

November 28, 2012

Mr. Kiyoshi Yamauchi  
Mitsubishi Nuclear Energy Systems, Inc.  
1001 19<sup>th</sup> Street North  
Suite 2000  
Arlington, VA 22209

Subject: Repairs of the SONGS Units 2 and 3 Steam Generators

Dear Yamauchi-san:

As you know, the San Onofre Nuclear Generating Station (SONGS) units have been shut down and have not produced electrical power since January 31, 2012, when a tube in one of the SONGS Unit 3 steam generators supplied by MHI began to leak. Subsequent inspections, tests and analyses determined that the leak resulted from tube-to-tube wear caused by vibration-induced contact between tubes. This wear affected many tubes in the Unit 3 steam generators, causing eight of them to fail tests of structural integrity. In addition, limited tube-to-tube wear has been detected in one of the Unit 2 steam generators.

SCE and MHI have worked together cooperatively to determine the physical causes of the tube-to-tube wear, and to develop a strategy, including tube plugging, power reduction, and planned inspections, that provides confidence that Unit 2 can be operated safely at reduced power, at least for the near term. SCE appreciates MHI's support during that effort.

However, as we both know, considerably more actions are needed in order for the steam generators of both units to return to service at full power, with the steam generators fully functional for their originally-anticipated 40-year life span. The contract between SCE and MHI for the steam generators obligates MHI to provide these repairs or replacements with due diligence and dispatch. But 10 months have elapsed since the Unit 3 steam generator tube leak, and no such repairs or replacements have occurred and no viable repair or replacement strategy has been proposed. As you may be aware, under our law in California, when a generating facility has been out of service for nine months, our regulators are required to undertake an investigation, and rates from essentially that date forward are subject to refund to our ratepayers. Unit 3 has been out of service now for longer than this statutory period; Unit 2 will reach this point in less than two weeks.

This situation is not and should not be acceptable to either of our companies. SCE's customers, ratepayers, and state regulators rely upon the SONGS units for direct electrical supply and for

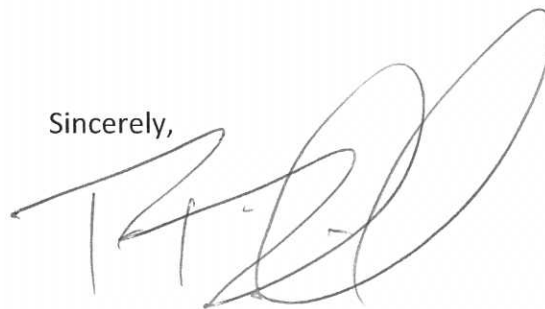
reliability of the electrical grid in Southern California. We appreciate the attentiveness and importance MHI and you have shown to your customer relationship with us over the years, but under these circumstances, surely you understand and agree that a situation in which repairs or even a repair plan for the steam generators remain unknown is not in the interest of either of our companies. The failure of the steam generators to work properly has seriously harmed SCE and our stakeholders, and we hope that MHI will recognize that it is in its interest to accept full responsibility for these impacts.

Time of course has been and remains of the essence. We believe that the current absence of repairs is inconsistent with the contractual requirement to repair with dispatch. Nevertheless, we would be open to considering a specific repair and/or replacement plan and schedule for both the Unit 2 and Unit 3 steam generators, were you to present one by December 28, 2012. This repair and/or replacement plan and schedule should:

- Resolve both thermal-hydraulic and tube support conditions that caused tube-to-tube contact and wear
- Return, within a short timeframe, all four steam generators to service at 100 percent rated electrical power under the SONGS uprate conditions for which the steam generators were designed
- Permit operation of the steam generators for their full 40-year anticipated life without further leakage or structural integrity failures of the tubes, including sufficient margin so that the 8% tube plugging limit is not exceeded during that period.

I know that both you and I value the relationship and reputations that our companies have enjoyed. We hopefully share the view that timely resolution of the problems with the SONGS steam generators is of primary importance to preserving or restoring both. As I have stressed to both you and Kadokami-san, these matters have the focus of the highest levels of our company. I look forward to your timely response.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. A. ...', written in a cursive style.

cc: Ei Kadokami