

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
ITEM # 16 I.D.# 6841
RESOLUTION E-4106
Aug 23, 2007

R E S O L U T I O N

Resolution E-4106. San Diego Gas & Electric Company (SDG&E) requests approval to amend the foreign equity benchmark in the Investment Management Agreement with State Street Global Advisors, an investment manager of SDG&E's nuclear power plant decommissioning trust funds.

By Advice Letter 1898-E Filed on May 18, 2007.

SUMMARY

SDG&E's request to amend the foreign equity benchmark in the Investment Management Agreement with State Street Global Advisors, for SDG&E's nuclear power plant decommissioning trust funds, is approved.

This Resolution approves SDG&E's request to modify the foreign equity benchmark in the Investment Management Agreement with State Street Global Advisors (SSGA), based on compliance with the investment guidelines adopted in Decision (D.) 95-07-055. The Commission's Executive Director or his designee is authorized to sign the modified Agreement on behalf of the Commission.

BACKGROUND

Investment managers, selected by a committee external to SDG&E, direct the investments of all or part of the assets collected for nuclear power plant decommissioning costs until they are needed.

In D.87-05-062, dated May 29, 1987, the Commission directed the utilities to establish separate trust funds for nuclear power plant decommissioning costs - for those that qualify and those that do not qualify for a federal income tax deduction under Internal Revenue Code Section 468A. In compliance with that

decision, SDG&E established the Qualified and the Nonqualified Trust agreements¹ for these funds, which the Commission approved on November 25, 1987 by Resolution E-3060 (OP 1). Under the Trust agreements, a Nuclear Facilities Decommissioning Master Trust Committee (Committee) manages these funds and may select Investment Managers to direct the investments of all or part of the trust assets until they are needed.² The Committee consists of five members, at least three of which cannot be employees, officers, directors, or agents of SDG&E. State Street Global Advisors is one of the Investment Managers selected by the Committee and approved by the Commission to direct the equity investments of the trusts. Utilities are required to obtain Commission approval to execute or amend such investment management agreements.³

To protect the assets collected for nuclear power plant decommissioning costs, the Commission adopted investment guidelines for the trusts.

In D. 87-05-062, as modified by several subsequent decisions and eventually by D.95-07-055, the Commission set limits to allowable investment strategies for the trusts. Not more than 50% of the fair market value of the qualified trusts may be invested in equity securities, and not more than 20% of the fair market value of the trusts may be invested in international equity securities (OP 1). Not less than 50% of the equity portion of the qualified and nonqualified trusts shall be invested passively (OP 3).

SDG&E filed AL 1898-E to request approval to modify the foreign equity benchmark in the Investment Management Agreement with SSGA.

By Advice Letter (AL) 1898-E filed on May 18, 2007, SDG&E requests approval to amend the Investment Management Agreement with SSGA, to achieve appropriate diversification to maximize returns on a risk-adjusted basis. SDG&E states in AL 1898-E that the Committee, at its March 5, 2007 meeting, approved to

¹ San Diego Gas & Electric Company Nuclear Facilities Qualified CPUC Decommissioning Master trust Agreement for San Onofre Nuclear Generating Stations and San Diego Gas Electric Company Nuclear Facilities Nonqualified CPUC Decommissioning Master Trust Agreement for San Onofre Nuclear Generating Station

² Pursuant to Sections 1.01 and 5.01 of the trust agreements

³ D.95-07-055, Ordering Paragraph 6

change the foreign equity benchmark in the SSGA portfolio for the Qualified Trust from the Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) to the MSCI Foreign Investable Index. SDG&E explains in AL 1898-E that the new index “offers better diversification through higher allocation to small cap foreign stocks (approximately 15%).” SDG&E also states that it provides “better representation and greater style integrity; reduced index turnover through use of buffer zones for both size and style indices; minimum free float screens and proper seasoning of IPO’s.” (ibid). The new index reflects the continued evolution of the international equity markets and investment management processes, which have led investors to desire broader coverage of international equity markets while satisfying reasonable investability considerations, such as keeping the changes in the number of constituents low over time and keeping on-going turnover low while obtaining diversification within markets. (Attachment B to SDG&E AL 1898-E, Slide 4). SDG&E provided further explanation in its July 12, 2007 response to Energy Division’s request. “[T]he MSCI Foreign Investable Index is more representative of the total foreign stock market (includes all capitalization ranges). Currently, the MSCI EAFE is changing and will exclude small cap stocks.”

NOTICE

Notice of AL 1898-E was made by publication in the Commission’s Daily Calendar on May 25, 2007. SDG&E states that a copy of the Advice Letter was served on the utilities and interested parties.

PROTESTS

No party protested Advice Letter 1898-E.

DISCUSSION

SDG&E’s request to amend the foreign equity benchmark in the Investment Management Agreement with SSGA is consistent with the investment guidelines in D.95-07-055 and is approved.

The MSCI Foreign Investable Index offers greater diversification with investments that are more representative of the total foreign stock market. The trust asset allocation remains consistent with D.95-07-055, including the 20% limit to foreign equity. The requirement that at least 50% of the equity portion of

the trusts be invested passively is also met (SDG&E July 12, 2007 Response to Data Request).

Therefore, we approve SDG&E's request by authorizing the Executive Director, or his designee, to sign the Investment Management Agreement, as modified, on behalf of the Commission.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and was placed on the Commission's agenda no earlier than 30 days from the date it was mailed.

No comments were submitted on the draft resolution.

FINDINGS

1. D. 95-07-055 requires the electric utilities to obtain Commission approval by Advice Letter to execute or modify Investment Management Agreements involving their nuclear power plant decommissioning trust funds.
2. At the March 5, 2007 Nuclear Facilities Decommissioning Master Trust Committee meeting, the Committee approved to change the foreign equity benchmark in the State Street Global Advisors (SSGA) portfolio for the Qualified Trust from the MSCI EAFE to the MSCI Foreign Investable Index.
3. By AL 1898-E, filed on May 18, 2007, SDG&E requests authority to amend the foreign equity benchmark in the Investment Management Agreement with SSGA. SDG&E's request to modify the Investment Management Agreement with SSGA, as proposed, complies with the requirements of D.95-07-055.

4. By D.87-05-062, OP 3, the Commission's Executive Director is authorized to sign the trust agreements on behalf of the Commission when he is directed to do so by this Commission.
5. No party protested AL 1898-E.

THEREFORE IT IS ORDERED THAT:

1. SDG&E's request to modify the Investment Management Agreement with State Street Global Advisors (SSGA) to change the foreign equity benchmark in the SSGA portfolio for the Qualified Trust from the MSCI EAFE to the MSCI Foreign Investable Index, as requested in Advice Letter AL 1898-E is approved.
2. The Commission's Executive Director, or his designee, is authorized to sign the Investment Management Agreement with SSGA, as modified, 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 August 23, 2007; the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director