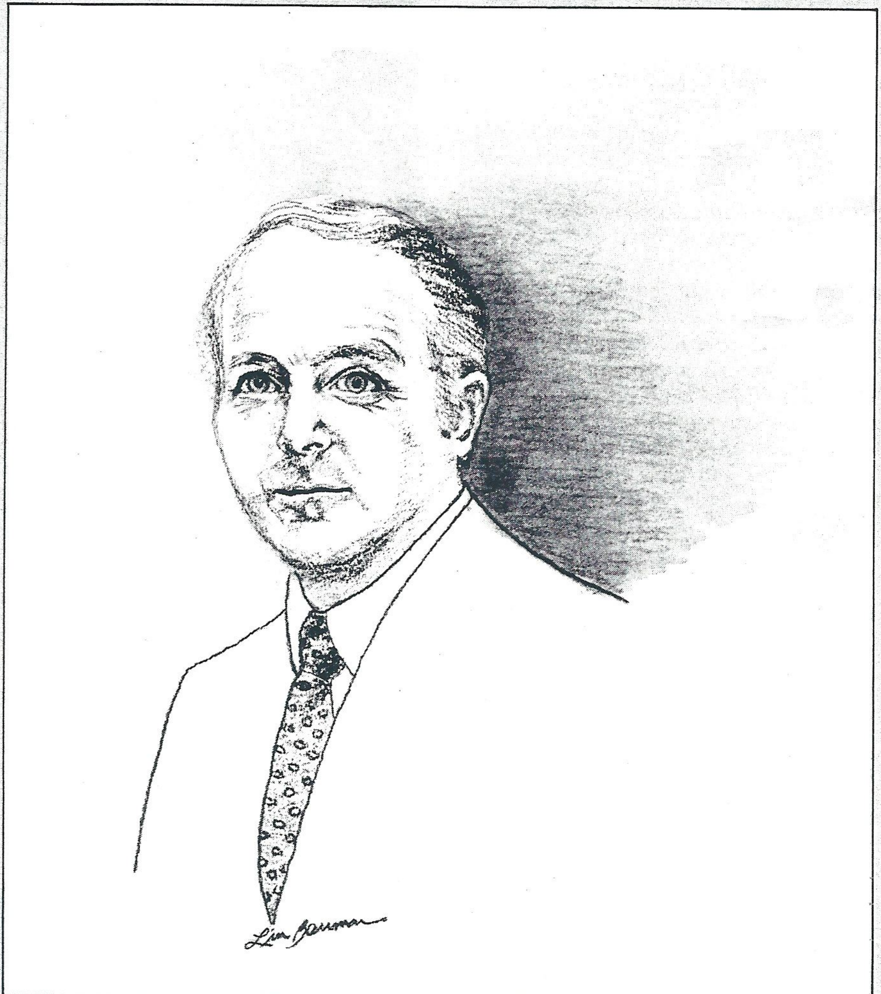
Shifting Winds at PSE&G

E. James Ferland

In his two years at the helm, the future of the company has taken precedence above all else, including his own popularity.

By Bill Glovin, Editor



IT'S one of those rainy, dreary days in Newark. On the way out after a conversation with the chairman, president and chief executive officer of Public Service Enterprise Group, one can't help but wonder if he's had someone analyze whether the rain reduces the energy cost factor of running the corporate headquarters waterfalls. More than 72 per cent of the state's population last year helped the company earn more than $520 million in profits on $4.2 billion in operating revenue. Wouldn't it be ironic if, after all that money generated, the company still saved a few dollars by a rain boost?

E. James Ferland, or Jim as he's known around the office, represents a new brand of executive at utility companies—the kind that's fine-tuned to detail and fueled by terms like efficiency, deregulation and cost structure. He brings to the job of running the state's largest utility several different hats, including that of manager, engineer, financial analyst, lobbyist, forecaster, community activist and company spokesman. Since joining Public Service Electric & Gas Company two years ago, he's made his presence felt by restructuring the company into the Public Service Enterprise Group, Inc.

Born in Boston, Ferland grew up in Maine and attended engineering school at the University of Maine. He landed his first job with a company that is now a subsidiary of Northeast Utilities in Hartford, Connecticut. He initially worked in the distribution end of the gas and electric business, but when the company started a nuclear program two years later, he was attracted by an intensive training program. He ended up spending more than 10 years on the nuclear side.

