



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

FILED
4-03-14
04:59 PM

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Services and Facilities of Southern California Edison Company and San Diego Gas and Electric Company Associated with the San Onofre Nuclear Generating Station Units 2 and 3.

Investigation 12-10-013
(Filed October 25, 2012)

And Related Matters.

Application 13-01-016
Application 13-03-005
Application 13-03-013
Application 13-03-014

JOINT MOTION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E), SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E), THE UTILITY REFORM NETWORK, THE OFFICE OF RATEPAYER ADVOCATES, FRIENDS OF THE EARTH, AND THE COALITION OF CALIFORNIA UTILITY EMPLOYEES FOR ADOPTION OF SETTLEMENT AGREEMENT

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Dated: April 3, 2014

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In accordance with Article 12 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), Southern California Edison Company ("SCE"), San Diego Gas & Electric Company ("SDG&E"), the Office of Ratepayer Advocates ("ORA"),¹ The Utility Reform Network ("TURN"), Friends of the Earth ("FOE"), and the Coalition of California Utility Employees ("CUE") (collectively, the "Settling Parties") hereby move the Commission to adopt the Settlement Agreement ("Agreement"), which is appended to this Joint Motion as Attachment 1.

The Agreement, if approved by the Commission, would resolve all issues in Investigation ("I.") 12-10-013, the Order Instituting Investigation ("OII"), and all proceedings that have been consolidated therewith (including Application ("A.") 13-01-016, A.13-03-005, A.13-03-013, and A.13-03-014). In broad terms, the Agreement:²

- disallows rate recovery of the cost of the Steam Generator Replacement Project ("SGRP") as of February 1, 2012, the day after the Unit 3 steam generator tube leak;
- requires SCE and SDG&E (collectively, "the Utilities") to remove all remaining San Onofre Nuclear Generating Station ("SONGS") investments from rate base as of February 1, 2012, and permits recovery of those investments, as well as materials and supplies, nuclear fuel, and construction work in progress, generally over ten years at a reduced rate of return;
- authorizes the Utilities to recover all SONGS-related replacement power costs;

¹ Although ORA was known as the Division of Ratepayer Advocates ("DRA") for most of this proceeding, this motion refers to it as "ORA" throughout.

² In the event that there are any perceived inconsistencies between this Joint Motion and the Agreement, the terms and conditions set forth in the Agreement are to prevail.

- authorizes the Utilities to recover their provisionally authorized SONGS-related operations and maintenance (“O&M”) expenses for 2012 and their recorded O&M in 2013, which results in a disallowance of approximately \$99 million in 2012 incremental costs attributable to SGRP inspection and repair efforts; and
- establishes a sharing formula for the division of potential litigation proceeds from Nuclear Electric Insurance Limited (“NEIL”) and Mitsubishi Heavy Industries, Inc., and related entities (“Mitsubishi”), between the Utilities and ratepayers.

Within 30 days of a Commission decision approving the Agreement, the Utilities will submit revised tariff sheets and Tier 2 Advice Letters to implement rate changes pursuant to the terms of the Agreement.

The Agreement was reached after extensive proceedings in this OII, including evidentiary hearings in Phases 1, 1A, and 2. The Agreement will bring closure to these issues, as well as those that would be heavily litigated in Phase 3, in a way that is reasonable in light of the entire record and consistent with the law and public interest. The Agreement represents a fair compromise of the contested issues, and the Settling Parties urge the Commission to adopt it in full.

This Joint Motion is organized in six parts. Section I provides background related to this proceeding. Section II describes in general the positions advocated by parties in the OII, as well as the terms of the Agreement. Section III demonstrates that the Agreement is reasonable in light of the whole record, consistent with law, and in the public interest, and thus, should be adopted without modification. Section IV notes the Settling Parties’ compliance with Rule 12. Section V proposes a process for consideration of the Agreement. Finally, Section VI requests

that the Commission expedite its consideration of this Joint Motion, stay the OII and all related proceedings in the meantime, and make specific findings with respect to the Agreement.

I. BACKGROUND

SCE replaced the steam generators in SONGS Units 2 and 3 in January 2010 and January 2011, respectively. The replacement steam generators were designed and manufactured by Mitsubishi. The steam generators were replaced pursuant to the Commission's findings, in Decision ("D.") 05-12-040 and D.06-11-026, that the SGRP was reasonable.³ On January 10, 2012, SONGS Unit 2 was removed from service for a scheduled refueling and maintenance outage ("RFO") that was expected to end on March 5, 2012. On January 31, 2012, SONGS Unit 3 was safely taken offline after station operators at SONGS detected a leak in a steam generator tube. In the following months, inspections of the replacement steam generators in Units 2 and 3 revealed extensive and excessive tube wear, including wear caused by steam generator tubes rubbing against each other ("tube-to-tube wear") and against support structures. Given the health and safety implications of the damage found, SCE made a commitment to the Nuclear Regulatory Commission ("NRC") that it would not restart Unit 2 or 3 until the source of the tube wear was understood and SCE had confidence that the unit could be safely restarted. The NRC confirmed SCE's commitment in a Confirmatory Action Letter dated March 27, 2012. Although SCE worked toward restarting and/or repairing Units 2 and 3 in the following months, SCE ultimately decided to retire both units and thereby lost all power generation from the plant.

³ The Commission's decisions in D.05-12-040 and D.06-11-026 directed the Utilities to file applications for the inclusion of SGRP costs permanently in rates upon completion of the project. Accordingly, SCE filed A.13-03-005 on March 15, 2013, seeking Commission approval to include the recorded capital costs of the SGRP permanently in rates. Likewise, on March 18, 2013, SDG&E filed A.13-03-014, seeking Commission approval to include SDG&E's share of recorded capital costs of the SGRP permanently in rates. Both applications have been consolidated with this OII.

On November 1, 2012, the Commission opened the OII to examine “the causes of the outages, the utilities’ responses, the future of the SONGS units, and the resulting effects on the provision of safe and reliable electric service at just and reasonable rates.”⁴ The Order also set SONGS-related rates subject to refund as of January 1, 2012, and directed the Utilities to establish an outage memorandum account (the “SONGSOMA”) for the purpose of tracking those costs.⁵

On December 10, 2012, the Commission issued D.12-11-051, which resolved SCE’s Test Year 2012 General Rate Case (“GRC”). D.12-11-051 directed SCE to establish a memorandum account (the “SONGSMA”), effective January 1, 2012, to track post-2011 SONGS-related O&M costs, cost savings from scheduled personnel reductions, maintenance and refueling outage expenses, and capital expenditures.⁶ The Commission further ordered SCE to file a reasonableness review application for post-2011 expenses recorded in the SONGSMA.⁷ In accordance with this directive, SCE filed A.13-01-016 on January 31, 2013, which was consolidated with this OII.

In D.12-11-051, the Commission also set SDG&E’s SONGS-related O&M and capital costs subject to refund.⁸ On March 19, 2013, SDG&E filed A.13-03-014, requesting a reasonableness determination of SDG&E’s internal SONGS costs incurred during 2012 and capital expenses (excluding the SGRP) that were invoiced by SCE to SDG&E, including SCE’s

⁴ I.12-10-013, p. 2, Nov. 1, 2012.

⁵ *Id.* p. 10.

⁶ D.12-11-051, 2012 WL 6641483, at *15 (Nov. 29, 2012).

⁷ *Id.*

⁸ *Id.* at *331, Finding of Fact 36.

overheads, and tracked in SDG&E's SONGSOMA. A.13-03-014 has been consolidated with this OII.

On January 28, 2013, the Assigned Commissioner and Administrative Law Judge ("ALJ") issued a Scoping Memo and Ruling for Phase 1 of the OII ("Phase 1 Scoping Memo"). The Phase 1 Scoping Memo divided the OII into four phases and identified the issues to be considered in each phase, determined the category of the proceeding as ratesetting, and determined that hearings were necessary under Rule 7.3.⁹ On April 19, 2013, ALJs Darling and Dudney issued a Ruling clarifying that the topics identified in the Phase 1 Scoping Memo applied equally to SCE and SDG&E.

In the fourteen months since the Phase 1 Scoping Memo was issued, the ALJs held three separate evidentiary hearings. For each of these hearings, the Settling Parties and many other parties to the OII propounded and answered data requests; exchanged written testimony; and filed post-hearing Opening and Reply Briefs addressing the issues raised at each hearing. This process began with the exchange of testimony on Phase 1 issues, including whether the Utilities' 2012 SONGS-related expenses were reasonable and necessary and whether SCE's community outreach and emergency preparedness actions and expenditures were reasonable. This testimony was exchanged between December 2012 and April 2013. ALJ Darling held a week-long evidentiary hearing on Phase 1 issues from May 13 to May 17, 2013. The Utilities, TURN, and ORA each submitted Opening and Reply Briefs on Phase 1 issues in the following months.

On April 2, 2013, SCE served testimony addressing the energy-market-related impact of the SONGS outages in its Energy Resource Recovery Account ("ERRA") compliance review proceeding (A.13-04-001). On May 1, 2013, SDG&E served testimony addressing the energy-

⁹ Phase 1 Scoping Memo, pp. 3-4 & 10, Jan. 28, 2013.

market-related impact of the SONGS outages in I.12-10-013. On May 6, 2013, by e-mail ruling, ALJ Dudney ruled that the OII would consider the issue of identifying what replacement power the Utilities purchased in 2012 as a result of the SONGS outages. Because the Utilities' testimony regarding the energy-market-related impact of the outages had been served too late for consideration at the Phase 1 hearings in May, ALJ Dudney scheduled separate evidentiary hearings to address this "replacement power" issue. The phase of the OII addressing this issue came to be known as Phase 1A. The Utilities, TURN, ORA, and other parties to the OII exchanged testimony on Phase 1A issues in July 2013. On July 22, 2013, ALJs Darling and Dudney further clarified that Phase 1A would address "the method for calculating the cost of replacement power during 2012 due to the SONGS outage."¹⁰ ALJ Dudney held an evidentiary hearing on Phase 1A issues from August 5, 2013, until August 6, 2013. The Utilities, TURN, and ORA each filed Opening and Reply Briefs on Phase 1A issues in the following months.

On June 7, 2013, SCE determined that it was no longer prudent to continue to pursue restart or repair, and permanently retired SONGS Units 2 and 3.

On July 1, 2013, ALJs Darling and Dudney issued a ruling clarifying that the scope of Phase 2 would encompass "the values of SONGS assets in rate base," whether and when such assets should be removed from rate base, and the O&M costs associated with those assets.¹¹ Between July 2013 and September 2013, the Utilities, TURN, ORA, and other parties to the OII exchanged testimony on Phase 2 issues. ALJs Darling and Dudney held an evidentiary hearing on Phase 2 issues from October 6 to October 11, 2013. The Utilities, TURN, and ORA each filed Opening and Reply briefs on Phase 2 issues in the following months.

¹⁰ Phase 1A Hearing Room Ground Rules for Evidentiary Hearings, p. 1, July 22, 2013.

¹¹ Ruling on Miscellaneous Scheduling and Procedural Issues and Notice of Phase 2 Prehearing Conference, p. 2, July 1, 2013.

On November 19, 2013, ALJs Darling and Dudney issued a Proposed Decision on Phase 1 and Phase 1A issues. The Utilities, TURN, ORA, and CUE each submitted opening comments on the Proposed Decision on December 9, 2013, and the Utilities, TURN, and ORA each submitted reply comments on December 16, 2013. On January 15, 2014, the Commission held an all-party meeting to discuss the Proposed Decision on Phase 1 and Phase 1A issues. All of the Settling Parties were present at that meeting.

The Utilities are actively seeking to recover costs associated with the non-operation and loss of SONGS from Mitsubishi and NEIL. On July 18, 2013, SDG&E filed a complaint in California Superior Court against Mitsubishi seeking to recover damages SDG&E has incurred and will incur related to the defects in the steam generators. This action was later removed to federal district court, and was stayed on March 14, 2014, pending arbitration. On October 16, 2013, SCE (on its own behalf and as the SONGS “Operating Agent”) and Edison Material Supply LLC (“EMS”) filed a Request for Arbitration against Mitsubishi pursuant to the arbitration clause in the contract between EMS and Mitsubishi. Through this arbitration, which remains in its early stages as of the date of this Joint Motion, SCE and EMS are seeking recovery from Mitsubishi based on the deficiencies in the replacement steam generators supplied by Mitsubishi and the resulting non-operation of SONGS Units 2 and 3. SCE and SDG&E have also submitted claims to NEIL based on their assessments that both SONGS units sustained accidental property damage (and therefore allege they are entitled to recovery of insurance proceeds for “replacement power” under the Utilities’ NEIL Outage Policy). SCE and SDG&E

have submitted proofs of loss to NEIL under the Outage Policy covering SONGS and are continuing to pursue recovery as of the date of this Joint Motion.¹²

The Utilities, TURN, and ORA negotiated the terms of a settlement in a hard-fought process over many months. These parties ultimately were able to resolve their differences through the Agreement in Attachment 1. Although CUE and FOE did not participate in these negotiations, CUE and FOE subsequently joined the Agreement based on their determination that it represents a fair compromise of the disputed issues in this OII.¹³

II. SUMMARY OF POSITIONS AND AGREEMENT

A. Positions Taken By Settling Parties In Testimony And Briefs

A comparison of the positions taken in testimony and briefs to the issues as ultimately resolved by the Agreement reveals that the Settling Parties each compromised substantially to reach the Agreement. The key areas of disagreement are discussed below, along with the Settling Parties' former positions. When figures are provided in connection with the below summary of the parties' litigation positions, the figures are provided subject to ORA's, TURN's, CUE's, and FOE's prerogative under Section 6.1 of the Agreement to "review and validate any amounts used by the Utilities to implement the revenue requirement, accounting procedures, and charges authorized in [the] Agreement."

Although FOE did not set forth specific cost-recovery proposals in its briefing to the Commission as part of this OII, FOE generally argued throughout the proceeding that SCE was

¹² The Utilities have also submitted claims under Property and Decontamination policies issued by NEIL, but have been granted an extension until June 30, 2014, to submit proofs of loss under those policies.

¹³ See Agreement Adding CUE and FOE to SONGS OII Settlement, appended to this Joint Motion as Attachment 3.

likely to be found imprudent and that the Commission should therefore accelerate its consideration of whether to permanently remove SONGS from customer rates.¹⁴

1. SGRP Net Investment

SCE's share of the net book value¹⁵ of the SGRP was \$597 million as of February 1, 2012, including construction work in progress ("CWIP"). SDG&E's share of the net book value of the SGRP was \$160.4 million as of February 1, 2012, including CWIP.

In Phase 2, TURN argued that recovery of the replacement steam generator costs was within the scope of Phase 3, but took the position that the replacement steam generators should be removed from rate base as of January 30, 2012 (the last date, according to TURN, that SONGS was used and useful).¹⁶ Under that approach, all capital-related revenues for the steam generators collected after that date would be refunded to ratepayers and no additional recovery permitted.¹⁷ Under TURN's litigation position, the Utilities could retain all SGRP-related costs collected in rates prior to January 30, 2012.

ORA argued that the net book value of the SGRP should be removed from rate base as of November 1, 2012, and that all capital-related revenues collected for the steam generators after that date should be refunded to ratepayers.¹⁸ ORA reserved its right to pursue removing the

¹⁴ See generally Motion of Friends of the Earth and World Business Academy for Expedited Consideration of Certain Phase 3 Issues, March 11, 2013.

¹⁵ The term "net book value," as defined in the Agreement and as used in this motion, refers to the sum of all recorded direct and indirect expenditures associated with a capital investment less the accumulated amortization and depreciation expenses, if any, associated with an investment.

¹⁶ Exhibit TURN-15, p. 2, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

¹⁷ *Id.*

¹⁸ Exhibit DRA-3, pp. 1 & 9, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

SGRP from rates effective February 1, 2012.¹⁹ ORA further argued that SCE and SDG&E should seek recovery of this net investment from NEIL and Mitsubishi, rather than ratepayers.²⁰

Although CUE did not set forth a specific proposal with respect to the net book value of the SGRP, CUE generally argued that the Commission has authority to remove the out-of-service portion of SONGS from rates as of the date the outages began.²¹

By contrast, the Utilities argued in Phase 2 that the SGRP should be removed from rate base as of the date that SONGS was retired—June 1, 2013—and that the Utilities should be permitted to recover 100% of the net investment in the SGRP as of that date.²² The Utilities argued that this net investment should be recovered over an accelerated amortization period; specifically, a five-year amortization period lasting from June 1, 2013, until June 1, 2018.²³ The Utilities further argued that this net investment should earn a reduced rate of return during the amortization period. For SCE, this reduced return would be equal to the weighted cost of long-term debt and preferred equity, or 5.54%.²⁴ SDG&E argued that its share of the net SGRP investment should earn a reduced rate of return during the amortization period of 5.07%, which represents SDG&E's authorized embedded cost of debt, adjusted for a weighted preferred stock component.²⁵

¹⁹ *Id.* p. 9 n. 27.

²⁰ *Id.* pp. 1 & 9.

²¹ Opening Brief of the Coalition of California Utility Employees Addressing the Legal Issues Related to the Commission's Authority to Reduce and Refund Rates, pp. 4 & 6, February 25, 2013.

²² Exhibit SCE-40, pp. 8 & 12, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

²³ *Id.*

²⁴ *Id.* p. 15.

²⁵ Exhibit SDGE-18-E, pp. 6-7, Errata to Prepared Direct Testimony of Kenneth Deremer, Aug. 16, 2013.

2. Non-SGRP Net Investment (“Base Plant”)

The Agreement refers to the Utilities’ net book value of SONGS-related capital investments other than the SGRP as “Base Plant.” SCE’s share of Base Plant was \$622 million as of February 1, 2012, excluding CWIP. SDG&E’s share of Base Plant was \$165.6 million as of February 1, 2012, excluding CWIP.

In Phase 2, TURN argued that SCE should be entitled to retain depreciation expenses collected for Base Plant from November 30, 2012, through the date of a Commission decision in Phase 3, but should refund all return and associated income taxes from this time period.²⁶ TURN further advocated that, as of the date of a Commission decision in Phase 2, Base Plant should be removed from rate base and amortized over its remaining license life (until 2022), during which time the Utilities would be denied a rate of return.²⁷

ORA argued that the Utilities should remove Base Plant from rate base as of November 1, 2012, and that the Utilities should only recover 75% of its net investment as of that date, amortized over five years with no return.²⁸ The only investment ORA considered “used and useful,” dry cask storage, could stay in rate base earning the Utilities’ full authorized rate of return.²⁹

SCE, for its part, argued that Base Plant should be divided into two categories: 1) assets that remain “used and useful” at SONGS; and 2) assets that were permanently retired as of June

²⁶ Exhibit TURN-15, p. 3, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

²⁷ *Id.*

²⁸ Exhibit DRA-3, p. 1, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

²⁹ *Id.* p. 8.

