UNITED STATES
NUCLEAR REGULATORY COMMISSION
REGION IV
611 RYAN PLAZA DRIVE, SUITE 400
ARLINGTON, TEXAS 76011-4005

September 8, 2006

James M. Levine, Executive Vice
President, Generation
Arizona Public Service Company
P.O. Box 52034
Phoenix, AZ 85072-2034

SUBJECT: MEETING SUMMARY - DISCUSSION OF PALO VERDE PERFORMANCE IMPROVEMENT INITIATIVES

Dear Mr. Levine:

This refers to the management meeting conducted at the U.S. Nuclear Regulatory Commission (NRC) Region IV Office, Arlington, Texas, on September 7, 2006. The meeting attendance list and a copy of the presentations are included as Enclosures 1 and 2. No commitments were made by the licensee during the conference.

In accordance with 10 CRR 2.390 of the NRC's "Rules of Practice," Part 2, Title 10, Code of Federal Regulations, a copy of this letter and its enclosures will be available electronically for public inspection in the NRC's Public Document Room or from the Publicly Available Records (PARS) component of NRC's document system (ADAMS). ADAMS is accessible from the NRC Web site at http://www.nrc.gov/reading-rm/adams.html (the Public Electronic Reading Room).

Should you have any questions concerning this matter, we will be pleased to discuss them with you.

Sincerely,

Troy W. Pruett, Chief
Project Branch D
Division of Reactor Projects

Dockets: 50-528
50-529
50-530

Licenses: NPF-41
NPF-51
NPF -74

Enclosures:
1. Attendance Lists
2. Presentation

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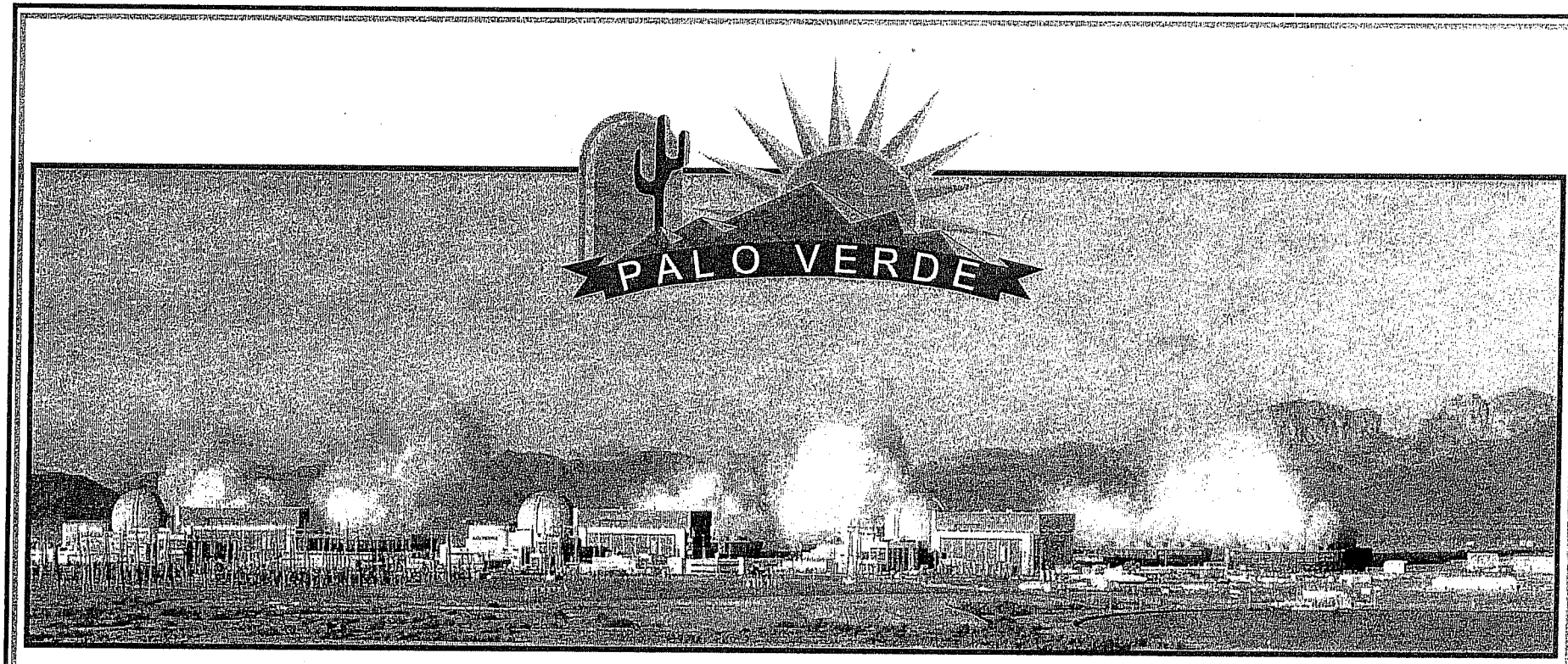
ENCLOSURE 1

NRC PUBLIC MEETING ATTENDANCE	
LICENSEE/FACILITY	Arizona Public Service Palo Verde Nuclear Generating Station
DATE/TIME	September 7, 2006; 2:00 p.m.(CST)
LOCATION	RIV Office Arlington, Texas
NAME (PLEASE PRINT)	**ORGANIZATION**
TROY PRUETT	NRC
Mike Hay	NRC
ART HOWELL	NRC
BRUCE MALLETT	NRC
GREG WARNICK	NRC
ROY CANIANO	NRC
VICTOR DRICKS	NRC
MIKE CHAMBERS	NRC
NEIL O'KEEFE	NRC
MIKE BLOODGOOD	NRC
ROB HENRY	SRP
M. SCHAFER	ARIZONA REPUBLIC
JOHN TAYLOR	PUBLIC SERVICE CO OF N.M.

NRC PUBLIC MEETING ATTENDANCE	
LICENSEE/FACILITY	Arizona Public Service Palo Verde Nuclear Generating Station
DATE/TIME	September 7, 2006; 2:00 p.m.(CST)
LOCATION	RIV Office Arlington, Texas
NAME (PLEASE PRINT)	**ORGANIZATION**
PETE BORCHERT	APS, PV
JEANNE CORSEY	APS, PV
WILLIAM CHAPIN	APS PV
Cliff Eubanks	APS, PVNGS
Jim Levine	APS PV
JACK DAVIS	APS/PVNGS
Dwayne Carnes	APS/PV
DAVID MAULDIN	APS, PVNGS
Chris Aanensen	APS/PVNGS
Isabelle Schoenfeld	NRC
Lisamarie Jarriel	NRC
Lynnea Wilkins	NRC
Mel Fields	NRC

ENCLOSURE 2



Palo Verde / NRC Management Meeting

September 7, 2006

Agenda

♦ Opening Comments	Jim Levine
♦ Improvement Plan Update	Cliff Eubanks
♦ Corrective Action Program	Bill Chapin
♦ Human Performance	Bill Chapin
♦ Operations Performance	Pete Borchert
♦ Safety Culture Survey Update	Jeanne Copsey
♦ 95002/Closing Comments	Jim Levine

Palo Verde Integrated Improvement Plan

Cliff Eubanks
Vice President,
Operations

PV Integrated Improvement Plan

Focus Areas

- Standards
- Leadership
- Accountability
- Human Performance
- Corrective Action Program

Standards, Leadership And Accountability

The Issue

- Palo Verde leaders have not consistently:
  - held the organization to high standards
  - demonstrated fundamental leadership skills
  - held themselves and the workforce accountable

Standards, Leadership And Accountability

The Plan

- Establish clear standards and expectations
- Align department and station standards and expectations
- Define leader standards and expectations
- Anchor a site-wide accountability culture

Standards, Leadership And Accountability

The Plan

- Conduct ongoing assessment
- Improve leader performance through performance plans, training, development and coaching
- Balance strategic and tactical goals and align resources to achieve objectives

Standards, Leadership And Accountability

Actions taken

- Issued Site Standards and Expectations
- Issued Leader Standards and Expectations
- Added Standards and Expectations to individual Performance Management Plans

Standards, Leadership And Accountability

Actions taken

- Issued Palo Verde Human Performance Guideline
- Leadership effectiveness logbook (+/- log book)
- Implemented Senior Management Review for Procedure Non-compliances

Standards, Leadership And Accountability

- A formal leadership training program is now in place with senior management piloting the classes
- Leadership assessment is ongoing with outside leadership professionals to assist
- Updating leadership succession plan

Standards, Leadership And Accountability

Monitor and adjust

- Assessment of Accountability
- Metric Guideline Developed
- Site and Departmental Metrics Developed
- Commenced monthly review of site and department metrics

Standards, Leadership And Accountability

Monitor and Adjust

- Communication Plan
  - Senior team alignment
  - Lesson plan development/delivery
  - High profile issues
  - Leaders meetings
- Leadership Standards and Accountability reinforcement

Standards, Leadership And Accountability

- Form the foundation for actual performance improvement
  - Standards
  - Leadership
  - Accountability

Corrective Action Program

Bill Chapin
Director
Performance Improvement

Topics

- Current state of the Corrective Action Program
- What initiatives and results we have in the areas of:
  - Quality
  - Timeliness
  - Leader engagement

Corrective Action Program

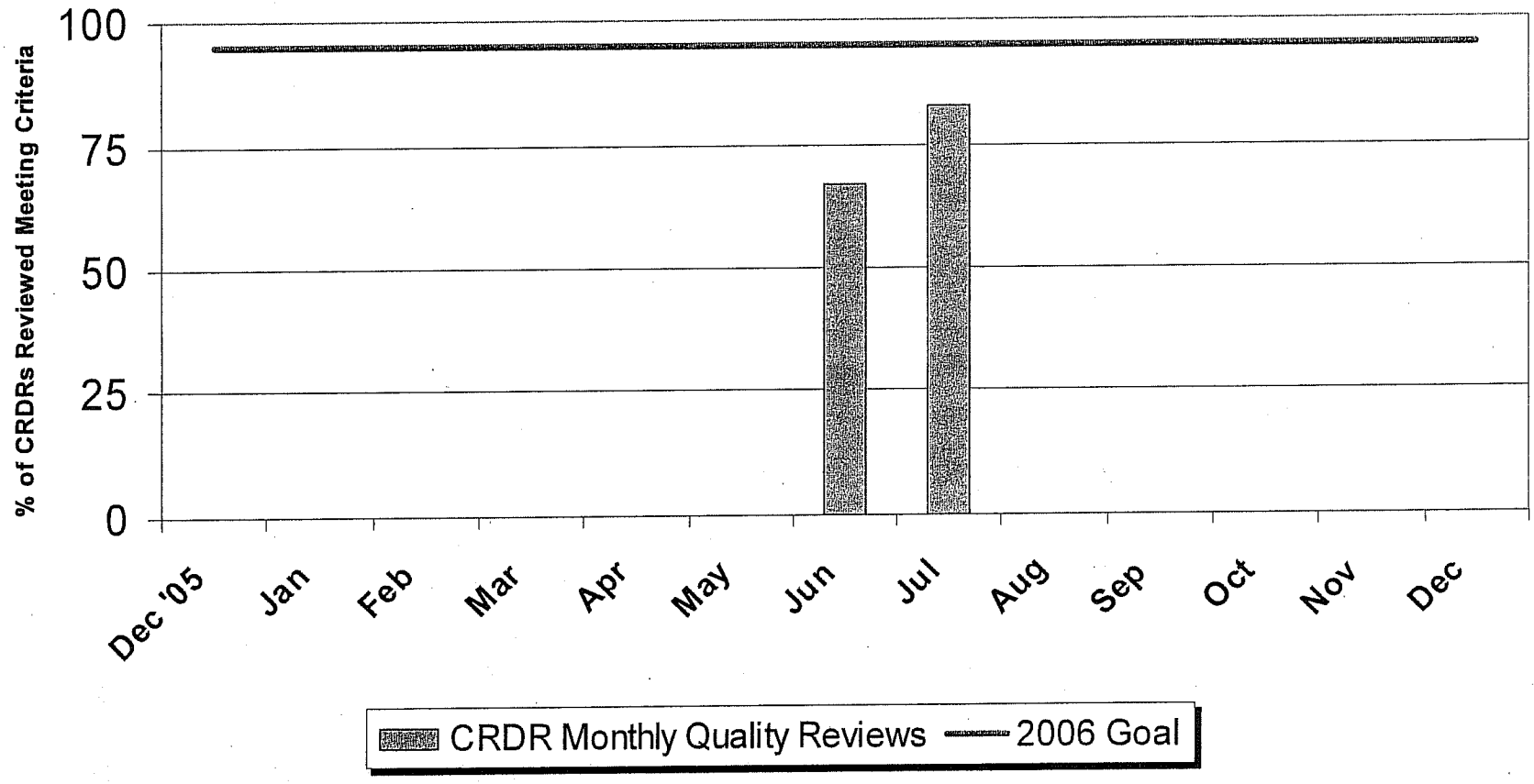
- **Current state**
  - Palo Verde has improved the implementation of our corrective action program in most areas.
  - Good progress on CRDR initiation
  - Leaders taking ownership and getting engaged
  - Engineering is challenged with CAP workload
  - Palo Verde still has work ahead, but we are making steady progress

Quality

- Set standards and expectations
- 90% Leaders trained on the standards and expectations
- Performing back end reviews to ensure standards and expectations are being met
- Created new metrics to look at three specific areas. Initiation, evaluation and closure.
- Advocates
  - Revised role
  - Trained to work with leaders
  - Cross organization
- Corrective Action Review Board

CRDR Monthly Quality Reviews

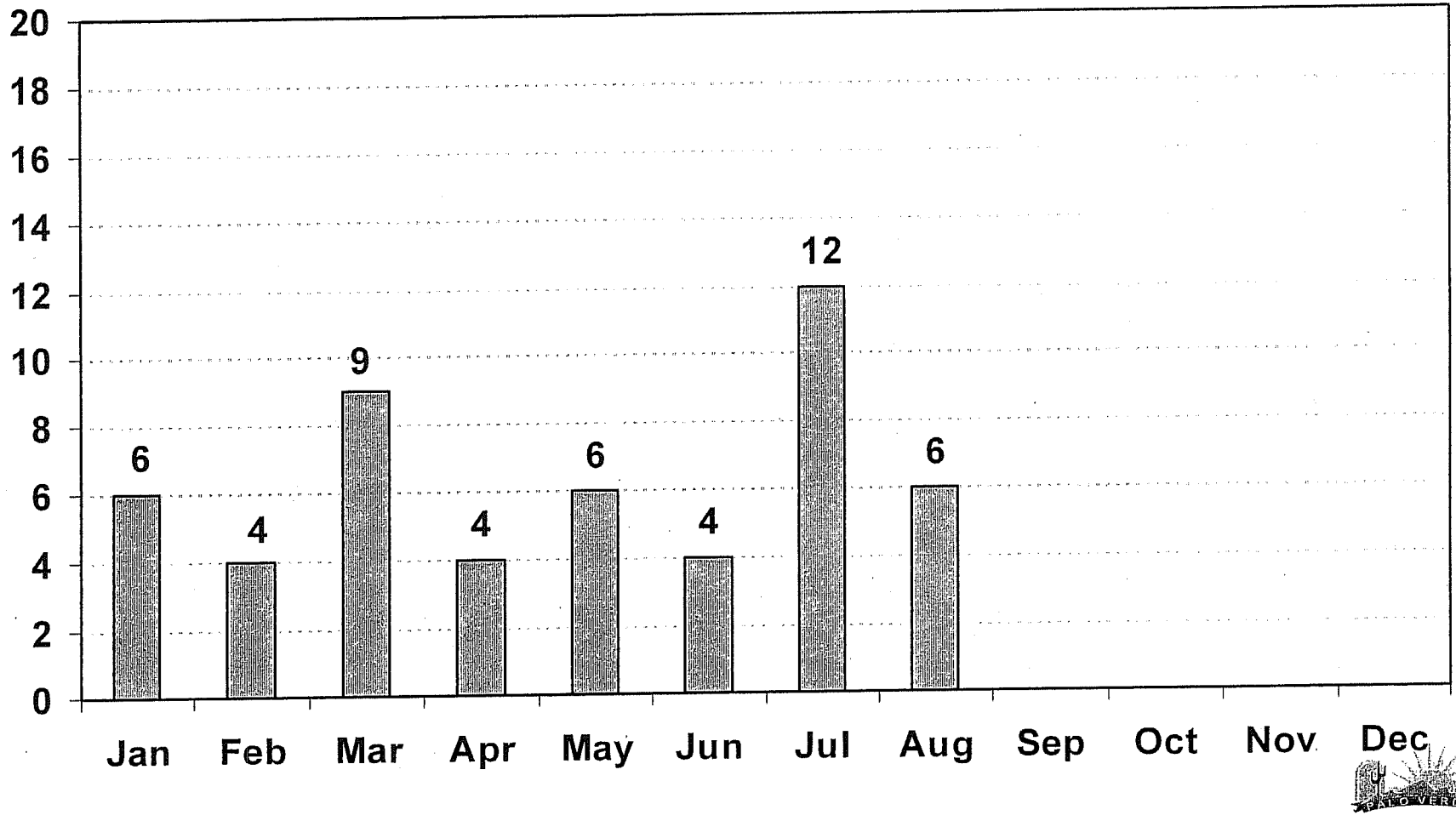
Goal = ≥ 95%



Effective starting June 2006, data is derived using the new CRDR Quality Criteria Checklist in Appendix L of 90DP-0IP10, Condition Reporting