"During that time, I did almost all jobs associated with nuclear engineering and operations," says Ferland, 46. "When I finally got out of the nuclear business, I was station manager at the Milstone Nuclear Power Site in Wallingford, Connecticut."

Meanwhile, to go with his engineeririg degree, he earned an MBA going back to school part-time in the evenings. Soon, he was running two operations for Northeast. Lee Sillan, former Northeast Utilities chairman, a proponent of executive development programs, liked Ferland's style and groomed him to become the company's executive vice president/chief financial officer. A two-year program involved spending several months each at Harvard University, Morgan Stanley, Arthur Anderson and a corporate legal counseling firm that specialized in utilities. Three years later he was named president of Northeast Utilities.

"The phone rang from time to time and there was always ajob opportunity somewhere," says Ferland. "When this opened up, I could see how I'd fit in because it was very similar to myold company."

Ferland admits that when the executive recruiter called, he and his wife had reservations about New Jersey because of an image that had pretty much been shaped by the Turnpike. The recruiter convinced them to visit the state and keep an open mind. Soon after, the Ferlands and their teenage son and daughter were moving into a home in Mendham.

Brought in as president, Ferland was named chairman and CEO a month later. He claims to be so busy that there's little time to consider naming anew president. As head of one of the most powerful and influential companies in the state, he earns $505,000 a year and has a schedule that is hectic to the point where "I have to plan a vacation literally months in advance," he says, adding, "It's a bit of a sacrifice you make, although it's very satisfying because you can influence how things happen. But you have to be prepared to give everything of yourself."

The major new restructuring plan is a response to an industry trend towards deregulation and was instituted, in part, "to get our most capable people into the most demanding jobs," he explains. While the plan officially went into effect January 1, Ferland says the company has been operating that way since the third quarter of 1986.

Whereas gas and electric was previously run as one business, the restructuring involved breaking each into a subsidiary as part of Public Service Enterprise Group, Inc., a holding company. New non-regulated businesses include Community Energy Alternatives Inc., Public Service Resource Corp., Energy Development Corp., Enterprise Group Development Corp. and PSE&G Capital Corp.

"I want to be absolutely clear on this," he says, his piercing blue eyes denoting the seriousness of what he's about to relate. "The most important

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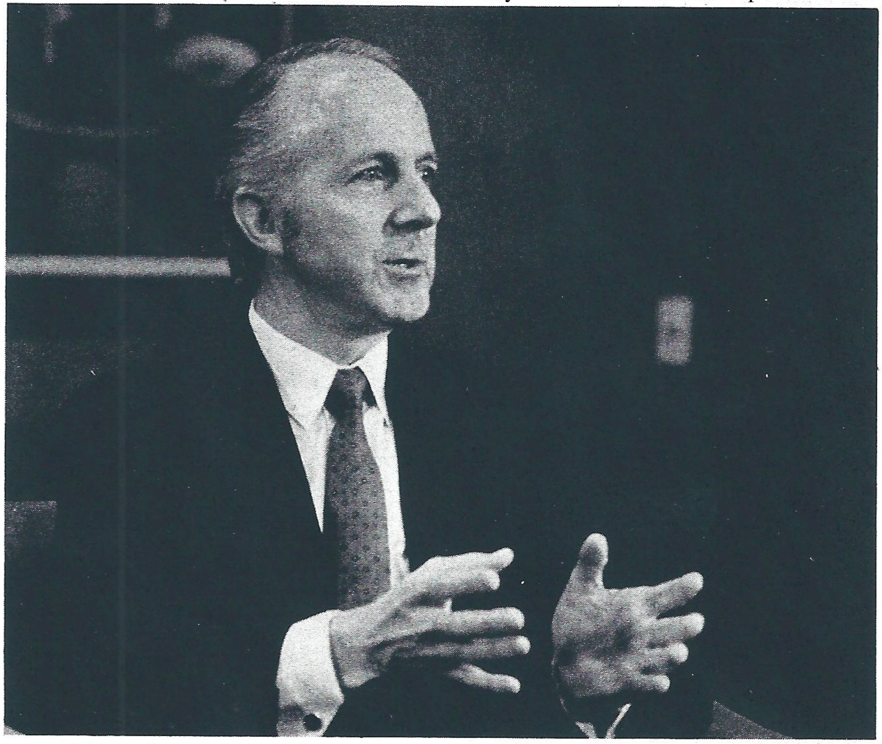
thing we do by an enormous magnitude is to run PSE&G and run it well. Only after that's been achieved will we have some people take their eye off the ball."

