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**ADDENDUM AND
INFORMATIONAL PACKET TO
PRESENTATION MADE AT APS
EMERGENCY RATE CASE
HEARING ON
MARCH 21, 2006**

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AZ CORP COMMISSION
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ENRON (LOOT) Leaders of Our Town

1. Company in financial trouble yet paid over \$800 million to directors and officers.

2. Company fires thousands while continuing to executive bonuses. (USA TODAY, 6/18/2002)" Barely a week after a worker's severance-pay agreement was announced, former ENRON employees and their attorneys are furious about disclosures Monday that ENRON paid more than \$800 Million last year to 152 executives and managers"

3. Company blames poor performance on Wall Street analysts. Houston Chronicle Andrew Fastow, "The risk was a Wall Street Journal risk." Meaning if it got out to the public there would be trouble. (USA TODAY 2/19/02) "Murky accounting rules allow scores of loopholes to tweak earnings in an effort tomatch Wall Street Expectations

4. Poor judgement and risky business practices put the company in a position for heightened scrutiny by investors. (USA TODAY 7/08/02) "ENRON's board of directors contributed to the energy trader's collapse because they were aware of the accounting gimmicks, risky business practices and conflicts of interest but did nothing to stop it."(quoting Senate Panel)

APS

1. Company asks for rate increase due to financial trouble yet continues to pay officers and directors substantial bonuses.

2. Company continues to pay executive bonuses and dividends while firing 500-600 employees after losing \$15 Million to ENRON partnership. (SEE Arizona Republic Article Attached) Jack Davis stated that a response to the question asked by Kris Mayes as to whether or not executive bonuses would be cut. Has he responded?

ARIZONA REPUBLIC 3/10/2006 " Even as Arizona Public Service Co. Seeks to collect more than a half a billion dollars by raising electricity bills for customers, it's parent company has rewarded investors by increasing dividends every year since 1993".

ARIZONA REPUBLIC 03/23/06 "The parent company of Arizona Public Service on Wednesday declared a quarterly dividend of 50 cents per share"

3. Company claims Wall Street indicators and the need to maintain their equity rating necessitate charging customers more money. Attorney for APS on March 20 2006 reiterated the companies position that Wall Street opinion is driving their rate increase request.

4. Questionable management, maintenance and training, as well as deceptive billing practices cost APS millions of dollars worth of fines and harm to their credibility with consumers, investors and regulatory agencies. May 2003, ACC allows Pinnacle West Capital Corporation to refinance orphan power plants. To the tune \$500 million.

Has the common equity ratio been maintained?

APS must maintain this equity percentage or no dividends are to be paid

5. A majority of the board of directors had outside consulting deals and business ties to outside companies, generating massive conflicts of interest. More traveling

6. ARIZONA REPUBLIC 03/23/06
“Jeffrey Skilling and Kenneth Lay approved off-the-books financing to hide ENRON Corp’s losses from auditors and investors.”

Phoenix New Times 06/01/94 “Records reveal that, at least until several years ago the state’s largest industrial plant was habitually mismanaged, its equipment deteriorating and its employees poorly trained.”

Phoenix New Times, 03/18.04 “In 2003, Palo Verde led the nation in the number of allegations made by its employees to the Nuclear regulatory Commission...”

Arizona Republic. 03/23/06 “Water samples taken a day before had turned up levels 3 ½ times those considered acceptable by the Environmental Protection Agency for drinking water.”

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Safety Meltdown

Critics say Palo Verde Nuclear Generating Station is headed for trouble
By Robert Nelson

Dave Misbeek and Silvario Garcia are, by their own admission, anal-retentive guys. They thrive on detailed perfection. They know every letter of the law and follow those letters religiously.

They are the kind of guys you would hate to have running your homeowners' association.

But they are precisely the kind of guys you want overseeing safety at your local nuclear power plant, which just happens to be the largest of its kind in the United States.

Basically, it is Misbeek and Garcia's job to make sure the three nuclear reactors at Palo Verde Nuclear Generation Station, about 50 miles west of downtown Phoenix, don't blow up and spew radiation on the three million residents of the Valley.

Palo Verde, they assure, is far from blowing up.

But something is clearly amiss.

In 2003, Palo Verde led the nation in the number of allegations made by its employees to the Nuclear Regulatory Commission, the federal oversight agency for the nation's nuclear power plants. Of those 28 allegations to the NRC, six have been substantiated, giving the plant more substantiated allegations in 2003 than all but one of the 64 plants operating in the country.

Another 15 allegations remain under investigation by the NRC.

The 28 allegations center on two major topics:

- That certain critical departments within Palo Verde have such a dismal work environment, and that technicians are so overworked, that they don't report problems or find problems that might exist.
- That some repairs have been allowed to slide in recent years and that employees in critical safety departments at Palo Verde often fix problems without properly documenting those fixes, a crucial paperwork process that has been proven to prevent the kinds of small mistakes that historically have led to serious problems.

New Times reviewed hundreds of pages of allegations and supporting documentation along with detailed company and NRC documents. And while the material doesn't suggest Palo Verde is in imminent danger of disaster, it does portray a company that is slipping when it comes to maintaining critical levels of safety.

Critics say Palo Verde's slide is the result of the company's putting profits before safety and long-term reliability.

Moreover, Palo Verde supplies about 30 million megawatt-hours each year to the Western power grid, and critics are concerned that increasing problems with sloppy safety practices will compromise the plant's ability to stay online and provide a steady stream of affordable and reliable electricity.

In fact, *New Times'* review of safety allegations comes as Palo Verde is experiencing a series of leaks that have shut down parts of the generating system. On March 1, the NRC announced it had begun a special investigation to evaluate problems related to the station's recently replaced steam generators.

"The NRC staff has decided to conduct a special investigation to evaluate the adequacy of the licensee's response to the situation, the root cause, and corrective actions," the NRC said in a press release.

That report is expected to be completed sometime in April.

Federal officials are concerned about the number of allegations, although they dismiss most of the employees' concerns as minor.

