

**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.

I.12-10-013
(Filed October 25, 2012)

And related matters

A.13-01-016
A.13-03-005
A.13-03-013
A.13-03-014

**REVISED RESPONSE OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
TO JOINT RULING OF ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW
JUDGE REOPENING RECORD, IMPOSING *EX PARTE* CONTACT BAN,
CONSOLIDATING ADVICE LETTERS, AND SETTING BRIEFING SCHEDULE**

Emma D. Salustro

Attorney for:

SAN DIEGO GAS & ELECTRIC COMPANY
8330 Century Park Court, CP32D
San Diego, CA 92123
Telephone: 858/654-1861
Facsimile: 619/699-5027
E-mail: esalustro@semprautilities.com

April 26, 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1

I. INTRODUCTION 2

II. PROCEDURAL HISTORY..... 3

III. SUMMARY OF AMENDED SETTLEMENT AGREEMENT 7

IV. IMPLEMENTATION OF AMENDED SETTLEMENT AGREEMENT 8

 a. SGRP Net Investment..... 9

 b. Non-SGRP Net Investment..... 11

 c. CWIP..... 16

 d. Materials and Supplies..... 19

 e. Nuclear Fuel Investment..... 22

 f. Net SONGS Costs..... 29

 g. Base O&M and “Non-O&M” Expenses..... 30

 h. Third-Party Recoveries 38

 i. Nuclear Decommissioning Trusts..... 41

 j. Greenhouse Gas (“GHG”) Program..... 44

 k. Finance Regulatory Asset 46

 l. Refund Mechanism 47

V. SDG&E RATEPAYER BENEFITS FROM THE SETTLEMENT 49

 a. Ratepayer Benefits To Date and Forecasted in 2016..... 50

 b. Regulatory Accounting Summary..... 52

 c. Direct Access Customers..... 52

VI. SDG&E SONGS NET REGULATORY ASSET RESULTING FROM THE
SETTLEMENT..... 53

VII. SDG&E SHAREHOLDER LOSSES 55

VIII. CONCLUSION..... 58

Attachment A – SONGS OII Regulatory Asset and Impairment Implementation Summary -
SDG&E

Attachment B - June 2 Report Change Log

List of Appendices

- Appendix A - Implementation of D.14-02-022 ERRRA Trigger AL 2587
- Appendix B - 2014 NGBA Update AL 2670
- Appendix C - SONGS OII Implementation AL 2672
- Appendix D - SONGS OII Implementation AL 2675
- Appendix E - SONGS OII Implementation AL 2676
- Appendix F - Consolidated Filing to Implement January 1, 2015 Electric Rates AL 2685
- Appendix G - Establishes SONGS Cost of Financing Balancing Account per D.14-11-040 AL 2718
- Appendix H - SONGS 2&3 Costs Eligible for Payment from NDT and Authorization of Reimbursement from NDT (incurred on or after June 7, 2013) AL 2724
- Appendix I - Reimbursement of SONGS 2&3 Costs from NDT (01/01/14 - 12/31/14) AL 2806
- Appendix J - 2015 NGBA Update AL 2819
- Appendix K - Consolidated Filing to Implement January 1, 2016 Electric Rates AL 2840
- Appendix L - Final Resolution of NEIL Claims and Litigation Costs AL 2859
- Appendix M – DOE Settlement Agreement

**Revised Summary of SONGS OII Amended Settlement
Agreement & Settlement Implementation**

SDG&E

April 26, 2017



EXECUTIVE SUMMARY¹

San Diego Gas & Electric Company (“SDG&E”) has determined that as a result of the Amended and Restated Settlement Agreement (“Settlement” or “Amended Settlement Agreement”), SDG&E ratepayers received or will receive \$225.7 million in benefits, specifically as rate credits, through April 30, 2016.² This amount includes the \$76.2 million that SDG&E ratepayers received from the Mitsubishi Heavy Industries, Ltd., and related entities (collectively “MHI” or Mitsubishi) and Nuclear Electric Insurance Limited (“NEIL”) settlements that but for the Settlement, they would not have received. In addition, ratepayers have already received \$58.3 million in reimbursements from SDG&E’s Nuclear Decommissioning Trust (“Trust”) for 2013 and 2014 decommissioning costs that were credited to the Energy Resource Recovery Account (“ERRA”) and SONGS Regulatory Asset. Further, a \$140.5 million reduction in rates was implemented in 2015. Together this totals **\$424.5 million in ratepayer benefits.**

SDG&E anticipates that ratepayers will receive additional rate credits in 2016, including \$32 million from a recent settlement with the Department of Energy (“DOE” and “DOE Settlement”),³ and approximately \$18 million from the SDG&E Trust for 2013 decommissioning

¹ SDG&E identified inadvertent errors in the original Report, filed June 2, 2016, related to replacement power. This Amended Report corrects those errors. Revisions to correct the errors have been underlined in the text and a change log is provided as Attachment B.

² The Amended Settlement Agreement was approved by Decision (“D.”) 14-11-040 (November 25, 2014) and attached to the Decision as Appendix B.

³ In April 2016, Southern California Edison Company (“SCE” or “Edison”), acting on behalf of the SONGS co-owners (SCE, SDG&E and the Cities of Riverside and Anaheim), signed and executed a spent fuel settlement agreement for \$162 million with the Department of Justice to resolve pending litigation resulting from the Department of Energy’s failure to timely pick up spent nuclear fuel (“DOE Settlement”). SDG&E’s share of the settlement, net litigation costs, is approximately \$32 million. A copy of the DOE Settlement is provided as Appendix M.

The California Public Utilities Commission (“Commission”) has previously stated that it expects that “the net proceeds [of a settlement or litigation award from the DOE] should be credited appropriately back to the source of the funds used for these activities.” D.14-12-082 at 35; see also D.14-12-082 at Ordering Paragraph (“OP”) 12; Resolution E-4678 at 13. Therefore, SDG&E intends to credit this portion of its award for these costs back to ratepayers through a reduction to the SONGS Regulatory Asset, which in turn will be reflected as a reduction to the Non-Fuel Generation Balancing Account (“NGBA”) revenue requirement over the amortization period. Specifically, \$23.5 million of SDG&E’s award will reduce the SDG&E SONGS Regulatory Asset related to its net investment in Non-Steam Generator Replacement Project (“SGRP”), Construction Work in Progress (“CWIP”), and Materials and Supplies (“M&S”).

costs, for a total of approximately **\$50 million in future rate credits**. SDG&E ratepayers may receive additional rate credits in the future from a variety of sources, such as a favorable outcome of the pending MHI litigation and any future claims against the DOE and additional trust reimbursements.

As of April 30, 2016, SDG&E will continue to amortize and collect from SDG&E ratepayers \$239.9 million for the remaining balance of the SONGS Regulatory Asset (comprised of Non-SGRP investment of \$172.6 million, and Nuclear Fuel investment of \$67.3 million) until February 1, 2022. SDG&E has determined that as a result of the Settlement, SDG&E shareholders have incurred a \$180 million impairment loss on the net investment of SONGS.

I. INTRODUCTION

SDG&E submits this Summary Report (“Report”) in accordance with the May 9, 2016 *Joint Ruling of Assigned Commissioner and Administrative Law Judge Reopening Record, Imposing Ex Parte Contact Ban, Consolidating Advice Letters, and Setting Briefing Schedule* (“May 9 Ruling”) and assigned Administrative Law Judge (“ALJ”) Bushey’s May 17, 2016 email granting SDG&E’s request to file and serve this Report. The Report shall be “a Summary of Settlement Agreement, including a status report on implementation of the Settlement Agreement, specify and quantify all accounting and ratemaking actions taken to date, planned actions for 2016, and planned actions required for future years....”⁴ This Report summarizes the Amended Settlement Agreement as it relates to SDG&E.

As directed by the May 9 Ruling, this Report contains a brief review of the procedural history of the Settlement (Section II) and summary of the Amended Settlement Agreement (Section III). Section IV discusses the implementation of the Amended Settlement Agreement by topic area, including the steps taken to implement each topic founding since the Commission approved the Settlement, as well as any upcoming “next steps.” Section V summarizes the

At the time of this filing, SDG&E is finalizing its accounting of the DOE settlement award. As directed in D.14-12-082, SDG&E will provide the Commission with information about the DOE Settlement and its allocation of the recoveries in the pending 2015 Nuclear Decommissioning Cost Triennial Proceeding (“NDCTP”) (A.16-03-004, filed March 1, 2016). D.14-12-082 at 36.

⁴ May 9 Ruling at 8.

benefits that SDG&E ratepayers have received as a result of the Settlement, and discusses additional ratepayers benefits anticipated in 2016. Section VI concerns the SDG&E SONGS Net Regulatory Asset, including how the regulatory asset and its associated revenue requirement were calculated. Section VII summarizes the losses incurred by SDG&E shareholders as a result of the Amended Settlement Agreement, and explains how SDG&E's impairment was calculated. It also provides a summary of SDG&E's SONGS financial account write-offs. Finally, SDG&E has provided its "SONGS OII Regulatory Asset and Impairment Implementation Summary" as Attachment A.

For the reader's convenience, SDG&E has also provided copies of the advice letters and the DOE Settlement referred to herein in the Appendix.

II. PROCEDURAL HISTORY

The Commission issued an Order Instituting Investigation ("OII") on October 25, 2012, initiating a multi-part investigation into the actions and expenses of SCE and SDG&E (collectively, the "Utilities") associated with the extended outage at SONGS.⁵ Several other proceedings were consolidated into the OII docket⁶ and the scope of the OII was widened to include a variety of issues, including, but not limited to "historic forecast and actual expenses, 2012 treatment of fuel contracts, reasonableness support for 2012 recorded expenses, and the calculation of replacement power costs."⁷ A phased approach was adopted for the proceeding by the Assigned Commissioner and Administrative Law Judge.⁸

⁵ I.12-10-013 (October 25, 2012); see also D.14-11-040 at 12. "The OII identified rate recovery issues including: (1) review of all post 2011 Operations & Maintenance ("O&M") costs and capital spending; (2) costs of scheduled RFO and emergent activities; (3) removal of non-useful generation assets from rate base; and (4) various questions around the costs, viability, and prudence of the SGRP approved in D.05-12-040." D.14-11-040 at 13.

⁶ A.13-01-016 (SCE), A.13-03-005 (SCE), A.13-03-013 (SDG&E) and A.13-03-014 (SDG&E). These proceedings were consolidated with the OII in the *Administrative Law Judge's Ruling on Various Motions and Consolidating Proceedings* (April 19, 2013).

⁷ D.14-11-040 at 14.

⁸ *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge Determining the Scope, Schedule, and Need for Hearing in Phase 1 of This Proceeding* (January 28, 2013) ("January 28,

The assigned ALJs sought input about the OII issues from the public during 2013. They held four public participation hearings regarding the SONGS outages: two in Costa Mesa on February 21, 2013 and two in San Diego on October 1, 2013.⁹ The OII was separated into phases, with Phase 1 to address the reasonableness of SCE’s actions and expenditures following the SONGS outage.¹⁰ Phase 1A was subsequently broken out to address the method for calculating the cost of replacement power during 2012 due to the SONGS outage.¹¹ Parties then submitted testimony and conducted discovery for Phase 1 and Phase 1A and evidentiary hearings were held in May 2013 and August 2013, respectively.¹² Both Phases were fully briefed by the parties.¹³ A proposed decision for Phase 1 was issued in November 2013, which was fully briefed by the parties.¹⁴ The Commission did not act on the PD.¹⁵

Phase 2 was designed to address whether any reductions to SCE’s rate base and SCE’s Test Year (“TY”) 2012 General Rate Case (“GRC”) revenue requirement are warranted or required due to the extended SONGS outages.¹⁶ Concurrently, the parties submitted testimony and exchanged discovery for Phase 2 in 2013. Phase 2 evidentiary hearings were held in October 2013 and the parties fully brief Phase 2.¹⁷ No Phase 2 PD was ever published.¹⁸

2013 Scoping Memo”); *Assigned Commissioner’s and Administrative Law Judge’s Ruling on Legal Questions Set Forth in Scoping Memo and Ruling* (April 30, 2013) at 2.

⁹ D.14-11-040 at 17.

¹⁰ January 28, 2013 Scoping Memo at 3-4.

¹¹ Email Ruling of ALJ Dudney, *re: SONGS Power Replacement* (May 6, 2013).

¹² D.14-11-040 at 17.

¹³ D.14-11-040 at 17.

¹⁴ D.14-11-040 at 17-18.

¹⁵ D.14-11-040 at 18.

¹⁶ *Assigned Commissioner’s and Administrative Law Judge’s Ruling Determining the Phase 2 Scope and Schedule* (July 31, 2013).

¹⁷ D.14-11-040 at 18.

¹⁸ D.14-11-040 at 18.

On March 20, 2014, SCE, SDG&E, The Utility Reform Network (“TURN”) and The Office of Ratepayer Advocates (“ORA”) served a notice of settlement conference to be held on March 27, 2014.¹⁹ On April 3, 2014, SCE, SDG&E, TURN, ORA, Friends of the Earth (“FOE”) and California Coalition of Utility Employees (“CCUE”) (collectively, Settling Parties) filed and served a Joint Motion for Adoption of Settlement.²⁰ At the ALJs’ direction, the Settling Parties submitted supplemental testimony in May 2014.²¹ In support of the Settlement, the parties presented a comparison of the Present Value of Revenue Requirement (“PVRR”) between the Settlement and the parties’ litigation positions. The PVRR refers to the funds to be recovered in rates over time, reduced to constant dollars by the application of a discount rate. In other words, PVRR is the present value of a stream of future payments. In SDG&E’s case, the Settlement was projected to yield a PVRR of approximately \$718.2 million, which is approximately \$293.4 million less than the PVRR of the rates that SDG&E (\$1011.6 million) was seeking in this proceeding.²² Parties also submitted comments and an evidentiary hearing was held in May 2014, followed by the submission of reply comments.²³ Settling Parties noticed and held an information meeting for interested members of the community in June 2014.²⁴

On September 5, 2014, the assigned Commissioner and the ALJs issued a Ruling Requesting the Settling Parties to Adopt Modifications to the proposed Settlement Agreement.²⁵ “The request was based on a preliminary assessment which identified a few provisions that needed to be clarified or modified to meet the public interest even when considered as part of the

¹⁹ SCE Letter to Parties to I.12-10-013 (March 20, 2014); D.14-11-040 at 19.

²⁰ *Joint Motion of Southern California Edison Company, San Diego Gas & Electric Company, 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* (April 3, 2014); D.14-11-040 at 19.

²¹ D.14-11-040 at 19-20.

²² Exhibit (“Ex.”) SDGE-23. In D.14-11-040 at 2, the Commission referred to a settlement PVRR for both SCE and SDG&E of \$3.3 billion, compared to \$1.45 billion allocated to shareholders.