Part of what is going down in the batter's box involves a two-phase activity-by-activity employee evaluation review that has been understandably met with disfavor by many employees. The eighth largest corporate employer in the state with 13,640 employees in 1987, the program has targeted the company's 6,600 non-union employees and is aimed at reducing payroll costs by $45 million. In the first phase, 500 employees either retired, received incentives to leave or were provided with what a company spokesman calls "separation agreements." The second phase is currently underway and may result in a similar staff reduction.

At the company's annual meeting held in April in Symphony Hall in Newark, Ferland directly confronted the employee issue by saying: "This kind of situation is unsettling, but we are making every effort to keep employees informed and help them understand that these steps to improve efficiency and effectiveness, are necessary if we are to operate successfully in tomorrow's energy marketplace."

Another part of the restructuring is a five-year marketing plan that focuses on efforts to increase unit sales ofelectricityand gas by $270 million while attempting to encourage customers to cut-back during peak demand hours. Time-of-day rates and co-generation facilities are among planned conservation strategies which the company hopes will alleviate some of the hills and valleys associated with delivering power and help defer construction of new, costly generating stations.

"So far, the restructuring has affected the gas business more than the electric business," says Ferland. "Gas is a smaller segment of our company than electric, and in the past, decisions were made based mostly on electric. They're now treated as separate Companies; gas people have their own incentives and like this set up a whole lot more."



E. James Ferland, chairman, president and chief executive officer, has already put an indelible stamp on the state's largest energy company.

New direct and indirect competition in several forms, coupled with low natural gas prices and proposed legislative changes, have the company positioning itself for changes down the line. Three years ago, if a company were located in one ofPSE&G's service areas, they were required to buy their gas from the company and pay a charge established by the New Jersey Board of Public Utilities (BPU).An increasing number of larger corporations, or 15 per cent of its industrial

- On nuclear, which will soon account for 40 to 45 per cent of company-generated energy: "Nuclear plants are safe. Does that mean nothing will ever happen? Of course not."

customers, are now able to buy their gas just as PSE&G does-from private vendors in Louisiana, Texas and other Gulf Coast states. The legislation requires PSE&G to allow industry to use its lines to transport the gas to New Jersey, although the company is allowed to charge 'a small rental fee for use.' The major advantage of companies going this route, Ferland explains, is the reduction of costs by about 14 cents on every $1 by avoiding the state gross receipts and franchise tax that utilities are required to pay. The tax is the issue that is perhaps the main priority in its 19 employee governmental affairs department.

In a typical year, PSE&G is impacted by 500 to 600 pieces of legislation on the state level alone. Ferland sees the legislative process as a major threat to the company's well-being "not because the people who are passing the legislation are looking to hurt us," he says, "but in their enthusiasm to hold gas and electric bills down, they might not be aware of some of the issues they should consider. I see it more as a matter of education than influence."

Cogeneration, which is a process that allows individual businesses to manufacture electricity with its own generator, offers several advantages. The laws of thermodynamics, Ferland points out, don't allow PSE&G to extract waste heat from its massive system, one that was in place long before much of the current recycling technology was in place. PSE&G currently discharges its waste heat via a cooling tower or water dispersion. Cogeneration allows an individual business to recycle its waste heat and extract as much as 30 to 40 per cent more out of a pound of fuel.

At one time only large companies could afford to invest the several million dollars required to purchase the gas turbines needed for cogenerators. But now smaller turbines are on the market and are geared to medium sized businesses, as well as institutions such as hospitals. Because companies may avoid buying the gas fuel from PSE&G, they also gain what Ferland calls "an unfair advantage of avoiding the state gross receipts and franchise tax."

While cogeneration hasn't had much of an impact on the PSE&G balance sheet to date, Ferland anticipates that 10 per cent of the 10,000 megawatts the company is now capable of producing will be generated by second and third parties by the year 2000.

