

From: Marc Ferdas *KI*
To: Anne Passarelli; Daniel Orr; George Malone; Glenn Meyer; John Boska; Mel Gray; Robert Fretz; Scott Barber; Theodore Wingfield
Date: 3/20/04 3:09PM
Subject: Statements Made By Cassidy, Anderson, Bakkan

The attached email contains files of the statments made by PSEG at the March 19 mtg.

CC: A. Randolph Blough; Hubert J. Miller

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From: "Ferdas, Marc" <Marc.Ferdas@pseg.com>
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**Prepared Statement by Roy Anderson,
President and Chief Nuclear Officer, PSEG Nuclear, LLC**

Intro Slide

Thank you Frank, and I also want to thank the members of the NRC for giving PSEG – Nuclear the opportunity to describe for you our overall plan for change.

As Frank mentioned, in 2003, I was hired to head the nuclear organization, with a clear mandate from Frank and Mr. Ferland to instill a greater sense of accountability into the nuclear organization so that it would assure safe and reliable nuclear operation. They were not satisfied with the level of performance at Salem and Hope Creek, and, within bounds, gave me a free hand to improve it. Those bounds included periodic reviews with Mr. Cassidy and Mr. Ferland, oversight by Nuclear Safety Review Board (with four outside members) and, of course, oversight and direction from the Nuclear Committee of the Board of Directors.

In short, I was hired to:

1. Fix the plant, and
2. Engage the workforce.

Easy to say. Hard to do. But it's interesting; these two things feed on each other. Fix the plant, and the workforce will take more ownership in it and pride in what they do. Engage the workforce and they will identify problems to be fixed. This is why the independent assessment commissioned by Mr. Ferland is so important to us. As I hope that I demonstrate, this independent assessment will round out what we have already done to understand and improve our work environment.

Before I more specifically describe our plan, I would like to introduce the PSEG – Nuclear leadership team that will work together to bring about this change. Frank has already introduced Chris, but also here today are Mike Brothers, our new Vice President for Operations; David Garchow, Vice President for Engineering/Technical Support; John Carlin, Vice President for Nuclear Assurance; and Wade Sperry, Director of Business Support, who is not here today. This team will lead the change at Salem/Hope Creek. I would also like to introduce the president of IBEW Local 94, Chip Gerrity, and the business agent, Charlie Hassler, who represent the organized component of our workforce.

Next Slide, Plan For Change

Based on my experience to lead change, I knew we would need a sense of direction, a way to measure our progress, an energetic group of leaders, efficient processes, and sufficient funding. To that end, we set about working with the organization to better define our mission, our structure, our staffing needs, and measures to assess performance in a more systematic and rigorous manner. I would like to spend a few minutes to discuss how we went about this change because it is the backbone of how we will progress in the future and how we will make further improvements in our work environment.

First though, we had to recognize and address Nuclear's interface with and support from the corporation. As an example, when I got here, I would hear anecdotal comments about how "corporate" didn't support us in this or that, and it all sounded very bad. But when I talked to our corporate folks, I would hear how the NUC's did this or that, which sounded equally bad. The interesting thing as a newcomer was that both groups were making statements with a grain of truth, but neither was solving the issue. So, after several strategic sessions with Frank, we made it a priority to better integrate Nuclear into the company. We, in Nuclear, were going to make the corporate systems work for us, and not us for them. I believe, by the way, that this is the fundamental difference between a company with nuclear assets and a nuclear company. Although nuclear is different and needs to be recognized as such, we shouldn't isolate ourselves because we can benefit from the discipline and best practices from other parts of the company.

As this slide indicates along the left-hand column, we have achieved some results from this effort: we have increased capital appropriations to provide greater support for nuclear improvements. We have refocused our capital spending towards plant reliability. As reflected by the nuclear officers here today, as well as many other people within the site organization, we have increased our pool of talent, and placed greater emphasis

on succession planning. These things don't show up immediately in improved performance, but, in my opinion, they provide the seeds for change.

So let me get back to our plan depicted in the middle column in this slide. First we needed to have and advertise our mission. As it turns out, the one I have used for 20 years is the one the company is using, which made this part of the process easy.

