March 4, 2009

Randall K. Edington  
Executive Vice President, Nuclear  
and Chief Nuclear Officer  
Arizona Public Service Company  
P.O. Box 52034  
Phoenix, AZ 85072-2034  

SUBJECT: ANNUAL ASSESSMENT LETTER - PAL0 VERDE NUCLEAR GENERATING STATION (NRC INSPECTION REPORTS 05000528/2009001, 05000529/2009001, 05000530/2009001)

Dear Mr. Edington,

On February 11, 2009, the NRC staff completed its performance review of the Palo Verde Nuclear Generating Station (PVNGS). Our technical staff reviewed performance indicators for the past two quarters and inspection results for the period from January 1 through December 31, 2008. The purpose of this letter is to inform you of our assessment of your safety performance during this period and our plans for future inspections at your facility.

This performance review and enclosed inspection plan does not include security information. A separate letter designated and marked as "Official Use Only - Security-Related Information" will include the security cornerstone review and resultant inspection plan.

Overall, PVNGS operated in a manner that preserved public health and safety. During this assessment period the NRC has noted substantial improvements in many key performance areas as a result of your improvement initiatives related to the Revised Confirmatory Action Letter (CAL), dated February 15, 2008. The NRC recently completed the last planned CAL follow up inspection and currently we are in the process of evaluating the results and the status of the CAL.

The NRC has continued increased regulatory oversight of PVNGS in response to your entering Column 4 of the NRC’s Action Matrix in the fourth quarter of 2006. These activities involved increased inspections and NRC management involvement in monitoring activities at PVNGS. The NRC has continued to follow your performance improvement initiatives related to the 12 key performance areas for improvement discussed in the Revised Confirmatory Action Letter (CAL).

Throughout the assessment period the NRC performed quarterly CAL follow up team inspections and noted that significant progress has been made in addressing the key performance areas that contributed to the placement of PVNGS, Unit 3, into Column 4. Specific performance improvements at the facility have been observed in the areas of operational decision making, quality of engineering products, and the processes to improve equipment reliability. Of the twelve key focus areas described in the CAL five areas have been closed.
following our inspection of your progress. These areas involved your actions related to the
White finding, resolution of past problems, change management, long standing equipment
concerns, and backlog tracking systems. The last planned CAL follow up team inspection
recently completed onsite inspection effort on February 27, 2009. This team was chartered to
review the remaining items of the seven open CAL key performance areas. These areas
involve your actions related to the Yellow finding, problem identification and resolution program
effectiveness, human performance improvements, engineering programs, safety culture survey
results, accountability, and emergency preparedness.

In the previous PVNGS assessment letter dated September 2, 2008, the NRC advised you of
substantive cross-cutting issues in the areas of human performance and problem identification
and resolution that would remain open. During the remainder of the assessment period the
NRC has noted a significant reduction of findings in all open substantive cross-cutting areas and
it appears that your actions have been effective in improving performance in these areas. The
last planned CAL follow up team inspection is evaluating your improvement initiatives related to
problem identification and resolution and human performance. The substantive cross-cutting
issues will remain open while we complete the assessment of the inspection results. We plan to
provide you a follow-up letter following our assessment of the inspection results that will discuss
the status of both the CAL and the open substantive cross cutting issues.

This assessment letter advises you of our planned inspection effort resulting from the end-of-
cycle review. The enclosed inspection plan details the inspections, less those related to
physical protection scheduled through June 30, 2010. The inspection plan is provided to allow
for the resolution of any scheduling conflicts and personnel availability issues well in advance of
inspector arrival onsite. Routine resident inspections are not listed due to their ongoing and
continuous nature. The inspections in the last 9 months of the inspection plan are tentative and
may be revised at the midcycle review. NRC monitoring of your continuing improvement
initiatives may result in additional planned inspections.

In accordance with 10 CFR 2.390 of the NRC's "Rules of Practice," a copy of this letter and its
enclosure will be made available electronically for public inspection in the NRC 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).

If circumstances arise which cause us to change this inspection plan, we will contact you to
discuss the change as soon as possible. Please contact Michael Hay at (817) 860-8173 with
any questions you may have regarding this letter or the inspection plan.