"This is a business that works on longtime horizons," he says. "If you take any comfort in where you are today, then you're in a lot of trouble. Everything we do takes a long time to effect. If you want to build new carry stations, it takes 10 to 15 years. If you want to find a way to deal with the gross receipts and franchise tax law that gives anyone who does something on their own a 14 per cent tax break, it's not a matter of calling someone down at the Statehouse and simply getting it changed. It takes years. We need to put more emphasis on finding out what the customer wants and providing it rather than telling them what they're going to get. If we don't do that, we're going to be in a lot of trouble down the road."

This taking of the longterm view also carries over into his management style, which he calls "tough but fair," centering around intensive planning. "Each of my senior officers have 10 to 12 goals and I encourage they do the same with the people who report to them," he explains. "We pay our people well and treat them well and in return, I have high expectations for their performance. If they meet their goals and handle random assignments, things are great. If they don't, their compensation is going to reflect it, or we're going to get someone else to do the job. But I've found that if you really tell people what you want of them and make it clear, they do it."

Given Ferland's background in nuclear energy, it comes as no surprise that he's an advocate of the energy source that last year accounted for 36 per cent of PSE&G's total generated power and which he claims to have saved customers $700 million through the years. The company operates, and is a part owner, of Hope Creek and Salem 1 and 2, which are adjacent facilities located on a man-made peninsula on the lower Delaware Bay in Lower Alloway's Township in Salem County. It also shares in the ownership

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SEVEN-DAYS IN MAY

THE .only typical thing about Jim Ferland's day is that it's extremely busy. More, often, than not, several hours are spent on matters that fall outside, company-related business. Here is a look at' what his, schedule-"discounting the'- infinite in-between meetings that aren't on the calendar"-looked like for one week in ,May.

MONDA Y:, Business., Roundtable Meeting in the morning with, Governor Kean and the state's businessJeaders, followed by a meeting with company attorQeys, Three hours in the afternoon are spent with a new senior vice president of corporate performance. A meeting of the board of directors at Symphony Hall in Newark on refurbishing the facility closes the ,day.

TUESDAY: At 7.:30a.m. flies to Rhiladelphia to meet with a special committee of the board of directors of the Philadelphia Electric.Companyto discuss Peach Bottom. In the aftern()on, works on testimony he will give to the BPU on,Peach Bottom~sprospects for 'th'e future.

WEDNESDAY: A governor's committee .meeting to explore .a. performing , arts center in Newark begins the day. the 'afternoon is spent at an employee. recognition.,luncheon .. program and preparing for Peach Bottom testimony.

THURSDAY:·A breakfast meeting ,with the president of the Newark Chamber of Commerce to'get his input as chairman ,for an upcoming board meeting. A session with a reporter,fql-lowed by company Arts Council award ceremonies and luncheon. Most of the afternoon is spent discussing plans ,with the senior 'vice president of gas operations, Dinner with Monsignor Petillo of Seton Hall University.

FRIDAY: A meeting with the head of a hospital group ,in Newark to discuss fundraising and a PSE&G meeting on succession management planning. More Peach Bottom review and a trip to the Me,adowlands for a.Devils/Bruins playoff game with local officials.

SATURDAY: A State Opera Ball at AT&T in Basking Ridge.

MONDAY: A 7:45 a,m. breakfast meeting at Tri-State United Way, followed by testimony to the BPU at 10 a.m. Speaking engagement at Stone & Webster utility management course in Manhattan. Dinner at High Lawn Pavillion with vice president in charge of the non-regulated, businesses and the president of CEA.

TUESDA Y: Fly to Atlanta for a meeting of the board of directors of the Institute of Nuclear.Power Operators.

'Generally, Ferland arrives home to Mendham around 8 p.m. Every other night he jogs a three-mile loop around his house. A late dinne'r and sleep ends "a day that ,just isn't long enough," he says.

of two Peach Bottom units in Pennsylvania-operated by Philadelphia Electric Company-and which have proved to be a major thorn in PSE&G's side,

The BPU has extremely stringent nuclear performance standards, which Ferland complains are at least 10 per cent above the national industry norm and difficult to meet in the best of times, Although the three nuclear units operated by PSE&G have excellent performance records, operation of the Peach Bottom units was halted in March 1987 by the Nuclear Regulatory Commission when an investigation revealed that employees were systematically sleeping on the job. The BPU came down hard, finding that $147.8 million of PSE&G's base rates associated with Peach Bottom were interim and subject to refund.

