

STATE OF NEW YORK

# Public Service Commission

Paul L. Gioia, Chairman

Three Empire State Plaza, Albany, NY 12223

Further Details: (518) 474-7080

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FOR RELEASE: I M M E D I A T E

STAFF FILES TESTIMONY IN SHOREHAM PRUDENCE INQUIRY,

PROPOSES LIMIT OF \$2.3 BILLION ON PROJECT COSTS

Albany, February 10 -- The Staff of the Department of Public Service filed today testimony resulting from an investigation of the management by Long Island Lighting Company of the Shoreham nuclear project.

The Staff said that it found that "LILCO's management has failed to address adequately the management responsibilities entrusted by its stockholders, ratepayers and regulators and that its management actions in aggregate have been deficient and unreasonable."

As a result of these deficiencies, the Staff contended, the Commission should remove about \$1.5 billion of the costs of the Shoreham plant from LILCO's rate base, so that ratepayers would not be required to pay the costs of that investment.

The Staff also emphasized that the total Shoreham costs, for which ratepayers would be responsible, should be limited to about \$2.3 billion, "even if the plant is delayed" further from the operating schedule of January 1985 assumed in LILCO's pending rate case. The Staff said it expected that costs would rise owing to further delays resulting from the failure of emergency Diesel generators.

The Staff said that as a result of its testimony showing "serious mismanagement and inefficiency throughout the project" specific costs in various categories should not be recovered from customers. It listed them as follows:

1. Engineering Adjustment	104,829,000
(Out of 12.2 million total engineering manhours, 2.9 million were excessive)	
2. Construction Labor Adjustment	295,800,000
(Out of 33.8 million craft manhours and associated overheads, 7.6 million were unreasonable)	
3. Schedule delay adjustment	610,329,000
(Shoreham should have been in commercial operation in August 1982)	
4. Diesel Generator Adjustment	539,281,000
(The commercial operation date should never have been affected by the emergency Diesel generator crankshaft problem)	
Total adjustments	1,550,239,000

Since the company had estimated the total cost at \$3,846,271,000 with a January 1985 commercial operation of Shoreham, the Staff adjustments would bring the allowed recovery of cost down to \$2,296,032,000.

The trial Staff functions as a separate entity in this case and the testimony it has filed does not reflect the views of the Commission.

LILCO is scheduled to file its rebuttal case on April 2 and hearings at which witnesses for the Staff, intervenors and the company will be cross-examined are scheduled to begin Tuesday, May 15, in New York City.

After hearings and submission of written arguments (briefs) by all parties, the Administrative Law Judges hearing the case will prepare a written recommended decision analyzing and resolving each of the many disputed issues in the case. The Commission's final determination, which also will be in written form, is expected this fall.

Tracing the history of Shoreham to its beginning in 1966, the

Staff declared that "LILCO effectively lost management control of the project immediately following commencement." And the utility's "management of Stone & Webster as Architect/Engineer and as Construction Manager until 1977 has been similarly deficient," Staff said.

"This assessment," Staff explained, has not held LILCO accountable for sophisticated management techniques and control systems, or exemplary management. The management deficiencies found at Shoreham represent fundamental and unreasonable flaws in the application of basic principles of management. The conclusions are based upon information that was not only available to management at the time, but in most cases information that was specifically brought to management's attention."

As part of the adjustment for construction labor costs, the Staff said that "problems with craft labor included late starts, early quits, alcohol abuse, and protracted coffee breaks [and were] identified early in the project but were never effectively resolved." These problems were estimated to cost LILCO over \$35,000 per day.

The Diesel generator failure--estimated to increase the plant's cost by more than \$500 million--should never have delayed the plant, the Staff said, "if LILCO had performed their managerial responsibilities properly." The Staff found two major flaws--one of action, one of inaction. The first was the choice by LILCO of Delaval, a vendor with no experience in producing Diesel generators for nuclear power plants, over more experienced manufacturers. The second was the failure by Stone & Webster (compounded by LILCO's lack of oversight) to obtain information needed to establish the integrity of the crankshaft, whose failure has now caused delays in fuel loading.

The testimony and exhibits filed by Staff result from a review and analysis of more than 10,000 documents obtained from the company, including the files of 52 departments and offices and personal files of 19 executives and

senior managers, including the chairman of the board and president of LILCO. A Staff task force of 18 fulltime and 15 parttime specialists, plus representatives of Theodore Barry & Associates, and Canatom, Inc., consultants retained by Staff, conducted the unprecedented review of the company's books and records intensively over several months. They also interviewed 48 LILCO, Stone and Webster, Courter and Dravo employees and LILCO consultants, all of whom were involved in the Shoreham project. The Staff group of lawyers, engineers, and accountants, was provided with clerical and computer assistance.