APPENDIX B

SETTLEMENTS FOR NUCLEAR DECOMMISSIONING

EDISON/SDG&E SETTLEMENT
FOR A.05-11-008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Southern California Edison Company and San Diego Gas & Electric Company for the 2005 Nuclear Decommissioning Cost Triennial Proceeding to Set Contribution Levels for the Companies' Nuclear Decommissioning Trust funds and Address Other Related Decommissioning Issues.	)	A.05-11-008 (Filed November 10, 2005)

SETTLEMENT AGREEMENT

1. PARTIES

The Parties to this Settlement Agreement (Agreement) are Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Division of Ratepayer Advocates (DRA), Federal Executive Agencies (FEA) and The Utility Reform Network (TURN) (referred hereinafter collectively as Parties or individually as Party).

2. RECITALS

2.1 SCE is an investor-owned public utility in the State of California and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC) with respect to providing electric service to its CPUC-jurisdictional retail customers.

2.2 SDG&E is an investor-owned public utility in the State of California and is subject to the jurisdiction of the Commission with respect to providing electric service to its CPUC-jurisdictional retail customers.

2.3 San Onofre Nuclear Generating Station Unit Nos. 2 and 3 (SONGS 2&3) are Pressurized Water Reactor (PWR) nuclear generating units. SONGS 1 is a permanently closed PWR nuclear generating unit, presently in the process of being actively decommissioned. SONGS 1, 2&3 are located at a common site in Southern California, near San Clemente.

2.4 SCE owns an 80% interest in SONGS 1 and a 75.05% interest in SONGS 2&3, and is the decommissioning agent for SONGS 1 and the operating agent for SONGS 2&3. SDG&E owns a 20% interest in SONGS 1, 2&3.[1]

2.5 Palo Verde Nuclear Generation Station Unit Nos. 1, 2, and 3 (Palo Verde) consists of three PWR nuclear generating units. Palo Verde is located at a common site approximately 60 miles west of Phoenix, Arizona. SCE owns a 15.8% interest in Palo Verde. Arizona Public Service owns a 29.1% interest in Palo Verde and is the operating agent.[2]

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1 The Cities of Anaheim and Riverside own the remaining 3.16% and 1.79% interests in SONGS 2&3, respectively.

2 The other owners are: El Paso Electric (15.8% share); Public Service of New Mexico (10.2% share); Salt River Project (17.9% share); Los Angeles Department of Water and Power (5.7% share); and a coalition of 7 municipal utilities called Southern California Public Power Authority (SCPPA) (5.9% share).

2.6 On November 10, 2005, SCE and SDG&E (sometimes referred to hereinafter collectively as Utilities) submitted their joint application for the 2005 Nuclear Decommissioning Cost Triennial Proceeding (NDCTP or Joint Application). The NDCTP was filed in compliance with Ordering Paragraph No. 7 of D.95-07-055, as modified by the Commission Executive Director's letter to SCE, dated November 1, 2004, and letter to SDG&E, dated February 1, 2005.

2.7 In the NDCTP application, the Utilities requested the Commission to take certain actions as set forth therein.

2.8 DRA (formerly known as Office of Ratepayer Advocates, or ORA) is the office of the Commission responsible for advocating on behalf of the interests of utility customers.

2.9 FEA represents the consumer interests of agencies and departments of the United States.

2.10 TURN is an independent, non-profit customer advocacy organization that represents the interests of residential and small commercial utility customers.

2.11 DOE is the U.S. Department of Energy, a federal agency which, under the Nuclear Waste Policy Act of 1982, as amended, has an obligation to develop permanent disposal capacity for spent fuel and other high level radioactive waste generated by licensed commercial nuclear power plants in the United States, including SONGS 1, 2&3.

3. DEFINITIONS

When terms used with initial capitalization in this Agreement, whether singular or plural, are defined herein, they shall have the meanings stated herein. Where further clarification may be useful, it is provided in Appendix A. Other terms used with initial capitalization in this Agreement, whether singular or plural, but not defined herein, shall have the meanings stated in Appendix A.

4. AGREEMENT

In consideration of the mutual obligations, promises, covenants and conditions contained herein, the Parties agree to support approval by the Commission of this Agreement in this proceeding as further described in Section 6, below.

4.1 Nuclear Decommissioning Trust Fund Contribution Levels

4.1.1 SCE

4.1.1.1 SCE should be authorized to recover an annual Revenue Requirement for contributions to its SONGS 2&3 and Palo Verde Decommissioning Trust Funds, as set forth in the Joint Application, subject to incorporation of the following modifications:

(A) the March 2006 25-year Global Insight forecast for projected pre-tax rate of returns for the years 2007 through 2029 to be assumed for the equity and bond portions of the decommissioning trust assets,

(B) the March 2006 25-year Global Insight forecast to be assumed for escalation rates,

(C) May 31, 2006, Decommissioning Trust Fund liquidation values,

(D) a 60% holding in equities in the Qualified Trusts as of the presumed date of January 1, 2007, provided that the Commission approves a maximum allocation of 60% equities, and SCE's Nuclear Decommissioning Trust Investment Committee approves an allocation of 60% equities, for the Qualified Trusts,[3] and

(E) a 21% contingency factor on all components of the Palo Verde decommissioning cost estimate, except estimated low-level radioactive waste burial costs, to which no contingency factor is applied.

Appendix B contains an exemplar table identifying the allocation of this Revenue Requirement and trust contribution among SONGS 2&3, and Palo Verde with the modifications described in subsections (A), (B), (D) and (E) directly above, but with March 31, 2006 Decommissioning Trust Fund liquidation values (rather than May 31, 2006, values described in subsection (C), above, which are not yet available). SCE will file an update of Appendix B with its reply brief on July 14, 2006 in this docket that reflects the May 31, 2006

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[3] SCE plans to review the Qualified Trust equity allocation with the Nuclear Decommissioning Trust Committee at the next Committee meeting, currently scheduled on June 19, 2006. SCE will notify all parties of the Committee's determination.

Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee). The Commission should find the allocation exemplified in Appendix B and the corresponding update to be submitted on July 14, 2006 to reflect May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee), to be reasonable. The Revenue Requirement change will occur on January 1, 2007. No further collections are authorized for SONGS 1 at this time.

