

50-498/49902

I-CCANP-120

8/5/85

SOUTH TEXAS PROJECT

Re: Meeting held at 9:30 a.m. on September 15, 1981 to discuss the possible replacement of Brown & Root as engineer and construction manager

September 22, 1981

DOCKETED

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CEOs and Management Committee principals and representatives of the participants who were present were as follows:

OFFICE OF SECRETARY  
SECRETARY

<u>Participant</u>	<u>CEO</u>	<u>MC Principal</u>	<u>MC Alternate</u>
City of Austin		Hancock	Pokorny
City of San Antonio	Spruce	Poston	von Rosenberg
CPL	Borchelt	Range	Muench
HL&P	Jordan	Oprea	Goldberg

Also present were Messrs. Cowan and Newman and the writer.

At 9:37 Mr. Jordan began the meeting and stated that the same format would be followed as on Saturday. Mr. Jordan stated that HL&P had made its decision and hoped that the other participants concur. Mr. Jordan also reported that he had a conference scheduled with Mr. Feehan, CEO of Brown & Root, for 3:00 p.m. that afternoon.

Mr. Oprea passed out a draft of a press release, attached as Exhibit A, and retraced the deficiencies that had been discovered beginning in late 1979 and early 1980 to date. Mr. Oprea stated that Brown & Root had been unable to develop the human engineering resources, the management systems and the senior management attitudes necessary to successfully prosecute the Project. Mr. Oprea also briefly discussed the visit which he and Mr. Goldberg had had during the last few days with NRC Region IV representatives and the advance notice that HL&P had given to Region IV of the changes.

At 9:42 Mr. Goldberg began a description of the proposals by first describing the Westinghouse turnkey proposal and why HL&P had disregarded it. He explained that the NRC would not have allowed HL&P to turn over all responsibility to Westinghouse, as Westinghouse desired. He also noted that Westinghouse would have used the Gilbert organization.

Mr. Goldberg next began a comparison of the resources (eleven individuals in key slots) that had been proposed by Bechtel, Ebasco and Stone & Webster. He continued with the take-over experience, plan, schedule and cost approaches and takeover strategies.

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In the matter of \_\_\_\_\_  
Applicant \_\_\_\_\_  
Applicant's Office \_\_\_\_\_  
Contract \_\_\_\_\_  
District \_\_\_\_\_  
Region 1A7E  
DATE 8/5/85 RECEIVED \_\_\_\_\_  
WARRANT \_\_\_\_\_ IDENTIFIED \_\_\_\_\_  
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Mr. Hancock asked how long it would take us to know where we are, to which Mr. Goldberg replied that a preliminary idea should be available in six months and a good idea available in twelve months.

At 1:07 Mr. Goldberg continued with the takeover strategy charts, with respect to which Mr. Spruce inquired about how one of the bidders would work as a "consultant". Mr. Spruce inquired whether Brown & Root would stay on as AE with Stone & Webster, for example, being a consultant for Brown & Root. Mr. Goldberg explained that the successful bidder would be a consultant to HL&P during the transition.

With respect to commercial terms, Mr. Goldberg reported that the Company can negotiate satisfactory terms with any of the bidders.

Mr. Poston inquired whether the Bechtel rates (multipliers) will be the same as the others? Mr. Goldberg explained that Bechtel's proposed multipliers are higher but that the subject is negotiable.

At 10:13 a.m. Mr. Goldberg completed the slide projection portion of his presentation.

Mr. Range expressed the view that there should be an incentive to complete the job quickly and a disincentive to lengthening the job and increasing the manhours. There followed a long discussion here regarding Bechtel multipliers versus other multipliers, it being noted that if the Project gets into this sort of detail with Bechtel they will likely know they have the job wrapped up. Mr. Oprea stated that this item would be the last item on the discussion agenda with Bechtel because there are many other things to talk about.

Mr. Spruce inquired whether HL&P would go to Stone & Webster if it can't work out the multiplier question with Bechtel. The answer was not clear but it sounded like "yes".

Mr. Borchelt inquired whether HL&P would have any more control over Bechtel or Stone & Webster than it has had over Brown & Root. Mr. Goldberg replied that he didn't believe that Brown & Root had meant to overrun, but believed that they simply did not know how to do the job properly.

Mr. Borchelt observed that Brown & Root has had no incentive to hire good people.

At 10:20 Mr. Oprea contrasted Bechtel's and Stone & Webster's comprehension of the problems and solutions involved, as evidenced in the interviews that he and Goldberg and Newman had had with the three bidders, with the comprehension of Brown & Root. This resulted in a long colloquy between Goldberg

and Borchelt, Borchelt taking the position that HL&P has to control Bechtel so that this project does not turn out to be "one of their bad ones". Mr. Goldberg felt that companies want to protect and enhance their reputations, plus the fact that all three bidders (Stone & Webster, Ebasco and Bechtel) are putting forth good people and the contract will require approval by HL&P before such people could be taken off the job.

