



**UNITED STATES
NUCLEAR REGULATORY COMMISSION
REGION IV
611 RYAN PLAZA DRIVE, SUITE 400
ARLINGTON, TEXAS 76011-4005**

Arizona Public Service Company

August 30, 2004

Gregg R. Overbeck, Senior Vice
President, Nuclear
Arizona Public Service Company
P.O. Box 52034
Phoenix, AZ 85072-2034

**SUBJECT: MIDCYCLE PERFORMANCE REVIEW AND INSPECTION PLAN - PALO VERDE
NUCLEAR GENERATING STATION**

Dear Mr. Overbeck:

On August 4, 2004, the NRC staff completed its midcycle plant performance assessment of Palo Verde Nuclear Generating Station. The midcycle review for Palo Verde Nuclear Generating Station involved the participation of all technical divisions in evaluating performance for the first half of the calendar year 2004 assessment cycle. The process included a review of performance indicators (PIs) for the most recent quarter and inspection results over the previous 12 months. The purpose of this letter is to inform you of our assessment of your safety performance during this period and our plans for future inspections at your facility so that you will have an opportunity to prepare for these inspections and to inform us of any planned inspections that may conflict with your plant activities.

This performance review and inspection plan does not include physical protection information. A separate letter designated and marked as "Exempt from Public Disclosure in Accordance with 10 CFR 2.390" will include the physical protection review and resultant inspection plan.

Plant performance for the most recent quarter was within the Licensee Response Column of the NRC's Action Matrix, based on all inspection findings being classified as having very low safety significance (Green) and all PIs indicating performance at a level requiring no additional NRC oversight (Green). However, the significance of two findings is still under review as part of the Significance Determination Process. These findings are: the failure to promptly identify that retaining ring slots on the Unit 2 steam generator nozzle dams were not adequately sized to allow the use of the standard lock pins; and an incorrect design configuration, combined with high vibrations, that resulted in a reactor coolant system pressure boundary leak. Additionally, one finding involving the failure to notify the shift manager and department leader for fuel operations of the events associated with damage to a fuel assembly was the subject of a predecisional enforcement conference held on August 20, 2004. The final characterization of this issue is still under review.

In our annual assessment letter dated March 3, 2004, we discussed aspects of the safety conscious work environment at Palo Verde. Our subsequent reviews found that, in general,

employees are aware of, and are familiar with, your Employee Concerns Program, Differing Professional Opinions Process, and the Management Issues Tracking and Resolution program. We understand that you are conducting training of all site employees in the Integrated Issue Resolution Process and that this training should be completed by the end of September 2004. We will continue to focus our baseline inspection activities on your actions for addressing your assessments within these areas.

The enclosed inspection plan details the inspections, except those related to physical protection, scheduled through March 31, 2006. The inspection plan includes inspections for the followup to the NRC Augmented Inspection Team that was dispatched in response to the loss of offsite power event, which occurred on June 14, 2004. This followup inspection is scheduled to begin in September 2004. The plan also includes inspections associated with the replacement of the Unit 1 steam generators. In addition to the baseline inspections, NRC will also be conducting inspections related to Temporary Instructions (TI) 2515/150, Revision 1, "Reactor Pressure Vessel Head and Vessel Head Penetration Nozzles;" TI 2515/152, "Reactor Pressure Vessel Lower Head Penetration Nozzles (NRC Bulletin 2003-02);" and TI 2515/153, "Reactor Containment Sump Blockage." Additionally, the plan contains an inspection using TI 2515/159, "Review of Generic Letter 89-13, Service Water System Problems Affecting Safety-Related Equipment." This TI is in response to the Davis-Besse Reactor Vessel Head Degradation Lessons-Learned Task Force and is being performed at a sampling of nuclear power plants across the country. The inspection plan is provided to minimize the resource impact on your staff and to allow for scheduling conflicts and personnel availability to be resolved in advance of inspector arrival onsite. Routine resident inspections are not listed due to their ongoing and continuous nature. The inspections in the last 12 months of the inspection plan are tentative and may be revised at the end-of-cycle review meeting.