²³ D.14-11-040 at 20.

²⁴ D.14-11-040 at 20.

²⁵ *Assigned Commissioner and Administrative Law Judge’s Ruling Requesting Settling Parties To Adopt Modifications To Proposed Settlement Agreement* (September 5, 2014); D.14-11-040 at 21.

whole settlement package.”²⁶ The Settling Parties noticed and held a telephonic settlement conference on September 23, 2014 to explain the amendments to the Settlement Agreement to be submitted to the Commission. On September 24, 2014, the Settling Parties filed and served an “Amended and Restated Settlement Agreement”, which included the requested modifications.²⁷ The Amended Settlement Agreement states that it constitutes “a complete resolution” of the OII.²⁸ After parties submitted comments and replies on an issued proposed decision, the Commission approved the Amended Settlement Agreement on November 25, 2014.²⁹

Immediately following the Commission’s approval, SDG&E commenced its implementation of the Amended Settlement Agreement. On November 26, 2014, SDG&E submitted Advice Letter (“AL”) 2672-E, to establish the revenue requirement for the Amended Settlement Agreement.³⁰ On the same day, SDG&E submitted AL 2675-E, to modify existing balancing and memorandum accounts, and establish new memorandum accounts, in accordance with the Amended Settlement Agreement.³¹ SDG&E also submitted AL 2676-E on November 26, 2014 to revise SDG&E’s Power Charge Indifference Adjustment (“PCIA”) rates, charged to Direct Access (“DA”) customers, needed to implement the Amended Settlement Agreement.³²

²⁶ D.14-11-040 at 21.

²⁷ D.14-11-040 at 21.

²⁸ Amended Settlement Agreement at Preamble; § 5.2.

²⁹ D.14-11-040.

³⁰ AL 2672-E, *Implementation of Order Instituting Investigation (I.12-10-013) Amended and Restated SONGS Settlement Agreement Revenue Requirement Pursuant To D.14-11-040*, approved March 10, 2015, effective January 1, 2015, provided at Appendix C. Throughout the body of AL 2672-E, there are references to SDG&E’s Annual Advice Letter Update Filing AL 2670-E (provided at Appendix B), dated November 19, 2014, which immediately preceded the SONGS Settlement implementation.

³¹ AL 2675-E, *Modifications to San Diego Gas & Electric’s Preliminary Statement Required to Implement the SONGS Order Instituting Investigation (I.12-10-013) Settlement Agreement Pursuant to Decision 14-11-040*, approved December 22, 2014, effective November 26, 2014, provided at Appendix D.

³² AL 2676-E, *Revisions to San Diego Gas & Electric’s Power Charge Indifference Adjustment Rates Required to Implement the SONGS Order Instituting Investigation (I.12-10-013) Settlement Agreement Pursuant to Decision 14-11-040*, approved and effective December 23, 2015, provided at Appendix E. Due to the delay in advice letter approval, the adjustments to the PCIA rates associated with the Amended Settlement Agreement were implemented in rates January 1, 2016.

On December 30, 2014, SDG&E filed its Consolidated Filing to Implement January 1, 2015 Electric Rates,³³ which implemented the revenue requirement approved in AL 2672-E.

III. SUMMARY OF AMENDED SETTLEMENT AGREEMENT

In accordance with the May 9 Ruling, SDG&E has provided a summary of the Amended Settlement Agreement.

In general, the Amended Settlement Agreement allocates three broad categories of costs between SDG&E and its ratepayers, which necessarily had to be addressed in light of the SONGS outages and the resulting permanent retirement of SONGS. First, the Settlement bars SDG&E from recovering from ratepayers any of the costs of the Steam Generator Replacement Project (“SGRP”) starting as of February 1, 2012, the day after the outages began. In SDG&E’s case, this resulted in a write-off of approximately \$186 million.

Second, the Amended Settlement Agreement provides for ratepayers to pay the costs of power that were purchased on the market and that they consumed. These are “Net SONGS Costs” – the costs of power purchased to replace the lost output from SONGS. At the time the Commission approved the settlement, these replacement power costs from the date of the outages until when SONGS shut down on June 6, 2013, were estimated to total \$99.9 million.³⁴ This cost for ratepayers was partially reduced by obtaining a settlement from NEIL. Under the

³³ AL 2685-E, Consolidated Filing to Implement January 1, 2015 Electric Rates, approved March 2, 2015, effective January 1, 2015, provided at Appendix F.

³⁴ This figure refers to market costs of energy and capacity from February 1, 2012, through June 6, 2013. Prior to the approval of the settlement, in the Energy Resource Recovery Account (“ERRA”) proceeding, the Commission had deferred a decision on the recovery of \$121.9 million of costs that the Commission deemed to represent the market costs of the SONGS outages in 2013 (including foregone sales). The \$121.9 million figure addresses market costs for 2013 (a different time period) and includes different costs (foregone sales) than the February 1, 2012, through June 6, 2013, period covered by the \$99.9 million (which does not include foregone sales).

Settlement, 95% of the net amount recovered from NEIL is credited to ratepayers. SDG&E recently credited to its ratepayers approximately \$75 million for the NEIL recovery.³⁵

Third, the Settlement provides for SDG&E to continue recovering its remaining SONGS costs, other than the costs of the failed Replacement Steam Generators (“RSG”). These other costs include the return of SDG&E’s capital investments made in SONGS over many years, along with the associated O&M costs of SONGS through 2013. However, the Settlement imposes a substantially reduced rate of return on the remaining investment in SONGS, from the 7.79% in 2012 (which the Commission has authorized for all of SDG&E’s other assets) to a Settlement rate of return of 2.35% today. The Commission estimated that this reduced rate of return alone saves the Utilities’ ratepayers approximately \$420 million over the 10-year period for amortization of those investments.³⁶ While this reduced return did not involve an immediate write-off of assets, it reduces SDG&E’s future rates.

Viewed as a whole, the Settlement was estimated to yield a PVRR for SDG&E’s ratepayers that was approximately \$293.4 million (net present value) less than SDG&E’s original litigation position in this proceeding.³⁷ That estimated Settlement PVRR, however, did not take into account any additional ratepayer refunds or credits that have occurred since implementation, or that may result in the future, such as any successful claims against third parties.

IV. IMPLEMENTATION OF AMENDED SETTLEMENT AGREEMENT

The section below provides a more detailed discussion of the major topics contained in the Amended Settlement Agreement (in no particular order). The summaries include the implementation steps SDG&E has taken (or plans to take) to effectuate the Amended Settlement Agreement’s terms, including any regulatory, accounting and ratemaking practices associated

³⁵ NEIL paid \$400 million in total. SDG&E’s 20% share was approximately \$80 million. Ratepayers’ 95% share of that amount, after deducting litigation costs, is approximately \$75 million. See Section IV(h) for additional information.

³⁶ D.14-11-040 at 2-3.

³⁷ Ex. SDGE-23.

with the particular topic. Attachment A (“SONGS OII Regulatory Asset and Impairment Implementation Summary – SDG&E”) also reflects SDG&E’s implementation of the Settlement.

a. SGRP Net Investment

The Amended Settlement Agreement requires that the Utilities remove the net investment associated with the SGRP from rate investment as of February 1, 2012.³⁸ The Amended Settlement 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, 2012.³⁹ However, the Settlement also requires the Utilities to refund to ratepayers any amount of capital-related revenue requirement associated with the SGRP collected on or after February 1, 2012.⁴⁰

Implementation

i. Regulatory Accounting

Pursuant to the terms of the Amended Settlement Agreement, SDG&E is not allowed to recover any SGRP-related costs as of February 1, 2012. Thus, SDG&E refunded all amounts previously collected in rates from February 1, 2012 to October 31, 2014 (the last day of the prior month of the effective date) plus a forecast of November 1, 2014 to December 31, 2014 through the ERRA. This refund totaled \$86.6 million and was credited to ERRA in November and December 2014.⁴¹ Additionally, in March of 2015, SDG&E trued-up the forecasted period resulting in an additional refund to ratepayers of \$0.1 million that was also credited to ERRA. The total ratepayer refund for SGRP of \$86.7 million was recorded as a credit to ERRA as shown on Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

ii. Financial Accounting

Pursuant to the terms in the Amended Settlement Agreement, as of the effective date, SDG&E removed its net investment of SGRP from rate base as of February 1, 2012 and applied the authoritative accounting guidance for Regulated Operations - Property, Plant, and

³⁸ Amended Settlement Agreement at § 4.2.

³⁹ *Id.* at § 4.2(c).

⁴⁰ Amended Settlement Agreement at § 4.2(b).

⁴¹ AL 2672-E.

Equipment. This resulted in a total write-off of net investment in SGRP as a shareholder loss of \$185.9 million. The details are provided below in Table 1.

Table 1

**SONGS OII Regulatory Asset and Impairment - SGRP
Implementation Summary**

(\$s in millions)

	Balance As of 12/31/2014	01/01/2015 to 12/31/15 (Activity)	01/01/2016 to 04/30/16 (Activity)	Balance As of 04/30/2016 (Implementation- to-date)
SGRP (Section 4.2)				
Net Book Value (NBV)	\$ 144.3	-	-	\$ 144.3
Net Refunds/(Net Catch-up) Revenues	86.6	-	-	86.6
Deferred Revenues	(45.0)	-	-	(45.0)
Impairment Loss/Write-Off	(185.9)	-	-	(185.9)
Accumulated-Amortization Expense	-	-	-	-
Total SGRP (Section 4.2)	-	-	-	-

iii. Rates

Consistent with AL 2672-E, SDG&E removed the SGRP-related revenue requirement of \$28 million⁴² from rates in its Consolidated Filing to Implement January 1, 2015 Electric Rates, resulting in a decrease of \$28 million.⁴³

Next Steps

There are no additional “Next Steps” for SGRP.

b. Non-SGRP Net Investment

The Amended Settlement Agreement refers to the Non-SGRP-related net investment in SONGS as “Base Plant.”⁴⁴ Base Plant includes the net investment of all SONGS-related capital investments (except the SGRP).⁴⁵ Base Plant also includes the Utilities’ investments in marine

⁴² Without franchise fees and uncollectibles.

⁴³ AL 2685-E.

⁴⁴ Amended Settlement Agreement at § 2.6.

⁴⁵ *Id.* at § 2.6.

mitigation projects, nuclear design basis documentation, and deferred debits.⁴⁶ Base Plant does not include CWIP, nuclear fuel inventory, and the materials and supplies inventory.⁴⁷

The Amended Settlement Agreement requires the Utilities to remove Base Plant from rate base as of February 1, 2012.⁴⁸ This net investment is to be recovered by the Utilities at a reduced rate of return and over a ten-year amortization period (through February 1, 2022).⁴⁹

As with the SGRP investment, the Utilities are entitled to keep all capital-related revenues collected for Base Plant prior to February 1, 2012.⁵⁰ With respect to capital-related revenues that the Utilities have already collected for Base Plant on or after 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 Amended Settlement Agreement.⁵¹

As explained in SDG&E AL 2672-E, for the Base Plant, CWIP, and M&S, the Amended Settlement Agreement requires that the Utilities earn a rate of return calculated as each Utility's authorized cost of debt plus 50% of each Utility's authorized cost of preferred stock, weighted by the amount of debt and preferred stock in each utility's authorized capital structure.⁵² This rate of return does not include any return on equity.⁵³ Therefore, the rate of return SDG&E is allowed for 2012 is 2.75%, and 2.35% for both 2013 and 2014.⁵⁴ The practical result of this

⁴⁶ *Id.* at §§ 2.6(a)-(b) & 2.23.

⁴⁷ *Id.* at §§ 2.6 & 2.6(d)-(e).

⁴⁸ *Id.* at § 4.3(a).

⁴⁹ *Id.* at §§ 4.3(b)-(b)(i); D.14-11-040 at 98.

⁵⁰ Amended Settlement Agreement at § 4.3(a).

⁵¹ *Id.* at § 4.3(b)(ii).

⁵² *Id.* at §§ 4.3(c), 4.5(a), 4.8(a)(i)(D) & (a)(ii)(D).

⁵³ *Id.* at § 4.3(c).

⁵⁴ AL 2672-E at 4.

calculation is that the Utilities will recover their full cost of debt and one-half of their cost of preferred stock, but the Utilities are prevented from recovering their cost of equity.

The amortization period for Base Plant is a ten-year period running from February 1, 2012, until February 1, 2022.⁵⁵

Implementation

In its November 26, 2014 advice letter seeking authorization to implement the Amended Settlement Agreement's revenue requirement, SDG&E calculated that the remaining Non-SGRP, CWIP, and M&S net investments, as defined in Section 2.6, 2.13, and 2.21, respectively, of the Amended Settlement Agreement, to be recovered through February 1, 2022, at a reduced rate of return, was \$220.4 million as of December 31, 2014. This is depicted below in Table 2.

Table 2
SONGS Oil Regulatory Asset and Impairment - Non-SGRP
Implementation Summary
((\$ in millions))

	Balance As of 12/31/2014	01/01/2015 to 12/31/15 (Activity)	01/01/2016 to 04/30/16 (Activity)	Balance As of 04/30/2016 (Implementation- to-date)
Base Plant/CWIP/M&S (Sections 4.3; 4.8; 4.5)				
Net Book Value (NBV)	299.5	(7.8)	(0.2)	291.5
Net Refunds/(Net Catch-up) Revenues	2.7	-	-	2.7
Deferred Revenues	(66.5)	-	-	(66.5)
Impairment Loss/Write-Off	(15.3)	-	-	(15.3)
Accumulated-Amortization Expense	-	(29.9)	(10.0)	(39.9)
Total Base Plant/CWIP/M&S (Sections 4.3; 4.8; 4.5)	<u>220.4</u>	<u>(37.7)</u>	<u>(10.1)</u>	<u>172.6</u>

i. Regulatory Accounting

All Non-SGRP capital investments including CWIP and M&S but excluding Nuclear Fuel Investment were evaluated together for purposes of calculating the net refund to ratepayers. SDG&E refunded a portion of the revenue requirement previously collected in rates from February 1, 2012 to October 31, 2014 (the last day of the prior month of the effective date) plus a

⁵⁵ Amended Settlement Agreement at §§ 4.3(b)-(b)(i), 4.5(a), 4.6(a).

forecast of November 1, 2014 to December 31, 2014 through the ERRA. This net refund⁵⁶ totaled \$2.7 million and was credited to ERRA in November and December 2014 as shown on Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

ii. Financial Accounting

Pursuant to the terms in the Amended Settlement Agreement, as of the effective date (November 25, 2014), SDG&E removed its net investment of Non-SGRP from rate base as of February 1, 2012 and applied the authoritative accounting guidance for Regulated Operations - Property, Plant, and Equipment. In applying the authoritative accounting guidance, SDG&E recalculated its net investment in Non-SGRP from February 1, 2012 to February 1, 2022 with the reduced rate of return referenced in the Amended Settlement Agreement. Non-SGRP, CWIP, and M&S were evaluated together and not componentized for purposes of calculating the impairment and net refund. The factors in the recalculation included the revenue requirement needed to recover the net investment of and the reduced return on Non-SGRP, CWIP, and M&S as of February 1, 2012 to February 1, 2022 with a discounting cash flow factor equal to SDG&E’s incremental borrowing rate (as of June 6, 2013). This resulted in a total impairment of the net investment in Non-SGRP, CWIP, and M&S of \$15.3 million. This is depicted above in Table 2. The impaired net investment in Non-SGRP, CWIP and M&S was reclassified to a SONGS Regulatory Asset and will be amortized and recovered until February 1, 2022.