Next Slide, Mission

To put it in my words, we provide safe, environmentally sound, reliable, and economic electricity from nuclear power. Safe and environmental sound performance leads to reliable performance which in part leads to economic operation. Our safety is first and must be maintained above all else, if the operation is not safe, we do not operate. We will do this for the mutual benefit of our customers, our employees, our shareholders, the host communities we serve, in short – for the public.

Next Slide, Ladder Chart Colored In W/Organization

With this in mind, the next step was to get organized. And keeping in mind that accountability was my principal charter, I wanted to make sure my boss and I had the same vision. For Frank and I, accountability is not only having the responsibility to do something, but equally important is the wherewithal to do it. So, with that understanding, we restructured the organization.

Next Slide, Organization Leadership

Our organization has four fundamental and related components. First is maintenance of safe operation and Mr. Bakken is responsible for that. In our efforts to improve the resources to do this, we recently hired Mike Brothers, who will assist Chris in this effort, and give Chris more time to devote to those issues impacting the work environment. Second, is the maintenance of the design basis, and Mr. Garchow is responsible for that. Third, is maintenance of an objective nuclear assessment function, and Mr. Carlin is responsible for that. And, fourth is monitoring our business performance, and Mr. Sperry is responsible for that.

Also out of the restructuring came unitization (that is, an organization that is staffed and designed to support the individual plants, not the entire site), job descriptions, accountabilities, responsibilities, and the like as well as the very real challenge to discipline ourselves and our corporate partners to change.

Next Slide, PLAN FOR CHANGE COLORED W/STAFFING

Having the right organization was fine, but to make it go, we needed the right people. This meant reviewing resumes, staffing selections, one-over-one approvals, going outside to meet needs we couldn't fill from within, training, and improving our performance appraisal system. I think our efforts in doing this illustrate better integration between our nuclear and corporate organizations, because we used the corporation's process to staff the reconfigured organization. This process was both fair and objective. As you can imagine, this caused some hard feelings, because we had some folks who didn't fit our needs and some folks who didn't accept increased accountability. But we told it like it was and we stuck to the process.

I want to emphasize how we consider accountability for a moment. I believe one of the challenges we faced was holding people accountable – not for how hard they were working, because they were working hard already, but rather for how much they were accomplishing. Human nature is such that we all want to be measured and judged on how hard we work (“how we do things” or “the process”) and not on the results. This is why I wanted assessment, and eventually, the performance metrics, independent of the “do it” side of the business. Objective results are what accountability is all about - Face reality and focus on results.

Next Slide, Line Of Site

Next we turned to metrics, which is the business of how we will measure progress. The focus of our metrics is on deliverables, and on a line of sight from top to bottom. Let me explain what I mean by the phrase “line of sight.” As we restructured the organization and re-staffed new positions, we made a conscious effort to assure individual roles and responsibilities have a direct relationship to our overarching mission. Our aim is to have individuals within the organization better appreciate how the role they play helps the organization accomplish its mission. I believe people will more readily raise concerns, and take ownership in resolving concerns, if their role in the organization is clear to them and is reinforced by management.

In any case, out of this metrics effort comes performance appraisals and a clear linkage between the evaluation of results and how it fits in with our mission. This was tougher than I thought it would be. People react to change and folks were reacting to being restructured, and having the measurements that are results-oriented, not process-oriented. This, coupled with our tendency to communicate in a top-down manner and on a "need to know" rather than a "want to know" basis, have caused the organization some heartache, which we are still working through today. Going forward we will communicate on a "want to know basis" with the "why we are doing something" clearly spelled out.

Next Slide, Ladder With Gap Analysis Shaded

Now, in order to engage the workforce, we wanted to know where we were starting from, so we needed to get the baseline established. This brings me to the "gap analysis" box on this slide.

As I said at the beginning, we needed to do TWO NOT SO SIMPLE THINGS: fix the plant and engage the workforce. We had a lot of feedback already, including several letters from you, but we had not gotten a detailed report on our work environment. As part of our process to improve, we continually measure our progress and adjust as required. Let me now turn to how we considered work environment issues under the framework I just described.