In accordance with 10 CFR 2.390 of the NRC's "Rules of Practice," a copy of this letter and its enclosure will be made available electronically for public inspection in the NRC Public Document Room or from the Publicly Available Records (PARS) component of NRC's document system (ADAMS). ADAMS is accessible from the NRC Web site at <http://www.nrc.gov/reading-rm/adams.html> (the Public Electronic Reading Room).

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

Sincerely,

/RA/

Troy W. Pruett, Chief
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Arizona Public Service Company

-3-

Docket: 50-528

50-529

50-530

License: NPF-41

NPF-51

NPF-74

Enclosure:

Palo Verde Inspection/Activity Plan

cc:

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ADAMS: Yes No Initials: TWP

Publicly Available Non-Publicly Available Sensitive Non-Sensitive

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| RIV:SPE:DRP/D | C:DRP/D concur | D:DRS | D:DRP | C:DRP/D Sign |
|---------------|----------------|---------------|----------|--------------|
| CJPPaulk | TWPruett | DDChamberlain | ATHowell | TWPruett |
| /RA/ | /RA/ | VLOrdaz | /RA/ | /RA/ |
| 8/12/04 | 8/12/04 | 8/25/04 | 8/28/04 | 8/30/04 |

OFFICIAL RECORD COPY

T=Telephone

E=E-mail

F=Fax

Palo Verde
Inspection / Activity Plan
08/01/2004 - 03/31/2006

| Unit Number | Inspection Activity | Title | No. of Staff on Site | Planned Dates | | Inspection Type |
|-------------|--|--|----------------------|---------------|------------|----------------------|
| | | | | Start | End | |
| | PEB-07B - HX & HEAT SINK PERFORMANCE TESTING | | 3 | | | |
| 1, 2, 3 | IP 7111107B | Heat Sink Performance | | 08/16/2004 | 08/20/2004 | Baseline Inspections |
| | TI-SW - TI-2515/159 - REVIEW OF GL 89-13 | | 3 | | | |
| 1, 2, 3 | IP 2515/159 | Review of Generic Letter 89-13: Service Water System Problems Affecting Safety-Related E | | 08/16/2004 | 08/20/2004 | Safety Issues |
| | SPECIAL - ECCS VOIDING SPECIAL INSPECTION | | 2 | | | |
| 1, 2, 3 | IP 93812 | Special Inspection | | 08/23/2004 | 08/27/2004 | Event Response Insp |
| | OB-RQ - OB-REQUALIFICATION | | 3 | | | |
| 1, 2, 3 | IP 7111111B | Licensed Operator Requalification Program | | 08/30/2004 | 09/03/2004 | Baseline Inspections |
| | AIT-FOL - AIT (LOOP) FOLLOWUP INSP | | 5 | | | |
| 1, 2, 3 | IP 93800 | Augmented Inspection Team | | 09/07/2004 | 09/24/2004 | Event Response Insp |
| | EB-08P - ISI U3 - VESS VOL (TI 150/152) AS REQ | | 2 | | | |
