

John K. Wood
Vice President - Nuclear

419-249-2300
Fax: 419-321-8337

Docket Number 50-346

License Number NPF-3

Serial Number 2568

October 26, 1998

United States Nuclear Regulatory Commission
Document Control Desk
Washington, DC 20555-0001

Subject: Supplemental Information Regarding Application Pursuant to 10 CFR 50.80 for
Order and Conforming License Amendment to Transfer Operating Authority to
FirstEnergy Nuclear Operating Company
(License Amendment Request No. 98-0009)(TAC No. MA2201)

Ladies and Gentlemen:

This submittal provides supplemental information regarding the June 29, 1998 application (Toledo Edison Serial Number 2540) for a 10 CFR 50.80 order and a conforming license amendment for the Davis-Besse Nuclear Power Station (DBNPS) Unit Number 1 Operating License Number NPF-3. The proposed changes would transfer operating authority for the DBNPS from the Toledo Edison Company (TE) and Centerior Service Company (CSC) to a new company, FirstEnergy Nuclear Operating Company (FENOC). //

The June 29, 1998 application indicated that the address of FENOC, as well as the names and addresses of its Directors and Principal Officers would be provided by supplemental letter. This information is included in Attachment 1 of the Enclosure. The application also referenced the original November, 1977 DBNPS Operating Agreement and stated that an Operating Agreement would be executed to govern operation of the DBNPS by FENOC. A copy of the November 21, 1977 Operating Agreement is included as Attachment 2 of the Enclosure. A copy of Amendment No. 1 to the Operating Agreement is included as Attachment 3 of the Enclosure. Add

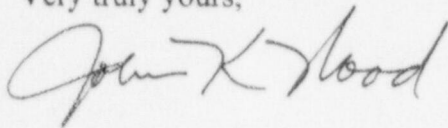
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As indicated in Section 3 of the amended Operating Agreement (Attachment 3 of the Enclosure), it is the intent that on the first day of the calendar month immediately following the calendar month during which the NRC authorizes the transfer of the operating license to FENOC, FENOC will become operator of the DBNPS. Based on these plans, it is requested that the NRC process the application on a schedule that will permit issuance of an immediately effective order consenting to the transfer as promptly as possible, and in any event before December 15, 1998, and that the NRC also issue the conforming license amendment during the month of December, 1998. This will allow FENOC to begin operations on January 1, 1999.

If you have any questions or require additional information please contact Mr. James L. Freels, Manager-Regulatory Affairs, at (419) 321-8466.

Very truly yours,



MKL/laj

Enclosure

cc: J. L. Caldwell, Acting Regional Administrator, NRC Region III
S. J. Campbell, NRC Region III, DB-1 Senior Resident Inspector
A. G. Hansen, NRC/NRR Project Manager
J. R. Williams, Chief of Staff, Ohio Emergency Management Agency,
State of Ohio (NRC Liaison)
Utility Radiological Safety Board

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Enclosure

SUPPLEMENTAL INFORMATION
REGARDING
APPLICATION FOR AMENDMENT
TO
FACILITY OPERATING LICENSE NUMBER NPF-3
DAVIS-BESSE NUCLEAR POWER STATION
UNIT NUMBER 1

This submittal (submitted under cover letter Serial Number 2568) provides supplemental information regarding the June 29, 1998 application (Toledo Edison Serial Number 2540) for a 10 CFR 50.80 order and a conforming license amendment for the Davis-Besse Nuclear Power Station (DBNPS) Unit Number 1 Operating License Number NPF-3.

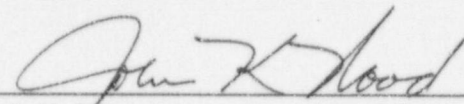
Attachment 1 provides the address of FENOC, as well as the names and addresses of its Directors and Principal Officers.

Attachment 2 provides an information copy of the original November, 1977 DBNPS Operating Agreement.

Attachment 3 provides an information copy of Amendment No. 1 to the Operating Agreement.

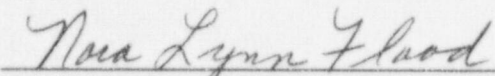
I, John K. Wood, state that (1) I am Vice President - Nuclear of the Centerior Service Company, (2) I am duly authorized to execute and file this certification on behalf of the Toledo Edison Company and The Cleveland Electric Illuminating Company, and (3) the statements set forth herein are true and correct to the best of my knowledge, information and belief.

By:



J. K. Wood, Vice President - Nuclear

Affirmed and subscribed before me this 26th day of October, 1998.



Notary Public, State of Ohio

Nora Lynn Flood - My commission expires September 4, 2002.

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Attachment 1
Page 1

SUPPLEMENTAL INFORMATION
REGARDING APPLICATION PURSUANT TO 10 CFR 50.80 FOR ORDER AND
CONFORMING LICENSE AMENDMENT TO TRANSFER OPERATING AUTHORITY TO
FIRSTENERGY NUCLEAR OPERATING COMPANY

Address of FENOC:

FirstEnergy Nuclear Operating Company
Davis-Besse Nuclear Power Station
5501 North State Route 2
Oak Harbor, OH 43449-9760

Names and Addresses of Directors of FENOC:

William F. Conway
President, William F. Conway & Associates, Inc.
Scottsdale, Arizona 85262

William R. Holland
Chairman of the Board and Chief Executive
Officer of FirstEnergy Corp.
76 South Main Street
Akron, Ohio 44308-1890

H. Peter Burg
President and Chief Operating Officer
of FirstEnergy Corp. and President of
the Toledo Edison Company and
The Cleveland Electric Illuminating Company
76 South Main Street
Akron, Ohio 44308-1890

Anthony J. Alexander
Executive Vice-President and
General Counsel of FirstEnergy Corp.,
the Toledo Edison Company, The Cleveland
Electric Illuminating Company,
and Ohio Edison
76 South Main Street
Akron, Ohio 44308-1890

John P. Stetz
President and Chief Nuclear Officer
of FirstEnergy Nuclear Operating Company
5501 North State Route 2
Oak Harbor, Ohio 43449-9760

Principal Officers of FENOC:

John P. Stetz
President and Chief Nuclear Officer

John K. Wood
Vice President, Davis-Besse Nuclear Power Station

Lew W. Myers
Vice President, Perry Nuclear Power Plant

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Serial Number 2568
Attachment 2

NOVEMBER 21, 1977
DAVIS-BESSE UNIT NO. 1 OPERATING AGREEMENT

(44 pages follow)

OPERATING AGREEMENT

DAVIS-BESSE UNIT NO. 1

This Agreement dated as of November 21, 1977, entered into by and between The Cleveland Electric Illuminating Company, an Ohio corporation ("CEI"), and The Toledo Edison Company, an Ohio corporation ("TE") (sometimes, collectively the "Owners" and individually the "Owner").

W I T N E S S E T H:

1. This Agreement is entered into pursuant to a Memorandum of Understanding dated September 14, 1967, to which CEI, TE, Duquesne Light Company, a Pennsylvania corporation, Ohio Edison Company, an Ohio corporation, and Pennsylvania Power Company, a Pennsylvania corporation, are parties (collectively the "Companies").

2. The Companies have provided for the construction, on a tract of land, known as the "Davis-Besse Site" and consisting of approximately 954 acres located in Carroll Township, Ottawa County, Ohio, of a light-water nuclear generating unit having a net rated capacity of approximately 906,000 kilowatts, known as the "Davis-Besse Nuclear Power Station, Unit No. 1" ("Unit No. 1").

Unit No. 1 was constructed pursuant to a Construction Agreement between CEI and TE dated December 26, 1968 ("Unit No. 1 Construction Agreement"). The Unit No. 1 Construction Agreement, as amended by an Agreement to Exchange Ownership Interests dated April 27, 1976 ("Exchange Agreement"), provides that Unit No. 1 is owned by CEI and TE as tenants in common with undivided interests of 51.38% and 48.62%, respectively.

The term "Unit No. 1", as used in this Agreement, includes materials and supplies held for use in connection with Unit No. 1, interests in land associated with Unit No. 1 and property included in the definition of the term "Unit" in the Construction Agreement referred to above.

This Agreement provides for the operation and maintenance of Unit No. 1 from and after the initial date of Commercial Operation of such Unit.