4.1.1.2 The Commission should approve the remainder of SCE's requests set forth in the Joint Application:

4.1.1.2.1 To raise the Qualified Trust's maximum equity percentage to 60%,

4.1.1.2.2 To raise the cap on investment management fees to 30 basis points,

4.1.1.2.3 To raise the annual compensation retainer for non-company members of the Nuclear Decommissioning Trust Committee to $12,000,

4.1.1.2.4 To authorize SCE to amend its Decommissioning Trust Agreements to clarify that transfers of assets to the Qualified Trusts (including transfers from the Nonqualified Trusts), pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, are permissible under the Trust Agreements, and to submit such amendments as may be required for Commission approval via advice letter filing,

4.1.1.2.5 To approve the transfer of funds to the corresponding SONGS and Palo Verde Qualified Trusts (including transfers from the Nonqualified Trusts), as may be permitted pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, as authorized by the Internal Revenue Service, and

4.1.1.2.6 To authorize SCE to continue to use the tax benefits associated with deducting SONGS 1 Nonqualified Trust amounts consistent with Ordering Paragraph No. 9 of D.03-10-015, including the tax benefits that may arise in connection with any transfer of funds from SCE's SONGS 1 Nonqualified Trusts to SCE's SONGS 1 Qualified Trusts as provided for in

Internal Revenue Code Section 468A(f), to continue SONGS 1 decommissioning work.

4.1.2 SDG&E:

4.1.2.1 SDG&E should be authorized to recover an annual Revenue Requirement for contributions to its SONGS 2&3 Decommissioning Trust Funds, as set forth in the Joint Application, subject to incorporation of the following modifications:

(A) the March 2006 25-year Global Insight forecast for projected pre-tax rate of returns for the years 2007 through 2029 to be assumed for the equity and bond portions of the decommissioning trust assets,

(B) the March 2006 25-year Global Insight forecast to be assumed for escalation rates,

(C) May 31, 2006, Decommissioning Trust Fund liquidation values, and

(D) a 60% holding in equities in the Qualified Trusts as of the presumed date of January 1, 2007, provided that the Commission approves a maximum allocation of 60% equities, and SDG&E's Nuclear Decommissioning Trust

Investment Committee approves an allocation of 60% equities, for the Qualified Trusts.[4]

Appendix C contains an exemplar table identifying the allocation of this Revenue Requirement and trust contribution among SONGS 2&3 with the modifications described in subsections (A), (B), and (D) directly above, but with March 31, 2006 Decommissioning Trust Fund liquidation values (rather than May 31, 2006, values described in subsection (C), above, which are not yet available). SDG&E will file an update to Appendix B with its reply brief on July 14, 2006 in this docket that reflects the May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee). The Commission should find the allocation exemplified in Appendix C and the corresponding update to be submitted on July 14, 2006 to reflect May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not

[4] SDG&E plans to review the Qualified Trust equity allocation with the Nuclear Decommissioning Trust Committee at the next Committee meeting, currently scheduled on June 19, 2006. SDG&E will notify all parties of the Committee's determination.

approved by the Nuclear Decommissioning Trust Committee), to be reasonable. The Revenue Requirement change will occur on January 1, 2007. No further collections are authorized for SONGS 1 at this time.

4.1.2.2 The Commission should approve the remainder of SDG&E's requests set forth in the Joint Application:

4.1.2.2.1 To raise the Qualified Trust's maximum equity percentage to 60%,

4.1.2.2.2 To raise the cap on investment management fees to 30 basis points,

4.1.2.2.3 To raise the annual compensation retainer for non-company members of the Nuclear Decommissioning Trust Committee to $12,000,

4.1.2.2.4 To apply $2.48 million of the overcollection in its Nuclear Decommissioning Adjustment Mechanism as a 12-month amortization to the nuclear decommissioning rate effective January 1, 2007, to offset the impact of the increase in the Nuclear Decommissioning revenue requirement in 2007. This amount will be updated, if necessary, if the final revenue requirement changes as a result of filing of the

update appendix described in Section 4.1.2.1 above.

4.1.2.2.5 To authorize SDG&E to amend its Decommissioning Trust Agreements to clarify that transfers of assets to the Qualified Trust (including transfers from the Nonqualified Trusts), pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Policy Act of 2005, are permissible under the Trust Agreements, and to submit such amendments as may be required for Commission approval via advice letter filing,

4.1.2.2.6 To approve the transfer of funds to SONGS Qualified Trusts (including transfers from the Nonqualified Trusts), as may be permitted pursuant to Internal Revenue Code Section 468A(f), as amended by the Energy Act of 2005, as authorized by the Internal Revenue Service, and

4.1.2.2.7 To authorize SDG&E to continue to use the tax benefits associated with deducting SONGS 1 Nonqualified Trust amounts consistent with Ordering Paragraph No. 9 of D.03-10-015, including the tax benefits that may arise in connection with any transfer of funds from SDG&E's SONGS 1 Nonqualified Trusts to

SDG&E's SONGS 1 Qualified Trusts as provided for in Internal Revenue Code Section 468A(f), to continue SONGS 1 decommissioning work.

4.2 Use of SONGS 1 Decommissioning Funds

As part of the next NDCTP, SCE and SDG&E will evaluate and address in their application and opening testimony whether there may exist any SONGS 1 decommissioning trust funds that are not anticipated to be needed at that time for remaining SONGS 1 Decommissioning Work and whether any such funds can and should be transferred to SONGS 2&3 Decommissioning Trusts with the intent to use them to fund SONGS 2&3 decommissioning, contingent upon a favorable ruling from the IRS allowing the transfer, if necessary, and any necessary approvals by the Nuclear Regulatory Commission or other agencies.

4.3 Department of Energy Litigation (U.S. Court of Claims Docket 04-109C)

SCE and SDG&E agree that if SCE and SDG&E, respectively, receive money from the DOE in settlement of their DOE spent fuel litigation within three years of the effective date of this Agreement, SCE and SDG&E will seek a favorable ruling from the IRS to deposit certain monies received from the DOE into their respective decommissioning trust accounts. After receiving a favorable ruling from the IRS, SCE and SDG&E will deposit the money received from the DOE (less litigation costs) that is associated with funds required for work included in the decommissioning cost estimates (but not money associated with current SONGS 2&3 operations or off-site storage of

SONGS 1 used fuel at Morris, Illinois) into their respective appropriate decommissioning trust accounts. SCE and SDG&E will each file an Advice Letter within 120 days of the date of deposit of the funds into the decommissioning trusts to update their respective annual contributions accordingly.

4.4 SONGS 1 Decommissioning Work Completed and Cost Estimate for Remaining Work

The Commission should adopt as reasonable: (i) the $298 million (100% share, 2004$) cost of SONGS 1 Decommissioning Work completed between January 1, 2002 and June 30, 2005, and (ii) the updated $309 million (100% share, 2004$) SONGS 1 decommissioning cost estimate for Remaining Work.

4.5 SONGS 2&3 and Palo Verde Decommissioning Cost Estimates

The Commission should adopt as reasonable the updated cost estimates for SONGS 2&3 and Palo Verde set forth by SCE and SDG&E in the Joint Application (other than the revision to the Palo Verde decommissioning cost estimate, reflecting a reduction in the contingency factor for non-burial components of the estimate from 35% to 21%).