1, 2013. For the retired portion of Base Plant, SCE sought to remove the associated net book value from rate base as of June 1, 2013, and to recover 100% of this investment over the same accelerated amortization period, and at the same reduced rate of return, as the SGRP (5-year amortization at a reduced rate of return of 5.54%).³⁰ SCE argued that the used and useful portion of Base Plant should remain in rate base, where SCE would recover its net investment over an amortization period equal to the existing license life (i.e., through 2022) until December 31, 2017.³¹ At that point, the remaining balance would be amortized over three years, such that the remaining investment would be recovered by December 31, 2020.³² SCE proposed its full authorized rate of return (7.9%) through 2017, and then the reduced rate of return (5.54%) applicable to the retired portion from 2017–2020.³³

SDG&E, like SCE, urged the Commission to permit the Utilities to recover reasonably incurred costs and expenses and a return on their associated invested capital.³⁴ Thus, it echoed SCE’s proposal as to amortization periods and reduced rates of return, and supported SCE’s determination of the “retired” versus “used and useful” portions of Base Plant. Its proposal diverged from SCE’s only with respect to the particular rates of return: its full rate of return is 7.79%,³⁵ and reduced rate of return is 5.07% (based on SDG&E’s current authorized embedded cost of debt (5.0%) adjusted for the weighed preferred stock component (6.22%)).³⁶

³⁰ Exhibit SCE-40, p. 17, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

³¹ *Id.* p. 18.

³² *Id.*

³³ *Id.*

³⁴ Exhibit SDGE-18-E, pp. 3-4, Errata to Prepared Direct Testimony of Kenneth Deremer, Aug. 16, 2013.

³⁵ *Id.* pp. 4-5.

³⁶ *Id.* p. 7.

3. CWIP

The Agreement distinguishes between CWIP associated with projects that have been, or will be, completed at some point after February 1, 2012 (“Completed CWIP”) and CWIP associated with projects that will not enter service at any time after February 1, 2012 (“Cancelled CWIP.”) As of December 31, 2013, SCE’s share of Cancelled CWIP was estimated at \$153 million, while its share of Completed CWIP was estimated at \$302 million.

In Phase 2, TURN distinguished among CWIP associated with (1) projects needed for safe operation during shutdown; (2) projects not needed for safe operation and started before the outages; and (3) projects not needed for safe operation and started *after* the outages.³⁷ With respect to the first category of projects, such as storage of existing spent fuel, TURN argued that the associated CWIP should accrue Allowance for Funds Used During Construction (“AFUDC”) at the cost of debt. When the project enters service, the CWIP and all associated AFUDC would be depreciated over the remaining life of the license (i.e., until 2022) at a reduced rate of return equal to the cost of debt.³⁸ With respect to projects not needed for safe operation and started before the outage, TURN, citing Federal Energy Regulatory Commission treatment of AFUDC on abandoned projects, sought to disallow AFUDC, with direct costs amortized over five years without any return on debt or equity.³⁹ Finally, TURN argued for a rebuttable presumption that projects started after January 30, 2012, and not required for operation of the plant during

³⁷ Exhibit TURN-15, p. 5, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

³⁸ *Id.*

³⁹ *Id.* p. 6.

shutdown would be disallowed altogether; in a later phase of the OII, SCE could present facts that specific projects were reasonable to undertake.⁴⁰

ORA's Phase 2 proposal would have categorically denied SCE and SDG&E any cost recovery for CWIP effective November 1, 2012.⁴¹

During Phase 2, SCE distinguished between cancelled projects and non-cancelled projects. For cancelled projects, SCE sought full recovery, amortized over 5 years (beginning June 1, 2013), at a 5.54% rate of return.⁴² For projects that were not cancelled (because, SCE argued, they were necessary to support current operations or would be necessary to support decommissioning in the future), SCE argued that ratemaking should be unaffected by the SONGS outages: the capital should remain in CWIP until the project is placed into service, at which point it would be added to rate base, where it would earn SCE's full authorized return.⁴³

SDG&E proposed that current CWIP balances be applied or transferred to the "used and useful" and "retired" portions of Base Plant, depending on whether or not the project had been cancelled, and amortized according to the applicable cost recovery treatment.⁴⁴ That is, the CWIP balance attributable to assets still needed for ongoing operations would be amortized over the life of the license (starting June 1, 2013), at its full rate of return (7.79%), while the remaining SONGS CWIP as of January 1, 2018, would be amortized over a shortened three-year

⁴⁰ *Id.*

⁴¹ Exhibit DRA-3, pp. 2 & 13, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

⁴² Exhibit SCE-40, p. 10, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

⁴³ *Id.* pp. 9-10.

⁴⁴ Exhibit SDGE-18-E, p. 7, Errata to Prepared Direct Testimony of Kenneth Deremer, Aug. 16, 2013.

period at a reduced rate of return (5.07%).⁴⁵ For CWIP associated with retired assets, SDG&E requested that these balances immediately transfer to the retired Base Plant account and be recovered at that reduced rate of return over five years.⁴⁶

4. Materials and Supplies (“M&S”) Inventory

As of December 31, 2013, SCE’s share of the total original cost of SONGS-related M&S was \$99 million, and SDG&E’s share was \$10.4 million.

In Phase 2, TURN proposed that M&S used in the operation of SONGS in a discontinued state be treated like all other capital items: amortized over the remaining life of the license with no return (or, alternatively, zero return on equity).⁴⁷ However, to incentivize the sale of materials of value, TURN suggested, first, expensing any M&S used in the operation of the plant in a discontinued state (and removing this M&S from the regulatory asset to be amortized); and second, dividing the gross proceeds of any M&S sold by SCE 95% to ratepayers and 5% to shareholders. The 95% ratepayer share would then be removed from the regulatory asset to be amortized.⁴⁸

ORA recommended that M&S costs be removed from rate base.⁴⁹ Although it did not propose an incentive for sales of M&S, it encouraged the Utilities to “aggressively salvage what they can of M&S.”⁵⁰

⁴⁵ *Id.* pp. 4-5 & 7.

⁴⁶ *Id.* pp. 6-7.

⁴⁷ Exhibit TURN-15, p. 7, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

⁴⁸ *Id.*

⁴⁹ Exhibit DRA-3, p. 2, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

⁵⁰ *Id.* p. 14.

SCE argued that it should be permitted to recover its investment in the M&S inventory, which it needed to maintain to provide reliable electrical service. Because, however, certain operations (e.g., maintaining used fuel cooling) were still ongoing at SONGS, and because decommissioning activities would begin or were commencing, SCE could not predict what portion of its SONGS-related M&S inventory would remain necessary for operations and decommissioning, what portion could be shifted to other SCE operations, and what portion could be salvaged or sold. Thus, it proposed to leave this investment in rate base until 2015, at which point it would amortize the investment over the same five-year period as the “used and useful” portion of Base Plant.⁵¹ SCE would receive its full authorized rate of return on M&S until 2015, and the reduced rate of return thereafter.⁵² In addition, SCE recognized that its revenue requirement would be offset by any proceeds from salvage; while it did not initially propose an explicit sharing mechanism,⁵³ it ultimately concurred with TURN’s proposal.⁵⁴

SDG&E considered its share of the M&S inventory as part of the “used and useful” portion of Base Plant, thereby entitling it to be amortized over a similar period as the other used and useful assets (i.e., over the life of the license, at its full return of 7.79% until January 1, 2018, at which point its share would be amortized over a shortened three-year period at a reduced rate of return (5.07%)).⁵⁵ Like SCE, SDG&E proposed that any salvage proceeds be credited against its revenue requirement.⁵⁶

⁵¹ Exhibit SCE-40, p. 11, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

⁵² SCE Phase 2 Reply Brief, p. 24, Dec. 13, 2013.

⁵³ Exhibit SCE-40, p. 11, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

⁵⁴ SCE Phase 2 Reply Brief, p. 25, Dec. 13, 2013.

⁵⁵ Exhibit SDGE-18-E, p. 5, Errata to Prepared Direct Testimony of Kenneth Deremer, Aug. 16, 2013.

⁵⁶ *Id.*

5. Nuclear Fuel Inventory

SCE's share of the net book value of nuclear fuel investments was \$477 million as of December 31, 2013. SDG&E's share was \$115.8 million as of December 31, 2013.

In Phase 2, TURN generally proposed that the Utilities' investment in the nuclear fuel inventory be recovered over 5 years with no return (or, alternatively, a rate of return equal to the commercial paper rate allowed for fuel at operating plants).⁵⁷ However, with respect to the portion of this investment that was associated with fuel that SCE loaded into the core of Unit 2 in February, 2012 (\$121 million), TURN proposed that the Commission disallow these costs (or some portion thereof) if the Commission found in Phase 3 that it was imprudent for SCE to load the fuel into the core.⁵⁸ Consistent with its M&S proposal, TURN further recommended that proceeds of the sale of fuel be allocated 95% to ratepayers and 5% to shareholders, with the ratepayers' portion of sales removed from the regulatory asset to be amortized.⁵⁹

Meanwhile, ORA recommended that SCE and SDG&E receive a nuclear fuel carrying cost rate based on the Utilities' commercial paper rate, and that cost recovery for unsold nuclear fuel be considered by the Commission after SCE had completed resale activities.⁶⁰

In its Phase 2 testimony and briefs, SCE indicated its intent to resell its entire nuclear fuel inventory (the proceeds from which would be credited against its nuclear fuel balance, thereby

⁵⁷ *Id.* pp. 8-9.

⁵⁸ Exhibit TURN-15, p. 8, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

⁵⁹ *Id.*

⁶⁰ Exhibit DRA-3, pp. 2 & 14-15, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

reducing costs to its customers).⁶¹ Doing so would significantly reduce future costs with respect to nuclear fuel storage.⁶² However, SCE did not know what portion of the fuel could actually be sold; accordingly, it proposed delaying amortization of the investment associated with the fuel inventory until the fuel's ultimate disposition could be known. On an interim basis, SCE sought to recover its original investment in the fuel inventory through customer rates, at the cost of its five-year debt beginning on June 1, 2013.⁶³

Finally, SDG&E argued that capital obligations with respect to nuclear fuel inventory were prudently made before the outages, and therefore it should be allowed to recover the cost already incurred and any charges resulting from cancelled nuclear contracts.⁶⁴ Like SCE, SDG&E suggested deferring recovery of nuclear fuel until SCE could determine what portion of the fuel could be sold; in the meantime, SDG&E sought to earn a carrying cost equal to the short-term debt rate (3-month LIBOR plus 15 basis points), with any sale proceeds credited to the inventory balance.⁶⁵

6. Replacement Power

From the start of the outage through June 6, 2013, SCE incurred outage-related market power costs (including foregone sales, but excluding planned outage periods) of approximately \$615 million.

⁶¹ Exhibit SCE-40, p. 12, Phase 2 Testimony Providing Ratemaking Proposal, Aug. 14, 2013.

⁶² *Id.*

⁶³ *Id.* pp. 12 & 15.

⁶⁴ Exhibit SDGE-18-E, pp. 7-8, Errata to Prepared Direct Testimony of Kenneth Deremer, Aug. 16, 2013.

⁶⁵ *Id.* p. 8.

Throughout the OII, the Commission made clear that arguments as to who should bear the costs of replacement power would be decided in Phase 3.⁶⁶ The purpose of Phase 1A was solely to “establish[] a method for calculating the costs and replac[ement] power due to the SONGS outage.”⁶⁷ However, testimony from Phases 1, 1A, and 2 indicates there was substantial dispute on both the methodology and ultimate cost responsibility for replacement power. Kevin Woodruff, a TURN witness in Phase 1A, for example, recommended a disallowance of replacement power costs at all times when SONGS was offline and included in rate base.⁶⁸ He also recommended that the Utilities’ customers not be responsible for the possible failure of the Utilities’ claims for reimbursement of replacement power costs from NEIL.⁶⁹ Another TURN witness, William Marcus, testified that for a given time period, the Commission should disallow replacement costs or remove base rate costs from rates, but not do both for the same units or kilowatts, because that would double-count SONGS costs and place the ratepayers in a better position than if the steam generator problems had never happened.⁷⁰

ORA suggested that as of June 7, 2013, “replacement power” was not an accurate description of the market generation SCE and SDG&E were buying.⁷¹ Because SONGS Units 2

⁶⁶ See, e.g., ALJ Dudney, Hearing Transcript (“Tr.”) 1280, lines 17-20.

⁶⁷ *Id.* Tr. 1280, lines 5-7.

⁶⁸ Exhibit TURN-4, p. 3, Reply Testimony of Kevin Woodruff Addressing Replacement Power Costs Incurred in 2012 Due to Outages at the San Onofre Nuclear Generating Station, July 10, 2013.

⁶⁹ *Id.*

⁷⁰ *Id.* p. 4.

⁷¹ Exhibit DRA-3, p. 11, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

and 3 were permanently shut down on June 7, the Utilities were simply replacing lost generation from SONGS after that date.⁷²

SCE reserved its right to challenge Woodruff's recommendation in the absence of a finding of imprudence.⁷³ SDG&E did not address disallowances for replacement power,⁷⁴ except to dispute TURN's definition of "replacement power costs," which, SDG&E asserted, "circumvented" Phase 3 by adding unrelated costs into the calculation of potentially disallowable replacement power costs.⁷⁵

7. Base O&M Expenses

SCE's share of O&M costs recorded in connection with the RFO that was scheduled for Unit 2 in 2012 is \$41.1 million, which consists of \$4.9 million recorded in 2011, \$35.3 million recorded in 2012, and \$0.9 million recorded in 2013. SDG&E's share of O&M costs recorded in connection with this RFO as calculated by SCE is \$9.3 million. D.12-11-051, which resolved SCE's Test Year 2012 GRC, provisionally authorized \$387.4 million (100% share) in base O&M costs for the year 2012 and \$397.6 million (100% share) in base O&M costs for the year 2013. In 2012, SDG&E recorded \$141.6 million, including overheads paid to SCE, to its balancing account for O&M. In 2013, SCE's share of recorded base O&M costs was \$241 million. The same year, SDG&E recorded \$105.0 million, including overheads paid to SCE, to its balancing account for O&M.

⁷² *Id.*

⁷³ SCE Phase 1A Opening Brief, p. 37, Aug. 29, 2013.

⁷⁴ SDG&E Phase 1A Opening Brief, pp. 1–2, Aug. 29, 2013 (referring to scope of Phase 1A).

⁷⁵ SDG&E Phase 1A Reply Brief, pp. 2–3, Sept. 12, 2013.

In Phase 1, TURN suggested that the Commission suspend SCE’s authority to collect any future revenues for seismic studies related to the relicensing of the plant and eliminate any seismic O&M expenditures already incurred in SCE balancing accounts in current rates.⁷⁶ Instead, “limited funding” should be permitted to allow existing projects or experiments to be completed or closed out in an orderly way to preserve data and reduce the need to redo work that was already done.⁷⁷ TURN also recommended, subject to adjustment after review of the SONGSMA, that O&M costs for the last two months of 2012 be reduced by 20% to reflect “the costs of Unit 3.”⁷⁸ In Phase 2, TURN recommended SCE be allowed to recover its recorded O&M expenses (post-November 30, 2012), with the exception of incremental inspection and repair costs (*see* section II.A.8, *infra*) and severance and relocation expenses at SONGS (which TURN advocated should be recovered over three years, with no return).⁷⁹

ORA argued in Phase 1 that O&M costs that were not security- and safety-related be removed from rates—without explicitly adopting SCE’s cost estimates, it estimated a disallowance of about \$192 million (\$283 million in 2012 base O&M costs minus \$91.5 million classified as security- and safety-related).⁸⁰ In Phase 2, ORA recommended that the Utilities

⁷⁶ Exhibit TURN-1, p. 9, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station, Mar. 29, 2013.

⁷⁷ *Id.*

⁷⁸ *Id.* p. 7.

⁷⁹ Exhibit TURN-15, pp. 9-10, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

⁸⁰ Exhibit DRA-1, p. 7, Division of Ratepayer Advocates Testimony Regarding SONGS 2 & 3, SCE/SDG&E December 17, 2012, January 9, 2013 and January 31, 2013 Testimonies, Mar. 29, 2013. TURN also noted that the \$91.5 million in 2012 O&M safety-related expenses identified by SCE should be given a “high presumption” against refund, absent specific findings of imprudence. Exhibit TURN-1, p. 7, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station, Mar. 29, 2013.

recover only 75% of recorded O&M costs from June 1, 2013 until December 31, 2014, a “cost sharing proposal” designed to give the Utilities the incentive to manage their labor and non-labor costs efficiently.⁸¹

SCE countered that it should recover its recorded base O&M costs because they were reasonable, i.e., necessary to maintain safety; comply with NRC regulations, the SONGS operating license, and SONGS’s technical specifications; protect Units 2 and 3 from corroding or degrading as a result of being idle; and maintaining Unit 2 in a ready-to-restart condition.⁸² SCE disputed the safety/non-safety dichotomy on the grounds that it could not meaningfully segregate “safety-related” costs and that “safety” is not the only prudent justification for incurring costs.⁸³

SDG&E sought full recovery of its internal O&M costs, which it contended were reasonable and “unique,” i.e., would have been incurred regardless of SONGS’ operational status.⁸⁴ It also argued it was unaware of any material facts or representations made by SCE during Phase 1 that contradicted SCE’s written testimony or data responses relating to 2012 O&M and capital related activities and therefore, SDG&E argued that its 20% share of O&M costs and capital expenses invoiced by SCE were reasonable and necessary for the same reasons identified by SCE.⁸⁵

CUE did not set forth an exact amount of base O&M that the Utilities should be permitted to recover. However, CUE generally argued throughout this proceeding that while

⁸¹ Exhibit DRA-3, p. 10, Division of Ratepayer Advocates Phase 2 Direct Testimony Ratemaking Recommendations, Sept. 10, 2013.

⁸² SCE Phase 1 Opening Brief, pp. 19–20, June 28, 2013.

⁸³ *Id.* p. 29.

⁸⁴ SDG&E Phase 1 Opening Brief, pp. 6–7, June 28, 2013.

⁸⁵ *Id.* pp. 4-6.

Section 455.5 of the Public Utilities Code enables the Commission to disallow “any expenses” related to out-of-service facilities, the statute does not require that the Commission disallow “all expenses” related to out-of-service facilities.⁸⁶ Accordingly, CUE argued that the Commission should allow the Utilities to continue recovering expenses “required to keep the facilities safe and ready to come back online if able and needed”⁸⁷ and to maintain the highly skilled workforce at SONGS.⁸⁸

8. Incremental Steam Generator Inspection and Repair (“SGIR”) Costs

In 2012, SCE recorded \$99 million (SCE share) in SGIR costs in excess of the amount of base O&M provisionally authorized in D.12-11-051. In 2012, SCE estimated that SDG&E paid \$27.0 million in total SGIR Costs, including SCE overheads and portions allocated to base and incremental O&M. SDG&E’s base O&M provisionally authorized in D.12-11-051 and D.13-05-010 was greater than the total amount of recorded costs including overheads, as applicable to SDG&E. In 2013, SCE’s share of recorded SGIR was \$12 million.

In Phase 1, TURN argued that any activities relating to the diagnosis of steam generator problems, the development of repair options, interactions with vendors like Mitsubishi, or participation at the NRC on matters relating to the steam generator problems and the proposed restart plan ought to be deemed “incremental.”⁸⁹ Such costs, TURN continued, should not be tracked in the SONGSMA, because there was no presumption that they were reasonable or

⁸⁶ Opening Brief of the Coalition of California Utility Employees Addressing the Legal Issues Related to the Commission’s Authority to Reduce and Refund Rates, p. 4, February 25, 2013.

⁸⁷ *Id.*

⁸⁸ Opening Comments of the Coalition of California Utility Employees on the Proposed Decision of Administrative Law Judges Darling and Dud[n]ey, p. 3, December 9, 2013.