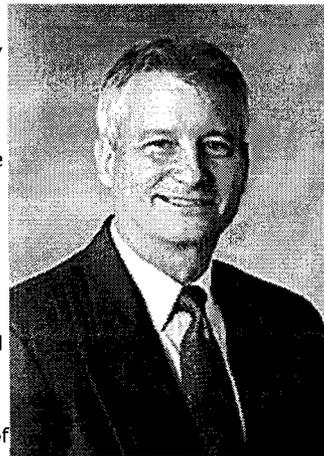
"While the number of allegations brought by Palo Verde workers in 2003 to the NRC is high," Victor Dricks, the NRC's Region IV spokesperson, told *New Times* in a written response to questions about plant safety, "a thorough review of each of the allegations did not substantiate any significant safety issue at the site. However, the NRC is concerned about the number of



Palo Verde nuclear power plant, the largest plant of its kind in the country, sits 50 miles west of downtown Phoenix.



Silvario Garcia has been concerned with Palo Verde's "hostile work environment" for more than a decade.



Gregg Overbeck oversees the 2,000 employees of Palo Verde.

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From phoenixnewtimes.com

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SECRETS OF THE PALO VERDE INN

WHEN IT SOLD A WORKERS' DORMITORY LAST YEAR, APS LEFT THOUSANDS OF ITS OWN DOCUMENTS BEHIND. THOSE FILES SHOW DANGEROUS MISMANAGEMENT OF THE NATION'S LARGEST NUCLEAR PLANT.

By John Dougherty and David Pasztor

Early last Wednesday morning, a determined caravan of workers from Arizona Public Service Company trundled into the dusty, decrepit desert town of Tonopah on a special mission.

The crew, led by the utility's cellular-phone-toting public relations chief, had been urgently dispatched to retrieve thousands of internal APS documents that the company had dumped in a deserted building two years ago and forgotten.

But when the APS workers arrived, armed with power tools to drill locked file cabinets, they found that most of the documents were gone.

Two weeks earlier, the man who purchased the abandoned building and its contents from APS last November allowed New Times to retrieve the thousands of pages of reports, internal company memos and other APS files scattered throughout his building.

The files provide a rare, uncensored look into the chaotic and increasingly dangerous operation of the nation's largest nuclear power plant--the Palo Verde Nuclear Generating Station.

The documents, which date from the early 1970s to 1991, include a scathing 1989 performance audit conducted by a nuclear industry association, a variety of consultant recommendations, letters to and from federal regulators, internal APS memorandums, computer tapes, blueprints and radiological testing data.

They paint a picture of a facility in deep trouble.

The records reveal that, at least until several years ago, the state's largest industrial plant was habitually mismanaged, its equipment deteriorating and its employees poorly trained.

The result has been a steady series of accidents and unsolved problems at the plant--which has been fined nearly \$2 million by federal regulators since it went on line in 1986.

How many of those problems continue to plague the plant is not known, because APS would not allow New Times to see more recent reports that might--or might not--show improvements the company has made in the past few years.

But other, publicly available documents make it clear that APS may be paying the price for its neglect and mismanagement at Palo Verde. The plant, designed to last 40 years, is running into critical and costly problems, most notably with premature cracking in more than 1,500 radioactive pipes.

APS may soon have to ask for rate increases to make hundreds of millions of dollars in repairs to cracked or corroded steam generator tubes which--if they burst--can cause radiation releases ranging from minor to disastrous.

Whatever problems APS faces now could probably have been avoided, or at least mitigated, if APS had listened almost ten years ago when outside inspectors and consultants began pointing out serious and deep-rooted problems at the plant.

@rule:

@body:There is a shadow watchdog that keeps an eye on the nation's nuclear power industry. It is called the Institute of Nuclear Power Operations.

The private, Atlanta-based institute is funded by all of the utilities that run nuclear plants. It is supposed to serve as a collective pool of knowledge that plant operators can tap, learning from the experiences--and mistakes--of other plants.

Every 18 months or so, INPO sends inspectors to each of the nation's nuclear plants to evaluate safety, management and operations.

Unlike the Nuclear Regulatory Commission, which reports to the public and discloses its findings about plants, the institute works in virtual secrecy, just for the industry.

After it inspects a plant, the institute reports findings solely to the top manager of that facility. In Palo Verde's case, the reports are sent to Mark De Michele, APS' president and chief executive officer, and remain closely guarded within the company's upper-management ranks.

The NRC is not given copies of the INPO reports, although the federal inspector assigned to each plant is allowed to read the report.

State agencies such as the Arizona Corporation Commission, which sets rates for the power generated at Palo Verde, and the Arizona Radiation Regulatory Agency, which monitors radiation near the plant, do not get to see the INPO inspection reports.

The public, certainly, is not allowed to see them.

"We provide the report only to the utility," says Angie Howard, INPO's vice president of industry relations. "We do not comment publicly on those."

Judging by the INPO reports obtained by New Times, it is obvious why APS would not want the public to know the institute's low opinion of Palo Verde.

Although INPO has been accused, at times, of being too cozy with the industry that pays its salaries, the institute has been highly critical of Palo Verde's safety and operations. More critical, in fact, than NRC inspectors have been.

INPO's 1989 report on Palo Verde and other internal company documents from that time period paint a picture of a plant with serious safety and management problems.

The Palo Verde plant's top managers and supervisors, INPO found, did not have enough on-the-job experience to know how to run a nuclear plant properly. Key management positions turned over often, and many of the managers who ran the plant's three reactors did not have reactor operator licenses.

"This absence of nuclear operating experience impedes the ability of [Palo Verde] personnel to recognize and correct plant problems," INPO concluded.

Because of their relative inexperience at running a nuclear plant, INPO found, Palo Verde's managers had a tendency to seek easy answers when problems arose, rather than address underlying causes.

"The corporate organization fosters an attitude of solving problems on a 'quick fix' basis rather than developing lasting solutions," INPO reported.

Weak, inexperienced management, according to INPO reports and other internal company documents, was causing myriad safety and operational problems at the plant.

The documents show that:

- ù Plant managers had not come up with an adequate procedure to ensure that warning signs were posted at all radioactive "hot spots" at the plant, so employees could take proper precautions.

- ù The plant did not have adequate safeguards to keep highly radioactive particles from drifting about the facility. INPO reported that, in 1988, more than 450 "hot radioactive particles" were found at Palo Verde, "many of which were located in clean areas of the plant or on individuals."

- ù The training employees received on operating the reactors was "significantly degraded," INPO found, because the simulator used for training did not mirror the actual reactor control rooms.