SDG&E has withdrawn Trust funds for decommissioning costs incurred in 2013 and 2014 related to amounts included in the net investment in Non-SGRP, CWIP, and M&S. SDG&E has reduced the balance of the SONGS Regulatory Asset related to its net investment in Non-SGRP, CWIP and M&S and associated NGBA revenue requirement accordingly. See Section IV(i) for additional information about the SDG&E Trust withdrawals.

iii. Rates

In accordance with the Amended Settlement Agreement and consistent with AL 2672-E, SDG&E removed from rates the Non-SGRP capital-related 2014 revenue requirement of \$41

⁵⁶ Net Refund equals all revenue requirement previously collected offset by revenue requirement that should have been collected from February 1, 2012 to December 31, 2014.

million associated with SCE's TY2012 GRC. In addition, effective January 1, 2015, all Non-SGRP capital investments including CWIP and M&S (but excluding Nuclear Fuel Investment) were evaluated together for purposes of calculating the revenue requirement going forward. SDG&E's 2015 Non-SGRP capital-related revenue requirement associated with the SONGS Regulatory Asset (Base Plant, CWIP and M&S) was \$37 million. The difference between the removal of the 2014 revenue requirement (\$41 million) and the calculated 2015 revenue requirement (\$37 million) was implemented in SDG&E's Consolidated Filing to Implement January 1, 2015 Electric Rates, resulting in a net decrease of \$4 million.⁵⁷

Effective January 1, 2016, SDG&E included in rates the Non-SGRP-related net investment of \$37 million associated with the SONGS Regulatory Asset (Base Plant, CWIP and M&S). The 2016 revenue requirement of \$37 million was implemented in SDG&E's Consolidated Filing to Implement January 1, 2016 Electric Rates.⁵⁸

Next Steps

SDG&E will continue to amortize and collect a reduced revenue requirement equal to SDG&E's SONGS Regulatory Asset, which includes its impaired net investment in Non-SGRP, CWIP and M&S until February 1, 2022. Future litigation or settlement awards from third parties (specifically, the DOE⁵⁹ or MHI⁶⁰) or Trust fund reimbursements related to amounts included in the net investment in Non-SGRP will reduce the balance of the SONGS Regulatory Asset and associated NGBA revenue requirement.

⁵⁷ AL 2685-E.

⁵⁸ AL 2840-E, approved January 27, 2016, effective January 1, 2016. AL 2840-E references SDG&E's annual NGBA update filing (AL 2819-E) dated November, 13, 2015 which includes Attachment C describing SONGS revenue requirements pertaining to NGBA. AL 2840-E is provided as Appendix K and AL 2819-E is provided as Appendix J.

⁵⁹ See *supra*, fn. 2.

⁶⁰ If and when SDG&E receives an award from the MHI arbitration (see Section IV(h), below), any amount in excess of \$71 million of SDG&E's award provided to ratepayers shall reduce the regulatory assets remaining for the Base Plant, CWIP, M&S, and Nuclear Fuel Investment, in that order. Amended Settlement Agreement at § 4.11(d)(iv).

c. CWIP

The Amended Settlement Agreement allows the Utilities to collect the full balance of CWIP, except the portion associated with the Replacement Steam Generators.⁶¹ The Utilities are entitled to treat this CWIP balance as part of the SONGS Regulatory Asset.

The Utilities' recovery of CWIP depends on whether the specific item is considered "cancelled" or "completed" CWIP. "Cancelled" CWIP is defined as CWIP that "will not enter service at any time after February 1, 2012."⁶² Completed CWIP includes projects that will enter service after February 1, 2012.⁶³

The AFUDC rate for Cancelled CWIP for the period prior to February 1, 2012, is the Utilities' regular authorized Allowance for Funds Used During Construction ("AFUDC") Rate.⁶⁴ The AFUDC is added to the CWIP balance for the period up to January 31, 2012.⁶⁵ The resulting CWIP balance is recovered ratably over the period from February 1, 2012, to February 1, 2022.⁶⁶ For Cancelled CWIP, SDG&E is not allowed to recover any AFUDC after January 31, 2012.⁶⁷ The amortization period for Cancelled CWIP is February 1, 2012 until February 1, 2022.⁶⁸

Completed CWIP includes projects that will enter service after the Amended Settlement Agreement's effective date (November 25, 2014). For Completed CWIP, the associated CWIP will earn the SDG&E's regular AFUDC rate from the date of the first recorded amount of

⁶¹ *Id.* § 4.8(a).

⁶² *Id.* § 2.13(a).

⁶³ *Id.* § 2.13(b).

⁶⁴ *Id.*

⁶⁵ *Id.* at §§ 4.8(a)(ii)(A)-(A)(2).

⁶⁶ *Id.* at §§ 4.8(b).

⁶⁷ *Id.* at § 4.8(a)(i).

⁶⁸ *Id.* at § 4.8(a)(ii)(C).

“Completed CWIP” until January 31, 2012.⁶⁹ Any CWIP after January 31, 2012 until the associated asset is placed into service or the November 25, 2014 Effective Date (whichever is earlier), will earn an AFUDC rate equal to the reduced rate of return for Base Plant. After the November 25, 2014 Effective Date, “Completed CWIP” (including all accumulated AFUDC) earns a reduced rate of return equal to Base Plant thereafter.⁷⁰ The reduced rate of return for CWIP is discussed above in Section IV(b) (“Non-SGRP Net Investment”). The amortization period for Completed CWIP begins on the day the project enters service or the last day of the month of the Commission’s approval of the Amended Settlement Agreement (November 30, 2014), whichever is earlier.⁷¹

The Amended Settlement Agreement directs the Utilities to seek recovery of CWIP completed after June 7, 2013 from the Nuclear Decommissioning Trusts, if possible.⁷²

Implementation

In its November 26, 2014 advice letter seeking authorization to implement the Amended Settlement Agreement’s revenue requirement, SDG&E calculated that the remaining Non-SGRP, CWIP and M&S net investments, as defined in Section 2.6, 2.13, and 2.21, respectively, of the Amended Settlement Agreement, to be recovered through February 1, 2022, at a reduced rate of return, was \$220.4 million as of December 31, 2014. This is depicted above in Table 2 above.

i. Regulatory Accounting

As discussed in above in Section IV(b)(i), all Non-SGRP capital investments including CWIP and M&S (but excluding Nuclear Fuel Investment) were evaluated together for purposes of calculating the net refund to ratepayers. SDG&E refunded a portion of the revenue requirement previously collected in rates from February 1, 2012 to October 31, 2014 (the last day of the prior month of the effective date) plus a forecast of November 1, 2014 to December

⁶⁹ *Id.* at § 4.8(a)(ii).

⁷⁰ *Id.* at § 4.8(a)(ii)(D)(2).

⁷¹ *Id.* at §§ 4.8(a)(ii)(C).

⁷² *Id.* at § 4.8(b).

31, 2014 through the ERRA. This net refund⁷³ totaled \$2.7 million and was credited to ERRA in November and December 2014, as described in Advice Letter 2672-E dated November 26, 2014 as shown on as shown on Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

ii. Financial Accounting

Pursuant to the terms in the Amended Settlement Agreement, as of the effective date, SDG&E removed its net investment of CWIP as of February 1, 2012 and applied the authoritative accounting guidance for Regulated Operations - Property, Plant, and Equipment. In applying the authoritative accounting guidance, SDG&E recalculated its net investment in CWIP for amounts classified as “Cancelled CWIP” and “Completed CWIP.” Any CWIP classified as “Cancelled CWIP” resulted in SDG&E removing any accumulated AFUDC as of February 1, 2012 and thereafter. Any AFUDC accumulated on “Cancelled CWIP” prior to February 1, 2012 is allowed to be included in the CWIP balance at SDG&E’s authorized AFUDC rate at the time the costs were incurred. Then starting February 1, 2012, Cancelled CWIP becomes a regulatory asset, earning the same rate of reduced return as Base Plant.⁷⁴

Any amounts classified as “Completed CWIP” after February 1, 2012 are allowed to accumulate AFUDC at a rate equal to the reduced rate of return for Base Plant. Any AFUDC accumulated on “Completed CWIP” prior to February 1, 2012 is allowed to be included in the CWIP balance at SDG&E’s authorized AFUDC rate at the time the costs were incurred.

Once the appropriate CWIP balances were established (including allowable accumulated AFUDC), the factors in the recalculation included the revenue requirement needed to recover the net investment of CWIP and the reduced return on CWIP as of February 1, 2012 or the asset in-service date (whichever is earlier) to February 1, 2022 with a discounting cash flow factor equal to SDG&E’s incremental borrowing rate (as of June 6, 2013).

⁷³ Net Refund equals all revenue requirement previously collected offset by revenue requirement that should have been collected from February 1, 2012 to December 31, 2014.

⁷⁴ Amended Settlement Agreement at § 4.8(a)(i).

As discussed above in Section IV(b) (“Non-SGRP Net Investment”), Non-SGRP, CWIP, and M&S were evaluated together and not componentized for purposes of calculating the impairment and net refund. This resulted in a total impairment of the net investment in Non-SGRP, CWIP, and M&S of \$15.3 million. This is depicted above in Table 2 above. The impaired net investment in Non-SGRP, CWIP and M&S was reclassified to a SONGS Regulatory Asset and will be amortized and recovered until February 1, 2022.

iii. Rates

As described above in Section IV(b), all Non-SGRP capital investments including CWIP and M&S but excluding Nuclear Fuel Investment were evaluated together for purposes of calculating the Non-SGRP revenue requirement. Revenue requirements included in rates associated with CWIP are therefore included in the revenue requirement identified in Section IV(b)(iii).

Next Steps

As discussed above in Section IV(b) (“Non-SGRP Net Investment”), SDG&E will continue to amortize and collect a reduced revenue requirement equal to SDG&E’s SONGS Regulatory Asset, which includes its impaired net investment in Non-SGRP, CWIP and M&S until February 1, 2022. Any refunds from third parties (such as DOE) or Trust reimbursements related to amounts included in the net investment in Non-SGRP, CWIP, and M&S will reduce the balance of the SONGS Regulatory Asset and the associated SONGS-related NGBA revenue requirement included in rates annually on January 1.

d. Materials and Supplies

The Amended Settlement 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 Amended Settlement Agreement (November 30, 2014).⁷⁵ The Utilities are entitled to treat this investment as a regulatory asset. The amortization period for M&S is through February 1, 2022 and the

⁷⁵ *Id.* at § 4.5(a).

reduced rates of return for M&S are the same as for Base Plant (see Section IV(b) above).⁷⁶ The Amended Settlement 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. Under this incentive mechanism, the Utilities are entitled to retain 5% of all sales of the M&S inventory.⁷⁷ The remaining 95% of the proceeds of M&S sales will be credited to ratepayers.⁷⁸

Implementation

In its November 26, 2014 advice letter seeking authorization to implement the Amended Settlement Agreement's revenue requirement, SDG&E calculated that the remaining Non-SGRP, CWIP, and M&S net investments, as defined in Section 2.6, 2.13, and 2.21, respectively, of the Amended Settlement Agreement, to be recovered through February 1, 2022, at a reduced rate of return, was \$220.4 million as of December 31, 2014. This is depicted above in Table 2.

i. Regulatory Accounting

As explained above in Section IV(b)(i), all Non-SGRP capital investments including CWIP and M&S (but excluding Nuclear Fuel Investment) were evaluated together for purposes of calculating the net refund to ratepayers. Pursuant to the Amended Settlement Agreement, SDG&E is allowed to recover its net investment of all Non-SGRP capital investments including CWIP and M&S. Thus, SDG&E refunded a portion of the revenue requirement previously collected in rates from February 1, 2012 to October 31, 2014 (the last day of the prior month of the effective date), plus a forecast of November 1, 2014 to December 31, 2014 through the ERRA. This net refund⁷⁹ totaled \$2.7 million and was credited to ERRA in November and

⁷⁶ *Id.* at § 4.5(a).

⁷⁷ *Id.* at § 4.5(b)(i).

⁷⁸ *Id.* at § 4.5(b)(ii).

⁷⁹ Net Refund equals all revenue requirement previously collected offset by revenue requirement that should have been collected from February 1, 2012 to December 31, 2014.

December 2014 as described in Advice Letter 2672-E dated November 26, 2014 as shown on Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

SCE held an auction for materials and supplies in March 2015, and sent SDG&E its share (20%) of the auction proceeds, net auction costs. SDG&E received \$0.5 million in March 2015. Pursuant to the Amended Settlement Agreement, the proceeds of M&S are shared 95% to ratepayers and 5% to SDG&E. A benefit to ratepayers of \$0.4 million via a credit to the NGBA was recorded in March 2015 as shown on Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

ii. Financial Accounting

Pursuant to the terms in the Amended Settlement Agreement, as of the effective date, SDG&E removed its net investment of M&S from rate base as of the last day of the month prior to the effective date (October 31, 2014) and applied the authoritative accounting guidance for Regulated Operations - Property, Plant, and Equipment. In applying this guidance, SDG&E recalculated its net investment in M&S from February 1, 2012 to February 1, 2022 with the reduced rate of return referenced in the Amended Settlement Agreement. Non-SGRP, CWIP, and M&S were evaluated together and not componentized for purposes of calculating the impairment and net refund. The factors in the recalculation included the revenue requirement needed to recover the net investment of and the reduced return on Non-SGRP, CWIP and M&S as of February 1, 2012 to February 1, 2022 with a discounting cash flow factor equal to SDG&E’s incremental borrowing rate (as of June 6, 2013). This resulted in a total impairment of the net investment in Non-SGRP, CWIP, and M&S of \$15.3 million. This is depicted in Table 2 above. The impaired net investment in Non-SGRP, CWIP and M&S was reclassified to a SONGS Regulatory Asset and will be amortized and recovered until February 1, 2022.

iii. Rates

As described above in Section IV(b)(i), all Non-SGRP capital investments including CWIP and M&S but excluding Nuclear Fuel Investment were evaluated together for purposes of calculating the Non-SGRP revenue requirement. Revenue requirements included in rates associated with M&S are therefore included in the revenue requirement identified in Section IV(b)(iii).