3. Subject to matters requiring joint action as specifically provided herein or as required by law, TE, on its own behalf and on behalf of CEI, shall operate and maintain Unit No. 1, provide necessary materials, supplies and fuel for Unit No. 1, and make any additions, replacements and retirements with respect to Unit No. 1, taking all steps which it deems necessary

or appropriate to carry out the provisions of this Agreement, all in accordance with sound engineering and operating principles and practices and currently applicable laws, codes and regulations; provided, however, that additions, replacements and retirements involving material changes in capability, useful life and basic methods of operation of Unit No. 1 and similar matters, and not included in the budget with respect to Unit No. 1 submitted pursuant to Section 13 hereof and not of an emergency nature, shall be made only upon mutual agreement of CEI and TE. Retirements with respect to Unit No. 1 shall be effected only in a manner consistent with any applicable provisions of the respective mortgage indentures of CEI and TE.

4. Each of CEI and TE shall be entitled to a percentage equal to its ownership interest in Unit No. 1 of the hour-to-hour net operating capacity of Unit No. 1, as determined by TE, and the energy associated therewith.

5. TE will keep CEI informed as to the expected maximum hour-to-hour net operating capacity of Unit No. 1 permissible for proper operation of Unit No. 1, as determined by TE, as it may vary in accordance with conditions existing from time-to-time, and CEI and TE shall each reserve its desired share of capacity in Unit No. 1 and schedule its desired share of energy

associated therewith, on an hour-to-hour basis, up to the limits of its entitlement, all in accordance with procedures to be agreed upon by CEI and TE. Subject to necessary outages or reductions in capability, Unit No. 1 shall be operated by TE so as to produce capacity and energy equal to the sums of the capacity reserved and energy scheduled by CEI and TE. TE shall exercise its best efforts to achieve a balance between the scheduled output of Unit No. 1 and its actual output, and any imbalances shall be recorded and appropriate adjustments made periodically to reduce such imbalance.

6. TE will keep CEI informed as to the expected minimum net generation for proper operation of Unit No. 1, as determined by TE, as it may vary in accordance with conditions existing from time-to-time. At any time when Unit No. 1 is operated at the level of such minimum net generation, CEI and TE shall each schedule an amount of energy from Unit No. 1 equal to its percentage entitlement specified in Section 4 of such minimum net generation, provided that if CEI or TE shall schedule more than its percentage entitlement of such minimum net generation, the other Owner shall schedule not less than the balance of such minimum net generation.

7. CEI authorizes TE to provide and TE shall provide a staff of competent engineering, supervisory, operating, maintenance and other staff personnel to operate and maintain Unit No. 1. Such staff and all other employees of TE performing work in connection with the operation and maintenance of Unit No. 1 shall be, and for all purposes shall be considered to be, employees only of TE. Such staff and employees shall receive their instructions and orders only from appropriate officials of TE.

8. Subject to any applicable restrictions contained in Sections 3 and 12, CEI hereby appoints TE as its agent, and TE agrees as its agent and as principal on its own behalf, to negotiate, execute and enforce contracts (including purchase order contracts), either in TE's name only or in the name of TE on its own behalf and as agent for CEI, providing for the purchase of materials, equipment and services for the operation and maintenance of Unit No. 1, including the provision of nuclear material and nuclear fuel assemblies in connection with the operation of Unit No. 1 and the obtaining of necessary governmental authorizations therefor. CEI hereby ratifies and confirms all contracts entered into by TE prior to the execution of this Agreement relating to the operation or maintenance of Unit No. 1.

9. Scheduled maintenance of Unit No. 1 shall be performed by TE in accordance with the CAPCO Basic Operating Agreement to which the Companies are parties dated as of January 1, 1975, or any extension thereof or successor agreement thereto.

10. TE shall keep CEI informed concerning the operation and maintenance of Unit No. 1 and TE's plans with respect thereto, but no failure of TE to provide information pursuant to the provisions of this paragraph shall relieve CEI of any of its obligations under this Agreement.

TE shall accord CEI access to Unit No. 1 at all reasonable times and in accordance with established safety and security procedures in order that its representatives may examine Unit No. 1 and observe its operation. On request therefor, TE shall supply CEI with copies of such regular and any special reports on the operation, maintenance and condition of Unit No. 1, whether made by employees of TE or by other engineers, consultants or advisors. CEI and TE shall consult from time-to-time as to the operation, maintenance and condition of Unit No. 1, and TE shall consider any proposal or suggestion of CEI with respect thereto.

CEI may at its own expense provide and maintain communication, telemetering and control equipment connected to TE's

System Dispatch Office necessary (1) to monitor Unit No. 1, (2) to integrate its entitlement from Unit No. 1 with its control of its other sources of generation, or (3) if and when Unit No. 1 is automatically regulated by TE, to participate in the regulation of Unit No. 1. Such equipment and its operation shall be subject to and shall not interfere with TE's control of Unit No. 1 and shall not unduly affect the operation of Unit No. 1 or the system of any of the Companies.

11. CEI will cooperate with TE in all activities in connection with Unit No. 1, including, without limitation, the filing of applications for authorizations, permits and licenses, and the execution of such other documents as may be reasonably necessary to confirm TE's authority to act for it and the assumption by it of its proportionate share of the obligations to be incurred pursuant to this Agreement, but, except at TE's written request, CEI shall not incur any obligation in connection with Unit No. 1 which would or might obligate TE to any third party, except as specifically provided herein.

12. CEI and TE understand and recognize that nuclear material and nuclear fuel assemblies for Unit No. 1 may be the subject of agreements among the Companies relating to or resulting from joint planning, scheduling and purchasing by the

Companies as a part of nuclear fuel arrangements for Unit No. 1 and other units owned by some or all of the Companies. Subject to such agreements as may exist from time-to-time and be applicable, TE shall manage, schedule deliveries of and handle fuel supplies to Unit No. 1, including handling of spent fuel from shipment off-site through final reprocessing and disposal of radioactive wastes, whether under contracts entered into by TE with third parties or under contracts entered into prior to the execution of this Agreement by CEI with third parties. Accounting for costs of nuclear materials, nuclear fuel assemblies and fuel handling expenses, shall be handled in accordance with Exhibit A attached hereto and made a part hereof.

13. TE will prepare, revise from time-to-time as appropriate and furnish to CEI an annual budget showing by months to the extent possible, the expected operating and maintenance expenses, capital expenditures and retirements to Unit No. 1. TE will also prepare, revise from time-to-time as appropriate and furnish to CEI projections of such budgets for such reasonably longer periods of time as may be requested by CEI.

TE will make such records and keep such accounts, consistent with sound accounting practices, as will permit each of the Owners to record on its books the transactions provided for

herein, in conformity with the Uniform System of Accounts prescribed for Public Utilities and Licensees by the Federal Energy Regulatory Commission and any state commission having jurisdiction, as such systems of accounts are now in effect or are hereafter modified or amended. CEI and its independent auditors, shall have access at all reasonable times to such records and accounts and TE will furnish copies of all or any part thereof as requested. TE shall preserve and maintain the originals of each of such records and accounts for at least such periods of time as CEI may request, having in mind the requirements of regulatory authorities having jurisdiction and the policies and practices of both Owners with respect to retention of records.

TE shall prepare, and furnish to CEI copies of continuing property records with respect to Unit No. 1 in such form as is agreed to be reasonably necessary to conform to the accounting requirements of CEI.

The cost of making, preserving and making copies of such budgets, records and accounts with respect to Unit No. 1 shall be borne by CEI and TE in proportion to their respective ownership interests, except that any costs incurred for the special purpose of an Owner shall be borne by such Owner.

TE shall have special audits conducted, with respect to the matters provided for in this Agreement, either internally or by independent auditors, according to such programs and procedures as agreed to be necessary to conform to the auditing requirements of each Owner and shall furnish copies of the reports of such audits to CEI. The cost of making such audits, including any participation by CEI's auditors agreed to be desirable and necessary, shall be shared by CEI and TE in proportion to their respective ownership interests in Unit No. 1, except that any costs incurred for the special purpose of an Owner shall be borne by such Owner. Any Owner may, and any of the other Companies having a power entitlement in Unit No. 1 may, with respect to the period of such entitlement, at its own expense, make such further audits, using its internal or independent auditors or both, as it may deem desirable.