⁸⁹ TURN Phase 1 Opening Brief, p. 6, June 28, 2013.

recoverable; rather, they were the direct result of imprudence by SCE and/or its vendors in the procurement and installation of the SONGS steam generators.⁹⁰ Alternatively, TURN suggested that all “incremental” costs be moved to Phase 3 and considered as SGRP expenses.⁹¹

ORA argued that SCE was responsible for collecting all incremental SGIR costs from Mitsubishi, but regardless of the ultimate disposition of the issues between SCE and Mitsubishi, ratepayers should not be responsible for these charges, and thus SCE should bear them alone.⁹²

SCE maintained that its SGIR expenses were reasonable in light of the nature of the steam generator failures. Absent evidence that they were unreasonable, SCE argued that it could not be denied costs incurred as a result of its decision to investigate the causes of the outages, repair damaged tubes in both units, pursue restart of Unit 2, and place Unit 3 in preservation mode pending analysis of possible restart options.⁹³ Such activities, SCE explained, are normal expenses under cost-of-service ratemaking, which are non-recoverable only when the utility is imprudent.⁹⁴ While SCE disputed that any refund was appropriate until and unless it was held imprudent, it noted its intent to pursue recovery of its SGIR expenses from Mitsubishi and through its NEIL property damage policy, and committed to refund any amounts recovered from Mitsubishi or NEIL relating to SGIR to the extent that the Commission had already allowed rate recovery of these costs.⁹⁵

⁹⁰ *Id.* p. 3.

⁹¹ *Id.*

⁹² Exhibit DRA-1, pp. 7-8, Division of Ratepayer Advocates Testimony Regarding SONGS 2 & 3, SCE/SDG&E December 17, 2012, January 9, 2013 and January 31, 2013 Testimonies, Mar. 29, 2013.

⁹³ SCE Phase 1 Opening Brief, p. 31, June 28, 2013.

⁹⁴ *Id.* p. 34.

⁹⁵ *Id.* pp. 32-33.

Likewise, SDG&E argued that the costs incurred by SCE to investigate the causes of the tube-to-tube wear, plug and stabilize tubes, analyze the safety of restart, and place Unit 3 in extended preservation mode were reasonable in light of the nature of the steam generator failures. As such, SDG&E argued that it was entitled to recover its share of SCE's SGIR expenses.⁹⁶

9. Third-Party Recoveries

Although this issue was outside the scope of Phase 2, TURN suggested that all proceeds from NEIL or Mitsubishi should be allocated to ratepayers based on the share of overall costs allocated to ratepayers.⁹⁷ One of TURN's witnesses explained TURN's "90/10" proposal with respect to NEIL: if TURN's position were adopted, SCE should bear replacement power costs for the period from the beginning of the outage through November 1, 2012, so the NEIL replacement power claim for that time frame should be divided 90% to shareholders and 10% for ratepayers.⁹⁸ Similarly, if TURN's position that ratepayers should bear replacement power costs after November 1, 2012, were adopted, then the NEIL replacement power claim for that time frame should be divided 10% to shareholders and 90% to ratepayers.⁹⁹ Of course, if the Commission split replacement power costs evenly between ratepayers and the Utilities, then NEIL proceeds would likewise be split 50-50.¹⁰⁰ And if a replacement power claim spanned a period when the ratepayer and shareholder responsibility differed, it should be prorated by the

⁹⁶ SDG&E Phase 1 Opening Brief, p. 7, June 28, 2013.

⁹⁷ TURN Phase 2 Opening Brief, p. 4, Nov. 22, 2013.

⁹⁸ Exhibit TURN-15, p. 12, Ratemaking for Costs of the Out-of-Service San Onofre Nuclear Generating Station: Phase II, Sept. 10, 2013.

⁹⁹ *Id.*

¹⁰⁰ *Id.*

number of months in each time period.¹⁰¹ As for Mitsubishi, TURN suggested that any sharing of litigation proceeds should follow the allocation of SGRP and Base Plant costs between ratepayers and shareholders. Thus, if TURN's position were adopted that no ratepayer funding should be provided for the SGRP, the Utilities should receive 90% and ratepayers 10% of any recoveries until the book value of the SGRP as of January 30, 2012 was recovered. Any amount above and beyond the book value would then be split based on the allocation of remaining plant costs as determined on a present value basis.¹⁰²

Neither ORA, CUE, FOE, nor SDG&E addressed litigation proceeds, while SCE indicated that recoveries would be applied first to make SCE whole for any disallowances in the OII, with any amounts thereafter flowing back to the ratepayers.¹⁰³

B. Summary Of Agreement

A summary of the main issues that were settled after considerable discussion among the Utilities, TURN, and ORA is as follows.¹⁰⁴ The Utilities are seeking reimbursement from Mitsubishi and NEIL, including (but not limited to) reimbursement for all losses or other

¹⁰¹ *Id.*

¹⁰² *Id.* pp. 12-13.

¹⁰³ SCE, Worden, Tr. 1088, lines 3-12 (“I do want to assure you, Mr. Shapson, that if Southern California Edison receives – is permitted recovery of its costs and then receives either additional payments from or any payments from [Mitsubishi] or from the NEIL insurance policy, that our policy would be to convey that to the ratepayer. We’re not interested in collecting twice but only being made whole for the outage.”); SCE, Worden, Tr. 1131, lines 2–13 (noting that SCE “expect[ed] to be able to recover our replacement power as we have calculated it as directed in this docket. To the extent we recover that and subsequently receive payment from NEIL, we would propose to convey that to benefit the ratepayer to defray what the ratepayer had paid.”).

¹⁰⁴ The Settlement Agreement provides more comprehensive details relating to the provisions that apply to these and other issues.

disallowances to the Utilities pursuant to the Agreement, which represent liability, damages, losses and/or costs resulting from the damage to and loss of SONGS.

1. SGRP Net Investment

The Utilities agreed to remove the net investment associated with the SGRP from rate base as of February 1, 2012,¹⁰⁵ which is the first day following the tube leak in Unit 3. This net investment will not be recovered by the Utilities.¹⁰⁶ Furthermore, the Agreement requires the Utilities to refund to ratepayers any amount of capital-related revenue requirement associated with the SGRP collected after February 1, 2012.¹⁰⁷ The Agreement allows the Utilities to keep all of the capital-related revenues with respect to the SGRP that the Utilities collected prior to February 1, 2012.¹⁰⁸

2. Non-SGRP Net Investment

The Agreement refers to the non-SGRP-related net investment in SONGS as “Base Plant.”¹⁰⁹ Base Plant includes the net investment of all SONGS-related capital investments except the SGRP, nuclear fuel, and the materials and supplies inventory.¹¹⁰ Base Plant also includes the Utilities’ investments in marine mitigation projects, nuclear design basis documentation, and deferred debits.¹¹¹

¹⁰⁵ Attachment 1 § 4.2(d).

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* § 4.2(b).

¹⁰⁸ *Id.* § 4.2(c).

¹⁰⁹ *Id.* § 2.6.

¹¹⁰ *Id.*

¹¹¹ *Id.* §§ 2.6(a)-(b) & 2.23.

The Agreement requires the Utilities to remove Base Plant from rate base as of February 1, 2012.¹¹² This net investment will be recovered by the Utilities at a reduced rate of return and over an extended amortization period. As with the SGRP investment, the Utilities are entitled to keep all capital-related revenues collected for Base Plant prior to February 1, 2012.¹¹³ With respect to capital-related revenues that the Utilities have already collected for Base Plant since February 1, 2012, the Utilities must refund to ratepayers all revenues that exceed the amount of revenue the Utilities would have collected under the reduced rate of return and extended amortization period set forth in the Agreement.¹¹⁴

The rate of return for the Base Plant (as well as M&S and CWIP) regulatory assets will be calculated by adding the weighted cost of debt to one-half of the weighted cost of preferred stock.¹¹⁵ The weighting of these rates will be performed based on the percentage of debt and preferred stock in each utility's capital structure.¹¹⁶ In calculating this rate of return, the Utilities' authorized return on common equity shall not be considered.¹¹⁷ The practical result of this calculation is that the Utilities will recover their full cost of debt and one-half of their cost of preferred stock, but the Utilities will be prevented from recovering their cost of equity.

The amortization period for Base Plant (as well as M&S and nuclear fuel) will be a ten-year period running from February 1, 2012, until February 1, 2022.¹¹⁸

¹¹² *Id.* § 4.3(a).

¹¹³ *Id.*

¹¹⁴ *Id.* § 4.3(b)(ii).

¹¹⁵ *Id.* §§ 4.3(c), 4.5(a), 4.8(a)(i)(D) & (ii)(D).

¹¹⁶ *Id.* § 4.3(c).

¹¹⁷ *Id.*

¹¹⁸ *Id.* §§ 4.3(b), 4.6(a), 4.5(a).

3. CWIP

The Agreement allows the Utilities to collect the full balance of CWIP, except the portion associated with the replacement steam generators.¹¹⁹ The Utilities are entitled to treat this CWIP balance as a regulatory asset. However, the Agreement provides a reduced AFUDC rate for the CWIP balance. Specifically, the Utilities will not be allowed to recover any AFUDC after February 1, 2012, on those CWIP expenditures that are associated with projects that the Utilities cancelled after the outages began.¹²⁰ The AFUDC rate on this CWIP for the period prior to February 1, 2012, will be the Utilities' regular authorized AFUDC rate.¹²¹ For projects that the Utilities are not cancelling, the associated CWIP will earn the Utilities' regular AFUDC rate until February 1, 2012, and will earn an AFUDC rate equal to the rate of return for Base Plant for all dates thereafter.¹²²

The rate of return for CWIP is discussed in section II.B.2, *supra*.

The amortization period for CWIP is the same as the amortization period for Base Plant, except that the amortization period for CWIP associated with projects that the Utilities have not cancelled will begin on the day the project enters service or the last day of the month of the Commission's approval of the Agreement, whichever is earlier.¹²³

¹¹⁹ *Id.* §§ 3.36 & 4.8(a).

¹²⁰ *Id.* § 4.8(a)(i)(A).

¹²¹ *Id.*

¹²² *Id.* § 4.8(a)(ii)(A).

¹²³ *Id.* § 4.8(a)(i)(C) & (ii)(C).

4. Materials and Supplies

The Agreement allows the Utilities rate recovery of their entire M&S investment as of the last day of the month of Commission approval of the Agreement.¹²⁴ The Utilities are entitled to treat this investment as a regulatory asset.

The amortization period and rate of return for M&S are discussed in section II.B.2, *supra*.

The Agreement also acknowledges that the Utilities are attempting to sell their M&S inventory to the extent possible, and provides an incentive mechanism to encourage the Utilities to sell this inventory as aggressively as possible. Under this incentive mechanism, the Utilities are entitled to retain 5% of all sales of the M&S inventory.¹²⁵ The remaining 95% of the proceeds of M&S sales will be credited to ratepayers.¹²⁶

5. Nuclear Fuel

The Agreement also allows the Utilities rate recovery of their entire net investment in nuclear fuel as of the last day of the month of Commission approval of the Agreement,¹²⁷ including those costs that the Utilities have incurred in connection with efforts to cancel their outstanding obligations (including those disputed) to purchase nuclear fuel.¹²⁸ The Utilities are entitled to treat this investment as a regulatory asset.

Nuclear fuel will earn a rate of return equal to the floating rate of commercial paper.¹²⁹ The amortization period for nuclear fuel is discussed in section II.B.2, *supra*.

¹²⁴ *Id.* § 4.5(a).

¹²⁵ *Id.* § 4.5(b)(i).

¹²⁶ *Id.* § 4.5(b)(ii).

¹²⁷ *Id.* § 4.6(a).

¹²⁸ *Id.* § 2.30.

¹²⁹ *Id.* § 4.6(b).

Because the Utilities are currently engaged in efforts to sell their nuclear fuel investment and to cancel their outstanding obligations to purchase more fuel, the Agreement provides two incentive mechanisms to encourage these efforts. The first incentive mechanism provides that the Utilities will be entitled to share in the proceeds of all nuclear fuel sales (net of costs incurred to achieve those sales). The Agreement provides that the Utilities may retain 5% of all such sale proceeds, while the ratepayers will be credited the remaining 95% of the proceeds.¹³⁰ Likewise, to incentivize the Utilities to minimize their outstanding obligations to purchase fuel, 5% of the difference between the outstanding obligations and the costs that the Utilities incur to cancel these contracts will be added to the regulatory asset for nuclear fuel to be recovered by the Utilities.¹³¹

6. Replacement Power

The Agreement allows the Utilities to recover all purchased power costs associated with replacing the output of SONGS from February 1, 2012, until the last day of the month of the Commission's decision approving the Agreement.¹³² The Utilities are permitted to amortize these costs in rates by December 31, 2015.¹³³ Although the Agreement does not bind the Commission to ensure that the Utilities will recover the non-SONGS-related portions of the undercollected balance in their ERRA balancing accounts, the Agreement provides that TURN and ORA will not contest the Utilities' ability to amortize these amounts by December 31, 2015,

¹³⁰ *Id.* § 4.7(a).

¹³¹ *Id.* § 4.7(c).

¹³² *Id.* § 4.10(a).

¹³³ *Id.* § 4.10(b).

if the Commission otherwise finds that these non-SONGS-related purchased power costs in ERRA are eligible for recovery.

7. Base O&M Expenses and SGIR Costs

For the year 2012, the Utilities will be entitled to retain all revenues collected pursuant to the revenue requirement for O&M expenses that the Commission provisionally authorized in SCE's Test Year 2012 GRC.¹³⁴ However, the Agreement provides that the Utilities may not recover the SGIR costs that exceed the provisionally authorized revenue requirement for O&M in 2012.¹³⁵ The Agreement treats non-O&M expenses for 2012 in a slightly different manner: the Utilities will be permitted to retain all revenues collected pursuant to the provisionally authorized revenue requirement for non-O&M expenses, except that the Utilities shall be required to refund to ratepayers all revenues that exceed recorded non-O&M expenses by more than \$10 million.¹³⁶

In 2013, the Utilities will recover their recorded O&M, SONGS-related severance expenses, incremental steam generator inspection and repair costs, and non-O&M expenses, provided that those costs do not exceed the revenue requirement provisionally authorized for O&M and non-O&M expenses in the 2012 GRC.¹³⁷ Additionally, the Utilities will refund to ratepayers any amounts collected in rates that exceed these recorded costs.¹³⁸ O&M and non-O&M expenses for 2014 will be subject to ordinary reasonableness reviews by the Commission

¹³⁴ *Id.* § 4.9(a). Subsection (iii) of this section does provide, if applicable, that SDG&E will refund any amount of provisionally authorized O&M in excess of total recorded O&M costs incurred in 2012 invoiced by SCE.

¹³⁵ *Id.* § 4.9(a)(ii).

¹³⁶ *Id.* § 4.9(b).

¹³⁷ *Id.* § 4.9(e) & (g).

¹³⁸ *Id.* § 4.9(f).

and are not covered by the Agreement,¹³⁹ except that the Utilities agree to refund to ratepayers any amounts collected in 2014 pursuant to the revenue requirement for O&M and non-O&M expenses provisionally authorized in the 2012 GRC which exceed the Utilities' recorded costs in 2014.¹⁴⁰

8. Refund Mechanism

The Agreement also provides a ratemaking mechanism that the Utilities must follow when effectuating refunds of revenues previously collected, as set forth elsewhere in the Agreement.¹⁴¹ Specifically, any refund pursuant to the Agreement shall be effectuated via a reduction to each utility's respective under-collected ERRRA balance as of the last day of the month of a Commission decision approving the Agreement.¹⁴²

9. Third-Party Recoveries

The Agreement acknowledges that the Utilities are seeking recovery from Mitsubishi and NEIL in connection with the non-operation of, damage to, and loss of SONGS.¹⁴³ The Agreement also provides a sharing formula pursuant to which the Utilities are required to share recoveries from Mitsubishi and NEIL with ratepayers.¹⁴⁴ Pursuant to the Agreement, the Utilities will retain all recoveries to the extent necessary to compensate the Utilities for the costs of pursuing recovery from Mitsubishi and NEIL, including litigation costs such as attorneys'

¹³⁹ *Id.* § 4.9(h).

¹⁴⁰ *Id.* § 4.9(i).

¹⁴¹ *Id.* § 4.12.

¹⁴² *Id.*

¹⁴³ *Id.* §§ 3.31–3.33.

¹⁴⁴ *Id.* § 4.11(c).

fees.¹⁴⁵ If the Utilities achieve recoveries from NEIL in excess of the costs of pursuing the recovery, the Utilities shall retain 17.5% of these excess recoveries and will distribute the remaining 82.5% to ratepayers.¹⁴⁶ For recoveries from Mitsubishi in excess of the costs of pursuing recovery, SCE and SDG&E shall each apply different sharing percentages. SCE shall retain 85% of the first \$100 million, 66.67% of the next \$800 million, and 25% of any further recoveries, and shall distribute the remainder to ratepayers.¹⁴⁷ SDG&E shall retain 85% of the first \$25 million, 66.67% of the next \$200 million, and 25% of any further recoveries, and shall distribute the remainder to ratepayers.¹⁴⁸

In consideration for the sharing of litigation recoveries, the Agreement provides the Utilities with full discretion to resolve their disputes with Mitsubishi and NEIL in any manner the Utilities see fit.¹⁴⁹ However, the Agreement provides that the Utilities will use their best efforts to inform the Commission of any agreement or other resolution of these disputes to the extent this is possible without compromising any aspect of the resolution of the Utilities' claims.¹⁵⁰

10. Nuclear Decommissioning Trusts

The Agreement requires the Utilities to attempt to recover their costs from the Nuclear Decommissioning Trusts, rather than ratepayers, whenever possible.¹⁵¹ To the extent that the

¹⁴⁵ *Id.* § 4.11(a) - (b).

¹⁴⁶ *Id.* § 4.11(c)(i).

¹⁴⁷ *Id.* § 4.11(c)(ii)(A).

¹⁴⁸ *Id.* § 4.11(c)(ii)(B).

¹⁴⁹ *Id.* § 4.11(f).

¹⁵⁰ *Id.* § 4.11(g).

¹⁵¹ *See, e.g., id.* §§ 4.5(d) & 4.8(b).

Agreement allows rate recovery of costs that the Utilities may be able to recover from the trusts, the Agreement also requires that the Utilities refund any rates collected that duplicate recoveries from the trusts.¹⁵²

11. Procedure

The Agreement acknowledges that the terms and conditions cannot become binding and final until the Commission issues a decision approving the Agreement.¹⁵³ However, the Agreement provides that the Settling Parties will use their best efforts to obtain Commission approval of the Agreement, including jointly filing and defending this Joint Motion and jointly opposing any modifications to the Agreement.¹⁵⁴ The Agreement also sets forth a procedure for the Settling Parties to resolve any disputes regarding modifications of the Agreement requested by the Commission, and provides that any Settling Party may terminate the Agreement if the Settling Parties are unable to achieve resolution of any modifications pursuant to this procedure.¹⁵⁵ If the Commission does not approve the Agreement within six months of the date of this Joint Motion, any Settling Party will have the right to terminate the Agreement.¹⁵⁶ After the Commission approves the Agreement, the Utilities are required to file revised tariff sheets and Tier 2 Advice Letters to implement the rate changes provided under the Agreement.¹⁵⁷

¹⁵² See, e.g., *id.* § 4.9(g) & (i).

¹⁵³ *Id.* § 5.13.

¹⁵⁴ *Id.* § 5.1.

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*, Introduction.

¹⁵⁷ *Id.* §§ 6.1 & 6.2.

