NEW YORK TIMES

August 22, 2003

Blackout Is Just Latest Woe for a Troubled Ohio Utility

By JAMES DAO with ERIC LIPTON

LEVELAND, Aug. 21 ? The huge gray cooling tower of the Davis-Besse power plant stands along Lake Erie like a monument to nuclear energy and industrial might. That it has been idle for more than a year, though, makes it a testament to something else, according to former employees and the federal regulators who ordered it shut down.

The dormant plant, for them, is an example of neglect and poor management by its owner, the FirstEnergy Corporation, which allowed hazardous conditions to fester so badly that a catastrophic accident may have been only months away.

The shutdown of Davis-Besse ? the plant, outside Toledo, was taken off-line after acid nearly ate through the reactor lid ? is the most extreme example of shortcomings in how FirstEnergy runs an empire with 4.3 million customers across New Jersey, Pennsylvania and Ohio.

But it is not the only one.

Its New Jersey subsidiary has come under fire for frequent blackouts, for inadequate maintenance and for allowing stray electricity to run through the ground, leaving residents of Brick, N.J., tingling when they step into pools and Jacuzzis.

And in northern Ohio, mayors have complained to state regulators that power failures by FirstEnergy have become more frequent and longer, forcing some to buy diesel-powered generators for municipal buildings. The company has been responsible for more blackouts in Ohio already this year than all of last year.

When FirstEnergy's network of transmission lines and power plants in northern Ohio failed last Thursday ? one of the first problems in the cascade of events that resulted in the nation's largest blackout ? misgivings among elected officials and others about the company's performance turned into wider and more fundamental questioning of its conduct as one of the major players in the nation's deregulated, physically vulnerable energy market.

FirstEnergy contends that its run of recent problems is not the result of a systemic management failure or inadequate investment in its power system, and some industry monitors assert that the company's performance is by and large no better or worse than other giant utilities.

FirstEnergy has failed, it said, to meet national standards for safe operations in very few categories.

And the federal officials investigating the blackout have been explicit in cautioning against assuming who, if anyone, was to blame, and emphasizing that it will be weeks before they sort out what exactly accounted for the failure of any part of the system.

FirstEnergy, based in Akron, is no Enron, the once high-flying Texas energy merchant that sold its power plants at the dawn of energy deregulation to focus on buying and selling power. Formed in 1997 by the merger of two Ohio utilities, FirstEnergy kept its smokestacks and power lines. But the company is in many ways emblematic of how traditional utilities have tried to adapt to the freewheeling ways of deregulation.

It has become aggressive about expansion, but a number of its senior managers stepped down or were reassigned while the company was under fire. It, like similar energy companies, has invested ever larger amounts on lobbying and political campaigns, pouring money into local and national politics and earning victories on rates and energy policy.

And, documents indicate, FirstEnergy has made what many experts and elected officials regard as less than impressive efforts at spending on the things that they say the nation's electricity grid needs most: upgrading its transmission system. In the three years since deregulation legislation passed in Ohio, its spending on maintaining its high-voltage transmission lines in Ohio has remained all but flat.

The decision not to increase such spending came as industry groups and government regulators were warning that the grid system in the Midwest, including FirstEnergy's territory, could become a choke point in a summer power surge.

FirstEnergy has insisted it was an accidental player in the blackout, that the problem began elsewhere. But many experts say the problems at FirstEnergy are indicative of broader issues affecting many power companies as competitive pressures have increased the drive for profits, and the role of government to police the operation of the nation's power grid is extremely limited.

"This has always been a utility that has dug in and supported the status quo, not wanting to modernize, not wanting to make investments," said State Senator Eric D. Fingerhut, a Democrat from the Cleveland area who sits on the legislative committee that oversees power companies.

FirstEnergy concedes none of that. "The company has been through some difficult times recently," Todd Schneider, a company spokesman, said. "It has been in tough situations before, and we have successfully emerged."

In 1999, a fierce battle unfolded in the Ohio Legislature over legislation to deregulate the state's electric utilities. The plan called for allowing new companies to sell power in territories once monopolized by the local utilities.

FirstEnergy, just two years old and rapidly growing, had other ideas. The company, like other utilities in Ohio, tried to stop the legislation, hiring more than two dozen top-drawer lobbyists and consultants, including Robert H. Bork, the former United States Supreme Court nominee, who had an expertise in the legal questions involved.

The company and its employees also poured $289,000 into the campaign coffers of State Supreme Court and legislative candidates in 1999 and 2000, more than double their total from two years before, according to a study by Ohio Citizen Action, a consumer watchdog group.

FirstEnergy did not succeed in stopping the bill, which passed in 1999. But it won something almost as good, analysts say: a complicated agreement with the state to recoup at least $6.9 billion from rate payers.

Glenn S. Krassen, the general counsel for a cooperative that buys energy for 113 municipalities in Ohio, contends that Ohio granted the utility's request without holding public hearings or conducting a detailed review. "It's fair to say that FirstEnergy is the one of the most, if not the most, powerful corporations in Ohio," he said.