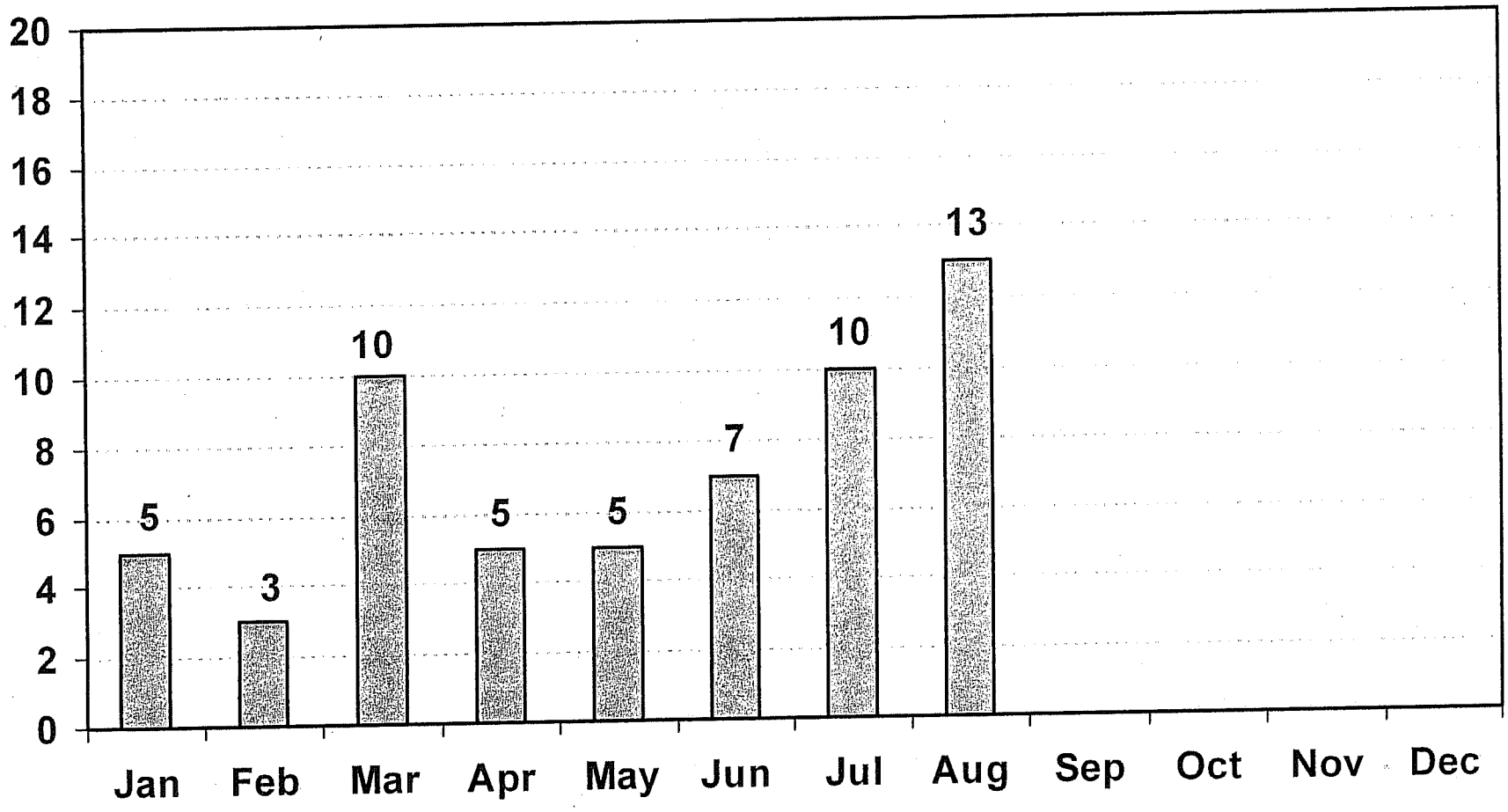
Timely Initiation

This metric measure the occurrences of CAP implementation issues for – Failure to initiate the appropriate CAP document in a timely manner



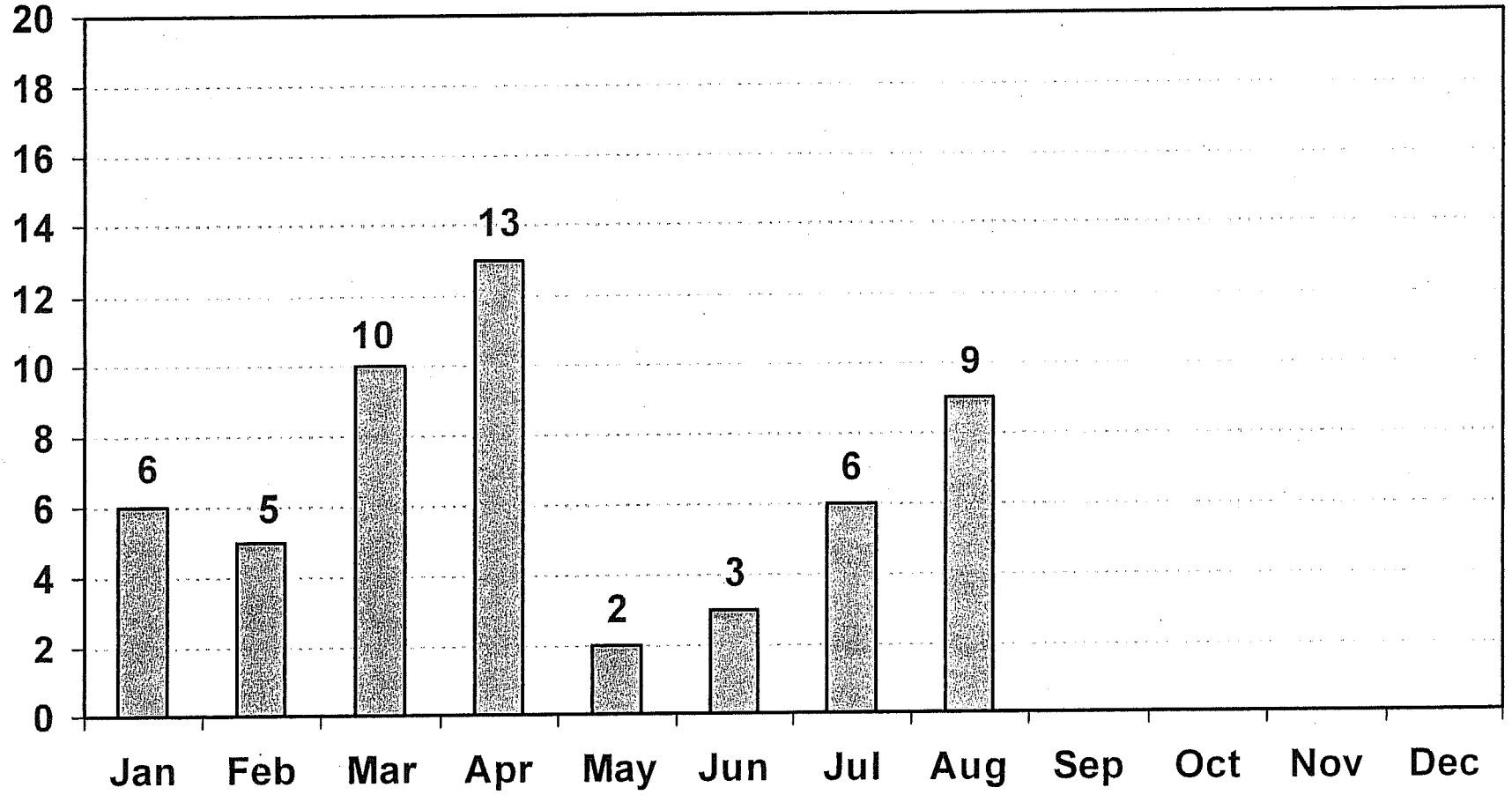
CAP Evaluation

This metric measure the occurrences of CAP implementation issues for –
Failure to properly evaluate an adverse or significant condition



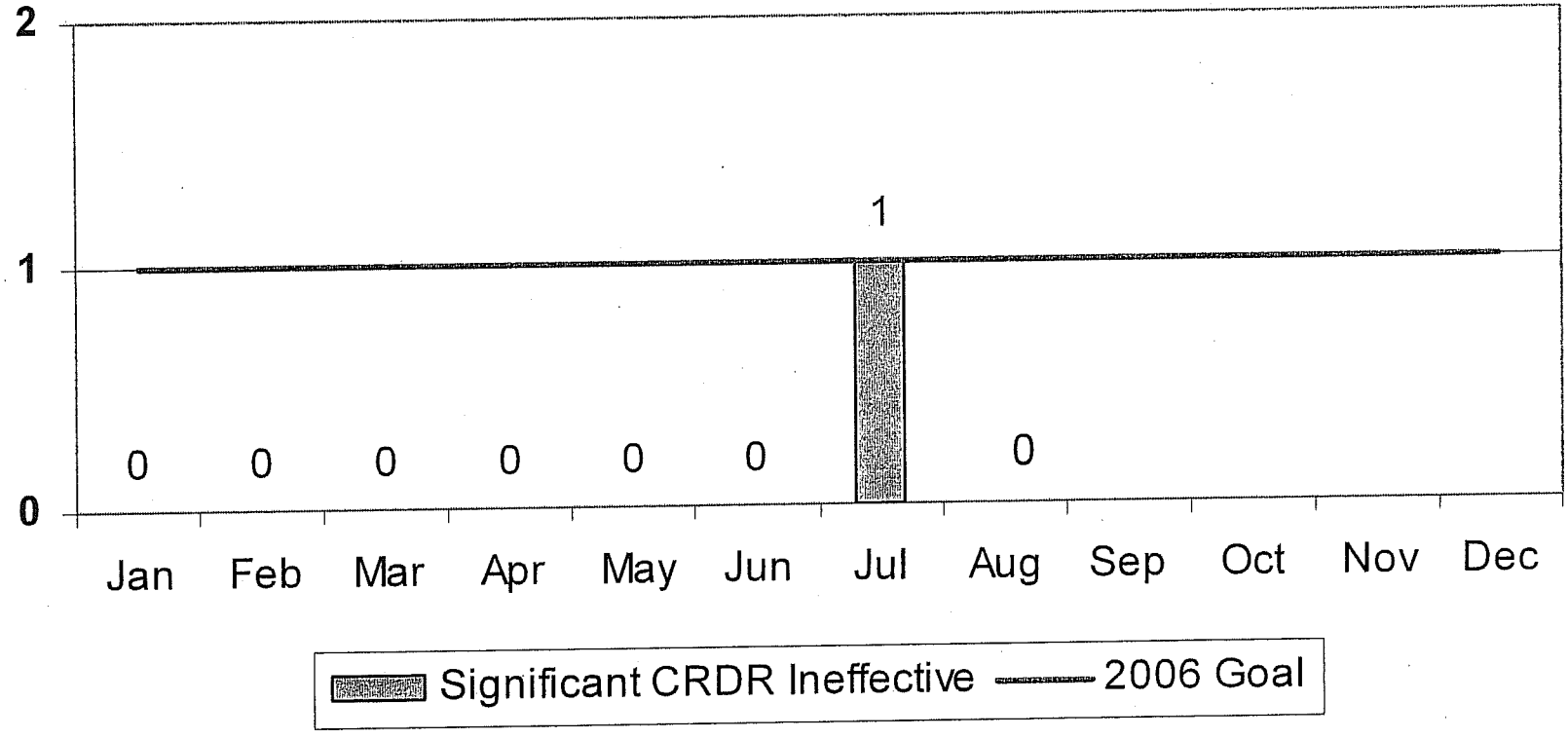
CAP Closure

This metric measure the occurrences of CAP implementation issues for – Closure of a CAP document without properly resolving the condition



Number of Significant CRDRs Ineffective in Preventing Recurrence

Goal = < 1



Definition: CRDRs that have ineffective Pri 2 actions and result in a second significant CRDR on the same issue. *No more than one action is found to be ineffective. *Based on 2006 CARB-approved Pri 2 actions.

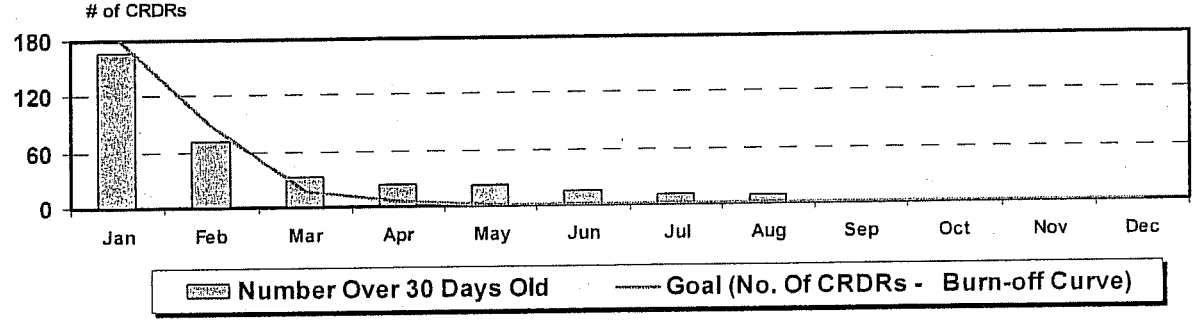
Timeliness

- Leaders are committing to closure dates for CRAIs
  - CARB reviews commitment dates with Directors
  - Leaders being held accountable
- Progress in backlog reduction not meeting expectation
- Recent assessment of backlog
  - Major challenge in Engineering

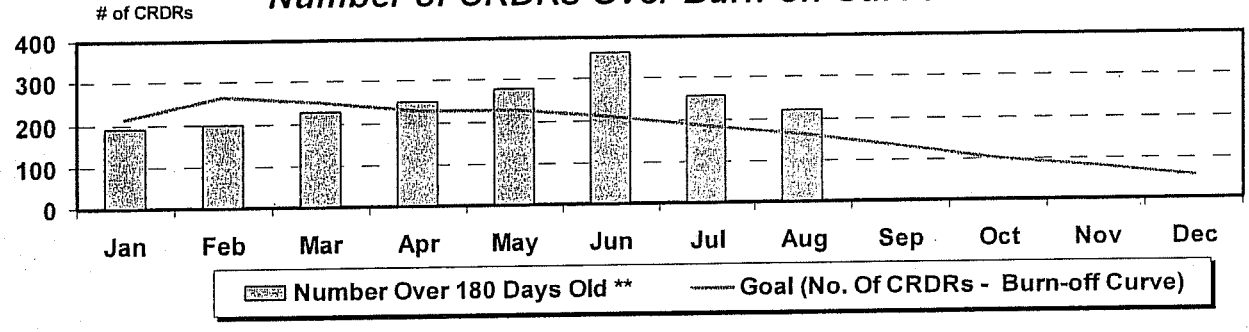
Timeliness of Corrective Actions (Pre-2006)

Adverse and Significant CRDRs

Number of Open Evaluations Greater Than Burn-off Curve



Number of CRDRs Over Burn-off Curve

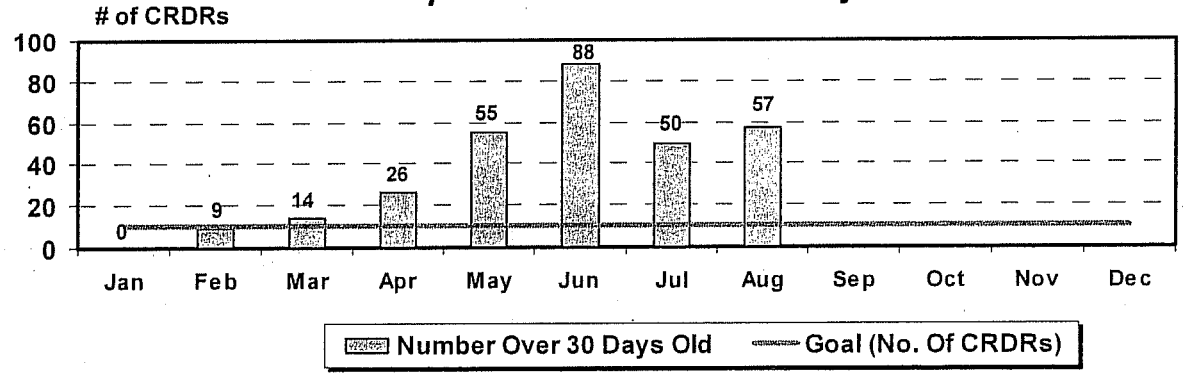


CRDR 2909619 issued for goal not being met for at least two months.

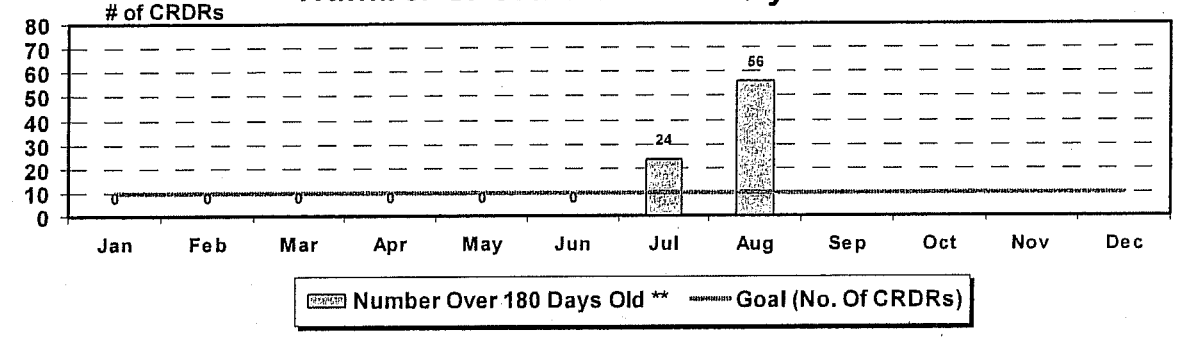
Timeliness of Corrective Actions (2006)