- ù "Excessive" numbers of lights on the control panels in the real reactor operating rooms did not work properly, and therefore could not signal an alarm if the component they monitored failed. The lights--called annunciators--had not been fixed for three years after INPO first found the problem in 1986. In 1989, the control panels in Units 1 and 2 still had 81 annunciator lights that stayed on all the time, and an undisclosed number of others that flashed continuously, meaning they had been disabled.

- ù Plant employees were simply not showing up for required training classes, but plant managers could not come up with a way to keep attendance records.

- ù The plant was woefully behind in performing the normal maintenance needed to keep the plant operating safely. According to its 1989 report, INPO first warned APS about the problem two years earlier, but it had not been solved. Other internal company documents show that, as late as December 1990, plant workers had a backlog of more than 2,400 maintenance tasks waiting to be performed on Palo Verde's three reactors.

- ù Because its maintenance scheduling was so far behind, the plant was not keeping up with potentially critical repairs ordered by the federal government. For instance, all of the nation's nuclear plants had been told in 1986 to increase their maintenance of check valves. Three years later, INPO found, the Palo Verde plant "had 25 check valve failures in 1988 and . . . the check valve failure rates for Units 1 and 2 are almost double the industry average."

- ù Plant workers could not perform all necessary maintenance tasks because no one was sure what needed to be done. INPO found that many of the tags used to mark equipment needing service were wrong, or had simply been removed. As early as 1985, APS itself had found that 48 percent of the maintenance tags attached to equipment were wrong. By 1989, INPO found, the plant still did not have an adequate system to make sure the proper tags were placed on items needing repair or service.

- ù Despite being warned about problems as early as 1985, by 1989 the Palo Verde plant still had not come up with a way to make sure the water it used in the steam generators was as clean as required. The dirty water apparently was creating "high corrosion rates" in some parts of the nuke's cooling system, including some pipes which--if they burst--could spawn a radiation leak. When INPO interviewed lab technicians who were supposed to monitor the cleanliness of the water, it found that most did not understand why it was important for the water to be clean.

Taken together, the findings from INPO--some of which are further detailed in internal company documents--show that for a lengthy period of time, the nation's largest nuclear plant was badly managed and badly maintained.

But most frightening, the documents show that in the first three years after the plant went on line, management established a clear pattern of not fixing problems when they were detected.

INPO found that recurring problems--such as dirty cooling water or broken control-panel lights--were not going away, despite the hundreds of proposals and recommendations that APS management would produce to explain how the plant was going to solve its problems.

"That's what they do," says Linda Mitchell, a former plant engineer and whistle-blower who won a judgment against the utility

after she was harassed for reporting safety problems to the NRC. "They can write 5,000 pieces of paper about anything, but they never fix a fricking thing."

INPO was not alone in its harsh assessment of the plant.

In a March 1990 report, the Liberty Consulting Group echoed many of the conclusions INPO reached after its 1989 evaluation of the plant.

The Liberty report reiterated that the plant had spotty maintenance procedures and was not taking care of potentially critical safety and operating problems identified years earlier.

"Some repeat equipment failures were indicative of a failure to determine and correct the root causes of the failures," was one of Liberty's conclusions.

The documents recovered by New Times end in early 1991, when they were put into storage and forgotten. The files do not reflect what APS may have done since then to correct the nagging problems at its plant.

Requests by New Times to see more recent reports--particularly reports from the INPO evaluations that have taken place since 1989--were turned down by APS.

But the Palo Verde Papers clearly show that--until 1991--APS had established a track record of not fixing problems involving safety, maintenance, radiation leaks and employee training once they were discovered.

And last year, an emergency shutdown of Palo Verde seemed to show that many of the management problems mentioned in previous audits had yet to be resolved.

On March 14, 1993, a tube carrying radioactive water ruptured in Unit 2, sending more than 44 gallons per minute of contaminated water into a steam generator. While Palo Verde operators were able to shut down the reactor with no offsite radiation release, the NRC found serious fault with plant managers. Among the problems:

- ù Reactor operators misdiagnosed the event twice.

- ù Operators had failed to replace a broken radiation monitor when it was discovered a week earlier. A working monitor might have aided operators in discovering the ruptured tube quickly.

- ù Operators in the Unit 2 control room had been trained on a simulator that differed from the actual control room configuration. Consequently, they did not recognize some warning signs of the rupture.

- ù During an earlier refueling, operators had discovered "an abnormal amount of crack growth in a steam generator tube" at Unit 2. But they did not bother to make a formal evaluation to determine whether the cracking posed a safety threat.

The NRC slapped Palo Verde with four notices that it had violated operating rules, but issued no fine in the steam-tube incident.

Interviews with top NRC officials at the plant also indicate that past management problems persist.

"They have got an organization that is cumbersome out here," says NRC senior inspector Ken Johnston. "They need to take a hard look at their work processes, to streamline them, make them more effective."

This continuing pattern of shoddy management and operation is especially ominous in light of critical problems the plant is known to face today.

@rule:

@body: The Palo Verde Nuclear Generating Station is suffering from a crippling affliction that has forced several other nuclear power plants to permanently close.

How much the plant's past mismanagement may have exacerbated the problem is unclear. This much is certain, though: The heart of the facility is steadily being eaten away by corrosion.

Widespread and unchecked corrosion has already caused cracks in more than 1,500 radioactive steam generator tubes that were supposed to last through Palo Verde's 40-year life span.

Unless APS can stem that corrosive tide, the day will come when Palo Verde will be faced with a crucial decision: shut down, or spend hundreds of millions, possibly billions, of dollars to replace the faulty steam generating systems.

In the meantime, the two million residents downwind from the power plant face a steadily increasing risk if more and more steam generator tubes continue to develop cracks, government and private scientists who monitor nuclear energy plants say. If tubes burst, they can cause radiation releases. If several tubes burst at the same time, the plant's operators must institute emergency shutdown procedures that would likely result in radiation pouring into the atmosphere for several hours, says Robert Pollard, senior nuclear safety engineer for the Union of Concerned Scientists.

"The problem with running with cracked tubes is that it increases the risk of an accident," says Pollard.

At least one member of the Nuclear Regulatory Commission has expressed serious concerns over the increased number of cracking steam generator tubes showing up in nuclear power plants throughout the country.

"The concern is not a single tube leaking or even failing," says Nuclear Regulatory Commissioner Kenneth C. Rogers. Instead, what worries Rogers is the possibility that a number of tubes could slowly degrade at the same time. This is precisely the problem facing Palo Verde.