4.6 Estimated Tax Payments

SCE's Nuclear Decommissioning Trusts currently make estimated income tax payments as required by Internal Revenue Code section 6655, in a manner that is consistent with such code section. Payments for the Qualified Nuclear Decommissioning Trusts are made by the trusts directly to the taxing authority and, as such, do not in any way impact SCE or SCE's own corporate income tax liability. In an effort to

finalize this Agreement and to respond to DRA's recommendations regarding estimated tax payments, SCE proposes to provide, as part of its tax testimony in the next NDCTP, a memorandum account that would track the time value of money associated with any net overpayment of estimated income tax payments of its Nuclear Decommissioning Trusts. This memorandum account will compare the estimated tax payments actually made with the amounts required to be paid in each quarterly period based upon the tax returns as filed. An interest rate equal to the assumed after-tax rate-of-return underlying the annual contribution authorized for each trust account will be applied to this difference for the period outstanding. These interest amounts will be cumulated and constitute the balance in this memorandum account. It will be subject to review and reduce the revenue requirement to be authorized in the next proceeding.

5. SIGNATURE DATE AND TERM OF AGREEMENT

This Agreement shall become binding on the signature date.

6. 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.

7. COMPROMISE OF DISPUTED CLAIMS

This Agreement represents a compromise of disputed claims between the Parties. The Parties have reached this Agreement after taking into account the possibility that each Party may or may not prevail on any given issue.

The Parties assert that this Agreement is reasonable and in the public interest.

8. NON PRECEDENT

Consistent with Rule 51.8 of the Commission's Rules of Practice and Procedure, this Agreement is not precedential.

9. PREVIOUS COMMUNICATIONS

The Agreement contains the entire Agreement and understanding between the Parties as to the 2005 NDCTP, and supersedes all prior agreements, commitments, representations, and discussions between the Parties regarding the 2005 NDCTP. In the event there is any conflict between the terms and scope of the Agreement and any other writing, the Agreement shall govern.

10. NON WAIVER

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.

11. EFFECT OF SUBJECT HEADING

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

12. 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.

13. 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:_____

Bruce C. Foster
Senior Vice President

SAN DIEGO GAS & ELECTRIC COMPANY

By:_____
Name:_____
Title: _____

DIVISION OF RATEPAYER ADVOCATES

By:_____
Name:_____
Title: _____

FEDERAL EXECUTIVE AGENCIES

By:_____
Name:_____
Title: _____

THE UTILITY REFORM NETWORK

By:_____
Name:_____
Title: _____

APPENDIX A

APPENDIX A

DEFINITIONS

1 **Decommissioning Cost Estimate:** A site-specific estimate of expenditures, based on technology and requirements in existence at the time the estimate is prepared, expected to be incurred during the course of decommissioning work. For example, this includes costs for labor, materials, equipment, energy, services, overhead expenses, nuclear fuel storage expenses, applicable labor loading charges, and administrative and general expenses, as well as contingency. Contingency funds address the uncertainties with changing regulations, contract pricing, labor issues, equipment failures, etc. likely to be encountered at the time of performance of decommissioning work.

2 **Decommissioning Trust Funds:** The externally managed, segregated funds collected from customers to pay the costs to decontaminate and decommission the Utilities' nuclear generating units.

3 **Dry Fuel Storage Monitoring And Maintenance:** The process of conducting inspections and maintenance of the fuel storage facility to ensure the integrity of the fuel is maintained in accordance with NRC Regulations. This activity will continue until all fuel is transferred to the DOE.

4 **Energy Policy Act of 2005:** The Domenici-Barton Energy Policy Act of 2005, which included the Energy Tax Incentives Act of 2005 (Title XIII). Section 1310 modifies the special rules for nuclear decommissioning costs in Internal Revenue Code Section 468A. Of particular significance to the Utilities' 2005 NDCTP are provisions within Energy Act Section 1310 that allow all nuclear decommissioning liability to be funded through the use of Qualified Trusts as provided for in Internal Revenue Code Section 468A. In addition, all or a portion of amounts that were previously contributed into Nonqualified Trusts may now

be transferred into Qualified Trusts. The amount transferred from a Nonqualified Trust to a Qualified Trust may not exceed the present value of the nonqualifying portion of the total nuclear decommissioning costs previously excluded by Code Section 468A(d)(2)(A) prior to enactment of the Energy Act. The amendments to Internal Revenue Code Section 468A by Energy Act Section 1310 apply to taxable years beginning after December 31, 2005.

5 **Global Insight:** An economic forecasting service that provided the projections for labor escalation, and for material, equipment, and other escalation, used by the Utilities in this proceeding, and in numerous proceedings before the Commission. The particular Global Insight projection used to develop this application was the August 2005 TREND25YEAR0805 projection. This projection spans the period from 2005 through 2035.

6 **Internal Revenue Service (IRS):** The federal agency charged with administering federal income taxes.

7 **Master Trust Agreements:** The documents governing the California Utilities' Nuclear Decommissioning Trusts. There are separate Master Trust Agreements for the Qualified Trusts, contributions to which qualify for income tax deductions under Section 468A of the Internal Revenue Code, and for the Nonqualified Trusts which hold the remaining required decommissioning funds. The Master Trust Agreements have been approved by the CPUC, which is a signatory on the documents.

8 **Nonqualified Trusts:** The SCE and SDG&E Nuclear Decommissioning Trusts which do not qualify for income tax exemptions under Section 468A of the Internal Revenue Code.

9 **Nonqualified Trust Tax Benefits:** These are amounts that arise as previously taxed funds are withdrawn from the nonqualified decommissioning trust. They are the reduced corporate taxes that result from decommissioning

expenditures for decommissioning work that is currently deductible for tax purposes. These tax benefits, or "return of taxes" paid by the utility when the funds were initially collected from customers, may be used to contribute to the amount of funds available to the decommissioning activities.

10 **Nuclear Decommissioning Trust Committee(s):** The Nuclear Facilities Decommissioning Master Trust Committee(s) established pursuant to Article III of the respective SCE and SDG&E Nuclear Facilities Qualified and Nonqualified Master Trust Agreements.

11 **Nuclear Regulatory Commission (NRC):** A commission of the United States federal government charged with regulating the civilian nuclear industry.

12 **Qualified Trusts:** The SCE and SDG&E Nuclear Decommissioning Trusts that are exempt from income taxes when collected under Section 468A of the Internal Revenue Code.

13 **Revenue Requirement:** The total amount of revenue required by the Utilities to recover their projected decommissioning costs that are to be collected for their Decommissioning Trust Funds.

14 **San Onofre Nuclear Generating Station (SONGS):** A nuclear generating station with two operating units and one shutdown unit located at Camp Pendleton in Southern California.

15 **SONGS 1:** A Pressurized Water Reactor (PWR) nuclear generating unit with a gross maximum capacity of 410 Megawatt electric (MWe) which began commercial operation on January 1, 1968. SONGS 1 was permanently shut down in November 1992. SONGS 1 is located at a site in southern California that is common to SONGS 2&3.