Adverse and Significant CRDRs

Number of Open Evaluations > 30 Days

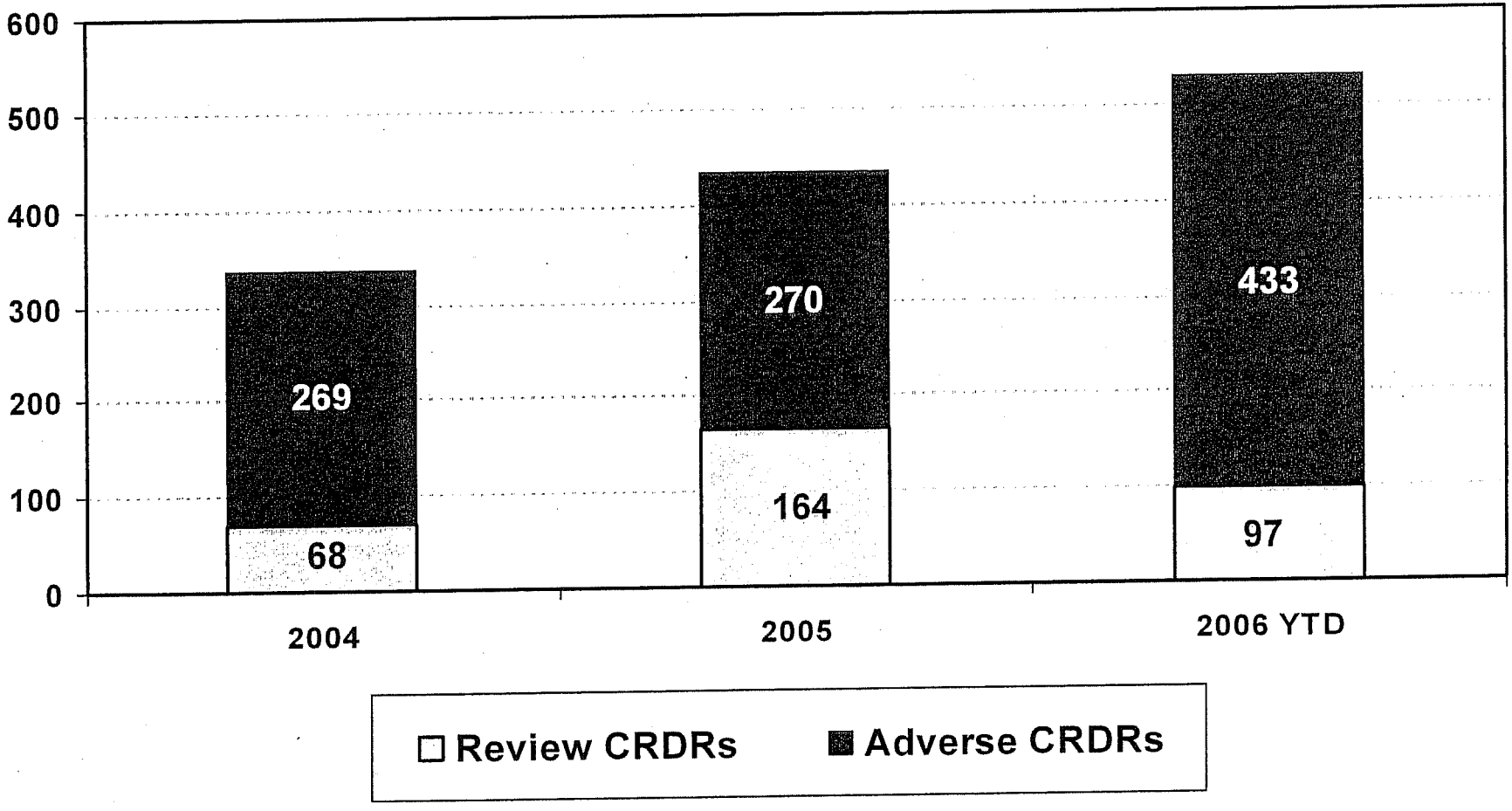


Number of CRDRs > 180 Days

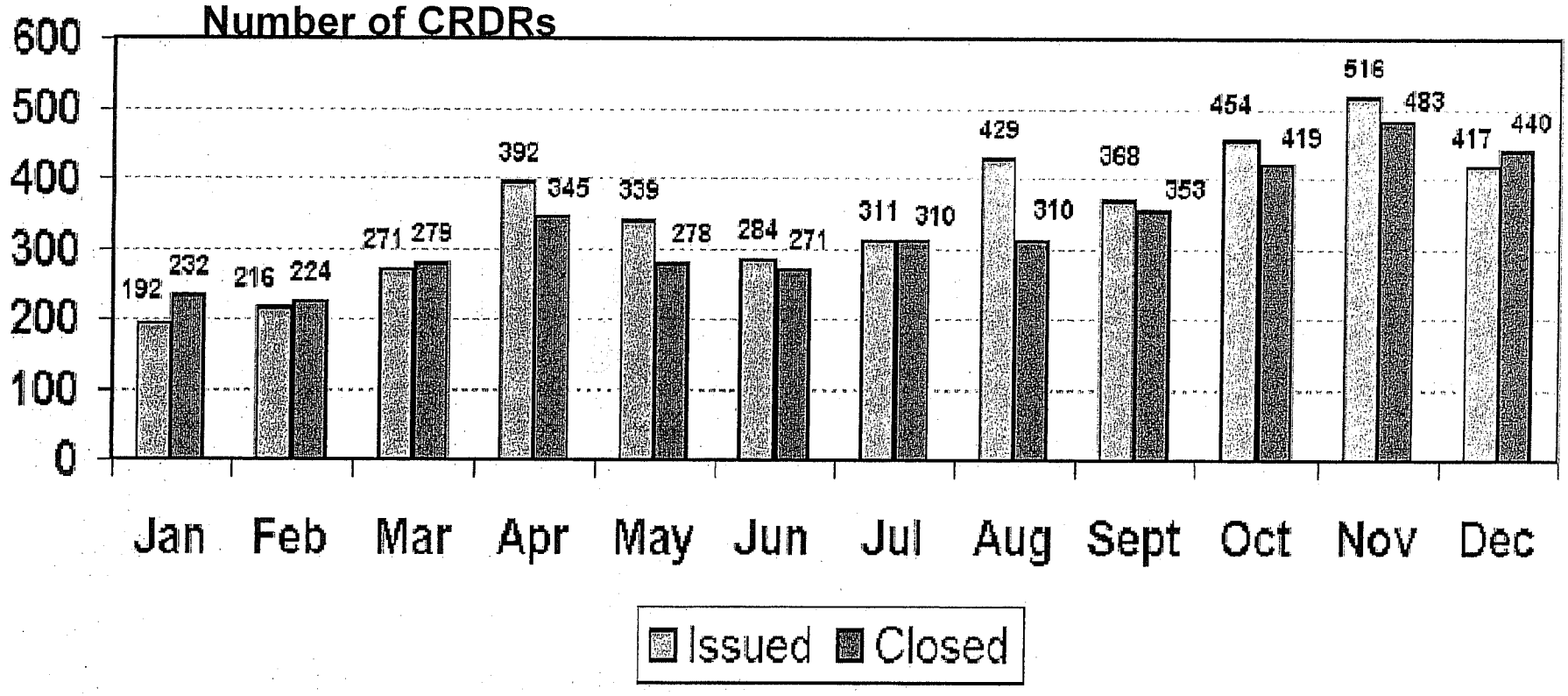


CRDR 2909653 issued for goal not being met for at least two months.

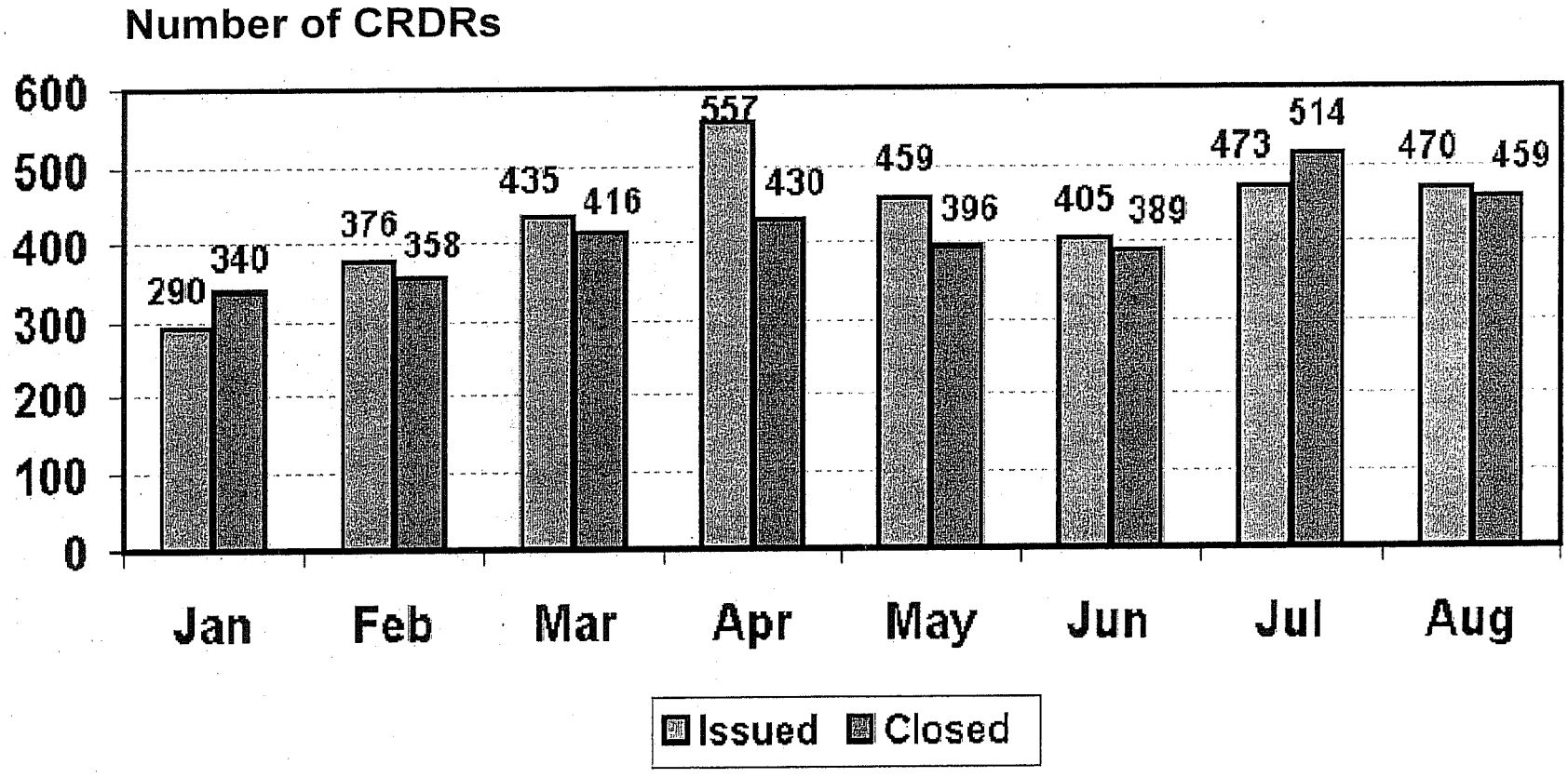
Average Number of CRDRs Issued Per Month (2004-2006)



2005 Adverse and Above CRDRs



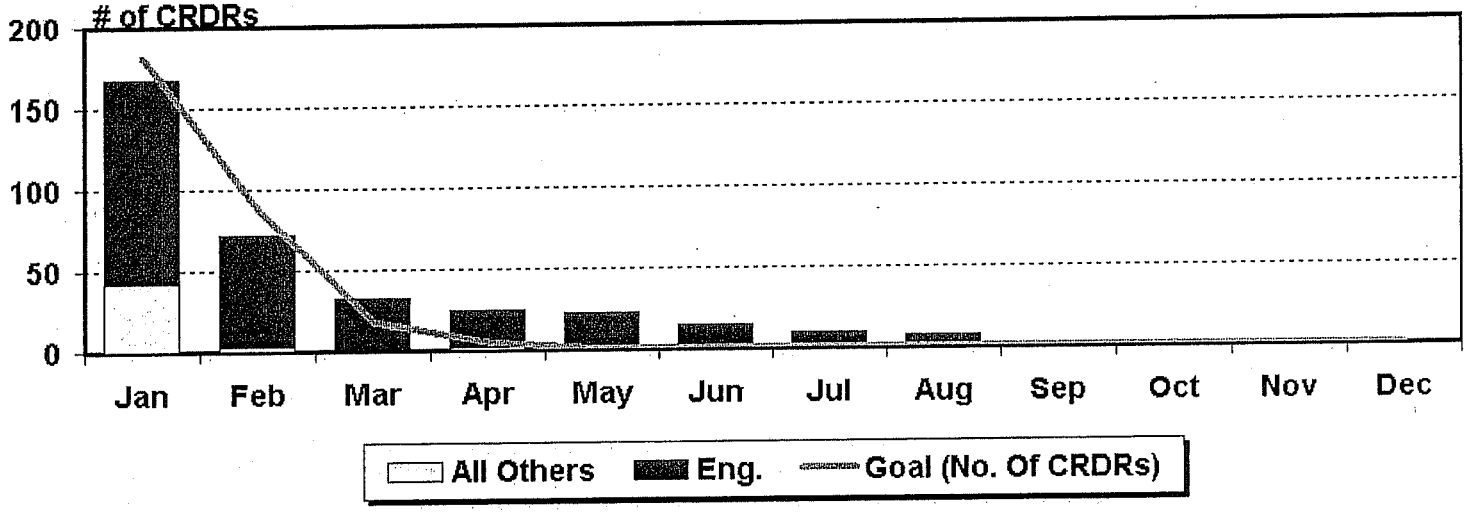
2006 Adverse and Above CRDRs



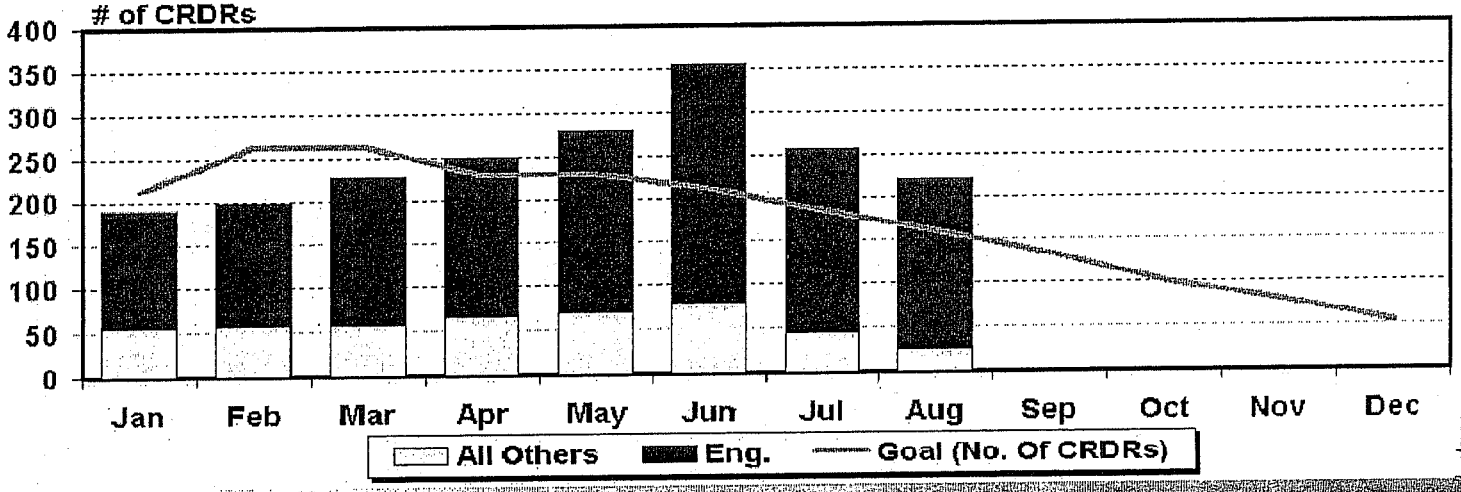
Pre-2006 Timeliness Analysis
Engineering and Other PV

Adverse and Significant CRDRS

Number of Open Evaluations Greater Than 30 Days



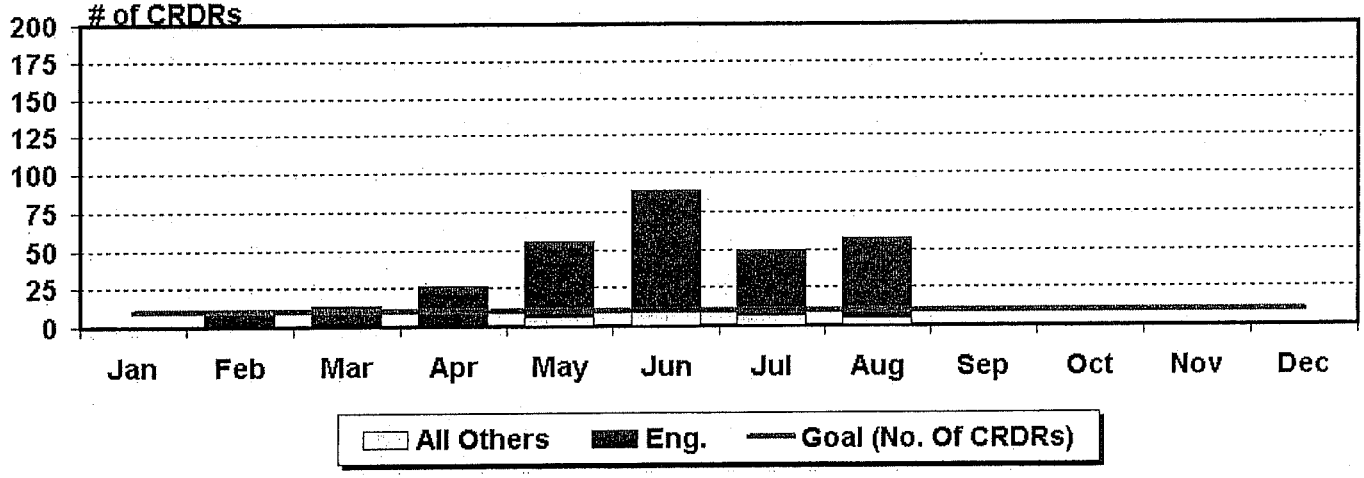
Number of CRDRs Over Closure Goal



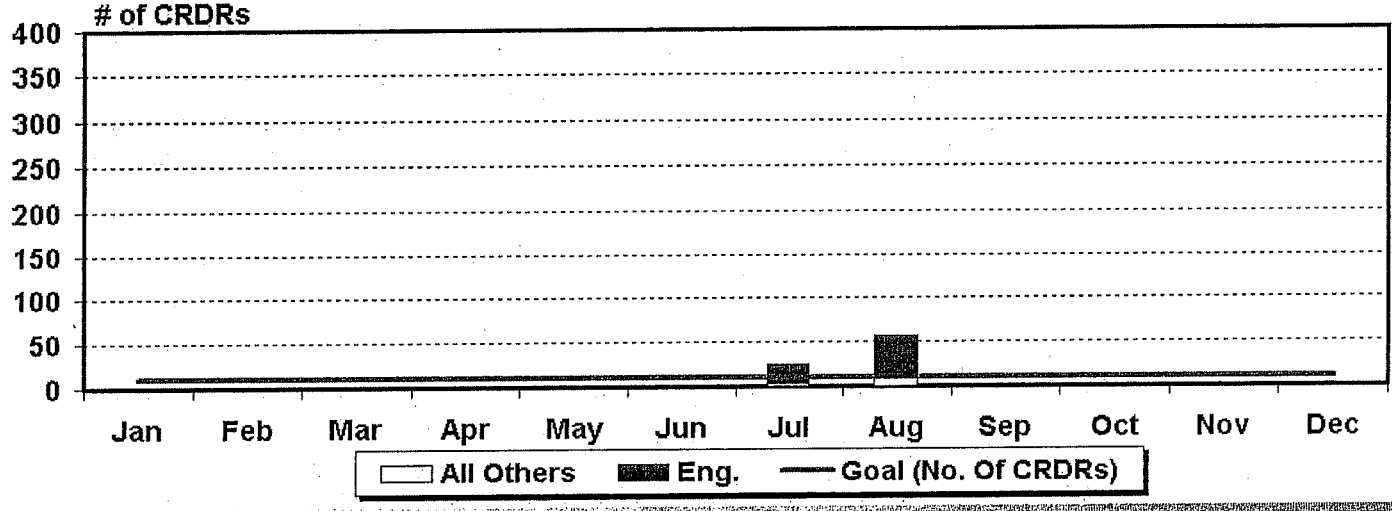
2006 Timeliness Analysis
Engineering and Other PV