We did two things. First, we commissioned an independent survey, which was conducted by Synergy in December 2003. The Synergy survey methodology has been used at about 30 nuclear sites and represents the industry state-of-the-art. Surveys had previously been performed by a commercial survey firm at Salem and Hope Creek, but, frankly, the surveys did not take into account the unique attributes of a nuclear work environment. We chose Synergy to perform our most recent survey because it has a proven track record in performing credible and useful surveys within the nuclear industry. We received the results in January.

Second, in December 2003, we asked the Utility Services Alliance (or USA) group to conduct a peer assessment of our safety conscious work environment. Again, the USA assessment team recently left the site and their findings and recommendations are expected in April. These will provide good feeders into the independent assessment being conducted. I look forward to using the combined results to improve the station's performance.

I have to say their preliminary results of our efforts confirmed our sense that the work environment must be improved, but they greatly emphasized the urgency of moving forward on some issues. They also indicated that we have a steeper hill to climb than we first appreciated. In this sense, the results were very sobering. As Frank mentioned, we do not meet industry's norm in this area. Our performance in many of these areas is in the bottom quartile. Our assessments confirmed that some of what we had to do was to fix current problems, but we also needed to live down the past, which is in my opinion a much tougher thing to do. The findings of these two independent efforts are consistent, and they indicate we have a long way to go. Despite the size of the challenge, we are committed to fix this part of the problem, because if we don't, we will not have a successful operation.

In a few minutes, Chris will provide you with a high level summary of some of the preliminary findings of the Synergy and USA assessments. We will release the results once we have the report of the Independent Assessment Team and have developed our action plan. As we have indicated, we expect this to be in mid-May.

Frank has already outlined the scope and schedule for the Independent Assessment Team; I wanted to note that how the team is going about its job is consistent with how we want to do business and we look forward to the results to help us improve the work environment at the station.

Next Slide, Increased Urgency For Action

The overarching message we received from our assessment of the preliminary results is that hardware conditions are driving the work atmosphere, and for us to improve the atmosphere, we have to fix and thereafter maintain the plant. As I said, these things feed on themselves.

We are therefore placing a renewed commitment on long-term plant performance. In short, that means fixing the plant's hardware and addressing emerging issues to maintain the plant.

Our restructuring and staffing emphasized ownership and accountability within the organization for plant equipment and systems. As Chris will outline, our further, near-term actions to improve the work environment have been to increase our outage scope, improve our Corrective Action Program, improve the work management process, and to improve communications. As to this last point, we in leadership have a renewed appreciation for the need to clearly communicate, and also for assuring that mid-level management communicates, in an effective and lasting manner. We are not there yet. We are developing a comprehensive internal communications plan and we intend to implement it shortly.

In summary, we have an increased sense of urgency, but we also recognize that lasting change takes time, particularly when it involves the attitudes and behaviors of people. Nonetheless, we are committed to seeing that change through and for management to model the appropriate behavior, correct equipment problems, and to operate with a high margin of safety. We will aspire to excellent performance at the highest levels of safety. We believe that the independent assessment coupled with our assessment will provide the basis for this change.

Next Slide, Chris Bakken Intro

With that, I'd like to ask Chris to describe for you how we will manage these inputs, integrate them into our ongoing programs, and assure our progress over the long haul.

**Prepared Statement by Christopher Bakken,
Senior Vice President, Nuclear Operation, PSEG Nuclear, LLC**

Thank you, Roy. Good afternoon, again, my name is Chris Bakken. I am the Senior Vice President, Nuclear Operations. I have responsibility for the development and implementation of corrective actions resulting from the various assessments we are discussing today. What I'd like to review with you this afternoon is first, the schedule and timing of our various assessment activities. Second, our plans for the integration of the results of these assessments. Third, the preliminary results of our Synergy Survey and Utility Service Alliance Assessment. And finally, I will cover our recent actions in response to the assessment feedback we have received to date.

Next Slide, Please.

