

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA  
ENERGY DIVISION  
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.

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**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 agreements<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

**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

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<sup>1</sup> 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

<sup>2</sup> Pursuant to Sections 1.01 and 5.01 of the trust agreements

<sup>3</sup> 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 MCSI 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.

## **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:

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Paul Clanon  
Executive Director

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



July 23, 2007      Commission Meeting Date: August 23, 2007  
I.D.#

6841

TO: PARTIES TO SAN DIEGO GAS AND ELECTRIC  
COMPANY'S ADVICE  
LETTER 1898-E

Enclosed is draft Resolution E-4106 of the Energy Division. It addresses SDG&E's request for approval to modify the foreign equity benchmark in the Investment Management Agreement with State Street Global Advisors, as filed in SDG&E AL 1898-E, involving SDG&E's nuclear power plant decommissioning trust funds. The draft Resolution will be on the agenda at the August 23, 2007 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

Comments, with a certificate of service, should be submitted to:

Honesto Gatchalian

Energy Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Fax: 415-703-2200; JNJ@CPUC.CA.GOV

A copy of the comments should be submitted on the same day by electronic mail in Microsoft Word to Kathryn Auriemma in the Energy Division at: KDW@CPUC.CA.GOV.

Any comments on the draft Resolution must be received by the Energy Division by August 13, 2007. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to this letter, 2) all Commissioners, 3) the Chief Administrative Law Judge, and the General Counsel on the same date that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to fifteen pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft Resolution may be submitted (i.e. received by the Energy Division) on August 20, 2007, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon  
Program Manager  
Energy Division

Enclosures:

Certificate of Service  
Service List

**CERTIFICATE OF SERVICE**

I certify that I have by mail this day served a true copy of Draft Resolution E-4106 on all parties in these filings or their attorneys as shown on the attached list.

Dated July 23, 2007 at San Francisco, California.

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*Honesto Gatchalian*

**NOTICE**

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

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