Adverse and Significant CRDRS

Number of Open Evaluations Greater Than 30 Days



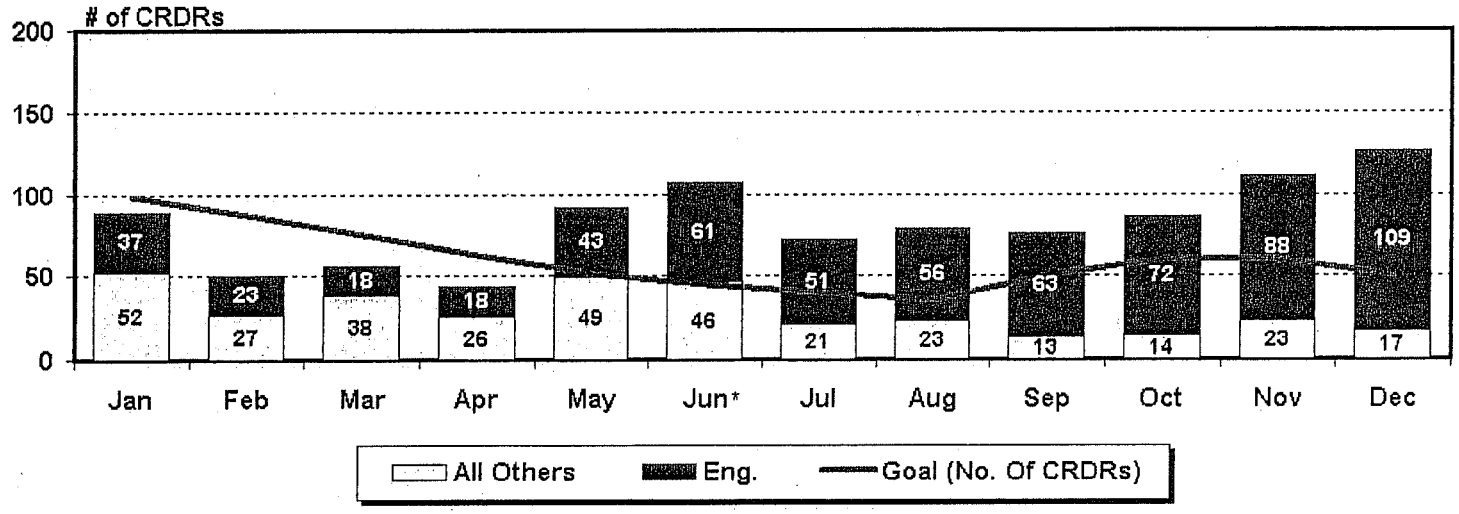
Number of CRDRs Over Closure Goal



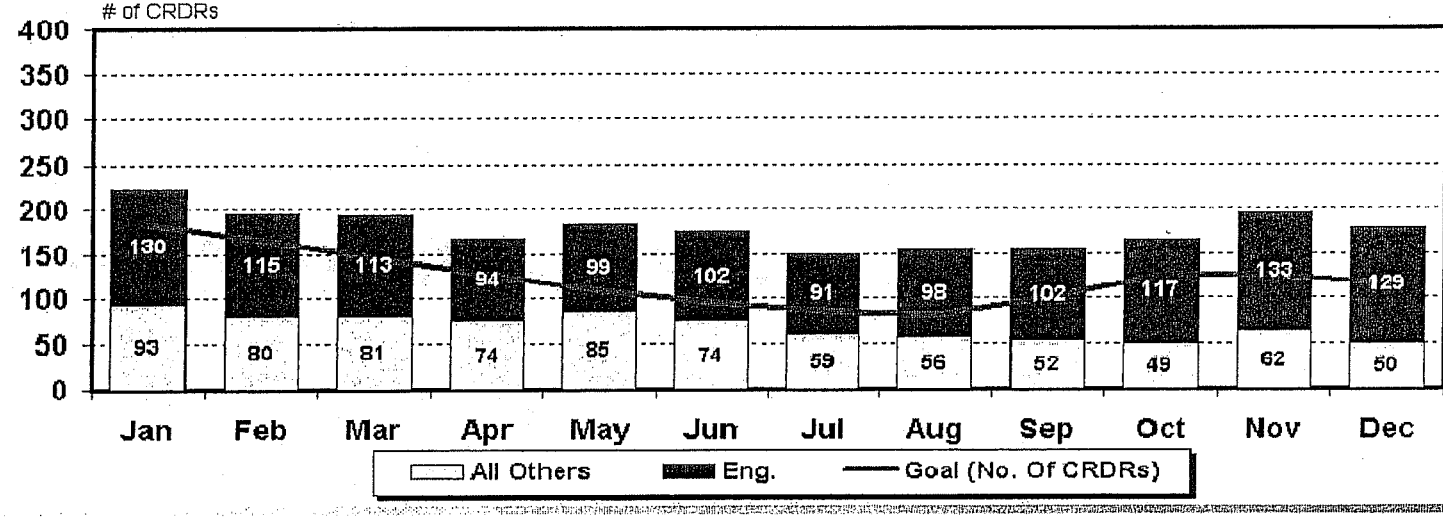
2005 Timeliness Analysis
Engineering and Other PV

Adverse and Significant CRDRS

Number of Open Evaluations Greater Than 30 Days



Number of CRDRs Over Closure Goal



Benchmarking Results

What we've been told:

- Adverse CRDRs written on items other than adverse to quality
- Full evaluations vs disposition
- Extent of condition not performed for every adverse CRDR
- Advocates dedicated to the Corrective Action Program
- CARB increased intrusiveness

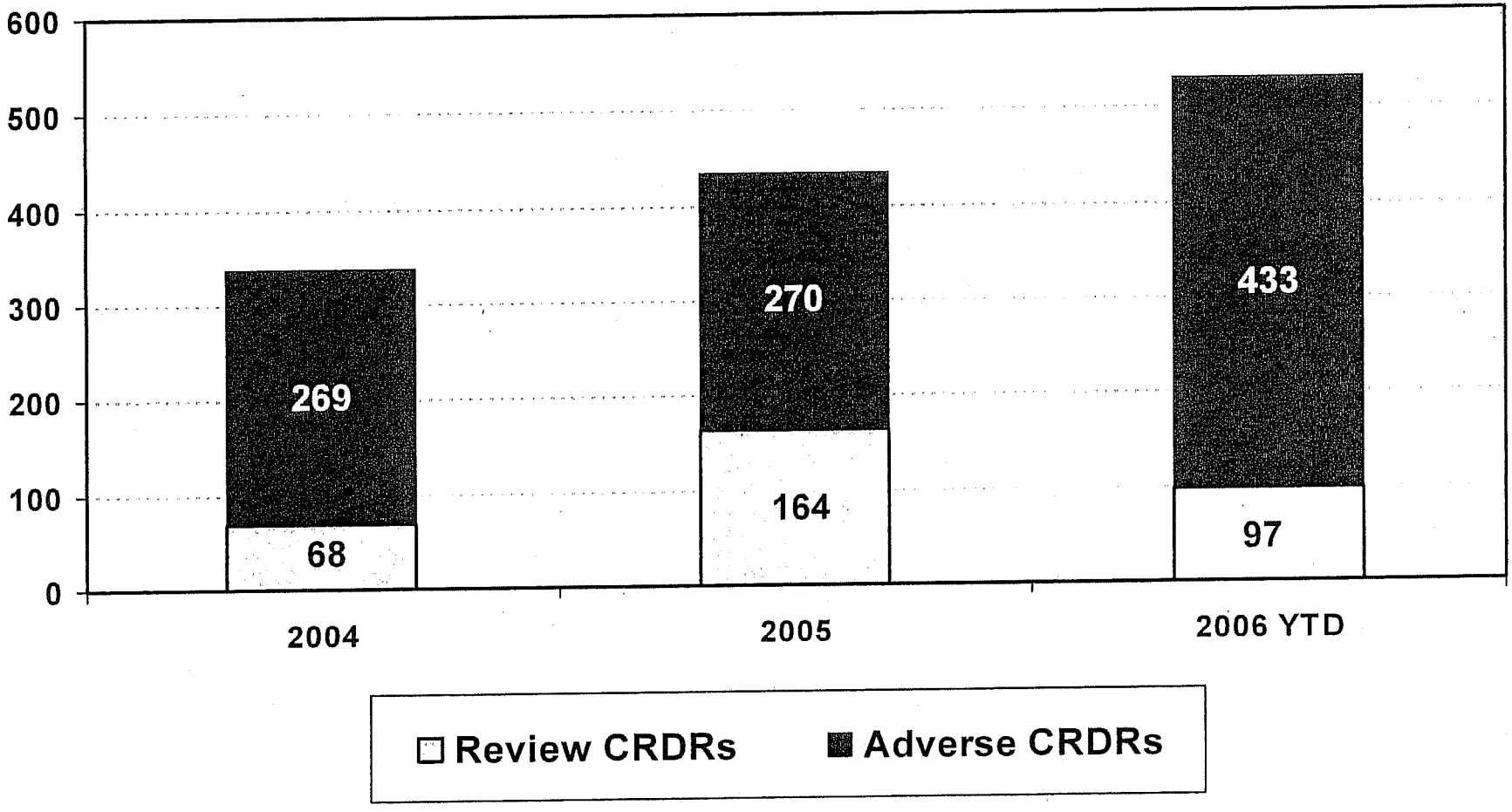
Engineering
CAP Improvement Actions

- Formed tiger team (Sept 2006) to:
  - assess composition of engineering backlog
  - remove items that are not adverse to quality
  - bin and prioritize remaining backlog
  - assess impact of other processes on CRAIs
- Assess amount of time spent on Adverse CRDRs
- Assess disposition vs. evaluate for Adverse CRDRs
- Refocus Engineering's advocates on Corrective Action Program

Leader Engagement

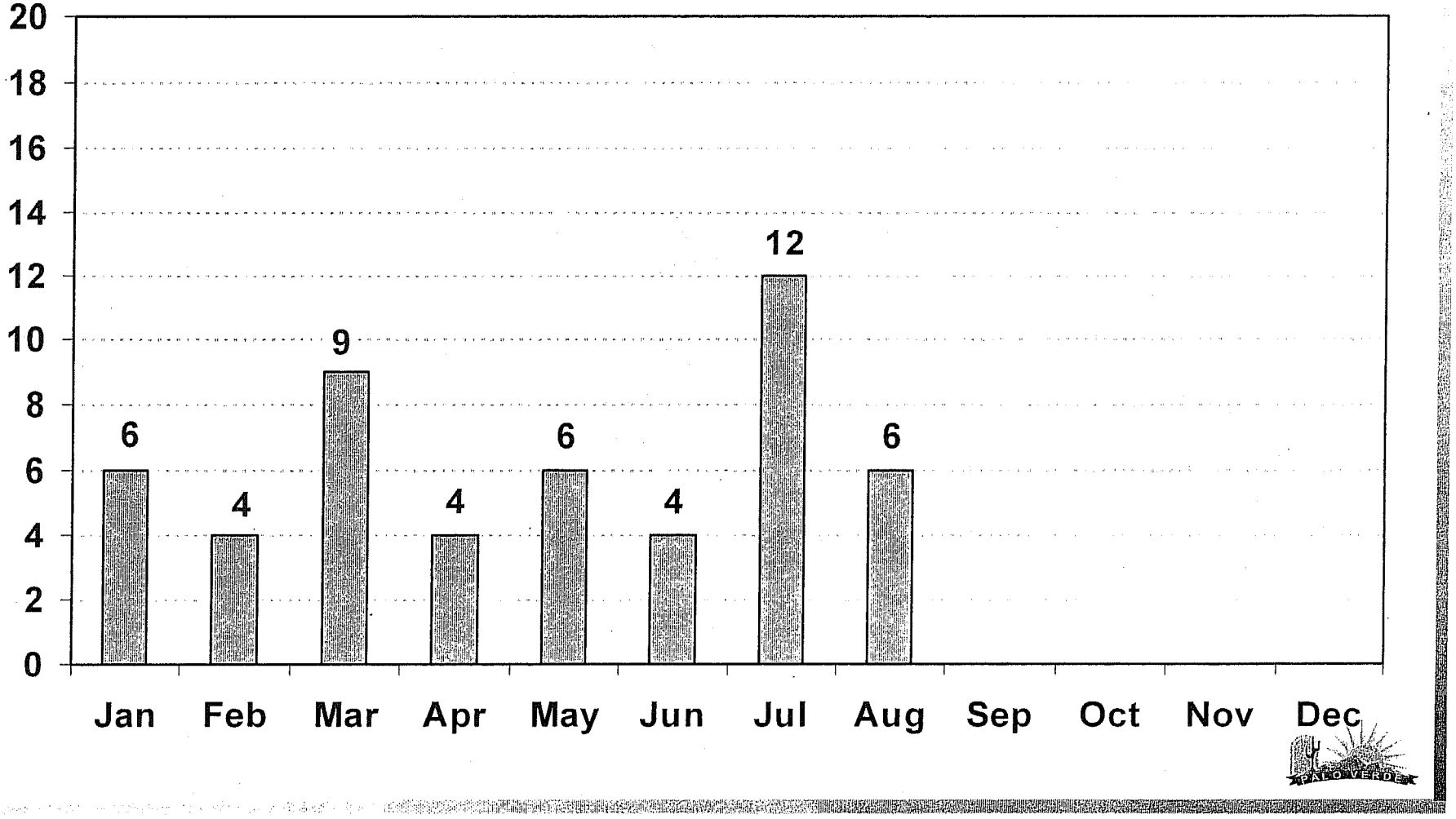
- Lowering threshold for initiating CRDRs through improved leader involvement
- Contacting CRDR owner on front end
- Disposition of CRDRs on front end needs improvement
- Corrective Action Review Board
  - Plant manager chairs; directors members
  - Reviews CRDRs
  - Reviews significant CRDRs
  - Provide feedback to CRC and advocates

Average Number of CRDRs Issued Per Month (2004-2006)



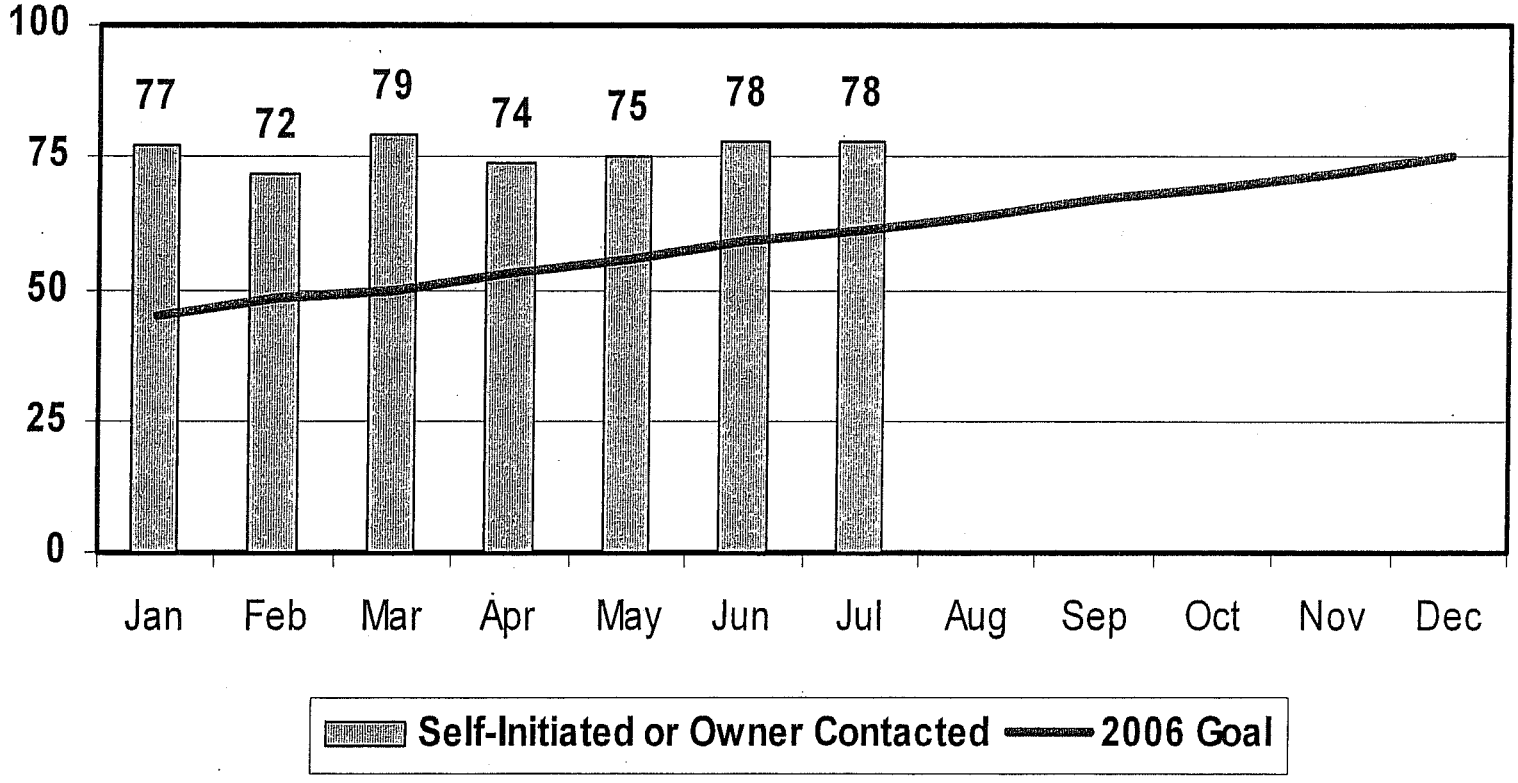
Timely Initiation

This metric measure the occurrences of CAP implementation issues for – Failure to initiate the appropriate CAP document in a timely manner