16 **SONGS 1 Decommissioning Work:** All work necessary to meet the decommissioning requirements of the NRC, Project Land Rights, the San Onofre

Agreements, the California Public Utilities Commission, and any other applicable federal, state, and local regulations for SONGS 1.

17 **SONGS 2&3:** Two Pressurized Water Reactors (PWR) nuclear generating units which each have an output of 1127 Megawatts electric (MWe) and have been in commercial operation since 1983 and 1984, respectively. SONGS 2&3 are located at a site in southern California that is common to the shutdown SONGS Unit 1.

APPENDIX B

Example Allocation of Contribution and Revenue Requirement Among SCE's Qualified Nuclear Decommissioning Trust Funds ($000)

	SONGS 2	SONGS 3	PVNGS1	PVNGS2	PVNGS3	Total
Proposed Contribution Amount	16,985	10,960	5,498	6,188	4,177	43,809
Proposed Revenue Requirement	17,187	11,090	5,563	6,261	4,227	44,328

APPENDIX C

Example Allocation of Contribution and Revenue Requirement Among SDG&E's Qualified Nuclear Decommissioning Trust Funds ($000)

	SONGS 2	SONGS 3	Total
Proposed Contribution Amount	5,194	3,850	9,044
Proposed Revenue Requirement	5,267	3,904	9,171

(END OF EDISON/SDG&E SETTLEMENT FOR A.05-11-008)

THE UPDATE TO EDISON/SDG&E SETTLEMENT FOR A.05-11-008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Southern California Edison Company and San Diego Gas & Electric Company for the 2005 Nuclear Decommissioning Cost Triennial Proceeding to Set Contribution Levels for the Companies' Nuclear Decommissioning Trust funds and Address Other Related Decommissioning Issues.	)	A.05-11-008 (Filed November 10, 2005)

CORRECTION AND CLARIFICATION OF SETTLEMENT AGREEMENT AMOUNTS BY SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)

CAROL SCHMID-FRAZEE
JENNIFER SHIGEKAWA

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY
2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6819
Facsimile: (626) 302-7740
E-mail:jennifer.shigekawa@sce.com

JAMES F. WALSH

Attorneys for
SAN DIEGO GAS & ELECTRIC COMPANY
101 Ash Street
Post Office Box 1831
San Diego, California 92101
Telephone: (619) 699-5022
Facsimile: (619) 699-5027
E-mail:jwalsh@sempra.com

Dated: August 31, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Joint Application of Southern California Edison Company and San Diego Gas & Electric Company for the 2005 Nuclear Decommissioning Cost Triennial Proceeding to Set Contribution Levels for the Companies' Nuclear Decommissioning Trust funds and Address Other Related Decommissioning Issues.	)	A.05-11-008 (Filed November 10, 2005)

CORRECTION AND CLARIFICATION OF SETTLEMENT AGREEMENT AMOUNTS BY SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND SAN DIEGO GAS AND ELECTRIC COMPANY (U 902-E)

I.

CORRECTION AND CLARIFICATION OF SETTLEMENT AGREEMENT AMOUNTS

As requested in the accompanying Motion by Southern California Edison Company (U 338-E) and San Diego Gas & Electric Company (U 902-E) to Provide Correction and Clarification of Settlement Agreement Amounts, Southern California Edison Company ("SCE") and San Diego Gas & Electric Company ("SDG&E"), submit this Correction and Clarification to Settlement Agreement Amounts in the 2005 Nuclear Decommissioning Cost Triennial Proceeding (A.05-11-008) ("2005 NDCTP"). The Settlement Agreement was entered into by and among SCE, SDG&E, the Division of Ratepayer Advocates ("DRA"), Federal Executive Agencies ("FEA"), and The Utility Reform Network ("TURN") (the "Settling Parties") in May 2006.

For SCE, the amounts reflected in the Settlement Agreement and the July 14, 2006 Update to the Settlement Agreement are incorrect, and the final decision in this 2005 NDCTP

needs to reflect the corrected proposed contribution amounts and proposed revenue requirement amounts for SCE.

In addition, in reviewing the corrected proposed settlement amounts for SCE, DRA requested an additional change to SCE and SDG&E's respective models calculating their settlement amounts. In particular, DRA requested that the Rate of Return figures used in the model be recalculated using liquidation values as of May 31, 2006, and expected contributions and earnings for the remainder of 2006. SCE and SDG&E both agreed to DRA's request.

SCE and SDG&E also wish to provide additional clarification of the Settlement Agreement amounts through spreadsheets that show the difference between the amounts requested in their respective 2005 NDCTP Applications and the amounts agreed to pursuant to the Settlement.

A. Corrections to Settlement Agreement Amounts for SCE Only

The Settling Parties reached a settlement of the NDCTP proceeding in May 2006. With respect to SCE, the Settlement Agreement contains an Appendix B, entitled "Example Allocation of Contribution and Revenue Requirement Among SCE's Qualified Nuclear Decommissioning Trust Funds." Pursuant to Section 4.1.1.1 of the Settlement Agreement, the proposed contribution and revenue requirement amounts are supposed to reflect the following differences from the 2005 NDCTP Application:

> (A) the March 2006 25-year Global Insight forecast for projected pre-tax rate of returns for the years 2007 through 2029 to be assumed for the equity and bond portions of the decommissioning trust assets,
>
> (B) the March 2006 25-year Global Insight forecast to be assumed for escalation rates,

(C) May 31, 2006, Decommissioning Trust Fund liquidation values,

(D) a 60% holding in equities in the Qualified Trusts as of the presumed date of January 1, 2007, provided that the Commission approves a maximum allocation of 60% equities, and SCE's Nuclear Decommissioning Trust Investment Committee approves an allocation of 60% equities, for the Qualified Trusts, and

(E) a 21% contingency factor on all components of the Palo Verde decommissioning cost estimate, except estimated low-level radioactive waste burial costs, to which no contingency factor is applied.[1]

SCE has discovered certain errors in its calculations of the settlement amounts. First, the impact of Section 4.1.1.1(E), whereby the Settling Parties agreed to a 21% contingency factor (in lieu of the 35% contingency factor requested in the 2005 NDCTP Application), was not incorporated into the calculation of the settlement amounts. Second, the settlement amounts

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[1] Settlement Agreement, Section 4.1.1.1 further provides that:

> Appendix B contains an exemplar table identifying the allocation of this Revenue Requirement and trust contribution among SONGS 2&3, and Palo Verde with the modifications described in subsections (A), (B), (D) and (E) directly above, but with March 31, 2006 Decommissioning Trust Fund liquidation values (rather than May 31, 2006, values described in subsection (C), above, which are not yet available). SCE will file an update of Appendix B with its reply brief on July 14, 2006 in this docket that reflects the May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee). The Commission should find the allocation exemplified in Appendix B and the corresponding update to be submitted on July 14, 2006 to reflect May 31, 2006 Decommissioning Trust Fund liquidation values (and a reduced percentage of equities for the Qualified Trusts if the 60% allocation is not approved by the Nuclear Decommissioning Trust Committee), to be reasonable. The Revenue Requirement change will occur on January 1, 2007. No further collections are authorized for SONGS 1 at this time.

need to be corrected to reflect the pro-ration of the 2006 contribution for Palo Verde Nuclear Generating Station 3 at May 31, 2006, rather than March 31, 2006, as a result of updating the Decommissioning Trust Fund liquidation values. Third, the settlement amounts need to be corrected to reflect the correct SONGS escalation factors, which were incorrect because they were not updated with the escalation factor update agreed to in Section 4.1.1.1(B). Each of these three errors needs to be corrected.[2]

In addition, SCE has incorporated the different Rate of Return figures (referenced above), using the liquidation values as of May 31, 2006, and expected contributions for the remainder of 2006, as requested by DRA.