III. THE AGREEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Commission Rule 12.1(d) states that the Commission will not approve a settlement “unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.”¹⁵⁸ Factors that the Commission has considered in reviewing settlements include: (1) the risk, expense, complexity and likely duration of further litigation; (2) whether the settlement negotiations were at arms-length; (3) whether major issues were addressed; and (4) whether the parties were adequately represented.¹⁵⁹ As discussed below, the Agreement meets these criteria. The Utilities, TURN, and ORA—represented by experienced CPUC practitioners—negotiated in good faith, bargained aggressively, and, ultimately, compromised. The result was a comprehensive agreement on all major issues—including SGRP and non-SGRP plant, amortization periods, rates of return, and replacement power costs—that “avoid[s] costly and protracted litigation” over the many issues that remain undecided in the OII.¹⁶⁰ The Agreement reduces the expense of litigation, conserves scarce Commission resources, and allows parties to reduce the risk that litigation will produce unacceptable results.¹⁶¹

Critically, the Settling Parties view the Agreement as a cohesive bargain. Accordingly, in evaluating the Agreement, the Settling Parties all agree that the Commission must consider the entire Agreement, and not just its individual parts:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on

¹⁵⁸ See also D.09-10-017, 2009 WL 3374041 (Oct. 15, 2009) (applying Rule 12.1(d) criteria).

¹⁵⁹ See, e.g., D.91-05-029, 40 CPUC 2d, 301, 326; D.88-12-083, 30 CPUC 2d 189, 221–23.

¹⁶⁰ D.88-12-083, 30 CPUC 2d 189, 221; see also D.11-05-018, 290 P.U.R.4th 1, 11.

¹⁶¹ D.92-12-019, 46 CPUC 2d 538, 551.

whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.¹⁶²

A. The Agreement Is Reasonable In Light Of The Record

The Settling Parties' testimony and briefing, together with the Agreement and this Joint Motion, contain the information necessary for the Commission to find the Agreement reasonable in light of the record. The Agreement is a product of substantial negotiation efforts on behalf of the Utilities, TURN, and ORA, and the success of those efforts is largely attributable to the magnitude of information and depth of analysis set forth in the record. As the Agreement notes, SCE alone responded to nearly a thousand data requests during the course of this proceeding, and SDG&E similarly responded to numerous data requests. In the seventeen months since this OII was initiated, the Settling Parties have exchanged thousands of pages of prepared testimony on a wide range of issues encompassed by the Agreement. The ALJs held three separate evidentiary hearings, which spanned a total of twelve days, and the Utilities, TURN, and ORA submitted lengthy Opening and Reply briefs following each of these three evidentiary hearings. Likewise, CUE and FOE each submitted multiple briefs regarding critical legal and procedural issues such as the Commission's authority to reduce rates as a result of the non-operation of SONGS and the timing of the Commission's consideration of the Utilities' prudence.

As shown in Part II of this Joint Motion, the negotiated outcomes in the Agreement are within the range of positions and outcomes proposed by the Settling Parties in their prepared testimony and briefing on Phases 1, 1A, and 2. The recoveries and disallowances set forth in the Agreement represent compromises on issues that were thoroughly litigated by the Utilities, TURN, and ORA in these three Phases. Although the record has not been extensively developed with respect to Phase 3 issues, no record on these issues is required for the Commission to find

¹⁶² D.11-05-018, 290 P.U.R.4th 1, 11.

that the Agreement is reasonable and adopt the Agreement in its entirety. In fact, a primary purpose of the Agreement is to avoid the cost, time commitment, and burden that would be required to develop a complete record on the main subject of Phase 3: the causes of the steam generator damage and the reasonableness of the Utilities' costs incurred due to the damage.¹⁶³ The Agreement is not dependent on a finding on the causes of the extensive and excessive tube wear in Units 2 and 3, and is likewise silent regarding questions of prudence. To adopt the Agreement, the Commission therefore does not need a detailed record with respect to the technical phenomena that caused the tube wear or the reasonableness of the Utilities' actions leading up to, and responding to, the leak that eventually resulted from this tube wear.

The Agreement represents a fair resolution of the Settling Parties' litigation positions described in Part II of this Joint Motion. The extent of the compromise among the Utilities, TURN, and ORA, is illustrated in Attachment 2 to this Joint Motion. Attachment 2 is illustrative of the present value SONGS-related revenue requirement that would have resulted from the litigation positions of SCE, SDG&E, TURN, and ORA as set forth in the record of prior phases of this proceeding. Attachment 2 is also illustrative of the present value SONGS-related revenue requirement that will result if the Commission adopts the Agreement. The present value SONGS-related revenue requirement that will be effectuated if the Commission adopts the Agreement represents a genuine compromise between the litigation positions set forth by the Utilities, on the one hand, and TURN and ORA, on the other hand. By disallowing certain SONGS-related costs and allowing other costs, the Agreement also represents a fair compromise among the litigation positions set forth by the Utilities, FOE, and CUE.

¹⁶³ Phase 1 Scoping Memo, p. 4.

At the most basic level, the Agreement ensures that ratepayers pay for the power they received, but do not pay for the SGRP after the day the outages began. The most significant disallowances in the Agreement—the write-off of \$757.4 million in net investments in the SGRP and the disallowance of \$99 million in SGIR costs above provisionally authorized O&M levels in 2012—are greater than the SONGS-related replacement power costs that the Utilities have incurred from the start of the outages to the date of the permanent shut down of SONGS. On balance, the Agreement thus favors ratepayers and represents a significant concession on the part of the Utilities, who have maintained since the inception of this OII that they are entitled to full recovery of their investments in the SGRP, all SGIR costs in 2012, *and* replacement power incurred as a result of the outage.

B. The Agreement Is Consistent With Law

The terms of the Agreement comply with all applicable statutes and prior Commission decisions, and reasonable interpretations thereof. In agreeing to the terms of the Agreement, the Settling Parties considered relevant statutes and Commission decisions and determined that the Agreement is fully consistent with those statutes and prior Commission decisions.

In particular, the Agreement is consistent with Section 455.5 of the California Public Utilities Code (“P.U. Code”). Although Section 455.5 does not require the Commission to remove an out-of-service facility from rates, the statute states that the Commission, when establishing rates, “*may eliminate consideration of the value of any portion of any electric . . . facility which, after having been placed in service, remains out of service for nine or more consecutive months, and may disallow any expenses related to that facility.*”¹⁶⁴ The Agreement does exactly what Section 455.5 provides for: it eliminates rate recovery of the SGRP, removes

¹⁶⁴ P.U. Code § 455.5 (emphasis added).

the entirety of SONGS from the Utilities' authorized rate bases, and disallows certain expenses and costs associated with SONGS, including incremental O&M costs that the Utilities incurred in investigating and repairing the tube damage.

The Agreement is also consistent with Section 451 of the P.U. Code, which provides that utility rates "shall be just and reasonable." The reasonableness of the ratemaking proposal set forth in the Agreement is demonstrated in Attachment 2, which illustrates the compromise between the positions set forth by ratepayer advocates and the Utilities.

C. The Agreement Is In The Public Interest

The Commission has determined that a settlement that "commands broad support among participants fairly reflective of the affected interests" and "does not contain terms which contravene statutory provisions or prior Commission decisions" meets the "public interest" criterion.¹⁶⁵ Here, the Settling Parties have joined this motion and have signed the attached Agreement indicating that they believe it represents a reasonable compromise of their respective positions. It is important to note that the Settling Parties include both Utilities (SCE and SDG&E); two of the most prominent ratepayer advocate groups in Commission practice (ORA and TURN); a global network of environmental activists (FOE); and a labor group that represents hundreds of SONGS employees affected by the events giving rise to this OII (CUE). ORA and TURN have been active in the OII since its inception, have propounded numerous data requests on the Utilities, and have actively participated in all of the evidentiary hearings by serving direct testimony, cross-examining SCE's witnesses, and extensively briefing the issues addressed at each set of evidentiary hearings. CUE and FOE have likewise been active in this

¹⁶⁵ D.10-06-015, 2010 WL 2543052, at *6 (June 3, 2010) (citing D.92-12-019, 46 CPUC 2d 538, 552-54).

proceeding by serving data requests, briefing critical legal issues, and participating at Commission conferences.

The Agreement, if adopted by the Commission, avoids the cost of further litigation and frees up Commission resources for other proceedings. The Agreement frees up the time and resources of other parties as well. If the Agreement were not adopted, and the Commission went forward with Phase 3 of this OII, the Commission and the parties to this OII would be embroiled in an extremely time-consuming and complex litigation process that could potentially take years to complete (and accordingly would delay any potential refunds resulting from those further proceedings). As is demonstrated in public documents such as the NRC's Augmented Inspection Team Report,¹⁶⁶ the technical phenomena that led to the tube leak are very complex. In light of the complexity of the technical issues and the fact that the relevant facts span ten years, a review of the Utilities' prudence may require an enormous evidentiary showing. The Utilities and other parties would be required to serve potentially thousands of pages of testimony from myriad witnesses, including several expert witnesses, and evidentiary hearings could be expected to last for an extended period of time. Post-hearing briefs would be voluminous and this briefing schedule would need to span several additional months.

SONGS has not generated power for more than two years, and this proceeding has already lasted seventeen months. The Agreement provides substantial relief to ratepayers and eliminates the need for an additional year or more of intense litigation that would consume public resources, distract parties from other pressing energy-related issues in California, and distract the Utilities and the Commission from focusing on meeting southern California's energy

¹⁶⁶ I.12-10-013, Attachment A.

needs in the absence of SONGS going forward. The Agreement is therefore decisively in the interest of the public.

D. The Agreement Should Be Adopted Without Modification

The Agreement is presented as a whole, and the Settling Parties request that it be reviewed and adopted as a whole. Each provision of the Agreement is dependent on the other provisions of the Agreement; modification of any one part of the Agreement would upset the balancing of interests and compromises achieved in the Agreement. The various provisions reflect specific compromises between litigation positions and differing interests; in some instances the proposed outcome reflects a party's concession on one issue in consideration for the outcome provided on a different issue. Moreover, as described above, the proposed outcome on each issue is reasonable in light of the entire record and the Settling Parties' competing positions. Accordingly, the Settling Parties respectfully request that the Commission consider and approve the Settlement as a whole, with no modification.

IV. THE SETTLING PARTIES HAVE COMPLIED WITH THE REQUIREMENTS OF RULE 12.1(B)

Commission Rule 12.1(b) requires parties to provide a notice of a settlement conference at least seven days before a settlement is signed. On March 20, 2014, the Utilities, TURN, and ORA notified all of the parties on the service list in these proceedings of a settlement conference and subsequently convened the settlement conference on March 27, 2014, to describe and discuss the terms of the proposed Agreement. Representatives of each of the Settling Parties participated in the settlement conference. After the settlement conference was concluded, the Agreement was finalized and executed.

V. HEARINGS ARE NOT REQUIRED

The Settling Parties respectfully request that the Commission approve the Agreement without evidentiary hearings as the Agreement may be adequately and fairly evaluated on its face and based on the existing record, without the need for further proceedings. As explained above, the Commission does not need to resolve any Phase 3 issues to adopt the Agreement in full, and all other issues in this OII have already received extensive evidentiary hearings. In addition, hearings would prevent the expeditious approval of the Agreement—and, by extension, would delay rate relief for ratepayers. But should evidentiary hearings be deemed necessary, the Settling Parties request that such hearings be held at the earliest opportunity, and concluded in a speedy and efficient manner.

VI. STAY OF PROCEEDINGS AND REQUESTED FINDINGS

Because the Agreement resolves all issues in the OII and all proceedings consolidated therewith, the Commission should stay all aspects of the OII and the consolidated proceedings, including A.13-01-016, A.13-03-005, A.13-03-013, and A.13-03-014, pending the Commission's resolution of this Joint Motion. In light of this stay, the Settling Parties urge the Commission and the ALJs to this proceeding to refrain from: 1) scheduling a pre-hearing conference or issuing a scoping memo regarding Phase 3; 2) voting on any Proposed Decision regarding any phase of the OII; and/or 3) issuing any further Proposed Decisions regarding any phase of the OII.

Furthermore, because the Agreement provides significant relief to ratepayers and significant certainty for the Utilities, their investors, and the parties to the OII, the Commission should expedite its consideration of this Joint Motion in order to provide the benefits of the Agreement as soon as reasonably possible.

Based on this Joint Motion, the attachments hereto (including the Agreement), and the record in this proceeding, the Commission should make the following findings:

- The Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest.
- The Agreement should be adopted in its entirety with no modifications.
- The Agreement is binding on all parties to the OII.
- The Agreement is a complete and final resolution of all claims by ratepayers against SCE and SDG&E in the OII and the proceedings consolidated therewith.
- SCE's testimony in support of A.13-03-005 established that the total cost of the SGRP was \$612.1 million in 2004 dollars (100% share). SCE's testimony in support of A.13-03-005 also utilized appropriate inflation indexes to deflate the total cost of the SGRP from nominal dollars to 2004 dollars. This includes the use of the Handy-Whitman index for fabrication and construction costs and the Commission-approved nuclear decommissioning burial escalation rates for burial costs. Because the Agreement provides a ratemaking disposition for all costs described in A.13-03-005, no further reasonableness review is required. As a resolution of A.13-03-005, and pursuant to the terms of the Agreement, SCE may retain all rate revenues collected from customers for the SGRP prior to February 1, 2012.
- Because the Agreement provides a ratemaking disposition for all costs described in A.13-03-014, no further reasonableness review is required. As a resolution of A.13-03-014, and pursuant to the terms of the Agreement, SDG&E may retain all rate revenues collected from customers for the SGRP prior to February 1, 2012.

- Because the Agreement provides a ratemaking disposition for all costs described in A.13-01-016, no further reasonableness review is required. A.13-01-016 is hereby granted to the extent that the Agreement provides for rate recovery of the costs recorded in SCE's SONGSMA during 2012.
- Because the Agreement provides a ratemaking disposition for all costs described in A.13-03-013, no further reasonableness review is required. A.13-03-013 is hereby granted to the extent that the Agreement provides for rate recovery of the costs recorded in SDG&E's SONGSBA during 2012.
- The Commission's adoption of the Agreement does not amount to a finding of prudence or imprudence on the part of either Utility.
- The Proposed Decisions on Phases 1 and 1A, dated November 19, 2013, and March 24, 2013, are withdrawn and shall have no effect. All findings in those Proposed Decisions with respect to prudence or imprudence of either Utility, and with respect to the reasonableness or unreasonableness of any cost, are expressly withdrawn and disavowed.
- Aside from the disallowances expressly set forth in the Agreement, which represent only a portion of the losses and/or costs to the Utilities resulting from the damage to and loss of SONGS, no further disallowances will be imposed on either Utility as a result of the non-operation and loss of SONGS. This includes, but is not limited to, disallowances of purchased power costs in either Utilities' respective ERRA proceedings.
- The Utilities are continuing to pursue recovery from NEIL and Mitsubishi as a result of the non-operation and loss of SONGS. As set forth in the Agreement,

the Utilities shall have complete discretion to settle, compromise, or otherwise resolve claims against NEIL and/or Mitsubishi in any manner and whenever the Utilities determine, in the exercise of their business judgment, without prior or subsequent review or approval, disapproval, or disallowance by the Commission. The Utilities shall, however, promptly notify the Commission of any such settlement or disposition according to the terms of the Agreement.

VII. CONCLUSION

As shown herein, the Agreement is reasonable in light of the whole record, is consistent with law, promotes the public interest, and should be approved the Commission. Thus, the Settling Parties respectfully request that the Commission expeditiously approve the Agreement without modification, stay the OII and all proceedings consolidated therewith, and make the findings set forth in Part VI of this motion.

Respectfully Submitted,

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COALITION OF CALIFORNIA UTILITY
EMPLOYEES

Date: April 3, 2014

Attachment 1

Executed Settlement Agreement

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the
Commission's Own Motion into the Rates,
Operations, Practices, Services and Facilities
of Southern California Edison Company and
San Diego Gas & Electric Company
Associated with the San Onofre Nuclear
Generating Station Units 2 and 3.

Investigation 12-10-013
(Filed October 25, 2012)

And Related Matters.

Application 13-01-016
Application 13-03-005
Application 13-03-013
Application 13-03-014

**SONGS OII SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA
EDISON COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, THE OFFICE OF
RATEPAYER ADVOCATES, AND THE UTILITY REFORM NETWORK**

Dated: March 27, 2014

**SONGS OII SETTLEMENT AGREEMENT BETWEEN SOUTHERN CALIFORNIA
EDISON COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, THE OFFICE OF
RATEPAYER ADVOCATES, AND THE UTILITY REFORM NETWORK**

Southern California Edison Company (“SCE”), San Diego Gas & Electric Company (“SDG&E”), the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”) (hereinafter collectively referred to as the “Settling Parties”) agree to settle all claims, allegations, and liabilities in the *Order Instituting Investigation Regarding San Onofre Nuclear Generating Station Units 2 and 3*, I.12-10-013, and all proceedings that have been consolidated therewith (including A. 13-01-016, A. 13-03-005, A. 13-03-013, and A. 13-03-014) (the “OII”), on the following terms and conditions, which shall only become effective on the Effective Date (as defined below).

This settlement agreement (“Agreement”) is entered into as a compromise of disputed claims in order to minimize the time, expense, and uncertainty of further regulatory proceedings. ORA and TURN agree to the following terms and conditions as a complete and final resolution of all claims against SCE and SDG&E in the OII, and SCE and SDG&E agree to these terms and conditions as a complete and final resolution of the OII. This Agreement constitutes the sole agreement between the Settling Parties concerning the subject matter of this Agreement.

As explained herein, the Settling Parties shall jointly submit this Agreement to the California Public Utilities Commission (“Commission” or “CPUC”) for approval. If the Effective Date does not occur within 6 months following the date of submission to the Commission, the Agreement shall be subject to termination by any of the Settling Parties upon written notice to the other Settling Parties.

**I.
THE PARTIES**

- 1.1. The parties to this Agreement are SCE, SDG&E, TURN, and ORA.
- 1.2. SCE 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 customers.
- 1.3. 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 customers.
- 1.4. ORA is an independent division of the Commission whose statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, ORA also advocates for customer and environmental protections.
- 1.5. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.
- 1.6. The following entities have filed motions seeking party status in the OII, but are not parties to this Agreement: Women’s Energy Matters, the Alliance for Nuclear

Responsibility, the Coalition to Decommission San Onofre, Ruth Henricks, the World Business Academy, Friends of the Earth, the National Asian American Coalition, the Latino Business Chamber of Greater Los Angeles, the Ecumenical Center for Black Church Studies, the Chinese American Institute for Empowerment, the Nevada Hydro Company, Inc., City of Riverside, the Clean Coalition, the Coalition of California Utility Employees, the Western Power Trading Forum, the Direct Access Customer Coalition, the Alliance for Retail Energy Markets, Southern California Gas Company, Distributed Energy Consumer Advocates, the Utility Consumers' Action Network, the Independent Energy Producers Association, the California Cogeneration Council, Noble Americas Energy Solutions LLC, Amerinet, Inc., Public Agency Coalition, and the State of California.

II. DEFINITIONS

- 2.1. **AFUDC:** Allowance for Funds Used During Construction.
- 2.2. **Agreement:** This document and any appendices.
- 2.3. **ALJ:** Administrative Law Judge.
- 2.4. **Authorized Cost of Debt:** The rate of return on debt authorized by the CPUC for a given utility from time to time. This rate of return may change during any of the amortization periods set forth in this Agreement.
- 2.5. **Authorized Cost of Preferred Stock:** The rate of return on preferred stock authorized by the CPUC for a given utility from time to time. This rate may change during any of the amortization periods set forth in this Agreement.
- 2.6. **Base Plant:** The Net Book Value of all SONGS-related capital investments, except the SGRP, in the Utilities' rate bases.
 - (a) Base Plant includes the Net Book Value for all SONGS-related marine mitigation investments that the Utilities made in response to the California Coastal Commission's directives to mitigate environmental impacts of SONGS, except the \$22 million disallowed by the Commission in Decision No. 06-05-016.
 - (b) Base Plant includes the Net Book Value for all SONGS-related NDBD&DD investments.
 - (c) Base Plant does not include an adjustment for cash working capital.
 - (d) Base Plant does not include the M&S Investment.
 - (e) Base Plant does not include the Nuclear Fuel Investment.
- 2.7. **BRBBA:** The generation sub-account of the Base Revenue Requirement Balancing Account, or its successor account.