CRDRs Self-Initiated or Owner Contacted

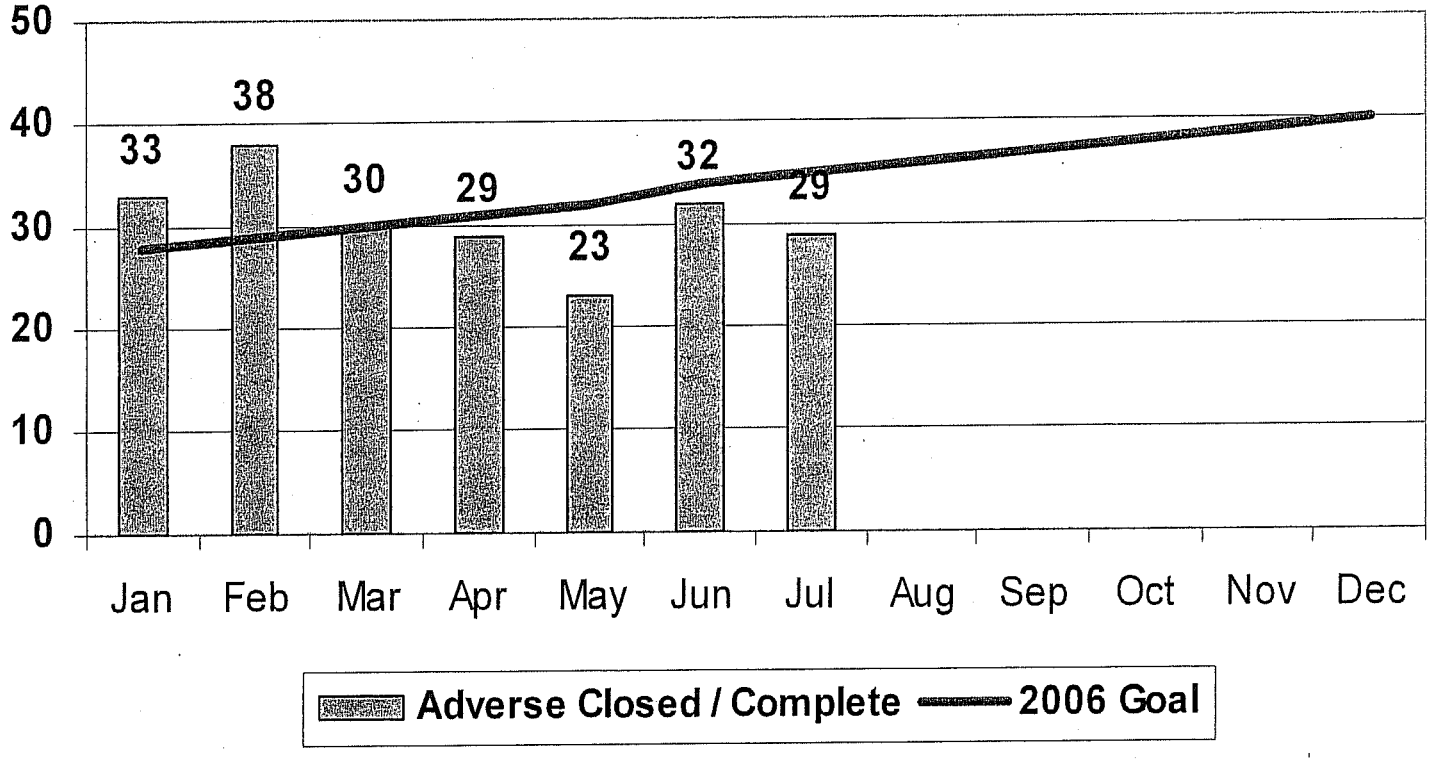
End of Year Goal = 75%



The number of CRDRs self-identified or states the potential owner was contacted divided by the total issued.

Adverse CRDRs Issued Closed or Complete

End of Year Goal = 40%



- The total of Adverse CRDRs issued closed or with evaluation completed divided by the total Adverse CRDRs issued.
- CRDR 2909654 has been issued for goals not being met for at least two months.

Recent Monitor and Adjust Actions

- Increased senior management in CARB – June 2006
- CARB reviewing backlog reduction plan – August 2006
- Additional director driving CAP – June 2006
- CAP advocates refocused – August 2006
- Increased front-end leader engagement in CAP process – ongoing
- INPO Assist Visit (Sept.)
- Assist Engineering in CAP implementation -- ongoing

Conclusion

- We understand what has to be done to close PI&R cross cutting issue
  - Continue to improve quality/effectiveness
  - Reduce backlog
  - Sustainability of timeliness and quality
- Leaders must continue to be intrusive in the process and enforce the highest standards

Human Performance
Building on the foundation

Human Performance

Topics

- Error and event prevention
- Procedure use
- Procedure quality
- Operations-Engineering interface And conservative decision making

Human Performance

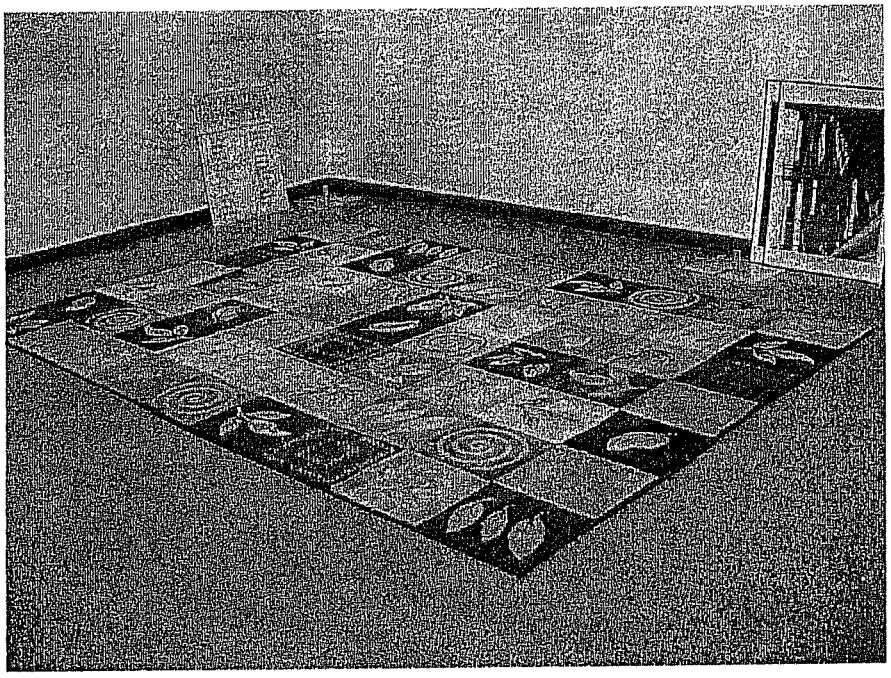
Error and Event Prevention

- Steady progress is being made in the area of human performance at Palo Verde
  - Just-completed external assessment found step-change improvement over last year's performance
- 72% percent of Performance improvement plan is complete
- Human Performance is a "Focus Area" with additional Senior management support.

Error and Event Prevention

Recent actions taken

- Developed a human performance prevent events simulator
- Issued HP guide, Tools for the site.
- Trained Performance Advocates and Human Performance staff (including INPO HP fundamentals)
- Implemented HP event investigations for significant and noteworthy HP events

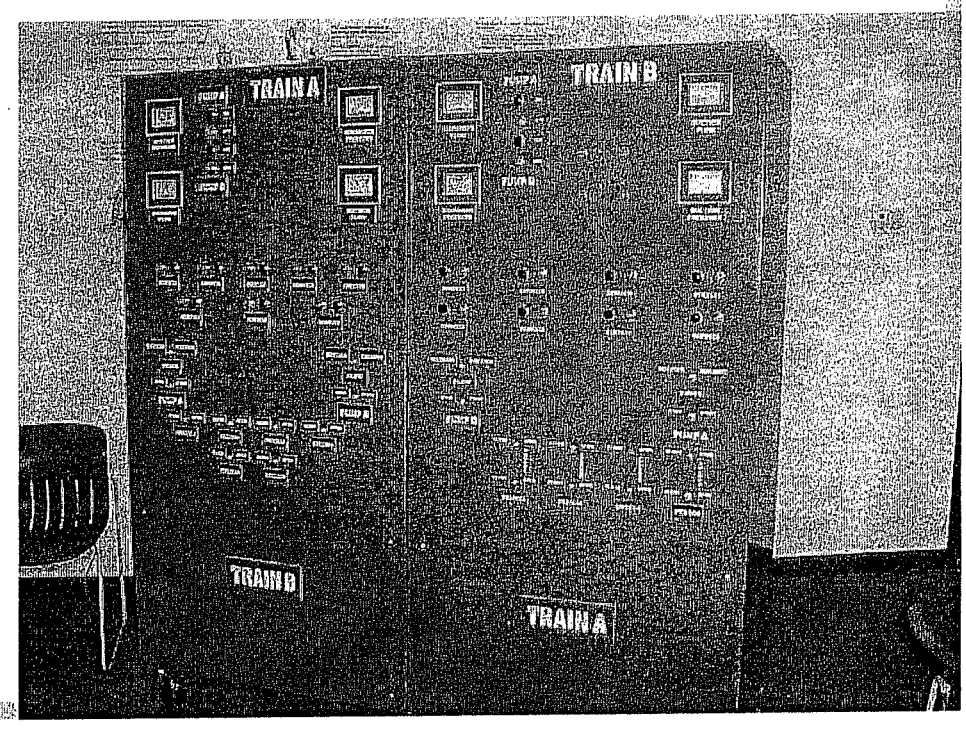


The Grid

The Grid requires the team to work together to discover a safe pathway across it. 3 legged communications and the phonetic alphabet are Prevent event tools that make this effort easier and must be used to pass the exercise. Other tools like point and shoot, coaching, peer checking, and questioning attitude will also be discussed during the debrief.

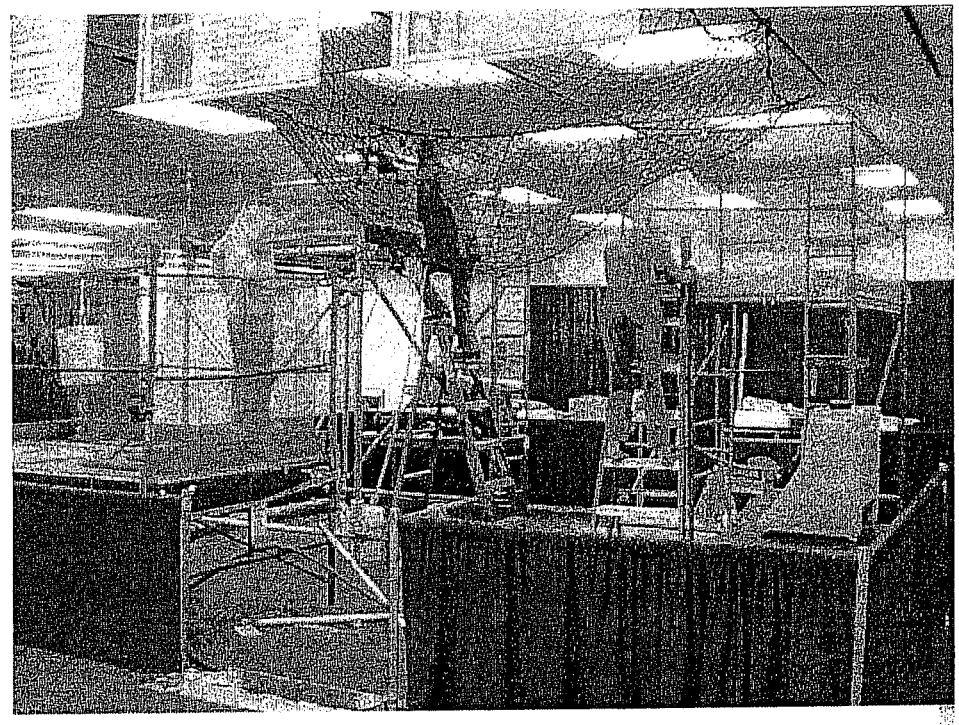
Self Check Simulator

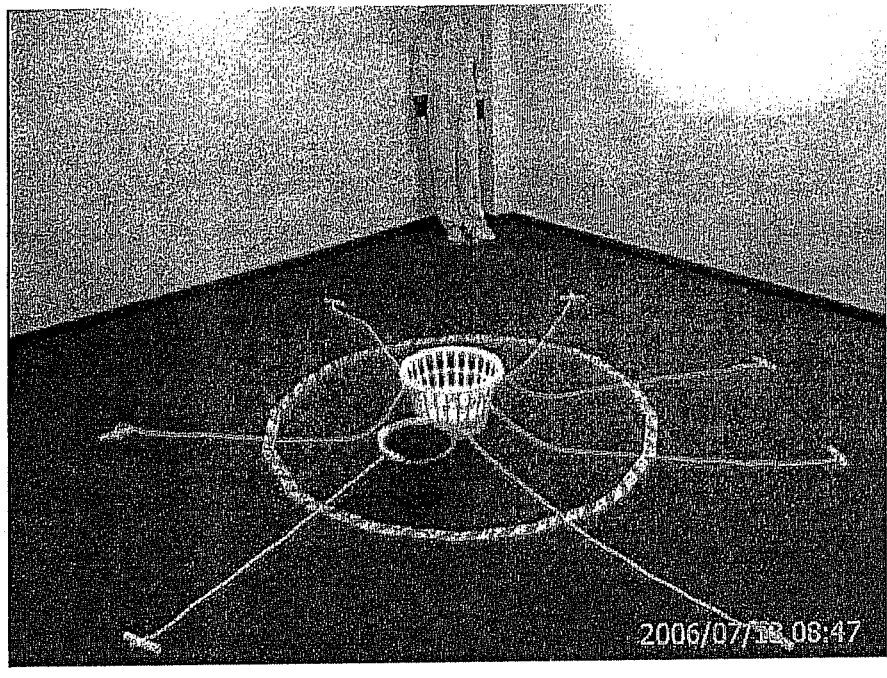
The Self Check Simulator is a rebuild of the industry's first such simulator. The panels have numerous human factor errors which require learners to use all the Prevent event tools at their disposal in order to successfully complete the exercise. Self check, peer check and procedure compliance are required. Other tools such as place keeping, 3 legged communication, phonetic alphabet, point and shoot, and questioning attitude will come in handy and will be discussed during the debrief.



The Workplace

The workplace is an exhibit that requires the team to identify all of the improper work practices they can find. These are numerous and vary from subtle to blatant violations of PVNGS safe work practices. The two minute drill and a questioning attitude are required for this exercise.





Nuclear Waste

This exercise will require the team to lift the basket with the attached ropes and pour the waste (plastic balls) into a bucket. Of course the participants are blindfolded and someone must direct their efforts in order to be successful. This one emphasizes pre-job briefs, communications and coaching. 3 legged communications and a questioning attitude will also be helpful and will be debriefed.

Error and Event Prevention

Recent actions taken

- Developed a human performance prevent events simulator and training
- Issued HP guide, Tools for the site
- Trained Performance Advocates and Human Performance staff
- Implemented HP event investigations for significant and noteworthy HP events

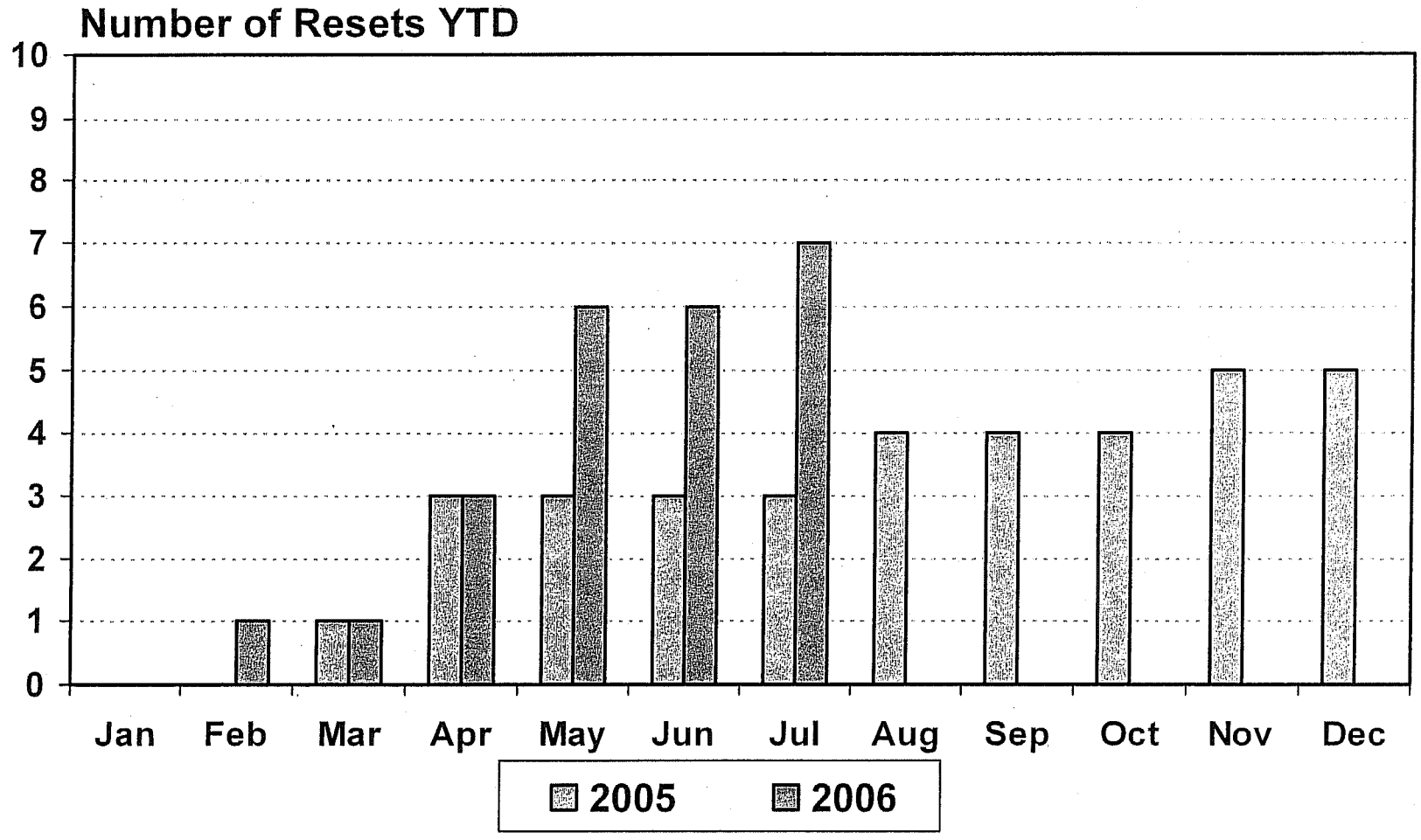
Error and Event Prevention

Actions Remaining or In Progress

- Begin training leaders with human performance simulator and guide, complete by 12/31
- Train front line, complete by third Quarter 2007
- Participate in STARS Human Performance Round Robin at Palo Verde (Sept 2006)