Attached hereto as Attachment A is a corrected Update to the Settlement Agreement that reflects these corrections. As a result of these corrections, the proposed contribution and revenue requirement amounts are as follows:

Allocation of Contributions and Revenue Requirement Among SCE's Qualified Nuclear Decommissioning Trust Funds

(Total Amounts in $ Thousands)

	Incorrect Amounts Reflected in Update filed on July 14, 2006	**Correct Amounts Reflecting 4 Changes Identified Above**
Proposed Contribution Amounts	47,848	42,239
Proposed Revenue Requirement Amounts	48,415	42,739

The correct amounts are shown in the right-hand column above and show a decrease in the proposed contribution and revenue requirement amounts. The final decision in this NDCTP should reflect these corrected numbers.

[2] These errors are also contained in Attachment A to the Update to the Settlement Agreement filed on July 14, 2006.

B. Change to SDG&E Settlement Amounts Based on DRA's Request

As requested by DRA, SDG&E has incorporated different Rate of Return figures in calculating its settlement amounts, using the liquidation values as of May 31, 2006, and expected contributions and earnings for the remainder of 2006. Attached hereto as Attachment B is a corrected Update to the Settlement Agreement that reflects these corrections. As a result of these corrections, the proposed contribution and revenue requirement amounts are as follows:

Allocation of Contributions and Revenue Requirement Among SDG&E's Qualified and Non-Qualified Nuclear Decommissioning Trust Funds

(Total Amounts in $ Thousands)

	Amounts Reflected in Update filed on July 14, 2006	**Correct Amounts Change Requested by DRA**
Proposed Contribution Amounts	9,492	9,350
Proposed Revenue Requirement Amounts	9,625	9,481

The amounts shown in the right-hand column above show a decrease in the proposed contribution and revenue requirement amounts. The final decision in this NDCTP should reflect these numbers.

C. Clarification Regarding Settlement Amounts by Both SCE and SDG&E

SCE and SDG&E would both like to provide additional clarification regarding how the final settlement amounts differ from the amounts requested in their 2005 NDCTP Applications. Attached hereto as Attachment C is a spreadsheet showing the effect of the Settlement on the 2005 NDCTP Application amounts for SCE. Attachment C shows how each of the various subsections (A) through (E) of Section 4.1.1.1 (and other corrections explained herein) changed the proposed contribution and revenue requirement amounts requested in the 2005 NDCTP Application and brought the total settlement amounts down to the amounts now reflected in the (corrected) proposed Settlement Agreement amounts (shown in Attachment A and C hereto).

Attached hereto as Attachment D is a corresponding spreadsheet for SDG&E.

II.

CONCLUSION

Based on the foregoing, SCE and SDG&E respectfully request that the Commission grant the Motion of Southern California Edison Company and San Diego Gas & Electric Company to Provide Correction and Clarification of Settlement Amounts, filed concurrently herewith, and adopt the correct proposed contribution and revenue requirement amounts as reflected in Attachments A, B, C, and D, hereto, and as agreed to in the Settlement Agreement.

Respectfully submitted,

By: /s/ Jennifer Shigekawa
Jennifer Shigekawa
Attorney for
SOUTHERN CALIFORNIA EDISON COMPANY

Respectfully submitted,

By: /s/ James F. Walsh
James F. Walsh
Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY

Dated: August 31, 2006

CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of CORRECTION AND CLARIFICATION OF SETTLEMENT AGREEMENT AMOUNTS BY SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this August 31, 2006, at Rosemead, California.

/s/ Christine Sanchez
Christine Sanchez
Project Analyst
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770

Attachment A

Allocation of Contributions and Revenue Requirement
Among SCE's Qualified Nuclear Decommissioning Trust Funds
($000)

	SONGS 2	SONGS 3	PVNGS 1	PVNGS 2	PVNGS 3	Total
Proposed Contribution Amount	16,984	10,797	5,067	5,663	3,728	42,239
Proposed Revenue Requirement Amount	17,185	10,925	5,127	5,730	3,773	42,739

Attachment B

Allocation of Contributions and Revenue Requirement

Among SDG&E's Qualified and Non-Qualified Nuclear Decommissioning Trust Funds
($000)

	SONGS 2 Qualified	SONGS 2 Non-Qualified	TOTAL SONGS 2	SONGS 3	Total
Proposed Contribution Amount	5,285	5	5,290	4,060	9,350
Proposed Revenue Requirement Amount	5,359	5	5,364	4,117	9,481

Attachment C

Southern California Edison
2005 Nuclear Decommissioning Cost Triennial Proceeding
Analysis of Settlement Adjusments
($ thousands)

Contribution Amount

Item No.	Description	SONGS 2	SONGS 3	PVNGS 1	PVNGS 2	PVNGS 3	Total
1.	Application	22,032	15,913	6,708	7,521	5,593	57,766
2.	ROR Adjustment (4.1.1.1 A & D)	21,065	14,998	6,340	7,091	5,078	54,572
3.	Variance to Application	(967)	(915)	(368)	(429)	(515)	(3,195)
4.	ROR & Esc Adj (4.1.1.1 A, B, & D)	17,648	11,555	5,628	6,319	4,299	45,449
5.	Incremental Variance (to Item No. 2)	(3,418)	(3,443)	(712)	(772)	(779)	(9,123)
6.	ROR, Esc, & Fund Adj (4.1.1.1 A, B, C & D)	18,454	12,568	5,838	6,529	4,459	47,848
7.	Incremental Variance (to Item No. 4)	806	1,013	210	210	160	2,400
8.	ROR, Esc, Fund, & Cont Adj (4.1.1.1 A, B, C, D, & E)	18,454	12,568	5,123	5,723	3,749	45,618
9.	Incremental Variance (to Item No. 6)	-	-	(715)	(806)	(709)	(2,230)
10.	Corrections[1] with 4.1.1.1 A, B, C, D, & E	17,118	10,950	5,123	5,723	3,795	42,709
11.	Incremental Variance (to Item No. 8)	(1,336)	(1,618)	-	-	46	(2,908)
12.	Updated ROR,[2] Corrections, & 4.1.1.1 A, B, C, D, & E	16,984	10,797	5,067	5,663	3,728	42,239
13.	Incremental Variance (to Item No. 10)	(134)	(154)	(56)	(61)	(67)	(471)
14.	Total Variance (Application to Settlement)	(5,048)	(5,116)	(1,641)	(1,858)	(1,865)	(15,528)