"Degradation would decrease the safety margins so that, in essence, we have a 'loaded gun,' an accident waiting to happen," Rogers told the International Symposium on Nuclear Power Plant Aging in an August 1988 speech.

That continuing corrosion sets up a scenario where a plant mishap could cause a failure of multiple steam generator tubes at

one time.

There is no doubt that the integrity of 66,000 3/4-inch-diameter stainless steel tubes circulating through Palo Verde's three reactors is essential to safe operation of the plant. It was the rupture of just one tube that forced the 1993 emergency shutdown and unexpected radiation release in Unit 2.

Despite NRC commissioner Rogers' concerns, government records show the NRC has assumed an accommodating role when regulating nuclear utilities with cracking steam tubes.

The agency may relax a rule requiring utilities to plug--that is, literally quit using--cracked tubes once corrosion progresses to a certain point. Currently, the tubes must be plugged if corrosion penetrates more than 40 percent of the tube's wall--a wall that is less than 1/20 of an inch thick.

"Because so many utilities are having so much corrosion . . . they have asked the NRC to relax the criteria," Pollard says. "And the NRC is proposing to do so."

Under newly proposed standards, Pollard says, utilities would have to plug far fewer cracked tubes--tubes that are under more than 2,200 pounds per square inch of pressure. Such a move, he fears, increases the risk of multiple steam tube ruptures that could result in large radioactive releases.

NRC records show APS is scrambling to find ways to reduce the growth rate of corrosion-caused cracks in its steam generator tubes. But so far, there is no definitive cure for the problem. Theories on the cause of the cracks range from improper water chemistry to manufacturing flaws in the tubes.

With no corrosion cure in sight, the nuclear power industry and the NRC have grown to accept cracked steam generator tubes as a routine part of plant operations, NRC records show.

In fact, APS no longer guarantees it can operate the steam generators without cracked tubes. Instead, the utility tells the NRC it doesn't expect enough of the tubes to burst during operating cycles to pose a significant radiation exposure threat. But everyone clearly expects new cracks to develop.

Once the plant goes down for refueling or inspection, APS checks for cracked tubes and simply plugs the damaged tubes, effectively removing them from service. But this finger-in-the-dike approach to nuclear energy can only last so long.

NRC resident inspector Ken Johnston says plugging the tubes reduces the amount of cooling water flowing around the reactor core. This, in turn, forces the utility to lower reactor temperatures, reducing the amount of electrical output.

This cycle eventually reaches a point where the nuclear plant operator faces an economic decision: Either replace the steam generators or shut down in the face of dwindling electrical output, Johnston says.

The steam-tube cracking has become so serious in Palo Verde Unit 2 that APS can now operate it only for six months, at 86 percent of power, before shutting down to check the tubes. The unit was designed to operate at full power for 18 months between routine refueling shutdowns.

Each Palo Verde nuclear unit has two steam generator systems, each containing 11,012 steam generating tubes. Steam generator number 2 in reactor Unit 2 already has 741 tubes plugged because of cracking. APS' original safety analysis for operating the steam generator at 100 percent of power assumed no more than 400 of the tubes would be plugged, Johnston says.

But the NRC allowed APS to continue operating Unit 2 at 100 percent of power after the utility submitted a revised safety plan, Johnston says.

APS, however, has elected to operate Unit 2, as well as its other two units, at just 86 percent of power over the next few months.

The steam tube corrosion problem has spread to Palo Verde 1 and Palo Verde 3, as well. Johnston says 325 of the 22,000 steam tubes in Unit 1 have been plugged while 266 tubes in the steam generators in Unit 3 have been plugged because of corrosion-related problems.

New cracks have also been found in Units 1 and 3. APS has announced it may shut down the two units for inspection after only six months of their current 18-month operating cycles.

Palo Verde's tube problems are different--and worse--than those faced by other U.S. nuclear plants. Most nukes have suffered steam tube cracks at points where they intersect support brackets. The Palo Verde tubes are cracking in the middle, between brackets, in an area known technically as the freespan.

Such midspan cracking poses an added risk, Pollard says, because there are no brackets to act as clamps on the tubes as cracks deepen.

"If the tube starts to crack in the freespan, there is nothing to restrain it from bursting open," Pollard says. APS and the consortium of utilities that built Palo Verde never expected to be faced with the costly scenario of replacing steam generators. The utilities were so confident of the plant's basic design that its massive cement containment buildings do not include doors large enough for a replacement steam generator assembly.

If APS is forced to remove the deteriorating steam generators, it will have to blast a hole through the side of the steel-reinforced containment structure.

Or, as APS spokesman Mark Fallon euphemizes, "We would have to open an entryway on the side of the containment building."

There are no plans to replace the faulty steam generators immediately, Fallon adds. But . . .

"Certainly, it is a future option."

@rule:

@body: There is little doubt Palo Verde management has entered a decisive and potentially dangerous period of operation. How management performs can literally determine whether the nuke plant must be permanently mothballed to avoid economic or physical meltdown.

But the track record of APS' managers, as reflected in the Palo Verde Papers, hardly inspires confidence that operations at the power plant will suddenly begin to proceed smoothly.

The Papers are, themselves, a telling example of APS' mismanagement of the nuclear facility. Thousands of pages of internal nuclear plant operation records--including detailed performance audits never formally reviewed by the NRC and never intended for public dissemination--now are stored at New Times.

The saga of the wayward documents dates to 1980, when APS contracted with Phoenix businessman Bill Myers to build the \$7.1 million Palo Verde Inn. The inn, located in the desolate, I-10 truck-stop town of Tonopah, housed construction workers who built the remote nuclear power plant.

The utility couldn't have picked a more isolated and surreal location to build the workers' dormitory.

Tonopah's most notable business, then as now, is a 1940s-era truck stop featuring cheap turquoise jewelry, filthy rest rooms, inexpensive, chicken-fried luncheon specials and a clientele of local desert rats who have no other place to go than Tonopah Joe's.

Entertainment possibilities diminish from there.

After Myers built the sprawling, two-story inn, he contracted with APS to manage the facility.

Myers intended the building to last a long time. He hoped to get it back from APS after the nuclear plant was built, but a bitter contract dispute erupted. He and APS ended up in court. Myers won, but hasn't collected, a \$1.8 million judgment from APS, which the utility has appealed. Myers also was ordered to sell the inn to APS, which he did in 1991.