14. All costs and expenses contemplated by this Agreement, including overheads, directly or indirectly associated with the operation and maintenance of Unit No. 1, whether incurred by either or both of the Owners, shall be shared by both Owners, in accordance with Exhibit A attached hereto.

The types of administrative and general costs set forth in the CAPCO Accounting and Procedure Manual in use at the time incurred by TE shall be allocated by it among the total of all generating stations operated by it, including Unit No. 1, utilizing the bases of allocation set forth in the CAPCO Accounting and Procedure Manual. If requested by CEI, TE will make such examinations, analyses or studies as would go to support the reasonableness of the specific costs so allocated to Unit No. 1 or provide a basis for modification to achieve such reasonableness with respect to either the specific costs or the total administrative and general expense allocation. Sharable costs which are incurred by CEI shall be accumulated and billed on a direct charge basis drawn from specific records or reasonable estimates with applicable additives as agreed upon by CEI and TE.

Except as otherwise provided above, the accounting methods and practices normally in use at the time by each of the Owners in determining and assigning operating and maintenance costs and expenses, generally, are to be used by each of the Owners for the purposes of this Agreement, unless otherwise agreed, provided such methods and practices are consistent with sound accounting practices.

15. It is the intent of CEI and TE that so far as possible each Owner shall separately report, file, be responsible for and pay all property, franchise, business or other taxes applicable to its ownership interest in Unit No. 1. To the extent that such taxes may be levied on or assessed against Unit No. 1, or its operation, or the Owners in such manner as, in the opinion of CEI and TE, to make impracticable or inequitable the carrying out of such intent, then such taxes shall be deemed a part of the cost or expense of Unit No. 1 or the operation thereof.

16. As soon as possible after the close of each calendar month, TE shall advise CEI as to its respective share of estimated operation and maintenance expenses and costs of additions to and adjustments in shares of fuel inventories and/or materials and supplies inventories for such preceding month by FERC account numbers. Fuel expense data shall preferably be supplied on or before the second working day of the following month, and the other data preferably on or before the eighth working day of such month.

As soon as possible after the close of each calendar month, preferably on or before the 25th of the following month, TE shall prepare and deliver invoices to CEI for its respective

share of actual fixed and variable operation and maintenance expenses and costs of additions to and adjustments in shares of fuel inventories and/or materials and supplies inventories for such preceding month, by FERC account numbers, in accordance with

✓ Exhibit A. The amount billed will be payable on receipt.

CEI and TE shall from time-to-time jointly determine and furnish on an equitable basis the amount of working capital needed for the operation and maintenance of Unit No. 1, and the share thereof to be provided by each. If CEI and TE so agree, one Owner may provide all or part of the working capital share of the other Owner and shall be compensated therefor by the payment of appropriate fixed charges.

17. Neither Owner shall be liable to the other Owner for any loss, cost, damage or expense incurred by one Owner as a result of any action or failure to act by the other in connection with the ownership, operation, use or maintenance of Unit No. 1, except for any action not taken in good faith and prejudicing one Owner for the benefit of the other.

18. If by reason of any liability to third persons arising out of the ownership, operation, use or maintenance of any property which is the subject of this Agreement (including

personal injury to and death of third persons and damage to property, but other than liability under the Workmen's Compensation Laws of Ohio), one Owner shall be called upon to make any payment or incur any obligation in greater percentage of the total liability than its proportionate ownership interest in such property, the other Owner shall indemnify and reimburse such Owner in such amount as will cause each Owner to share such liability in proportion to its ownership interest, irrespective of the negligence of either Owner.

19. TE shall use its best efforts to arrange for and maintain appropriate insurance to cover (a) risk of damage to or loss of Unit No. 1 and materials and supplies held for use in connection therewith, including risk of damage or loss due to a nuclear incident, (b) liability for bodily injury to, or death of, or damage to property of third persons, including liability due to a nuclear incident, arising out of the ownership, operation, use or maintenance of Unit No. 1, and (c) such other risks as CEI and TE may agree shall be so covered. The cost of such insurance as well as any losses not covered by insurance shall be shared by CEI and TE in proportion to their ownership interests in the property involved, and CEI and TE shall be named insureds in all policies purchased hereunder.

TE shall assist the insurers in the investigation, adjustment and settlement or defense of all claims covered by such insurance, and shall investigate, adjust and settle or defend all claims or losses arising out of the ownership, operation, use or maintenance of Unit No. 1 and not covered by insurance carried by CEI and/or TE, subject to approval by both Owners of any such non-insured claim, or combination of such claims arising out of the same occurrence, in excess of \$25,000.

Each Owner may separately procure at its own cost such other insurance as it may deem appropriate. Each Owner shall make arrangements for appropriate workmen's compensation coverage for its own employees.

20. An Owner shall not be considered to be in default in the performance of any of its obligations hereunder (other than obligations to pay costs and expenses) if failure of performance shall be due to uncontrollable forces. The term "uncontrollable forces" shall mean any cause beyond the control of the Owner affected, including but not limited to failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor dispute, sabotage, restraint by Court order or public authority, or inability to obtain necessary licenses, permits or other governmental authorizations. Nothing

contained herein shall be construed so as to require an Owner to settle any strike or labor dispute in which it may be involved. An Owner which is unable to fulfill any obligation by reason of uncontrollable forces shall exercise due diligence to remove such inability with all reasonable dispatch.

21. The duties, obligations, and liabilities of the Owners are intended to be several and not joint or collective, and nothing in this Agreement shall ever be construed to create an association, joint venture, trust or partnership, or to impose a trust or partnership duty, obligation or liability on or with regard to them or any of the other Companies. Each Owner shall be individually responsible for its own obligations as herein provided. No Owner shall be under the control of or shall be deemed to control the other Owner or any of the other Companies, nor shall the Owners or the Companies be deemed an entity by virtue of this Agreement. No Owner shall have a right or power to bind the other Owner or any of the other Companies without its express written consent, except as expressly provided in this Agreement.

22. No Owner shall permit any unsatisfied liens to remain in effect against Unit No. 1, or fuel or materials and supplies acquired in connection with operation and maintenance

thereof (other than the lien of its mortgage and liens for taxes and assessments not yet delinquent); provided that an Owner shall not be required to pay or discharge any such lien so long as it in good faith shall be contesting the same in a proceeding which shall operate during the pendency thereof to prevent the collection or enforcement of such lien so contested.

23. Failure of an Owner to insist upon strict performance of any of the provisions of this Agreement, or to take advantage of any of its rights hereunder shall not be construed as a waiver of any such provisions, or a relinquishment of any such rights, but the same shall continue to remain in full force and effect.

24. This Agreement is made under and shall be governed by the laws of the State of Ohio.

25. This Agreement shall inure to the benefit of and be binding upon the Owners and their respective successors and assigns; provided, however, that no Owner will, without the prior written consent of the other Owner, assign this Agreement, except as the same may be assigned voluntarily or otherwise under its first mortgage or to a successor to all or substantially all of the assets of such Owner by way of merger, consolidation, sale or otherwise.

26. Prior to the termination of this Agreement, CEI and TE shall agree upon the time when Unit No. 1 is no longer used and useful for their respective purposes and shall be retired and shall enter into a written agreement providing for (1) the disposal of Unit No. 1, (2) the method to be adopted for such disposal, and (3) the date of commencement of such disposal. The disposal plan adopted for Unit No. 1 shall be such as not to interfere unreasonably with the operation of any other generating unit on the Davis-Besse Site not being retired and any of the Companies which own such other generating unit(s) not being retired shall have the option to purchase any part or all of common facilities which are part of Unit No. 1 being retired at the then depreciated book cost. The costs and expenses relating to disposal of Unit No. 1 and any then remaining salvage value shall be shared by the Owners in proportion to their ownership interests therein, unless otherwise agreed by the Owners.

27. Any controversy or claim arising out of this Agreement, including the refusal by an Owner to perform the whole or any part hereof, shall, upon demand of the Owner aggrieved, be settled by an Arbitration Board, which shall consist of three non-representative members and such additional representative members as hereinafter provided, in accordance

with the provisions of this Section. No person shall be eligible for appointment as a non-representative member of the Arbitration Board who is an officer, employee, shareholder of, or otherwise interested in, any Owner or any of the other Companies or any affiliate thereof or in the matter sought to be arbitrated.

