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**TO THE INVESTMENT COMMUNITY:**

This letter<sup>1</sup> will provide an update on activities associated with our efforts to return the Davis-Besse Nuclear Power Station to service in a safe and reliable manner. The update summarizes information that was previously discussed in public forums. The letter also includes updates on other items of interest to the financial community.

**NRC IMC 0350 Restart Process – August 20 Public Meeting**

The NRC's IMC 0350 panel held one of its monthly status meetings on the Davis-Besse restart efforts in Oak Harbor, Ohio on August 20, 2002. During the public meeting, the NRC reviewed the status of current NRC inspection activities at the plant, including the status of the NRC's follow-up inspection to the Augmented Inspection Team (AIT) investigation.

NRC inspection activities currently underway or planned for the near term include:

- New reactor vessel head and code data package
- Opening and closing of the Davis-Besse containment building
- Program compliance building block
- Management and human performance building block
- Systems health building block

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<sup>1</sup> This letter includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements typically contain, but are not limited to, the terms "anticipate," "expect," "believe," "estimate," and similar words. Actual results may differ materially due to a number of factors including, but not limited to, the speed and nature of regulatory approvals.

The NRC mentioned that the AIT follow-up inspectors reviewed their findings with Davis-Besse management on August 9, 2002. The NRC indicated that the inspection identified apparent violations in the following five areas:

- Technical Specifications related to pressure boundary leakage
- Adequacy of corrective actions
- Adhering to procedures
- Adequacy of procedures
- Completeness and accuracy of documentation

The results of the inspection will be published in the upcoming NRC Report 02-08. The apparent violations will remain as unresolved items until the NRC completes its significance determination of the degradation of the reactor vessel head. Additionally, the NRC stated that another NRC inspection of implementation of Davis-Besse's containment health assurance plan had identified two violations involving inspector qualifications and acceptance criteria for inspection, and that Davis-Besse is in the process of re-performing the containment health assurance inspections using appropriately qualified inspectors and criteria.

FirstEnergy Nuclear Operating Company (FENOC) management reviewed the results of the Company's Root Cause Analysis Report that was provided to the NRC on August 15, 2002 (see Root Cause Analysis Report section below). The overview included a description of the root causes and planned corrective actions.

FENOC management also provided updates on Davis-Besse's return to service plan including progress on restart action milestones and towards meeting the improved expectations for safe and reliable operations. Progress on some of the key restart action milestones include:

- Completion of system health assurance walkdowns
- Near completion of containment building inspections
- Completion of containment shield building cutting
- Initiated containment building painting
- Began containment polar crane modifications
- Began containment air cooler refurbishment
- Prepared existing reactor head for removal
- Prepared reactor head service structure for installation on replacement reactor head
- Initiated inspections under the containment vessel
- Established independent oversight review panel of industry experts to provide advice and recommendations in our restart efforts
- Established performance indicators to track progress on building block plans, NRC 0350 Panel restart issues, and new management and human performance improvement initiatives
- Finalized and provided our Root Cause Analysis Report to the NRC on August 15, 2002.

The NRC representatives assured the public that they will be conducting thorough reviews during their inspection activity to ensure that performance improvements are being made and that the proper nuclear safety focus has been established. The NRC representatives indicated

that they believe that the management and human performance improvement plan would likely be the “pacing issue” for restart.

### **Root Cause Analysis Report – Provided to NRC on August 15**

A significant restart milestone was recently achieved with the finalization of our Root Cause Analysis Report, which addresses the management and organizational issues that contributed to the reactor head corrosion problem. This report, which was provided to the NRC on August 15, 2002 and formally filed with the NRC this week, was the subject of a NRC public meeting held at the NRC’s Region III headquarters on August 15. The report, authored by a team of nuclear experts, provided a self-critical evaluation of the human performance and management factors that contributed to missed opportunities for earlier detection and prevention of the reactor head corrosion problem. The report states, among other things, that plant management and personnel:

- Did an inadequate job of implementing the Corrective Action Program, which is designed to promptly identify and resolve problems like those leading to the corrosion
- Did not integrate key industry information and site knowledge and experience, nor adequately compare new information with baseline knowledge
- Failed to comply with the plant’s existing Boric Acid Corrosion Control program

The report concludes that the underlying root cause was the focus on production, combined with minimum actions to meet regulatory requirements, which resulted in the acceptance of degraded conditions.