APS then let the inn fall into disrepair, opting to use it as a storage facility for discarded office furniture. APS spokesman Fallon says the utility moved nearly 1,200 pieces of furniture into the building in 1992 after a new office complex was completed at the power plant.

Fallon says APS employees were supposed to remove important files from their offices before the file cabinets and desks were transferred to the inn for storage.

"We didn't intend to leave documents in the Palo Verde Inn," he says.

Nevertheless, reams of internal plant documents were left in the numerous files and slowly were scattered about the inn. The files even survived a mysterious fire that erupted near the administrative offices of the inn last fall.

Late last year, APS finally sold the building to a group of Texas investors for \$57,000. The sales documents included an unusual provision that "buyer and seller acknowledge and understand that the personal property currently stored within the building on the sale property shall be conveyed to buyer as part of the transaction."

The documents at the inn would never have come to the attention of New Times if it hadn't been for Myers' bitter battle with APS. Myers, who owns property surrounding the inn, kept a close eye on the building, noticing all the documents scattered about.

He described his feud with APS, and the bizarre collection of records left inside the inn, to an elected official during a discussion at the Phoenix Country Club. That official called New Times. The new owners of the inn gave the paper access to the records.

The Palo Verde Papers contain information APS obviously didn't want in the public domain.

APS historically has kept a tight lid on the internal operations at Palo Verde. The company's public relations office carefully spins news releases to downplay any mishap at the plant. Coverage by local daily newspapers of the numerous foul-ups at the plant have been, to speak charitably, timid.

The company is so obsessed with keeping tight control on information released from the plant that it has publicly acknowledged retaliating against employees who lodged safety complaints with the NRC. The commission is currently conducting an investigation into APS treatment of whistle-blowers, several of whom say a federal grand jury will convene on the matter later this year.

Staying true to form, Fallon initially downplayed the significance of the document cache, saying they were unimportant records. But he also made it clear the company would like the records back.

"Although the documents are nothing more than personal files of current and past employees, we feel it would be prudent to recover them," the APS spokesman said Thursday.

By Friday, APS had decided that recovery would be prudent, indeed.

Fallon called an owner of the Palo Verde Inn, asking that the documents in New Times' hands be returned to him, so he could release them to APS. Then Fallon called New Times, asking when the documents would be returned.

And then he phoned again, suggesting that publication of the Palo Verde Papers might have legal repercussions.

Treasurer: Enron leaders approved fraudulent deal

BLOOMBERG NEWS

HOUSTON — Jeffrey Skilling and Kenneth Lay approved off-the-books financing to hide Enron Corp.'s losses from auditors and investors, the treasurer who set up the deal testified Wednesday.

Former Enron treasurer Benjamin Glisan Jr. told jurors in federal court in Houston that he presented the deal, known as Raptor, to Skilling, then Enron's chief executive officer, and Lay, then the chairman, at a finance committee meeting in May 2000. Skilling endorsed the transaction.

"Mr. Skilling said this was

not a deal that he would recommend except for the fact that it allowed him to circumvent the accounting rules," said Glisan, 40. "Mr. Lay giggled."

Glisan's testimony was the first to indicate that Skilling approved the publication of deceptive financial statements. Lay and Skilling face at least 25 years in prison if convicted on charges that they conspired to defraud investors.

Raptor was an off-the-books entity set up to pay Enron with its own stock to "fill holes" in the company's balance sheet, Glisan testified.

Glisan is serving a five-year sentence for securities fraud.

THE ARIZONA REPUBLIC
VALLEY & STATE

APS declares dividend payout for shareholders

The parent company of Arizona Public Service on Wednesday declared a quarterly dividend of 50 cents per share.

Pinnacle West Capital Corp.'s dividend is payable June 1 to shareholders of record on May 1. The company will pay about \$48.3 million to shareholders for the dividend.

The dividend was approved as APS is seeking to raise more than \$230 million by increasing electricity bills 11 percent. The company is seeking the increase during a hearing this week before the Arizona Corporation Commission.

The Phoenix-based utility says it needs the cash to pay for fuel and purchased-power costs. Wall Street ratings agencies have threatened to downgrade the company's bond rating to junk status, a move that would significantly raise the company's borrowing costs.

www.pinnaclewest.com

Palo Verde water investigated

Feds probe tritium levels at nuclear plants

By Phil House
and Ken Altrucker
THE ARIZONA REPUBLIC

ROCKVILLE, Md. — Prompted by a string of accidental radioactive discharges, federal monitors said Wednesday that they have formed a task force to investigate the spills at several power plants across the country, including one at

the Palo Verde Nuclear Generating Station in Wintersburg.

"It does appear that it's bang, bang, bang, one right after the other," Steve Klementowicz, a Nuclear Regulatory Commission senior health physicist, said of discharges of radioactive tritium-laced water at nuclear plants in Arizona, Illinois and New York.

azcentral.com

Talk online about reports of radioactive tritium in nuclear power plants around the nation, at news.azcentral.com.

power generation, is a relatively weak source of radiation. But long-term exposure can increase the risks of cancer, miscarriages and birth defects. It can be ingested or absorbed in human tissue.

Klementowicz and other NRC officials said at a hearing here that

Radioactive discharges: The risks of tritium and where it has been detected. A12

The task force of experts will evaluate the health effects of what has happened at at least five plants since December and possibly earlier incidents. But they emphasized that the latest reports from all the

See PALO VERDE Page A12

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10/11

10/11

Feds probe water tritium

PALO VERDE

Continued from A1

sites, including Palo Verde, do not indicate any immediate public hazards.

At the Palo Verde plant about 50 miles west of downtown Phoenix, the largest nuclear generating site in the country, an NRC health inspector has been working during the past week with officials from Arizona Public Service and the Arizona Department of Environmental Quality to pinpoint the source and amount of the contamination.

APS, which operates the plant on behalf of itself and six other owners, first notified the state on March 2 that it found tritium in a maze of underground pipes. Water samples taken a day before had turned up levels 3½ times those considered acceptable by the Environmental Protection Agency for drinking water.

State, federal and APS officials said Wednesday that, so far, there is no evidence Palo Verde-generated tritium has migrated beyond the boundary of the plant or seeped into aquifers about 70 feet to 200 feet underground that supply water for the area.

