

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
I. D. #5675
ENERGY DIVISION **RESOLUTION E-3993**
June 15, 2006

R E S O L U T I O N

Resolution E-3993. San Diego Gas & Electric Company requests approval of its proposed investment management agreement with AllianceBernstein L. P.

Request granted.

By Advice Letter 1784-E filed on March 28, 2006.

SUMMARY

SDG&E's request is approved.

This Resolution approves the investment management agreement [Agreement] between San Diego Gas & Electric Company [SDG&E] Nuclear Facilities Decommissioning Master Trust Committee [Committee] and AllianceBernstein L.P. [Alliance], and authorizes the Commission's Executive Director or his designee to sign the Agreement on behalf of the Commission.

BACKGROUND

Externally managed trust funds to accrue the decommissioning trust funds.

In Order Instituting Investigation No. 86, the Commission conducted an extensive investigation, on its own motion, into the recovery of costs of decommissioning nuclear power plants owned by the California utilities. In Decision [D.] 87-05-062 the Commission adopted externally managed trust funds as vehicles for accruing decommissioning funds. In that decision the Commission also established guidelines for trust agreements.

SDG&E's Qualified and Nonqualified Trusts and their Managers.

In response to D.87-05-062, SDG&E established two trusts; one to hold contributions that qualify for an income tax deduction under Section 468A of Internal Revenue Code [Qualified Trust], and another to hold the remaining

funds [Non-qualified Trust]. By Resolution E-3060, dated November 25, 1987, the Commission approved SDG&E trust agreements.

As of March 31, 2006, the total market value of SDG&E's nuclear decommissioning trusts was \$ 651 million.

Section 3.01 of both trust agreements provides for the establishment of the Committee. Subject to Commission approval, the Committee is authorized to appoint one or more investment managers to direct investments of all or part of the trusts' assets. Presently, the Qualified Trust's *fixed-income* investments [i.e., bonds and commercial paper] are managed by NISA Investment Advisors and TCW Asset Management Company. By AL 1784-E, SDG&E proposes to add Alliance to that group in order to diversify the management of its Qualified Trust's fixed income assets.

At its March 3, 2006 meeting, the Committee approved the selection of Alliance as an additional fixed income manager in the Qualified Trust.

Guidelines for Trust Investments

The Commission has set forth its limitations on the nuclear utilities' trust fund investments in a series of decisions. In D.87-05-062, the Commission concluded that Non-qualified Trust fund investments in high quality *equity* securities [i.e., company shares] shall not exceed 60% of the trust fund's fair market value. Therefore the fixed-income allocation must at least be 40% of the Nonqualified Trust. Most recently, D.95-07-055 authorized that up to 50% of the fair market value of Qualified Trust funds may be invested in publicly traded equity securities. Of these, 40% may be invested in non-U.S. equity securities.

The Alliance Agreement is not materially different than other management agreements.

The proposed Agreement between the Committee and Alliance is substantially the same as the Agreements previously approved by the Commission. The investment manager annual fee schedule for Alliance is in Appendix B to AL 1784-E. The fee schedule states the method of calculation of fees payable to Alliance, and frequency of payments. Alliance's investment management fee schedule for the Qualified Trust complies with the guidelines ordered in D.87-05-062.

D.95-07-055 provides for the Agreements to be approved through the Commission's Advice Letter process. SDG&E, in AL 1784-E, requests Commission approval of the Agreement with Alliance so that the Qualified Trust may be invested within the levels authorized by the Commission and to achieve better diversification among fixed income managers to maximize after-tax returns on a risk-adjusted basis.

NOTICE

Notice of AL 1784-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letter AL 1784-E was not protested.

DISCUSSION

According to Attachment B to AL 1784-E, assets under Alliance management as of September 30, 2005 amounted to \$555 billion; \$162 billion [29%] of which was in fixed income class. The assets were managed by a group of 173 portfolio managers and 228 research analysts, about a third of whom were engaged in fixed income investments. It also states that Alliance is represented in all the continents by joint venture relationships and investment management and research teams.

SDG&E states that it considered 36 investment managers in its search for an additional fixed income manager. The search was finally concentrated on four investment managers; AllianceBernstein, PIMCO, STW, and BlackRock.

The following criteria were used for evaluation;

- Consistent investment management process for taxable assets
- Risk-adjusted investment returns pre-tax and after-tax
- Tracking error
- Risk management and compliance systems
- Competitive investment management fees, and
- Diversification benefits.

SDG&E asserts that following a thorough evaluation of available information, Alliance was recommended as an additional fixed income manager for the Qualified Trust. The Committee concluded that based on their own independent judgment and staff's analysis, Alliance can fulfill the Committee's goals and objectives for an additional fixed income manager.

The Energy Division has reviewed AL 1784-E and concludes that the proposed Agreement is in compliance with the applicable Commission requirements and that the addition of Alliance to the fixed income management should be beneficial to the ratepayers, as well as shareholders, of SDG&E.

Energy Division's review has also determined that Alliance's investment management fee schedule for the Qualified Trust complies with the guidelines ordered in D.87-05-062.

Accordingly, the Energy Division recommends approval of the request by authorizing the Executive Director, or his designee, to sign the Agreement on behalf of the Commission.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

1. SDG&E filed AL 1784-E on March 28, 2006 requesting approval of its investment management agreement [Agreement] with AllianceBernstein L.P. [Alliance].
2. In D.87-05-062 the Commission required externally managed trust funds to finance the decommissioning of nuclear power plants.
3. D.95-07-055 requires that all agreements be approved by the Commission through the advice letter process.

4. In its March 3, 2006 meeting, SDG&E's Nuclear Facilities Decommissioning Master Trust Committee [Committee] approved retaining Alliance as an additional fixed income manager in the Qualified Trust.
5. The proposed Agreement between the Committee and Alliance is substantially the same as the Agreements previously approved by the Commission, with the exception of the fee schedule.
6. The proposed Agreement is in compliance with applicable Commission requirements and should be approved.

THEREFORE IT IS ORDERED THAT:

1. San Diego Gas & Electric Company's Advice Letter 1784-E is approved
2. The Commission's Executive Director, or his designee, is authorized to sign the Agreement on behalf of the Commission.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 15, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director