Effective January 1, 2016, SDG&E returned to ratepayers \$0.4 million associated with the ratepayer's share of the proceeds from the March 2015 M&S auction. The adjustment to rates was implemented in SDG&E's AL 2840-E, Consolidated Filing to Implement January 1, 2016 Electric Rates, resulting in a \$0.4 million decrease.

Next Steps

To the best of SDG&E's understanding, SCE does not intend to hold any more M&S auctions.

As discussed above in Section IV(b) ("Non-SGRP Net Investment"), SDG&E will continue to amortize and collect a reduced revenue requirement equal to SDG&E's SONGS Regulatory Asset, which includes its impaired net investment in Non-SGRP, CWIP and M&S until February 1, 2022. Any additional awards from third parties (like the DOE or MHI) or Trust reimbursements related to amounts included in the net investment in Non-SGRP, CWIP, and M&S will reduce the balance of the SONGS Regulatory Asset and associated NGBA revenue requirement.

e. Nuclear Fuel Investment

As stated in D.14-11-040, "[n]uclear fuel procurement requires significant lead times and SONGS had an inventory of nuclear fuel and contract commitments when the SONGS outage began."⁸⁰ The Amended Settlement Agreement 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 Amended Settlement Agreement (November 30, 2014),⁸¹ including those costs that the Utilities have incurred in connection with efforts to cancel their outstanding obligations (including those disputed) to purchase nuclear fuel.⁸² The Utilities are entitled to treat this investment as a

⁸⁰ D.14-11-040 at 94.

⁸¹ Amended Settlement Agreement at § 4.6(a).

⁸² *Id.* at § 2.30.

regulatory asset. Nuclear fuel will earn a reduced rate of return equal to the floating rate of commercial paper.⁸³ The amortization period for nuclear fuel is February 1, 2012 through February 1, 2022.

The Amended Settlement Agreement provides two incentive mechanisms to encourage the Utilities to sell their nuclear fuel investment and to cancel their outstanding obligations to purchase more fuel. First, to incentivize the Utilities to minimize their outstanding obligations as of Settlement Implementation (November 25, 2014) 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 (“Nuclear Fuel Contract Cancellations”).⁸⁴

The second 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) (“Nuclear Fuel Resale”). The Amended Settlement Agreement provides that the Utilities may retain 5% of all such sale proceeds (net of costs such as costs for storing and preparing the fuel for sale, etc.), while the ratepayers will be credited the remaining 95% of the proceeds and will reduce the nuclear fuel investment recovered in rates.⁸⁵

Implementation

In its November 26, 2014 advice letter seeking authorization to implement the Amended Settlement’s revenue requirement, SDG&E calculated that the remaining Nuclear Fuel Investment, as defined in section 2.30, to be recovered through February 1, 2022, at a reduced rate of return, was \$87.7 million as of December 31, 2014. This is depicted in Table 3.⁸⁶

⁸³ *Id.* at § 4.6(b).

⁸⁴ *Id.* at §§ 4.7(c)-(c)(i).

⁸⁵ *Id.* at § 4.7(a).

⁸⁶ AL 2672-E at 4. As explained in the advice letter, this amount included \$3.6 million of incurred Fuel Cancellation Costs.

Table 3
SONGS OII Regulatory Asset and Impairment - Nuclear Fuel
Implementation Summary
(\$s in millions)

	<u>Balance As of</u> <u>12/31/2014</u>	<u>01/01/2015 to</u> <u>12/31/15</u> <u>(Activity)</u>	<u>01/01/2016 to</u> <u>04/30/16</u> <u>(Activity)</u>	<u>Balance As of</u> <u>04/30/2016</u> <u>(Implementation-</u> <u>to-date)</u>
Nuclear Fuel (Section 4.6)				
Net Book Value (NBV)	121.9	(0.9)	(2.8)	118.2
Net Refunds/(Net Catch-up) Revenues	(33.2)	-	-	(33.2)
Deferred Revenues	-	-	-	-
Impairment Loss/Write-Off	(1.0)	-	-	(1.0)
Accumulated-Amortization Expense	-	(12.0)	(4.7)	(16.7)
Total Nuclear Fuel (Section 4.6)	<u>87.7</u>	<u>(12.9)</u>	<u>(7.5)</u>	<u>67.3</u>

i. Regulatory Accounting

Pursuant to the terms in the Amended Settlement Agreement, SDG&E is allowed to recover its net investment of Nuclear Fuel. Prior to implementation of the Settlement, SDG&E recorded monthly nuclear fuel expense to ERRA. Thus, with the implementation of the Amended Settlement Agreement, SDG&E recorded a portion of the revenue requirement that should have been collected (or “catch-up”) from February 1, 2012 to October 31, 2014 (the last day of the prior month of the effective date) plus a forecast for November 1, 2014 to December 31, 2014 through the ERRA. This adjustment “catch-up,” totaling \$33.3 million,⁸⁷ was reflected in November and December 2014 as a charge to ERRA and described in Advice Letter 2672-E dated November 26, 2014. This is depicted in Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

⁸⁷ Table 3 of AL 2672-E shows \$33.2 caused by rounding of calculations.

ii. Financial Accounting

Pursuant to the terms in the Amended Settlement Agreement, as of the effective date, SDG&E removed its net investment of Nuclear Fuel from rate base as of the last day of the month prior to the effective date (October 31, 2014) and applied the authoritative guidance as included in FASB Accounting Standards Codification (“ASC”) 980-360 – Regulated Operations - Property, Plant, and Equipment. In applying the authoritative accounting guidance, SDG&E recalculated its net investment in Nuclear Fuel from February 1, 2012 to February 1, 2022 with the reduced rate of return referenced in the Amended Settlement Agreement. The factors in the recalculation included the revenue requirement needed to recover the net investment of and the return on Nuclear Fuel from February 1, 2012 to February 1, 2022 with a discounting cash flow factor equal to SDG&E’s incremental borrowing rate (as of June 6, 2013). This resulted in a total impairment of the net investment in Nuclear Fuel of \$1.0 million. The impaired net investment in Nuclear Fuel was reclassified to a SONGS Regulatory Asset and will be amortized and recovered until February 1, 2022. This information is provided above in Table 3.

iii. Rates

SDG&E included in rates the \$13 million for Nuclear Fuel Investment effective January 1, 2015.⁸⁸ Effective January 1, 2016, SDG&E included in rates the \$14 million for Nuclear Fuel Investment.⁸⁹

iv. Implementation: Nuclear Fuel Cancellation Costs

In its November 26, 2014 advice letter establishing new memorandum accounts, SDG&E established its Nuclear Fuel Cancellation Incentive Memorandum Account (“NFCIMA”).⁹⁰ In accordance with Section 4.7(c)(ii) of the Settlement, the NFCIMA records the difference

⁸⁸ The 2015 revenue requirement of \$13 million was implemented in SDG&E’s Consolidated Filing to Implement January 1, 2015 Electric Rates as filed in AL 2685-E.

⁸⁹ AL 2840-E. The 2016 revenue requirement of \$14 million was implemented in SDG&E’s Consolidated Filing to Implement January 1, 2016 Electric Rates. AL 2840-E references SDG&E’s annual NGBA update filing (AL 2819-E) dated November, 13, 2015 which includes Attachment C describing SONGS revenue requirements pertaining to NGBA.

⁹⁰ AL 2675-E at 3.

between 1) SDG&E’s share of the nuclear fuel contracts purchase obligation and 2) SDG&E’s nuclear fuel cancellation costs (i.e., cost of any settlement and related legal expenses). This mechanism allows for SDG&E to increase the nuclear fuel investment regulatory asset (and subsequently the revenue requirement applied to NGBA) by 5% of the balance in the NFCIMA. Table 4 shows the summary of nuclear fuel contract cancellations and the incentive calculation that was added to the regulatory asset in December 2015.

Table 4

SDG&E's Nuclear Fuel Cancellation Incentive Memorandum Account In Millions	
Contract Costs	\$30.1
Settlement Costs	(10.7)
Balance	19.4
Incentive 5%	\$1.0

In light of the SONGS shutdown, SCE renegotiated several nuclear fuel contracts.⁹¹ As of the date of this filing, there are no additional fuel contracts to be cancelled.

In 2013, SCE settled and partially cancelled one contract with United States Enrichment Corporation (“USEC”).⁹² The 2013 settlement that SCE entered into with USEC allowed for cancellation of the contract at approximately 60% of the contractual commitment. SDG&E paid for its 20% share of the cancellation settlement in 2013. SDG&E withdrew Trust funds for the settlement costs, which were applied as a credit to the SONGS Regulatory Asset.⁹³

⁹¹ In A.15-02-006 (Ex. SDGE-04) SDG&E served testimony that presented 2013 and 2014 nuclear fuel contract cancellation costs.

⁹² USEC now operates under the name of Centris. At the time of SCE’s March 25, 2013 settlement with USEC, SONGS was seeking approval to re-start Unit 2 at 70% and delay any re-start of Unit 3 until such time as repair options and operating scenarios were further evaluated.

⁹³ See *infra*, Section IV(i) regarding the SDG&E Trust. As SDG&E explained in detail in A.15-02-006 (Ex. SDGE-04), the IRS has accepted nuclear fuel contract cancellation costs for SONGS to be costs eligible to be paid with nuclear decommissioning trust funds.

In 2014, SCE entered into a settlement and consent agreement with Westinghouse which resulted in approximately 80% reduction from the contractual commitment. SDG&E paid for its 20% share of this settlement in 2014. SDG&E withdrew Trust funds for the settlement costs, which were applied as a credit to the SONGS Regulatory Asset.⁹⁴

In 2015, contracts with Converdyn, Uranium One, Rio Tinto, and USEC were terminated. The total contract exposure was \$98.0 million (nominal, 100%); SDG&E's 20% share was \$19.6 million. The resulting fuel contract cancellation costs in 2015 totaled \$38.0 million (nominal, 100%); SDG&E's 20% share was \$7.6 million. The settled amounts reflect just over a 60% reduction in SDG&E's fuel contract responsibility for SONGS. SCE billed SDG&E, and SDG&E paid its share of the settlement and related litigation costs for all four of the settlements.⁹⁵

Next Steps: Fuel Contract Cancellations

As of 2015, all nuclear fuel supply contracts with purchase obligations have been terminated.

While the Amended Settlement Agreement states that 2013 O&M costs are deemed reasonable, SDG&E and SCE were directed by the Commission to serve supplemental testimony in support of its 2013 and 2014 nuclear fuel contract cancellation costs in the 2014 Cost Reasonableness Review Application proceeding.⁹⁶ SDG&E served the supplemental testimony on October 30, 2015;⁹⁷ the proceeding remains pending.

⁹⁴ See *infra*, Section IV(i) regarding the SDG&E Trust.

⁹⁵ When SCE utilized outside counsel to terminate contracts with fuel vendors it SCE subsequently billed SDG&E for 20% of these outside legal costs to SDG&E. SDG&E incurred its own costs (outside counsel and industry consultants) during some of the contract cancellations as well. SDG&E has recorded these costs in its SONGS Permanent Closure Expense Memo Account ("SPCEMA"), the account used by SDG&E to record all SONGS costs incurred on or after January 1, 2015 that are eligible to be paid with decommissioning trust funds. See AL 2675-E.

⁹⁶ A.15-02-006, *Assigned Commissioner's Scoping Memo and Ruling* (September 28, 2015) at 6; Resolution E-4678 at 16.

⁹⁷ A.15-02-006, Ex. SDGE-04.

SDG&E will seek to recover any nuclear fuel contract cancellation costs incurred in 2015 from the Trusts through a forthcoming Trust disbursement advice letter for 2015 incurred costs. Reimbursement of 2015 fuel contract cancellation costs will be applied as a credit to the “SPCEMA” upon receipt.

v. Implementation: Nuclear Fuel Resale

SCE has completed the reprocessing of its unused nuclear fuel inventory to prepare it for possible re-sell. However, SCE has not yet sold any nuclear fuel inventory. As of April 30, 2016, SCE has billed \$3.1 million to SDG&E for its 20% share associated with the re-processing of the nuclear fuel and SDG&E has tracked those costs on its balance sheet pending any future nuclear fuel resale. This is depicted below in Table 5.

Table 5
SDG&E's SONGS Nuclear Fuel Resale Costs
Implementation Summary
((\$s in millions))

	<u>Balance As of</u> <u>12/31/2014</u>	<u>01/01/2015</u> <u>to</u> <u>12/31/2015</u> <u>(Activity)</u>	<u>01/01/2016</u> <u>to</u> <u>04/30/2016</u> <u>(Activity)</u>	<u>Balance As of</u> <u>04/30/2016</u> <u>(Implementation-</u> <u>to-date (ITD))</u>
Nuclear Fuel (Section 4.6)				
SONGS Regulatory Asset	\$ 2.08	\$ 0.66	\$ 0.02	2.76 [01] & [02]
Reprocessing, resale and related costs; SDG&E 20%	-	-	0.34	0.34 [03]
SDG&E Legal Costs	-	0.00	-	0.00 [04]
	<u>\$ 2.08</u>	<u>\$ 0.66</u>	<u>\$ 0.36</u>	<u>\$ 3.11</u>

FOOTNOTES:

[01] Represents fuel resale costs originally recorded to the SONGS Regulatory Asset

[02] Represents fuel resale costs reclassified to a holding account

[03] Represents fuel resale costs recorded to a holding account

[04] Represents SDG&E Legal Costs related to fuel resale

Next Steps: Nuclear Fuel Resale

As of the date of filing, SDG&E has not and does not intend to seek reimbursement for these costs from its Nuclear Decommissioning Trust.

If and when SCE sells fuel, SDG&E will implement the incentive mechanism per Section 4.7 of the Amended Settlement Agreement.

f. Net SONGS Costs

The Amended Settlement Agreement allows SDG&E to recover the full amount of any costs designated as “net SONGS costs” incurred to purchase power in the market from January 1, 2012 through October 31, 2014. SDG&E is also permitted to amortize these costs in rates by December 31, 2015.⁹⁸ The Amended Settlement Agreement provides that TURN and ORA will not contest the Utilities’ ability to amortize these amounts by December 31, 2015, if the Commission otherwise finds that these non-SONGS-related purchased power costs in ERRA are eligible for recovery.⁹⁹ In D.14-02-022,¹⁰⁰ which granted SDG&E’s ERRA Trigger Application, the Commission directed SDG&E to remove the “net SONGS costs” estimate from the estimated under-collected ERRA balance as of December 2013. In AL 2587-E, SDG&E presented the updated recorded amount of deferred “net SONGS costs” as \$121.9 million; AL 2587-E was approved in May 2014, effective April 1, 2014.¹⁰¹

Implementation

At the time the Settlement Agreement was implemented, SDG&E’s “net SONGS costs”, which had been removed from the under-collected ERRA balance, totaled \$121.9 million. With adoption of the Amended Settlement Agreement, SDG&E amortized the \$121.9 million of “net SONGS costs” from December 2014 through December 2015 as a reduction to its ERRA Trigger calculation. The amortization and resulting balance is depicted in Table 6.