NRC officials said the task force is to be made up of 11 experts from the commission around the country and one nuclear safety official from Illinois. The group will review the effects on public health, how well incidents of such discharges are communicated to the public and authorities, gauge the nuclear industry's remediation efforts and evaluate their own agency's oversight of the issue.

A written report summarizing the findings is due by Aug. 31.

In only one case so far, at the Braidwood Nuclear Power Station near Braceville close to Chicago, has contaminated wa-

outside the plant's property.

But there are questions about how diligently some plant operators have been reporting such discharges, as required by federal law.

Last week in Illinois, state and local officials filed suit against Braidwood's operators alleging they failed to report earlier discharges before announcing another leak in December. The operators did so only after state officials became aware of already existing groundwater damage and contamination of at least one nearby private drinking-water well. One such spill in 1998 is believed to have dumped about 3 million gallons of water that remains in the ground.

"Companies are suddenly deciding to report these discharges more openly now because they've got their covers pulled off; spills have gotten into people's yards," said Paul Gunter, a member of the Takoma Park, Md.-based Nuclear Information and Resource Service, a watchdog group.

Among groups that have been calling for an NRC investigation of the leaks is the Nuclear Safety Project for the Union of Concerned Scientists.

In Arizona, although APS has not pinpointed the source of the tritium contamination in water found at Palo Verde, company officials said more and more evidence suggests that rainfall, rather than a cracked or leaking pipe, could be a source.

Adding to this "washout" theory, they said, is that recent rainfall samples collected from a roof vent found tritium levels similar to the samples found in the contaminated water.

"This is what we believe is going on," said Craig Seaman, Palo Verde's general manager of regulatory affairs. "We're certainly not willing to hang our hat on this yet and say this is the absolute answer."

Palo Verde vents tritium into the air as a normal byproduct

of nuclear power generation.

Other nuclear power plants typically dispose of the chemical in streams or lakes where it quickly dissipates, Seaman said.

Seaman said APS officials believe rainfall captured the tritium released from the plant and washed it into the soil there.

He said APS believes it is a "localized phenomenon" restricted to Palo Verde, so it is unlikely rainfall outside the plant would carry heavier tritium samples.

State environmental officials who also are working with APS to determine the source of the tritium said rainfall would be more problematic than a leaking pipe.

"If that is their conclusion, that tritium is being released into the air and coming down to earth with the rain, that raises a heck of a lot more questions in my mind than it answers," said Steve Owens, director of the DEQ.

Residents who live near Palo Verde say the federal government's effort to step up oversight of contaminated water at nuclear power plants is a good move.

"I think it's important," said Charlotte Brafford, a Tonopah resident who lives near Palo Verde. "It is not a normal element or chemical that we hear about. So it's a concern."

Brafford splits her time between her Tonopah home and a second home by the Perry nuclear power plant near Cleveland, so she is concerned about the safety and environmental impacts of nuclear plants on surrounding communities.

"When the news broke about Palo Verde, we weren't told much, so it was a question of whether we were being kept in the dark," Brafford said.

Yet Brafford and other residents seem satisfied that APS and state officials have done a sufficient job of keepin-

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- Watkins sheds light on Enron saga today
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Enron

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March 8, 2006, 2:06AM
THE ENRON TRIAL

Looting, lies, greed ruled at Enron, Fastow says

Witness says he felt like a 'hero' for setting up side deals that hid losses

By MARY FLOOD
Copyright 2006 Houston Chronicle

Andrew Fastow testified Tuesday about his shameless greed and how well it fit into an Enron where the appearance of growing earnings was more important than adding actual value to the company.

Enron's disgraced 44-year-old ex-chief financial officer was on the stand most of the day in the conspiracy and fraud trial of his former bosses Jeff Skilling and Ken Lay.

It was an intense day with Fastow, on questioning by prosecutor John Hueston, running through a litany of fraud, avarice and looting he said he and others engaged in at the once booming company.

Though he seemed somewhat regretful and teary when talking about what he did to his family, he was pretty comfortable on the witness stand as he explained setting up several side companies where he felt he was a "hero" to Enron because he helped the company hide losses and manufacture earnings, all while he got paid by both sides of each transaction.

Fastow said the culture and business practices at Enron

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ENRON DEFENDANTS



Ken Lay: Former Enron chairman pleaded not guilty to charges of fraud and conspiracy.



Jeff Skilling: Former CEO pleaded not guilty to charges of fraud and conspiracy.

★ BLOGS

- Trial Watch: Blogging the trial of Ken Lay and Jeff Skilling with the Houston Chronicle staff.
- Full Disclosure: Business writer Loren Steffy at the trial.
- Legal Commentary: Lay-Skilling trial analysis from Texas attorneys

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focused on doing transactions to "maximize the financial reporting as opposed to maximizing the true financial value." He said Enron would pay out some cash to report higher, though fictitious earnings to Wall Street.

This is the first time Fastow, whose hair has become more gray in the last few years, has made public statements about his role in Enron's demise. He invoked the Fifth Amendment before government panels and did not speak publicly after he finally pleaded guilty to two charges of conspiracy, forfeited more than \$23 million and agreed to serve 10 years in prison.

So far Fastow seems a strong witness for the government, especially against his former mentor Skilling. Late Tuesday, Hueston was just starting to ask Fastow about the time Lay was at the helm in late 2001.

But the true test of Fastow will start today when he begins facing a barrage of questions from Skilling's attorney Daniel Petrocelli and later Lay's attorney Mike Ramsey

'Juice,' but no footnotes

They allege Fastow and a few of his cohorts were all that was wrong with Enron and that even Fastow's side deals were all legal. Lay and Skilling complain it was just Fastow's secret thefts and the distrust their discovery caused that led to the company's eventual fall into bankruptcy.

Fastow testified Tuesday that Lay and the board of directors approved his being head of side partnerships called LJM1 and LJM2, after the initials of Fastow's wife and children. Fastow said the structure of the partnerships were legal and they did some legal deals. But he said many of the deals he did with Enron "as general partner of LJM were illegal."

He said his former boss Skilling was fully aware of all his activities, made regular secret oral promises to Fastow to make it all work, encouraged Fastow to do more and warned that they should avoid disclosure to the public.