Unless otherwise agreed, no demand for arbitration shall be made more than one year after the Owners have reached an impasse as to the controversy or claim involved. The Owner demanding arbitration shall serve written notice upon the other Owner setting forth in detail the matter or matters with respect to which arbitration is demanded, and shall serve copies of such notice upon the other Companies. Within a period of ten days from the date of receipt of the aforesaid written notice, each Owner shall appoint one representative member to serve as a member of the Arbitration Board, and within a period of thirty days from such receipt of such written notice, such representative members shall unanimously agree upon the persons who shall serve as the three non-representative members of the Arbitration Board.

If the representative members shall fail to unanimously agree upon the appointment of any or all of the three non-representative members of the Arbitration Board within the specified

thirty-day period, an Owner may, upon written notice to the other Owner, request the American Arbitration Association to submit to both Owners a list from its panels of arbitrators of the names of at least seven persons from which the non-representative member or members who have not been so appointed shall be selected in accordance with the Commercial Arbitration Rules of such Association.

If an Owner shall fail to appoint its representative member within the specified ten-day period, such Owner shall be deemed to have waived its right to appoint such representative member and the Arbitration Board shall consist of the three non-representative members and such representative members, if any, as shall have been appointed in accordance with the provisions of this Section.

The arbitration proceedings shall be conducted at a place, to be designated by the Arbitration Board, within the operating area of one of the Owners. The Arbitration Board shall afford adequate opportunity to each Owner to present information with respect to the controversy or claim submitted to arbitration and may request further information from any Owner. Except as provided in the preceding sentence, the Owners may, by mutual agreement, specify the rules which are to govern any proceeding

before the Arbitration Board and limit the matters to be considered by the Arbitration Board, in which event the Arbitration Board shall be governed by the terms and conditions of such agreement. To the extent of the absence of any such agreement specifying the rules which are to govern any proceeding, the then current rules of the American Arbitration Association for the conduct of commercial arbitration shall govern the proceedings.

The arbitration shall be limited to the matter or matters specified in the initial notice demanding arbitration and the award of the Board shall not affect or change any other provision of this Agreement or any other transaction between the Owners.

Procedural matters pertaining to the conduct of the arbitration, and the award of the Arbitration Board shall be made upon a determination of a majority of the non-representative members thereof; provided, however, that the representative members shall have the full right and authority to participate in all meetings and deliberations of the Arbitration Board leading to the award. The findings and award of the Arbitration Board, so made upon a determination of a majority of the non-representative members thereof, shall be final and conclusive with respect to the controversy or claim submitted for arbitration

and shall be binding upon both Owners except as otherwise provided by law. Such award of the Arbitration Board shall specify the manner and extent of the division of the costs of the Arbitration proceedings between the Owners. Judgment upon the award may be entered in any court, State or Federal, having jurisdiction.

28. This Agreement shall be fully effective as of the date of Commercial Operation of Unit No. 1 and shall be effective as of such earlier date or dates as relate to operating matters in connection with Unit No. 1 not covered by the Construction Agreement for such Unit. This Agreement shall remain in full force and effect with respect to Unit No. 1 until the date of retirement of such Unit determined pursuant to Section 26 hereof.

IN WITNESS WHEREOF, the Owners have caused this Agreement to be duly executed as of the date above written.

ATTEST:

Andrew P. Schmeel

THE CLEVELAND ELECTRIC ILLUMI-
NATING COMPANY

By Karl H. Gudolph

Title Chairman

ATTEST:

Augustus L. Case

THE TOLEDO EDISON COMPANY

By J. P. Williamson

Title President

OPERATING AGREEMENT
(CAPCO UNITS NOS. 4, 11 and 13)
DAVIS-BESSE UNITS NOS. 1, 2 AND 3
EXHIBIT A*

Section I. Accounting Concepts

The Toledo Edison Company (TE) shall record all operation and maintenance costs in accordance with the Federal Power Commission Uniform System of Accounts, as outlined in the following schedule. All charges to accounts will be based on TE's functional accounting scheme for Davis-Besse Units Nos. 1, 2 and 3. These function numbers will be used to identify the particular installation that should bear the associated expense. Those costs applicable to common facilities or common activities which cannot be charged directly to Davis-Besse Units Nos. 1, 2 or 3 on the basis of actual or estimated labor or other expenses will be charged to the proper Davis-Besse function numbers which have been identified by TE as representing common activities.

The costs associated with these common facilities or activities and charged to the proper function numbers shall then be allocated between Davis-Besse Units Nos. 1, 2 and 3 on the basis of the allocation codes listed under the Common Costs column on Section IIA. These code definitions appear in Section IIB.

The owners of DB No. 1 shall share those costs charged directly to that unit plus the portion of the applicable common costs which are allocated on the basis of the Common Costs allocation codes. The owners of DB No. 2 shall share those costs charged directly to that unit plus the portion of the applicable common costs which are allocated on the basis of the Common Costs allocation codes. The owners of DB No. 3 shall share those costs charged directly to that unit plus the portion of the applicable common costs which are allocated on the basis of the Common Costs allocation codes.

*Although the provisions of this Exhibit A apply not only to Davis-Besse Unit No. 1, but also to prospective Davis-Besse Units Nos. 2 and 3, and common costs of all three units, the provisions of the Operating Agreement of which this Exhibit A is a part apply only to the segregated costs of Davis-Besse Unit No. 1 as shown herein.

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
<u>OPERATION</u>					
517	Operation Supervision and Engineering				
	The cost of labor and expenses incurred in the general supervision of the operation of nuclear power generating stations.				
	On-site	01	02	03	C
	Off-site	01	02	03	C
518	Nuclear Fuel Expense				
	The net cost of nuclear fuel assemblies used in the production of energy as well as costs involved when fuel is leased.				
	Owned nuclear fuel consumed				
	Fixed consumption	01	02	03	-
	Cost of nuclear fuel consumed at zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.				
	Variable consumption	HV	HV	HV	-
	Incremental cost of nuclear fuel consumed in production of net KWHR of output above the zero net output point of the turbine-generator heat consumption curve.				

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
518 (continued)					
Leased nuclear fuel consumed-burnup expense					
	Fixed consumption	01	02	03	-
	Cost of nuclear fuel consumed at zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.				
	Variable consumption	HV	HV	HV	-
	Incremental cost of nuclear fuel consumed in production of net KWHR of output above the zero net output point of the turbine-generator consumption curve.				
Leased nuclear fuel consumed - deferred expense amortization					
	Fixed consumption	01	02	03	-
	Cost of nuclear fuel consumed at zero net output point of the turbine-generator heat consumption curve during all periods of zero or positive net generation.				
	Variable consumption	HV	HV	HV	-
	Incremental cost of nuclear fuel consumed in production of net KWHR of output above the zero net output point of the turbine-generator heat consumption curve.				

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
519	Coolants and Water				
	The cost of labor, materials used and expenses incurred for heat transfer materials and water used for steam and cooling purposes including, but not limited to the following:				
	Service water system	01	02	03	-
	Testing and control of water and waste treatment plants related to secondary systems.	HY	HY	HY	C
	Chemicals and miscellaneous supplies and expenses for water and wastewater treatment plants.	HY	HY	HY	C
520	Steam Expenses				
	The cost of labor, materials used and expenses incurred in production of steam through nuclear processes, and similar expenses for operation of any auxiliary superheat facilities, including but not limited to, the following systems and their associated instruments, controls and switchgear and the following activities:				
	Fuel handling and refueling systems	HY	HY	HY	-
	Radioactive waste treatment and disposal systems	01	02	03	-

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
520 (continued)					
	Feedwater system	HY	HY	HY	-
	Reactor plant service and testing	01	02	03	-
	Nuclear steam supply system service, testing and treatment	01	02	03	-
	Testing and control of water and waste treatment plants related to primary system.	HY	HY	HY	C
523 Electric Expenses					
	The cost of labor, materials used and expenses incurred in operating turbo-generators, steam turbines and their auxiliary apparatus, switchgear and other electric equipment to the points where electricity leaves for conversion for transmission or distribution, including but not limited to the following:				
	Turbine-generator and accessories	01	02	03	-
	Lubricants	01	02	03	-
	Auxiliary boilers	01	02	03	-
	Diesel generators	01	02	03	-

