lynch rescue plan. Public Service is also negotiating for bank loans of between \$30 million and \$40 million. It also plans to sell at least \$200 million of debentures in July. Later this year, a new entity called Newbrook is to be formed to raise enough cash to complete Seabrook Unit 1.

Houston Industries' Utility Wins Reversal Of Agency Penalties

By a WALL STREET JOURNAL Staff Reporter

HOUSTON—Houston Lighting & Power Co., criticized for its management of the South Texas nuclear project, said a state judge reversed financial penalties imposed in 1982 by the Texas Public Utility Commission for alleged mismanagement.

Houston Lighting & Power, a unit of Houston Industries Inc., said it didn't know how much money would be refunded as a result of the ruling. A spokesman for the commission didn't return phone calls.

The commission had denied almost half of a rate increase requested by the utility in 1982; instead of the 10%, or \$336 million, in higher annual rates requested by the utility, the commission granted an annual increase of 5.5%, or \$182.6 million. At the time, Commissioner George Cowden said the commission "won't and can't condone the type of management that has gone on for the last several years at Houston Lighting & Power."

The commission had also ruled that the unit would have to give to ratepayers \$111 million of tax benefits from a \$166 million write-off of its canceled Allens Creek nuclear power plant.

The Texas state court also ruled that there was a \$17 million error in the commission's calculation of the amount of the utility's Allens Creek investment which the utility could charge to consumers.

Judge Herman Jones said in his ruling the commission was "somewhat presumptuous, certainly premature," in finding that Houston Lighting & Power had mismanaged the South Texas project. He cited the utility's pending litigation against the project's original designer and builder. He upheld the commission's finding, however, that the utility should have canceled the Allens Creek nuclear plant in 1980 instead of two years later. Houston Lighting & Power canceled the Allens Creek project in 1982, citing construction problems, cost escalations and disputes with building contractors.

The utility said it expects the commission to appeal the ruling, which shouldn't affect the utility's planned request for another rate increase.

Australia's Current Account

SYDNEY, Australia—Australia's current international payments account deficit widened to the equivalent of \$68.2 million in May from \$138.6 million in April and \$293 million a year earlier, the government said. Current account reflects trade in goods and services, and certain unilateral transfers.

PS of New Hampshire Sells Notes, Sets Loan Accord in Bid to Revive Seabrook

By DAVID WESSEL

Staff Reporter of THE WALL STREET JOURNAL

BOSTON—Public Service Co. of New Hampshire said it sold \$90 million in short-term notes, the first step in a Merrill Lynch & Co. plan to raise money to revive the stalled Seabrook nuclear project.

The cash-strapped utility also reached an agreement in principle with its commercial banks to borrow \$35 million, secured by its accounts receivable, said Charles E. Bayless, financial vice president.

In addition, he said, the utility reached agreements with U.S. banks to extend \$25 million in term loans due Sunday and with foreign banks to extend \$50 million in term loans due Sept. 15, all to May 31, 1985. Public

Service also reached agreements with the architect and engineer at Seabrook and with a financing unit of Prudential Insurance Co. of America, both of which are owed money.

The agreements, some of which still require approval by New Hampshire regulators, allow Public Service to avoid a threatened filing under the federal Bankruptcy Code and to resume work on Seabrook Unit 1, which was suspended in April because of Public Service's cash squeeze.

"There are a lot of smiles today," said Robert G. Hildreth Jr., managing director of the Merrill Lynch Capital Markets utility group and architect of the rescue plan.

"It infuses us with some life," said Mr.

Bayless. "We were pretty much down and out."

Mr. Hildreth said work on Seabrook Unit 1, which is about 75% complete, is likely to begin in early July, pending action by Public Service and its 15 partners in the project.

The \$90 million in short-term notes, which pay interest at 20%, were sold to nine or 10 institutional investors, Mr. Hildreth said. He wouldn't identify the buyers, but said they included insurance companies, pension funds and money managers.

The notes are convertible into Public Service debentures and warrants to buy Public Service common stock. They are secured by a new issue of Public Service general and refunding bonds.

The \$35 million accounts-receivable financing involves seven banks and Prudential, Mr. Bayless said. Two banks that had been among the utility's lenders, Security Pacific National Bank and Union Bank of Switzerland, declined to participate, he said.

United Engineers & Constructors, a Raytheon Co. unit that is architect and engineer at Seabrook, agreed to convert a debt of more than \$20 million into a loan, Mr. Bayless said.

And Prudential's PruLease Inc. unit agreed to withdraw a demand for immediate payment on a \$50 million loan, secured by nuclear fuel, he said.

All the new bank agreements, and the agreements with United Engineers and Prudential, expire May 31, 1985, and call for interest of 116% of the prime rate plus 0.25 percentage point, Mr. Bayless said.

Several of the banks declared Public Ser-

vice in default of its loans. Public Service common stock will serve cash, but bonds.

Mr. Bayless of the \$90 million deferring. "Oiling around was ready to ma-

The next step is for Public Service to issue a new debenture, to raise money for completion of the project called Newbex.

Mr. Hildreth is the only Seabrook project manager. He is independent.