Revenue Requirement

Item No.	Description	SONGS 2	SONGS 3	PVNGS 1	PVNGS 2	PVNGS 3	Total
15.	Application	22,293	16,102	6,787	7,610	5,659	58,451
16.	ROR Adjustment (4.1.1.1 A & D)	21,315	15,175	6,415	7,175	5,138	55,218
17.	Variance to Application	(978)	(927)	(372)	(435)	(521)	(3,233)
18.	ROR & Esc Adj (4.1.1.1 A, B, & D)	17,857	11,692	5,695	6,394	4,350	45,987
19.	Incremental Variance (to Item No. 14)	(3,458)	(3,483)	(720)	(781)	(788)	(9,231)
20.	ROR, Esc, & Fund Adj (4.1.1.1 A, B, C & D)	18,673	12,717	5,907	6,607	4,511	48,415
21.	Incremental Variance (to Item No. 16)	816	1,025	212	213	162	2,428
22.	ROR, Esc, Fund, & Cont Adj (4.1.1.1 A, B, C, D, & E)	18,673	12,717	5,184	5,791	3,794	46,158
23.	Incremental Variance (to Item No. 18)	-	-	(723)	(816)	(718)	(2,257)
24.	Corrections[1] with 4.1.1.1 A, B, C, D, & E	17,321	11,080	5,184	5,791	3,840	43,216
25.	Incremental Variance (to Item No. 20)	(1,352)	(1,637)	-	-	46	(2,943)
26.	Updated ROR,[2] Corrections, & 4.1.1.1 A, B, C, D, & E	17,185	10,925	5,127	5,730	3,773	42,739
27.	Incremental Variance (to Item No. 10)	(135)	(155)	(57)	(61)	(67)	(476)
28.	Total Variance (Application to Settlement)	(5,108)	(5,177)	(1,660)	(1,880)	(1,886)	(15,712)

[1] Corrections include the pro-ration of 2006 contribution for PVNGS 3 to reflect liquidation values at 5/31/06 rather than 3/31/06; and includes a correction to "other" category for SONGS escalation factors, which was not updated with escalation factor update.

[2] Rate of Return recalculated using liquidation values at 5/31/06 and expected contributions and earnings for the remainder of 2006.

Attachment D

San Diego Gas & Electric
2005 Nuclear Decommissioning Cost Triennial Proceeding
Analysis of Settlement Adjusments
($ thousands)

Contribution Amount

Item No.	Description	SONGS 2	SONGS 3	Total
1.	Application - Original Calculation - Nov 2005	6,839	5,208	12,047
2.	ROR Adjustment (4.1.1.1 A & D)	6,353	4,675	11,028
3.	Variance to Application	(486)	(533)	(1,019)
4.	ROR & Esc Adj (4.1.1.1 A, B, & D)	5,111	3,347	8,458
5.	Incremental Variance (to Item No. 2)	(1,242)	(1,328)	(2,570)
6.	ROR, Esc, & Fund Adj (4.1.1.1 A, B, C & D)	5,361	4,131	9,492
7.	Incremental Variance (to Item No. 4)	250	784	1,034
8.	Updated ROR,[2] & 4.1.1.1 A, B, C, D	5,290	4,060	**9,350**
9.	Incremental Variance (to Item No. 6)	(71)	(71)	(142)
10.	Total Variance (Application to Settlement)	(1,549)	(1,148)	(2,697)

Revenue Requirement

Item No.	Description	SONGS 2	SONGS 3	Total
11.	Application	6,935	5,281	12,216
12.	ROR Adjustment (4.1.1.1 A & D)	6,442	4,740	11,182
13.	Variance to Application	(493)	(540)	(1,033)
14.	ROR & Esc Adj (4.1.1.1 A, B, & D)	5,183	3,394	8,576
15.	Incremental Variance (to Item No. 12)	(1,259)	(1,347)	(2,606)
16.	ROR, Esc, & Fund Adj (4.1.1.1 A, B, C & D)	5,436	4,189	9,625
17.	Incremental Variance (to Item No. 14)	254	795	1,048
16.	Updated ROR,[2] & 4.1.1.1 A, B, C, D	5,364	4,117	**9,481**
17.	Incremental Variance (to Item No. 16)	(72)	(72)	(144)
18.	Total Variance (Application to Settlement)	(1,571)	(1,164)	(2,735)

[2] Rate of Return recalculated using liquidation values at 5/31/06 and expected contributions and earnings for the remainder of 2006.

(END OF THE UPDATE TO EDISON/SDG&E SETTLEMENT FOR A.05-11-008)

PG&E SETTLEMENT
FOR A.05-11-009

Application No.: 05-11-009
(U 39 M)
Exhibit No.: _____
Date: _____
Witness:

PACIFIC GAS AND ELECTRIC COMPANY

2005 NUCLEAR DECOMMISSIONING COST TRIENNIAL PROCEEDING

PG&E, DRA AND TURN FINAL SETTLEMENT AGREEMENT

PG&E

SETTLEMENT AGREEMENT AMONG PACIFIC GAS AND ELECTRIC COMPANY, DIVISION OF RATEPAYER ADVOCATES, AND THE UTILITY REFORM NETWORK

In accordance with Rule 51.1 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E), the Division of Ratepayer Advocates (DRA), and The Utility Reform Network (TURN), hereby enter into this Settlement Agreement in order to resolve all issues associated with PG&E's 2005 Nuclear Decommissioning Cost Triennial Proceeding (NDCTP) Application, filed on November 10, 2005.

RECITALS

1. On November 10, 2005, PG&E filed its 2005 NDCTP Application 05-11-009, providing: a) PG&E's updated nuclear decommissioning cost studies; b) ratepayer contribution analyses necessary to fully fund the nuclear decommissioning master trusts to the level needed to decommission PG&E's nuclear plants; c) an update of its Nuclear Decommissioning revenue requirement, including SAFSTOR; and d) reasonableness and prudence of completed early decommissioning activities at Humboldt Bay Power Plant Unit 3 (Humboldt Unit 3).

2. A timely protest to PG&E's application was filed by DRA. A prehearing conference was held on January 5, 2006. On January 18, 2006, the Assigned Commissioner Geoffrey F. Brown and Administrative Law Judge Douglas M. Long issued a Scoping Memo and Ruling addressing issues, schedule, and other matters necessary to scope the these proceedings.

3. On January 31, 2006, PG&E served its 2005 NDCTP Supplemental Testimony to address the establishment of an Independent Board of Consultants for Humboldt Unit 3 Decommissioning oversight and to request amendments to the Nuclear Facilities Master Trust Agreements.