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
524	Miscellaneous Nuclear Power Expenses				
	The cost of labor, materials used and expenses incurred which are not readily assignable to other nuclear generation operation accounts including, but not limited to the following:				
	Station supplies and misc. expenses	01	02	03	-
	Community relations activities	01	02	03	C
	Safety activities	01	02	03	C
	Servicing plant buildings and grounds	01	02	03	C
	Miscellaneous plant service and testing	01	02	03	C
	Fuel oil consumed for auxiliary boilers	01	02	03	-
	Property protection	01	02	03	C
	Other miscellaneous expenses	01	02	03	C
525	Rents				
	All rents of property of others used, occupied or operated in connection with nuclear generation.	01	02	03	C

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
<u>MAINTENANCE</u>					
528	Maintenance Supervision and Engineering				
	The cost of labor and expenses incurred in the general supervision and direction of maintenance of nuclear generation facilities.				
	On-site	01	02	03	C
	Off-site	01	02	03	C
529	Maintenance of Structures				
	The cost of labor, materials used and expenses incurred in the maintenance of structures, the book cost of which is includable in account 321, Structures and Improvements. Structures associated with Units 1, 2 or 3 including, but not limited to the following:				
	Turbine generator building, containment building, auxiliary and other buildings	01	02	03	-
	Containment vessel	01	02	03	-
	Structures which cannot be directly associated with Units 1, 2 or 3 including but not limited to the following:				
	Water treatment plant building	01	02	03	C
	Sewage treatment plant building	01	02	03	C
	Intake canal	01	02	03	C

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
529 (continued)					
	Railroads and roads	01	02	03	C
	Other buildings and grounds	01	02	03	C
530	Maintenance of Reactor Plant Equipment				
	The cost of labor, materials used and expenses incurred in the maintenance of reactor plant, the book cost of which is includable in account 322, Reactor Plant Equipment including, but not limited to the following:				
	Primary plant equipment and piping	01	02	03	-
	Radioactive waste treatment and disposal equipment	01	02	03	-
	Fuel handling and storage equipment	01	02	03	-
	Feedwater supply and treatment equipment	HY	HY	HY	-
531	Maintenance of Electric Plant				
	The cost of labor, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is includable in account 323, Turbogenerator Units, and account 324, Accessory Electric Equipment including, but not limited to the following:				
	Turbine generator and related equipment	01	02	03	-

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
531 (continued)					
	Condenser and circulating water equipment	01	02	03	-
	Auxiliary boiler	01	02	03	-
	Accessory electric equipment	01	02	03	-
532	Maintenance of Miscellaneous Nuclear Plant				
	The cost of labor, materials used and expenses incurred in maintenance of miscellaneous nuclear generating plant, the book cost of which is includable in account 325, Miscellaneous Power Plant Equipment including, but not limited to the following:				
	Miscellaneous station equipment	01	02	03	-
	General station equipment	01	02	03	C
	Miscellaneous sewage treatment equipment	01	02	03	C
	Miscellaneous water treatment equipment	01	02	03	C
	Environmental testing equipment	01	02	03	C
	Fire protection equipment	01	02	03	C
	Station security equipment	01	02	03	C
	Instrument standards	01	02	03	C

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	
532 (continued)					
	Power during outages	01	02	03	-
	Other miscellaneous plant equipment	01	02	03	-
562	Transmission Operation				
	Station Expenses	01	02	03	C
	The cost of labor used and expenses incurred in operating transmission switching station including the following:				
	The main unit step up transformer, high voltage switching equipment and associated facilities. Also included are costs associated with transmission switchyard common facilities that are owned by the joint owners of the D-B Generating Units. (Those switchyard common facilities not owned by the D-B Generating Units' joint owners are covered by provisions of the CAPCO Transmission Agreements.)				
570	Transmission Maintenance				
	Maintenance of Station Equipment	01	02	03	C
	The cost of labor, materials used and expenses incurred in maintenance of station equipment, the book cost of which is includable in account 353, Station Equipment. This equipment includes the following:				

Section IIA, Allocation of Operation and Maintenance Costs

FPC Account	Description	Direct Charge Plus Allocation of Common Costs			Common Costs Allocated to DB 1, 2, 3
		DB No. 1	DB No. 2	DB No. 3	

570 (continued)

The main unit step up transformer, high voltage switching equipment and associated facilities. Also included are costs associated with transmission switchyard common facilities that are owned by the joint owners of the D-B Generating Units. (Those switchyard common facilities not owned by the D-B Generating Units' joint owners are covered by provisions of the CAPCO Transmission Agreements.)

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Clearing Accounts

Cost of labor and materials used and expenses incurred in other activities which are directly related to Davis-Besse Power Station and which are charged to TE clearing accounts will be distributed monthly to appropriate Davis-Besse Power Station operation and maintenance expense accounts in accordance with allocation percentages as determined by TE. TE will periodically review these allocation percentages for reasonableness.

Section II B. Allocation Codes and Explanations

Allocation of Common Costs Between
Davis-Besse Units Nos. 1, 2 and 3

The basis for allocating common costs between Davis-Besse Units Nos. 1, 2 and 3 is as follows:

CODE

- C The portion of the costs to be allocated to Davis-Besse Unit No. 1 shall be the quotient of (a) the prevailing Net Demonstrated Capability of Davis-Besse Unit No. 1 divided by (b) the sum of the Net Demonstrated Capabilities of Davis-Besse Units Nos. 1, 2 and 3. The portion of the costs to be allocated to Davis-Besse Unit No. 2 shall be the quotient of (a) the prevailing Net Demonstrated Capability of Davis-Besse Unit No. 2 divided by (b) the sum of the Net Demonstrated Capabilities of Davis-Besse Unit Nos. 1, 2 and 3. The portion of the costs to be allocated to Davis-Besse Unit No. 3 shall be the difference between (a) the total cost minus (b) that portion of the costs allocated to Davis-Besse Units Nos. 1 and 2.

Allocation of Costs Among CEI, DL, OE, PP and TE

The bases for allocating among the owners the sum of those costs which are charged to Davis-Besse Unit No. 1, Davis-Besse Unit No. 2, and Davis-Besse Unit No. 3, and the portion of the common costs which are allocated to Davis-Besse Units Nos. 1, 2 or 3 are as follows:

- 01 The cost shall be allocated among the Companies in proportion to their respective ownership interests in Unit No. 1 namely: 51.38% to CEI and 48.62% to TE.
- 02 The costs shall be allocated among the Companies in proportion to their respective ownership interests in Unit No. 2 namely: 24.47% to CEI, 13.74% to DL, 35.60% to OE, 6.28% to PP and 19.91% to TE.
- 03 The costs shall be allocated among the Companies in proportion to their respective ownership interests in Unit No. 3 namely: 24.47% to CEI, 13.74% to DL, 35.60% to OE, 6.28% to PP and 19.91% to TE.
- HV The costs during the current month shall be allocated to an owning Company in proportion to a fraction, the numerator of which is the variable portion of the BTU input to the main unit turbine used to produce the kilowatt hours of energy taken by that Company during the current month, and the denominator of which is the variable portion of the BTU input used in producing all of the kilowatt hours of energy taken by all of the Companies during that same month, these BTU inputs being calculated hourly and accumulated monthly in accordance with the principles of allocation of heat consumption set forth in Section III.

Section II B. Allocation Codes and Explanations (Continued)

Allocation of Costs Among CEI, DL, OE, PP and TE (Continued)

HY The costs during the current month shall be allocated to an owning Company in proportion to a fraction the numerator of which is the total BTU of energy consumed by that Company during the preceding twelve month period and the denominator of which is the total BTU of energy consumed by all Companies during that same preceding twelve month period.

Section III. Fuel

Nuclear fuel materials required for efficient operation of the Units shall be procured by TE and owned or leased by the Owners of Davis-Besse Units Nos. 1, 2 and 3 in percentage shares equaling the respective Owner's ownership share in the Unit in which the fuel materials are intended to be used.

Charges for owned fuel materials in manufacture, storage, transit, cooling or reprocessing, but not in the reactor for heat production, shall be recorded in Accounts 120.1 (Nuclear fuel in process of refinement, conversion, enrichment and fabrication), 120.2 (Nuclear fuel materials and assemblies-Stock account) and 120.4 (Spent nuclear fuel) as appropriate upon information supplied by TE. The cost of nuclear fuel installed in the reactor shall be recorded in Account 120.3 (Nuclear fuel assemblies in reactor).