This slide shows the timing and sequencing of both our ongoing activities and those initiatives directly in response to your January 28th letter. The timeline is from inception of the idea through completion. The independent assessment activities – the bottom bar - we initiated in response to your letter and it will provide a valuable independent and broad ranging review of our plans and issues. The top three bars represent several items planned by Roy and me before we received your letter. Because these four assessments or surveys are related, we believe it is in our best interest to integrate the results, and to do so in a timeframe that supports the development of next year's budget and planning cycle. Our approach in response to your letter will integrate the Independent Assessment with the actions that both Roy and Frank discussed earlier.

In the fall of 2003, once our new team was formed, we began efforts to bring about fundamental change and to improve our site's performance. Our "Gap Analysis" process Roy outlined involved two new, independent assessments of our work environment: the 2003 Synergy Survey and the recently completed Utility Service Alliance Assessment. These two efforts were initiated to gain a better understanding of the overall work environment at Salem / Hope Creek.

As you can see the completion of all four of these activities is in April, which facilitates the integration of their individual results.

Next Slide, Please

As previously mentioned, Roy requested that we perform the Synergy Survey in December of 2003. The Synergy survey is a well-known industry tool that measures how people feel and what they believe about our work environment. It is designed to give us benchmark data on a variety of issues including our Safety Conscious Work Environment. It provides recommendations on organizational issues and specific work areas that may require more focused management attention. The survey results and analysis were finalized last month.

In response to the survey results, we initiated seven working-level teams to review the results and provide recommendations to management. These preliminary recommendations were presented to management yesterday. A team of employees will now begin developing a prioritized implementation plan. At the conclusion of Salem Unit 1's refueling outage, we will establish teams to implement these recommendations. Our view is that recommendations generated and owned by the affected work units will be more meaningful and result in more lasting improvements. I am very pleased with the active involvement of all levels in our organization, particularly our front line employees.

I requested the Utilities Service Alliance perform their Safety Conscious Work Environment assessment in December of last year. This was after reviewing our initial response to the Davis-Besse event Significant Operating Experience Report. I did not feel that we had taken a sufficiently critical look at ourselves. This is based on feedback I received talking to both our employees and stakeholders and after reviewing our existing self-assessment. I decided to upgrade the quality of our assessment by calling on the Utility Service Alliance who I believe conducts the best peer review in this industry. I worked with the Utility Service Alliance using this assessment tool at another site early last year. The Institute of Nuclear Power Operators or INPO, recognized the Utility Service Alliance last fall for their high quality assessment

methodology and results. Our assessment was completed the first week in March. The Utility Service Alliance recently debriefed us on their preliminary results, and we expect the final written report in early April.

We are currently in the middle of our mid-cycle review at the Salem station. This is an independently led team of about ten people that is reviewing the status of our corrective actions resulting from our last World Association of Nuclear Operators assessment. A recently retired INPO senior manager who is the architect of their new assessment process leads this team. The team will be reviewing our corrective action program, our work control process and many other key plant processes and outcomes. This team is scheduled to complete their review in mid April.

As these efforts were unfolding we received your January 28th letter. As Frank discussed earlier, Jim Ferland chartered an independent team to review the Synergy and Utility Service Alliance assessment results as well as to perform their own independent review of our site's Safety Conscious Work Environment. The independent team was also asked to review the site – corporate interface which was not within the scope of our originally planned assessment activities.

As I mentioned in the previous slide, the various assessment processes and results are all designed to be received in April. Our intention is to review the outcomes of each of these assessment activities and then develop an integrated response plan in May. We will meet with you in May to review our intended responses to the issues identified. We will docket the Synergy Survey, Utility Service Alliance and Independent assessment report summaries for your review at that time.

In May, we will integrate our planned actions into our ongoing business plan to track progress on related action plans and to lay out the additional funding needed to address these issues. We are not waiting until May however to take action. We have taken immediate actions, but before I outline those, I'd like to summarize for you the Synergy and Utility Service Alliance results.

Next Slide, Please.