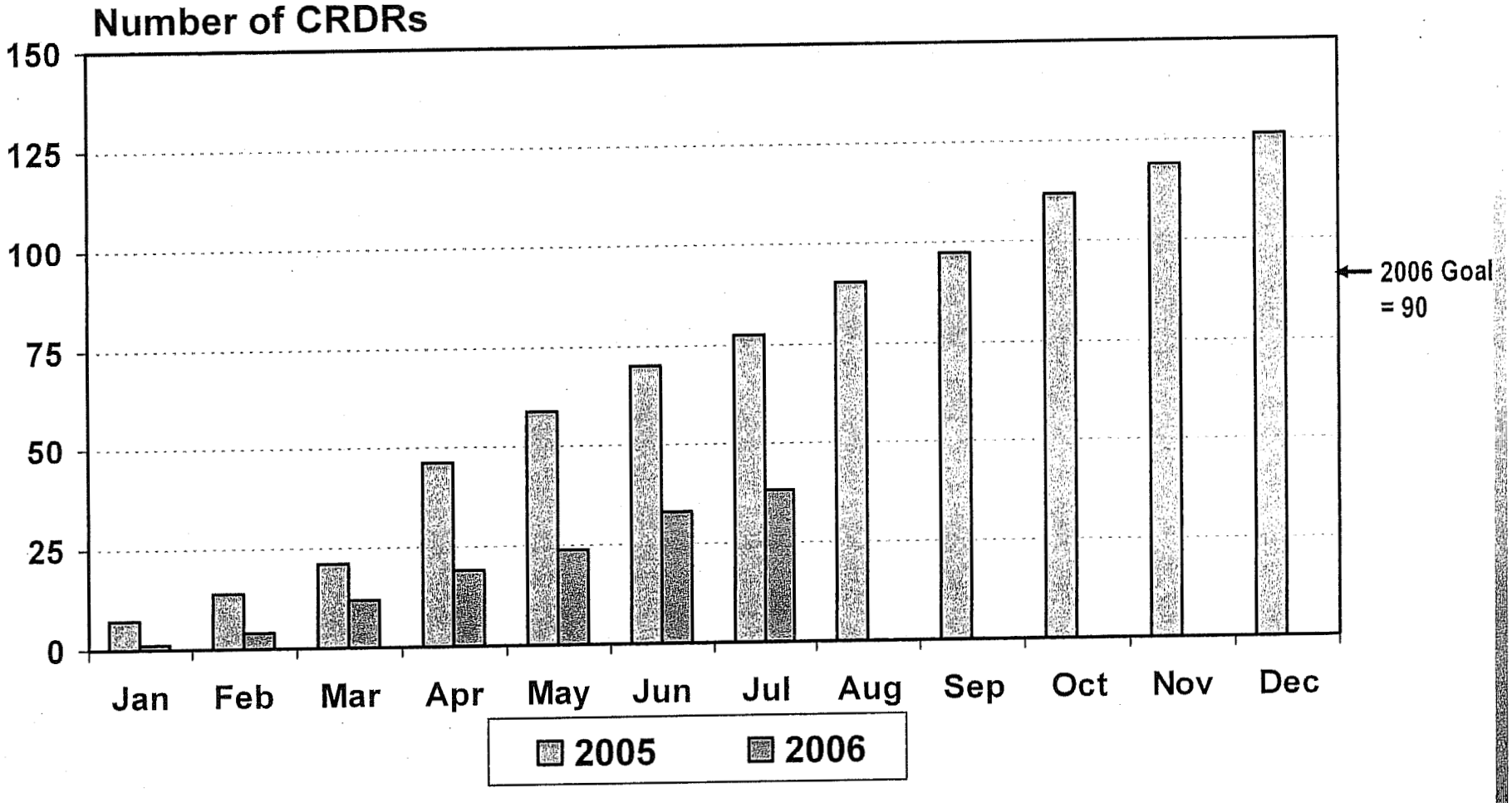
Human Performance Site Clock Reset

(Goal = 5 for 2006)



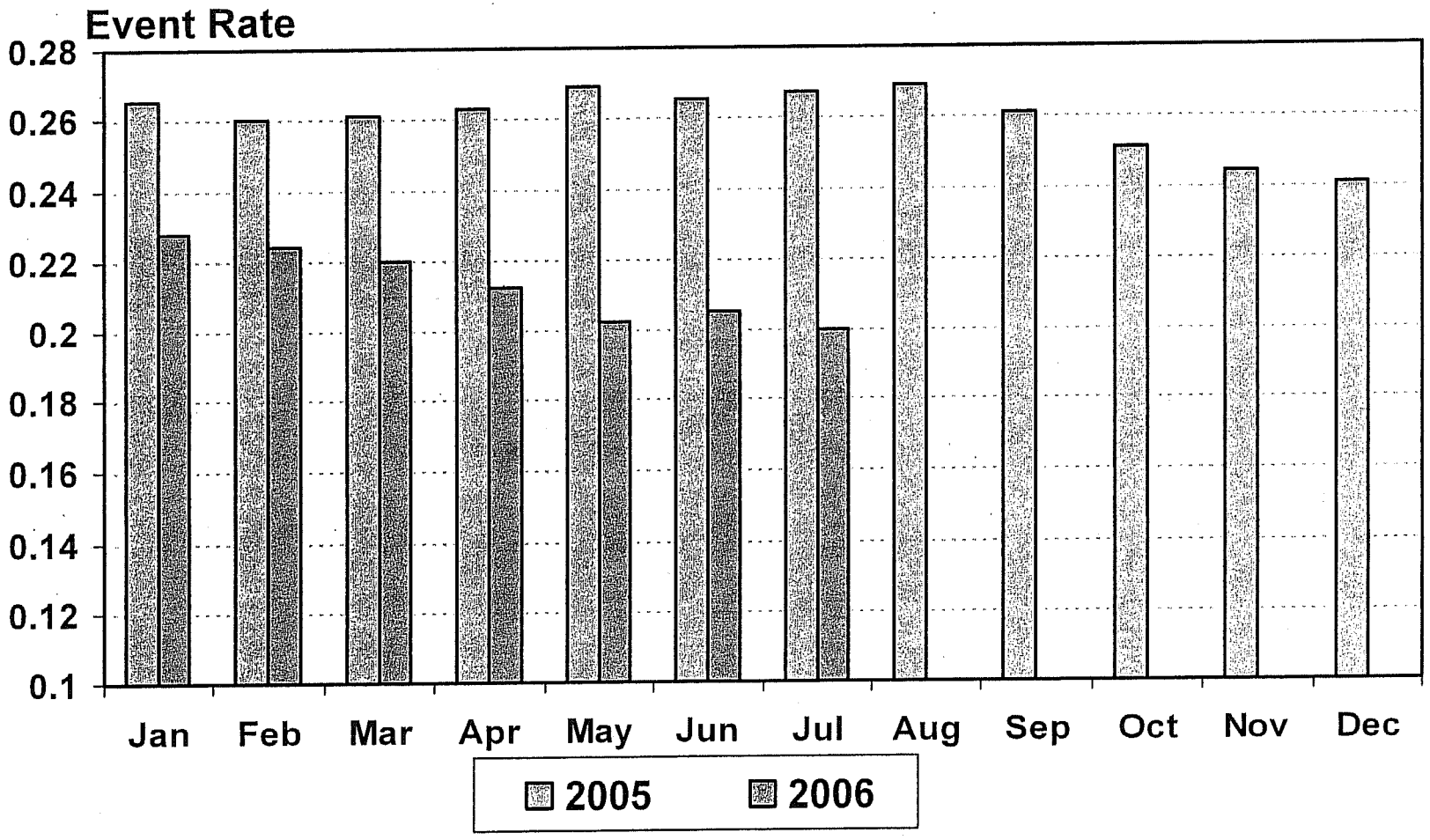
A reset is a CRDR that identifies an event attributed to human performance including lost-time injuries.

Noteworthy Event CRDRs
(Cumulative)



A human performance error which results in an undesirable consequence or condition

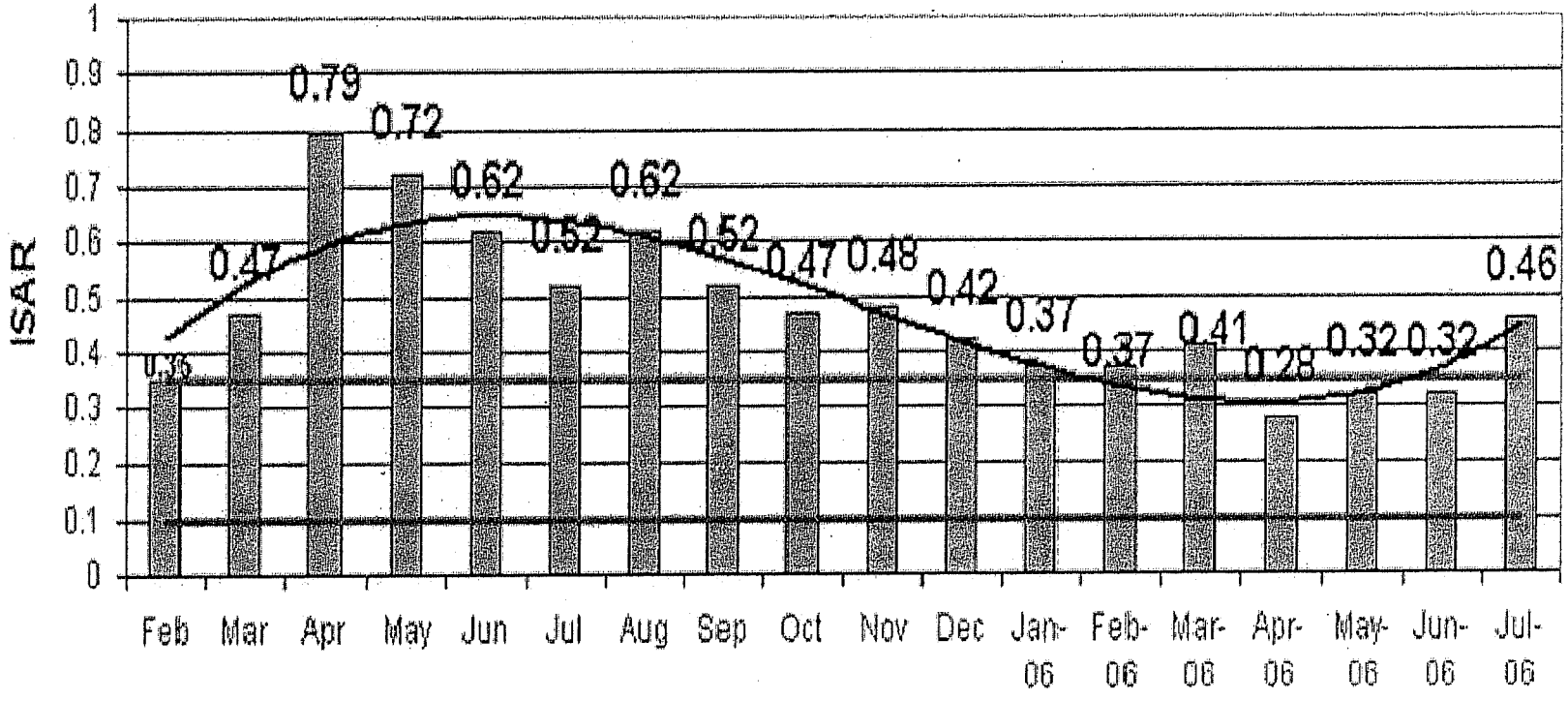
INPO Event Rate



Description: Past 18 month Sig+Noteworthy Events x 10000 mhrs / 18 month mhrs

ISAR Metric

Palo Verde's performance vs. INPO/WANO Industrial Safety Accident Rate (ISAR)



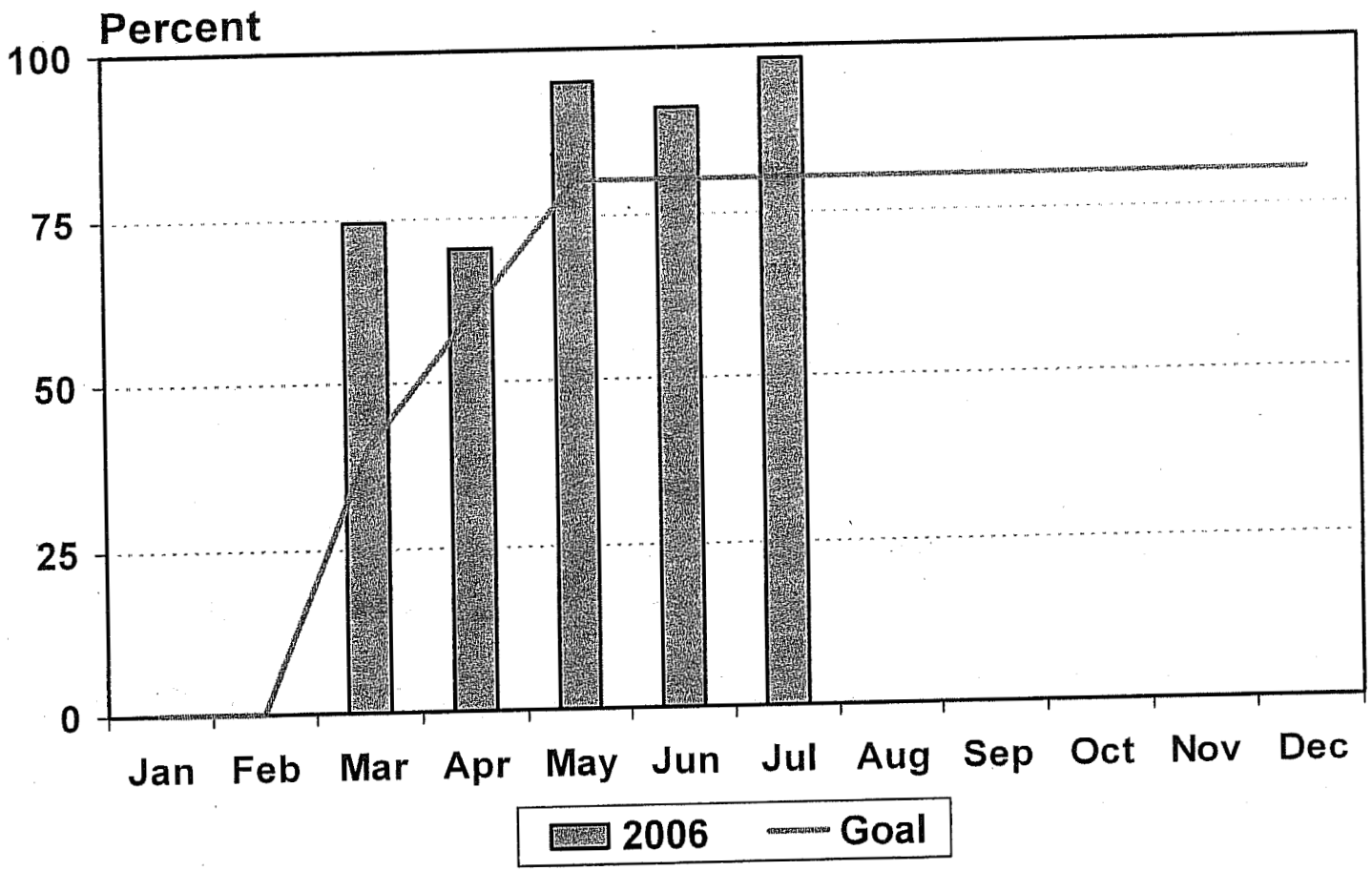
GREEN = 0.0 - 0.1 (Top Quartile)
WHITE = 0.11 - .24 (2nd Quartile)
YELLOW = .25 - .34 (3rd Quartile)
RED = .35 or greater (Bottom Quartile)

ISAR — 2006 Goal — Bottom Quartile — Trendline

Description:Lost Workdays + Restricted Duty + Fatalities x 200,000 (hours of employee exposure)/total employee hours. Info provided by ESD. 12 month rolling average.

Observation Results

Percent of Observations Meeting Expectations



Procedure Use and Adherence

Actions Taken

- Established site expectations for procedure use and adherence
- Provided procedure use and adherence training to site personnel
- Daily discussion of human performance events in senior leader meetings
- Established a senior management review of procedure use and adherence errors

Procedure Quality

Actions Taken

- Implemented "Autonomy" search engine
- Implemented eACT (process for procedure feedback)
- Worked off 2005 CRDR backlog
- Meeting 2006 goals

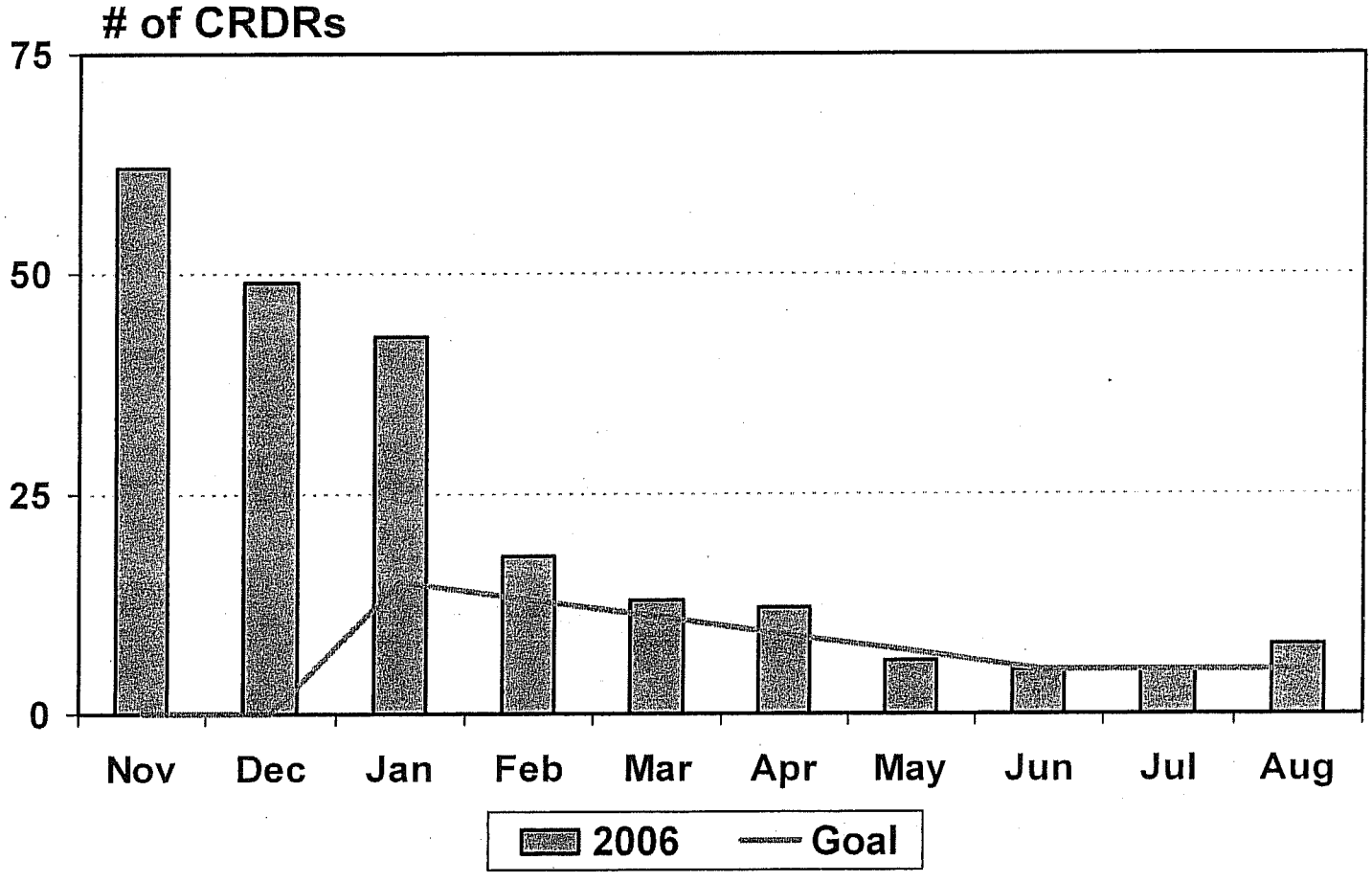
Procedure Quality

Actions Remaining or In Progress

- Establish site standards organization (Oct 2006)
- Develop single plant writer's guide (Sept 2006)
- Establish qualifications for procedure writers (Oct 2006)
- Update procedures to incorporate human performance tools (long term action through 2007)

Procedure Use and Adherence

Number of Procedure Non-Adherence CRDRs



Description:
These CRDRs are identified by the Human Performance-Continuous Learning Dept.