PSE&G, along with Atlantic Electric, which also shares ownership in Peach Bottom, immediately challenged the board's decision as being illegal and unfair in both the N.J. Appellate Division and New Jersey Supreme Court. Under an agreement reached in April among the N.J, Department of the Public Advocate, the BPU, the N.J. Department of Commerce, Energy and Economic Development and Atlantic Electric Co", PSE&G provided electric customers with a one-time $30 million credit in their May bills. The credit resolves the dispute among the parties as to whether the Peach Bottom units were used and useful to customers and should be removed from rate base.

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Since Ferland joined PSE&G, more time than he could have imagined has been consumed by Peach Bottom's problems and making sure they're resolved. While the company has paid a dividend to its shareholders for 12 consecutive years, someone who paid $26 a share for the stock 16 years ago now has a stock worth about $22 share. The penalties have also had an adverse impact on the company's bond and stock ratings. Several analysts who were queried on PSE&G said the company's problems in nuclear made them somewhat reluctant to recommend the stock, "We had nothing to do with operating those plants," says Ferland, "yet somebody had to be the fall guy and it was us." He anticipates that the three-year cost to PSE&G's shareholders will ultimately be close to $70 million and that Peach Bottom will not be operating again until the end of the year.

"Nuclear plants are safe," he states. "Does that mean nothing will ever happen? Of course not. But if you look at the risks associated with living on or near a nuclear plant as compared with the risks the public takes every single day driving their cars, . . I mean the same guy who will show up at a hearing to say nuclear plants are unsafe will stop for a drink and drive home, On a risk-weighted basis, he has a 1,000 times greater risk to his health and well-being than if he lived at a nuclear plant.

"In France, where the legislative process is less bureaucratic, 70 per cent of their power is generated through nuclear. Here, everyone and their mother-in-law gets several chances to intervene and oppose anything that happens," he continues. "As a result, nuclear power has ground to a halt; no one has ordered a plant in a decade, This same process is slowing down the building of resource recovery plants and other kinds of needed facilities. I'm not recommending we change the process so that people can't get their two cents in. But somewhere down the line, we've got to weigh things to make sure we're not getting snarled up in our own shoe laces so badly that we can't do anything."

Despite this, he admits nuclear is a tough sell, the industry should have standardized sooner and the issues difficult and complex. Between the conversational lines is the fact that the company's billion dollar nuclear energy plans date all the way back to the early 1960's and that by the time the "No-Nukes" movement struck and became in-vogue, it was too late to turn back. In Ferland's view, the Three-Mile Island accident was the ultimate public relations disaster and led to a trend to over-regulate. He points to a recent survey that showed that when it comes to the environment, the public is always willing to believe the worst.

"We won't force more nuclear plants down anybody's throat," he says. Still, once Peach Bottom's problems are resolved, 40 to 45 per cent of company-generated energy will be tied to nuclear.

Th~ough the years, PSE&G has been known for its aggressive and outspoken marketing department, whose people have targeted New York City firms, in particular, and been instrumental in luring many to New Jersey. While it's no secret that PSE&G is able to supply energy at a significantly lower rate ($10.12 per kilowatt hour) than Con Edison ($14.13 per kilowatt hour) and Long Island Lighting Co, ($12.13 per kilowatt hour), Ferland thinks it's time the rivalry was toned down. "We're really going out of our way to be non-confrontational and not say things like, 'New York is bad so come to New Jersey,'" he says. "We need to promote New Jersey's assets without pointing to why we're superior."

PSE&G is working harder than ever in marketing, he says, and putting extra emphasis on trying to recruit customers to the cities to take advantage of "a wasted infrastructure and under-utilized facilities lost when many companies migrated to the suburbs. It's a lot cheaper to serve our customers in the cities than along the Route 1 corridor or Philadelphia suburbs," explains Ferland. Evidence of this commitment was company sponsorship of an Urban Initiatives press conference in the fall featuring the mayors of the state's major cities at Liberty State Park and a 97-page, four-color booklet on the cities.