The Seabrook plan to reorganize the project, with Public Service as lead owner, is not yet complete, but the project is being managed by William B. Derr, vice senior vice

Electricity Output Rose 8.3% in Year, Spurred by Economy and Bad Weather

By RON WINSLOW

Staff Reporter of THE WALL STREET JOURNAL

The combination of a revived economy and extreme weather resulted in a surprising 8.3% rise in nationwide electricity production in the past year, after several years of low growth.

While it's still too soon to assess its significance, this unexpected use in electricity is certain to add fuel to a growing debate over how to meet demand in the future. "It's already causing some managements to reexamine their load growth projects for the next five to 10 years," said Ernie Liu, a utility analyst for Goldman, Sachs & Co.

Reserve margins around the country are still considered ample, and supplies are adequate to meet peak demands, but utilities in New England and the mid-Atlantic states could be strained this summer. An unusual hot spell earlier this month already caused several northeastern utilities to make small voltage reductions to customers.

Figures compiled by Edison Electric Institute, an industry trade group, show electricity production since Jan. 1 is 8% above the comparable period in 1983 and 8.3% higher for the 52 weeks ending June 9 compared with the year-earlier period. The last annual increase around 8% came in 1973.

"The bulk of what's happening is due to the recovery in the economy," says Bruce Humphrey, EEI's director of economic research, "especially in the manufacturing sector."

Industry officials acknowledge that the strong increases compare with unusually depressed numbers in 1982 and early 1983, when mild weather and the recession so depressed electricity demand that production in 1982 fell 2.4%, the first annual decline in industry history. Moreover, there are signs that the economic recovery is easing, and that could dampen growth.

Comparisons for this year's third quarter

sey-Maryland power pool. The group reduced voltage 5% June 11 to assure the stability of its system. "We had a peak load at what we projected for 1988," he added. Such a voltage reduction wouldn't be noticed by customers, Mr. Wernsing said.

The early heat wave caught northeastern power pools with several plants out of service for routine maintenance. Northeast utilities have high demand in both winter and summer and must squeeze in plant maintenance during the spring and fall.

But several large generating units, including nuclear plants, in the New England and Pennsylvania-New Jersey-Maryland power pools, will be out during portions of the summer. "We're going to be very tight," said Philip Ottens of the New England Power Pool in West Springfield, Mass.

The North American Electric Reliability Council says New England utilities could be forced to reduce voltage if they can't purchase enough extra power from New York and Canada. On June 11, the New England pool purchased some power from New York early in the day, but was cut off because the state needed the electricity.

Most utilities also have arrangements with large industrial customers to interrupt supplies in an emergency. If the system is still strained, utilities will "shed load" by cutting power to selected neighborhoods to avoid widespread blackouts. Industry officials predict such measures won't be necessary in any region this summer.

Arthur Andersen Partner Is Named to FASB Post

STAMFORD, Conn.—Arthur R. Wyatt, a partner in Arthur Andersen & Co., a Chicago-based CPA firm, was appointed to a five-year term as a member of the Financial Accounting Standards Board

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Seabrook Owners to Resume Construction With Smaller Role for PS New Hampshire

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By DAVID WESSEL

Staff Reporter of THE WALL STREET JOURNAL

OWNERS of the Seabrook nuclear power project, stalled since mid-April by the financial woes of Public Service Co. of New Hampshire, agreed to resume construction next Monday and took steps to reduce Public Service's role.

The 16 New England utilities authorized as much as \$4 million a week in Seabrook expenditures, double the amount currently being spent to maintain the site. They also approved one another's plans to finance completion of Unit 1, which is about 75% finished.

Construction will be supervised by a new organization, New Hampshire Yankee. The new entity initially will be a division of Public Service but will become independent pending approval of the Nuclear Regulatory

banks. But in 1979, the Federal Reserve ordered Baldwin to relinquish control of the banks. Baldwin transferred its interest to a limited partnership that owns 92.4% of a second partnership that owns 95% of Central Bancorp. The rest of the partnerships are owned by officers of the bank and other investors. The setup allowed Baldwin to divest itself of control but still get income from the banks.

Baldwin also issued a series of debentures, some with warrants that if exercised in 1996 would have stripped Baldwin of its partnership interest. AmeriTrust's purchase of those debentures and warrants, at about 20 cents on the dollar, removes the threat that it will lose ownership of the Colorado banks to the Baldwin debenture holders. Some of the debentures are held by other banks.

Baldwin also had promised to provide \$10 million to the holding company in 1983, but didn't because of its financial troubles. AmeriTrust said it will make additional capital contributions to the Colorado banks. "We want to see the banks grow," an AmeriTrust spokeswoman said.

Bank and Baldwin officials avoided contact after the "divestiture." But George B. McKinley, chairman and chief executive officer of the holding company, said the banks are run the same as any others despite the unusual partnership arrangements. "We have directors who get quite anxious if the company isn't doing as well as it could," he says.

In fact, the annual report to shareholders issued by Central Bancorp. doesn't even mention the complicated Baldwin ownership, although documents filed with the Federal Reserve and the Securities and Exchange Commission do.

