BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Joint Application of Southern California Edison Company (U 338-E) and San Diego Gas & Electric Company (U 902-E) for the 2009 Nuclear Decommissioning Cost Triennial Proceeding to Set Contribution Levels for the Companies' Nuclear Decommissioning Trust Funds and Address Other Related Decommissioning Issues	)	A.09-04-009 (Filed April 3, 2009)
Application of Pacific Gas and Electric Company in its 2009 Nuclear Decommissioning Cost Triennial Proceeding (U39-E)	)	A.09-04-007 (Filed April 3, 2009)

SETTLEMENT AGREEMENT

The parties to this settlement agreement are Southern California Edison Company ("SCE"), San Diego Gas & Electric Company ("SDG&E"), Pacific Gas and Electric Company ("PG&E") (referred to hereinafter collectively as the "Utilities"), and The Utility Reform Network ("TURN") (the Utilities and TURN are referred to hereinafter collectively as the "Parties" or "Settling Parties" or individually as "Party"). This settlement settles all disputes in these proceedings as between SCE, SDG&E, and PG&E, on the one hand, and TURN, on the other hand.

AGREEMENT

In consideration of the mutual obligations, promises, covenants, and conditions contained here, the Parties agree to support approval by the California Public Utilities Commission ("Commission" or "CPUC") of this Agreement in this proceeding, as further described in Section 9.2 below.

1. Compromise of Disputed Claims

As to all matters settled, the Parties agree that the terms of this settlement constitute the compromise of many interrelated positions that are in dispute. By agreeing to this settlement, the Parties do not represent that any of the specific elements of the settlement is reasonable on its own terms, but only agree that, when taken together and only when taken together, that the settlement in whole is reasonable and should be adopted by the Commission. The Parties further agree that no portion of the settlement may be entered

in any other proceeding as being indicative of the opinion of any party in such other proceedings.

2. Decommissioning Cost Estimates

2.1 Adoption of SONGS, Palo Verde, Diablo Canyon and Humboldt Bay Decommissioning Cost Estimates

The Utilities' cost estimates for San Onofre Nuclear Generating Station ("SONGS") Units 1, 2, & 3, Palo Verde Units 1, 2, & 3, Diablo Canyon Units 1 & 2, and Humboldt Bay Unit 3 are reasonable for purposes of setting the authorized revenue requirements in this Nuclear Decommissioning Cost Triennial Proceeding ("NDCTP") and for future review of SONGS Unit 1 and Humboldt Bay Unit 3 decommissioning expenditures in the next NDCTP application.

SCE's new revenue requirement would take effect on May 1, 2010.

SDG&E would change its annual contributions on May 1, 2010.

PG&E would change its revenue requirements as of January 1, 2010, and make corresponding changes to its decommissioning contributions.

2.2 Report for next NDCTP

Three individuals shall be retained to analyze certain issues for the next and only the next NDCTP, with a budget not to exceed $250,000, unless an increase in the budget is agreed to by SCE, SDG&E, and PG&E. The review will be conducted by Bruce Lacy of the Lacy Consulting Group, Geoffrey Griffiths of TLG Services, and Nick Capik of ABZ, Inc. (the "reviewers"). The reviewers will prepare a report addressing the specific issues set forth below. Costs incurred for the report will be paid by the three Utilities (based on proportionate shares) and eligible for full recovery in rates.

The report will identify key assumptions for the decommissioning cost estimates for Palo Verde, SONGS, and Diablo Canyon for the next NDCTP. More specifically, the report shall include the following:

- Identifying, comparing, and explaining the key cost and financial assumptions driving differences in the cost estimates, including SCE adjustments for Palo Verde, for the three facilities.

- Identifying, comparing, and explaining similarities and differences in decommissioning costs, challenges, and approaches for California nuclear units and plants of similar design and configuration in other states.

• Identifying and explaining cost and financial assumptions that could be applied on a common basis to the estimates for the Diablo Canyon, SONGS, and Palo Verde sites. The report may include recommendations on proposed common cost and financial assumptions. Depending on economic, technical, and regulatory developments during the triennial period, these assumptions may include an updated start date reflecting the best-available information from the U.S. Department of Energy ("DOE") for spent fuel removal, updated low-level radioactive waste ("LLRW") burial rates, etc.