Conclusion

- We understand what has to be done to close HP cross cutting issue
  - Sustain lowered HP event rate
  - Sustain procedure use performance
  - Sustain Operations performance
  - Improve Operations-Engineering interface on ODs

Operations Improvement Plan

Pete Borchert
Director
Operations

Topics

- Operations Improvement Plan
- Operability Determination Process Improvements

Operations Performance

- **Case For Action**

  Identified Weakness

  - **Principles and Standards**
    - Procedure Use and Adherence
    - Verification practices
  - **Leadership**
    - CRS command and control
    - SM/CRS not reinforcing standards & expectations
  - **Questioning Attitude/Technical Rigor**
    - Operability Determination process

Operations Performance

- **Performance History 2005-2006**
  - **Identified Weaknesses – Summer 2005**
    - Human Performance
    - Identification of individual performance shortfalls
  - **Implemented changes to correct identified weaknesses - Jan 2006**
  - **External Performance Assessment identified leadership deficiencies - March 2006**
  - **Performance issues – March 2006**
  - **Ace CRDR Evaluation – March 2006**
    - Extent of Condition review of Operations performance
  - **Developed improvement plan – April 2006 start**

Operations Performance

- **Improvement Plan**
  - **Developed comprehensive 14-step improvement plan**
    - Leadership
    - Fundamentals
    - Crew staffing
    - Redefined STA roles
    - Training
    - Oral Boards
  - **Use Palo Verde NAD to monitor and assess actions related to improvement plan and OD performance**

Operations Performance

- **Improvement Plan**
  - **Completed Actions – April through August 2006**
    - Revised Operations Standards and Expectations
    - Developed Operations Performance Indicators (Metrics)
    - Developed a Human Performance Evaluation tool
    - Redefined STA role and developed rotation schedule
    - Performed Standards-focused training – 3 cycles of continuing training
    - Contracted industry expert to assess/coach Shift Managers
    - Performed on-shift leader/crew performance observations
    - Developed and implemented Oral Boards
    - Developed staffing plan to address current department vacancies and long-term staffing
    - Revised Functional Release process

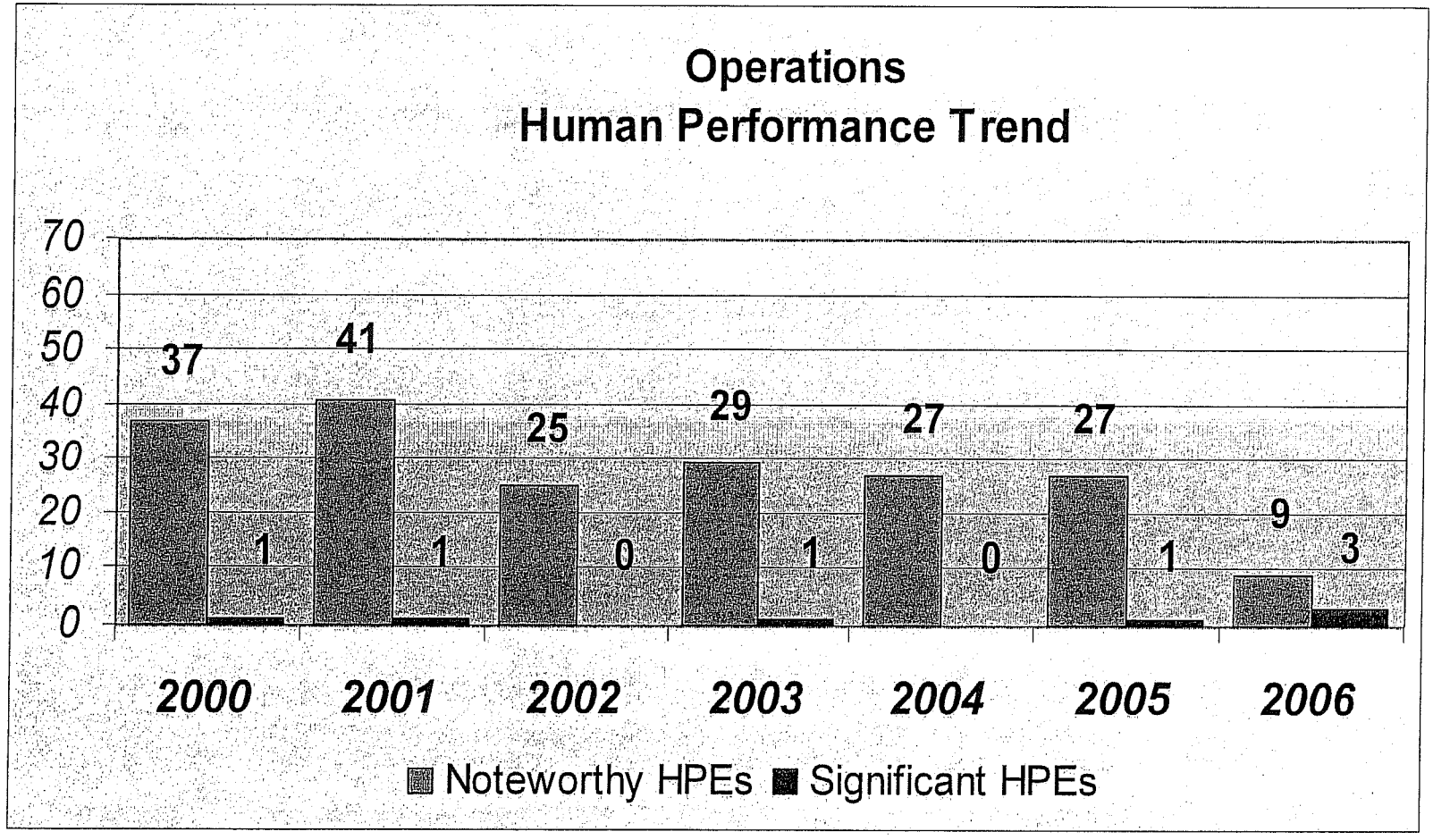
Operations Performance

- Improvement Plan
  - Remaining Actions
    - Develop and implement individual leader improvement plans
    - Realign key personnel
    - Conduct independent review of corrective actions effectiveness in 2006
    - Develop Decision Making Errors metrics
    - Monitor and adjust steps

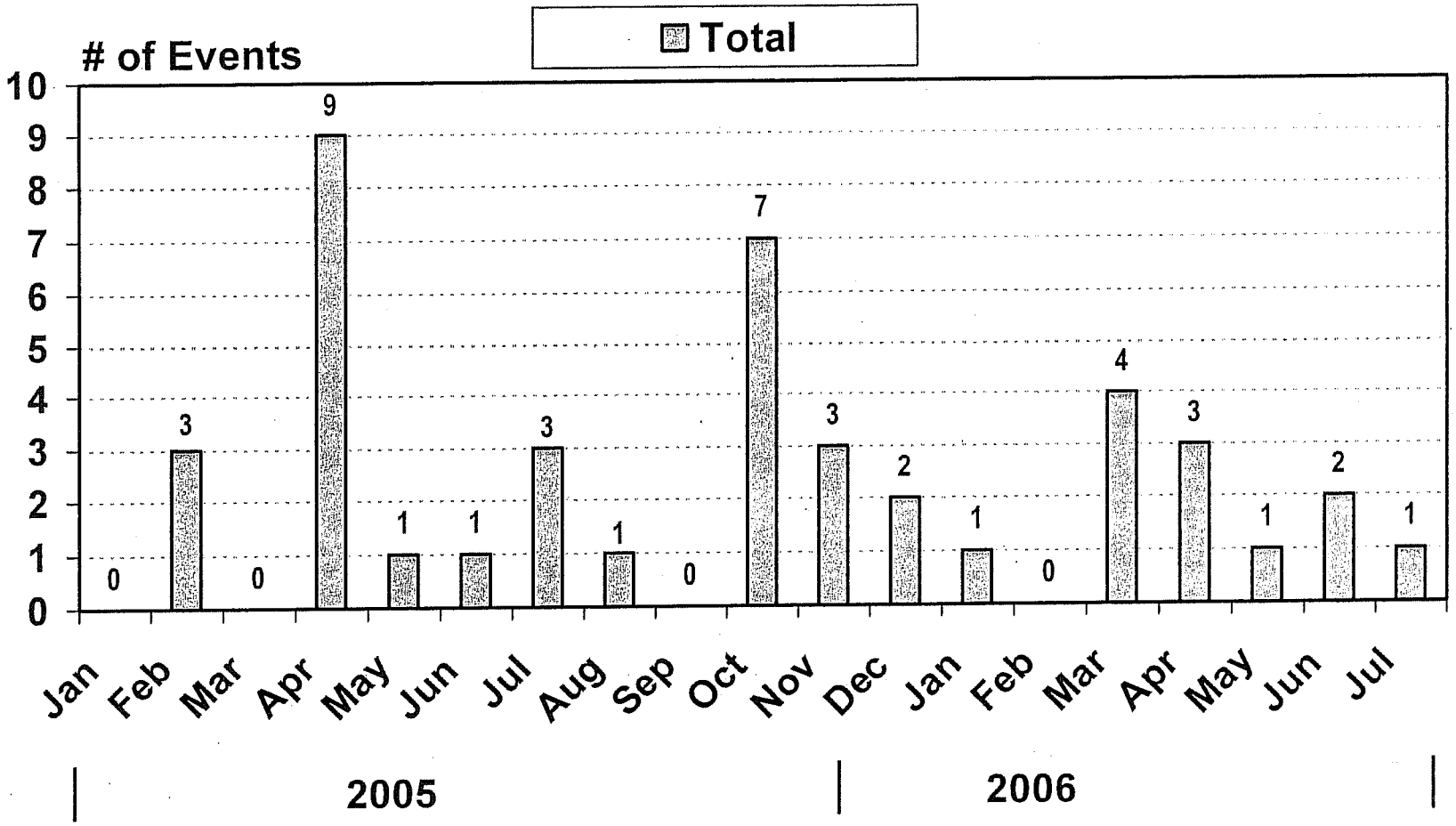
Operations Performance

- Results
  - Aligned standards with industry best practice
  - Improved human performance
  - Increased Operations ownership and involvement in training
  - Independent review of crew simulator observations in May/July 2006 confirmed improved performance
  - Performed numerous error-free plant maneuvers (including mode changes) since corrective actions were put in place following March 2006 events
  - Independent mid-cycle review of Operations activities confirmed improved performance