"As a competitor, I haven't see any evidence that the ownership has caused any problem," said Leo Hill, president and chief executive of Affiliated Bankshares of Colorado Inc. He and other bankers said Central Bancorp. has been more active since the Baldwin divestiture.

AmeriTrust had assets of \$5.8 billion and Central Bancorp. had assets of \$1.7 billion at the end of 1983.

Commission and others. New Hampshire Yankee will operate the unit when it is finished.

The 16 utilities will own New Hampshire Yankee in the same proportions that they own Seabrook, utility spokesmen said.

The owners named Edward A. Brown, 54 years old, to be chairman and chief executive officer of New Hampshire Yankee. He will resign his current position as chairman of New England Power Service Co., a unit of New England Electric System. Mr. Brown, an engineer and a West Point graduate, has been one of the five New England utility executives overseeing Seabrook since Public Service unilaterally suspended work.

William B. Derrickson, who joined Public Service March 1, will be president of New Hampshire Yankee.

Mr. Derrickson, highly regarded for successful completion of a nuclear plant for Florida Power & Light Co., said about 800 Seabrook workers will be recalled over the next several weeks, bringing the total work force close to 2,000.

He said he expects a maximum of 4,200 workers on the site. There were 6,200 workers at Seabrook when work stopped in April, but Mr. Derrickson has been eliminating what he considers to be unnecessary layers of management. He has estimated the cost of completing Unit 1 at \$800 million before finance charges.

A Public Service spokesman, Nicholas Ashooh, called the owners' decisions "terrific." He said the utility didn't object to its reduced role in managing the project. "We recognize that conditions have changed," he said. Public Service, based in Manchester, N.H., owns 35.6% of Seabrook and had been running the project with its partners involved only in major policy decisions.

The decision to resume construction came less than a week after Public Service sold \$90 million in short-term notes and came to terms with banks and other creditors, thereby ending 2½ months of speculation over the likelihood of a bankruptcy-law filing.

Public Service common shares haven't moved much despite the recent developments. The stock, which slid to \$3.625 when the company said it was near to a bankruptcy-law filing, closed on the New York Stock Exchange composite tape Friday at \$4.50, unchanged. Public Service preferred shares, however, have been climbing. The utility's 17% preferred, for instance, closed Friday at \$12.50, down 12½ cents. A week earlier it was at \$10.625.

The utility hasn't said when it expects to resume paying dividends on common and preferred stock.

Public Service still faces a thorny problem in Seabrook Unit 2, which is 23% complete. Work on Unit 2 has stopped and several of Public Service's partners consider the plant canceled. But Public Service, barred by New Hampshire law from charging its customers for the \$316 million invested in the unfinished plant, has said work on Unit 2 may resume. A formal cancellation would force the utility to begin writing off its investment.

Urges Writing Down Of Some Foreign Loans

By LINDA SANDLER

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—The chairman of a major U.S. bank has called for U.S. banks to write down, over time, some of their loans to developing countries.

Richard Flamson, chairman of Los Angeles-based Security Pacific Corp., said in an interview that he favors some form of "concessionary" interest rates for debtors; those rates, he said, might be below market interest rates.

Such views have been expressed in recent months by major European bankers. But U.S. bankers have taken the position that the loans don't have to be written down, and that below-market interest rates aren't necessary. Mr. Flamson acknowledged that his public declaration was at odds with the statements of other leading U.S. bankers.

Mr. Flamson said concessionary rates for debtors might take the form of a ceiling on interest rates. That may result, he said, in bankers charging borrowers "less than market rates." Once the concessions were negotiated, he said, the banks should mark down the value of the loans to reflect the changes.

Mr. Flamson emphasized he wasn't recommending that the banks "take a hit" by writing down loans overnight. He said "that would be counterproductive," since it would wipe out part of the banks' capital and intensify investors' concerns about the industry's health. To avoid that, he said, regulators should allow banks to depreciate their loans over a period of years.

He said banks are closer to agreeing on the need to offer debtors easier terms because of the increasing risk that developing countries will repudiate their debt. "By recognizing the weakness in their portfolios," bankers would be doing what investors already have done. "The banking industry would be better served that way than by ignoring the problem," he said.

Investors, doubting the banks' valuations of their foreign loans, have sold bank shares in recent months. New York's Manufacturers Hanover Corp. was particularly hard hit. But when the bank recently announced it would account more conservatively for Argentine loans, its shares rallied.

Security Pacific, the nation's tenth-largest bank holding company with 1983 assets of \$40.38 billion, was a late-comer to international lending, and is less exposed in Latin America than most big U.S. banks. Mr. Flamson was an international lending officer when the bank began expanding overseas.

Mr. Flamson said rising interest rates have intolerably increased Latin nation debt burdens. He said banks can't continue charging borrowers interest rates that exceed their ability to pay.

Mr. Flamson said that U.S. interest rates are artificially high because of the large federal deficit and efforts to contain inflation. "Bankers must accept the concept that we can't put off on these countries interest rates that are a result of the domestic fight against inflation," he said.