Sincerely,

/RA/

Elmo E. Collins
Regional Administrator

Dockets: 50-528; 50-529; 50-530
Licenses: NPF-41; NPF-51; NPF-74

Enclosure:
Palo Verde Inspection/Activity Plan
cc w/enclosure:
Louis Trammell, Director
Arizona Division of Emergency Management
5636 East McDowell Road
Building 101
Phoenix, AZ  85008-3495

Nancy Ward, Regional Director
Federal Emergency Management Agency
Region IX
1111 Broadway, Suite 1200
Oakland, CA  94607-4052

The Honorable Marie Lopez-Rogers
Mayor of Avondale
11465 W. Civic Center Drive, Suite 280
Avondale, AZ  85323

The Honorable Bobby Bryant
Mayor of Buckeye
100 North Apache Road
Buckeye, AZ  85326

The Honorable Fred Waterman
Mayor of El Mirage
P.O. Box 26
El Mirage, AZ  85335

The Honorable Elaine Scruggs
Mayor of Glendale
5850 West Glendale Avenue
Glendale, AZ  85301

The Honorable James M. Cavanaugh
Mayor of Goodyear
119 North Litchfield Road
Goodyear, AZ  85338

The Honorable Tom Shoaf
Mayor of Litchfield
244 West Wigwam Blvd.
Litchfield Park, AZ  85340

The Honorable John Keegan
Mayor of Peoria
8401 West Monroe Street
Peoria, AZ  85345
The Honorable Phil Gordon  
Mayor of Phoenix  
Phoenix City Hall  
200 West Washington  
Phoenix, AZ  85007

The Honorable Joan Shafer  
Mayor of Surprise  
12425 West Bell Road  
Surprise, AZ  85374

The Honorable Adolfo Gamez  
Mayor of Tolleson  
9555 West Van Buren Street  
Tolleson, AZ  85353

The Honorable Michael LeVault  
Mayor of Youngtown  
12030 Clubhouse Square  
Youngtown, AZ  85363

Robin Berry  
Palo Verde School District  
P.O. Box 108  
Palo Verde, AZ  85343

Chad Turner, Superintendent  
Arlington Elementary School District  
9410 S. 355th Avenue  
Arlington, AZ  85322

Carter Gable  
Arlington Canal Company  
P.O. Box 150  
Arlington, AZ  85322

Doris Heisler  
Tonopah Valley Association  
3002 N. 423rd Avenue  
Tonopah, AZ  85354

Lyle King  
Buckeye Farmer  
P.O. Box 224  
Arlington, AZ  85322

Chris Larson  
Arlington CATS Club  
P.O. Box 194  
Arlington, AZ  85322
Grace Molina
Arlington Hispanic Community
910 N. 343rd Ave
Tonopah, AZ 85354

Les Meredith
Arlington Lions Club
P.O. Box 69
Arlington, AZ 85322

Pam Miller
HC03 Box 85
Palo Verde, AZ 85343

Neil Peters
P.O. Box 57
Arlington, AZ 85322

Paul Roetto
Friends of Saddle Mountain
3708 N. 339th Avenue
Tonopah, AZ 85354

Roxanne Morris
Ruth Fisher Unified School District
38201 W. Indian School Road
Tonopah, AZ 85354

Judy Shaw
20 N. 350th Avenue
Tonopah, AZ 85354

Robert Hathaway
TVCC
37705 W. Buckeye Road
Tonopah, AZ 85354

Jack Arend
Tonopah Valley Community Council
P.O. Box 874
Tonopah, AZ 85354

Melba Jury
33228 W. Sunland Ave.
Tonopah, AZ 85354

Andy Jacobs
Office of U.S. Senator Jon Kyl
2200 E. Camelback Road, Suite 120
Phoenix, AZ 85016
Carlos Sierra  
Office of U.S. Senator John McCain  
5353 North 16th Street, Suite 105  
Phoenix, AZ 85016

Ruben H. Reyes, District Director  
Office of U.S. Congressman Raul Grijalva  
810 E. 22nd Street, Suite 102  
Tucson, AZ 85713

Sheriff Joe Arpaio  
100 West Washington, Suite 1900  
Phoenix, AZ 85003

Fulton Brock, Supervisor, District 1  
Board of Supervisors  
301 W. Jefferson  
Phoenix, AZ 85003

Don Stapley, Supervisor, District 2  
Board of Supervisors  
301 W. Jefferson  
Phoenix, AZ 85003

Andrew Kunasek, Supervisor, District 3  
Board of Supervisors  
301 W. Jefferson  
Phoenix, AZ 85003

Max W. Wilson, Supervisor, District 4  
Board of Supervisors  
301 W. Jefferson  
Phoenix, AZ 85003

Mary Rose Wilcox, Supervisor, District 5  
Board of Supervisors  
301 W. Jefferson  
Phoenix, AZ 85003

State Representative Manuel V. Alvarez  
Arizona House of Representatives  
1700 W. Washington  
Room 129  
Phoenix, AZ 85007

State Senator Marsha Arzberger  
Arizona Senate  
1700 W. Washington  
Room 213  
Phoenix, AZ 85007
Mr. Steve Olea  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ  85007  

Mr. Douglas Kent Porter  
Senior Counsel  
Southern California Edison Company  
Law Department, Generation Resources  
P.O. Box 800  
Rosemead, CA  91770  

