

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Accounting and Finance Branch

RESOLUTION E-3057  
November 25, 1987

R E S O L U T I O N

ORDER AUTHORIZING SOUTHERN CALIFORNIA EDISON COMPANY (EDISON) TO ENTER INTO A NUCLEAR DECOMMISSIONING MASTER TRUST AGREEMENT FOR SAN ONOFRE UNITS 1, 2, AND 3 AND FOR PALO VERDE UNITS 1, 2 AND 3 NUCLEAR GENERATING STATIONS.  
(Advice letter 768-E, filed September 30, 1987).

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SUMMARY

1. By Advice Letter No. 768-E, Southern California Edison Company (Edison) submitted for Commission approval nuclear decommissioning tax-qualified and non-qualified trust agreements for San Onofre Nuclear Generating Station Units 1, 2 and 3, (SONGS) and for Palo Verde Nuclear Generating Station Units 1, 2 and 3. These agreements are submitted pursuant to Ordering Paragraphs 2 and 3 of Decision 87-05-062 (the "Decision") which requires Edison to obtain the Commission's prior approval to execute these agreements.
2. The Commission finds that it is reasonable to establish a tax-qualified trust under Internal Revenue Service (IRS) Code Section 468A for California jurisdictional revenue requirements, and if necessary and approved by the IRS, another separate trust for Federal Energy Regulatory Commission jurisdictional revenue requirements to decommission these units.
3. The Commission finds that it is reasonable to establish a non-qualified trust for California jurisdictional revenue requirements, and if necessary another separate trust for Federal Energy Regulatory Commission jurisdictional revenue requirements to decommission these units.

BACKGROUND

1. The Tax Reform Act of 1984 added Section 468A to the Internal Revenue Code (I.R.C.), to allow a utility to elect, under certain conditions, a current year federal income tax deduction for those future nuclear power plant decommissioning costs that are reflected in the utility's currently authorized revenue requirements. One of the conditions is that the decommissioning costs be segregated in a trust fund. In California, the major regulated electric utilities were affected by the statute, including Southern California Edison Company.

2. The statute was considered in OII 86, an Investigation on the Commission's own motion into present and alternative methods of financing nuclear facility decommissioning costs. In this proceeding, Decision 87-05-062 dated May 29, 1987 set forth the costs, revenue requirement, and trust issues necessary for California utilities to qualify revenue collected to provide for eventual decommissioning of nuclear power plants, for a current year federal tax deduction.

3. The Decision also recognized that, according to the statute, trusts must be set up to manage the funds until they are actually spent on decommissioning. One trust agreement can be established to hold all trust funds, but that trust must separately account for the trust funds pertaining to each nuclear units, and must be further separated between qualified trust funds and nonqualified. Trusts in conformity with Section 468A of the statute are considered "qualified trusts".

4. Nonqualified trusts are also established for decommissioning costs which are collected in rates but which are not eligible under the tax laws for current tax deductions. These trusts are established to ensure that those funds will be available at the time of plant decommissioning.

5. In summary, Decision 87-05-062 found that:

a) Southern California Edison (Edison), San Diego Gas & Electric Company (SDG&E) and Pacific Gas and Electric Company (PG&E) should establish trust funds for nuclear decommissioning costs which qualify for a tax deduction under I.R.C. Section 468A.

b) Edison, SDG&E and PG&E should establish trust funds for nuclear decommissioning costs which do not qualify for a tax deduction under I.R.C. Section 468A.

c) Tax qualified trust fund investments are limited by Internal Revenue Service (IRS) tax regulation to:

- (i) public debt securities of the United States;
- (ii) obligations of a state or local government that are not in default as to principal or interests; and
- (iii) time or demand deposits in a bank or an insured federal credit union.

The tax qualified trust funds may be invested in any of these permitted investments.

d) Non-tax qualified trust funds may be invested in any permitted investment for tax qualified trust funds plus guaranteed investment contracts, high-quality corporate bonds and equity securities, and other securities guaranteed or secured by the U.S. government; provided however, that investments in high quality equity securities shall not exceed 60% of the trust fund's fair market value.

e) Because of the lead time required for adequate preparation of the IRS filings and the trusts, Decision 87-05-062 was made effective on the date signed (May 29, 1987).