- 2.8. **Original Cost:** The initial outlay for an investment, equal to the gross sum of all recorded direct and indirect expenditures associated with the capital investment.
- 2.9. **Capital-Related Revenue Requirement:** The total amount of revenue required by a utility to recover its capital investments and associated income and property taxes (including the effect of deferred taxes), including a return on those investments calculated in accordance with the utility's authorized cost of capital and associated depreciation expenses computed in accordance with depreciation schedules authorized by the Commission.
- 2.10. **Commission or CPUC:** The California Public Utilities Commission.
- 2.11. **Commission Approval:** A decision of the Commission approving the Agreement in the form submitted without modification that has become final and is no longer subject to appeal.
- 2.12. **Consolidated Proceedings:** All proceedings that have been consolidated with the OII, including A. 13-01-016, A. 13-03-005, A. 13-03-013, and A. 13-03-014.
- 2.13. **CWIP:** CWIP means Construction Work In Progress or replacement projects (retirement work in progress or net salvage) recorded directly in accumulated depreciation.
- (a) **Cancelled CWIP:** The total Original Cost of CWIP associated with SONGS-related projects that began prior to the Effective Date but that will not enter service at any time after February 1, 2012.
- (b) **Completed CWIP:** The total Original Cost of CWIP associated with SONGS-related projects that began prior to the Effective Date and will enter service at any point after February 1, 2012, including all CWIP that will enter service after the Effective Date.
- 2.14. **Effective Date:** The day of the Commission's decision adopting the ratemaking proposal set forth in this Agreement.
- 2.15. **ERRA:** Energy Resource Recovery Account, or its successor account.
- 2.16. **FERC:** Federal Energy Regulatory Commission.
- 2.17. **Fuel Cancellation Costs:** The total recorded costs (other than those costs that the Utilities are able to recover from the Nuclear Decommissioning Trusts) associated with cancelling SCE's contracts entered into by SCE as the SONGS Operating Agent on behalf of itself and SDG&E to purchase nuclear fuel, including but not limited to the following costs:
- (a) Termination fees and other amounts paid to obtain a release of any obligations under fuel procurement contracts.

- (b) Amounts paid by SCE as Operating Agent for itself and on behalf of SDG&E to fuel procurement vendors pursuant to settlements, judgments, or arbitration awards related to disputes arising from SCE's termination of alleged contractual obligations to purchase nuclear fuel.
 - (c) Attorneys fees and other litigation costs incurred on and after January 1, 2013 by SCE as Operating Agent for itself and on behalf of SDG&E in seeking to minimize its obligations under fuel procurement contracts through arbitrations, negotiations, and/or judicial or administrative proceedings.
- 2.18. **Fuel Net Proceeds:** The total proceeds of all sales of nuclear fuel, net of costs incurred by SCE as Operating Agent for itself and on behalf of SDG&E in order to sell such nuclear fuel, including but not limited to:
- (a) Costs incurred in order to store the nuclear fuel inventory pending the sale; *and*
 - (b) Costs incurred in order to render the nuclear fuel saleable.
- 2.19. **Incremental Inspection and Repair Costs:** Those costs recorded by the Utilities as incremental expenses associated with SCE's efforts to inspect and repair the damage at SONGS. This amount also includes the \$11 million (100% share) in costs for inspection and repair of SONGS that SCE originally recorded as base O&M and subsequently re-classified as incremental O&M.
- 2.20. **Mitsubishi:** Mitsubishi Heavy Industries, Ltd., related entities such as Mitsubishi Nuclear Energy Systems and Mitsubishi Heavy Industries America Inc., and any third party who has insured or indemnified any of these entities for any amounts owed to the Utilities in respect of the replacement steam generators.
- 2.21. **M&S Investment:** The total Original Cost of materials and supplies investments associated with SONGS.
- 2.22. **M&S Net Proceeds:** The total proceeds of all sales of materials and supplies, net of costs incurred by SCE in order to sell such materials and supplies.
- 2.23. **NDBD&DD:** Nuclear Design Basis Documentation and Deferred Debits. NDBD costs are associated with SCE's efforts to comply with the NRC's mandate that SCE establish a nuclear design documentation system. DD costs are plant-related regulatory assets that resolve accounting differences in capitalization policies between CPUC and FERC jurisdictions regarding the commercial operation of SONGS.
- 2.24. **Net Book Value:** Original Cost less the accumulated amortization and depreciation expenses, if any, associated with an investment.
- 2.25. **NEIL:** Nuclear Energy Insurance Limited.
- 2.26. **NGBA:** Non-fuel Generation Balancing Account, or its successor account.

- 2.27. **Non-O&M Balancing Account Expenses:** All SONGS-related expenses for pensions, post-retirement benefits other than pensions, and short-term incentive compensation that are not recorded in FERC accounts 517-532.
- 2.28. **Non-O&M Expenses:** All SONGS-related expenses recorded in FERC accounts 408, 924, 925, and 926 that are *not*:
- (a) Non-O&M Balancing Account Expenses;
 - (b) Capitalized overhead; *or*
 - (c) Recorded in FERC accounts 517-532.
- 2.29. **Nuclear Decommissioning Trusts:** The trusts established by the Utilities and approved by the CPUC pursuant to the Nuclear Facilities Decommissioning Act of 1985, Cal. Pub. Util. Code Sec. 8321 et seq., for the purpose of covering costs associated with decommissioning SONGS.
- 2.30. **Nuclear Fuel Investment:** The Net Book Value of all nuclear fuel (including in-core fuel and pre-core fuel), *plus* all Fuel Cancellation Costs. To the extent that SCE, as Operating Agent on behalf of itself and on behalf of SDG&E, incurs additional Fuel Cancellation Costs after the date of execution of this Agreement, those costs will be added to the Nuclear Fuel Investment at the time they are incurred.
- 2.31. **NRC:** Nuclear Regulatory Commission.
- 2.32. **O&M:** Operations and Maintenance.
- 2.33. **OII:** Order Instituting Investigation. As used in this Agreement, the term “OII” shall refer to the proceeding initiated by the Commission in I. 12-10-013, and all Consolidated Proceedings.
- 2.34. **Operating Agent:** SCE is the Operating Agent responsible for the performance of the operation and maintenance of SONGS.
- 2.35. **ORA:** The Office of Ratepayer Advocates or its successor division.
- 2.36. **SCE:** Southern California Edison Company.
- 2.37. **SDG&E:** San Diego Gas & Electric Company.
- 2.38. **Settling Parties/Settling Party:** SCE, SDG&E, ORA, and TURN, or any of them.
- 2.39. **SGRP:** Steam Generator Replacement Project.
- 2.40. **SONGS:** San Onofre Nuclear Generating Station.
- 2.41. **SONGSBA:** SDG&E’s San Onofre Nuclear Generating Station O&M Balancing Account.

- 2.42. **SONGS Litigation Balance:** The total SONGS Litigation Recoveries, net of SONGS Litigation Costs.
- 2.43. **SONGS Litigation Costs:** All litigation costs recorded since January 31, 2012, including but not limited to fees paid to outside attorneys and experts, associated with pursuing and preparing to pursue SONGS Litigation Recoveries.
- 2.44. **SONGS Litigation Recoveries:** Any amounts received (whether by settlement, judicial order, arbitration award, or any other recovery) by the Utilities from NEIL and/or Mitsubishi or their respective affiliates in connection with the Utilities' efforts to pursue recovery of amounts in respect of the failure of the steam generators and subsequent permanent shut down of SONGS. Any amounts obtained by the City of Riverside are not subject to this Agreement.
- 2.45. **SONGSMA:** SCE's San Onofre Nuclear Generating Station Memorandum Account.
- 2.46. **SONGSOMA:** Either Utility's San Onofre Nuclear Generating Station Outage Memorandum Account, including SDG&E's SONGS OMA.
- 2.47. **TURN:** The Utility Reform Network.
- 2.48. **U2C17 RFO:** The refueling and maintenance outage for SONGS Unit 2 that was intended to last from January 10, 2012, until March 5, 2012.
- 2.49. **Utility/Utilities:** SCE and SDG&E, or either of them.

III. GENERAL RECITALS

- 3.1. SCE owns a 78.21% share of SONGS. SDG&E owns a 20% share of SONGS. The City of Riverside owns a 1.79% share of SONGS.
- 3.2. In Decision No. 05-12-040, the Commission approved SCE's application to replace the steam generators in SONGS Units 2 and 3.
- 3.3. In Decision No. 06-11-026, the Commission found that SDG&E's participation in the SGRP was reasonable and approved an unopposed settlement agreement, including SDG&E's ownership share of the maximum allowable 100%, 2004\$, level of the SGRP cost plus SDG&E's internal costs.
- 3.4. In January 2010, SCE replaced the steam generators in SONGS Unit 2. In January 2011, SCE replaced the steam generators in SONGS Unit 3.
- 3.5. The replacement steam generators in Units 2 and 3 were designed and manufactured by Mitsubishi.
- 3.6. On January 10, 2012, SONGS Unit 2 was removed from service for a scheduled refueling and maintenance outage that was expected to end on March 5, 2012.

- 3.7. On January 31, 2012, SONGS Unit 3 was taken offline because station operators at SONGS detected a leak in a steam generator tube.
- 3.8. In early February, 2012, inspections of Unit 2 steam generators showed accelerated tube wear. This tube wear caused unexpected and extensive property damage to Unit 2's steam generators
- 3.9. In February and March, 2012, inspections in Unit 3 revealed extensive wear on the Unit's steam generator tubes. Some of this wear was caused by the steam generator tubes rubbing against each other ("tube-to-tube wear"). This tube-to-tube wear caused unexpected and extensive property damage to Unit 3's steam generators.
- 3.10. On March 27, 2012, the NRC issued a Confirmatory Action Letter confirming SCE's commitment not to restart either Unit 2 or Unit 3 until the source of the tube wear was understood and SCE had confidence that the units could be safely restarted.
- 3.11. Further inspections of the Unit 2 steam generators revealed more property damage in the form of early indications of tube-to-tube wear. SCE formally notified the NRC of SCE's finding of tube-to-tube wear in Unit 2 on April 20, 2012.
- 3.12. On November 1, 2012, the Commission issued an Order Instituting Investigation Regarding San Onofre Nuclear Generating Station Units 2 and 3. (I. 12-10-013.) The Order stated that the Commission intended to examine "the causes of the outages, the utilities' responses, the future of the SONGS units, and the resulting effects on the provision of safe and reliable electric service at just and reasonable rates." The Order also set SONGS-related rates subject to refund as of January 1, 2012, and directed that the Utilities establish a memorandum account (the SONGSOMA) for the purpose of tracking those costs.
- 3.13. On December 10, 2012, the Commission issued Decision No. 12-11-051, which resolved SCE's 2012 General Rate Case. Decision No. 12-11-051 directed SCE to establish a memorandum account (the "SONGSMA"), effective January 1, 2012, to track certain SONGS-related costs. The Commission further ordered SCE to file a reasonableness review application for post-2011 expenses recorded in the SONGSMA by January 31, 2013. In accordance with this directive, SCE filed A. 13-01-016 on January 31, 2013. A. 13-01-016 has been consolidated with this OII.
- 3.14. In D.12-11-051, the Commission also made SDG&E subject to the same conditional refund of SDG&E's share of the SONGS-related O&M and capital costs. (See D.12-11-051 at 40-41, Finding of Fact 36, Conclusions of Law 21 and 22, Ordering Paragraphs 10 and 11.) On March 19, 2013, SDG&E filed A.13-03-005 requesting a reasonableness determination of SDG&E's internal SONGS costs incurred during 2012 and capital expenses (excluding the SGRP) that were invoiced by SCE to SDG&E, including SCE's overheads, and tracked in SDG&E's SONGSOMA. A.13-03-014 has been consolidated with this OII.

3.15. On January 28, 2013, the Assigned Commissioner and ALJ issued a Scoping Memo and Ruling. The Scoping Memo divided the OII into phases and provided that the OII would examine the following issues:

- (a) In Phase 1, the Commission would examine:
 - (i) “Nature and effects of the steam generator failures in order to assess the reasonableness of SCE’s consequential actions and expenditures (e.g., was it reasonable to remove fuel from unit #3).”
 - (ii) “Whether 2012 SONGS-related expenses recorded in the SONGSMA are reasonable and necessary, including,
 - (A) 100% of O&M, including segregated safety-related costs;
 - (B) 100% of cost-savings from personnel reductions and other avoided costs;
 - (C) 100% of maintenance and refueling outage expenses; and
 - (D) 100% of capital expenditures.”
 - (iii) “A review of the reasonableness and effectiveness of SCE’s actions and expenditures for community outreach and emergency preparedness related to the SONGS outages.”
 - (iv) “Other issues as necessary to determine whether SCE should refund any rates preliminarily authorized in the 2012 GRC, in light of the changed facts and circumstances of the unit outages; and if so, when the refunds should occur.”
- (b) In Phase 2, the Commission would examine “whether any reductions to SCE’s rate base and SCE’s 2012 revenue requirement are warranted or required due to the extended SONGS outages.”
- (c) In Phase 3, the Commission would examine “causes of the [steam generator] damage and allocation of responsibility, whether claimed SGRP expenses are reasonable, including review of utility-proposed repair and/or replacement cost proposals using cost-effectiveness analysis and other factors.”
- (d) In Phase 4, if necessary, the Commission would examine “whether SCE’s 2013 revenue requirement should be adjusted to reflect lower-than forecast O&M, Capex, replacement power costs, and other SONGS expenses.”

3.16. From December, 2012, through April, 2013, the Settling Parties exchanged testimony regarding Phase 1 issues.

- 3.17. On March 15, 2013, SCE filed A. 13-03-005, seeking Commission approval to include the recorded capital costs of the SGRP permanently in rates. SCE's testimony in support of this application established that the total recorded cost of the SGRP was \$768.5 million in nominal dollars (100% share). SCE's testimony in support of this application also established that the total recorded cost of the SGRP, adjusted for inflation using the Handy-Whitman index for fabrication and construction costs and the Commission-approved nuclear decommissioning burial escalation rates for burial costs, was \$612.1 million in 2004 dollars (100% share). A. 13-03-005 has been consolidated with this OII.
- 3.18. On March 18, 2013, SDG&E filed A. 13-03-014, seeking Commission approval to include SDG&E's share of recorded capital costs of the SGRP permanently in rates. A. 13-03-014 has been consolidated with this OII.
- 3.19. On April 2, 2013, SCE served testimony addressing the energy-market related impact of the SONGS outages in its ERRA compliance review proceeding (A. 13-04-001). On May 1, 2013, SDG&E served testimony addressing the energy-market related impact of the SONGS outages in I. 12-10-013.
- 3.20. On April 19, 2013, ALJs Darling and Dudney issued an Order clarifying that the topics identified in the January 28, 2013, Scoping Memo applied equally to SCE and SDG&E.
- 3.21. On May 6, 2013, by e-mail ruling, ALJ Dudney ruled that the OII would consider the issue of "what replacement power was purchased by the utilities in 2012 as a consequence of the SONGS outages." ALJ Dudney scheduled separate evidentiary hearings to address this "replacement power" issue. The phase of the OII addressing this issue came to be known as Phase 1A.
- 3.22. ALJ Darling held an evidentiary hearing on Phase 1 issues from May 13, 2013, until May 17, 2013. The Settling Parties each submitted Opening and Reply Briefs on Phase 1 issues.
- 3.23. On June 7, 2013, SCE permanently retired SONGS Units 2 and 3. SCE had determined that Mitsubishi made errors in designing and manufacturing the replacement steam generators for Units 2 and 3. SCE determined that these errors caused deficiencies in design, manufacturing, and workmanship that prevented SCE from safely operating Units 2 or 3 as intended and contracted for. SCE determined that, because Mitsubishi had not proposed a viable plan to repair or replace the replacement steam generators in a timely manner, and because of the significant uncertainty as to whether or when Unit 2 would be permitted to restart even at partial power for a reduced operating period, it was no longer prudent to continue to pursue restart or repair.
- 3.24. On July 1, 2013, ALJs Darling and Dudney issued a Ruling on Miscellaneous Scheduling and Procedural Issues and Notice of Phase 2 Prehearing Conference. The ruling provided the following "statement" of the scope of Phase 2:
 - (a) What are the values of SONGS assets in rate base, and which of these assets should be removed from rate base pursuant to Public Utilities Code § 455.5, as of

November 1, 2012, or a later date if any such asset became not “used and useful” after November 1, 2012?

(b) What are the related Operations and Maintenance costs associated with the assets removed from rate base according to [the issue] above?

(c) Any other issues relevant to the application of § 455.5 to the SONGS outage.

- 3.25. In July, 2013, the Settling Parties exchanged testimony on Phase 1A issues.
- 3.26. On July 22, 2013, ALJs Darling and Dudney further specified that Phase 1A would address “the method for calculating the cost of replacement power during 2012 due to the SONGS outage. This scope includes developing a formula/method for the calculation of costs (capacity, energy, foregone sales, and congestion) and establishing what values should be entered in to that formula.”
- 3.27. From July, 2013, until September, 2013, the Settling Parties exchanged testimony on Phase 2 issues.
- 3.28. ALJ Dudney held an evidentiary hearing on Phase 1A from August 5, 2013, until August 6, 2013. The Settling Parties each filed Opening and Reply Briefs on Phase 1A issues.
- 3.29. ALJs Dudney and Darling held an evidentiary hearing on Phase 2 issues from October 7, 2013, until October 11, 2013. The Settling Parties each filed Opening and Reply Briefs on Phase 2 issues.
- 3.30. Throughout the proceeding, SCE responded to 928 data request questions propounded by the parties to the OIL. SDG&E similarly responded to data request questions propounded to it by the parties to the OIL.
- 3.31. On October 16, 2013, SCE as the Operating Agent and Edison Material Supply LLC (“EMS”) filed a Request for Arbitration against Mitsubishi pursuant to the arbitration clause in the contract between EMS and Mitsubishi. Through this arbitration, which is ongoing as of the date of this Agreement, SCE and EMS are seeking recovery from Mitsubishi based on the non-operation of SONGS Units 2 and 3.
- 3.32. On July 18, 2013, SDG&E filed a complaint in California Superior Court against Mitsubishi seeking to recover damages SDG&E has incurred and will incur related to the defects in the steam generators. This action was later removed to Federal District Court. On August 8, 2013, Mitsubishi filed a motion to stay the action pending arbitration and on March 14, 2014, the Court issued an order granting Mitsubishi’s motion on the condition that SDG&E must be able to fully assert its own claims in an arbitration proceeding.
- 3.33. The Utilities have also submitted claims to NEIL based on their assessments that both SONGS units sustained accidental property damage. SCE has submitted proofs of loss under insurance policies covering SONGS and is continuing to pursue recovery as of the date of this Agreement.