Other observations by the team include a need for improving training for those personnel conducting boric acid inspections, increasing management involvement and oversight of field activities, and realigning the incentive pay program to increase emphasis on safety.

The NRC stated that FENOC’s root cause analysis appears to address all of the NRC’s issues. Additionally, at the August 20, 2002 public meeting, the NRC stated that FENOC’s planned corrective actions provide a good road map for going forward, and that the NRC was looking forward to receiving FENOC’s detailed management improvement plan.

### **Davis-Besse Restart Timing and Outage Cost Impact**

We continue to project that replacement of the Davis-Besse reactor vessel head and other ancillary maintenance work can be completed on a schedule to support restart of the plant by year-end, recognizing however, that the NRC must approve resumption of operations at the unit under their IMC 0350 restart process.

The estimated incremental cost impacts for the identified work scope, as previously communicated, are:

- \$55 million to \$75 million of mostly capital expenditures to replace the reactor vessel head

- \$50 million to \$70 million of mostly O&M expenditures for additional maintenance, including the acceleration of various programs/projects
- \$10 million - \$15 million per month for replacement power for the non-summer months
- \$20 million per month for replacement power in the summer months of July and August

### **Davis-Besse Replacement Energy Status**

We are fully hedged for our 850 MW of on-peak replacement energy supply for Davis-Besse through the end of this year, and although we expect the plant will be ready to return to service before year-end, we've also made some on-peak power purchases during the early months of 2003.

### **Updates on Other Items**

We continue to execute the key elements of our business plans for 2002:

- On August 8, 2002 we canceled the sale of our four coal-fired power plants (the Lake plants) to NRG Able Acquisition LLC because of an anticipatory breach of certain obligations in the agreement. While reserving our right to pursue legal action against NRG, its affiliate, and its parent Xcel Energy for damages, we have begun scheduling management presentations and plant site visits with numerous parties that have expressed interest in acquiring the Lake plants.
- We are also proceeding with our efforts to divest our remaining 20.1% ownership position in Avon Energy Partners Holdings.
- Although the actual timing for completion of the asset sales is slightly behind our desired schedule, we nonetheless continue to demonstrate substantial progress on our debt reduction objectives. With the sale of 79.9% interest in Avon Energy Partners Holdings and free cash flow, we will reduce debt and preferred equity by approximately \$3.0 billion by year-end. This will reduce our consolidated debt ratio from the 66% level at December 31, 2001 to the low-60% level by the end of this year. In addition, with the anticipated increase in free cash flow, along with asset sale proceeds, we expect to continue to significantly reduce our leverage in 2003.
- We continue to make progress on capturing cost savings associated with our merger with the former GPU, Inc. and from our cost reduction initiatives that we have undertaken this year. For the year, our earnings guidance remains at \$3.30 to \$3.45 per share, excluding the effect of the Davis-Besse extended outage and any potential adjustments related to Emdersa, our Argentine distribution asset, should we be unable to enter into a definitive sale agreement by November 6, 2002. Looking ahead to 2003, our earnings target will be in the range of \$3.70 to \$3.90, which reflects 7% - 8% growth from our original 2002 earnings guidance of \$3.45 to \$3.65.

### **Upcoming Investor Meetings/Presentations**

- September 5 – Lehman Brothers 2002 Energy/Power Conference – New York
- September 19 – Merrill Lynch Global Leaders Power & Gas Conference – New York
- October 17 – Third Quarter Earnings Release/Conference Call
- October 21/22 – EEI Financial Conference – Palm Desert
- December 4 – FirstEnergy Annual Analyst/Investor Conference – New York

If you have any questions regarding this update, please call Kurt Turosky, Director of Investor Relations, at (330) 384-5500, or me at (973) 401-8519.

Very truly yours,

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