

**THE UTILITY REFORM NETWORK
OFFICE OF RATEPAYER ADVOCATES**
*Differences between terms identified on the note and
the proposed/final SONGS settlement*

Recovery of Base plant costs (Note item #1)

The note calls for SCE and SDG&E to recover these costs at a “debt-level” return through 2022. The note refers to “debt-level” return for the entire amount of unrecovered plant investments (apart from the Replacement Steam Generators). The note does not specify when the base plant would be removed from rates (SCE and SDG&E had proposed June 1, 2013). By contrast, the proposed settlement removes base plant from rates on February 1, 2012 and provides zero return on the equity portion of the plant and only 50% of preferred returns on that portion of the plant investment. For SCE, a “debt-level” return for the unrecovered investment would be 7.64% while the settlement allows a return of 2.62%.¹ For SDG&E, a “debt-level” return for the unrecovered investment would be 6.88% while the settlement provides a return of 2.41%.²

Conclusion - The lower level returns included in the proposed settlement results in a reduction of over \$200 million (Net Present Value) in ratepayer costs. If the note intended to remove base plant from rates later than February 1, 2012 (as proposed by SCE and SDG&E), the settlement would provide even larger reductions.

Nuclear fuel (Note item #1)

The note appears to call for SCE and SDG&E to recover approximately \$593 million in nuclear fuel costs (which are “Pre-RSG investment”) at a “debt-level” return through 2022.³ The proposed settlement allows recovery of nuclear fuel at a commercial paper rate of return (currently 0.1%) and requires that ratepayers be credited with 95% of the proceeds from the sale of any of this fuel to other nuclear plant owners.

Conclusion - The settlement results in significantly lower costs for ratepayers. If no nuclear fuel is sold, the settlement would result in approximately \$65 million in lower ratepayer costs.

¹ This comparison accounts for the “tax gross up” applied to equity returns set at debt levels and any returns on preferred stock. This “gross up” is a standard utility practice in ratemaking. SCE’s “debt-level” return would be 7.64% (5.49% plus taxes on equity returns) while the settlement allows a return of 2.80% (2.62% plus taxes on preferred stock return).

² Due to the “tax gross up”, SDG&E’s “debt-level” return would be 6.88% (5.00% plus taxes on equity returns) while the settlement allows a return of 2.41% (2.35% plus taxes on preferred stock return).

³ As of December 31, 2013, the net book value of nuclear fuel investments was \$477 million for SCE and \$115.8 million for SDG&E (Settlement §3.38). As shown in footnotes 1 and 2, this “debt-level” return would be 7.64% for SCE (after tax gross up) and 6.88% for SDG&E (after tax gross up).

Replacement Steam Generators (Note item #2)

The note calls for the RSG investments to be disallowed “retroactively out of ratebase effective 2/1/12”. Since the note references disallowances “effective” February 1, 2012, there is no basis to conclude that the Peevey-Pickett note contemplated disallowances of costs prior to February 1, 2012. Had the note intended such treatment, the disallowance would have either been “retroactive” to an earlier date or would not have made this provision “effective” as of any particular date. The removal of RSG investments “retroactive” to February 1, 2012 is the same treatment provided by the settlement. The note references both the 2/1/2012 date and another date that has been crossed out and is not readable, suggesting that a later date may have also been contemplated. In the investigation, SCE and SDG&E proposed changing the rate treatment of its base plant as of June 2013 when SONGS was permanently retired.

Conclusion – No difference assuming a 2/1/2012 date. If the note intended to remove the RSG investments from rates later than February 1, 2012 (for example, the permanent shut-down date of June 1, 2013), the settlement would provide reductions of approximately \$189 million: \$148 million for SCE and \$41 million for SDG&E.⁴

Operations and Maintenance costs (Note item #7)

The note calls for SCE and SDG&E to retain “O&M” (Operations and Maintenance) revenue requirements “already approved” in the most recent General Rate Cases (GRCs) “through shutdown + 6 months.” SONGS was permanently shutdown on June 12, 2013. Using the actual shutdown date, the note would allow recovery of previously authorized revenue requirements through the end of 2013. Had the note intended to reference the outage that began on January 31, 2012, it would have specified an actual date in 2012 (such as August 1, 2012) rather than stating “shutdown + 6 months” (which demonstrates that “shutdown” had not yet occurred at the time the note was drafted).

For 2012, the settlement allows SCE and SDG&E to retain the lower of actual costs or GRC-authorized O&M revenue requirements. For 2013, the settlement requires SCE and SDG&E to refund the difference between authorized O&M revenue requirements and actual recorded costs. Actual O&M expenses were lower than GRC-authorized revenue requirements for SDG&E in 2012 (by \$3.4 million) and 2013 (\$23.5 million) and for SCE in 2013 (by \$54 million).⁵

Conclusion - The more favorable provision in the settlement results in a reduction of \$80.9 million -- \$54 million for SCE ratepayers and \$26.9 million for SDG&E ratepayers.

⁴ See SCE Advice Letter 3139-E, Attachment A; SDG&E Advice Letter 2672-E, Attachment C.

⁵ See SCE Advice Letter 3139-E, Attachment A (shows \$53.983 million credit due to lower actual vs. authorized O&M spending in 2013), SDG&E Advice Letter 2672-E, Attachment C (shows \$3.369 million credit due to lower actual vs. authorized O&M spending in 2012 and \$23.485 million credit in 2013).