First, the Synergy Survey confirms that we are well below industry norms in maintaining a safety-conscious work environment. As Roy touched on earlier, our work environment is specifically challenged by long-standing equipment problems, a less-than-adequate Corrective Action Program implementation. It is challenged by the way in which we manage how work is accomplished here at the site, and by the organization's ability to consistently adhere to expectations and standards. Our outlet mechanism, which is our Employee Concerns Program, also needs to gain the confidence of a greater number of our workers so that it becomes a more viable means for those who choose not to raise issues directly to management. Finally, the Survey does a good job at identifying pockets within the organization that need more focused attention to help improve the work environment. As I indicated, we have teams currently reviewing this data in order to provide specific prioritized recommendations to management for improvement.

Next Slide, Please.

The Utility Service Alliance Assessment results are not dissimilar to those of Synergy, but are expressed in somewhat different words. The message remains clear that the organization is being challenged in that management's core messages concerning our expectations and standards for raising and resolving issues are not sufficiently visible or appropriately emphasized within the organization. This results in equipment deficiencies lingering. Our approach to nuclear safety is not what it ought to be at Hope Creek as it relates to reactivity management. While regulations are being met, we are not meeting current industry standards of excellence. Corrective action implementation is weak as previously indicated and the interface between those that identify issues within the QA organization and line management should be improved. The Utility Service Alliance Assessment, as in the case of Synergy, similarly found that a barrier to further improvement in the work environment is our work control process.

Finally, the Utility Service Alliance Assessment found that we in current management need to do a better roll out on the numerous improvements and changes we are driving into the organization through a more

systematic and clear change management process. They reminded us that change is always difficult for an organization, but if its not done in a clear manner, it can be confusing to our workforce.

Next Slide, Please.

As I mentioned in describing our plans for overall integration, we are not at the point of integrating all the findings and recommendations from Synergy, the Utility Service Alliance and the mid-cycle review and certainly we have not received the important findings and recommendations from the Independent Assessment Team. We want to integrate them all and be in a position to tell you what we are doing in May as I mentioned earlier.

We are taking immediate actions which are designed to not only improve the work environment, but also to send a message to our workforce that we are serious about improving it in a lasting way. To that end, I have expanded the scope of the Salem Unit 1 and the Hope Creek outage to address more equipment issues. It is my intention to exit these outages with a corrective maintenance backlog on each unit comparable to the rest of the industry. We will make substantive progress in improving the performance of the nuclear instruments and control rod systems at Hope Creek in the fall. We have secured significant additional funding in 2004 to address these additional equipment issues that were not part of the original planned outage scope. We are removing Hope Creek from service this weekend to improve the station's overall reliability and safety posture. Last weekend we took Salem Unit 2 off-line to repair an air leak. Both of these are demonstrative changes in organizational behavior by the current management team.

I chartered an independent review of our Corrective Action Program, which was performed over the last two months. I received many recommendations and they are currently being acted upon. For example, we have instituted a corrective action closure board to improve the quality of closure actions and documentation and to improve the individual and department manager accountability to quality results. We will be developing similar actions to address the other suggested areas for improvement over the next several months.

We are bringing an added focus to our work management process. We developed an improved set of metrics to monitor adherence to the work management process and are incorporating key metrics into the personal performance evaluations of our team to improve accountability to schedule execution. This is a key focus area for our new Site VP, Mike Brothers.

Ultimately, communication is a vital component in assuring our people understand our plans and expectations. We are redoubling our efforts to communicate with the workforce through a multi-media approach. A comprehensive communication plan is being developed to assure our change initiatives are clearly communicated to the workforce and integrated into an improved way of doing our jobs. We recently trained our managers on communication techniques and will be instituting a new bi-weekly communications process to ensure there is an appropriate dialogue among our team.

Management below the officer level will play a greater role in stating and reinforcing the Safety Conscious Work Environment message. We will expect everyone on our management team to spend more time in the field listening to our employee's issues and concerns. I believe this visual demonstration of management's receptivity to employee concerns in the field will provide a stronger message than any memo or policy statement can.

Based on our initial review, we have found that our policies and procedures relative to Safety Conscious Work Environment are somewhat dated and scattered throughout several procedures. To provide emphasis and greater focus, we issued a formal Safety Conscious Work Environment policy within a single document that reflects current management. We have also developed a new Safety Conscious Work Environment website to help keep our team up to date on what is going on in response to your letter and our initiatives.