Chairman  
Maricopa County Board of Supervisors  
301 W. Jefferson, 10th Floor  
Phoenix, AZ  85003  

Mr. Aubrey V. Godwin, Director  
Arizona Radiation Regulatory Agency  
4814 South 40 Street  
Phoenix, AZ  85040  

Mr. Scott Bauer, Director  
Regulatory Affairs  
Palo Verde Nuclear Generating Station  
Mail Station 7636  
P.O. Box 52034  
Phoenix, AZ  85072-2034  

Mr. Dwight C. Mims  
Vice President  
Regulatory Affairs and Plant Improvement  
Palo Verde Nuclear Generating Station  
Mail Station 7605  
P.O. Box 52034  
Phoenix, AZ  85072-2034  

Mr. Jeffrey T. Weikert  
Assistant General Counsel  
El Paso Electric Company  
Mail Location 167  
123 W. Mills  
El Paso, TX  79901  

Mr. Eric Tharp  
Los Angeles Department of Water & Power  
Southern California Public Power Authority  
P.O. Box 51111, Room 1255-C  
Los Angeles, CA 90051-0100
Mr. James Ray
Public Service Company of New Mexico
2401 Aztec NE, MS Z110
Albuquerque, NM  87107-4224

Mr. Geoffrey M. Cook
Southern California Edison Company
5000 Pacific Coast Hwy. Bldg. D21
San Clemente, CA  92672

Mr. Robert Henry
Salt River Project
6504 East Thomas Road
Scottsdale, AZ  85251

Mr. Brian Almon
Public Utility Commission
William B. Travis Building
P.O. Box 13326
Austin, TX  78701-3326

Environmental Program Manager
City of Phoenix
Office of Environmental Programs
200 West Washington Street
Phoenix, AZ  85003

Mr. John C. Taylor
Director, Nuclear Generation
El Paso Electric Company
340 East Palm Lane, Suite 310
Phoenix, AZ  85004

Chief, Radiological Emergency Preparedness Section
FEMA Region 9
1111 Broadway, Suite 1200
Oakland, CA  94607-4052
Electronic distribution by RIV:
Regional Administrator (Elmo.Collins@nrc.gov)
Deputy Regional Administrator (Chuck.Casto@nrc.gov)
DRP Director (Dwight.Chamberlain@nrc.gov)
DRP Deputy Director (Anton.Vegel@nrc.gov)
DRP Director (Roy.Caniano@nrc.gov)
DRP Deputy Director (Troy.Pruett@nrc.gov)
Senior Resident Inspector (Ryan.Treadway@nrc.gov)
Branch Chief, DRP/ (Michael.Hay@nrc.gov)
Senior Project Engineer, DRP/(Don.Allen@nrc.gov)
Team Leader, DRP/TSS (Chuck.Paulk@nrc.gov)
RITS Coordinator (Marisa.Herrera@nrc.gov)
Public Affairs Officer (Victor.Dricks@nrc.gov)
Regional State Liaison Officer (Bill.Maier@nrc.gov)
RA Secretary (Lucy.Owen@nrc.gov)
DRA Secretary (Judy.Kilcrease@nrc.gov)
Branch Chief, DRS/EB1 (Thomas.Farnholtz@nrc.gov)
Branch Chief, DRS/EB2 (Neil.Keefe@nrc.gov)
Branch Chief, DRS/PSB1 (Michael.Shannon@nrc.gov)
Branch Chief, DRS/PSB2 (Greg.Werner@nrc.gov)
Branch Chief, DRS/OB (Bernard.Stapleton@nrc.gov)
OEDO RIV Coordinator, Primary (Shawn.Williams@nrc.gov)
OEDO RIV Coordinator, Backup (Eugene.Guthrie@nrc.gov)
OEDO, TRPS (Tamara.Bloomer@nrc.gov)
Deputy Director, DIRS, NRR (Frederick.Brown@nrc.gov)
Director, DORL, NRR (Joseph.Gitter@nrc.gov)
Deputy Director, DORL, NRR (Timothy.McGinty@nrc.gov)
Chief, PLB IV, DORL, NRR (Thomas.Hiltz@nrc.gov)
NRR Project Manager (Fred.Lyon@nrc.gov)
RidsNrrDirslpab Resource@nrc.gov
ROPreports.Resource@nrc.gov
mortensengk@INPO.org

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This report does not include INPO and OUTAGE activities. This report shows only on-site and announced inspection procedures.
## Palo Verde
### Inspection / Activity Plan
**03/01/2009 - 06/30/2010**

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**EP-1 - BIENNIAL EP PROGRAM INSPECTION**

**EB1-08P - INSERVICE INSPECTION - U1**

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