• Identifying and suggesting steps that could be taken to minimize decommissioning costs in the future.

• Evaluating whether emerging radiological contamination issues could increase decommissioning costs and, if so, recommending steps that can be taken to minimize such contamination in the future.

• Suggesting a common format for the preparation of decommissioning cost estimates that would permit greater transparency and comparability.

The reviewers shall be given full access to utility information and to cost estimating utility and consulting personnel, in conducting their review, subject to a confidentiality and non-disclosure agreement that will protect sensitive and confidential material. U.S. Nuclear Regulatory Commission ("NRC") safeguards information will not be provided if disclosure would violate NRC rules or procedures. The report shall be provided in a public form (with redactions of confidential information). The report shall be addressed in the cost estimates developed for SONGS and Diablo Canyon, and in any SCE adjustments to the updated Palo Verde cost estimate for the next NDCTP. The reviewers shall schedule a meeting within ninety (90) days of approval of the Settlement by the Commission to establish a work plan so that they may complete their report no later than November 1, 2010.

2.3 Site restoration standards at SONGS

The Settling Parties request that CPUC (along with other state agencies and officials) formally ask the U.S. Department of the Navy ("Navy") to (1) clarify the applicable site restoration and remediation standards that will be required to terminate the SONGS site lease, and (2) execute an amended site lease contract with SCE and SDG&E that explicitly reflects such clarified standards, prior to the development of the SONGS cost estimates for the next NDCTP in order to help assess appropriate funding needs.

3. Trust Fund Return Assumptions for SCE and SDG&E

3.1 Updating of fund balances

For SCE and SDG&E, all trust fund balances should be updated as of 12/31/09 for purposes of determining contribution requirements for this NDCTP cycle.

3.2 Equity returns

8.75% pre-tax for SCE and SDG&E.

3.3 Debt returns

4.2% post tax for SCE and SDG&E.

3.4 Escalation rates

The escalation rates used by SCE and SDG&E for all categories other than LLRW burial are reasonable. For LLRW burial escalation, a 6.93% rate shall be used for SCE and SDG&E.

3.5 Cash in portfolio

(SDG&E only) For ratemaking purposes, SDG&E agrees to assume that 50% of portfolio will be held in cash after 2030, but reserves the right to manage its investments pursuant to the advice of its Trust Committee and, where SDG&E's Trust Committee determines that limiting its cash position to 50% is not reasonable, to contest this provision in the next NDCTP.

3.6 Taxes on realized/unrealized capital losses

For Investments Held in the Decommissioning Trusts

The purpose of calculating the Trust Net Liquidation Value is to simulate the conversion of all investments into cash. Thus, the Trust Net Liquidation Value assumes the tax realization of gains and losses for all existing investments. As such, the Trust Net Liquidation Value shall be equal to (1) the fair market value of the existing investments, (2a) minus the product of the composite income tax rate multiplied by the excess of the fair market value of existing investments over the cost basis of existing investments, or (2b) plus the product of the composite income tax rate multiplied by the excess of the cost basis of existing investments over the fair market value of existing investments.

For Tax Implications Not Reflected in the Trust Net Liquidation Value

Where not otherwise reflected in the Trust Net Liquidation Value, for any tax year where a decommissioning trust has reported a net capital gain, the taxes paid on those gains shall be deducted from the Trust Net Liquidation Value.

Where not otherwise reflected in the Trust Net Liquidation Value, for any tax year where a decommissioning trust has reported a net capital loss that can be carried back to prior tax years and utilized in those carry back years, the tax reduction (or refund) associated with that loss shall be added to the Trust Fund Net Liquidation Value.

For any tax year where a decommissioning trust has reported a net capital loss that results in a net capital loss carryforward, the tax reduction (or refund) associated with that net capital loss carryforward shall be determined under applicable tax rates and ninety percent (90%) of such tax reduction (or refund) shall be added to the Trust Net Liquidation Value. The net capital loss carryforward used for these purposes shall be adjusted to reflect any increases or decreases to the net capital loss carryforward reported in any subsequent tax return filed by or for the decommissioning trust.