- 3.34. On November 19, 2013, ALJs Darling and Dudney issued a Proposed Decision on Phase 1 and Phase 1A issues. Each of the Settling Parties submitted Opening Comments on the Proposed Decision on December 9, 2013. Each of the Settling Parties submitted Reply Comments on the Proposed Decision on December 16, 2013.
- 3.35. On January 15, 2014, the Commission held an all-party meeting to discuss the Proposed Decision on Phase 1 and Phase 1A issues.
- 3.36. SCE's share of the Net Book Value of the SGRP was \$597 million as of February 1, 2012, including CWIP. SDG&E's share of the Net Book Value of the SGRP was \$160.4 million as of February 1, 2012, including CWIP.
- 3.37. SCE's share of Base Plant was \$622 million as of February 1, 2012, excluding CWIP. SDG&E's share of Base Plant was \$165.6 million as of February 1, 2012, excluding CWIP.
- 3.38. SCE's share of the Nuclear Fuel Investment was \$477 million as of December 31, 2013, exclusive of any paid or accrued Fuel Cancellation Costs. SDG&E's share of the Nuclear Fuel Investment was \$115.8 million as of December 31, 2013, exclusive of any paid or accrued Fuel Cancellation Costs.
- 3.39. SCE's share of the M&S Investment was \$99 million as of December 31, 2013. SDG&E's share of the M&S Investment was \$10.4 million as of December 31, 2013.
- 3.40. SCE's share of Cancelled CWIP is estimated at \$153 million as of December 31, 2013. Subject to an additional reconciliation with SCE, SDG&E's Cancelled CWIP amounts will be provided pursuant to section 6.1 hereof, subject to ORA's and TURN's prerogative stated in the last sentence thereof.
- 3.41. SCE's share of Completed CWIP is estimated at \$302 million as of December 31, 2013. Subject to an additional reconciliation with SCE, SDG&E's Completed CWIP amounts will be provided pursuant to section 6.1 hereof, subject to ORA's and TURN's prerogative stated in the last sentence thereof.
- 3.42. SCE's share of O&M costs recorded in connection with the U2C17 RFO is \$41.1 million, which consists of \$4.9 million recorded in 2011, \$35.3 million recorded in 2012, and \$0.9 million recorded in 2013. SDG&E's share of O&M costs recorded in connection with the U2C17 RFO as calculated by SCE is \$9.3 million.
- 3.43. Decision No. 12-11-051 provisionally authorized \$387.4 million (100% share) in base O&M costs for the year 2012 and \$397.6 million (100% share) in base O&M costs for the year 2013.
- 3.44. In 2012, SCE recorded \$99 million (SCE share) in Incremental Inspection and Repair Costs in excess of the amount of base O&M provisionally authorized in Decision No. 12-11-051. In 2012, SCE estimated that SDG&E paid \$27.0 million in total Incremental Inspection and Repair Costs, including SCE overheads and portions allocated to Base and Incremental O&M. SDG&E's base O&M provisionally authorized in Decision No. 12-

11-051 and D.13-05-010 was greater than the total amount of recorded costs including overheads, as applicable to SDG&E.

- 3.45. SDG&E recorded \$141.6 million, including overheads paid to SCE, to its SONGSBA in 2012; \$27.0 million, including overheads paid to SCE, was defined by SCE as Incremental Inspection and Repair Costs in Base and Incremental O&M.
- 3.46. In 2013, SCE's share of recorded base O&M costs was \$241 million and SCE's share of recorded Incremental Inspection and Repair Costs was \$12 million.
- 3.47. SDG&E recorded \$105.0 million, including overheads paid to SCE, to its SONGSBA in 2013.
- 3.48. SCE's total amount of deferred taxes on SONGS investment (excluding investment in the SGRP) as of Feb 1, 2012, was \$152 million. SDG&E's total amount of deferred taxes on SONGS investment (excluding investment in the SGRP) as of February 1, 2012 is estimated at \$4.5 million.

IV.

SETTLEMENT AGREEMENT TERMS AND CONDITIONS

- 4.1. In consideration of the mutual obligations, promises, covenants and conditions contained herein, the Settling Parties agree to support approval by the Commission of this Agreement, as further described herein, and to support this Agreement in its entirety before any regulatory agency or court of law where this Agreement, its meaning or effect is an issue, and no Settling Party shall take or advocate for, either directly, or indirectly through another entity, any action that would have the effect of modifying or abrogating the terms of this Agreement.
- 4.2. Capital-Related Revenue Requirement for the SGRP
 - (a) The Capital-Related Revenue Requirement for the SGRP will be terminated as of February 1, 2012.
 - (b) The Utilities shall refund to ratepayers all amounts collected in rates as the Capital-Related Revenue Requirement for the SGRP for all periods on and after February 1, 2012. These amounts shall be refunded per the refund mechanism set forth in Section 4.12 of this Agreement.
 - (c) The Utilities will retain all amounts collected in rates as the Capital-Related Revenue Requirements for the SGRP for periods prior to February 1, 2012.
 - (d) The Utilities shall not recover in rates the Net Book Value of the SGRP as of February 1, 2012.
- 4.3. Base Plant

- (a) The Utilities' respective shares of Base Plant will be removed from each Utility's respective rate base as of February 1, 2012. The Utilities will retain all amounts collected in rates in respect of Capital-Related Revenue Requirements for Base Plant for periods prior to February 1, 2012.
- (b) As of February 1, 2012, the Utilities will amortize Base Plant in rates as a regulatory asset ratably over 10 years.
 - (i) This amortization period will begin on February 1, 2012, and will end on February 1, 2022.
 - (ii) The Utilities have already collected amounts in rates in respect of Capital-Related Revenue Requirements for Base Plant for periods on and after February 1, 2012. To the extent that these amounts collected exceed the amounts permitted by this Agreement for periods on and after February 1, 2012, the Utilities shall refund the excess to ratepayers. These excess amounts shall be refunded per the refund mechanism set forth in Section 4.12 of this Agreement.
- (c) During the amortization period set forth in Section 4.3(b)(i) of this Agreement, each Utility shall earn a return on its respective share of unrecovered Base Plant, adjusted for deferred taxes. Each Utility's rate of return on unrecovered Base Plant shall be calculated as the Utility's Authorized Cost of Debt plus 50% of the Utility's Authorized Cost of Preferred Stock, weighted by the amount of debt and preferred stock in the Utility's authorized ratemaking capital structure. For the avoidance of doubt, the rate of return on common equity shall not be considered.
 - (i) The methodology for computing Base Plant to adjust for deferred taxes is illustrated in Appendix A to this Agreement.
- (d) The Settling Parties agree that the Authorized Cost of Debt and the Authorized Cost of Preferred Stock described in Section 4.3(c) of this Agreement are floating rates that shall vary based on the rates authorized by the Commission at any given time.
- (e) Pursuant to the method of calculating the return on Base Plant set forth in Section 4.3(c) of this Agreement, SCE will earn a rate of return of 2.95% on unrecovered Base Plant for the period February 1, 2012, through December 31, 2012. This rate of return is equal to:
 - (i) 6.22% weighted by the amount of debt in SCE's authorized ratemaking capital structure; *plus*
 - (ii) 50% of 6.01% weighted by the amount of preferred stock in SCE's authorized ratemaking capital structure.

- (f) Pursuant to the method of calculating the return on Base Plant set forth in Section 4.3(c) of this Agreement, SCE will earn a rate of return of 2.62% on unrecovered Base Plant for the years 2013 and 2014. This rate of return is equal to:
- (i) 5.49% weighted by the amount of debt in SCE's authorized ratemaking capital structure; *plus*
 - (ii) 50% of 5.79% weighted by the amount of preferred stock in SCE's authorized ratemaking capital structure.
- (g) Pursuant to the method of calculating the return on Base Plant set forth in Section 4.3(c) of this Agreement, SDG&E will earn a rate of return of 2.75% on unrecovered Base Plant for the period February 1, 2012, through December 31, 2012. This rate of return is equal to:
- (i) 5.62% weighted by the amount of debt in SDG&E's authorized ratemaking capital structure; *plus*
 - (ii) 50% of 7.25% weighted by the amount of preferred stock in SDG&E's authorized ratemaking capital structure.
- (h) Pursuant to the method of calculating the return on Base Plant set forth in Section 4.3(c) of this Agreement, SDG&E will earn a rate of return of 2.35% on unrecovered Base Plant for the years 2013 and 2014. This rate of return is equal to:
- (i) 5.00% weighted by the amount of debt in SDG&E's authorized ratemaking capital structure; *plus*
 - (ii) 50% of 6.22% weighted by the amount of preferred stock in SDG&E's authorized ratemaking capital structure.
- (i) The Settling Parties agree that the rates of return set forth in Section 4.3(e)-(h) of this Agreement do not reflect income taxes associated with the Utilities' preferred equity return. Notwithstanding that fact, the Utilities will recover all income tax expenses associated with each Utility's preferred equity return. Each Utility will therefore factor in a gross-up for this income tax when calculating its revenue requirement. This gross-up would be calculated in compliance with the Commission's customary practices according to decisions rendered in OII 24, which was closed by Decision No. 84-05-036 (1984). In addition, the revenue requirement shall include franchise fees and uncollectibles.
- (j) Notwithstanding Section 4.3(a) of this Agreement, the Utilities shall recover in rates all property taxes paid with respect to Base Plant, including amounts paid after February 1, 2012. To the extent rates include a forecast for these property taxes, the recovery shall be trued up to recorded amounts.

4.4. At its option, without affecting the rates of return calculated in accordance with the foregoing, each Utility may select to exclude the regulatory assets to be amortized pursuant to this Agreement when measuring each Utility's ratemaking capital structure for any purpose. In other words, the regulatory assets may be financed solely with debt, and the capital supporting these assets will not be recognized in determining each Utility's ratemaking capital structure or cost of capital for the purposes of this Agreement or for any other purpose, if the Utility so chooses. If a Utility selects this option, the Settling Parties will support exclusion of the capital financing of these regulatory assets in determining the Utility's overall AFUDC rate calculation at both the CPUC and FERC.

4.5. M&S Investment

- (a) Each Utility's respective share of the M&S Investment as of the last day of the month of the Effective Date shall be amortized as a regulatory asset ratably over the amortization period set forth for Base Plant in Section 4.3(b)(i) of this Agreement, and shall earn a rate of return during that amortization period equal to the rate set forth for Base Plant in Section 4.3(c) of this Agreement.
- (b) To the extent that the Utilities are able to sell assets associated with the M&S Investment, and in order to incentivize the Utilities to do so, the following incentive mechanism shall be adopted notwithstanding the terms set forth in Section 4.5(a) of this Agreement:
 - (i) The Utilities shall retain their respective shares of 5% of all M&S Net Proceeds; *and*
 - (ii) The Utilities shall credit to their ratepayers their respective shares of the remaining 95% of all M&S Net Proceeds.
- (c) On a monthly basis, the Utilities shall distribute the ratepayers' portion of the proceeds of all sales of materials and supplies by providing credits to SCE's BRRBA and SDG&E's NGBA.
- (d) The Settling Parties agree that the Utilities will, to the extent permitted by applicable tax laws without penalty and CPUC action, seek reimbursement of the M&S Investment from the Nuclear Decommissioning Trusts rather than recovering this investment through rates. The Utilities will not amortize in rates any portion of the M&S Investment that has been paid for by the Nuclear Decommissioning Trusts. To the extent the Utilities are unable to obtain full reimbursement of the M&S Investment from the trusts, the unreimbursed investments shall be added to the regulatory asset described in Section 4.5(a) of this Agreement (i.e., the M&S Investment) regardless of whether the inventory associated with that asset is used by the Utilities.

4.6. Nuclear Fuel Investment

- (a) The Nuclear Fuel Investment as of the last day of the month of the Effective Date shall be amortized as a regulatory asset ratably over the amortization period set forth for Base Plant in Section 4.3(b)(i) of this Agreement.
- (b) During the amortization period set forth in Section 4.6(a) of this Agreement, the Utilities shall earn a rate of return on their respective shares of the unrecovered balance of the Nuclear Fuel Investment. This rate of return shall be equal to the cost of commercial paper (as defined in Section ZZ, 2. j of the preliminary statement of SCE's CPUC tariffs [or its successor] and in Section I.E.3 of the preliminary statement of SDG&E's CPUC tariffs [or its successor]) throughout the amortization period. The Settling Parties agree that the cost of commercial paper may change during the amortization period. The Settling Parties further agree that the rate that each Utility shall earn on the unrecovered balance of the Nuclear Fuel Investment will float with the commercial paper rate throughout the amortization period, such that each Utility will recover its actual costs of financing the Nuclear Fuel Investment with commercial paper, as those costs are incurred.
- (c) The Settling Parties agree that, as of the date of execution of this Agreement, SCE still has outstanding alleged contractual obligations to purchase nuclear fuel. The Settling Parties further agree that Fuel Cancellation Costs incurred after the Effective Date will be added to the regulatory asset described in Section 4.6(a) of this Agreement (i.e., the Nuclear Fuel Investment) as those costs are incurred.

4.7. Incentive Mechanisms For Mitigation Of Nuclear Fuel Costs

- (a) To the extent that SCE is able to sell any portion of its current nuclear fuel inventory, and in order to incentivize SCE to do so, the following incentive mechanism shall be adopted notwithstanding the terms set forth in Section 4.6 of this Agreement:
 - (i) The Utilities shall retain their respective shares of 5% of all Fuel Net Proceeds; and
 - (ii) The Utilities shall credit to their ratepayers their respective shares of the remaining 95% of all Fuel Net Proceeds.
- (b) Upon each sale of nuclear fuel, the Utilities shall distribute the ratepayers' portion of the Fuel Net Proceeds by reducing the amount of the regulatory asset described in Section 4.6(a) of this Agreement (i.e., the Nuclear Fuel Investment). The effect of this reduction to the Nuclear Fuel Investment shall be to decrease the yearly amount of the revenue requirement for Nuclear Fuel Investment. This reduction to the regulatory asset shall not affect the amortization period for Base Plant described in Section 4.3(b)(i) of this Agreement.
- (c) To the extent that SCE, as Operating Agent on its own behalf and on behalf of SDG&E, is able to minimize the Fuel Cancellation Costs incurred after the date of execution of this Agreement, and in order to incentivize SCE to do so, the

following incentive mechanism applicable to the Utilities shall be adopted notwithstanding the terms set forth in Section 4.6 of this Agreement:

- (i) The regulatory asset described in Section 4.6(a) of this Agreement (i.e., the Nuclear Fuel Investment) shall be increased by 5% of the difference between:
 - (A) The sum of all amounts stated as SCE's purchase obligations (as Operating Agent on its own behalf and on behalf of SDG&E) in outstanding nuclear fuel contracts, on the one hand; and
 - (B) SCE's total recorded Fuel Cancellation Costs (as Operating Agent on its own behalf and on behalf of SDG&E), on the other hand.
- (ii) The Utilities shall each establish a memorandum account to determine the yearly amount of the incentive described in Section 4.7(c)(i). In order to account for all recorded costs and cancelled obligations since January 31, 2012, each Utility shall establish this memorandum account as of January 31, 2012. Every time SCE cancels a nuclear fuel contract (or is otherwise relieved from its obligations thereunder), the Utilities shall record a positive value in this memorandum account equal to the amount stated in the contract as SCE's purchase obligation. The Utilities shall also record all Fuel Cancellation Costs, as they are incurred, as negative values in this account. If there is a negative balance in either Utility's account at the end of a given year, the negative balance will be carried over to the next year. If there is a positive balance in either Utility's account at the end of a given year, the Utility shall increase the regulatory asset described in Section 4.6(a) of this Agreement (i.e., the Nuclear Fuel Investment) by 5% of this balance. The effect of any increase to the regulatory asset pursuant to this incentive mechanism shall be to increase the yearly amount of the revenue requirement for Nuclear Fuel Investment. This increase to the regulatory asset shall not affect the amortization period for Base Plant described in Section 4.3(b)(i) of this Agreement. Positive balances shall not carry over from one year to the next; instead, the account balance shall be reset to zero on the first of the year following any increase to the regulatory asset pursuant to this Section of the Agreement.

4.8. CWIP

- (a) The Utilities will recover in rates the full amounts recorded as SONGS-related CWIP, including the full amounts of both Cancelled CWIP and Completed CWIP. The CWIP balance shall be recovered as follows:
 - (i) For Cancelled CWIP:
 - (A) An AFUDC amount for the Cancelled CWIP balance will be applied from the date of the first recorded amount of Cancelled

CWIP until January 31, 2012. The AFUDC rate shall be equal to the authorized AFUDC rate in effect at the time.

- (B) The AFUDC amount, as calculated in Section 4.8(a)(i)(A) of this Agreement, shall be added to the balance for Cancelled CWIP.
 - (C) The Cancelled CWIP balance (including the AFUDC amount) as of the last day of the month of the Effective Date shall be amortized as a regulatory asset ratably over the amortization period set forth for Base Plant in Section 4.3(b)(i) of this Agreement.
 - (D) During the amortization period set forth in Section 4.8(a)(i)(C) of this Agreement, the Cancelled CWIP balance (plus all accumulated AFUDC), adjusted for deferred taxes if applicable, shall earn a rate of return equal to the rate set forth for Base Plant in Section 4.3(c) of this Agreement.
- (ii) For Completed CWIP:
- (A) An AFUDC amount for the Completed CWIP balance will be applied from the date of the first recorded amount of Completed CWIP until the last day of the month of the Effective Date. The AFUDC rate will be as follows:
 - (1) For the period from the date of the first recorded amount of Completed CWIP until January 31, 2012, the AFUDC rate shall be equal to the authorized AFUDC rate in effect at the time.
 - (2) For the period from February 1, 2012, until the date on which the associated asset was placed into service or the Effective Date (whichever is earlier), the AFUDC rate shall be equal to the rate set forth for Base Plant in Section 4.3(c) of this Agreement.
 - (B) The AFUDC amount, as calculated in Section 4.8(a)(ii)(A) of this Agreement, shall be added to the balance for Completed CWIP.
 - (C) The Completed CWIP balance (including all accumulated AFUDC) as of the last day of the month of the Effective Date shall be amortized as a regulatory asset ratably starting on the date on which the associated asset was placed into service or the Effective Date (whichever is earlier) and ending on February 1, 2022.
 - (D) During the amortization period set forth in Section 4.8(a)(ii)(C) of this Agreement, the Completed CWIP balance (plus all accumulated AFUDC), adjusted for deferred taxes if applicable,

shall earn a rate of return equal to the rate set forth for Base Plant in Section 4.3(c) of this Agreement

- (b) The Settling Parties agree that the Utilities will, to the extent permitted by applicable tax laws without penalty and CPUC action, seek reimbursement of Completed CWIP that enters service after June 7, 2013, as expenses from the Nuclear Decommissioning Trusts rather than recovering this investment through rates. The Utilities will not amortize in rates any portion of the Completed CWIP balance that has been paid for by the Nuclear Decommissioning Trusts.