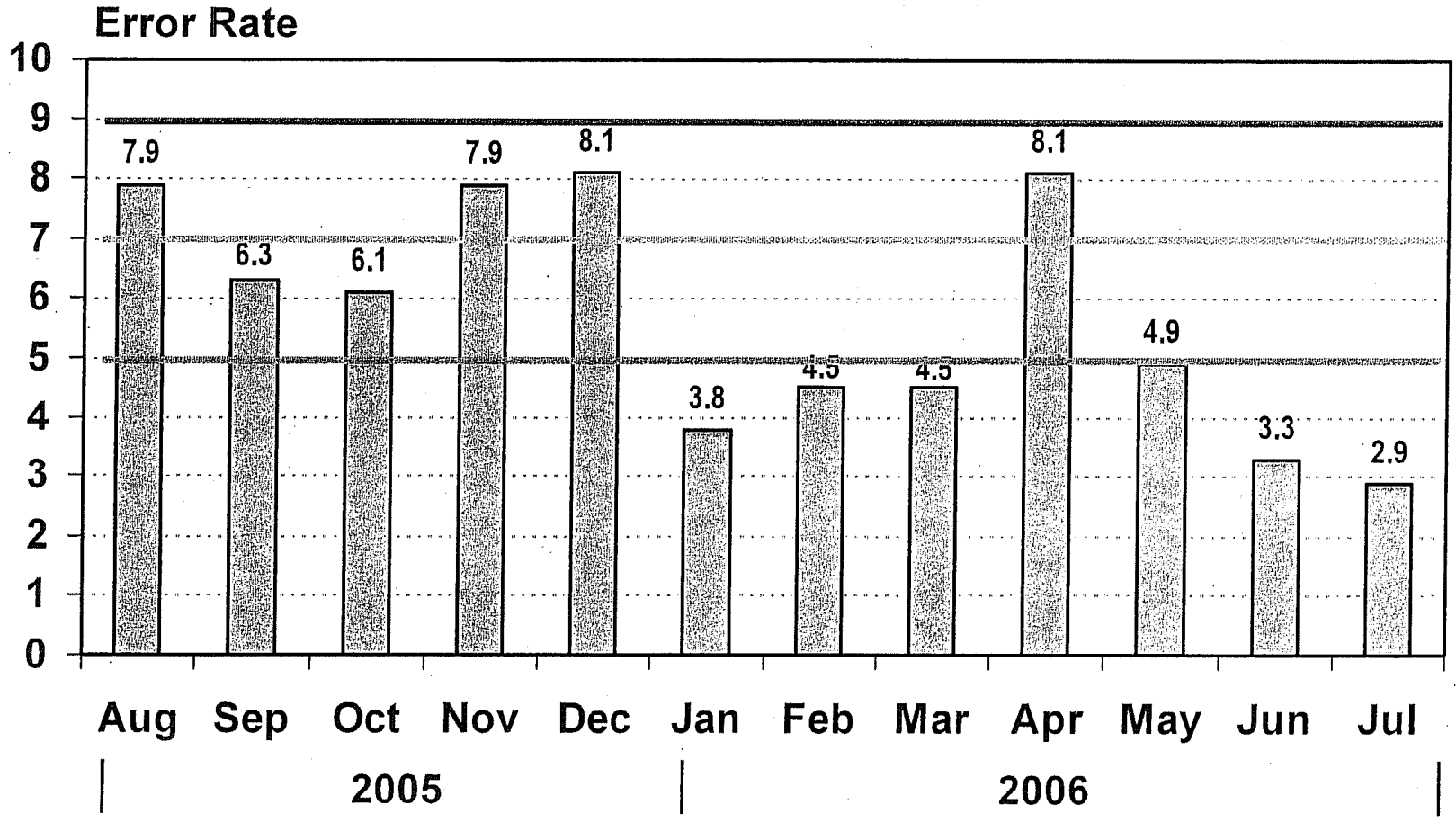
Operations Performance



Operations Human Performance Events



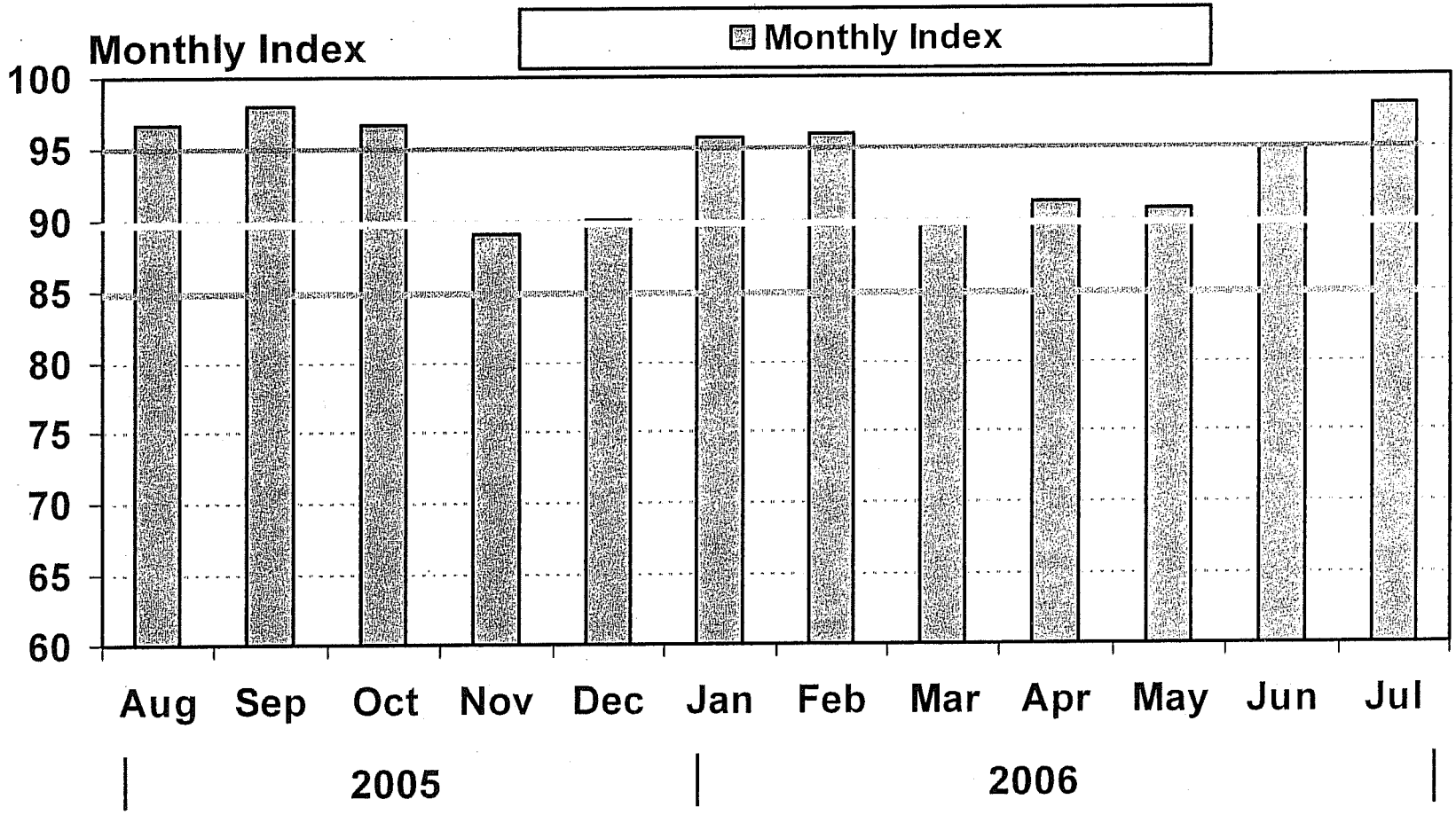
Operations Human Performance Error Rate



Description:
Total HPEs x 10,000 / Operations Employee Person Hours Worked

Green <= 5
White = 6
Yellow = 7
Red = >9

Operations Misposition Events



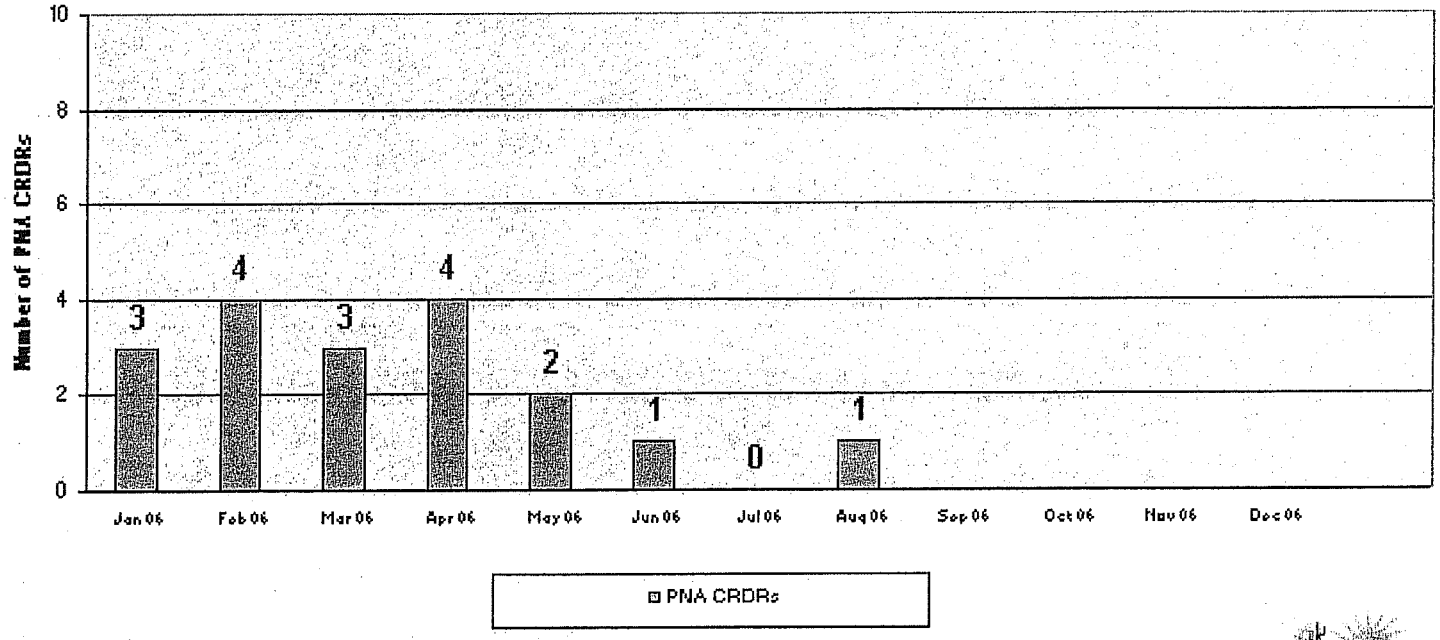
Description: Sum of calculated "Penalty Points" is subtracted from 100 to produce the index value. The index is normalized for the total station by subtracting the Total index reduction from an index value of (# of units x 1000) and then dividing the result by the number of units.

Green = >95
White = >90
Yellow = >85
Red = <= 85

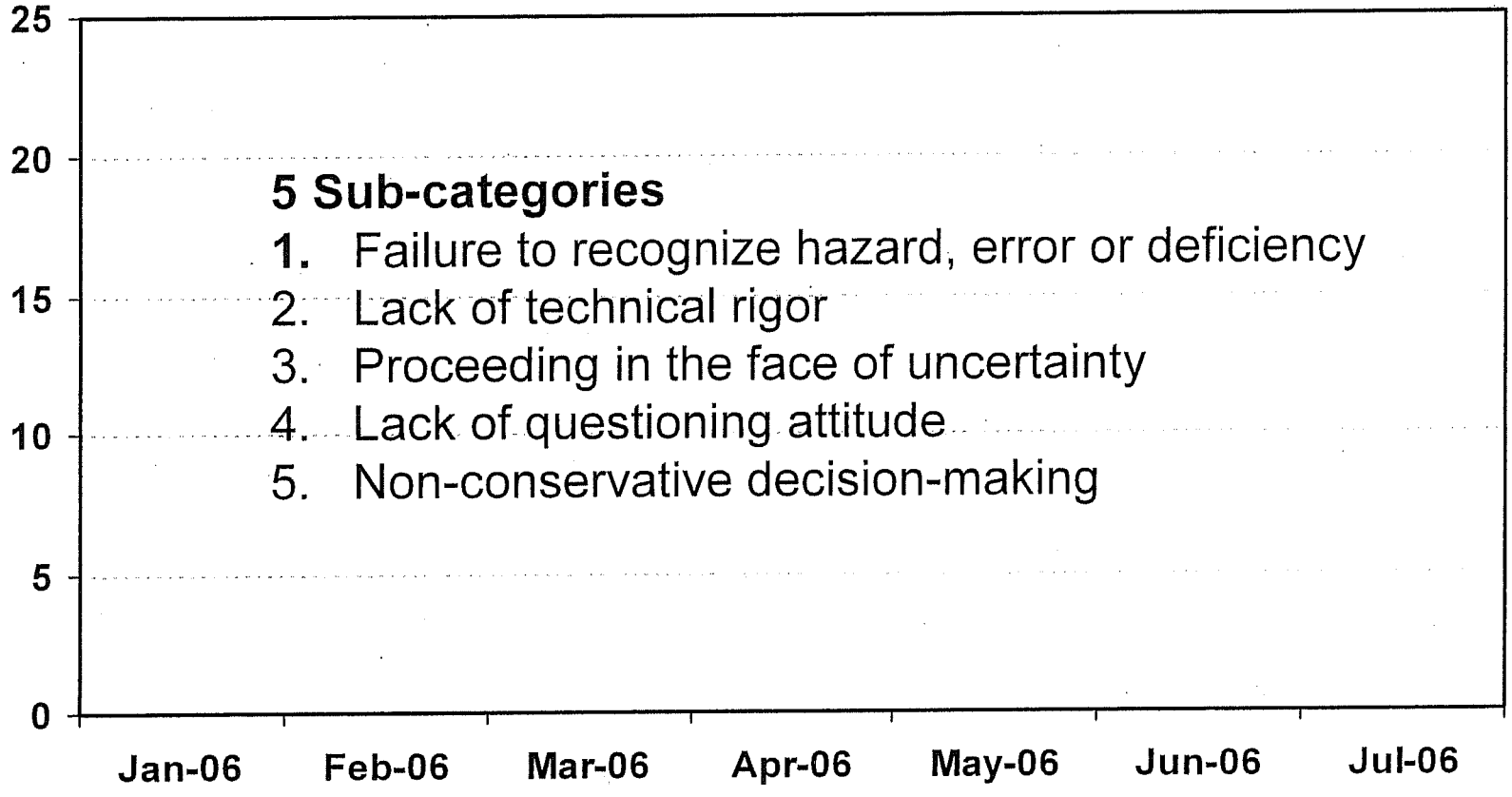
Operations Procedure Non-Adherence

Operations

Procedure Non Adherence



Operations Decision-Making Errors Under Development



Operations Performance

- **Challenges – Leadership Excellence**
  - Improvement Plan
    - **Developing performance improvement plans for leaders with identified weaknesses**
    - **Realigning personnel to ensure right people are in right positions**
    - **Changing crew composition to get best composite strength**
    - **Performance monitoring**

Operations Performance

- **Challenges – Staffing levels**
  - **Improvement Plan**
    - **Developed and received approval for staffing plan**
    - **Developing program to maintain Operations leadership experience (end of 2006)**
  - **Monitor and adjust annually**

Operations Performance

- **Challenges – Consistent Precision Operations**
  - **Continuously improve Operator fundamentals through training, influencing/correcting behaviors on the spot and leader development**
  - **Apply corrective actions associated with OD process implementation**

Operations Performance

- **Challenge – Questioning Attitude and Technical Rigor**
  - **Challenge basis of information provided to Operations**
  - **Focused leadership coaching/mentoring**
  - **Continue improvements to OD process**

Conclusions

- At times, inconsistent performance
- Fundamentals improving
- Aggressive improvement plan in place
  - Metrics in place to measure progress
- Effective leadership key to success
- Continue to monitor and adjust to return performance to excellence

Operability Determination Process

Pete Borchert
Director
Operations

Operability Determinations

- Case for Action
  - Identified process weaknesses
  - Identified training needs in Engineering and Operations
  - Resources not integrated to support process
    - Engineering
    - Other technical staff
  - Timeliness/quality
  - Leadership
    - Inconsistent implementation of OD process
    - Inconsistent questioning attitude and technical rigor

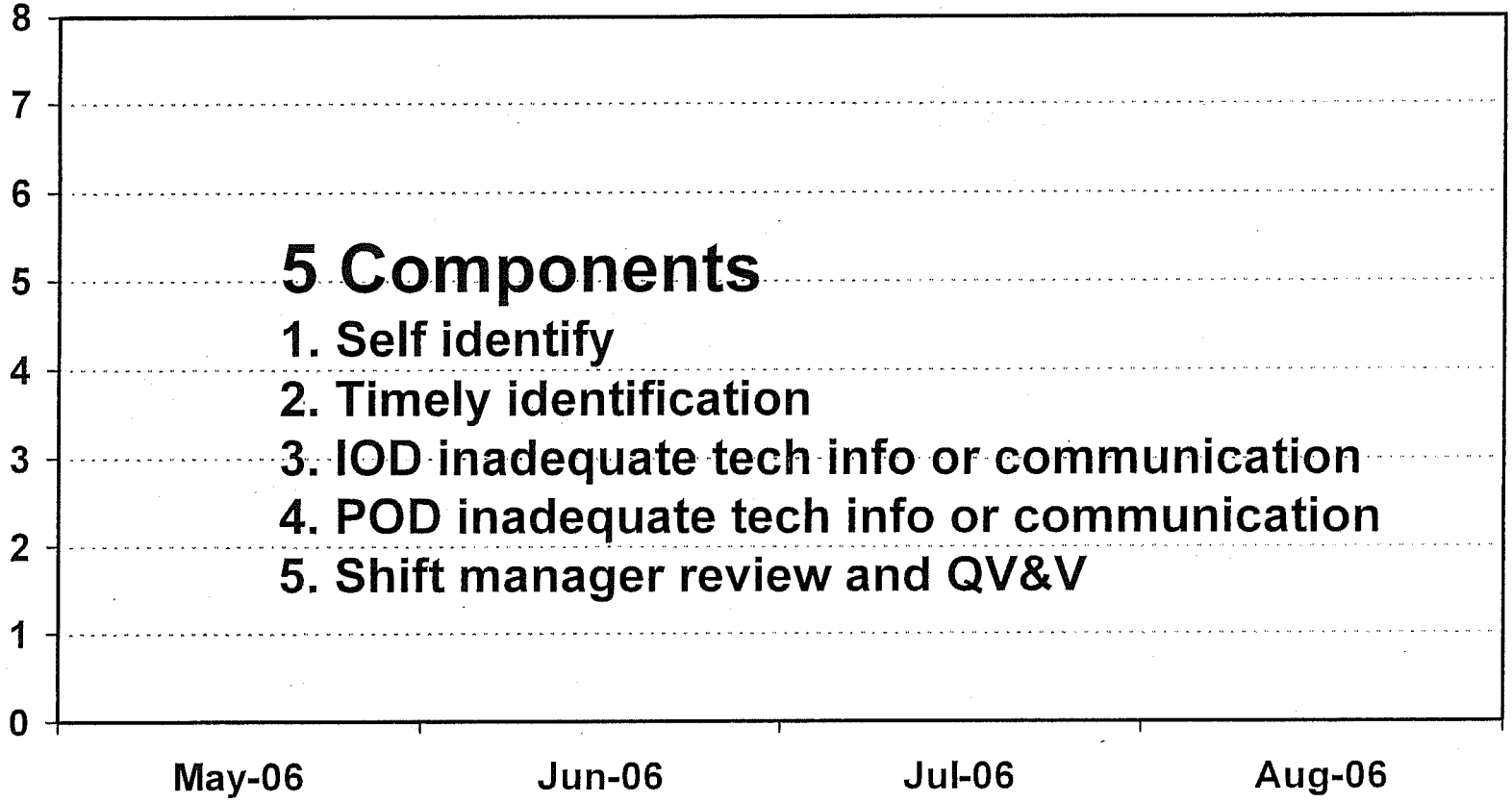
Operability Determinations

- **Improvement Plan – Completed Actions**
  - Performed industry benchmarking – August 2005
  - Conducted table top operability problem solving sessions with Licensed Operators and Engineers – 2005 and 2006
  - Used Consultants for Independent Review of Improvement Plan – January 2006
  - INPO assist visit – February 2006
  - Operability Determination process and procedure revised – Spring 2006
  - NRC continuous feedback
  - OD training for Senior Engineering Staff, Shift Managers and STAs – completes September 2006
  - Developed and implemented Discovery Checklist

Operability Determinations

- **Monitor and adjust (July/August)**
  - Organization knowledge and understanding has improved
  - Integration of station resources to improve response to DEG/NC issues
- **Immediate Actions**
  - **Sr. Management involvement (daily review)**
  - **Daily Operations leader review**
  - **Operations ownership of process**
  - **Use of Management Review Team**
  - **Increased understanding of the application of the Immediate Operability Determination / Prompt Operability Determination / Discovery Checklist**
- **Station Quality Issue tracking improvement**

Operability Determinations Under Development



Operability Determinations

- **What is the Challenge? Inconsistent Implementation**
- **Actions**
  - **Complete actions previously discussed**
  - **Address operability on new corrective action documents and Operations logs**
    - Includes Work Mechs, CRDRs, DFWOs
    - Performed shiftly by licensed personnel
    - Implemented by Oct. 15, 2006
  - **Evaluate formation of E-FIN Team**
    - Dedicated Engineering-Operations interface for operability assessments
    - Improved Engineering input into ODs
    - Evaluation complete by Oct. 1, 2006

Conclusion

- Operability Determination procedure and process is good
- Some gaps exist with knowledge and implementation of the process
- Immediate actions being taken to ensure success

Safety Culture Survey Update

Jeanne Copsey

Department Leader,

Employee Concerns

Results of 2005 Synergy Assessment

Cultural Model / Metric	**Nuclear Safety Culture (NSC)**	NS Values, Behaviors & Practices (NS VBP)	Safety Conscious Work Env. (SCWE)	Employee Concerns Program (ECP)	**General Culture & Work Env. (GCWE)**
- Measured Status	Very Good	Very Good	VG-Exc.	Good-VG	Good
- Cultural Metric / Trend[1]	4.07 +2.9%	3.95 n/a	4.47 n/a	3.77 n/a	3.70 n/a
- 2005 Industry Percentile	86th percentile	85th percentile	85th percentile	76th percentile	91st percentile

Very Good overall response rate of 86.6% (1,861 / 2,150).

[1] Based upon the Integrated Performance Indicator (IPI), which is a less robust measure of the NSC and includes nominal GCWE influence. This indicator is computed based upon respondents' current ratings and retrospective inquiries for the same areas looking back approx. one year.

Synergy Recommendations

- Nuclear Safety Culture:
  - Continue to reinforce 'standards' related to NS performance expectations
  - Continue to improve the effectiveness of the CRDR, ECP and self-assessment processes
  - Address locales with SCWE opportunities
- General Culture and Work Environment / Leadership, Management and Supervision:
  - More effective communications of the bases for decisions on staffing and resource allocation, on work management and on change management practices
  - Increased visibility and involvement of senior management
  - Greater attention to personnel management practices and personnel development
- Organizational Initiatives:
  - Address opportunities in the identified organizations

Actions Taken

- Broader recommendations incorporated into the PV PIP
- Nine groups that fell below the PV "norm"
  - actions plans developed and implemented
  - actions completed or are on-going
- Effectiveness reviews conducted by ECP
  - Basis of effectiveness determination – shift in employee perceptions in a positive direction.

Actions Taken

- **Effectiveness Review Results**
  - 6 of 9 groups satisfactory
    - Recommendation to continue efforts for these groups
  - 3 groups unsatisfactory
    - CRDRs written
    - additional actions to follow
- **Results have been or will be shared with team members**

Update on Previously Committed Actions

- Provided updated leader SCWE training
  - Morgan Lewis "Leader Actions to Enhance Safety Culture"
- Principals of NSC/SCWE were updated in site access training
- Conducted a self-assessment of the Integrated Issues Resolution Process

Update on Previously Committed Actions

- Issued new Integrated Issues Resolution Process Brochures (IIRP) and posters
- Added additional resource to ECP
- Increased ECP field visibility
- Incorporated ECP briefings into new hire employee and new leader orientations
- Utilized PV TV for periodic IIRP advertising

Future Actions

- Ongoing corrective actions with 3 work groups
- Wrap up of SCWE leader training 12/06
- Synergy Nuclear Safety Culture survey scheduled February 2007

Conclusions

- A positive and healthy nuclear safety culture and safety conscious work environment exist at Palo Verde
- APS will continue to take actions to foster and promote the NSC & SCWE at Palo Verde