DISCUSSION

1. By this Advice Letter, Edison has prepared and submitted a master tax qualified trust agreement for San Onofre Units 1, 2 and 3 and for Palo Verde Units 1, 2 and 3 in compliance with Decision 87-05-062. In addition, a non-tax qualified trust agreement is provided for these Units to govern that portion of the trust funds for the facilities which do not qualify under I.R.C. Section 468A. All trust agreements have been drafted to conform with the requirements set forth in Decision 87-05-062 (pages 30-34).

2. The Commission Advisory and Compliance Division (CACD), formerly the Evaluation & Compliance Division, has conducted a series of meetings with Edison and other Commission staff in the course of its review of the Advice Letter. In the course of that review various clarifications, additions and deletions were discussed for inclusion in the final adopted draft documents to be attached to this Resolution. Edison was a full participant in the process and provided comments, responses to inquiries and proposed further draft language for use in the trust agreements.

3. The Staff proposed alteration to the composition and the reporting requirements of the Committees which govern the conduct of the Trusts, the actions of the Trustee and the actions of the Investment Manager(s). Edison has agreed to the changes and additions. The changes primarily include the addition of "outside" members to the Committee who are not Directors, officers, employees or agents of Edison. The staff believes that this will ensure compliance with the Public Utility Code Sections 1363, 1365(c), 1367, 1368, and 1369 and in particular to ensure that the Trusts are "externally managed, segregated fund(s)". The Commission will exercise confirmation authority over the "outside" Committee Members. The members of the Committee will serve 5-year terms and may be removed by the majority vote of the Commission for reasonable cause.

4. Edison believes that because the Trust authorized by this resolution contains specific California ratemaking requirements and other specific California statutory requirements, and because it requires extensive review and approval by the Commission, that it would be impractical to apply this trust to FERC jurisdictional decommissioning expenses. The Internal Revenue Code only authorizes one tax-qualified trust for each nuclear power plant. If another trust is necessary for FERC jurisdictional decommissioning expenses it would require IRS approval. The staff believes that Edison should seek such approval but should not take any action that would endanger the tax-qualified status of the California Commission jurisdictional trust. The California jurisdictional portion of these units is the primary concern of this Commission.

5. The outside members of the Committee must be selected by Edison and their names submitted to the Commission for confirmation. Because of the time constraints applicable to that process and the need for Edison to proceed with the Trust, the staff believes Edison should be allowed to operate the Trust with a Committee composed entirely of internal Edison members, pursuant to section 3.01 of the Master Trust Agreement, until outside members of the Committee have been confirmed by the Commission. Edison should submit the nominees within 90 days of the effective date of this resolution and when a complete submittal has been made, the 60-day period for Commission review set forth in the attached trust agreement should commence.

6. The fees to be charged by Edison's chosen trustee, Harris Trust and Savings Bank appear to be reasonable when compared with the fee levels summarized in Decision 87-05-062 (pp. 2 & 3 mimeo). Edison believes these fees are fair, reasonable and commensurate with the services to be provided.

7. The staff of the Commission Advisory and Compliance Division has reviewed this filing and finds the modified agreements to be in conformance with the requirements of Decision 87-05-062.

8. The Commission staff has received no protests in this matter.

9. In accordance with Section III, Paragraph G of General Order 96-A, Edison has mailed a copy of only the advice letter (without the attached trust fund agreements) to the utilities and interested parties shown on its regular advice letter mailing list and on the service lists in the Commission Investigation 83-10-002, Application Nos. 82-02-004, and 87-07-144.

FINDINGS

1. We find that the nuclear decommissioning trust agreements for San Onofre Units 1, 2 and 3 and for Palo Verde Units 1, 2 and 3 applicable to these trust funds, as modified by Southern California Edison Company and the Commission Advisory and Compliance Division, as attached to the Resolution, are reasonable.
2. Edison should do nothing which endangers or invalidates California jurisdictional trust.
3. We further find that these modified agreements are in compliance with Decision 87-05-062; therefore,

IT IS ORDERED that:

1. Southern California Edison Company is authorized to place into effect the modified nuclear decommissioning trust agreements for San Onofre Units 1, 2, 3 and Palo Verde Units 1, 2, and 3 that are attached hereto.
2. All subsequent proposed trust agreements, if any, shall also require Commission approval.
3. The Trust Committee may operate on an interim basis with all Edison members until the Commission confirms Edison's nominees for outside members of the Trust Committee.