

ORIGINAL

Decision No. 88708 APR 18 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application
of Southern California Edison
Company for an Order authorizing
it to sell an undivided co-tenancy
interest in its San Onofre Nuclear
Generating Station Units 2 and 3
and Common Facilities

Application No. 57707
(Filed November 25, 1977)

O P I N I O N

Southern California Edison Company (SCE), a California corporation, and the cities of Anaheim and Riverside (Cities), California municipal corporations, seek an order of the California Public Utilities Commission (Commission) granting SCE authority to sell and convey to the Cities an undivided co-tenancy interest in the San Onofre Nuclear Generating Stations Units 2 and 3 and Common Facilities (San Onofre). This facility is located on the northwest corner of the Marine Corps Base, Camp Pendleton, California.

SCE's primary interest for entering into this transaction is to fulfill its contractual obligations under the Settlement Agreement signed on August 4, 1972, and attached to the application as Exhibit A. This Settlement Agreement resulted from antitrust action brought to the courts by the Cities and the U. S. Justice Department. The Cities desire eventually to own all their generation capacity and to have access to the transmission facilities necessary to provide for their future needs. The Settlement Agreement provides for this. The Cities each own and operate their own electric transmission and distribution utility system within city limits.

This undivided interest consists of two parts. The first part is the sale to the Cities of certain percentages of Units 2 and 3 and of Common Facilities as they existed on November 1, 1977. The second part is the sharing of the continued construction and O&M costs of Units 2 and 3 and of Common Facilities as incurred after November 1, 1977. The agreed upon purchase price and terms of payment are described in the Participation Agreement attached to the application as Exhibit C. The terms of continued participation in construction and operation are described in the Construction Agreement attached to the application as Exhibit D, and are the same arrangements as currently being used between SCE and San Diego Gas & Electric Company (SDG&E) for construction and operation responsibilities relating to San Onofre.

Although all agreements have been negotiated to their final form, they have not yet been signed. Final signing by all participants, including SDG&E, is contingent upon SCE and SDG&E receiving a favorable ruling or agreement from the U.S. IRS pursuant to Section 38 of the U. S. Internal Revenue Code, regarding whether acquisition by publicly-owned utilities and investor-owned utilities of undivided co-tenancy interests in utility facilities would disqualify the interest owned by the investor-owned utilities as Section 38 property for the purpose of investment tax credit. The agreement among the parties will be executed only when, in the sole discretion of each party, it is satisfied that the execution of said agreements will not adversely affect the investment tax credit for those portions of San Onofre owned by SCE and SDG&E. This contingency agreement is described in a Letter Agreement attached to the application as part of Exhibit C.

SCE and the Cities assert that the terms and conditions as set forth in the Participation and Construction Agreements (Exhibits C and D) are fair, just and reasonable, that the properties which SCE has agreed to sell to the Cities is reasonably worth the amount the Cities have agreed to pay for it, and that SCE and the Cities desire to effectuate the agreements in accordance with their provisions.

Currently, SCE owns 80% undivided co-tenancy interest, while SDG&E owns 20%. SDG&E's interest will remain at 20%, while the Cities will obtain part of SCE's interest. The Cities' generation entitlement and percentage of cost sharing in Units 2 and 3 is based on the relative sizes of each City and SCE (1.66% for Anaheim and 1.79% for Riverside), while the Cities' percentage ownership of Common Facilities is about 83.5% of the generation entitlement based on proration of Common among all three generation units (1.39% for Anaheim and 1.49% for Riverside). Common Facilities costs are based on new reproduction costs (as of November 1, 1977) less depreciation, while Units 2 and 3 costs are those actually incurred and recorded by standard SCE accounting practice.

The total estimated costs to the Cities for facilities installed and expenses incurred prior to November 1, 1977 are \$16,639,550 for Anaheim and \$17,649,250 for Riverside. Review of project costs indicates that they are fair and reasonable; further, all parties find them to be acceptable.

Approval of this application will have no significant effect on SCE's ratepayers or on SCE's ability to provide reliable electric service, or on SCE's long range generation and transmission expansion plan. Although revenues to SCE will be reduced, so will operating expenses and rate base requirements,

with a net effect of essentially no change in cost of service to SCE's consumers. On the other hand, consumers in the Cities will have decreased costs because of lower financing costs available to municipal utilities. The Cities will pay transmission charges to SCE consistent with schedules filed with The Federal Energy Regulatory Commission (formerly The Federal Power Commission). Whether or not this application is approved, there will be no change in the way the SCE and Cities systems are operated, and generation is allocated; the differences are ones of ownership and accounting, not of integrated operation.

The action taken herein shall not be construed to be a finding of the value of the property herein authorized to be transferred.

Findings and Conclusions

We find that:

1. A public hearing is not necessary.
2. The proposed sale described in this application will not be adverse to the public interest.
3. With reasonable certainty, the project involved in this proceeding will not have a significant effect on the environment.

We conclude that the application should be granted.

O R D E R

IT IS HEREBY ORDERED that:

1. SCE be authorized to transfer a portion of its ownership interests in San Onofre Units 2 and 3 and San Onofre Common Facilities, and a portion of its real property interests at San Onofre to the Cities, substantially as described in the application and exhibits.

2. SCE shall, within 30 days after such actual sale and transfer, notify this Commission in writing of the date thereof.

3. Within 180 days after such actual sale and transfer, SCE shall file with this Commission, the final cost figures for property installed as of November 1, 1977.

4. Until the question of Section 38 property has been resolved with the IRS, SCE shall file annually with this Commission a brief summary of the efforts by all parties to resolve the question. The first filing will be within one year of the effective date of this order.

In the event the Agreements are not consummated within five years after November 1, 1977, the authority herein granted shall expire.

The effective date of this order shall be thirty days after the date hereof.

Dated at San Francisco, California, this 18th day of APRIL, 1978.

Robert Batwinich
President
William S. Snow Jr.
Vernon L. Sturgeon

Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.