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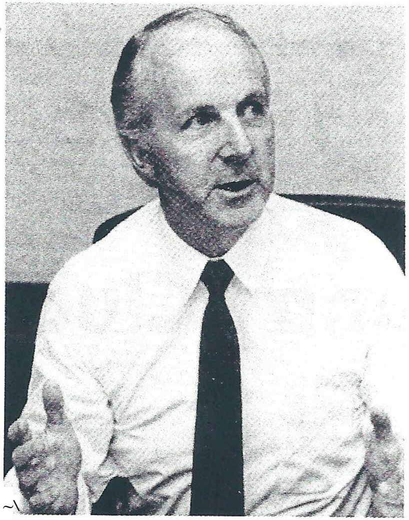
But it's the restructuring that will keep observers closely tuned to PSE&G for the next few years. In 1987, only three per cent of the company's net income came from its new, non-regulated subsidiaries that company literature calls 'Enterprise.' By 1991, Ferland hopes to increase that figure to 10 per cent. He is particularly bullish on Community Energy Alternativ.es (CEA), which has an equity interest in 16 plants that burn solid fuels, including the oldest cogeneration facility in the nation in Linden and a state-of-the-art plant under construction in Bayonne. If the push on the federal level to have utilities competitively bid to build new generating plants is successful, then PSE&G will have the wheels in motion to become a major player in that market.

Energy Development Corp, (EDC) is a natural gas and oil exploration company that is a partner in some 300 wells and includes its own subsidiary-Gasdel Pipeline System Inc", a company which sells pipeline



Ferland explains that PSE&G ended up as "the fall guy" for Peach Bottom's problems.

access. Public Services Resource Corp. (PSRC) is essentially a diversified investment company that last year invested $289 million in a variety of areas. PSEG Capital Corp. (PSEGCC) was organized to help finance Enterprise through up to $250 million in commercial paper.

Because of the company's longtime involvement in area development, observers are intrigued by the Enterprise Group Development Corp. (EGDC), the new subsidiary that is to engage in the real estate and development businesses in PSE&G service areas. Ferland declined to discuss specific projects, but added "that several deals are well along in the negotiating phase."

What the future holds for PSE&G and the utility industry remains uncef-tain. PSE&G's reliance on nucleaf energy comes at a time when the public and politicians are more concerned with accidents like Chernobyl and emergency evacuation plans than the utility company's balance sheet. Also factored into the future are a volatile international marketplace, organized

Ferland serves on the boards of First Fidelity, Mutual Benefit, .the Atomic Industrial Forum, the Edison Electric Institute, the American Gas Association, the State Chamber of Commerce, the Greater Newark Chamber, the New Jersey Utilities Association and Institute of Nuclear Power Operations.

group opposition to any hint of a fate hike and investors and shareholders weary of a utility entering new fields.

But the shifting winds of deregulation are what is likely to dictate

How PSE&G Ranks

Power companies that averaged the most for a kilowatt hour in residential areas in 1987. The national average was $7,92 per kilowatt hour,

1,	**Consolidated Edison of New York**	$14,13
2,	Long Island Lighting Co,	12,13
3,	Philadelphia Electric Co,	11,57
4,	Commonwealth Edison Co, (illinOiS)	11.43
5,	**San Diego Gas and Electric Co.**	11,33
6,	Fitchburg Gas & Electric Light Co, (Massachusetts)	10,81
7,	**Central Hudson Gas & Electric Co.** (New York)	10,63
8,	**United Illuminating Co. Connecticut)**	10,60
9,	**Orange and Rockland Utilities, Inc.** (New York)	10.49
10,	**Northern Indiana Public Service**	10,38
11,	Atlanlic City Electric Co,	10,12
12,	**PUBLIC SERVICE ENTERPRISE GROUP NEW** JERSEY)	10.12
13,	**Pinnacle West Capital Corp. (Arizona)**	9,95
14,	Duquesne Lighting Co, (pennsylvania)	9,77
15,	New York State Electric & Gas Corp,	9,54

Source: Merrill Lynch Utility Research Group

PSE&G's corporate agenda for yeafs to come. Ferland isn't about to make the same mistake that a number of ill-prepared executives made when their industries were suddenly deregulated and turned on their heels. Many of those companies are still staggering or have fallen by the wayside. Ultimately, Ferland's gamble is that PSE&G will not only master new businesses, but that years from now, when he's long retired, his legacy will be that he re-shaped a company so that the profits would forever roll in. •