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Date: Wed, May 23, 2007 7:39 AM

Subject: DB FYI on All Hands Meeting

CC: "JER7@NRC.GOV" <jer7@nrc.gov>, "RLC4@NRC.GOV" <rlc4@nrc.gov>

F-237

FYI

MAY 21, 2007 | FIRSTENERGY

UPDATE

EMPLOYEE NEWSPAPER • VOL. N • 10

Information put out at ALL Hands meeting at yesterday's CDB

Special issue

The following letter from Joe Hagan, president of FirstEnergy Nuclear Operating Company (FENOC) and Chief Nuclear Officer, about our insurance claim for damage found in 2002 at our Davis-Besse Nuclear Power Station was published in the May 18 edition of the *FENOC OnLine* newsletter:

An open letter to FENOC employees

Contrary to what recent news media coverage implies, we at FirstEnergy and FENOC continue to accept full responsibility for our past mistakes at Davis-Besse. At the same time, we must remain focused on our current priority – the safe, reliable operation of Beaver Valley, Davis-Besse and Perry.

We learned many lessons from the Davis-Besse event. During the period leading up to discovery of the plant's degraded reactor vessel head, we made mistakes. We acknowledged that we failed to properly implement the plant's Boric Acid Corrosion Control and Corrective Action programs and allowed the Reactor Coolant System pressure boundary leakage to occur undetected for a prolonged period. FENOC also admitted that certain letters submitted to the Nuclear Regulatory

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President and CEO Tony Alexander sent this letter to the editors of the following Ohio-based newspapers on May 18: *Cleveland Plain Dealer, Akron Beacon Journal, Toledo Blade* and *Lorain Morning Journal*

Letter to the editors

Despite news reports to the contrary, FirstEnergy continues to accept full responsibility for the reactor head damage that was found in 2002 at our Davis-Besse nuclear plant. Further, I want to assure you that we remain fully committed to, and focused on, the plant's safe, reliable operation.

Our subsidiary, FirstEnergy Nuclear Operating Company (FENOC), admitted wrongdoing to the Department of Justice and to the Nuclear Regulatory Commission (NRC). We have not retreated from those admissions or the commitments we made to the NRC prior to the restart of the plant.

To address the vessel-head problem, FENOC implemented comprehensive corrective actions and made sweeping changes in management throughout the

Continued inside

V/Richard

Commission (NRC) contained false statements.

These are historical facts, and nothing can ever change the fact that they happened. We acknowledged them in documents filed with the federal government. We have used the lessons learned to help drive our progress toward improved performance across our fleet, with good results. Since restarting, Davis-Besse has operated safely and reliably for more than three years.

However, some news stories about the insurance claim FirstEnergy filed to recover some of the costs associated with Davis-Besse's head replacement have portrayed us as backtracking on our full acceptance of responsibility for the events at Davis-Besse.

Let me state clearly, we continue to accept full responsibility for this event.

The insurance claim

FirstEnergy filed a claim with Nuclear Electric Insurance Limited (NEIL), the nuclear industry's insurance carrier, in 2003 to recover some of the costs directly related to replacing the reactor head. Most property insurance provides coverage to help pay for damages from an accident – even if the property owner was at fault. Think of the example where someone is in a car accident and is cited as being responsible. Nonetheless, that person's auto insurer still covers damage to their vehicle (i.e., the loss).

The damage to Davis-Besse's head was our fault, no question, but we felt our claim was covered by our insurance policy's terms. NEIL initially denied our claim, and it has ended up in arbitration. An independent arbitration panel ultimately will decide this issue in the months ahead.

The Exponent Report

As part of the arbitration process, we submitted information supporting the claim. We commissioned Exponent Failure Analysis Associates to examine the head damage and prepare a technical review (a.k.a. the "Exponent Report") of the event.

FENOC understood the Exponent Report agreed with the fundamental root cause found by our own analysis – that is, boric-acid-laced reactor coolant leaked through cracks in a control rod drive nozzle, accelerated by coolant flowing through the cavity as more and more of the head eroded. However, the Exponent Report offered a more rapid head erosion timeline. Exponent used more recently available test data in conjunction with detailed analytical modeling and presented an additional scenario regarding the timeline of the reactor head degradation event.

More importantly, the difference in timeline does not impact the effectiveness of the corrective actions that we have taken. All pressurized water reactors, including Davis-Besse and Beaver Valley, are now required to conduct regular visual and ultrasonic inspections to find and address nozzle cracks before they can begin leaking. (Perry is not required to conduct such inspections because it uses a different reactor design.)

We also retained an independent nuclear consultant to review related plant programs and provide an historical perspective on the event. We don't believe that the conclusions of these reports impact the effectiveness of current inspection requirements for reactor heads or nuclear safety. These reports were not intended to imply that we do not accept responsibility for our past mistakes and omissions at Davis-Besse, but rather to show compliance with insurance policy terms that we did not purposely cause the insured loss. These reports were prepared as part of our insurance litigation and not as part of regulated activities.

Reaction to the reports

After receiving a copy of the Exponent Report, NEIL sent FENOC a letter raising the report's conclusion about the event timing as a potential safety concern. As we would with any potential safety issue, we documented the concern in a condition report and notified the NRC.

The NRC asked several questions concerning the report, to which we responded. The NRC then notified FENOC that our response was not adequate and additional information was needed.

Earlier this week, the NRC issued a Demand for Information about the reports and how we have handled them. We will fully respond to the Demand for

Information and participate in a public meeting on this matter. Our position has been, and remains, that FENOC will cooperate fully with regulators and the nuclear industry to help resolve these issues.

Where we go from here

We continue to accept full responsibility for our actions and omissions at Davis-Besse. In fact, we could have repaired the cracks in the control rod drive nozzles long before we did.

We will never forget the lessons we learned. As we pointed out in a Sept. 14, 2005 letter to the NRC, we implemented comprehensive corrective actions, made sweeping changes in management staff throughout the organization, and will continue to focus on the safe and reliable operation of the plant.

Many people at the plant and across the fleet had a hand in returning Davis-Besse to service and worked hard to rebuild the confidence of the public, regulators and the communities around us. We still must work every day to continue rebuilding that trust and goodwill.

As we work through these latest issues, we will continue to cooperate fully with the NRC and the industry. But we need to stay focused on the job in front of us. Our best strategy for the future is to continue operating all three sites safely and reliably.

organization – and we continue to maintain an unwavering commitment to plant and community safety.

These and other efforts are reflected in the plant's safety and operational performance. For example, since returning to service, Davis-Besse employees have worked millions of hours without a lost-time accident while keeping a strong focus on nuclear safety.

In 2003, we filed an insurance claim for damages at the plant – much like any other property owner would file a claim for damages from an accident, even if at fault. The claim was denied, and as part of the subsequent arbitration process, we provided independent reports to our insurance carrier.

We enlisted the services of a metallurgical firm, whose analysis and report offered a shorter timeline for the development of the reactor head cavity. We also retained an independent nuclear consultant to review related plant programs and provide an historical perspective on the event. And, we don't believe that their conclusions impact the effectiveness of current inspection requirements for reactor heads or nuclear safety. These reports were not intended to imply that we do not accept responsibility, but rather to show compliance with policy terms that we did not purposely cause the insured loss.

We continue to accept full responsibility for our actions and omissions at Davis-Besse. In fact, we could have repaired the cracks in the control drive nozzles long before we did.

We will fully cooperate with the NRC in addressing any questions regarding this issue, and will continue to rebuild the trust and goodwill we have established since the restart of Davis-Besse three years ago. Throughout this effort, we remain committed to the safe and reliable operation of our nuclear fleet.