At 10:26 Mr. Goldberg continued with the discussion of the commercial terms, as proposed by Bechtel and Stone & Webster, noting that Stone & Webster was proposing a bonus of 10% of labor for timely completion. Mr. Borchelt inquired how the owners and contractor agree as to what is a good schedule.

There followed a discussion of what the various bidders might accept in terms of fee incentives and how it could be determined what true costs were attempted to be recovered by the arbitrary multipliers.

At 10:37 Mr. Borchelt asked Mr. Goldberg what he was going to do in negotiating with Bechtel. He cited the difficulty with Brown & Root regarding schedule and budget (he sarcastically remarked that he thought he had been getting one for the last nine months) and asked how Goldberg would control Bechtel on schedule and budget. Mr. Borchelt continued and inquired how HL&P would know in nine months whether it had a good schedule and budget. In reply, Mr. Goldberg explained that Brown & Root would not divulge how its schedule and budget had been developed - in essence Brown & Root refused to talk to HL&P about the subject. Mr. Goldberg explained that the basic problem was that Brown & Root does not work for the participants, but rather the participants are deemed by Brown & Root to work for them. Mr. Goldberg contrasted this attitude with the philosophy he had learned: i.e. the client is always right - you can argue with the client but finally, if he won't agree, he is always right. Mr. Borchelt inquired whether, if the Project does not have economic incentives and disincentives built into the contract, the Project will have the same thing over again. Mr. Goldberg replied in terms of the "peculiar chemistry" of Brown & Root - the intent to schnooker, deceive, etc.

At 10:43 Mr. Oprea began an explanation of Bechtel's cathode ray tube (CRT) system, under which not only Bechtel but HL&P could access Bechtel's data bank to produce required information immediately.

Mr. Borchelt responded by pointing out that "that's what Brown & Root told us two years ago with respect to Artemis". Mr. Borchelt cited MAC's advice that the owner must control the contractor and noted that "We haven't been able to do this - one man should be in charge". He continued, "We've dicked around with Brown & Root too long but there are some reasons for that".

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Mr. Borchelt asked "How is Goldberg going to pull this off with a new contract?" He then commented "I am a systems man and can't be comfortable until I can get an answer to \_\_\_\_\_ (I did not understand the rest of the statement)".

At 10:47 Mr. Poston inquired whether Mr. Goldberg would get more involved than he's ever been, to which Mr. Goldberg replied in the affirmative. Mr. Poston observed that TU says that HL&P is not involved enough. Mr. Poston inquired whether NRC had also made this charge. Mr. Goldberg responded that he thought it was an intervenor charge and inquired "If we're so deeply involved, why are there so many problems?" (?) Mr. Goldberg said he would also like to know who at Texas Utilities was critiquing the Project.

Mr. Goldberg explained that HL&P could not engineer this Project. However, Brown & Root has failed to do everything and HL&P has tried to reinforce Brown & Root.

Mr. Poston repeated his question, "Will HL&P be more or less involved?" Mr. Goldberg replied that HL&P will be less involved but with better people. Mr. Borchelt inquired whether there was going to be an increase in the quality of HL&P involvement, to which Mr. Goldberg replied "Yes, we are now hiring only experienced people, whereas in the past we have hired out-of-college people without experience". Mr. Borchelt inquired how far along Goldberg was, to which Mr. Goldberg replied that there are few positions vacant except the key man, the head of the Project engineering team (he reiterated that he has a Brown & Root man in mind for this job).

Mr. Goldberg also stated that he has one good controls man that may work out.

Mr. Goldberg inquired what will happen to Gibson, to which Mr. Goldberg replied that Gibson may stay with Brown & Root.

At 11:00 a.m. Mr. Borchelt said that from the Saturday meeting reports he could not understand why nine to twelve months would be required for transitions, during which nothing would be done. He asked, "How are we going to manage that and keep 5,000 people involved?"

With respect to engineering, Mr. Goldberg replied that HL&P is getting reports on the qualified Brown & Root engineering "hitters", whom HL&P hopes to retain under service contracts. Mr. Goldberg explained that Bechtel will want certain design work to proceed by Brown & Root under Bechtel's direction.

With respect to construction, Mr. Goldberg explained that much correction of work (as reported in the nonconformance reports), such as welds, voids, etc., had to be done and it would therefore be possible to keep many of the welders on the job.