4. Other Matters Relating to SCE and SDG&E

SCE and SDG&E's decommissioning costs presented for reasonableness review in their Application were reasonable in amount and prudently incurred.

As required by Ordering Paragraph 6 of D.07-01-003, SCE and SDG&E demonstrated that they have made all reasonable efforts to retain and utilize sufficient qualified and experienced personnel to effectively, safely, and efficiently pursue any decommissioning activities at SONGS 1.

5. Trust Fund Assumptions and Other Matters Relating to PG&E

5.1 No precedential effect

All assumptions set forth herein relating to PG&E's funding of its decommissioning trusts shall not be cited as precedent or otherwise used in any other CPUC proceeding, except that the decommissioning cost estimates for Humboldt Bay Unit 3 shall be used to determine presumptions of reasonableness in the next NDCTP, as provided above.

5.2 Diablo Canyon Units 1 & 2

Black box settlement of $9 million per year of qualified trust funding, beginning January 1, 2010. The conversion of funding to revenue requirements will be determined as provided in PG&E's Application.

The Parties recognize that to make the agreed upon contributions PG&E will be required to file a Schedule of Ruling Amounts (SRA) with the Internal Revenue Service (IRS) and that, to enable that filing, the Commission will need to adopt assumptions consistent with obtaining this funding level.

Funding assumptions will be computed as provided in PG&E's Application, except that:

(i) Pursuant to PG&E's agreement with TURN, the following assumptions will be incorporated:
- Liquidation values of the trust funds as of December 31, 2009, will be computed netting all realized and unrealized capital gains and losses;
- Escalation rates for PG&E labor shall be 3.75% in 2009, 3.75% in 2010, and 4.00% in 2011; and that for the years after 2011 the labor escalation rates in SCE's testimony will be applied which are equivalent to a combined escalation rate for both contract and PG&E labor of 3.14% for those years; and
- Equities shall be "ramped-down" (i.e., converted into fixed income investments) over a five-year period after shut-down, as proposed in TURN's testimony; and

(ii) After-tax returns on fixed income and equity investments will be adjusted on a pro-rata basis from the assumptions in PG&E's Application in order to yield a $9 million annual funding level.

5.3 Humboldt Bay Unit 3

Funding assumptions (and revenue requirements) will be computed as provided in PG&E's Application, except that, pursuant to PG&E's agreement with TURN:

- Liquidation values of the trust funds as of December 31, 2009, will be computed netting all realized and unrealized capital gains and losses; and
- Escalation rates for PG&E labor shall be 3.75% in 2009, 3.75% in 2010, and 4.00% in 2011; and that for years after 2011, the labor escalation rates in SCE's testimony will be applied.

PG&E's decommissioning costs presented for reasonableness review in its Application were reasonable in amount and prudently incurred.

As required by Ordering Paragraph 6 of D.07-01-003, PG&E has demonstrated that they have made all reasonable efforts to retain and utilize sufficient qualified and experienced personnel to effectively, safely, and efficiently pursue any nuclear decommissioning activities.

PG&E's request for SAFSTOR Operation and Maintenance (O&M) expense is

reasonable and PG&E is authorized to collect $9.218 million in CPUC-jurisdictional revenue requirements in 2010 for such expenses, plus attrition associated with that amount, totaling an additional $204,000 for 2011; an additional $209,000 for 2012; and, if no new SAFSTOR revenue requirement is applicable, an additional $209,000 for 2013.