Nuclear fuel lease payments not related to burnup including:

- (a) the payments made applicable to accounting periods prior to start of burnup of the leased nuclear fuel and
- (b) the payments made applicable to accounting periods which commence after the burnup of the leased nuclear fuel has commenced

shall be charged to Account 186 (Miscellaneous deferred debits). Such deferred expenses shall be amortized over the life of the fuel on the basis of energy produced.

At the beginning of each month, each Owner's unamortized interest in owned nuclear fuel materials and/or deferred nuclear fuel lease expense must be equal to that Owner's ownership interest in the Units. Adjustments to maintain such proportional unamortized interest will be made monthly in accordance with Section VI of this Exhibit.

The following basic principles shall govern the calculation of depletion (amortization) of fuel assemblies installed in the reactor for heat production unless The Public Utilities Commission of Ohio determines that other calculation methods and/or formulae should be used. In such event, this Section III will be revised to reflect these P.U.C.C. requirements.

1. Nuclear fuel assemblies shall be considered to be producing heat only during periods of zero or positive net generation.
2. During periods of negative net generation, it will be considered that installed nuclear fuel assemblies are not producing heat and are not thus consumed. During periods of negative net generation, records of station service electric energy supplied by the system shall be maintained and the participants in the unit shall be invoiced for such electric energy in proportion to their investment

Section III. Fuel (Continued)

responsibilities in the Unit at the operating owner's system average production cost (including net purchased power costs) during the current calendar month¹ adjusted to exclude the output and cost during the current calendar month of the Unit to which such station service energy was supplied.

3. During periods of zero or positive net generation, the components of consumption of heat from nuclear fuel assemblies shall be considered to consist of a fixed heat consumption component and a variable heat consumption component. The components of heat consumption are illustrated by the current Input/Output curve for each Unit as agreed to by the Owners. The fixed portion of heat consumption consists of the heat produced by the reactor required to supply station service electric energy plus heat losses in the plant.
4. During periods of zero or positive net generation, the fixed and variable portions of the total unit heat consumption shall be calculated on an hour by hour basis. The fixed portion of the Unit heat consumption shall be the product of service hours accumulated during periods of zero or positive net generation times the fixed unit heat consumption as indicated on the current Input/Output curve for each Unit as agreed to by the Owners. The variable portion of the unit heat consumption shall be the total net main unit generation in Mw_e/hr converted to BTU/hr, excluding the fixed unit heat consumption, utilizing the relationship between Mw_e/hr versus BTU/hr as represented on the current Input/Output curve for each Unit as agreed to by the Owners. The total unit heat consumption shall be the sum of fixed and variable portions of the unit heat consumption. The portion of the cost of nuclear fuel consumed to be considered to be attributable to fixed unit heat consumption shall be the total cost of nuclear fuel consumed times a fraction the numerator of which is the monthly fixed unit heat consumption and the denominator of which is the total monthly unit heat consumption. The portion of the cost of nuclear fuel consumed to be attributable to variable heat consumption shall be the total cost of nuclear fuel consumed minus the portion of the cost of nuclear fuel consumed attributable to fixed unit heat consumption.
5. In determining the cost of nuclear fuel consumed, IE shall calculate costs using amortization in proportion to main unit heat consumption, such cost taking into account

¹Note: If estimated costs are used for the current month's calculation, an adjustment, based upon the deviation of estimated vs. actual costs, will be made in the next succeeding month's billing.

Section III. Fuel (Continued)

the original acquisition cost of the materials and services required to provide the fuel as originally installed, the predicted total heat output of the assemblies and the estimated net value of salvage materials. TE shall calculate such cost of nuclear fuel consumed using methods and/or computer codes considered acceptable by the Companies for this purpose.

6. For owned nuclear fuel, the monthly nuclear fuel expense shall be determined by the formula

$$FC_c = \frac{E_c}{E_f} (A_c - S_f)$$

where:

- FC_c = Nuclear Fuel expense during the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month until the estimated end of life of the fuel.
- A_c = The unamortized value of the fuel as reflected by the difference between the balances in Accounts 120.3 (Nuclear fuel assemblies in reactor) and 120.5 (Accumulated provision for amortization of nuclear fuel assemblies) at the beginning of the current accounting month.
- S_f = Anticipated salvage value of the fuel with related deductions including but not limited to shipping, reprocessing and waste disposal costs.

For fuel consumed, each Owner shall debit Account 518 (Nuclear fuel expense) and credit Account 120.5 for its share of fixed and variable nuclear fuel expenses calculated in accordance with paragraphs 4, 5 and 6 above.

7. The monthly nuclear fuel expense for leased nuclear fuel consumed is composed of 1) a burnup expense related to energy resource consumption and 2) amortization of accumulated deferred expenses.

Section III. Fuel (Continued)

A. Monthly Burnup Expense

The monthly burnup expense shall be calculated as follows:

$$B_c = \frac{E_c}{E_f} (C_c - S_f)$$

where:

- B_c = Burnup expense for the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of life of the fuel.
- C_c = The lessor's net investment (acquisition cost as defined in the lease agreement less accumulated burnup expenses prior to the current accounting month) at the beginning of the current accounting month.
- S_f = Anticipated salvage value of the fuel with related deductions including but not limited to shipping, reprocessing and waste disposal costs.

B. Monthly Amortization of Deferred Expense

The monthly amortization of Deferred Expense shall be calculated as follows:

$$DA_c = \frac{E_c}{E_f} \left[(D_p + D_a) + R_c (C_c + C_{(c+1)} \dots + C_f) \right]$$

where:

- DA_c = The amortization of deferred expense during the current accounting month.
- E_c = The energy, in Btu, produced during the current accounting month.
- E_f = The energy, in Btu, expected to be produced from the beginning of the current accounting month to the end of life of the fuel.

Section III. Fuel (Continued)

- D_p = The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period prior to the beginning of commercial operation of the leased nuclear fuel.
- D_a = The unamortized portion at the beginning of the current accounting month of the deferred expense related to the period after the beginning of commercial operation of the leased nuclear fuel.
- R_c = The current lease rate as defined in the lease agreement expressed as the decimal equivalent of percent per month.
- C_c = The lessor's net investment (acquisition cost as defined in the lease agreement less accumulated burnup expenses prior to the current accounting month) at the beginning of the current accounting month.
- $C_{(c+1)} \dots + C_f$
= The estimated lessor's net investment at the beginning of each of the succeeding months following the current month until reprocessing or other disposition occurs.

The monthly burnup expense shall be charged to Account 518 (Nuclear fuel expense). The monthly amortization of deferred expense shall be charged to Account 518 and credited to Account 186 (Miscellaneous deferred debits).

8. TE shall supply fuel expense data only for sharable costs incurred for the benefit of all owners.

Section IV. Materials and Supplies

Materials and supplies required for the operation and maintenance of the Units shall be procured by TE and will be charged to Account 154.

Prior to the commercial operation date of Davis-Besse Unit No. 2, the materials and supplies inventory at the site will be owned by Owners of Davis-Besse Unit No. 1 in proportion to each Owner's respective ownership interest in Unit No. 1. The Davis-Besse Unit No. 2 joint bank account will be billed for any materials and supplies which are used from this inventory in the construction and preliminary operation of Davis-Besse Unit No. 2. Payments received for such materials and supplies shall be credited to the Owners of Davis-Besse Unit No. 1 in proportion to each Owner's respective ownership interest in Davis-Besse Unit No. 1.

Effective with the commercial operation date of Davis-Besse Unit No. 2, the ownership of the materials and supplies inventory will be adjusted so that the Owners of Davis-Besse Units Nos. 1 and 2 will own the materials and supplies inventory at the site in proportion to each Owner's respective weighted average percentage ownership in the two units. Information in support of the payments required to effect such adjustment in ownership will be supplied by TE.

Monthly materials and supplies usage shall be credited to Account 154 and charged to the appropriate Operation and Maintenance expense accounts, as described in Section IIB.

Prior to the commercial operation date of Davis-Besse Unit No. 2, each Owner's share of the materials and supplies inventory at the beginning of each month must be equal to that Owner's ownership interest in Davis-Besse Unit No. 1. Effective with the commercial operation date of Davis-Besse Unit No. 2, each Owner's share of the materials and supplies inventory at the beginning of each month must be equal to that Owner's weighted average percentage ownership interest in the two units. Adjustments to maintain such proportional ownership will be made monthly in accordance with Section VI of this exhibit.

