

May 13, 2013

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

Subject: SONGS Replacement Steam Generators

Dear Yamauchi-san:

I write in response to your February 21, 2013 letter regarding options to return SONGS to service at full capacity and your subsequent submittals of information about the repair options. For reasons that hopefully are apparent, SCE cannot agree to implement a repair without evidence that the repair will solve the serious problems with the Replacement Steam Generators (“RSGs”) and ensure that severe wear conditions do not occur again. To date, Mitsubishi has not provided sufficient documentation to SCE to establish that any of its proposed repair options is safe, effective, and would be approved by the Nuclear Regulatory Commission (“NRC”) in a reasonable time, as required by Section 1.17.1.3(c) of Specification SO23-617-01 (the “Contract”).

SCE repeatedly has asked Mitsubishi to provide technical documentation demonstrating that any of the repairs it is proposing would restore the RSGs to compliance with all warranty requirements and can be implemented based on the screening criteria that Mitsubishi, SCE, and consultants jointly developed for the evaluation of Mitsubishi’s proposed repair and/or replacement options. As you know, Mitsubishi was involved in numerous meetings throughout November and December 2012 to develop the screening criteria and provided extensive comments that were incorporated into the criteria, such as those reflected in Masanori-san November 28, 2012 email. Since then, Mitsubishi asserted in its Attachment 3 to Kaguchi-san’s December 14, 2012 letter that the screening criteria are not “complete or necessarily accurate,” but Mitsubishi has not provided SCE with any proposed changes to the screening criteria since then. At this time, SCE is not aware of any reason to deviate from the jointly developed screening criteria.

We understand from your letters of December 14, 2012 and February 21, 2013 that Mitsubishi believes that “Type 1” – the insertion of thicker Anti-Vibration Bars (“AVB”) – is “technically viable” based on mock-ups and testing that Mitsubishi apparently has performed but has not provided to SCE. But the information provided thus far regarding Option #1 reflects conceptual ideas without specific details and does not address the screening criteria. Among other things, it does not demonstrate compliance with the Licensing and Design Basis, does not definitively address the repair acceptance criteria previously established, and does not provide assurance that the option could be either reviewed under 10 C.F.R. 50.59 or approved by the NRC under a new License Amendment. Moreover, Type 1 does not alter the thermal hydraulic conditions that caused

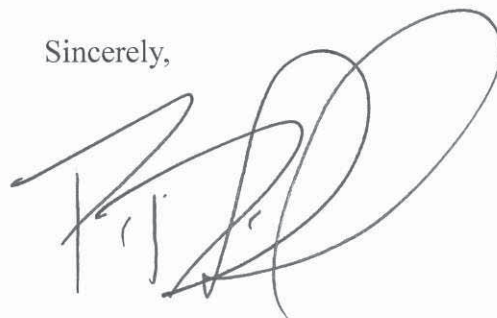
the serious wear conditions in the first place, and your suggestions for operational changes would not have a material impact on those thermal hydraulic conditions.

As SCE has explained on many occasions, it is critically important to SCE that any proposed repair or replacement address the actual, expected thermal hydraulic conditions present in the RSGs when operating at full power, with no reoccurrence of the types of excessive wear identified to date and no further breaches of the primary-to-secondary boundary. Based on the limited information Mitsubishi has provided thus far, it does not appear that Type 1 could meet these standards. Although it appears from Mitsubishi's prior correspondence that Type 3 remains in the conceptual design stages as well, we understand that Type 3 – unlike Type 1 – is intended to address the thermal hydraulic conditions in the RSGs. But to date, we have not received technical documentation, including engineering reports and calculations, demonstrating that Type 1 and/or Type 3 can, in fact, safely restore SONGS to service in accordance with the screening criteria and NRC requirements.

SCE has demonstrated its commitment to supporting Mitsubishi in the development of a viable restart and repair or replacement option. As you know, SCE already has spent over \$130 million investigating and making interim repairs to the defective RSGs, despite Mitsubishi's failure to date to acknowledge that *any* of these expenses are reimbursable under the RSG warranty. Moreover, SCE has spent multiples of this amount preserving the facility in a state of readiness to restart and then move on to repair or replacement options. But more than 15 months have passed since SONGS was forced offline, and as we have made clear to you and to our various stakeholders – most recently in our reports to the Securities and Exchange Commission and our regular quarterly earnings call – these costs cannot continue unreimbursed much longer.

SCE is at a point where it must insist that Mitsubishi reimburse these costs and provide SCE with the technical analysis supporting Mitsubishi's assertions that Type 1 or Type 3 represents a viable path forward if a timely restart can be achieved. Only then can SCE, in consultation with third-party experts, review Mitsubishi's recommendations to confirm Mitsubishi's views. Under these circumstances, until we receive a satisfactory technical analysis from Mitsubishi, SCE must temporarily suspend the work of third-party vendors. If Mitsubishi believes that it needs information from third-party vendors to provide sufficient documentation on the repair/replacement options to SCE, we request that Mitsubishi identify and explain why that information or analysis is necessary and on the critical path to completion of a remediation plan for the Units following restart. SCE also looks forward to receiving an estimate of the costs of each option, as required by Section 1.17.11.1 of the Contract, as soon as possible.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Swartz', with a large, sweeping flourish extending to the right.

cc: Russell Swartz