Mr. Goldberg also explained that new work could be done as the new engineers free it up. He felt that useful work could be found for 1,000 people and that possibly warehousing and maintenance would employ another 500. He said that only 1600 people were on the site now (?).

Mr. Goldberg explained that Mr. Salterelli at Brown & Root was going through much the same thing but that Salterelli was sitting on quicksand. He explained that the engineering review has impeded the normal engineering new work production, therefore a new contractor will not change much what is being done. Mr. Goldberg noted that Mr. Salterelli's projected manhours to completion of the engineering are more than most engineers use for a whole job. Mr. Goldberg explained that much work can be done now on turbine building supports, for example.

Mr. Hancock questioned whether construction craft forces would be reduced and engineering increased. Mr. Goldberg replied that this would be the case and reported that Mr. Thompson is doing cutting in the construction forces at the site now. Mr. Goldberg noted that 1100 people (mostly engineers) are on Brown & Root's home office payroll.

Mr. Spruce inquired where the QA and QC functions would wind up. Mr. Goldberg explained that the engineering QA would go to the new engineer, that the QA for construction would be done by HL&P and that the QC for the construction would be left with Brown & Root.

At 11:13 Mr. Borchelt said that the Management Committee does not have control of much, but that it does control budget and the structure of the project management team. He then noted again that the thing that's not in place is a budget and schedule that the participants can rely on. He asked again, "When can we get it"? Mr. Goldberg replied that Brown & Root has presented a bottom line number and has made qualitative judgments for which there is no rationale. He reiterated the questions that HL&P had sent to Brown & Root. Mr. Goldberg said that with the activity we now have going on it would be counterproductive to put out Brown & Root's numbers, explaining again that if B&R's numbers are erroneously high they would be adopted by other contractors and if erroneously low the Project would have to explain higher numbers now and even higher numbers later. Mr. Goldberg felt that the Brown & Root numbers are probably not representative of what the new contractor will come up with and felt that the schedule is too long (although the new contractor would probably love to adopt the long schedule).

Mr. Borchelt raised the question of what the participants tell the outside world, at which time the discussion shifted to the "tolling" agreement and the extension thereof and the effect that the replacement will have upon Brown & Root (Borchelt(?) said "Brown & Root will be badly hurt and will need assurances, possibly a release").

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Mr. Spruce explained that in San Antonio there was a confrontation over the schedule and budget issues and that something had to be said.

At 11:23 Mr. Newman was requested to discuss licensing and explain the probable need for a CP amendment and the possible requirement of a prior notice and hearing. Mr. Newman explained this could take up to a year, depending upon the intervenors, to qualify a new AE and construction manager completely although the construction manager functions would probably be qualified sooner. Mr. Newman commented that if there is not much construction anyway for a year, the CP amendment procedure will not likely be important insofar as schedule effect is concerned.

Mr. Newman explained that the intervenors start on September 28 with a witness (Hubbard) who will emphasize the need for a split between the engineer and constructor and that he, therefore, felt that the licensing board should be advised this week (Wednesday or Thursday) that "changes are in the offing" and that the September 28 hearing should probably be deferred. Mr. Newman felt that three or four weeks after the new contractor is aboard a meeting could be held with the NRC staff (including the NRC legal staff) to arrange for an orderly transfer.

At this point the discussion turned to the press release (Exhibit A) which had been distributed earlier and Mr. Poston inquired if the reason for telling the board is to keep the GE witness off the stand. Mr. Newman explained that this was not the case, but rather that if we proceed without telling the board on September 28, the participants' credibility will be damaged when the board later learns what has been going on. Mr. Newman also noted that such a concealment would probably be a breach of the rules.

Mr. Hancock inquired what safety-related work can be done during the time of the transition (such as coating, welding repair, etc.)? Mr. Newman replied that this work could be done under Brown & Root's aegis and under Bechtel's supervision as consultant to HL&P.

At 11:35 Mr. Borchelt came back to the "tolling" agreement, but was asked to defer to Cowan who would discuss the matter later. Mr. Borchelt asked Mr. Newman what was the downside risk of the CP amendment hearing. Mr. Newman replied that if there are other intervenors, with greater resources and who sense in the weakness of the Project an opportunity to shut it down, the result could be serious.

At 11:40 Mr. Cowan began a discussion of the legal/contractual elements and reported that HL&P could shrink Brown & Root's scope with or without any reason. With respect to the

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"tolling" agreement, Mr. Cowan said that the ideal thing would be to get Brown & Root to sign an extension thereof. He said it would be a tough decision before the end of the year because Brown & Root's cooperation is essential to the transition but such cooperation could not be expected if Brown & Root and the participants are in life or death litigation.