4.9. O&M and other costs

- (a) The Utilities will retain all rate revenue collected for 2012 pursuant to the revenue requirement for SONGS base O&M (100% share) provisionally authorized in Decision No. 12-11-051, which adopted SCE's Test Year 2012 General Rate Case application, and in Decision No. 13-05-010, which adopted SDG&E's Test Year 2012 General Rate Case application.
 - (i) The Utilities may apply 2012 revenues to defray base O&M costs recorded in their respective SONGSOMA for 2012, as well as costs recorded in their respective SONGSOMA for 2012 associated with severance of employees at SONGS or resulting from the permanent shut down at SONGS.
 - (ii) The Utilities may also apply 2012 revenues to defray Incremental Inspection and Repair Costs recorded in their respective SONGSOMA for 2012, except that the Utilities shall not be allowed to recover in rates any Incremental Inspection and Repair Costs incurred in 2012 in excess of the revenue requirement for base O&M costs (100% share) provisionally authorized in Decision No. 12-11-051 and Decision No. 13-05-010.
 - (iii) Provided however, if applicable, SDG&E will refund any amount of provisionally authorized O&M in excess of total recorded O&M costs incurred in 2012 invoiced by SCE.
- (b) Subject to the following two sentences, SCE will retain all SONGS-related rate revenue collected pursuant to the revenue requirement for Non-O&M Expenses provisionally authorized in Decision No. 12-11-051 for calendar year 2012. Notwithstanding the foregoing, SCE will refund to ratepayers any such SONGS-related rate revenues collected in 2012 pursuant to Decision No. 12-11-051 that exceed 2012 recorded Non-O&M Expenses by more than \$10 million. Any amount to be refunded pursuant to this Section of the Agreement shall be refunded per the refund mechanism set forth in Section 4.12 of this Agreement.
- (c) For calendar year 2012, SDG&E will retain rate revenue sufficient to defray all recorded Non-O&M Expenses.

- (d) For calendar year 2012, the Utilities will retain rate revenue sufficient to defray all recorded Non-O&M Balancing Account Expenses.
- (e) Provided that the sum of the amounts listed in Sections 4.9(e)(i)-(iii) of this Agreement does not exceed the revenue requirement for each Utility's respective share of SONGS base O&M costs provisionally authorized for the year 2013 pursuant to Decision Nos. 12-11-051 and 13-05-010, the Utilities will retain rate revenue sufficient to defray:
 - (i) All base O&M costs recorded in 2013;
 - (ii) All costs associated with severance of employees at SONGS or resulting from the permanent shut down at SONGS recorded in 2013; *and*
 - (iii) All Incremental Inspection and Repair Costs recorded in 2013.
- (f) If the revenue requirement for each Utility's respective share of SONGS base O&M costs provisionally authorized for the year 2013 pursuant to Decision Nos. 12-11-051 and 13-05-010 exceeds the sum of the amounts set forth in Sections 4.9(e)(i)-(iii) of this Agreement, the Utilities shall refund to ratepayers the difference between the amounts provisionally authorized and the sum of the recorded amounts in Sections 4.9(e)(i)-(iii). Likewise, if the Utilities recover any portion of the recorded amounts in Sections 4.9(e)(i)-(iii) through the Nuclear Decommissioning Trusts, those portions shall also be refunded to ratepayers. These amounts shall be refunded per the refund mechanism set forth in Section 4.12 of this Agreement.
- (g) For calendar year 2013, the Utilities will retain rate revenue sufficient to defray all recorded SONGS-related non-O&M expenses (including both Non-O&M Expenses and Non-O&M Balancing Account Expenses). The Utilities shall also seek recovery of these recorded amounts through the Nuclear Decommissioning Trusts to the extent permitted by applicable tax laws without penalty and CPUC action. If the revenue requirement for each Utility's respective share of SONGS-related non-O&M expenses provisionally authorized for the year 2013 pursuant to Decision Nos. 12-11-051 and 13-05-010 exceeds the amount of each Utility's respective recorded SONGS-related non-O&M expenses in 2013, the Utilities shall refund to ratepayers the difference between the amounts provisionally authorized and the amounts recorded. Likewise, if the Utilities recover any portion of their SONGS-related non-O&M expenses recorded in 2013 through the Nuclear Decommissioning Trusts, those portions shall also be refunded to ratepayers. Any amount to be refunded pursuant to this Section of the Agreement shall be refunded per the refund mechanism set forth in Section 4.12 of this Agreement.
- (h) Nothing in this Agreement shall be construed to limit the Commission's ability to review the reasonableness of the Utilities' 2014 SONGS-related O&M or non-

O&M expenses (including both Non-O&M Expenses and Non-O&M Balancing Account Expenses) in any appropriate proceeding.

- (i) If the revenue requirement for each Utility's respective share of SONGS-related O&M and non-O&M expenses provisionally authorized for the year 2014 pursuant to Decision Nos. 12-11-051 and 13-05-010 exceeds the amount of each Utility's respective recorded SONGS-related O&M and non-O&M expenses in 2014, the Utilities shall refund to ratepayers the difference between the amounts provisionally authorized and the amounts recorded. Likewise, if the Utilities recover any portion of their SONGS-related O&M or non-O&M expenses recorded in 2014 through the Nuclear Decommissioning Trusts, and/or if the CPUC disallows any such expenses, those portions shall also be refunded to ratepayers. Section 4.9(j) of this Agreement sets forth the procedure that each Utility shall use to determine the amount of any refunds pursuant to this Section of the Agreement.
- (j) In order to determine the amount of any refunds based on the difference between recorded and provisionally authorized expenses under Section 4.9(i) of this Agreement, each Utility shall use the following procedure:
 - (i) On the last day of the month of the Effective Date, each Utility shall calculate the difference between recorded and provisionally authorized amounts of SONGS-related O&M and non-O&M expenses during the time period from January 1, 2014, until the last day of available recorded cost data in 2014. If the provisionally authorized revenue requirement for such costs during this time period exceeds the recorded amount of such costs during this time period, the Utilities shall refund to ratepayers the difference between the amounts provisionally authorized and the amounts recorded, with such refund to be effectuated per the refund mechanism set forth in Section 4.12 of this Agreement.
 - (ii) On the last day of the month of the Effective Date, each Utility shall also calculate a forecast of SONGS-related O&M and non-O&M expenses for the time period from the last day of available recorded cost data in 2014 until December 31, 2014. If the provisionally authorized revenue requirement for such costs during this time period exceeds the forecasted amounts of such costs during this time period, the Utilities shall refund to ratepayers the difference between the amounts provisionally authorized and the amounts forecasted as the excess revenue is received, with such refund to be effectuated as a credit to SCE's ERRRA account and SDG&E's NGBA.
 - (iii) In the first quarter of 2015, each Utility shall calculate the difference between recorded and forecasted amounts of SONGS-related O&M and non-O&M expenses during the time period set forth in Section 4.9(j)(ii) of this Agreement. If the forecasted revenue requirement for such costs during this time period exceeds the recorded amounts of such costs during

this time period, the Utilities shall refund to ratepayers the difference between the amounts forecasted and the amounts recorded, with such refund to be effectuated as a credit to SCE's ERRA and SDG&E's NGBA. If, on the other hand, the recorded amounts exceed the forecasted revenue requirement, the Utilities shall recover the difference between the amounts forecasted and the amounts recorded from ratepayers via a debit to SCE's ERRA account and SDG&E's NGBA.

- (iv) On the last day of the month following a CPUC decision authorizing the Utilities to recover any portion of their SONGS-related O&M or non-O&M expenses recorded in 2014 through the Nuclear Decommissioning Trusts, and/or of a decision disallowing any such costs, the Utilities shall effectuate a refund of such amounts per the refund mechanism set forth in Section 4.12 of this Agreement.
- (k) In determining the provisionally authorized revenue requirement for Non-O&M Expenses pursuant to Sections 4.9(b), 4.9(g), 4.9(i), and 4.9(j) of this Agreement, the Utilities shall utilize a formula agreeable to all Settling Parties for allocating company-wide expenses to SONGS.
- (l) The Utilities will recover all recorded O&M costs incurred in connection with the U2C17 RFO.
- (m) Except as expressly provided in this Agreement, the O&M and other costs that the Utilities are entitled to retain pursuant to Section 4.9 of this Agreement shall not be subject to any disallowance, refund, or any form of reasonableness review by the Commission.

4.10. Market Power Purchases

- (a) The Utilities will recover in rates the full amount of any costs designated as SONGS "replacement power costs," SONGS "replacement energy costs," or "net SONGS costs" incurred to purchase power in the market from January 1, 2012, until the last day of the month of the Effective Date.
- (b) The Utilities will recover in rates the entire SONGS-related portion of the under-collected balance in each Utility's respective ERRA account as of the last day of the month of the Effective Date. The SONGS-related under-collected balances in each Utility's respective ERRA accounts shall be amortized over a period beginning on the first day of the month (or the nearest date practicable) following the Effective Date and ending no later than December 31, 2015. Nothing in this Agreement shall be construed to limit the Commission's ability to review, in an appropriate proceeding, the Utilities' requests to amortize the remaining (non-SONGS-related) portion of this under-collected balance. Although nothing in this Agreement shall limit TURN or ORA's ability to challenge the eligibility of the remaining (non-SONGS-related) portion of this under-collected balance for cost recovery, neither TURN nor ORA shall oppose either Utility's request to amortize

by December 31, 2015 any portion of the under-collected balance found by the CPUC to be eligible for recovery.

- (c) The Commission shall not impose any disallowance, on either of the Utilities, of any of the Utilities' costs incurred to purchase power in the market as a result of the non-operation of SONGS. None of the Settling Parties will advocate before the Commission or any other judicial, legislative, or administrative body for any disallowance of past or future costs incurred by the Utilities to purchase power in the market as a result of the non-operation of SONGS.
- (d) No future adjustments or disallowances to the Utilities' ERRAs shall be made as a result of the non-operation of SONGS. This limitation includes foregone revenues; there will be no future adjustments or disallowances to the Utilities' ERRAs as a result of foregone sales of SONGS output. No Settling Party shall object in an ERRA or other Commission proceeding to the Utilities' showing on the grounds that the applied-for purchased power-related expenses were related to the non-operational status of SONGS.

4.11. SONGS Litigation Balance

- (a) The SONGS Litigation Balance shall be determined by netting SONGS Litigation Costs from SONGS Litigation Recoveries. The mechanism for netting SONGS Litigation Costs from SONGS Litigation Recoveries shall be to establish memorandum accounts. In order to account for all recorded costs booked since January 31, 2012, each Utility shall establish memorandum accounts as of January 31, 2012. Each Utility shall establish two separate memorandum accounts (or sub-accounts) as follows:
 - (i) Each Utility shall establish one memorandum account (or sub-account) for netting costs and recoveries related to NEIL. Every year, the Utilities shall record all SONGS Litigation Costs related to pursuing recovery and planning to pursue recovery from NEIL and all SONGS Litigation Recoveries received from NEIL in this memorandum account.
 - (ii) Each Utility shall establish one memorandum account (or sub-account) for netting costs and recoveries related to Mitsubishi. Every year, the Utilities shall record all SONGS Litigation Costs related to pursuing recovery and planning to pursue recovery from Mitsubishi and all SONGS Litigation Recoveries received from Mitsubishi in this memorandum account.
- (b) If there is a positive balance (i.e., SONGS Litigation Costs in excess of SONGS Litigation Recoveries) in either memorandum account at the end of a given year, the positive balance will be carried over to the next year. If there is a negative balance (i.e., SONGS Litigation Costs are less than SONGS Litigation Recoveries) in either memorandum account as of December 31, 2014, or at the end of any subsequent year, each Utility shall distribute to ratepayers their portion of the SONGS Litigation Recoveries as determined by the sharing formula in

Section 4.11(c) of this Agreement. These amounts shall be distributed to ratepayers pursuant to the distribution method set forth in Section 4.11(d) of this Agreement. The Utilities' portion of the SONGS Litigation Recoveries, as determined by the sharing formula in Section 4.11(c) of this Agreement, shall be retained by the Utilities at the time the ratepayers' portions are distributed. Negative balances shall not carry over from one year to the next; instead, the account balance shall be reset to zero on the first of the year following any distribution of SONGS Litigation Recoveries pursuant to this Section of the Agreement.

- (c) The SONGS Litigation Balance shall be shared between the Utilities and the ratepayers according to the following formula:
 - (i) SONGS Litigation Balance recovered from NEIL shall be shared as follows:
 - (A) The Utilities shall retain 17.5% of the balance
 - (B) The Utilities shall distribute to ratepayers 82.5% of the balance
 - (ii) SONGS Litigation Balance recovered from Mitsubishi shall be shared as follows:
 - (A) With respect to SCE:
 - (1) For the first \$100 million of SONGS Litigation Balance recovered from Mitsubishi:
 - a. SCE shall retain 85% of the balance
 - b. SCE shall distribute to ratepayers 15% of the balance
 - (2) For the next \$800 million of SONGS Litigation Balance recovered from Mitsubishi:
 - a. SCE shall retain 66.67% of the balance
 - b. SCE shall distribute to ratepayers 33.33% of the balance
 - (3) For any SONGS Litigation Balance recovered from Mitsubishi in excess of the first \$900 million:
 - a. SCE shall retain 25% of the balance
 - b. SCE shall distribute to ratepayers 75% of the balance

- (B) With respect to SDG&E:
 - (1) For the first \$25 million of SONGS Litigation Balance recovered from Mitsubishi:
 - a. SDG&E shall retain 85% of the balance
 - b. SDG&E shall distribute to ratepayers 15% of the balance
 - (2) For the next \$200 million of SONGS Litigation Balance recovered from Mitsubishi:
 - a. SDG&E shall retain 66.67% of the balance
 - b. SDG&E shall distribute to ratepayers 33.33% of the balance
 - (3) For any SONGS Litigation Balance recovered from Mitsubishi in excess of the first \$225 million:
 - a. SDG&E shall retain 25% of the balance
 - b. SDG&E shall distribute to ratepayers 75% of the balance
- (d) Any amounts to be distributed to ratepayers pursuant to Section 4.11(b) of this Agreement shall be distributed pursuant to the following distribution mechanism:
 - (i) The ratepayers' portion of the SONGS Litigation Balance recovered from NEIL shall be distributed to ratepayers via a credit to each Utility's respective ERRA account.
 - (ii) The first \$282 million of SONGS Litigation Balance recovered from Mitsubishi that is distributed to SCE ratepayers pursuant to Section 4.11(b) of this Agreement shall be distributed via a credit to SCE's BRRBA.
 - (iii) The first \$71 million of SONGS Litigation Balance recovered from Mitsubishi that is distributed to SDG&E ratepayers pursuant to Section 4.11(b) of this Agreement shall be distributed via a credit to SDG&E's NGBA.
 - (iv) The ratepayers' portion of any further SONGS Litigation Balance recovered from Mitsubishi shall be distributed to ratepayers as follows:
 - (A) First, by reducing the regulatory assets described in Sections 4.3(b), 4.8(a), 4.5(a), and 4.6(a) of this Agreement, in the order

listed. The effect of the reduction to these regulatory assets shall be to decrease the yearly amount of the revenue requirement for each regulatory asset. This reduction to regulatory assets shall not affect the amortization period for the regulatory assets described in Sections 4.3(b), 4.8(a), 4.5(a), and 4.6(a) of this Agreement.

- (B) Second, any remaining amounts shall be distributed via a credit to SCE's BRRBA and SDG&E's NGBA.
- (e) In consideration of the Utilities retaining SONGS Litigation Recoveries to the extent of the SONGS Litigation Costs, the Utilities shall remove all SONGS Litigation Costs booked in the memorandum accounts described in Section 4.11(a) of this Agreement from the recorded costs used to develop future general rate case forecasts. Nothing in this Agreement shall preclude the Settling Parties from making any arguments in either Utility's general rate cases regarding costs used to develop general rate case forecasts.
- (f) In consideration of the sharing of net SONGS Litigation Recoveries, the Utilities shall have complete discretion to settle, compromise, or otherwise resolve claims against NEIL and/or Mitsubishi in any manner and whenever the Utilities determine, in the exercise of their business judgment, without prior or subsequent review or approval, disapproval, or disallowance by the CPUC or any parties to this OIL.
- (g) The Utilities shall promptly notify the CPUC of any such settlement, compromise, or other resolution of their claims against NEIL or MHI, provided, however, that:
 - (i) The Utilities may provide such notification in a manner that preserves the confidentiality thereof insofar as may be reasonably necessary to further the Utilities' flexibility to settle, compromise, or otherwise resolve such claims; *and*
 - (ii) The CPUC shall not review the reasonableness or prudence of the Utilities' litigation, settlement, compromise, or other resolution of such claims and shall not impose any ratemaking adjustment in respect of such claims except as expressly provided in this Agreement.
- (h) The Utilities shall each use their best efforts to provide all Settling Parties with advance notice of any such settlement, compromise, or other resolution of their claims against NEIL or MHI, to the extent possible under the circumstances and the terms of any agreement with NEIL or MHI, before the Utilities notify the CPUC or otherwise make public the agreement.

4.12. Any amounts that the Utilities may be required to refund to ratepayers pursuant to Sections 4.2(b), 4.3(b)(ii), 4.9(b), 4.9(f), 4.9(g), 4.9(j)(i), and 4.9(j)(iv) of this Agreement shall be refunded via a reduction to each Utility's respective under-collected ERRA balance as of the last day of the month of the Effective Date. This refund mechanism shall not change the amortization period set forth in Section 4.10(b) of this Agreement.

- 4.13. For the period from the first day of the month after the Effective date to December 31, 2014, the difference between the Capital-Related Revenue Requirement for SONGS assets provisionally authorized in Decision No. 12-11-051 and the revenue requirement for Base Plant, CWIP, M&S and Nuclear Fuel Investment shall be credited to each Utility's respective ERRA account. To the extent the difference referenced in the prior sentence is calculated based on a forecast, a true-up will be recorded in ERRA in the first quarter of 2015 to reflect the actual difference. For the period from January 1, 2015 to the date of Utility implements new base rates pursuant to its next GRC decision, such difference will be credited to ERRA (for SCE) and NGBA (for SDG&E).
- 4.14. Except as expressly provided in this Agreement, all costs recorded in SCE's SONGSMA, SDG&E's SONGSBA, and both Utilities' SONGSOMA shall be recovered in rates and shall not be subject to any disallowance, refund, or any form of reasonableness review by the Commission.
- 4.15. Because this Agreement provides a ratemaking disposition for all costs recorded in SCE's SONGSMA, SDG&E's SONGSBA, and both Utilities' SONGSOMA, these memorandum accounts will not be necessary after the last day of the month of the Effective Date and will be terminated by the Utilities as of that day.
- 4.16. Resolution of Consolidated Proceedings
- (a) The Settling Parties intend for this Agreement to resolve the OII and all Consolidated Proceedings in their entirety. The Settling Parties agree that the Consolidated Proceedings should be resolved as follows in this section of the Agreement.
- (b) A. 13-03-005
- (i) The Commission shall find that SCE's testimony in support of A. 13-03-005 conclusively established that the total cost of the SGRP was \$612.1 million in 2004 dollars (100% share). The Settling Parties shall not take the position, in any proceeding whatsoever, that SCE spent more than \$612.1 million (100% share, 2004\$) on the SGRP.
- (ii) The Commission shall find that SCE's testimony in support of A. 13-03-005 utilized appropriate inflation indexes to deflate the total cost of the SGRP from nominal dollars to 2004 dollars. This includes the use of the Handy-Whitman index for fabrication and construction costs and the Commission-approved nuclear decommissioning burial escalation rates for burial costs. The Settling Parties shall not take the position, in any proceeding whatsoever, that SCE used inappropriate inflation indexes in its testimony in support of A. 13-03-005.
- (iii) Because this Agreement provides a ratemaking disposition for all costs described in A. 13-03-005, no further reasonableness review is required. The Settling Parties shall jointly request that the Commission allow SCE

to retain all rate revenues collected from customers for the SGRP prior to February 1, 2012, as a resolution of A. 13-03-005.

