

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3489  
MAY 6, 1997

R E S O L U T I O N

RESOLUTION E-3489 SOUTHERN CALIFORNIA EDISON COMPANY  
REQUESTS APPROVAL OF THEIR PROPOSED INVESTMENT MANAGEMENT  
AGREEMENTS BETWEEN EDISON'S NUCLEAR FACILITIES  
DECOMMISSIONING MASTER TRUST COMMITTEE AND BLACKROCK  
FINANCIAL MANAGEMENT INC. AND SANFORD C. BERNSTEIN AND  
COMPANY. APPROVED.

ADVICE LETTER NO. 1225-E, MARCH 4, 1997.

SUMMARY

1. By Advice Letter 1225-E Southern California Edison (Edison) requests approval of their proposed Qualified and Nonqualified Investment Management Agreements (Agreements) between the Southern California Edison Nuclear Facilities Decommissioning Master Trust Committee (Committee) and BlackRock Financial Management, Inc. (BlackRock) and Sanford C. Bernstein & Co. (Sanford Bernstein) to manage a portion of Edison's Nuclear Facilities Qualified and Nonqualified Decommissioning Trust Funds.
2. No protests have been received.
3. This Resolution authorizes Advice Letter 1225-E.

BACKGROUND

1. In Order Instituting Investigation 86, the Commission conducted an extensive investigation into alternative methods of financing the ultimate cost of decommissioning the nuclear power plants owned by California utilities. In Decision (D.) 87-05-062, the Commission adopted externally managed trusts as the vehicles for accruing decommissioning funds and established guidelines for the trust agreements.
2. In response to D.87-05-062, Edison established two trust agreements for its nuclear decommissioning costs. One trust was established as the vehicle to hold the decommissioning funds for contributions which qualify for an income tax deduction under § 468A of the Internal Revenue Code (Qualified Trust), and the other was designed to hold the remaining funds (Nonqualified Trust).

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3. By Resolution (Res.) E-3057 dated November 25, 1987, the Commission approved Edison's trust agreements and established the Nuclear Facilities Decommissioning Master Trust Committee (Committee) which consists of five members, at least three of which cannot be employees, officers, directors, or agents of Edison.

4. Pursuant to §§ 3.04 and 5.01 of the trust agreements, and subject to Commission approval of the investment management agreements, the Committee is authorized to appoint one or more investment managers to direct the investments of all or part of the trust assets. To date, the Commission has approved the appointment of STW Fixed Income Management, RCM Capital Management, Bankers Trust, and PanAgora Asset Management to direct the investment of the Nonqualified Trust. By this Advice Letter, Edison is requesting the approval of a Qualified and Nonqualified Investment Management Agreements with BlackRock, and a Qualified Investment Management Agreement with Sanford Bernstein.

5. In a series of decisions beginning with D.87-05-062 (D.93-10-076, D.94-11-028, and D.95-07-055), the Commission set forth its limitations on trust fund investments. Most recently, D.95-07-055 established the following additional guidelines:

- a. Not more than 50% of the fair market value of the utilities' qualified trust may be invested in equity securities. [The limit for nonqualified trust remains at 60%.]
- b. Not more than 20% of the fair market value of the qualified and nonqualified trusts may be invested in international equity securities.
- c. Up to 100% of the fair market values of the qualified and nonqualified trusts may be invested in investment grade fixed-income securities (rated BBB- or higher by Standard & Poor's or an equivalent rating by other rating agencies) including, but not limited to government, agency, municipal, corporate, mortgage-backed, asset-backed, nondollar, and cash equivalent securities. The amounts and percentage invested in each of the above investment grade securities shall be reported by the utilities in their annual trust reports to the Commission. No derivative security of any kind shall be considered an investment grade fixed-income security.

6. D.95-07-055 made no adjustment to the equity investment portion of the nonqualified trust and continued to bar the trust's use of derivative securities except to hedge foreign exchange risks between the buy or sell date of a foreign security and the settlement date.

7. D.95-07-055 also requires that investment management contracts be filed for Commission approval through the Commission's advice letter process within 10 days of a contract's execution, and are to be binding only after Commission approval.

8. The Qualified and Nonqualified Agreements with BlackRock and the Qualified Agreement with Sanford Bernstein were executed on March 4, 1997. Edison's Advice Letter 1225-E presents the Agreements for Commission approval and are attached as Exhibits 1, 2, and 3 of the Advice Letter.

9. Edison states that the Qualified BlackRock and Sanford Bernstein accounts will be managed to outperform the Lehman Brothers Treasury Index. The Nonqualified BlackRock account will be managed to outperform a blended index which includes 50% Lehman Brothers 5-year municipal index and 50% Lehman Brothers 10-year municipal index. The Committee intends to fund the BlackRock accounts with a portion of the fixed income in the Qualified and Nonqualified Trusts, currently being managed actively by RCM Capital Management. The Sanford Bernstein account will also be funded with a portion of the fixed income in the Qualified Trusts. BlackRock and Sanford Bernstein will take into account the tax implications of unrealized losses and gains of the existing fixed income assets when transitioning the asset into their portfolios.

#### NOTICE/PROTESTS

Edison mailed copies of Advice Letter 1225-E to parties listed in the Advice Letter in accordance with General Order 96A. Notice of the Advice Letter appeared on the Commission's Daily Calendar. No protests were received.

#### DISCUSSION

1. Edison's proposed Qualified and Nonqualified Investment Management Agreements are substantially the same as those previously approved by the Commission, with the exception of the performance benchmarks which reflect differences in tax rates between the Qualified and Nonqualified Trusts and fee schedules in Section 6 of Advice Letter 1225-E. This section of the proposed Agreements includes a provision whereby the fee will be based on the aggregate market value of the Qualified and Nonqualified Investment Accounts. The resulting fee amount will be allocated between the two accounts on a pro rata basis. This aggregate fee schedule will enable potentially lower fees for both the BlackRock Qualified and Nonqualified accounts.

2. The Commission's Energy Division has reviewed the proposed Agreements and advises that they are in accordance with the terms of the trust agreements and applicable Commission decisions and resolutions, and recommends their approval.

**FINDINGS**

1. Edison filed Advice Letter 1225-E on March 4, 1997, requesting approval of their proposed Investment Management Agreements with BlackRock and Sanford Bernstein to manage a portion of Edison's Nuclear Facilities Qualified and Nonqualified Decommissioning Trust Funds.
2. In D.87-05-062, the Commission required externally managed trust funds to finance the decommissioning of nuclear power plants.
3. D.87-05-062 provides that the nonqualified trust funds may be invested in high-quality equity securities provided that the investments shall not exceed 60% of the trust fund's fair market value.
4. D.95-07-055 requires that investment manager contracts be filed for Commission approval through the advice letter process within 10 days of their execution, and orders that they be binding only after such approval.
5. The proposed Agreements with BlackRock Financial Management, Inc. and Sanford C. Bernstein & Co. are in compliance with the requirements of applicable Commission decisions and resolutions and should be approved.

**THEREFORE, IT IS ORDERED that:**

1. Southern California Edison Advice Letter 1225-E is authorized.

The effective date of this Resolution is today.

  
WESLEY FRANKLIN  
Executive Director

P. Gregory Conlon, President  
Jessie J. Knight, Jr.  
Henry M. Duque  
Josiah L. Neeper  
Richard A. Bilas  
Commissioners