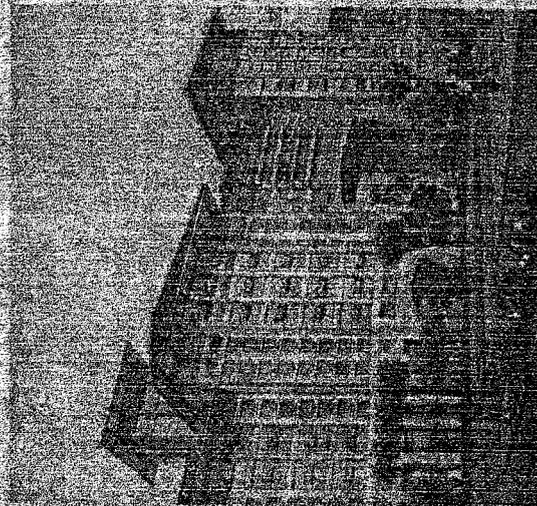
Trump project redesigned; city height hearing tonight

By Glen Crabo
Monica Abonzo-Dimsinoor
THE ARIZONA REPUBLIC

Donald Trump's development team unveiled new plans for its controversial \$200 million condominium hotel in Phoenix, reducing the height and overhauling the look of the project in an effort to quiet neighborhood critics.

Trump and his development partner, the Bayrock Group, said the designs were finished Friday, a day before the city's crucial hearing on changing height rules in the area between 24th Street and Camelback Road. That decision will be final not only to Trump's project but to other developers.

See CAMELBACK page D5



A five-story archway is a key piece of the new design by Donald Trump's team for a proposed \$200 million condo-hotel on Camelback Road.

APS refunds \$2.2 mil for overcharging bills

By Ken Altricker
THE ARIZONA REPUBLIC

Arizona Public Service Co. will refund \$2.2 million to customers who were charged too much based on estimated utility bills under an agreement approved by state regulators.

APS also agreed to spend \$600,000 on an "access improvement" plan to reduce the number of times the utility is forced to skip a reading because of a difficulty accessing a meter, such as an absent resident or a barking dog.

The settlement, negotiated and approved last week by the Arizona Corporation Commission, stems from a September 2004 complaint filed by APS customer Avis Read, who claimed she was overcharged

based on estimated bills in early 1999.

An investigation found that APS was more likely to under-estimate energy bills for customers, including Read. But some estimates were higher than actual use. APS agreed to credit \$2.2 million to customers whose estimated bills exceeded the actual amount of energy used from September 1998 to October 2003.

State regulators also were troubled by the fact that Read didn't get a bill for five months, and when her bill was issued, it proved confusing and financially burdensome.

APS agreed to review its billing practices and make necessary improvements to ensure that fewer customers get estimated bills.

WEDNESDAY, SEPTEMBER 14, 2005

By Ken Altricker and Eric...
THE ARIZONA REPUBLIC
Whirlpool
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APS execs to give up annual bonuses

By Ken Alltucker
THE ARIZONA REPUBLIC

Arizona Public Service Co.'s top executives will recommend they forgo salary incentives this year because of the utility's financial struggles and pending requests to recover more than \$500 million from ratepayers through higher electricity bills.

"We fully intend to suspend all executive incentive pay," Jack Davis, APS president and chief executive officer, said Thursday. "This is something

"I think they recognize that executives should not be getting million-dollar bonuses when they are asking their ratepayers to shoulder some serious burdens. They can use that money to help deal with some of the short-term difficulties they are having."

Kris Mayes
Corporation commissioner

we want to request. The basis for this is there's a whole bunch of cash going out of the company, and this is a way to preserve some of that."

A year ago, the top five APS executives earned more than \$3 million in incentive pay. Davis' bonus was \$1 million. Incentives are awarded by a committee that judges how well executives meet goals for stock price, earnings, budget and safety.

Davis' announcement comes a week after the Phoenix-based utility asked the Ari-

APS execs recommend giving up annual bonuses in face of rate hike

APS
Continued from D1

zona Corporation Commission to approve an emergency request to raise electricity bills 14 percent beginning April 1. That, combined with the company's annual 5 percent fuel adjustment, would cause the average April monthly residential bill to jump to \$120 from \$101, based on 1,100 kilowatt hours of use.

Davis said APS' board of directors will vote Tuesday on the recommendation to suspend bonuses for 18 top executives. The suspension would not affect base salaries or other non-cash compensation such as stock options. It also would not apply to incentives awarded to other Pinnacle West subsidiaries.

One of APS' most vocal critics said the recommendation is a step in the right direction.

"I think it is symbolically important," Corporation Commissioner Kris Mayes said. "I

think they recognize that executives should not be getting million-dollar bonuses when they are asking their ratepayers to shoulder some serious burdens. They can use that money to help deal with some of the short-term difficulties they are having."

Mayes and Commissioner Bill Mundell have mentioned executive bonuses as one of many expenses the utility should shed as it seeks double-digit rate increases.

In a letter sent to APS executives Wednesday, Mayes also asked whether the utility would slash other expenses such as corporate travel, advertising and stock dividends.

Davis said the utility always looks at ways to cut unnecessary costs, but he was not immediately prepared to answer Mayes' questions. A response is forthcoming, he said.

APS says it needs Corporation Commission approval of an immediate rate increase or it could face the prospect of having its corporate bond rat-

ing downgraded to junk status. The utility's chief hurdle has been skyrocketing fuel costs, particularly natural gas.

During a hearing Thursday on the emergency rate request, Mundell, Mayes and Commissioner Mike Gleason asked whether the action is appropriate.

"What's the big emergency we're facing?" Gleason asked.

An APS lawyer concedes that the cash crunch isn't as dire as it was in 1984, the last time the utility won an emergency rate increase. Then, the company needed cash to finish construction of the Palo Verde nuclear plant.

At issue is APS' emergency request last week to recoup the fuel portion of the company pending general rate request. That request was filed in November and would raise more than \$400 million by increasing electricity bills 20 percent.

Reach the reporter at
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06/18/2002 - Updated 01:23 PM ET

Payouts anger former Enron workers

By Edward Iwata, USA TODAY

Barely a week after a workers' severance-pay agreement was announced, former Enron employees and their attorneys are furious about disclosures Monday that Enron paid more than \$800 million last year to 152 executives and managers. "It's very disturbing," says Damon Silver, associate general counsel of the AFL-CIO. "We're appalled at the huge amount of money paid out to a handful of people, while thousands of others were losing their jobs and retirement savings." The disclosures, made in legal filings by Enron in bankruptcy court in New York City, come after a pay agreement was reached a few days ago by Enron, labor lawyers and an Enron employees' committee appointed by the court.