The above provisions are applicable to Davis-Besse Unit No. 3 as they are written for Unit No. 2, except that Unit No. 3 is compared to Units Nos. 1 and 2 combined.

Section V. Other Expenses

For inter-Company billing purposes, labor and material additive costs at current rates prevailing at TE as adjusted from time to time shall be added to the labor and material components of operation and maintenance costs of the Davis-Besse Units Nos. 1, 2 and 3 to which such rates are applicable and shall be shared by the Companies on the same bases on which the primary labor and material costs are shared.

In addition, an allocation will be made of Account 556, System Control and Load Dispatching costs related to production, and Account 557, Other Production Expenses. These costs would be allocated to Davis-Besse Units Nos. 1, 2 and 3 on a direct basis where a direct relationship exists, or on a net generating capability ratio when a direct relationship does not exist. Account 556 will include only those load dispatching costs incurred by TE that are attributable to the Davis-Besse Units Nos. 1, 2 and 3. Included in Account 557, Other Production Expenses, are such items as insurance premiums and recoveries and other production expenses not directly assignable to the other production accounts. These costs included in Account 557 may be charged directly where a direct relationship exists or, if not, they may be allocated on a net generating capability basis. The invoice will identify amounts billed that were included in Account 557.

For inter-Company billing purposes, administrative and general expenses shall be allocated to Davis-Besse Units Nos. 1, 2 and 3 on the basis of the composite three-year moving average ratio for TE calculated at the end of each calendar year in accordance with the following formula to become effective on July 1 of the following year.

$$\frac{L_{a1} (1 + p/P) + O_{a1}}{(L_e - L_{a2}) (1 + p/P) + (O_e - O_{a2})}$$

In which:

L_{a1} and O_{a1} = the 3-year sums of direct labor expenses and direct other-than-labor expense, respectively charged to the following accounts:

1. Account 920, Administrative and general salaries.
2. Account 921, Office supplies and expenses.
3. Account 922, Administrative expenses transferred - Credit.

$(1 + p/P)$ = a cost ratio by means of which those expenses directly associated with payroll (labor additives) may be added to direct labor charges.

Section V. Other Expenses (Continued)

P = the 3-year sum of the following labor additives:

1. Payroll Taxes

Federal Old-age Benefits

Federal Unemployment Insurance

State Unemployment Insurance

2. Workmen's Compensation and/or Injuries and Damages

(Payroll related costs only)

3. Employee Pensions and Benefits (Account 926)

4. Pay for Time Not Worked

Exclude any labor additives which are included with the basic direct payroll taxes or charges, examples of which might be "Pay for time not worked" or "roll taxes".

P = the 3-year sum of the total payroll with which the above labor additives are associated.

L_e and O_e = the 3-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to all operation and maintenance expense accounts except Fuel Accounts 501, 518 and 547 for the entire Company.

L_{a2} and O_{a2} = the 3-year sums of direct labor expense and direct other-than-labor expense, respectively, charged to all Administrative and General Expense Accounts 920 and 932, inclusive.

The amount of administrative and general expenses to be allocated to each Company during a given period shall be the product of the above ratio multiplied by the total operation and maintenance expenses, excluding Account 518, allocated to the Company for that period.

Section VI. Billing

With respect to the procurement of owned nuclear fuel materials and materials and supplies for the Units, TE shall pay to the vendors all payments as they become due, and shall in turn promptly bill the other Owners of the Units for their respective shares of such payments.

With respect to leased nuclear fuel materials for the Units, TE shall pay to the lessors all payments as they become due, and shall in turn promptly bill the other Owners of the Units for their respective shares of such payments.

TE will bill the Owners of Davis-Besse Units Nos. 1, 2 and 3 monthly for their respective shares of the operation and maintenance expenses for the Units.

Since the Owners of the Units will own nuclear fuel inventories as well as materials and supplies inventories in proportion to their ownership interests in the Units, the Owners will be given credit on the monthly bill for their share of the above assets which were consumed or amortized and charged to expense during the billing period. Included in the monthly bill, if necessary, will be transfers between owners of such assets necessary to maintain at the beginning of each month the Owner's ownership interests in these assets in proportion to their ownership interests in the Units.

The Owners will also be given credit on the monthly bill for their share of deferred expenses which were amortized and charged to expense during the billing period.

Docket Number 50-346
License Number NPF-3
Serial Number 2568
Attachment 3

AMENDMENT NO. 1
TO THE NOVEMBER 21, 1977
DAVIS-BESSE UNIT NO. 1 OPERATING AGREEMENT
TO CHANGE UNIT OPERATOR FROM TE TO
FIRSTENERGY NUCLEAR OPERATING COMPANY

(8 pages follow)

AMENDMENT NO. 1
TO THE NOVEMBER 21, 1977
DAVIS-BESSE UNIT NO. 1 OPERATING AGREEMENT
TO CHANGE UNIT OPERATOR FROM TE TO
FIRSTENERGY NUCLEAR OPERATING COMPANY

THIS AGREEMENT effective as of the _____,

by and between The Cleveland Electric Illuminating Company ("CEI"); Toledo Edison Company ("TE"), hereinafter referred to as the Participants and FirstEnergy Nuclear Operating Company ("FENOC"), all of which are Ohio Corporations and wholly-owned subsidiaries of FirstEnergy Corp ("FirstEnergy"),

WITNESSETH:

WHEREAS, the Participants entered into an Operating Agreement dated November 21, 1977, hereinafter referred to as the "Prior Agreement", which provided among other things for the operation and maintenance of the Davis-Besse Unit No. 1 ("Unit No. 1");

WHEREAS, as a result of the April, 1986 affiliation between CEI and TE and the formation of Centerior Energy Corporation ("CEC"), the Participants became subsidiaries of CEC, thereby continuing all terms and conditions of the Prior Agreement;

WHEREAS, as a result of the November 8, 1997 merger between CEC and the Ohio Edison Company, resulting in and the formation of FirstEnergy, the Participants became wholly-owned subsidiaries of FirstEnergy;

WHEREAS, as a result of this merger, the Participants desire to add FirstEnergy as a party to this Amendment No. 1 to the Davis-Besse Unit No. 1 Operating Agreement; and

WHEREAS, the Participants and FirstEnergy desire to ratify the terms and conditions of the Prior Agreement as if herein restated subject to the following amendments, as hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein set forth, the Participants, FirstEnergy and FENOC agree as follows:

1. Section 1 remains as written.
2. Section 2 remains as written.
3. Section 3 is amended and shall read as follows:

On the first day of the calendar month immediately following the calendar month during which the Nuclear Regulatory Commission ("NRC") authorizes the transfer of Unit No. 1 operating license to FENOC, TE shall cease to be the operator of Unit No. 1 and FENOC shall in its place become operator of Unit No. 1 pursuant to this Agreement and NRC authorization. Therefore and thereafter, FENOC, on behalf of the Participants and FirstEnergy, shall operate and maintain Unit No. 1, provide necessary materials and supplies including fuel as provided in Section 12, and make any additions, replacements and retirements with respect to Unit No. 1, taking all steps which it deems necessary or appropriate to carry out the provisions of this Agreement, all in accordance with sound engineering and operating principles and practices and applicable laws, codes and regulations; provided that, with respect to Unit No. 1, additions, replacements and retirements involving material changes in capability, useful life, basic methods of operation of Unit No. 1 and similar matters, and not included in the budget with respect to Unit No. 1 approved in accordance with Section 13 hereof and not of any emergency nature, shall be made only by the Participants and FirstEnergy. Retirements with respect to Unit No. 1 shall be effected only in manner consistent with any

applicable provisions of the respective mortgage indentures of the Participants and/or FirstEnergy (or any financing lease relating to Unit No. 1 and the interests therein to which a Participant or FirstEnergy is a party),

4. Section 4 is amended and shall read as follows:

The Participants and/or FirstEnergy shall be entitled to the hour-to-hour net operating capacity of Unit No. 1 as determined by FirstEnergy.