| 3 | IP 7111108P | Inservice Inspection Activities - PWR | | 10/04/2004 | 10/08/2004 | Baseline Inspections |
| 3 | IP 7111108P | Inservice Inspection Activities - PWR | | 10/18/2004 | 10/22/2004 | Baseline Inspections |
| | TI 152 - TI 152 RPV LOWER HEAD PENETRATION NOZZLE | | 1 | | | |
| 3 | IP 2515/152 | Reactor Pressure Vessel Lower Head Penetration Nozzles (NRC Bulletin 2003-02) | | 10/01/2004 | 12/31/2004 | Safety Issues |
| | TI 153 - TI 153 REACTOR CONTAINMENT SUMP BLOCKAGE | | 1 | | | |
| 3 | IP 2515/153 | Reactor Containment Sump Blockage (NRC Bulletin 2003-01) | | 10/01/2004 | 12/31/2004 | Safety Issues |
| | ALARA1 - ALARA PLANNING AND CONTROLS | | 1 | | | |
| 1, 2, 3 | IP 7112102 | ALARA Planning and Controls | | 11/01/2004 | 11/05/2004 | Baseline Inspections |
| | OB-INIT - OB - INITIAL EXAMINATION | | 3 | | | |
| 1 | X02273 | PALO VERDE UNIT 1 (12/04) INITIAL | | 11/29/2004 | 12/03/2004 | Not Applicable |
| 2 | X02275 | PALO VERDE UNIT 2 (12/04) - INITIAL | | 11/29/2004 | 12/03/2004 | Not Applicable |
| 3 | X02276 | PALO VERDE UNIT 3 (12/04) - INITIAL | | 11/29/2004 | 12/03/2004 | Not Applicable |
| 1 | X02273 | PALO VERDE UNIT 1 (12/04) INITIAL | | 12/13/2004 | 12/17/2004 | Not Applicable |
| 2 | X02275 | PALO VERDE UNIT 2 (12/04) - INITIAL | | 12/13/2004 | 12/17/2004 | Not Applicable |
| 3 | X02276 | PALO VERDE UNIT 3 (12/04) - INITIAL | | 12/13/2004 | 12/17/2004 | Not Applicable |
| | ALARA2 - ALARA PLANNING AND CONTROLS | | 1 | | | |
| 1, 2, 3 | IP 7112102 | ALARA Planning and Controls | | 01/10/2005 | 01/14/2005 | Baseline Inspections |
| | RP TEAM - RP PUBLIC DOSE TEAM INSPECTION | | 4 | | | |
| 1, 2, 3 | IP 7112103 | Radiation Monitoring Instrumentation and Protective Equipment | | 01/31/2005 | 02/04/2005 | Baseline Inspections |
| 1, 2, 3 | IP 7112201 | Radioactive Gaseous and Liquid Effluent Treatment and Monitoring Systems | | 01/31/2005 | 02/04/2005 | Baseline Inspections |
| 1, 2, 3 | IP 7112202 | Radioactive Material Processing and Transportation | | 01/31/2005 | 02/04/2005 | Baseline Inspections |
| 1, 2, 3 | IP 7112203 | Radiological Environmental Monitoring Program | | 01/31/2005 | 02/04/2005 | Baseline Inspections |
| | OB-EP EX - EMERGENCY PREPAREDNESS EXERCISE | | 3 | | | |
| 1, 2, 3 | IP 7111401 | Exercise Evaluation | | 02/28/2005 | 03/04/2005 | Baseline Inspections |

This report does not include INPO and OUTAGE activities.
This report shows only on-site and announced inspection procedures.

