



Peter T. Dietrich
Senior Vice President & Chief Nuclear Officer

February 11, 2013

Kiyoshi Yamauchi
Mitsubishi Nuclear Energy Systems, Inc.
1001 19th Street North, Suite 2000
Arlington, Virginia 22209

Subject: SONGS Replacement Steam Generators

Dear Yamauchi-san:

I write in response to your letter of January 22nd. Like you, I am disappointed by the circumstances in which SCE and Mitsubishi now find themselves, and agree that the parties should meet to discuss these matters as soon as practicable. As I have expressed to you repeatedly over the last year, the SONGS outage is an issue of critical importance to SCE and its ratepayers, and it has the attention of SCE's management at the highest levels. We hope that Mitsubishi's senior management is equally committed to attempting to identify a path forward, and we would be happy to participate in a meeting to explore that subject further.

Given our intention to discuss these matters in person, I will not respond to all of the points raised in your letter (and other recent letters from Mitsubishi representatives), except to note that SCE strongly disagrees with many of Mitsubishi's characterizations of its own efforts and SCE's responses. For example, my team and I were very surprised at Mitsubishi's characterization of the discussions surrounding "Option #1" – a repair that would simply thicken anti-vibration bars without addressing the extreme thermal hydraulic conditions within the RSGs. To be clear, SCE has never rejected "Option #1" or any other repair suggestion from Mitsubishi. As Mr. Avella explained, Mitsubishi's December 14th presentation regarding "Option #1" did not make any effort to demonstrate that "Option #1" would meet the repair criteria that Mitsubishi and SCE have jointly developed over the past several months. After Mr. Avella requested that Mitsubishi provide documentation that "Option #1" would meet those criteria, as well as Mitsubishi's recommendation as to which of its proposed "Options" was best for safely restoring the RSGs to service, Mitsubishi ceased to recommend "Option #1."

If Mitsubishi is in fact recommending "Option #1" again, SCE would be happy to discuss that option further. As I am sure you appreciate, however, the problems with the RSGs are very serious, and SCE will only restore SONGS to service if it can be done safely. We must insist that Mitsubishi meet its obligations under Section 1.17 to restore the RSGs to the mutually agreed-upon performance specifications set forth in the Contract and "demonstrate to [SCE's] satisfaction that there is not a risk of reoccurrence of such problem[s]." In addition, as you know, Mitsubishi is obligated to accomplish this

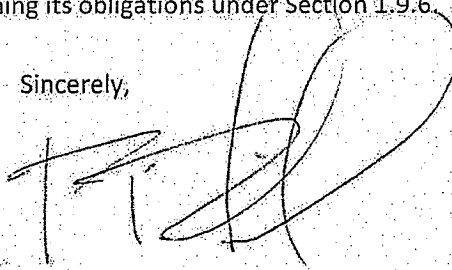
P.O. Box 128
San Clemente, CA 92672
(949) 368-6255 PAX 86255
Fax: (949) 368-6183
Pete.Dietrich@sce.com

restoration with "diligence and dispatch," and as I have noted, the timelines presented for repair or replacement options to date do not, in SCE's view, meet that requirement.

SCE will, of course, carefully consider any repair plan that Mitsubishi presents. For the avoidance of doubt, however, I want to make clear that the failure of the RSGs here – and the contemplated timelines for restoration of the Units to service – are such that the contractual limitations of liability provisions are inapplicable and unenforceable. Accordingly, while an agreed-upon repair or replacement plan may be useful in limiting the overall damage suffered by SCE and its ratepayers due to Mitsubishi's contract breaches, the implementation of such a plan will not suffice to render those provisions enforceable.

Separately, I understand that your colleague, Itaru Kikuoka, recently wrote to my colleague, Paul Coughlin, rejecting SCE's request to exercise its right under Section 1.9.6 of the Contract. Contrary to Kikuoka-san's January 25th letter, Section 1.9.6 is not, and never was intended to be, limited to financial records related to amounts invoiced to SCE. The interpretation Kikuoka-san advances of Section 1.9.6 cannot be reconciled with the Contract, which permits SCE to review and copy documents including "relevant correspondence, specifications, time cards, drawings, designs, and other documentation, to the extent that these are related and relevant to the Work under the Purchase Order..." Section 1.2.59 of the Contract defines "Work" to include the RSGs "together with all engineering, analysis ... design, manufacturing, fabrication, assembly, inspection, testing, Documentation, Technical Services and all other obligations of the Supplier to be performed or furnished as required by the Purchase Order." We urge Mitsubishi to reconsider its response and permit review of the records Mr. Coughlin identified in his January 10th letter in order to avoid breaching its obligations under Section 1.9.6.

Sincerely,

A handwritten signature in black ink, appearing to be "Paul Coughlin", written over a large, faint circular watermark or stamp.

cc: Ei Kadokami