5. Section 5 is amended and shall read as follows:

FENOC will keep the Participants and/or FirstEnergy informed as to the expected maximum hour-to-hour net operating capacity of Unit No. 1 permissible for proper operation of Unit No. 1, as determined by FENOC, as it may vary in accordance with conditions existing from time to time. Each Participant and/or FirstEnergy shall reserve its desired share of capacity in Unit No. 1 and schedule its desired share of energy associated therewith, on an hour-to-hour basis, up to the limits of its generation entitlement share, all in accordance with applicable FirstEnergy system planning procedures. Subject to necessary outages or reductions in capability, Unit No. 1 shall be operated by FENOC so as to produce capacity and energy equal to the sums of the capacity reserved and energy scheduled by the Participants and/or FirstEnergy, all in accordance with applicable FirstEnergy system planning procedures. FENOC shall exercise its best efforts to achieve a balance between the scheduled output of Unit No. 1 and its actual output.

6. Section 6 is amended and shall read as follows:

FENOC will keep the Participants and/or FirstEnergy informed as to the expected minimum net generation for proper operation of Unit No. 1, as determined by FENOC, as it may vary in accordance with conditions existing from time to time.

7. Section 7 is amended and shall read as follows:

The Participants and FirstEnergy authorize FENOC to provide and FENOC shall provide a staff of competent engineering, supervisory, operating and maintenance, and other appropriate personnel to operate and maintain Unit No. 1. To ensure that technical qualifications of FENOC will be at least equivalent to those provided by TE, the TE employees on site at Unit No. 1 at the time FENOC becomes operator hereunder, will be transferred to and become employees of FENOC. Such staff and all other employees of FENOC performing work in connection with the operation and maintenance of Unit No. 1 shall be, and for all purposes shall be considered to be, employees only of FENOC. Such staff and employees shall receive their instructions and orders only from appropriate officials of FENOC.

8. Section 8 is amended and shall read as follows:

Subject to any applicable restrictions contained in Sections 3 and 12, the Participants and FirstEnergy hereby appoint FENOC as their agent in respect of Unit No. 1, and FENOC agrees as the agent of Participants and FirstEnergy and as principal on its own behalf, to negotiate, execute and enforce contracts (including purchase order contracts), either in FENOC's name only or in the name of FENOC as agent for the Participants and/or FirstEnergy, providing for the purchase of materials, equipment and services for the operation and maintenance of Unit No. 1, including the provision of nuclear material and nuclear fuel assemblies in connection with the operation of Unit No. 1 and the obtaining of necessary governmental authorizations therefor.

9. Section 9 is amended and shall read as follows:

Scheduled maintenance of Unit No. 1 shall be performed by FENOC in accordance with the needs and requirements of FirstEnergy.

10. Section 10 is amended and shall read as follows:

FENOC shall keep the Participants and FirstEnergy informed concerning the operation and maintenance of Unit No. 1 and FENOC plans with respect thereto.

The Participants and/or FirstEnergy shall consult from time to time with FENOC as to the operation and maintenance of Unit No. 1.

The Participants and/or FirstEnergy will provide and maintain communication, telemetering and control equipment connected to FirstEnergy's System Dispatch Office necessary to monitor Unit No. 1 and to integrate generation from Unit No. 1 with the control of FirstEnergy's other sources of generation. Such equipment and its operation shall be subject to, and shall not interfere with, FENOC's control of Unit No. 1 and shall not unduly affect the operation of Unit No. 1.

11. Section 11 is amended and shall read as follows:

The Participants and FirstEnergy will cooperate with FENOC in all activities in connection with Unit No. 1, including, without limitation, the filing of applications for authorizations, permits and licenses, and the execution of such other documents as may be reasonably necessary to confirm FENOC's authority to act for them and the assumption by them of their obligations to be incurred pursuant to this Agreement.

12. Section 12 is amended and shall read as follows:

The Participants and FirstEnergy understand and recognize that nuclear material and nuclear fuel assemblies for Unit No. 1 may be the subject of agreements between the parties hereto and entered into prior to the 1997 merger, which agreements related to or result from joint planning, scheduling and purchasing by the Participants hereto as a part of nuclear fuel arrangements for Unit No. 1 and other units owned by the Participants and FirstEnergy. Subject to such agreements, FENOC shall manage, schedule deliveries for and handle fuel to Unit No. 1, including handling of spent fuel from shipment off-site through final disposal of radioactive wastes, whether under contracts entered into by FENOC with third parties or under contracts entered into prior to FENOC becoming the operator of Unit No. 1 by the Participants with third parties.

13. Section 13 is amended to read as follows:

FENOC will prepare an annual Business Plan and prepare and revise from time to time as appropriate and furnish to the Participants and FirstEnergy an annual budget showing by months to the extent possible, the expected operating and maintenance expenses, capital expenditures and retirements with respect to Unit No. 1. FENOC will also prepare, revise from time to time as appropriate and furnish to the Participants and FirstEnergy, projections of such budgets for such reasonably longer periods of time as may be requested by the Participants and/or FirstEnergy.

FENOC will make such records and keep such accounts, consistent with sound accounting practices, and will assist the Participants and FirstEnergy to record on their books any transactions provided for herein, in conformity with the Uniform System of Accounts prescribed for Public Utilities Commission and Licensees by the Federal Energy Regulatory Commission and any state commission having jurisdiction, as such systems of accounts are now in effect or are hereafter modified or amended. The Participants and FirstEnergy shall have access at all reasonable time to such records and accounts and FENOC will furnish copies of all or any part thereof as requested. FENOC shall preserve and maintain the originals of each of such records and accounts for at least such periods of time as FirstEnergy may require, having in mind the requirements of regulatory authorities having jurisdiction and the policies and practices of FirstEnergy with respect to retention of records.

FENOC shall prepare and furnish each Participant and FirstEnergy with copies of continuing property records with respect to Unit No. 1 in such form as is agreed to be reasonably necessary to conform to the accounting requirements of the Participants.

14. Section 14 is amended to read as follows:

All costs and expenses contemplated by this Agreement associated with the operation and maintenance of Unit No. 1, shall be provided by the Owners and FirstEnergy.

The accounting methods and practices in use by each of the Owners and FirstEnergy shall be used for purposes of this Agreement.

15. Section 15 is hereby deleted in its entirety.

16. Section 16 is hereby deleted in its entirety.

17. Section 17 is hereby deleted in its entirety.

18. Section 18 is hereby deleted in its entirety.

19. Section 19 is amended to read as follows:

FENOC shall through FirstEnergy, arrange for and maintain appropriate insurance to cover (a) risk of damage to or loss of Unit No. 1 and materials and supplies held for use in connection therewith, including risk of damage or loss due to a nuclear incident, (b) liability for bodily injury to, or death of, or damage to property of third persons, including liability due to a nuclear incident, arising out of the ownership, operation, use or maintenance of Unit No. 1.

20. Section 20 is hereby deleted in its entirety.
21. Section 21 is hereby deleted in its entirety.
22. Section 22 is hereby deleted in its entirety.
23. Section 23 is hereby deleted in its entirety.
24. Section 24 remains as written.
25. Section 25 is hereby deleted in its entirety.
26. Section 26 is amended and shall read as follows:

The costs for decommissioning of Unit No. 1 shall be funded by the Participants and/or FirstEnergy in accordance with the requirements the NRC Regulations at 10 C.F.R. Section 50.75 and other applicable NRC rules, regulations and orders regarding decommissioning and the applicable orders regarding decommissioning funding of the Public Utility Commission of Ohio.

27. Section 27 is hereby deleted in its entirety.
28. Section 28 is amended and shall read as follows:

This Agreement shall be fully effective as of the date so indicated in Section 3 and shall remain in full force and effect with respect to Unit No. 1 until the date of Unit No. 1 retirement or the date upon which the Participants and FirstEnergy terminate this Agreement, whichever first occurs.

29. Exhibit A is hereby deleted in its entirety.

IN WITNESS WHEREOF, the Parties hereto have caused this Amendment 1 to the Davis-Besse Unit No. 1 Operating Agreement to be executed by their duly authorized officers this _____ day of _____, 1998.

The Illuminating Company
(formerly known as The Cleveland
Electric Illuminating Company, a
utility subsidiary of FirstEnergy)

By: _____

FirstEnergy Nuclear Operating Company,
a subsidiary of FirstEnergy

By: _____

The Toledo Edison Company, a utility
subsidiary of FirstEnergy

By: _____

FirstEnergy Corp., the parent holding Company
of the Illuminating Company and The Toledo
Edison Company

By: _____