Use of nuclear decommissioning trust funds (Note item #7)

The note assumes that all O&M costs after the shutdown of the plant would be paid through customer rates. In contrast, the settlement calls for SCE and SDG&E to recover their post-shutdown costs from the Nuclear Decommissioning Trusts, rather than ratepayers, whenever possible.⁶ Consistent with the settlement, SCE and SDG&E have pending requests to recover approximately \$434 million from their nuclear decommissioning trust funds for O&M costs incurred between June of 2013 and December 31, 2014.⁷ If the CPUC approves these requests to access the trust funds, approximately \$434 million would be returned to ratepayers.

Conclusion – Under the settlement, ratepayers would receive approximately \$434 million in refunds that are not contemplated under the note.

Contribution to the Greenhouse Gas research (Note item #8)

The note calls for SCE to “donate” \$90 million between 2014-2022 to an agreed-upon entity to perform research on greenhouse gases and climate change. The note does not indicate whether these funds would come from ratepayers or shareholders. The proposed settlement has no provisions addressing any such contributions. The CPUC issued a ruling modifying the settlement to require SCE and SDG&E to contribute \$25 million over 5 years to the University of California for this purpose and specifying that shareholder money (not customer rates) is the source of these contributions. If the note contemplated that the \$90 million would be funded through rates, the final settlement represents a savings of \$90 million. If the note intended that the \$90 million would come from shareholder fund, the impact on ratepayers would be the same under the note and the final settlement.

Conclusion – The settlement results in ratepayer savings of either \$0 or \$90 million depending on whether the note contemplated ratepayer-financed contributions.

Recovery of funds from NEIL and Mitsubishi (Note items #4 and #5)

Both the note and the approved settlement address the allocation of potential litigation proceeds from Nuclear Energy Insurance Limited (NEIL) and Mitsubishi Heavy Industries (MHI). Under the note, the allocation of proceeds from NEIL would go “to customers”. Although the proposed settlement would have allocated 82.5% of NEIL proceeds to ratepayers (and 17.5% to shareholders), the final approved settlement requires that 95% of NEIL proceeds be allocated to ratepayers. Since there have been no recoveries to date from NEIL, it is not possible to determine the difference of allocating 95% vs. 100% of any proceeds to ratepayers.

⁶ Settlement §5(d) & §4.8(b).

⁷ This amount includes post-shutdown O&M costs for 2013 and 2014 incurred by SCE and SDG&E. See SCE Advice Letter 3193-E (seeking \$340 million from trusts for post-shutdown costs between June 7, 2013 and December 31, 2014), SDG&E Advice Letter 2724-E (seeking \$54.59 million from trusts for 2013 post-shutdown costs), SDG&E Application 15-02-006 (seeking \$39.36 million from trusts for 2014 post-shutdown costs),

Under the note, the allocation of proceeds from MHI would be as follows:

	<u>Ratepayers</u>	<u>Shareholders</u>
0-\$200 million	50%	50%
\$201-400 million	30%	70%
\$401-“up to disallowance” ⁸	20%	80%
In excess of “disallowance”	75%	25%

SCE is seeking over \$4 billion from MHI in its arbitration claims. Compared to the note, the proposed settlement is slightly less favorable to ratepayers in the event that recoveries are less than \$800 million (but would be more favorable to ratepayers if recoveries are higher than \$800 million). Under the final approved settlement (as modified by the CPUC), all proceeds would be shared 50/50 between ratepayers and shareholders. The final settlement agreement is far more favorable for ratepayers than the note if total recoveries exceed \$200 million.

Conclusion – The ultimate difference to ratepayers cannot be determined until NEIL coverage is successfully obtained, the arbitration proceedings between SCE and Mitsubishi are resolved, and the final amount of recoveries has been determined.

OII Process (Note items #7(b), #7(c) and #9)

The note calls for SONGS “shutdown” costs through 2017 to be decided in a new “shutdown O&M phase” of the CPUC SONGS OII with “shutdown O&M 2018 and beyond determined in [General Rate Cases]”. The settlement does not contain any similar provisions. Under the settlement, the SONGS OII is not continued for this purpose and “shutdown O&M” costs are not collected from customers. The settlement provides that costs relating to “shutdown O&M” are instead financed via decommissioning trust funds and directs the utilities to seek a determination as to the reasonableness of 2014 costs in a separate ongoing CPUC proceeding (A.14-12-007) that includes involvement from a wide range of active stakeholders.

Conclusion – Under the settlement, all post-shutdown costs (beginning in June of 2013) are to be treated as decommissioning expenses and collected from decommissioning trust funds. For 2013-2014, this treatment results in approximately \$434 million in refunds from the decommissioning trust funds. If the Note intended to allow collection of “shutdown O&M” in rates through 2018, the consequences for consumers would be significantly greater.

⁸ The note does not explain how much recovery would be needed to satisfy the “disallowance”. SCE and SDG&E would likely have proposed that the “disallowance” be calculated based on any expenses they could not recover under a settlement plus their anticipated recovery of RSG and base plant capital assuming a full rate of return on debt, preferred and shareholder equity.

**SUMMARY OF DIFFERENCES BETWEEN
APPROVED SETTLEMENT AND PEEVEY-PICKETT NOTE**

COST CATEGORY	RATEPAYER SAVINGS UNDER SETTLEMENT
Base plant	>\$200 million
Nuclear fuel	≤\$65 million
Replacement steam generators	\$0 - \$189 million
O&M costs	\$80.9 million
Use of decommissioning trust funds	≥ \$434 million
Greenhouse gas research	\$0 - \$90 million
NEIL/MHI recoveries	TBD based on actual recoveries
TOTAL SAVINGS	\$780 - 1,059 million