By Hyungwon Kang, Reuters
Former Enron CEO Kenneth Lay received a \$1M salary, \$7M bonus and \$82M in loans last year.

[Read more below](#)

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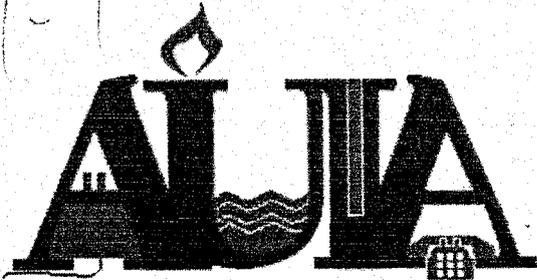
- [USA TODAY's Greg Farrell recaps Andersen case](#)

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NEWSLETTER

Investors May, 2003

ACC DECISION ALLOWS PWCC TO REFINANCE

"ORPHANED" POWER PLANTS

2. Last March 28, the Arizona Corporation Commission (ACC) issued a temporary reprieve to **Pinnacle West Capital Corporation** (PWCC) shareholders when it authorized **Arizona Public Service Co.** (APS) to loan \$500 million to its parent to help refinance five orphaned power plants.

The reprieve is temporary because Pinnacle West will have to wait until the next APS rate case is completed to know whether the plants will be included in APS' regulated rate base or be required to compete in the electric wholesale market on a

BUSINESS

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during past
year

WORTH'S NET WORTH RISE TO \$50 BILLION, FROM \$46.5 BILLION.
There are four Arizonans on the list:
■ Valley developer and Campbell Soup heir Bennett Dorrance, No. 451 on the list at \$1.7 billion.
■ John Sperling and his son Peter Sperling of Apollo Group Inc., the parent of the University of Phoenix, on the list at Nos. 512 and 562 respectively, at \$1.5 billion and \$1.4 billion.
■ Rounding out the Arizona contingent is Arturo Moreno, who made his fortune in the



Bennett Dorrance

John Sperling

Arturo Moreno

billboard business and now owns the Los Angeles Angels of Anaheim, at No. 645 with \$1.2 billion.

—Associated Press
More Business Buzz, D2

Business editor, 602.444.NEWS
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SECTION D

APS defends dividend hike

By Ken Altmecker
THE ARIZONA REPUBLIC

Even as Arizona Public Service Co. seeks to collect more than a half-billion dollars by raising electricity bills for customers, its parent company has rewarded investors by increasing dividends every year since 1993.

Pinnacle West Capital Corp. has been one of the most consistent dividend payers among the nation's regulated utilities.

Despite financial crunch, utility says payouts are vital

It has increased payouts to investors by 10 cents each year since 1993, making it just one of 31 investor-owned utilities that pay an annual dividend of at least \$2 per share. This year, it will return \$186.7 million to shareholders.

Valley's far-flung communities. But some regulators question whether it's appropriate for APS parent company to give away that much cash as Arizonans are being asked to absorb a handful of increases that could raise electricity bills by nearly 50 percent.

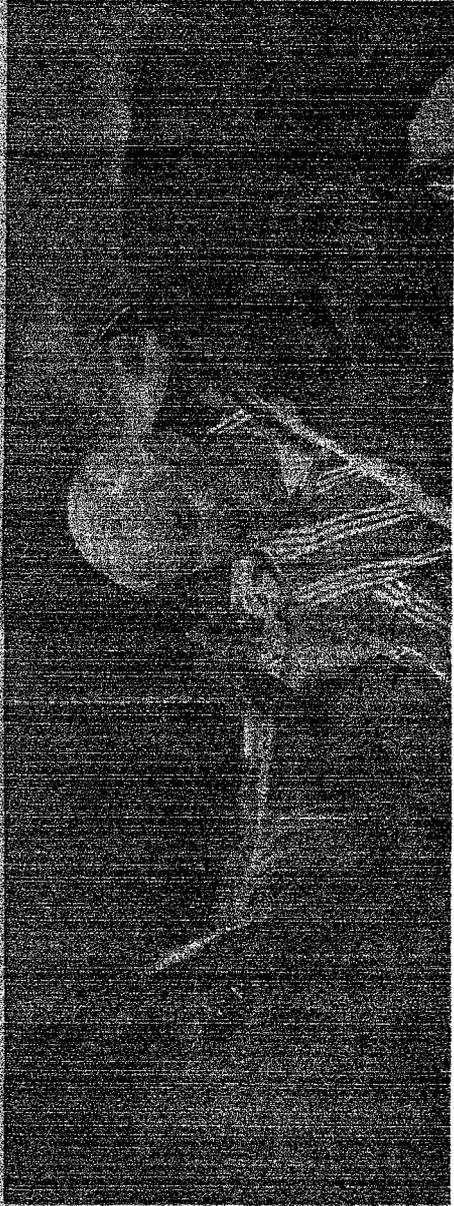
Arizona Corporation Commission member Kels Mayes wants APS to consider adjusting its dividend payouts in a way that pre-

See DIVIDENDS Page D3

Trade deficit at new high

Gap may worsen as imports roll in

By Martin Crutsinger
A SPECIAL ARIZONA REPUBLIC



Foreign visitors to the United States last year are expected to be held at a record level.

Skilling deals: An Arizona financial officer of a major company and former Chief Executive Officer of a major company secret side deals to manipulate its earnings.

Microsoft: Microsoft's new operating system, Windows 95, is expected to take the wraps off the company's Project Phoenix, but it's about the future of the company's operating system.



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07/08/2002 - Updated 01:42 PM ET

Enron directors ignored warnings, report finds

By Adam Shell, USA TODAY

Enron's board of directors contributed to the energy trader's collapse because they were aware of the accounting gimmicks, risky business practices and conflicts of interest but did nothing to stop it, says a highly critical report released Sunday by a Senate panel. "Enron's directors protest that they can't be held accountable for misconduct that was concealed from them, but much that was wrong with Enron was known to the board," the 61-page report by the Permanent Subcommittee on Investigations concluded.

Closer look

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