Table 6
SDG&E Net SONGS Costs Amortization

⁹⁸ Amended Settlement Agreement at § 4.10(a)-(b).

⁹⁹ D.14-11-040 at 105.

¹⁰⁰ D.14-02-022 at COL 7.

¹⁰¹ AL 2587-E at 2.

Net SONGS Costs Amortization In Millions	Beginning Balance	Amortization	Ending Balance
2014			
December	\$121.9	(\$9.4)	\$112.6
2015			
January	112.6	(9.4)	103.2
February	103.2	(9.4)	93.8
March	93.8	(9.4)	84.4
April	84.4	(9.4)	75.0
May	75.0	(9.4)	65.7
June	65.7	(9.4)	56.3
July	56.3	(9.4)	46.9
August	46.9	(9.4)	37.5
September	37.5	(9.4)	28.1
October	28.1	(9.4)	18.8
November	18.8	(9.4)	9.4
December	9.4	(9.4)	0.0

Next Steps

There are no additional “Next Steps” for “net SONGS costs.”

g. Base O&M and “Non-O&M” Expenses

The Amended Settlement Agreement provides how the Utilities’ base O&M and “non O&M” expenses in 2012, 2013 and 2014 will be reviewed and recovered. The treatment of these costs differs by year. SDG&E records Base O&M expenses billed by SCE and the associated revenue requirement in SDG&E’s SONGS Balancing Account (“SONGSBA”). Each year at year end, the under/overcollected balance is transferred to the NGBA for implementation in rates the following year.

As defined by the Amended Settlement Agreement, SONGS Non-O&M expenses include Easement, Property and Liability Insurance, and Property Taxes.¹⁰² SDG&E records SONGS Non-O&M costs as non-balanced expenses (i.e., not within a regulatory account).

¹⁰² The Amended Settlement Agreement at section 2.28 defines “non O&M” expenses as:

i. 2012

For the year 2012, the Utilities are entitled to retain all rate revenue collected pursuant to the revenue requirement for SONGS base O&M expenses that the Commission provisionally authorized in SCE's (D.12-11-051) and SDG&E's (D.13-05-010) TY2012 GRCs.¹⁰³ SDG&E must refund any authorized O&M in excess of its total O&M costs incurred in 2012 as invoiced by SCE.¹⁰⁴

For Non-O&M expenses for 2012, SDG&E is permitted to retain all revenues sufficient to defray all recorded Non-O&M expenses and all recorded Non-O&M balancing account expenses.¹⁰⁵ The Amended Settlement Agreement states that "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."¹⁰⁶

The Amended Settlement Agreement provides that the Utilities may not recover Incremental Inspection and Repair Costs that exceed their provisionally authorized revenue requirements for O&M in 2012.¹⁰⁷

"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."

The FERC Uniform System of Accounts, 18 CFR §101, defines account 924 as property insurance, account 925 as injuries and damages (including liability insurance), account 408 as taxes other than income (i.e., property taxes) and account 926 as Pension and Benefits. Thus, for purposes of the Amended Settlement Agreement, "Non-O&M" costs include Insurance, including Property and Liability; and Property Taxes. D.13-05-010 at 896-900 and Findings of Fact ("FOF") 393 & 394.

¹⁰³ *Id.* at § 4.9(a).

¹⁰⁴ *Id.* at § 4.9(a)(iii).

¹⁰⁵ *Id.* at §§ 4.9(c) & (d).

¹⁰⁶ *Id.* at § 4.3(j)

¹⁰⁷ *Id.* at § 4.9(a)(ii).

Implementation - 2012

The Amended Settlement Agreement allows for SDG&E to retain all revenues collected for 2012 SONGS Base O&M.¹⁰⁸ In 2012, SDG&E recorded a Base O&M revenue requirement of \$129.2 million. Billings from SCE totaled \$141.6 million. This resulted in a \$12.4 million undercollection in the SONGSBA, including interest, which was transferred to the NGBA at year end. The 2012 shortfall was collected in rates in 2013.

For Non-O&M, the Amended Settlement Agreement allows for SDG&E to retain rate revenue sufficient to defray all recorded Non-O&M expenses.¹⁰⁹ In 2012, the authorized revenue for Easement of \$0.02 million equaled expenses. SDG&E incurred property and liability insurance expense of \$2.5 million, which was \$0.7 million more than the \$1.9 million authorized revenue.¹¹⁰ SDG&E did not recover the \$0.7 million shortfall.

Additional amounts for the SGIR costs, were also incurred in 2012. The Amended Settlement Agreement disallows recovery of any Incremental Inspection and Repair Costs in excess of the provisionally-authorized revenue requirement for O&M in 2012.¹¹¹ In SDG&E's case, the recorded O&M expenses were lower than the provisionally authorized O&M revenue requirement, thus this section of the Settlement did not apply to SDG&E.

Because the permanent cessation of operations of SONGS 2&3 did not occur until June 2013, there were no "decommissioning costs" eligible to be paid from the Trusts in 2012.

¹⁰⁸ *Id.* at § 4.9(a).

¹⁰⁹ *Id.* at § 4.9(c).

¹¹⁰ SDG&E also refunded a portion of the revenues previously collected in rates for property taxes as part of the SGRP, Non-SGRP, CWIP and M&S from February 1, 2012 to the last day of the prior month of the effective date (October 31, 2014) plus a forecast of November 1, 2014 to December 31, 2014 through ERRA. Any true-ups to recorded amounts and/or reimbursements from SDG&E's Trust related to property taxes have increased/reduced the ERRA and/or NGBA revenue requirement. To the extent future periods result in a Trust reimbursement related to the property taxes, the amounts will be recorded as a reduction to the NGBA revenue requirement.

¹¹¹ Amended Settlement Agreement at § 4.9(a)(ii).

Next Steps – 2012

SDG&E has identified a portion of the recent DOE Settlement to relate to SONGS 2&3 O&M costs from 2012. At the time of this filing, SDG&E is finalizing its accounting of the settlement award. The Commission has previously stated that net proceeds from a DOE Settlement should be credited back to the source of the funds used for the activities. Because O&M costs in 2012 were balanced in SDG&E's SONGSBA, SDG&E intends to record the credit for these costs in its SONGSBA. In December 2016, the SONGSBA's year-end balance will be transferred to NGBA as required by the Preliminary Statement. As directed in D.14-12-082,¹¹² SDG&E will provide the Commission with information about the DOE Settlement and its allocation of the recoveries in the pending 2015 NDCTP proceeding.

ii. 2013

The Amended Settlement Agreement provides that for costs incurred 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 their TY2012 GRCs.¹¹³ Additionally, the Utilities will refund to ratepayers any amounts collected in rates that exceed these recorded costs.¹¹⁴

Implementation – 2013

The Amended Settlement Agreement allows for SDG&E to retain rate revenue sufficient to defray all Base O&M and Non-O&M costs recorded in 2013.¹¹⁵ For 2013, SDG&E recorded a Base O&M revenue requirement of \$134.8 million. O&M billings from SCE totaled \$95.7 million. This resulted in an overcollection of \$39.2 million (including interest), which was

¹¹² D.14-12-082 at 36.

¹¹³ Amended Settlement Agreement at § 4.9 (e) & (g).

¹¹⁴ *Id.* at § 4.9(f).

¹¹⁵ *Id.* at §§ 4.9(e), (f) and (g).

transferred to NGBA in December 2013. Upon Settlement implementation, \$4.0 million of the 2013 SONGSBA overcollection was credited in 2014 to ERRRA as required by the Amended Settlement Agreement.¹¹⁶ This is depicted in Table 10.

For Non-O&M, the 2013 authorized revenue for easements of \$0.02 million equals expenses. SDG&E incurred property and liability insurance expense of \$1.3 million, which is \$0.6 million less than the \$1.9 million authorized revenue. Thus, SDG&E refunded ratepayers \$0.6 million through a credit to ERRRA as part of the 2015 true-up. This is depicted in Table 10.

As discussed in greater detail below in Section IV(i), SDG&E withdrew \$36.3 million Trust funds for its 2013 costs. A portion of the amount withdrawn (\$33.8 million) relates to O&M and Non-O&M costs incurred in 2013. This reimbursement of 2013 costs is included as a refund in ERRRA for 2015. The remainder of the reimbursement (\$2.5 million) was applied as a credit to the regulatory asset, litigation expense or a deferred credit on the balance sheet.

Next Steps – 2013

While the DOE Settlement relates to costs for spent fuel management from 2006 through 2013, no portion of the award appears to relate to SONGS 2&3 O&M costs in 2013. Therefore, no “Dominion” issue remains for SDG&E’s 2013 costs.¹¹⁷ SDG&E may exercise its authority to withdraw the almost \$18 million of its remaining authorized 2013 amount, which include O&M and Non-O&M costs.

While the Amended Settlement Agreement states that 2013 O&M costs are deemed reasonable, SDG&E and SCE were directed by the Commission to serve supplemental testimony in support of its 2013 and 2014 nuclear fuel contract cancellation costs in the 2014 Cost

¹¹⁶ AL 2672-E.

¹¹⁷ See *infra*, fn. 148 for a detailed description of the “Dominion” tax issue.

Reasonableness Review Application proceeding.¹¹⁸ SDG&E served the supplemental testimony on October 30, 2015;¹¹⁹ the proceeding remains pending.

iii. 2014

The Amended Settlement Agreement provides that the Utilities will 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 TY2012 GRC that exceed the Utilities' recorded costs in 2014.¹²⁰ The Utilities were also instructed to calculate a forecast of O&M and Non-O&M costs from the last day of available recorded cost data in 2014 until December 31, 2014.¹²¹ For SDG&E, this forecast was from November 1, 2014 through December 31, 2014. If the provisionally authorized revenue requirement for this period exceeded the forecasted amount, SDG&E was to refund the difference to ratepayers as a credit to SDG&E's NGBA as the revenues were collected.¹²² Then in the first quarter of 2015, each Utility was to calculate the difference between its recorded and forecasted amounts of O&M and Non-O&M for the November 1, 2014 through December 31, 2014 period, and for SDG&E, any excess revenue was to be refunded as a credit to SDG&E's NGBA.¹²³

Furthermore, the Amended Settlement Agreement provided that each Utility shall file one or more applications for the Commission to conduct a reasonableness review of 2014 SONGS O&M and Non-O&M expenses, whether recovered in general rates or from the decommissioning trusts.¹²⁴

¹¹⁸ A.15-02-006, *Assigned Commissioner's Scoping Memo and Ruling* (September 28, 2015) at 6; Resolution E-4678 at 16.

¹¹⁹ A.15-02-006, Ex. SDGE-04.

¹²⁰ Amended Settlement Agreement at § 4.9(i).

¹²¹ *Id.* at § 4.9(j)(ii).

¹²² *Id.* at § 4.9(j)(ii).

¹²³ *Id.* at § 4.9(j)(iii).

¹²⁴ *Id.* at § 4.9(h).

Implementation – 2014

For 2014, the Amended Settlement Agreement identifies three separate benchmarks for handling Base O&M and Non-O&M:

- January to October – If authorized revenue exceeds recorded expenses, SDG&E is required to refund to ratepayers the difference.¹²⁵
- November and December – If authorized revenue exceeds forecasted expenses, SDG&E is required to refund to ratepayers the difference.¹²⁶
- In the first quarter of 2015, SDGE is to perform a true-up for the November and December forecasted expenses.

For 2014, SDG&E recorded in SONGSBA a Base O&M revenue requirement of \$121.6 million and billings from SCE of O&M of \$35.2 million, including the forecasted period. The overcollection for the January 1, 2014 through October 31, 2014 period of \$77.0 million transferred to ERRA in November, 2014. The overcollection forecast of \$15.2 million transferred to NGBA in November 2014 for the November 1, 2014 through December 31, 2014 period. In the first quarter of 2015, as required by the Amended Settlement Agreement,¹²⁷ a true-up for O&M costs of \$2.5 million was recorded as a charge to NGBA.

For Non-O&M, the 2014 authorized revenue for Easement of \$0.02 million equaled expenses. SDG&E incurred property and liability insurance expense of \$0.9 million, which is \$1.0 million less than the \$1.9 million authorized revenue. Thus, SDG&E refunded ratepayers \$1.0 million through a credit to ERRA. Additionally, a true-up of \$2.6 million for Non-O&M property tax was recorded as a charge to ERRA. This is depicted in Table 10.

SDG&E filed its application (A.15-02-006) seeking a finding of reasonableness for its 2014 SONGS O&M and Non-O&M expenses as directed by the Settlement. SDG&E's

¹²⁵ *Id.* at § 4.9(j)(i).

¹²⁶ *Id.* at § 4.9(j)(ii).

¹²⁷ *Id.* at § 4.9(j)(iii).

application was consolidated with SCE's similar application (A.15-01-014). At the time of this filing, the consolidated proceeding remains pending.

As discussed in greater detail below in Section IV(i), on December 21, 2015, SDG&E withdrew from its Trust funds for reimbursement of 2014 decommissioning costs. The withdrawal included \$19 million for O&M and Non-O&M costs incurred in 2014. This reimbursement of costs is included as a refund in ERRRA for 2015. The remainder of the reimbursement was applied as a credit to the regulatory asset, litigation expense or a deferred credit on the balance sheet.

iv. Rates

Effective January 1, 2015, consistent with the Amended Settlement Agreement, SDG&E removed from rates its SONGS-related Base O&M revenue requirement of \$121.6 million associated with SCE's TY2012 GRC. In addition, SDG&E returned the forecasted Base O&M refund of \$15.2 million to ratepayers. These adjustments to rates were implemented in SDG&E's Consolidated Filing to Implement January 1, 2015 Electric Rates, resulting in a Base O&M net decrease of \$136.8 million.¹²⁸

Effective January 1, 2016, the Base O&M true-up undercollection of \$2.5 million transferred to the NGBA in the first quarter of 2015 was implemented in rates in SDG&E's Consolidated Filing to Implement January 1, 2016 Electric Rates, resulting in an increase of \$2.5 million.¹²⁹

Next Steps – 2014

To resolve whether SDG&E may withdraw the full authorized 2014 amount from the Trust, SDG&E intends to request a private letter ruling from the IRS, seeking approval to withdraw trust funds to reimburse spent fuel management costs incurred in the absence of a final DOE settlement or litigation judgment.

¹²⁸ AL 2685-E.

¹²⁹ AL 2840-E.

In addition, the DOE Settlement provides that claims for 2014 spent fuel management expenses must be submitted no later than September 30, 2016.¹³⁰ SDG&E will support SCE in its submission and defense of the claim.