In 2001, FirstEnergy pushed east, buying GPU Inc. of Morristown, N.J. The consolidation created the fourth largest investor-owned utility in the nation, and FirstEnergy's revenues soared to $12 billion, from $2.9 billion in 1997.

FirstEnergy simultaneously sought to expand its clout in Washington. In the 2002 federal elections, FirstEnergy's political action committee more than doubled spending from 1998, to $246,200. The company and its employees made more than $1 million in federal contributions in that cycle, with 70 percent going to Republicans, according to the Center for Responsive Politics. The company's top two officers, Anthony Alexander, the president, and H. Peter Burg, the chief executive and chairman, have been major fund-raisers for President Bush.

In 2001, FirstEnergy was one of several big utilities that hired Haley Barbour, the former Republican National Committee chairman, to lobby the Bush administration to encourage the president to back down from a campaign pledge to set limits on power plant emissions of carbon dioxide. Mr. Barbour sent a letter in March 2001 to Vice President Dick Cheney on behalf of the utilities, questioning whether environmental policy "still prevails over energy policy with Bush-Cheney, as it did with Clinton-Gore."

Two weeks later, Mr. Bush announced he would not support legislation capping carbon dioxide emissions. His staff denied industry lobbying had played a role.

In the months after the Davis-Besse plant was shut, federal investigators and even FirstEnergy officials agreed what was at the root of the problem: employees felt intimidated about raising safety problems.

"They had a lot of warning signs that they either overlooked or downplayed," said David Lochbaum, a nuclear safety engineer with the Union of Concerned Scientists, who interviewed staff at the plant.

What had been overlooked or ignored at Davis-Besse was remarkable.

Boric acid had seeped through cracks in plant control rods that pass through to the highly radioactive zone, where superpressurized water is used to cool the plant while it is creating energy. In fact, investigators found that the acid had eaten through the carbon steel part of the reactor vessel head, leaving only a thin stainless steel lining intact. Yet a backup system intended to cool the nuclear fuel in the event of a breach in the reactor vessel was handicapped because an undersize drainage screen could easily become blocked.

Taken together, what had been created is now widely considered the most serious nuclear plant incident in the nation since the Three Mile Island accident in 1979.

Even after the plant closed in early 2002, the problems continued: five members of a maintenance crew repairing the steam generators left the plant in March 2002 with microscopic radioactive particles on their clothes, carrying them to new job sites in South Carolina and Virginia.

At least three former Davis-Besse employees have filed complaints this year with the Department of Labor, contending that they were fired by FirstEnergy after raising concerns about problems at the nuclear plant, including one who said managers stopped his effort to clean the acid corrosion in 2000 so the reactor could be restarted on schedule.

FirstEnergy has replaced many of the senior executives at Davis-Besse, and Mr. Lochbaum, the expert, said the company's improvements appeared to be significant. But nearly a year and a half after the corrosion problem was detected, the plant remains off-line.

The questions about FirstEnergy's possible role in the major blackout have to do with maintaining high voltage lines that move electricity across the nation. But its local service has also provoked concern.

One night last summer near Barnegat Bay in New Jersey, when Gary Smith went outside to check on his newly installed Jacuzzi in his backyard, he suddenly thought he might be having a heart attack: his arm went numb. When he returned the next night and felt it again, he called his wife out. She took off her shoes, and, as she put it, "I felt like a fork in the toaster."

Investigators determined that deteriorated power lines owned and operated by FirstEnergy and improper grounding combined with the extremely dry conditions last summer were the most likely culprits, and that it was a problem throughout the neighborhood. Eileen Smith said today that the condition had improved this summer, but that there was still enough voltage moving through her hot tub to cause a tingling sensation.

The company ? which provoked a storm of criticism in the same section of New Jersey this summer when a failure on the July Fourth weekend left thousands of vacationers without power ? has agreed to spend an extra $60 million at its New Jersey utility over the next two years to try to correct the problems, said Kristen Baird, a FirstEnergy spokeswoman.

But Ms. Baird said that FirstEnergy did not acquire the utility ? Jersey Central Power and Light ? until 2001, and that it was thus unfair to blame it for longstanding maintenance problems.

The embarrassing episodes in New Jersey, for many, get at a critical question about FirstEnergy: how committed is it to repairing and maintaining its thousands of miles of transmission lines? The most often cited criticism of the country's electrical grid, after all, is its fragile state of repair. FirstEnergy's spending in 2002 in Ohio on maintaining transmission lines was the lowest it had been since 1999.

But FirstEnergy says its performance and spending patterns are hardly distinctive. And indeed, before Thursday, FirstEnergy's performance was considered by some to have been somewhat above average, at least when compared with other utilities in neighboring states, said Raymond J. Palmieri, manager of compliance at East Central Area Reliability Coordinating Agreement.

"If you look at the data we monitor, they would be as good as or ahead of some of the others," Mr. Palmieri said.

The only violations Mr. Palmieri's group cited FirstEnergy for recently involved relatively minor standards related to planning, not daily operations.

Those in New Jersey are less confident of the company's performance.

The New Jersey Board of Public Utilities has ordered FirstEnergy to maintain 10 backup generators and be prepared to provide seashore customers with ice, dry ice and bottled water in the event of another failure.