4. On March 30, 2006, PG&E served its 2005 NDCTP Supplemental Testimony to present an updated level of contribution for Diablo Canyon Units 1 and 2 and Humboldt Unit 3, using December 31, 2005 Trust Balances.

5. On April 7, 2006, interested parties, including DRA, TURN and Scott L. Fielder served Testimony in response to PG&E's 2005 NDCTP Application and Testimony.

6. On April 28, 2006, PG&E served its 2005 NDCTP Rebuttal Testimony.

SETTLEMENT AGREEMENT

As a compromise among their respective litigation positions, and subject to the recitals and reservations set forth in this Settlement Agreement, the Parties hereby agree to fully resolve the issues in PG&E's Application, as follows.

1. 2006 Humboldt SAFSTOR Revenue Requirement

PG&E shall update its payroll tax rate from 10.4% to 7.482% in calculating the Humboldt SAFSTOR 2006 revenue requirement and shall apply $12.215 million (reflecting the adjustment described in the last sentence of this Paragraph) to Humboldt Unit 3 SAFSTOR in 2006 from existing decommissioning revenue requirements and to contribute the remainder (net of taxes, uncollectibles and franchise fees) to the Humboldt decommissioning trusts. TURN's proposal to adjust working capital will not be adopted. PG&E will also make an upward adjustment of the revenue requirement, as contemplated by the Pension Settlement, if the Pension Settlement is approved.

2. 2007-2009 Humboldt SAFSTOR Revenue Requirement

PG&E shall collect, Commission-jurisdictional electric rates beginning in 2007 of $13.234 million for Humboldt Unit 3 SAFSTOR, and will collect an additional amount for attrition of $155,000 beginning January 1, 2008 and further, an additional $16,000 beginning January 1, 2009. PG&E shall update the revenue requirement as described in Chapter 8, "Nuclear Decommissioning Revenue Requirement," pages 8-4 through 8-5 of PG&E's Prepared Testimony filed on November 10, 2005.

3. Nuclear Decommissioning Trust Contribution Modeling Assumptions

Trust Contribution Modeling Assumptions for Diablo Canyon Units 1 and 2 (DCPP) and Humboldt Unit 3 unless otherwise noted:

3.1 LLRW Class A Burial Rate: $248 per cubic foot (In 2004 dollars)

3.2 Diablo Canyon Unit 2 Decommissioning Start Date: 2024

3.3 Humboldt Unit 3 Decommissioning Start Date: 2009

3.4 Diablo Canyon Contingency Factor: 35%

3.5 Humboldt Unit 3 Contingency Factor: 25%

3.6 Burial Escalation: 7.5%

3.7 Non-Burial Escalation: As presented in PG&E's A.05-11-009 Prepared Testimony filed 11/10/05, including calculation methodology

3.8 Trust fund balance: Update as of 12/31/05 (Refer to Paragraph 6)

3.9 Equity Turnover Rate (Qualified): 23.65%

3.10 Equity Turnover Rate (Non-Qualified): 24.49%

3.11 Pre-Tax, Before Fees Return on Equity: 8.5%

3.12 Pre-Tax, Before Fees Return on Fixed Assets: 5.8%

3.13 DCPP Equity/Bond Allocation: 57%/43% (Subject to CPUC approval as described in Paragraph 13)

3.14 DCPP Equity Ramp Down 1-Year Delay: Begin in 2020

3.15 Transfer of Humboldt Non-qualified trust balance and associated tax benefits to Humboldt Qualified

4. 2007-2009 Diablo Canyon Nuclear Decommissioning Revenue Requirement

Based on the modeling assumptions presented in Paragraph 3, PG&E shall collect through Commission-jurisdictional electric rates beginning in 2007, for a 3-year period, $1.827 million for the Diablo Canyon Unit 1 Nuclear Decommissioning Trust and $0 for the Diablo Canyon Unit 2 Nuclear Decommissioning Trust, or such other amounts as

shall be determined based on updated data to be provided in connections with this Application. The Commission shall also adopt appropriate findings to allow PG&E to obtain a ruling from the Internal Revenue Service (IRS) to allow maximum funding of the amount to be contributed to the qualified trusts based on the assumptions set forth herein. (Refer to Paragraph 6)

5. 2007-2009 Humboldt Nuclear Decommissioning Revenue Requirement

Based on the modeling assumptions presented in Paragraph 3, PG&E shall collect through Commission-jurisdictional electric rates beginning in 2007, for a 3-year period, $11.915 million for the Humboldt Unit 3 Nuclear Decommissioning Trust, or such other amounts as shall be determined based on updated data to be provided in connections with this Application. The Commission shall adopt appropriate findings to allow PG&E to obtain a ruling from the Internal Revenue Service (IRS) to allow maximum funding of the amount to be contributed to the tax qualified Humboldt trust based on the assumptions set forth herein, including approval from the IRS to transfer amounts from HBPP Non-qualified trust and associated tax benefits. (Refer to Paragraph 6)

6. Additional Filings

PG&E shall prepare an additional filing to be submitted for California Public Utilities Commission approval by advice letter, presenting the nuclear decommissioning funding requirements based on the assumptions adopted/authorized by the Commission in this proceeding and using September 30, 2006 trust fund balances ("2007 Rate Update"). The 2007 Rate Update filing will serve as the basis for the nuclear decommissioning revenue requirement that will go into effect on January 1, 2007.

In the first quarter 2007, PG&E will again make an advice letter filing for Commission approval showing the funding requirements based on the assumptions adopted by the Commission in this proceeding and using 2006 year-end trust fund balances ("2007 Ruling Amount Update"). The 2007 Ruling Amount Update filing will serve as the basis for the required IRS Schedule of Ruling Amounts for years 2007-2009.

Any difference between the rates incorporated in the 2007 Ruling Amount Update filing and the 2007 Rate Update filing will be collected from or returned to ratepayers through the Nuclear Decommissioning Adjustment Mechanism (NDAM) balancing account by advice letter filing.

7. Revenue Requirement Effective Date

Unless otherwise noted, PG&E's revenue requirement calculation and rate proposal for rates will become effective January 1, 2007.