We are taking action to provide additional Safety Conscious Work Environment training to our supervisors and managers and will further review the necessity and nature of additional training after receipt of the Independent Assessment Team results.

Next Slide, Please.

Finally, as I mentioned in my overview slide, we will integrate the survey and assessment recommendations into our daily operations through our business planning process. This process will ensure sufficient funding and scheduling of initiatives consistent with overall station activities.

Equally important, we will measure our progress in improving the work environment. We have a current set of Safety Conscious Work Environment metrics we are reviewing. We are drawing from the proposed NRC best practices document, guidance from Nuclear Energy Institute and the Employee Concerns Program Forum, as well as from existing site metrics that will measure each of the four Safety Conscious Work Environment criteria: employees' willingness to raise issues; management's effectiveness in resolving issues; the effectiveness of the Employee Concerns Program; and whether any management actions have been construed by the workforce as retaliatory or having a chilling effect. We will be prepared to update you in our May meeting on the outcomes of our review in this area.

As an added measure of our progress, we will also periodically re-survey the employee population. The results will then be fed back into our annual business planning process and our five-year plan will be adjusted as needed. This will be a long-term effort. We expect to re-conduct the Synergy survey in the first quarter of 2005.

If there are no further questions, I would like to turn the presentation over to Jim O'Hanlon.

**Talking Points from Jim O'Hanlon
As to the Independent Team Status**

Thank you, Chris. My name is Jim O'Hanlon, and I am Team Leader of the Independent Assessment Team chartered by PSEG. With me today is one of the team members, Jacque Durr, who has been actively involved in the interview process. Other Team members include: Neil Bergh, who is PSEG's QA Manager; Wayne Kropp, former NRC Region III Manager, who has extensive experience in the area of assessing programs for problem identification and resolution; Barry Letts, former NRC Region I Field Director of the Office of Investigations, who is assisting in the interview process; and Peter Przekop, who has held numerous positions in over 30 years in nuclear operation.

The Independent Assessment Team has been onsite now for about four weeks reviewing documents and conducting structured interviews. Thus far, we have received good cooperation from both PSEG management and the broader workforce. We have not progressed to the point of formulating preliminary findings and recommendations; however, our assessment efforts are generally on schedule for the field work to be completed by the beginning of April, and we hope thereafter to provide our assessment findings and recommendations to PSEG by mid-April, as scheduled.

So far, the Team has been engaged in a number of review activities:

- We have reviewed the NRC inspection and assessment record for the past year, the Synergy Survey results, the current assessment of the Corrective Action Program, the USA Assessment results, and substantial other documentation. We are still reviewing additional information.
- We have had discussions with John Guilbert of Synergy to help understand their survey results.
- We have coordinated with the USA Assessment Team to understand their methodology and preliminary results and to avoid conflicts or redundancy in the interview process, and attended the Team exit to understand their findings.
- We have completed over 100 interviews of current and former employees.

We structured our interviews on a vertical and horizontal sampling of the organization. This was augmented by information obtained from our initial interviews, and results from the site-wide Synergy Survey and the USA Assessment. We also targeted our interviews to address the specific concerns in your January 28th letter about operational decision-making and unresolved conflicts. We have taken advantage of the random sample interviews conducted by USA and the random population surveyed by Synergy to conduct a more focused series of interviews. I am confident that when we have completed the fieldwork for our assessment, we will have a sound basis to form our findings and make our recommendations. Although the team began by looking at the operational decision-making process and previously unresolved conflicts, our Charter is broader, and we will include a review of the Corrective Action Program, Employee Concerns Program, and other processes designed to identify and resolve problems, all in the context of a safety conscious work environment.

We have initially concentrated our efforts at the site; we will now probe the corporate-site interface and to better understand the interplay among human resources, industrial relations, and line management, with regard to their impact on the work environment.

As I mentioned, we have been getting good cooperation. We still have a lot of work to do, but we are confident that we will meet the target of providing a report to management in mid-April.

Next Slide Please

Thank you. I'd now like to turn it back over to Frank Cassidy for some concluding remarks.