Palo Verde
Inspection / Activity Plan
08/01/2004 - 03/31/2006

| Unit Number | Inspection Activity | Title | No. of Staff on Site | Planned Dates | | Inspection Type |
|-------------|---------------------|--|----------------------|---------------|------------|----------------------|
| | | | | Start | End | |
| | OB-EP EX | - EMERGENCY PREPAREDNESS EXERCISE | 3 | | | |
| 1, 2, 3 | IP 7111404 | Emergency Action Level and Emergency Plan Changes | | 02/28/2005 | 03/04/2005 | Baseline Inspections |
| 1, 2, 3 | IP 71151 | Performance Indicator Verification | | 02/28/2005 | 03/04/2005 | Baseline Inspections |
| | EB02/17B | - PERMANENT PLANT MODS | 1 | | | |
| 1, 2, 3 | IP 7111117B | Permanent Plant Modifications | | 03/07/2005 | 03/11/2005 | Baseline Inspections |
| | PEB-12B | - MAINTENANCE EFFECTIVENESS | 1 | | | |
| 1, 2, 3 | IP 7111112B | Maintenance Effectiveness | | 03/07/2005 | 03/11/2005 | Baseline Inspections |
| | EB08P | - ISI U2 - VESSEL VOL (TI 150/152) AS REQ | 1 | | | |
| 2 | IP 7111108P | Inservice Inspection Activities - PWR | | 03/28/2005 | 04/01/2005 | Baseline Inspections |
| 2 | IP 7111108P | Inservice Inspection Activities - PWR | | 04/11/2005 | 04/15/2005 | Baseline Inspections |
| | OB-INIT | - INITIAL EXAM | 3 | | | |
| 1 | X02282 | PALO VERDE UNIT1 (05/05) INITIAL EXAM | | 07/11/2005 | 07/15/2005 | Not Applicable |
| 2 | X02283 | PALO VERDE UNIT 2 (11/05) - INITIAL EXAM | | 07/11/2005 | 07/15/2005 | Not Applicable |
| 3 | X02284 | PALO VERDE UNIT 3 (11/05) - INITIAL EXAM | | 07/11/2005 | 07/15/2005 | Not Applicable |
| 1 | X02282 | PALO VERDE UNIT1 (05/05) INITIAL EXAM | | 08/01/2005 | 08/05/2005 | Not Applicable |
| 2 | X02283 | PALO VERDE UNIT 2 (11/05) - INITIAL EXAM | | 08/01/2005 | 08/05/2005 | Not Applicable |
| 3 | X02284 | PALO VERDE UNIT 3 (11/05) - INITIAL EXAM | | 08/01/2005 | 08/05/2005 | Not Applicable |
| | ACRSA | - ACCESS CONTROL TO RAD SIGNIFICANT AREAS | 1 | | | |
| 1, 2, 3 | IP 7112101 | Access Control to Radiologically Significant Areas | | 10/03/2005 | 10/07/2005 | Baseline Inspections |
| | EB08P | - ISI U1 - VESS VOL (TI 150/152) AS REQ | 1 | | | |
| 1 | IP 7111108P | Inservice Inspection Activities - PWR | | 10/10/2005 | 10/14/2005 | Baseline Inspections |
| 1 | IP 7111108P | Inservice Inspection Activities - PWR | | 10/24/2005 | 10/28/2005 | Baseline Inspections |
| | EP2 | - EMERG PREPAREDNESS PROGRAM INSPECTION | 1 | | | |
| 1, 2, 3 | IP 7111402 | Alert and Notification System Testing | | 01/23/2006 | 01/27/2006 | Baseline Inspections |
| 1, 2, 3 | IP 7111403 | Emergency Response Organization Augmentation Testing | | 01/23/2006 | 01/27/2006 | Baseline Inspections |
| 1, 2, 3 | IP 7111404 | Emergency Action Level and Emergency Plan Changes | | 01/23/2006 | 01/27/2006 | Baseline Inspections |
| 1, 2, 3 | IP 7111405 | Correction of Emergency Preparedness Weaknesses and Deficiencies | | 01/23/2006 | 01/27/2006 | Baseline Inspections |
| 1, 2, 3 | IP 71151 | Performance Indicator Verification | | 01/23/2006 | 01/27/2006 | Baseline Inspections |
| | EB | - SSD&PCI/50.59 | 5 | | | |
| 1, 2, 3 | IP 7111121 | Safety System Design and Performance Capability | | 03/06/2006 | 03/10/2006 | Baseline Inspections |
| 1, 2, 3 | IP 7111102 | Evaluation of Changes, Tests, or Experiments | | 03/20/2006 | 03/24/2006 | Baseline Inspections |
| 1, 2, 3 | IP 7111121 | Safety System Design and Performance Capability | | 03/20/2006 | 03/24/2006 | Baseline Inspections |