If and when SDG&E receives a favorable ruling from the IRS and/or settles with the DOE for 2014 O&M and Non-O&M expenses, SDG&E will allocate any resulting Trust fund withdrawals and/or DOE refunds to ratepayers in accordance with applicable laws, Commission guidance and GAAP standards.

h. Third-Party Recoveries

The Amended Settlement Agreement acknowledges that the Utilities are seeking recovery from MHI and NEIL in connection with the non-operation of, damage to, and loss of SONGS.¹³¹ The Amended Settlement Agreement provides a sharing formula pursuant to which the Utilities are required to share recoveries from MHI and NEIL with ratepayers.¹³² Pursuant to the Amended Settlement Agreement, the Utilities will retain all recoveries to the extent necessary to compensate the Utilities for the costs of pursuing recovery from MHI and NEIL, including litigation costs such as attorneys' fees.¹³³ To track litigation costs and recoveries, the Amended Settlement Agreement requires the Utilities to establish a litigation account with separate subaccounts for NEIL and MHI.

If the Utilities achieve recoveries from NEIL for the outage policy in excess of the costs of pursuing the recovery, Utilities shall retain 5%, and the ratepayers shall receive 95%, of the

¹³⁰ The Settlement's provided claim process does not guarantee that a settlement for 2014 costs will be reached.

¹³¹ Amended Settlement Agreement at §§ 3.31-3.33.

¹³² *Id.* at § 4.11(c).

¹³³ *Id.* at § 4.11(a) – (b).

net recovery.¹³⁴ For all other recoveries obtained from NEIL, the Utilities shall retain 17.5%, and the ratepayers shall receive 82.5%, of the net recovery.¹³⁵

If the Utilities achieve recoveries from MHI, the Utilities shall retain 50%, and the ratepayers shall receive 50%, of the negative balance in the memorandum account for MHI recoveries in accordance with the Amended Settlement Agreement.¹³⁶

Ratepayers are to receive their allocations “via a credit to each Utility’s respective ERRA account.”¹³⁷

In consideration for the sharing of litigation recoveries, the Amended Settlement Agreement provides the Utilities with full discretion to resolve their disputes with Mitsubishi and NEIL in any manner the Utilities see fit.¹³⁸ Utilities shall submit to the Commission documentation of any final resolution of third-party litigation and documentation of SONGS Litigation Costs.¹³⁹ The Amended Settlement Agreement provides that the Commission may review SONGS Litigation Costs to ensure they are not exorbitant in relation to the recovery obtained.¹⁴⁰

¹³⁴ *Id.* at § 4.11(c)(ii)(A)-(B).

¹³⁵ *Id.* at § 4.11(c)(iii)(A)-(B).

¹³⁶ *Id.* at §§ 4.11(c)(iv)(A)-(B) and § 4.11(d). According to the Amended Settlement Agreement, SDG&E shall distribute to ratepayers 50% of the balance as follows:

- The first \$71 million of SONGS Litigation Balance recovered from MHI that is distributed to SDG&E ratepayers shall be distributed via a credit to SDG&E’s NGBA.
- After distributing up to \$71 million, the credit balance will be used to reduce the regulatory assets remaining for the Base Plant, CWIP, M&S, and Nuclear Fuel Investment, in that order.
- If and when the amount of the net proceeds is sufficient to reduce the regulatory assets to zero, any remaining credit balance will be transferred from the Mitsubishi Net Litigation Memorandum Account (“MNLMA”) and recorded as a credit in the NGBA.

¹³⁷ See *Id.* at § 4.11(d) (i).

¹³⁸ *Id.* § 4.11(f).

¹³⁹ *Id.* at § 4.11(i).

¹⁴⁰ *Id.* at § 4.11(g)(ii).

Implementation: NEIL

Through AL 2675-E and pursuant to Section 4.11, SDG&E established the NEIL Net Litigation Memorandum Account (“NNLMA”) to record the difference between any litigation costs incurred pursuing recoveries from NEIL, and any recoveries received from NEIL. The NNLMA has two subaccounts: a NEIL Outage Subaccount and a NEIL Other Recoveries Subaccount.¹⁴¹

On November 11, 2015, the Utilities entered into a settlement agreement with NEIL that resolved all issues between the Utilities and NEIL. Under the terms of this agreement, NEIL paid SDG&E \$80 million. The entire award was booked in the NNLMA Outage Subaccount. As detailed in SDG&E Advice Letter 2859-E, after deducting accumulated litigation costs incurred in pursuit of recoveries from NEIL, and adding interest, SDG&E applied the Amended Settlement Agreement’s sharing mechanism. Ratepayers received 95% of the balance (\$75 million) via a credit to SDG&E’s ERRAs in December 2015 and SDG&E retained 5% of the balance (\$4 million). This is depicted in Table 10.

In compliance with the Amended Settlement Agreement, SDG&E submitted the required documentation to the Commission regarding the NEIL Settlement in Advice Letter 2859-E.¹⁴² The Commission approved Advice Letter 2859-E, effective March 25, 2016.

Next Steps – NEIL

The NEIL Settlement resolves all claims between the Utilities and NEIL. No additional settlement awards (or related litigation costs) are expected. SDG&E intends to seek authority to close its NNLMA Subaccounts in its next “clean up” advice letter in late 2015.

Implementation – MHI

¹⁴¹ AL 2675-E at 2-3.

¹⁴² AL 2859-E, *Submission of Documentation of Final Resolution of Nuclear Energy Insurance Limited (“NEIL”) Claims and San Diego Gas & Electric Company’s (“SDG&E”) Associated Litigation Costs*, approved on May 4, 2016, effective as of March 25, 2016, provided as Appendix L.

Through AL 2675-E , SDG&E established the Mitsubishi Net Litigation Memorandum Account (“MNLMA”). The MNLMA will be used to record the difference between any litigation costs incurred pursuing recoveries from MHI, and any proceeds received (i.e., recoveries) from MHI.

SDG&E received \$9.1 million in recoveries from MHI in 2013 related to the Utilities’ costs to investigate the outage. SDG&E treated this recovery as a settlement from MHI under the Amended Settlement Agreement. Therefore, after deducting accumulated litigation costs of \$6.6 million incurred in pursuit of recoveries from MHI, and adding interest, SDG&E applied the Amended Settlement Agreement’s sharing mechanism to the balance. Ratepayers received 50% of the balance (\$1.2 million) via a credit to SDG&E’s NGBA in December 2014 and SDG&E retained 50% of the balance (\$1.2 million). This is depicted in Table 10.

As provided in SDG&E’s Consolidated Filing to Implement January 1, 2015 Electric Rates, effective January 1, 2015, SDG&E returned to ratepayers \$1.2 million associated with the ratepayer share of the proceeds received from MHI.¹⁴³

Next Steps - Mitsubishi

SCE, SDG&E and the City of Riverside are currently engaged in arbitration proceedings against Mitsubishi Heavy Industries and Mitsubishi Nuclear Energy Systems related to failed replacement steam generators that were installed in 2010 (SONGS 2) and 2011 (SONGS 3). The parties completed the evidentiary portion of the arbitration with MHI in late April. Arbitrators will issue a written decision. As required by the Amended Settlement Agreement, SDG&E will inform the Commission of the outcome of the arbitration proceedings and apply the sharing mechanism to any arbitration award received, if any.

i. Nuclear Decommissioning Trusts

The Amended Settlement Agreement requires the Utilities to attempt to recover their costs from the Nuclear Decommissioning Trusts, rather than ratepayers, whenever possible.¹⁴⁴

¹⁴³ AL 2685-E.

¹⁴⁴ See, e.g., Amended Settlement Agreement at §§ 4.5(d) & 4.8(b).

To the extent that the Amended Settlement Agreement allows rate recovery of costs that the Utilities may be able to recover from the Trusts, the Amended Settlement Agreement also requires that the Utilities refund any rates collected that duplicate recoveries from the Trust.¹⁴⁵

Implementation

SDG&E did not record any decommissioning costs for SONGS Units 2&3, eligible to be paid from SDG&E's Trust, prior to June 2013.

On April 1, 2015, SDG&E filed Advice Letter 2724-E with the Commission to request authorization to withdraw the \$55 million in 2013 decommissioning costs from the Trust.¹⁴⁶ On July 23, 2015, the Commission issued Resolution E-4678, which authorized the withdrawal.¹⁴⁷ On August 25, 2015, SDG&E withdrew from the Trust only \$36.7 million of \$55 million authorized by the Commission. The withdrawal was credited to ratepayers as demonstrated in Table 7. SDG&E did not withdraw the entire authorized \$55.0 million from its Trust because of the ongoing so-called industry-wide "Dominion" issue with the IRS.¹⁴⁸

In 2014, SDG&E incurred \$35.7 million in decommissioning costs. On October 23, 2015, SDG&E filed Advice Letter 2806-E with the Commission to request authorization to withdraw the \$35.7 million in 2014 decommissioning costs from the Funds.¹⁴⁹ On November

¹⁴⁵ See, e.g., *id.* at §§ 4.9(g) & (i).

¹⁴⁶ AL 2724-E, filed April 1, 2015 (approved August 25, 2015, effective July 23, 2015 per Resolution E-4678), provided at Appendix H.

¹⁴⁷ Resolution E-4678.

¹⁴⁸ In December 2014, the IRS issued a Private Letter Ruling ("PLR") for a Dominion nuclear facility. The PLR states that the three Nuclear Regulatory Commission ("NRC") bucket categories (i.e., License Termination, Spent Fuel Storage and Site Restoration) are nuclear decommissioning costs and may be paid out of the Trust. However, the PLR also states that certain spent fuel storage costs may not be reimbursed from the Trust now if they will be recovered from litigation or settlement with the DOE. While the favorable ruling that SCE received from the IRS in August 2015 provides some guidance on the issue, it is not directly applicable to SDG&E's situation and has no precedential value for any utility except for SCE. SDG&E intends to work with the IRS to gain clarity on its situation in 2016.

¹⁴⁹ AL 2806-E, filed October 23, 2015 (approved November 18, effective November 22), provided at Appendix I.

18, 2015, the Commission granted SDG&E request.¹⁵⁰ On December 21, 2015, SDG&E withdrew from the Funds only \$22.6 million of the \$35.7 million authorized by the Commission. The withdrawal was credited to ratepayers as demonstrated in Table 7 below. Once again, SDG&E did not withdraw its entire approved request; approximately one third of the amount approved for withdrawal, have not yet been withdrawn from the Trust because of the ongoing Dominion issue. No litigation or settlement claim has been filed against the DOE for 2014 costs at the time of this submission.

With both withdrawals, SDG&E reduced the SONGS Regulatory Asset (\$5.5 million) and credited ERRA (\$52.8 million) for amounts related to its net investment in Non-SGRP, CWIP, M&S and Nuclear Fuel as follows and depicted in Table 7 and Table 10:

- 2013 – \$2.5 million Regulatory Asset, \$33.8 million ERRA
- 2014 – \$3.0 million Regulatory Asset, \$19.0 million ERRA

Table 7

**SDG&E's SONGS Nuclear Decommissioning Trust (NDT) Reimbursement
Implementation Summary**
(\$s in millions)

Reimbursement Allocation	2013 Trust Reimbursement		2014 Trust Reimbursement		Estimated	Estimated	Total			
	(Net of Spent Fuel Costs)		(Net of Spent Fuel Costs)		2015 Trust Reimbursement	Remaining 2013 Reimbursement				
ERRA	\$	33.8	\$	19.0	\$	0	\$	69.3 ^[01]		
NGBA		-		-		2.3		2.3 ^[02]		
SONGS Regulatory Asset		2.5		3.0		2.6		9.3		
Liability		0.2		0.3		0.1		0.9		
Expense		0.2		0.3		0.3		0.7		
SONGS Permanent Closure Expense Memo Account (SPCEMA)		-		-		56.6		56.6		
	\$	36.7	\$	22.6	\$	61.9 ^[03]	\$	17.9 ^[03]	\$	139.1

FOOTNOTES:

[01] Includes property taxes - \$1.8M 2013; \$1.6M 2014

[02] Includes property taxes - \$1.7M 2015

[03] Reimbursements expected in the second half of 2016

Next Steps

¹⁵⁰ See Letter from the Commission, dated November 18, 2015 (stating that “Advice Letter 2806-E is effective as of November 22, 2015”).

SDG&E will continue to attempt to recover costs associated with the Amended Settlement Agreement to the extent permitted by law through the Tier 2 advice letter trust disbursement process provided by the Commission.¹⁵¹ SDG&E intends to shortly file its advice letter request for access to its Trust for incurred 2015 SONGS 2&3 decommissioning costs. If and when it receives reimbursement from the Trust, SDG&E will reduce the SONGS Regulatory Asset for amounts related to its net investment in Non-SGRP, CWIP, and M&S. At the time of this filing, SDG&E estimates that if its request is granted in full, a full Trust reimbursement for 2015 costs would reduce the SONGS Regulatory Asset by \$2.6 million. This projection is provided in Table 7 above.

Because the DOE Settlement resolves claims involving 2013 spent fuel costs, the Dominion issue no longer exists for SDG&E's related costs. SDG&E anticipates that in the second half of 2016, it will withdraw the remaining \$17.9 million of its authorized request from the Trust. Upon receipt of the remaining 2013 reimbursement, SDG&E will refund \$16.5 million to ERRA, \$1.2 million to the regulatory asset and \$0.2 million will be offset to a deferred credit on the balance sheet. This forecast is provided in Table 7 above.

To resolve whether SDG&E may withdraw the full authorized 2014 amount and any future authorized amounts from the Trust, SDG&E intends to request a private letter ruling from the IRS, seeking approval to withdraw Trust funds to reimburse for spent fuel management costs incurred in the absence of a final DOE settlement or litigation judgment. In addition, the DOE Settlement provides that claims for 2014 spent fuel management expenses must be submitted no later than September 30, 2016.¹⁵² SDG&E will support SCE in its submission and defense of the claim.

j. Greenhouse Gas (“GHG”) Program

¹⁵¹ See D.16-04-019 at 21-22 and OP 5.

¹⁵² The Settlement's future claim process does not guarantee that a settlement for 2014 costs will be reached.

The Amended Settlement Agreement provides that SCE and SDG&E shall work with the University of California to create a Research, Development, and Demonstration Program, with the goal of deploying new technologies, methodologies, and/or design modifications to reduce greenhouse gas emissions, particularly at current and future generating plants in California.¹⁵³ SDG&E shall donate \$1 million annually of shareholder funds, for five years, to fund the program. The Utilities shall propose the Program in a Tier 2 Advice Letter for the Commission's approval.¹⁵⁴

Implementation

As of the effective date of the Settlement, SDG&E accrued the entire five year GHG commitment using a discounting cash flow factor equal to SDG&E's incremental borrowing rate (as of June 6, 2013). The total discounted liability of \$4.7 million was recorded as part of the impairment charge.