**Prepared Statement by Frank Cassidy,
President and Chief Operating Officer, PSEG Power, LLC**

Good afternoon. My name is Frank Cassidy, and I am President and Chief Operating Officer of PSEG Power, the corporate organization to which PSEG – Nuclear reports. I would like to thank the NRC for giving PSEG the opportunity to describe our plans for assessing and improving the work environment at Salem and Hope Creek. I also would like to thank those members of the public who are in attendance today. We understand our obligation to assure a healthy work environment for raising and resolving concerns, and we take that obligation very seriously.

Next Slide, Please.

I'd like to begin by introducing the members of the PSEG Nuclear management team who are here at the table with me and also previewing our agenda shown here.

To my right is Roy Anderson, who is President and Chief Nuclear Officer of PSEG – Nuclear. Roy came to PSEG in April 2003, when I assumed direct line responsibility for nuclear, as part of our company's efforts to improve overall performance at the Salem/Hope Creek Generating Stations. Roy will outline these efforts, which include our plans to improve the work environment.

To Roy's right is Chris Bakken, our Senior Vice President - Nuclear Operations. Chris rejoined our company in August 2003. Today, Chris will explain our ongoing efforts to assess the work environment, integrate assessment findings into station improvements, and how we plan to measure our progress and adjust as we move forward.

I have also asked Jim O'Hanlon, the Team Leader of the Independent Assessment Team chartered by Jim Ferland, our CEO, in response to your January 28 letter, and Jacque Durr, a team member, to be here today and provide a preliminary status report on the team's efforts. Mr. O'Hanlon was most recently President and COO of Dominion Resources and Mr. Durr, as you know, retired from the NRC after many years of service in several management positions at the Commission.

Finally, I'll be back to summarize and leave you with a few key concluding points.

Next Slide, Please.

PSEG is committed to operating Salem and Hope Creek safely and in full compliance with the requirements of our operating licenses. Salem and Hope Creek remain critical to us and to the public – together they generate more than half of the electricity we produce for the people of New Jersey. We will assure that Salem and Hope Creek get the resources – both people and funding – necessary to carry out their mission safely and reliably.

As an integral part of our commitment, we will assure a strong safety-conscious work environment. Jim Ferland, our CEO, and I regularly emphasize the primacy of nuclear safety when we talk to PSEG Nuclear employees. We do not condone, nor will we tolerate, short term actions which compromise safety. In reality, such actions compromise our long-term future. PSEG has been in business for over a hundred years, and whether it relates to nuclear safety or corporate accounting, we are well aware that actions designed solely to produce short-term results can easily and permanently destroy long-term shareholder value. We have not, and we will not, run our business that way. To the extent that employees have perceived a different message as to nuclear operations, either from us or from others, we will correct those perceptions. That's what the efforts are about that we will be describing to you today – it is in PSEG's long-term interest to assure a strong safety-conscious work environment at Salem/Hope Creek.

Next Slide, Please.

By way of background, this slide shows our corporate organization. PSEG is a large and complex organization, and as such it has large, complex, and, yes, sometimes cumbersome systems for allocation of resources, personnel and materials management, etc. To the extent that any of these systems have

created misperceptions in the minds of our employees, we are streamlining these systems and correcting these misperceptions. Roy has been instrumental in helping us understand this issue and address it.

We have an ongoing capital program to maintain and improve the safe and reliable operation of Salem and Hope Creek. Our five-year capital budget is periodically reviewed and adjusted as required. For current the five-year budget cycle from 2004 through 2008, \$797 million has been appropriated for this purpose. Of this total, \$648 million relates to upgrading the material condition of the existing plant and meeting regulatory requirements, and \$149 million relates to increasing megawatts. The simple fact is, as I stated earlier, Salem and Hope Creek will get the resources necessary to carry out their mission safely and reliably.

Next Slide, Please.