8. Proposal to Transfer Nuclear Decommissioning Trust Funds from Diablo Canyon Unit 2 to Unit 1

Beginning January 1, 2007, PG&E will collect the 2007 through 2009 authorized revenues for nuclear decommissioning as described in this Settlement Agreement, to the extent allowed by the NRC and IRS, as described in Paragraph 8. PG&E requests that the CPUC approve a transfer of funds from the DCPP Unit 2 Nuclear Decommissioning Trust to the DCPP Unit 1 Nuclear Decommissioning Trust. The amount of the transfer will be calculated based on and/or subject to a) the authorized trust contribution revenue for DCPP Unit 1; b) PG&E's 2007 Ruling Amount Update as described in Paragraph 6; c) the amount of excess funds in the DCPP Unit 2 Nuclear Decommissioning Trust; and d) the approval of the CPUC, NRC and IRS. This transfer is limited to the lesser of a) the excess funding amount in DCPP Unit 2, as calculated in PG&E's 2007 Ruling Amount Update; or b) the amount authorized if IRS approval is obtained. Subject to CPUC approval, PG&E will seek the appropriate authorization from the NRC and IRS. If authorization from the NRC and IRS is obtained, PG&E will adjust its calculated nuclear decommissioning revenue requirement accordingly and within a reasonable amount of time make the transfer. The Parties agree that no action will be taken that could result in a disqualification of the trusts under Internal Revenue Code Section 468A or the regulations there under.

TURN shall participate in seeking authorization from the IRS for the transfer of amounts from the DCPP Unit 2 Nuclear Decommissioning Trust to the DCPP Unit 1 Nuclear Decommissioning Trust. PG&E outside counsel fees related to NRC or IRS authorization shall be eligible for compensation from the DTF.

9. Rate Proposal

PG&E shall implement the revenue requirements adopted herein using the current fixed per kilowatt-hour energy charge methodology for each rate classification, as adopted in the 1999 Revenue Adjustment Decision 01-01-019, and as described in Chapter 9, "Rate Proposal" of PG&E's Prepared Testimony filed on November 10, 2005.

To comply with Section 80110 of the Water Code, as described in Chapter 9, residential generation rates for non-CARE usage less than 130 percent of baseline shall be adjusted either upward or downward (depending on the change in revenue requirements) so that total rates for non-CARE usage less than 130 percent of baseline remain unchanged. This adjustment will require an opposite and proportional change to generation surcharges for usage in excess of 130 percent of baseline for non-CARE customers to ensure that the total revenue allocated to the residential class is fully collected.

Finally, residential daily minimum charges will also be changed to reflect the new nuclear decommissioning charges. However, like energy charges for usage up to 130% of baseline, the total minimum charge cannot be increased. Therefore, a commensurate and opposite change will be made to minimum bill generation charges such that the total daily minimum charge remains unchanged.

10. Prudence and Reasonableness of Completed Decommissioning Projects

PG&E's activities on completed decommissioning projects involving asbestos removal and plant systems and structures radiological characterization were prudent and reasonable.

11. Amendments to the Nuclear Facilities Qualified and Non-Qualified CPUC Decommissioning Master Trust Agreements

11.1 Permit the use of up to 3 percent of the amount required pursuant to 10 C.F.R. 50.75(b) and (c) to be spent for nuclear decommissioning planning purposes without specific Commission approval;

11.2 Reduce the time between filing an application to use additional funds and commencement of decommissioning activities from two years to one year; and

11.3 Enable advanced withdrawals from the trusts to cover expected decommissioning costs.

12. Nuclear Decommissioning Trust Protection Recommended by Other Parties

In DRA's "Report on Pacific Gas and Electric Company's Application Regarding the Nuclear Decommissioning Cost Triennial Proceeding," DRA witness Truman Burns recommends that section 2.07 of the Nuclear Decommissioning Qualified Trust Agreement and section 2.06 of the Nonqualified Nuclear Decommissioning Trust Agreement be amended to include the following language, "The Company shall not transfer its interest in the Master Trust to a corporate affiliate without prior approval of the CPUC." At page 6 of the Prepared Testimony of James S. Adams on behalf of Scott L. Fielder, Adams recommends, "The CPUC make an order that no DTF [Decommissioning Trust Funds] funds may be transferred without prior CPUC approval" and that the CPUC issue an order barring any utility, any successor corporation, or any affiliate company from using DTF funds to pay its debts. PG&E has no objection to the recommendations of Truman Burns and James S. Adams, provided it is understood that the DTF can be used subject to the terms of the Decommissioning Trust Agreement to pay debts of the utility that arise from decommissioning activities and from the administrative cost of operating the fund.

13. Revisions to Trust Investment Arrangements

13.1 The DTF (whether tax qualified on non-qualified) shall be eligible to invest up to 60% of the FMV in equity securities;

13.2 To raise the cap on investment management fees to 30 basis points; and

13.3 The annual compensation retainer paid to the non-company members of the Nuclear Decommissioning Trust Committee shall be increased from $8,000 to $12,000.

Note: The parties agree that incorporating any such investment fee and allocation changes will not cause a revision in the assumptions contained in Paragraph 3, above.

14. Accordance with Sections 8321 through 8330 of the California Public Utilities Code

PG&E's cost estimates and resulting requested revenues are reasonable and in accordance with Sections 8321 through 8330 of the California Public Utilities Code.

RESERVATIONS

15. The Parties agree that this Settlement Agreement represents a compromise, not agreement or endorsement of disputed facts and law presented by the Parties in the NDCTP Application, and that it settles all material issues of fact in the proceeding.

16. The Parties shall jointly request Commission approval of this Settlement Agreement. The Parties additionally agree to actively support prompt approval of the Settlement Agreement. Active support shall include briefing, comments on the proposed decision, written and oral testimony if testimony is required, appearances, and other means as needed to obtain the approvals sought. The Parties further agree to participate jointly in briefings to Commissioners and their advisors as needed regarding the Settlement Agreement and the issues compromised and resolved by it.

17. This Settlement Agreement embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Parties.

18. The Settlement Agreement may be amended or changed only by a written agreement signed by the Parties.

19. The Parties have bargained earnestly and in good faith to achieve this Settlement Agreement. The Parties intend the Settlement Agreement to be interpreted and treated as a unified, interrelated agreement. The Parties agree that any material change to the Settlement Agreement shall give each Party in its sole discretion, the option to terminate the Settlement Agreement. In the event the Settlement is terminated, the Parties will request that the unresolved issues in the NDCTP Application be heard and briefed at the earliest convenient time.

20. This Settlement Agreement represents a compromise of respective litigation positions and is not intended to establish binding precedent for any future proceeding. The Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the compromise embodied herein.

21. Each of the Parties hereto and their respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Parties agree that no provision of this Settlement Agreement shall be construed against any Party because that Party or its counsel drafted the provision.

22. This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

23. This Settlement Agreement shall become effective among the Parties on the date the last Party executes the Settlement as indicated below.

In witness whereof, intending to be legally bound, the Parties hereto have duly executed this Settlement Agreement on behalf of the Parties they represent.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Name: Craig Buchsbaum

Date: May 25, 2006

THE DIVISION OF RATEPAYER ADVOCATES

By: [illegible]

Name: Rashid A Rashid, Staff Counsel

Date: May 25, 2006

THE UTILITY REFORM NETWORK

By: [illegible]

Name: Matthew Freedman

Date: May 25, 2006

(END OF PG&E SETTLEMENT FOR A.05-11-009)

(END OF APPENDIX B: SETTLEMENTS FOR NUCLEAR DECOMMISSIONING)