6. Policy and Planning Issues

6.1 ISFSI Part 50 License

The SONGS owners agree to explore the feasibility of structuring the future SONGS License Termination Plan with the purpose of eliminating or minimizing obstacles to the return of potentially excess decommissioning funds in trust upon license termination and site restoration for the SONGS 1, 2, & 3 site, excluding the ISFSI. This exploration would be in concert with the effort to secure an amended site lease from the Navy. The License Termination Plan, which will be developed at least two years before permanent retirement of SONGS 2 & 3, is contemplated to include a partial license termination for the SONGS site wherein the Part 50 license would remain in effect for the ISFSI after license termination for the remainder of the SONGS site and the NRC's interest in the SONGS Units 1, 2, & 3 portion of the Part 50 license would be fully extinguished. This would eliminate or minimize obstacles to the return of potentially excess decommissioning trust funds not required until the eventual decommissioning of the ISFSI. The SONGS owners agree to report on their exploration of this approach as part of the next NDCTP.

6.2 License Renewal

In the next NDCTP, the Utilities shall provide estimates of changes to decommissioning funding and annual contribution requirements associated with license renewals regardless of whether such approvals have been sought or granted, for informational purposes only, and not to be included or incorporated into the Utilities' cost estimates, unless license renewals have been granted by the NRC, accepted by the corresponding Utilities, and not subject to judicial review.

6.3 Decommingling

In the next NDCTP, the Utilities will report the pro rata share of funds accumulated for NRC License Termination (radiological decommissioning to meet the NRC standard for license termination). At the time of filing their next NDCTP applications, the Utilities will also provide copies of their most recent funding assurance letters (pursuant to 10 C.F.R 50.75) sent to the NRC.

6.4 Investment Policy

In the next NDCTP, the Utilities will consider the costs, risk, and benefits of assuming that the trust funds retain a limited amount of equity investment (e.g., 15%-30%) for 10 years after shutdown.

7. Reasonableness Review Standards

The CPUC's standard for reasonableness review of SONGS 1 decommissioning expenditures, as originally enacted in a settlement adopted in D.99-06-007, and reaffirmed in each subsequent CPUC NDCTP decision, shall be continued for all future SONGS 1 decommissioning expenditures and shall be extended to all post-2008 decommissioning activities and expenditures for Humboldt Bay Unit 3.

8. Other Issues

The current requirement for SCE to prepare the Nuclear Decommissioning Tax Memorandum Account (to track the time value of money associated with estimated income tax payments that do not match exactly to the computed final tax liability for SCE's Qualified trust funds) shall be terminated.

Pursuant to the August 3, 2009 ruling of ALJ Darling, issues of decommissioning trust management and diversity shall be deferred to Phase II of this proceeding.

9. Miscellaneous

9.1 Effective Date

The effective date of this settlement agreement is December 18, 2009.

9.2 Regulatory Approval

The Parties shall use their best efforts to obtain Commission approval of the Agreement. The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable and in the public interest. The Parties assert that this Agreement is reasonable and in the public interest.

9.3 Nonprecedent

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Agreement is not precedential.

9.4 Previous Communications

This Agreement contains the entire Agreement and understanding between the Parties as to the 2009 NDCTP Applications 09-04-007 and 09-04-009, and supersedes all prior agreements, commitments, representations, and

discussions between the Parties regarding the 2009 NDCTP. In the event that there is any conflict between the terms and scope of the Agreement and any other writing, the Agreement shall govern.

9.5 Nonwaiver

None of the provisions of this Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

9.6 Effect of Subject Heading

Subject headings in this Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

9.7 Governing Law

This Agreement shall be interpreted, governed, and construed under the laws of the State of California, including Commission decisions, orders, and rulings, as if executed and to be performed wholly within the State of California.

9.8 Number of Originals

This Agreement may be executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

SOUTHERN CALIFORNIA EDISON COMPANY

By:
____/s/ Robert C. Boada_____
Robert C. Boada
Vice President and Treasurer

SAN DIEGO GAS & ELECTRIC COMPANY

By:
___/s/ Lee Schavrien _____
Lee Schavrien
Senior Vice President,
Regulatory & Finance

PACIFIC GAS AND ELECTIC COMPANY

By:
____/s/ Craig M. Buchsbaum_____
Craig M. Buchsbaum
Attorney

THE UTILITY REFORM NETWORK

By:
___/s/ Matthew Freedman_____
Matthew Freedman
Attorney

(END OF APPENDIX B)