On January 8, 2015, SCE and SDG&E received approval to extend the date for compliance with the requirement to meet with Energy Division and the University of California to craft the Program Implementation Plan to February 18, 2015. The Utilities, Energy Division, University of California and other interested parties met on February 18, 2015 in Costa Mesa, California with the goal of receiving input for the required Program Implementation Plan.

On April 20, 2015, SCE and SDG&E jointly submitted AL 3207-E (SCE) and AL 2727-E (SDG&E) seeking Commission approval of the Program Implementation Plans for the Utility-Administered University of California Greenhouse Gas Research and Reduction.

On March 11, 2016, the Energy Division rejected the joint advice letters without prejudice, finding that the advice letters were "incomplete" because they did not demonstrate how administrative costs of the program will be paid for with shareholder funds or discuss how any Intellectual Property benefits resulting from the project will be shared with ratepayers. The

¹⁵³ Amended Settlement Agreement at § 4.16.

¹⁵⁴ *Id.* at § 4.16(b)-(c).

Utilities were instructed to refile the joint advice letter, with these deficiencies remedied, in 120 days (by July 11, 2016). SDG&E intends to refile the advice letter by the deadline.

Next Steps

In late December 2014, SDG&E established an escrow account into which it deposited its first \$1 million annual shareholder donation, pending Commission approval of the program. SDG&E deposited its second philanthropic \$1 million annual shareholder donation in December 2015. Because the program has not yet been approved, no funds have been transferred to the University of California. As required by the Amended Settlement Agreement, SDG&E will make an additional \$1 million shareholder donation each year for the GHG program until it has contributed a total of \$5 million.

k. Finance Regulatory Asset

The Amended Settlement Agreement states that if a Utility elects to finance regulatory assets with debt, then the Utility will credit ratepayers 50% of any savings reflected in the difference between the actual cost of financing and the amount yielded by applying the authorized rate of return.¹⁵⁵ Furthermore, the Utility will establish at least one balancing account to track this difference and 50% of the balance shall be credited to NGBA for SDG&E.¹⁵⁶

Implementation

On March 12, 2015, SDG&E issued a financial instrument to finance the regulatory asset (Base Plant, CWIP and M&S Investment). SDG&E issued a 7-year amortizing bond with the principal amount of \$250 million at 1.914 % coupon rate, to be repaid in 14 equal semi-annual installments, with the final principal installment payment on February 1, 2022. As described in

¹⁵⁵ *Id.* at § 4.4(a)(ii).

¹⁵⁶ *Id.*

AL 2718-E (dated March 27, 2015), SDG&E requested to establish the SONGS Cost of Financing Balancing Account (“CFBA”).¹⁵⁷

SDG&E tracks in the CFBA the savings calculated for each month by multiplying the monthly average unamortized regulatory asset by the average difference between the authorized return and the actual embedded cost of debt to finance the regulatory asset. Savings of approximately \$0.5 million were accumulated in the CFBA during 2015, of which 50% representing SDG&E ratepayers’ benefit (\$0.25 million) was transferred at year-end as a credit to NGBA. This transfer is depicted in Table 10 (“Summary of SDG&E Regulatory Accounting Entries”) in Section V below.

i. Rates

Effective January 1, 2016, the CFBA balance of \$0.2 million transferred to the NGBA in the first quarter of 2015 was implemented in rates in SDG&E’s Consolidated Filing to Implement January 1, 2016 Electric Rates, resulting in a \$0.2 million decrease.¹⁵⁸

Next Steps

SDG&E will continue this mechanism until 2022 since the financial instrument’s maturity date is February 1, 2022.

I. Refund Mechanism

The Amended Settlement Agreement provides a ratemaking mechanism that the Utilities must follow when effectuating refunds of revenues previously collected, as set forth elsewhere in the Amended Settlement Agreement.¹⁵⁹ Specifically, any refund pursuant to the Amended Settlement Agreement shall be effectuated via a reduction to each Utility’s respective under-

¹⁵⁷ AL 2718-E, *Establishment of The San Onofre Nuclear Generating Station (SONGS) Cost of Financing Balancing Account Pursuant to Decision 14-11-040*, approved April 29, 2015, effective April 26, 2015, provided as Appendix G.

¹⁵⁸ AL 2840-E.

¹⁵⁹ Amended Settlement Agreement at § 4.12.

collected ERRA balance as of the last day of the month prior to a Commission decision approving the Amended Settlement Agreement (October 31, 2014).¹⁶⁰

Implementation

To effectuate the Amended Settlement Agreement's refund mechanisms for SDG&E, specifically NGBA and ERRA, SDG&E amended its existing preliminary tariff sheets for NGBA, ERRA, SONGSBA and SPCEMA in its November 26, 2014 advice letter 2675-E.

SDG&E modified its ERRA to allow transfers in accordance with sections 4.12 and 4.13, specifically:¹⁶¹

- SGRP revenue requirement identified as a refund to ratepayers in Section 4.2;
- Capital-related revenue requirement associated with Base Plant identified as a refund to ratepayers in Section 4.3, including the regulatory asset accounting for CWIP, M&S, and Nuclear Fuel Investment;
- O&M costs recorded in the SONGSBA that resulted in an over-collected balance and has been identified as a refund to ratepayers as required by Section 4.9;
- Non-O&M over-collection identified as a refund to ratepayers as required by Section 4.9;
- Nuclear Decommissioning Trust funds received for any portion of the SONGS-related O&M or Non-O&M expenses recorded in 2013 and 2014 pursuant to Section 4.9; and
- Year-end allocation of>NNLMA pursuant to Section 4.11(d).

SDG&E modified its NGBA pursuant to Sections 4.2 through 4.9 of the Settlement to:

- Eliminate monthly entries that record the SRGP revenue requirement;
- Amortize the regulatory asset through February 1, 2022;
- Record the net proceeds from the sale of M&S inventory;

¹⁶⁰ *Id.*

¹⁶¹ AL 2675-E at 3-4.

- Record transfer of SONGS 2&3 Permanent Closure Non-Investment Related Expenses;
- Memorandum Account (“SPCEMA”) per Tariff Account Disposition;
- Record transfers of ratepayers’ portion of net proceeds from the MNLMA; and
- Remove SONGS Major Additions Adjustment Clause (“MAAC”) subaccount, which is no longer applicable.

SDG&E modified its SONGSBA to allow for the transfers of the SONGSBA over-collected balance to the ERRRA and NGBA for the portions identified as refunds to ratepayers in Sections 4.9 and 4.12 of the Amended Settlement Agreement.

SDG&E modified the SONGS 2&3 Procedures in accordance with Sections 4.3, 4.5, 4.6, and 4.8 of the Amended Settlement Agreement, detailing the treatment of Base Plant, M&S, Nuclear Fuel Investment and CWIP. In addition, SDG&E updated the description in the General section of these procedures to clarify that only costs meeting the requirements of Internal Revenue Code Section 468A and its related Treasury Regulations are eligible to be paid with NDT funds.

SDG&E modified the SPCEMA as a result of the Amended Settlement Agreement to clarify that only costs meeting the requirements of Internal Revenue Code Section 468A and its related Treasury Regulations are eligible to be paid with NDT funds. SDG&E also modified the Account Disposition to provide for the transfer of the annual interest to the NGBA. SDG&E uses SPCEMA to record all SONGS costs incurred on or after January 1, 2015 that are eligible to be paid with decommissioning trust funds.

Next Steps

There are no “Next Steps” associated with the Amended Settlement Agreement’s refund mechanism.

V. SDG&E RATEPAYER BENEFITS FROM THE SETTLEMENT

SDG&E has determined that as a result of the Amended Settlement Agreement, SDG&E ratepayers have received **\$424.5 million** in benefits through rates and balancing account credits through April 30, 2016.

a. Ratepayer Benefits To Date and Forecasted in 2016

Table 8 shows the benefits that SDG&E ratepayers have received from or related to the Settlement, as of April 30, 2016.

Table 8
Summary of SDG&E Ratepayer Benefits as of April 30, 2016

<u>Description</u>	<u>(\$s in millions)</u>
1 Refund for February 1, 2012 – December 31, 2014	\$ 152.3
2 Reduction in SONGS Revenue Requirement for 2015	140.5
3 Nuclear Decommissioning Trust (“NDT”) Credit	58.3 [1]
4 NEIL and MHI Settlement Net Proceeds	76.2
5 Other SONGS Settlement Proceeds & Expenditures	(2.8) [2]
6 Total Reduction	\$ 424.5

[1] Amounts reimbursed and received from the NDT as of April 30, 2016. This does not include any anticipated NDT reimbursements.

Amount includes a Property tax true-up of (\$2.6M) and an O&M True-up of (\$2.5M) offset by M&S sales \$0.4M; Non-O&M Property Liability Insurance of \$1.6M and other adjustments of \$0.3M.

[2]

1. Refunds for February 1, 2012 – December 31, 2014 impacting rates, was identified at implementation in AL 2672-E. It includes credit transfers of \$137.1 million to ERRA and \$15.2 million to NGBA. This refund was anticipated when the Settlement was approved.
2. SDG&E reduced the SONGS-related amount collected in rates in 2015 relative to the amounts it would have recovered under SDG&E’s revenue requirements authorized in in SCE’s TY2012 GRC (D.12-11-051) and in SDG&E’s SGRP proceeding (D.06-11-026). The net reduction in revenue requirements is \$140.5 million. This reduction was anticipated when the Settlement was approved.

3. In accordance with the Settlement's direction to the Utilities to seek Trust reimbursements when possible, and with the Commission's approval, SDG&E withdrew approximately \$52.8 million from the SDG&E Trust to defray SONGS costs that SDG&E had previously collected in rates, and SDG&E credited that amount to its ERRRA account. SDG&E applied another \$5.5 million from the Trust to capital investments that were included in the regulatory assets to be recovered in ratepayer rates under the Settlement.¹⁶² While the possibility of withdrawals from the Trust were anticipated at the time the Settlement was approved, the amount of the withdrawal and corresponding rate reductions were not estimated then.
4. As noted, SDG&E credited ratepayers \$75 million, representing 95% of SDG&E's share of the net recovery from NEIL, after deducting litigation costs. Additionally, \$1.2 million was credited to ratepayers for net proceeds received from MHI. These amounts were not estimated when the Settlement was approved.
5. SDG&E has also implemented certain other credits and debits, property tax true-up of (\$2.6 million) and an O&M True-up of (\$2.5 million) offset by M&S sales proceeds of \$0.4 million; Non-O&M Property Liability Insurance of \$1.6 million and other adjustments of \$0.3 million. These amounts were generally not estimated when the Settlement was approved.

SDG&E anticipates that ratepayers will receive additional benefits in 2016, including \$32 million from the recent DOE settlement, and approximately \$18 million from the SDG&E Trust for 2013 decommissioning costs, for a total of \$50 million in additional benefits. These additional anticipated ratepayer benefits are shown in Table 9 below.¹⁶³

Table 9

¹⁶² See AL 2724-E and AL 2806-E.

¹⁶³ SDG&E will take a taxable loss upon the abandonment of SONGS, but the timing is of the tax deduction is uncertain until the claim against MHI gets resolved. Thus there is a delay in the recognition of the tax benefit for the write-down that was recognized for book purposes upon the abandonment of SONGS. Upon resolution of the claim against MHI, the temporary tax benefit would get flowed through to ratepayers by means of a revenue requirement adjustment that would then reverse ratably over the remaining period allocated for recovery of the regulatory asset.

Additional SDG&E Ratepayer Benefits Anticipated in 2016

<u>Description</u>	<u>(\$s in millions)</u>
1 Department of Energy Settlement	\$ 32.0
2 Nuclear Decommissioning Trust withdrawal (2013 costs)	18.0
3 Total Reduction	\$ 50.0

b. Regulatory Accounting Summary

As described throughout this document, SDG&E recorded entries to ERRA, NGBA and the Regulatory Asset to clearly account for transactions required by the Amended Settlement Agreement. Table 10 summarizes the entries.

Table 10

Summary of SDG&E Regulatory Accounting Entries

Line	Regulatory Accounting Summary In Millions	Section	2014	2015	Total	Acct
1	SGRP Net Investment	IV.a.	(86.6)	(0.1)	(86.7)	ERRA
2	Non-SGRP Net Investment, CWIP, M&S	IV.b.				
		IV.c.	(2.7)		(2.7)	ERRA
		IV.d.				
3	Materials & Supplies	IV.d.		(0.4)	(0.4)	NGBA
4	Nuclear Fuel Investment	IV.e.	33.3		33.3	ERRA
5	Base O&M and Non-O&M Expenses	IV.g.	(96.2)	3.5	(92.7)	NGBA & ERRA
6	Third-Party Recoveries (NEIL and MHI)	IV.h.	(1.2)	(75.0)	(76.2)	NGBA & ERRA
7	Nuclear Decommissioning Trusts	IV.i.		(58.3)	(58.3)	ERRA & Reg Asset
8	Finance Regulatory Asset	IV.k.		(0.2)	(0.2)	NGBA
9	Total		(153.4)	(130.5)	(284.0)	
	Note: Total includes rounding difference due to presentation format					

c. Direct Access Customers

On November 26, 2014, SDG&E filed AL 2676-E to address SDG&E's implementation of the Direct Access Customer Ratemaking Consensus Protocol for SONGS Outages and Retirement ("Consensus Protocol"), approved in D.14-05-022. As specified in the Consensus Protocol, Section V, any change to a prior year's revenue requirement, upward or downward, authorized by the Commission in the SONGS OII that is included in the revenue requirement

used to determine bundled service customers' generation rates, will also be used to adjust the Total Generation Portfolio costs used to determine the indifference amount. Consistent with the SONGS-related adjustments for bundled customers identified in AL 2672-E, AL 2676-E adjusted Direct Access ("DA") customers' Total Generation Portfolio costs used to determine the indifference amount for calculating PCIA rates by \$292.8 million. However, due to the delay in receiving approval for AL 2676-E, Direct Access customers did not receive the SONGS-related benefits associated with AL 2676-E in PCIA rates until January 1, 2016.

The 2016 PCIA rates implementation in SDG&E's Consolidated Filing to Implement January 1, 2016 Electric Rates included the SONGS-related revenue requirement adjustments identified in AL 2672-E, as well as the SONGS-related ERRA balancing account adjustments recorded or forecasted to be recorded in 2015.¹⁶⁴ The 2015 SONGS-related ERRA balancing account adjustments included \$33.8 million for reimbursement of nuclear decommissioning costs from the SDG&E Trust, as well as a forecast of \$19.0 million for 2014 Trust reimbursements and a forecast of \$74 million for NEIL recoveries.