(c) A. 13-03-014

- (i) The provisions set forth in Section 4.16(b)(i)-(ii) are incorporated herein as though set forth in their entirety.
- (ii) Because this Agreement provides a ratemaking disposition for all costs described in A. 13-03-014, no further reasonableness review is required. The Settling Parties shall jointly request that the Commission allow SDG&E to retain all rate revenues collected from customers for the SGRP prior to February 1, 2012, as a resolution of A. 13-03-014.

(d) A. 13-01-016

- (i) The Settling Parties agree that the costs recorded in SCE's SONGSMA during the year 2012 were reasonable and prudent to the extent this Agreement provides that SCE shall recover such costs.
- (ii) None of the Settling Parties will take the position, in any proceeding whatsoever, that any of the costs recorded in SCE's SONGSMA during 2012 were unreasonable, or should be disallowed, except to the extent that this Agreement provides that such costs be refunded to ratepayers.
- (iii) Because this Agreement provides a ratemaking disposition for all costs described in A. 13-01-016, no further reasonableness review is required. The Settling Parties shall jointly request that the Commission grant A. 13-01-016 to the extent that this Agreement provides for rate recovery of the costs recorded in SCE's SONGSMA during 2012.

(e) A. 13-03-013

- (i) The Settling Parties agree that the costs recorded in SDG&E's SONGSBA during the year 2012 were reasonable and prudent to the extent this Agreement provides that SDG&E shall recover such costs.
- (ii) None of the Settling Parties will take the position, in any proceeding whatsoever, that any of the costs recorded in SDG&E's SONGSBA during 2012 were unreasonable, or should be disallowed, except to the extent that this Agreement provides that such costs be refunded to ratepayers.
- (iii) Because this Agreement provides a ratemaking disposition for all costs described in A. 13-03-013, no further reasonableness review is required. The Settling Parties shall jointly request that the Commission grant A. 13-03-013 to the extent that this Agreement provides for rate recovery of the costs recorded in SDG&E's SONGSBA during 2012.

- 4.17. In light of this Agreement, the Settling Parties urge the CPUC to withdraw the November 19, 2013, Proposed Decision on Phase 1 and Phase 1A issues.

V.

GENERAL PROVISIONS AND RESERVATIONS

- 5.1. The Settling Parties shall use their best efforts to obtain Commission Approval. Following execution of this Agreement, the Settling Parties shall:
- (a) Jointly file a motion requesting that the Commission:
 - (i) Approve the Agreement in its entirety without change;
 - (ii) Find the Agreement to be reasonable in light of the whole record, consistent with law, and in the public interest; *and*
 - (iii) Expedite its consideration and approval of the Agreement in order to provide the benefits of the Agreement as soon as possible.
 - (b) Support and mutually defend this Agreement in its entirety until the Commission has issued final approval of the Agreement.
 - (c) Oppose any modifications to this Agreement proposed by any non-settling party to the OII, unless all Settling Parties jointly agree to support such modification.
 - (d) Cooperate reasonably on all submissions, including briefs, necessary to achieve Commission Approval of the Agreement.
 - (e) Review any Commission orders regarding this Agreement to determine if the Commission has changed or modified this Agreement, deleted a term, or imposed a new term in this Agreement. If any Settling Party is unwilling to accept such change, modification, deletion, or addition of a new term, that Settling Party shall so notify the other Settling Parties within 15 days of issuance of the order by the Commission. The Settling Parties shall thereafter promptly discuss each change, modification, deletion, or new term to this Agreement found unacceptable and negotiate in good faith to achieve a resolution acceptable to all Settling Parties and promptly seek Commission approval of the resolution so achieved. Failure to resolve such change, modification, deletion, or new term to this Agreement to the satisfaction of all Settling Parties within 15 days of notification, or to obtain Commission approval of such resolution promptly thereafter, shall entitle any Settling Party to terminate this Agreement through prompt notice to all other Settling Parties.
- 5.2. In accordance with Rule 12.5, the Settling Parties intend that Commission adoption of this Agreement will be binding on all parties to the OII, including their legal successors, assigns, partners, members, agents, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Unless the Commission expressly provides otherwise, such

adoption does not constitute approval of or precedent for any principle or issue in this or any future proceeding.

- 5.3. Since this Agreement represents a compromise by them, the Settling Parties have entered into each stipulation contained in this Agreement on the basis that the stipulation not be construed as an admission or concession by any Settling Party regarding any fact or matter of law at issue in this proceeding. Should this Agreement not be approved in its entirety by the Commission, the Settling Parties reserve all rights to take any position whatsoever with respect to any fact or matter of law at issue in the OIL.
- 5.4. The Settling Parties agree that no signatory to this Agreement or any employee thereof assumes any personal liability as a result of this Agreement.
- 5.5. If any Settling Party fails to perform its respective obligations under this Agreement, any other Settling Party may come before the Commission to pursue a remedy including enforcement.
- 5.6. The provisions of this Agreement are not severable. If the Commission, or any court of competent jurisdiction, overrules or modifies as legally invalid any material provision of this Agreement, the Agreement may be considered rescinded, at the discretion of any of the Settling Parties, as of the date such ruling or modification becomes final.
- 5.7. The Settling Parties acknowledge and stipulate that they are agreeing to this Agreement freely, voluntarily, and without any fraud, duress, or undue influence by any other party. Each Settling Party hereby states that, through its authorized representatives, it has read and fully understands its rights, privileges, and duties under this Agreement, including each Settling Party's right to discuss this Agreement with its legal counsel and has exercised those rights, privileges, and duties to the extent deemed necessary.
- 5.8. In executing this Agreement, each Settling Party declares and mutually agrees that the terms and conditions herein are reasonable, consistent with the law, and in the public interest.
- 5.9. This Agreement constitutes the Settling Parties' entire agreement on the subject matters addressed herein, which cannot be amended or modified without the express written and signed consent of all the Settling Parties hereto.
- 5.10. None of the provisions of this Agreement shall be considered waived by any Settling Party unless such waiver is given in writing. The failure of a Settling 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.
- 5.11. No Settling Party has relied, or presently relies, upon any statement promise, or representation by any other Settling Party, whether oral or written, except as specifically set forth in this Agreement. Each Settling Party expressly assumes the risk of any mistake

of law or fact made by such Settling Party or its authorized representative in entering into this Agreement.

- 5.12. This Agreement may be executed in up to four separate counterparts by the different Settling Parties hereto with the same effect as if all Settling Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Agreement.
- 5.13. This Agreement shall become effective and binding on the Settling Parties as of the Effective Date. However, the provisions of Section 5.1 of this Agreement shall impose obligations on the Settling Parties immediately upon the execution of this Agreement by all of the Settling Parties.
- 5.14. This Agreement shall be governed by the laws of the State of California as to all matters, including but not limited to, matters of validity, construction, effect, performance, and remedies.
- 5.15. To the extent this Agreement requires that any Settling Party provide notice to any other Settling Party, such notice shall be in writing and directed to the signatories to this agreement.

VI. IMPLEMENTATION OF SETTLEMENT AGREEMENT

- 6.1. Within 30 days of the Effective Date, the Utilities shall file revised tariff sheets to implement the revenue requirement, accounting procedures, and charges authorized in this Agreement and to incorporate the relevant findings and conclusions of the decision adopting this Agreement. The revised tariff sheets shall become effective on filing, subject to a finding of compliance by the Energy Division, and shall comply with General Order 96-B. Notwithstanding any of the figures set forth in Sections 3.36 – 3.48 of this Agreement, ORA and TURN have the prerogative to review and validate any amounts used by the Utilities to implement the revenue requirement, accounting procedures, and charges authorized in this Agreement, to meet and confer with the Utilities to resolve any concerns, and to protest the advice letters if such concerns are not resolved to their satisfaction.
- 6.2. The Utilities shall file Tier 2 Advice Letters (which may be combined with Tier 2 Advice Letters proposing consolidated rate changes pursuant to the Utilities' respective General Rate Case decisions) to implement changes to their respective revenue requirements, including implementation of changes pursuant to Sections 4.2, 4.3, 4.5, and 4.6 – 4.13 consistent with the terms of this Agreement.

VII. EXECUTION

IN WITNESS WHEREOF, the Settling Parties have duly executed this Agreement. This Agreement is executed in four counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the party represented.

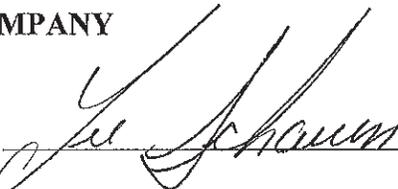
**SOUTHERN CALIFORNIA EDISON
COMPANY**

By: _____

Title: President

Date: _____

**SAN DIEGO GAS & ELECTRIC
COMPANY**

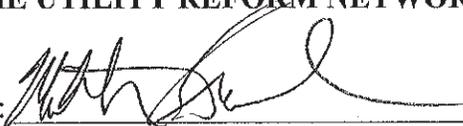
By:  _____

Title: SVP Finance, Regulatory & Legislative

Affairs

Date: 3-27-14

THE UTILITY REFORM NETWORK

By:  _____

Title: Staff Attorney

Date: March 27, 2014

OFFICE OF RATEPAYER ADVOCATES

By:  _____

Title: Acting Director, Office of Ratepayer

Advocates

Date: March 27, 2014

**SOUTHERN CALIFORNIA EDISON
COMPANY**

By: 

Title: President

Date: March 27, 2014

**SAN DIEGO GAS & ELECTRIC
COMPANY**

By: _____

Title: SVP Finance, Regulatory & Legislative
Affairs

Date: _____

THE UTILITY REFORM NETWORK

By: _____

Title: Staff Attorney

Date: _____

OFFICE OF RATEPAYER ADVOCATES

By: _____

Title: Acting Director, Office of Ratepayer
Advocates

Date: _____

Appendix A

ILLUSTRATIVE EXAMPLE FOR BASE PLANT AND MATERIALS AND SUPPLIES (M&S)

	As of February 1, 2012
Base Plant ¹	\$ 622
M&S	99
<hr/>	
Regulatory Asset	721
Less: Accumulated Deferred Taxes ²	(152)
<hr/>	
Regulatory Asset, adjusted for deferred taxes	569
Rate of Return	2.95%
<hr/>	
Return ^{3,4}	\$ 17

¹ Base Plant excludes nuclear fuel and CWIP

² Includes deferred taxes associated with nuclear fuel

³ Does not include associated income taxes

⁴ Calculation of return illustrative for a single point in time; actual calculation will be based on an average

CONFIDENTIAL
PRELIMINARY AND APPROXIMATE

Attachment 2

PVRR

FOR ILLUSTRATIVE PURPOSES ONLY

\$ Millions

	SCE			
	TURN Litigation	ORA Litigation	Settlement	SCE Litigation
PVRR @ 10.00%	\$ 2,061	\$ 1,923	\$ 2,571	\$ 3,693
Components:				
RSG	-	86	-	696
Base Plant	900	708	1,115	1,416
O&M	659	627	673	773
Nuclear Fuel	419	419	394	419
Replacement Power ¹	83	83	389	389
Return (% 2013)				
RSG	0.00%	0.00%	0.00%	5.54%
Debt	0.00%	0.00%	0.00%	5.49%
Preferred	0.00%	0.00%	0.00%	5.79%
Equity	0.00%	0.00%	0.00%	5.54%
Base Plant - Required^{2,3,4}	0.00%	0.00%	2.62%	7.90%
Debt	0.00%	0.00%	5.49%	5.49%
Preferred	0.00%	0.00%	2.90%	5.79%
Equity	0.00%	0.00%	0.00%	10.45%
Base Plant - Not Required⁴	0.00%	0.00%	n/a	5.54%
Debt	0.00%	0.00%	n/a	5.49%
Preferred	0.00%	0.00%	n/a	5.79%
Equity	0.00%	0.00%	n/a	5.54%

1. Does not include forgone sales

2. In Settlement Agreement, Non-RSG plant is not distinguished as "required" or "not-required" as defined in the SCE litigation position.

As such, Base Plant, CWIP, and M&S earns the rate of return shown in the table

3. In SCE litigation position, higher return on required plant only applicable through 2017. Thereafter, rate of return on "not-required" plant applies.

4. Base Plant includes CWIP and M&S

FOR ILLUSTRATIVE PURPOSES ONLY

All figures shown as 1,000,000.0 USD

	SDG&E			
	TURN Litigation	ORA Litigation	Settlement	SDG&E Litigation
PVRR @ 10.00%	613.5	597.2	727.6	1,015.2
Components:				
RSG ⁵	-	14.9	-	221.7
Base Plant	209.3	178.2	244.5	297.8
O&M	241.5	241.5	266.6	266.6
Nuclear Fuel	101.0	100.9	88.3	100.9
Replacement Power ¹	61.7	61.7	128.2	128.2
Return (% 2013)				
RSG	0.00%	0.00%	0.00%	5.07%
Debt	0.00%	0.00%	0.00%	5.00%
Preferred	0.00%	0.00%	0.00%	6.22%
Equity	0.00%	0.00%	0.00%	5.07%
Base Plant - Required^{2,3,4}	0.00%	0.00%	2.35%	7.79%
Debt	0.00%	0.00%	5.00%	5.00%
Preferred	0.00%	0.00%	3.11%	6.22%
Equity	0.00%	0.00%	0.00%	10.30%
Base Plant - Not Required^{2,4}	0.00%	0.00%	N/A	5.07%
Debt	0.00%	0.00%	N/A	5.00%
Preferred	0.00%	0.00%	N/A	6.22%
Equity	0.00%	0.00%	N/A	5.07%

1. Does not include foregone sales.
2. In Settlement Agreement, Non-RSG plant is not distinguished as "required" or "not-required" as defined in the SDG&E litigation position. As such, Base Plant, CWIP, and M&S earns the rate of return shown in the table.
3. In SDG&E litigation position, higher return on required plant only applicable through 2017. Thereafter, rate of return on "not-required" plant applies.
4. Base Plant includes CWIP and M&S.
5. RSG revenue requirement shown at nominal value for ORA and TURN Litigation and Settlement.

Attachment 3

Agreement Adding CUE & FOE To Settlement Agreement

AGREEMENT ADDING CUE AND FOE TO SONGS OII SETTLEMENT

This agreement (“Agreement”) is entered into as of April 3, 2014, by and among Southern California Edison Company, San Diego Gas & Electric Company, The Utility Reform Network (“TURN”), the Office of Ratepayer Advocates (“ORA”) (collectively, the “Settling Parties”), the Coalition of California Utility Employees (“CUE”), and Friends of the Earth (“FOE”).

WHEREAS, the Settling Parties entered into a settlement agreement (the “Settlement”) on March 27, 2014, as a compromise of all claims, allegations, and liabilities in the *Order Instituting Investigation Regarding San Onofre Nuclear Generating Station Units 2 and 3*, I.12-10-013, and all proceedings that have been consolidated therewith (including A. 13-01-016, A. 13-03-005, A. 13-03-013, and A. 13-03-014); and

WHEREAS, CUE and FOE were not parties to the Settlement; and

WHEREAS, CUE and FOE each desire to join the Settlement and agree to be bound by the terms and conditions therein to the same extent as TURN and ORA; and

WHEREAS, the Settling parties desire to add CUE and FOE to the Settlement and to bestow all rights and obligations of TURN and ORA pursuant to the Settlement upon CUE and FOE;

NOW THEREFORE, the Settling Parties, CUE, and FOE agree as follows:

1. CUE and FOE shall be bound by the terms and conditions of the Settlement to the same extent as TURN and ORA.
2. All obligations of TURN and ORA pursuant to the Settlement shall also be obligations of CUE and FOE.
3. All rights of TURN and ORA pursuant to the Settlement shall also be rights of CUE and FOE.
4. This Agreement shall become effective immediately upon execution by the Settling Parties, CUE, and FOE.

IN WITNESS WHEREOF, the Settling Parties, CUE, and FOE have duly executed this Agreement. This Agreement is executed in six 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: *Mark W. Tigner*

Title: President

Date: April 3, 2014

**SAN DIEGO GAS & ELECTRIC
COMPANY**

By: _____

Title: _____

Date: _____

THE UTILITY REFORM NETWORK

By: _____

Title: _____

Date: _____

OFFICE OF RATEPAYER ADVOCATES

By: _____

Title: _____

Date: _____

FRIENDS OF THE EARTH

By: _____

Title: _____

Date: _____

**THE COALITION OF CALIFORNIA
UTILITY EMPLOYEES**

By: _____

Title: _____

Date: _____

SOUTHERN CALIFORNIA EDISON COMPANY

By: _____

Title: _____

Date: _____

SAN DIEGO GAS & ELECTRIC COMPANY

By: *Lee Schavrien*
LEE SCHAVRIEN

Title: *SVP - FIN, REG & LEGIS AFFS*

Date: *APRIL 3, 2014*

THE UTILITY REFORM NETWORK

By: _____

Title: _____

Date: _____

OFFICE OF RATEPAYER ADVOCATES

By: _____

Title: _____

Date: _____

FRIENDS OF THE EARTH

By: _____

Title: _____

Date: _____

THE COALITION OF CALIFORNIA UTILITY EMPLOYEES

By: _____

Title: _____

Date: _____

**SOUTHERN CALIFORNIA EDISON
COMPANY**

By: _____

Title: _____

Date: _____

**SAN DIEGO GAS & ELECTRIC
COMPANY**

By: _____

Title: _____

Date: _____

THE UTILITY REFORM NETWORK

By:  _____

Title: Staff Attorney _____

Date: April 3, 2014 _____

OFFICE OF RATEPAYER ADVOCATES

By: _____

Title: _____

Date: _____

FRIENDS OF THE EARTH

By: _____

Title: _____

Date: _____

**THE COALITION OF CALIFORNIA
UTILITY EMPLOYEES**

By: _____

Title: _____

Date: _____

**SOUTHERN CALIFORNIA EDISON
COMPANY**

By: _____

Title: _____

Date: _____

**SAN DIEGO GAS & ELECTRIC
COMPANY**

By: _____

Title: _____

Date: _____

THE UTILITY REFORM NETWORK

By: _____

Title: _____

Date: _____

OFFICE OF RATEPAYER ADVOCATES

By: Joseph P. [Signature]

Title: Acting Director

Date: 4/3/14

FRIENDS OF THE EARTH

By: _____

Title: _____

Date: _____

**THE COALITION OF CALIFORNIA
UTILITY EMPLOYEES**

By: _____

Title: _____

Date: _____

<p>SOUTHERN CALIFORNIA EDISON COMPANY</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>	<p>SAN DIEGO GAS & ELECTRIC COMPANY</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>
<p>THE UTILITY REFORM NETWORK</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>	<p>OFFICE OF RATEPAYER ADVOCATES</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>
<p>FRIENDS OF THE EARTH</p> <p>By: <u>Lorena Chavez</u></p> <p>Title: <u>Attorney for Friends of the Earth</u></p> <p>Date: <u>April 3, 2014</u></p>	<p>THE COALITION OF CALIFORNIA UTILITY EMPLOYEES</p> <p>By: _____</p> <p>Title: _____</p> <p>Date: _____</p>

**SOUTHERN CALIFORNIA EDISON
COMPANY**

By: _____

Title: _____

Date: _____

**SAN DIEGO GAS & ELECTRIC
COMPANY**

By: _____

Title: _____

Date: _____

THE UTILITY REFORM NETWORK

By: _____

Title: _____

Date: _____

OFFICE OF RATEPAYER ADVOCATES

By: _____

Title: _____

Date: _____

FRIENDS OF THE EARTH

By: _____

Title: _____

Date: _____

**THE COALITION OF CALIFORNIA
UTILITY EMPLOYEES**

By: *Jamil*

Title: *Attorney*

Date: *4/3/14*