Mr. von Rosenberg inquired whether Cowan thought Brown & Root will demand a release as the price of their cooperation, noting that the section that Cowan was relying on required re-negotiation and "an equitable adjustment".

Mr. Cowan stated that going past the end of the year without the "tolling" agreement extension would reduce but not destroy it (what? - the participants' cause of action?). Mr. Cowan said something about "the participants would get the benefit of two years (?) even if the agreement expired".

Mr. Borchelt asked Mr. Jordan what procedure would be followed about the announcement, to which Mr. Jordan replied that he would let Feehan look at the proposed press release and then advise the licensing board Thursday morning (September 17).

There followed a long discussion here (at 11:50) regarding the "tolling" agreement. Mr. Jordan noted that Brown & Root and Halliburton don't like the "tolling" agreement and that an extension will be more difficult than the original agreement. Mr. Jordan said he favors Mr. Cowan's idea that the amount to be recovered in litigation would be less than the damages from non-cooperation. Mr. Cowan said it is hard to tell the licensing board how good the construction is and be litigating against Brown & Root about how bad it is. He also reiterated his point that the plant can't be licensed without Brown & Root's cooperation. Mr. Cowan also noted, however, that after the transition Brown & Root will have less to bargain with. During this discussion Mr. Poston said something about the "privates" losing one year of damages.

At 12:02 the group returned to a discussion of the reforecast, Mr. Spruce stating that San Antonio can't live without a reforecast but that he would be happy to bring the mayor of San Antonio and others and let HL&P explain the problem to them. At this point Mr. Jordan noted that San Antonio's mayor would not return his telephone calls. Mr. Range suggested the possibility of concentrating on the slipped schedule, rather than the budget, and using it as a predicate for the change.

Mr. Borchelt emphasized a need for a reforecast to (a) enable the Management Committee to set a budget and (b) give the nuclear fuel contractors better dates (he noted that we had already given changed dates to some of them).

Mr. Goldberg reported that Gibbs & Hill had reviewed Brown & Root's reforecast (for Brown & Root?) and thought it

high. A long discussion here followed concerning Brown & Root's reforecast of budget (4.8 billion) and schedule (late 1987 fuel load for Unit No. 1), according to Mr. Goldberg. This discussion continued until 12:40 p.m., when the group recessed for lunch at the Houston Club. Mr. Cowan excused himself to return to the STP hearings, which were in progress, and did not join the group for lunch or thereafter.

At 2:16 the group resumed, after having asked Mr. Barker to join. Mr. Barker's notes on the information that had been furnished to him by Brown & Root were as follows:

	<u>Plan A</u> (continue past practices)	<u>Plan B</u> (incorporate Gibbs & Hill improvements)
Manhours required	19 million	17 million
Fuel load date No. 1	12/86	9/86
Fuel load date No. 2	12/88	3/88
Total cost	4.779 billion	4.44 billion

Mr. Barker thought these costs included a 10% contingency, and owners' costs of about \$875 million.

Mr. Borchelt asked a question about how, if we have already spent about \$300 million and have the nuclear steam supply systems and turbine generators, we can spend another \$600 million.

Mr. Barker stated (about 2:30 p.m.) that Brown & Root wants to go on a "risk" basis, put in now and do paper work later (apparently this remark applied to all construction work to be done by Brown & Root, and not just the owners' costs to which Mr. Borchelt's question had been directed).

Mr. Barker noted that out of the previous (1979) estimated cost of 2.7 billion, 498 million had been owners' costs.

There followed here a discussion of manhours but it is not clear to the writer what the assumptions were. These totals were as follows:

	<u>Engineering</u>	<u>Construction</u>	<u>Total</u>
Total manhours	15	100	115
Spent to date	8	20	28
Left	7	80	87

At 2:40 Mr. Jordan reiterated HL&P's decision (based upon Bechtel's record of successfully completed and operating units, the size of Bechtel's organization, the commitment of Bechtel to the Project and Bechtel's ability to manage startup) no negotiate

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with Bechtel to replace Brown & Root on engineering and construction management. Mr. Jordan stated that he would initiate negotiations with Mr. Reinsch to this end either Thursday or Friday. He asked if there were any objections from any of the participants and there was none.

At 2:47 Mr. Jordan left for his meeting with Mr. Feehan and Mr. Barker was excused from the meeting.

At 2:52 Mr. Borchelt stated that he felt the schedule and budget were completely unacceptable and that he would like to "sleep on", for the rest of the week, the B&R replacement.

Mr. Poston announced that the Management Committee meetings originally scheduled for next Thursday and Friday, September 24 and 25, had been cancelled.

At 3:12 p.m. the meeting was adjourned.