The 2017 PCIA rate forecast filed in SDG&E's 2017 ERRA Forecast (A.16-04-018) includes a true-up adjustment for the forecasted \$74 million associated with the NEIL recoveries included in the 2016 PCIA rates. A credit of \$74.989 million was recorded to the ERRA in 2015 which was \$0.989 million lower than the forecast of \$74 million. Therefore the 2017 total portfolio of costs in the calculation of PCIA rates for DA customers will be reduced by \$0.989 million to ensure that the impacts of the SONGS outages and closure are borne by both bundled and DA customers equitably and symmetrically (upward or downward).

VI. SDG&E SONGS NET REGULATORY ASSET RESULTING FROM THE SETTLEMENT

i. Recovery of SONGS Costs

The following table summarizes the SONGS costs that SDG&E has recovered pursuant to the Amended Settlement Agreement:

¹⁶⁴ AL 2840-E.

Table 11
SDG&E SONGS Net Settlement Regulatory Asset Balance Summary

	Beg Bal	2012 Amort	2013 Amort	2014 Amort	2015 Amort	Reimburse From NDT	Fuel Resale Costs	Other Reductions [1]	2016 Amort thru (4/30/16)	Nuclear Fuel Incentive	Total thru 4/30/16	Est. Amort (thru 12/31/16)	DOE Round 2 Lit. Proceedings	Est. Bal. 12/31/16
Base Plant/CWIP/M&S	\$ 311.2	\$(28.5)	\$ (31.1)	\$ (31.1)	\$ (29.9)	\$(0.3)	-	\$(7.7)	\$ (10.0)	-	\$ 172.6	\$ (29.9)	\$(23.5)	\$ 119.2
Nuclear Fuel	123.8	(11.4)	(12.4)	(12.4)	(12.0)	(2.0)	(2.8)	-	(4.7)	1.0	67.3	(14.1)	-	53.2
Total	\$ 435.0	\$(39.9)	\$ (43.5)	\$ (43.5)	\$ (41.9)	\$(2.3)	\$(2.8)	\$(7.7)	\$ (14.7)	\$ 1.0	\$ 239.9	\$(44.0)	\$(23.5)	\$ 172.4
[1] Includes \$5.9 million true-up invoices received from SCE; \$0.8 million marine mitigation reclassification to O&M; materials & supplies sales of \$0.4 million; \$0.4 million settlement A&G														

This table shows that, of the \$435 million in SONGS investment costs that the Settlement authorizes SDG&E to recover, SDG&E has already recovered approximately \$195.1 million (as of April 30, 2016), or approximately 45% of the total investment. By the end of 2016, SDG&E expects to recover at least \$262.6 million based on SDG&E's allocation of \$23.5 million proceeds from the DOE Settlement. At that point, approximately \$172.4 million (40%) in SONGS costs will remain to be recovered, through possible proceeds of the MHI litigation, sales of nuclear fuel, additional DOE settlements, Trust withdrawals or rates.

ii. Calculation of SDG&E's SONGS Net Regulatory Asset and its Associated Revenue Requirement

To calculate the SONGS Regulatory Asset, Pursuant to the terms in the Amended Settlement Agreement, as of the effective date, SDG&E removed its net investment as of February 1, 2012 for:

- SGRP
- Non-SGRP
- CWIP
- M&S
- Nuclear Fuel

SDG&E then applied authoritative accounting guidance for Regulated Operations - Property, Plant, and Equipment, to recalculate its net investment in the components listed above using a discounting cash flow factor equal to SDG&E's incremental borrowing rate (as of June 6,

2013), per the terms of the Amended Settlement Agreement. The calculation represented the authorized recoverable amount from SDG&E's ratepayers as the Net SONGS Regulatory Asset (as of June 6, 2013). The difference between the net book value of the investment(s) and the authorized recoverable amount equaled the impairment loss to SDG&E Shareholders on the assets, described further in Section VII below. The Net SONGS Regulatory Asset as of June 30, 2013 equaled \$322.3 million.

As noted, under the Amended Settlement Agreement, the regulatory assets are generally amortized over the period February 1, 2012, through February 1, 2022. Table 11 above displays the amortization of the regulatory assets through April 30, 2016, and the estimated amortization through December 31, 2016.

To calculate SDG&E's SONGS revenue requirement for the Net SONGS Regulatory Asset, SDG&E used the recoverable investment costs and authorized return on those respective costs as of February 1, 2012 net of refunds of revenues previously collected of \$152.3 million. The recoverable investment costs are referenced in the Amended Settlement Agreement and relate to the following components:¹⁶⁵

- Non-SGRP, CWIP, and M&S
- Nuclear Fuel
- O&M
- Non-O&M

The total of these revenues (net of refunds) are calculated from February 1, 2012 to February 1, 2022 and recovered through the NGBA.

VII. SDG&E SHAREHOLDER LOSSES

As of April 30, 2016, SDG&E has determined that as a result of the Amended Settlement Agreement, SDG&E shareholders have incurred a \$180 million impairment loss as detailed in Table 12 below on the net investment of SONGS.

¹⁶⁵ Amended Settlement Agreement at §§ 4.3, 4.5, 4.6, 4.7, 4.8, 4.9.

Table 12

**SDG&E Summary of SONGS Impairment Loss
(in millions)**

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>4/30/2016</u>
SONGS Regulatory Asset	\$ 202	\$ 202	\$ 202
Other SONGS related losses/(gains)			
GHG donation Liability	5	5	5
MHI reimbursement incentive-SONGS OII incentive	(1)	(1)	(1)
NEIL reimbursement incentive-SONGS OII incentive	-	(4)	(4)
Fuel cancellation-SONGS OII incentive	-	(1)	(1)
Reverse income tax regulatory asset reserve	-	(21)	(21)
Total SONGS abandonment loss	<u>\$ 206</u>	<u>\$ 180</u>	<u>\$ 180</u>

In June 2013, Edison announced their decision to permanently shut down SONGS. As a result of this unilateral decision, SDG&E developed a scenario-driven probabilistic estimated loss analysis to address the following components of SONGS:

- SONGS Rate Base Assets
- O&M
- Replacement Power during the forced outage to Edison’s announced permanent retirement
- Authorized Revenues during the forced outage to Edison’s announced permanent retirement

As a result, SDG&E recorded an estimated \$200 million impairment as a shareholder cost. After SDG&E entered into the Amended Settlement Agreement in March 2014, SDG&E recorded an additional \$6 million impairment as a shareholder cost, including \$4.7 million in present value for the GHG research shareholder contribution to the University of California.

Subsequent to implementation in 2014, a reduction to the impairment was made in the amount of \$26 million, which was primarily due to the approved recovery of income taxes related to Base Plant. As of April 30, 2016, SDG&E shareholders have incurred a \$180 million impairment loss.

Table 13 provides an additional summary of SDG&E’s SONGS Financial account Write-Offs.

Table 13

**SDG&E's Summary of SONGS Financial Account Write-Offs
(in millions)**

	Description	2012	2013	2014	2015	2016	Total
1	SONGS Regulatory Asset Impairment Charge	\$ -	\$ (200.0)	\$ (4.4)	\$ -	\$ -	\$ (204.4)
2	SGR Sales Tax Refund	-	-	2.2	-	-	2.2
3	GHG donation	-	-	(4.7)	-	-	(4.7)
4	Nuclear Fuel Cancellation Incentive Memo Account	-	-	-	1.0	-	1.0
5	Recovery of Income Tax Regulatory Asset	-	-	-	21.2	-	21.2
6	Mitsubishi Proceeds (Pre-OII Settlement)	9.1	-	-	-	-	9.1
7	Mitsubishi Litigation Costs & Customer Refund (Pre-OII Settlement)	-	(2.1)	(4.5)	-	-	(6.6)
8	Mitsubishi Litigation Costs & Customer Refund (Pre-OII Settlement) (50% / 50% sharing) - Ratepayer portion	-	-	(1.2)	-	-	(1.2)
9	Mitsubishi Litigation Costs (Post-OII Settlement)	-	-	-	(0.5)	(1.2)	(1.7)
10	NEIL Proceeds (95% / 5% sharing)	-	-	-	80.0	-	80.0
11	NEIL Litigation Costs	-	-	-	(1.1)	-	(1.1)
12	NEIL Proceeds (95% / 5% sharing) - Ratepayer Portion	-	-	-	(75.0)	-	(75.0)
13	SONGS Regulatory Asset Financing	-	-	-	0.3	-	0.3
14	Net Impact	\$ 9.1	\$ (202.1)	\$ (12.6)	\$ 25.9	\$ (1.2)	\$ (180.9)

VIII. CONCLUSION

SDG&E has been and continues to implement the Amended Settlement Agreement as intended. The Settlement provides substantial benefits to SDG&E ratepayers that are even greater than estimated at the time that the Settlement was entered into by the Settling Parties and the Commission approved it. Additional ratepayer benefits are anticipated in 2016, and may occur in future years. SDG&E anticipates that by the end of the year, less than half (approximately 40%) of the amounts allocated to its ratepayers under the Settlement will remain to be recovered.

Respectfully submitted,

/s/ Emma D. Salustro

Emma D. Salustro
Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY
8330 Century Park Court, CP32D
San Diego, CA 92123
Phone: (858) 654-1861
Fax: (619) 699-5027
E-mail: esalustro@semprautilities.com

April 26, 2017

Attachment A

SONGS OII Regulatory Asset and Impairment

Implementation Summary - SDG&E

**SONGS OII Regulatory Asset and Impairment
Implementation Summary - SDG&E**

(\$s in millions)

	<u>Balance As of 12/31/2014</u>	<u>01/01/2015 to 12/31/15 (Activity)</u>	<u>01/01/2016 to 04/30/16 (Activity)</u>	<u>Balance As of 04/30/2016 (Implementation-to-date (ITD))</u>
SGRP (Section 4.2)				
Net Book Value (NBV)	\$ 144.3	-	-	\$ 144.3
Net Refunds/(Net Catch-up) Revenues	86.6 ^{[1] & [2]}	-	-	86.6
Deferred Revenues	(45.0) ^[03]	-	-	(45.0)
Impairment Loss/Write-Off	(185.9) ^[05]	-	-	(185.9)
Accumulated-Amortization Expense	-	-	-	-
Total SGRP (Section 4.2)	-	-	-	-
Base Plant/CWIP/M&S (Sections 4.3; 4.8; 4.5)				
Net Book Value (NBV)	299.5	(7.8) ^[07]	(0.2)	291.5
Net Refunds/(Net Catch-up) Revenues	2.7 ^{[4], [6] &}	-	-	2.7
Deferred Revenues	(66.5) ^[03]	-	-	(66.5)
Impairment Loss/Write-Off	(15.3) ^[05]	-	-	(15.3)
Accumulated-Amortization Expense	-	(29.9)	(10.0)	(39.9)
Total Base Plant/CWIP/M&S (Sections 4.3; 4.8; 4.5)	220.4	(37.7)	(10.1)	172.6
Nuclear Fuel (Section 4.6)				
Net Book Value (NBV)	121.9	(0.9) ^[08]	(2.8) ^[09]	118.2
Net Refunds/(Net Catch-up) Revenues	(33.2) ^{[1] & [2]}	-	-	(33.2)
Deferred Revenues	-	-	-	-
Impairment Loss/Write-Off	(1.0) ^[05]	-	-	(1.0)
Accumulated-Amortization Expense	-	(12.0)	(4.7)	(16.7)
Total Nuclear Fuel (Section 4.6)	87.7	(12.9)	(7.5)	67.3
SONGS Regulatory Asset	\$ 308.1	\$ (50.6)	\$ (17.6)	\$ 239.9

FOOTNOTES:

[01] Represents GRC-authorized revenues from February 1, 2012, through December 31, 2014

[02] Represents settlement-authorized revenues for February 1, 2012, through December 31, 2014

[03] Represents deferred revenues from June 1, 2013, through December 31, 2014

[04] Recovered through the income tax portion of base plant revenues

[05] Represents impairment loss/write-off related to the SONGS regulatory asset

[06] Reconciliation to general ledger impairment loss/write-off ITD as of:

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>4/30/2016</u>
SONGS Regulatory Asset	\$ 202	\$ 202	\$ 202
Other SONGS related losses/(gains)			
GHG donation Liability	5	5	5
MHI reimbursement incentive-SONGS OII inc	(1)	(1)	(1)
NEIL reimbursement incentive-SONGS OII inc	-	(4)	(4)
Fuel cancellation-SONGS OII incentive	-	(1)	(1)
Reverse income tax regulatory asset reserve	-	(21)	(21)
Total SONGS abandonment loss	\$ 206	\$ 180	\$ 180

[07] Includes \$5.9 million true-up invoices received from SCE; \$0.8 million marine mitigation reclassification to O&M; materials & supplies sales of \$0.4 million; \$0.4 million settlement A&G; \$0.3 million nuclear decommissioning trust (NDT)

[08] Includes amounts reimbursed from NDT - \$1.4 million 2013; \$0.6 million 2014 offset by \$1.0 million nuclear fuel cancellation incentive

[09] Represents reclassification of \$2.7 million costs to render nuclear fuel for sale

ATTACHMENT B

Attachment B

June 2 Report Change Log

Page	Original Language (June 2, 2016 Report)	Revised Language (April 26, 2017 Revised Report)
1 at FN 1		Adds FN 1: SDG&E identified inadvertent errors in the original Report, filed June 2, 2016, related to replacement power. This Amended Report corrects those errors. Revisions to correct the errors have been underlined in the text and a change log is provided as Attachment B.
5	\$746.5 million	\$718.2 million
5	\$1039.9 million	\$1011.6 million
7	SDG&E's Net SONGS Costs totaled \$121.9 million.	At the time the Commission approved the settlement, these replacement power costs from the date of the outages until when SONGS shut down on June 6, 2013, were estimated to total \$99.9 million.
7 at FN 34	In SDG&E's ERRA Trigger application, the Commission directed SDG&E to remove the "net SONGS costs" estimate from the estimated under-collected ERRA balance as of December 2013. D.14-02-022 at Conclusion of Law ("COL") 7. In AL 2587-E, dated March 27, 2014, SDG&E presented the updated recorded amount of deferred "net SONGS costs" as \$121.9 million. See AL 2587-E at 2 (approved May 5, 2014, effective April 1, 2014), provided at Appendix A.	This figure refers to market costs of energy and capacity from February 1, 2012, through June 6, 2013. Prior to the approval of the settlement, in the Energy Resource Recovery Account ("ERRA") proceeding, the Commission had deferred a decision on the recovery of \$121.9 million of costs that the Commission deemed to represent the market costs of the SONGS outages in 2013 (including foregone sales). The \$121.9 million figure addresses market costs for 2013 (a different time period) and includes different costs (foregone sales) than the February 1, 2012, through June 6, 2013, period covered by the \$99.9 million (which does not include foregone sales).
28	SDG&E's "net SONGS costs" totaled \$121.9 million.	At the time the Settlement Agreement was implemented, SDG&E's "net SONGS costs", which had been removed from the under-collected ERRA balance, totaled \$121.9 million.