Let me now turn to your letter of January 28, 2004. And let me first say that, from the moment of receipt, we took your letter very seriously and have acted quickly and strongly. The letter has the attention not only of our executive management but also of our Board of Directors and its Nuclear Committee. On Tuesday of this week our Board and Nuclear Committee met and received briefings from Roy and me on the status of our actions. The Board and Nuclear Committee are fully engaged and Jim Ferland and I committed to provide them ongoing status reports as our efforts bear fruit.

Your letter provided us your interim results while indicating your review was ongoing. Although it is positive that you found no serious safety violations, we share your concern about the station work environment. As a result, you indicated the need for us to more fully assess the station's work environment, to address the current impact of previously unresolved conflicts, and to take steps to assure the workforce participates in our processes.

Also, the results from our Synergy Survey conducted in December 2003 and USA Assessment conducted several weeks ago have underscored your message and the need for us to have an added sense of urgency. You will hear about these initiatives in a few minutes, but let me tell you right up front that they confirm we are below our industry norms in creating a safety-conscious work environment.

We expect that the independent assessment we are undertaking at your request will help us more fully understand the issues we need to address and provide recommendations for us to improve. Before I tell you about the Independent Assessment Team we chartered, let me first address your concern that the workforce fully participates in these efforts.

Upon receipt of your letter, Mr. Anderson held focus meetings with managers and supervisors to explain the importance of your request. He and others in management have already discussed the importance of the letter in two sets of all-hands meetings where management reinforced its expectation that finding and fixing our problems is what keeps us all safe. After we issued the charter to the Independent Assessment Team, Mr. Bakken authored a letter to all those being asked to participate, where he asked employees to cooperate and be candid in their interactions with the team. Separately, management held meetings with union leadership to solicit cooperation and to explain the underlying effort.

I am pleased to report, based upon our own observations as well as feedback from the Independent Assessment Team, that employees have thus far given excellent cooperation. I might add that during the exit meeting with the USA Assessment team held two Fridays ago, that team similarly indicated that they had received excellent cooperation from the workforce.

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Let me now turn to the Independent Assessment Team Charter. The scope of the Independent Assessment Team is broad and comprehensive. Without limitations, we asked the team to assess the current work environment within PSEG – Nuclear for raising and addressing concerns and to make recommendations regarding the work environment.

The Independent Assessment Team will deliver an assessment that addresses: (1) the work environment at Salem and Hope Creek; (2) the sufficiency of management's initiatives to assess the work

environment; (3) the sufficiency of management's efforts to further improve the work environment; (4) the impact of the corporate-site interface on the work environment; and (5) recommendations as appropriate to senior management. Those recommendations will be made to Jim Ferland, to Roy Anderson and to me, and we will take the necessary actions to address them.

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The team composition reflects our intent to get an independent, thorough review. All of the team members are either former industry executives or regulators with extensive and relevant experience.

The team has been hard at work since February 13th. Their fieldwork is expected to be completed in early April, and management is expected to be briefed and receive recommendations in April. Jim O'Hanlon will give you an update on the team's progress later in our presentation.

I would now like to ask Roy to provide PSEG's overall plan for change so that you have by way of background the process that we already have in place to integrate our improvement actions upon receipt of the Independent Assessment Team's recommendations.

Roy—

Next Slide – Roy Anderson Introduction Slide

Conclusions
Frank Cassidy

Thanks, Jim.

I hope that our comments have portrayed the depth of our commitment to improving the work environment at Salem and Hope Creek.

We have acted quickly and decisively, beginning with the program that Roy started just about a year ago when he arrived, a program designed to produce sustained performance improvement. Our actions continued with the steps we took when we received the results of the Synergy survey, and realized that our change process needed to be accelerated. Finally, when we received your letter, we quickly commissioned the Independent Assessment Team to make their own assessment of our situation and to advise us on the adequacy of the actions we're taking.

We have plans being developed for improving communication of the change process with our employees, to help assure every employee's commitment and support. We will keep the NRC informed of our progress, and welcome your comments and ideas.

We will develop a disciplined metrics process to keep us on track and point the way to necessary adjustments.

In short, as I said earlier, we will provide all the resources necessary to operate Salem and Hope Creek at the highest levels of safety and reliability.

Ladies and gentlemen, this concludes our formal remarks. My team and I would be pleased to answer your questions.