DICKSON GEESMAN

April 13, 2015

Ms. Sue Kately, Chief Consultant
Assembly Utilities and Commerce Committee
State Capitol, Room 5136
Sacramento, California 95814

Dear Ms. Kately:

You have asked for my assessment of the differences between the terms outlined in the Hotel Bristol Notes[1] and the March 27, 2014 settlement proposal negotiated by SCE, TURN, and ORA. It appears to me that SCE managed to improve its position by at least $919 million, and arguably $1.522 billion, from what CPUC President Peevey had identified at the Hotel Bristol as "a framework for a possible resolution."

A probable explanation for the backsliding attributable to TURN's and ORA's negotiation efforts is SCE's one-sided knowledge of what Mr. Peevey considered "acceptable." Prompt disclosure of ex parte communications like that between Mr. Pickett and Mr. Peevey is an essential prerequisite for a level playing field in regulatory proceedings.

Following the sequence of the Notes regarding the principal areas of difference, I arrive at the $919 – 1.522 billion amount as follows:

1. The Notes indicate Mr. Peevey would restrict return on the plant investment made prior to the Replacement Steam Generators to a "debt-level return" through 2022. The March 27, 2014 settlement proposal enriches this to include 50% of the cost of preferred stock. SCE's authorized capital structure in 2013 included 43% debt and 9% preferred stock. The effect of adding the preferred stock component into the March 27, 2014 settlement proposal likely increases the allowed return by 10.5%, assuming rates on debt and preferred stock average to be roughly equivalent over the 10 year period despite market fluctuations. Because of these

[1] SCE's February 9, 2015 "Late-Filed Notice of Ex Parte Communication" identifies the Notes as written by its Executive Vice President Stephen Pickett to record CPUC President Michael Peevey's "framework for a possible resolution of the Order Instituting Investigation (OII) that he [Peevey] would consider acceptable but would nonetheless require agreement among at least some of the parties to the OII."

fluctuations and the opacity of the present value calculation in the March 27, 2014 settlement proposal, I have not attempted any quantification of this increased return.

2. The Notes indicate Mr. Peevey would disallow the entire Replacement Steam Generator investment, while the March 27, 2014 settlement proposal allows recovery of $ 194 million collected in rates before February 1, 2012. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by $194 million.***

3. The Notes indicate Mr. Peevey would give ratepayers all of any recovery from the NEIL insurance, while the March 27, 2014 settlement proposal would provide the utilities with 17.5% of such recovery. Given the $409 million accidental outage claim identified in Edison's April 29, 2014 Form 10-Q, this is a $72 million difference. Because the settlement never identified an amount for the separate accidental property damage claim to be filed with NEIL, I have not attempted to value the 17.5% difference on it. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by at least $72 million.***

4. The Notes indicate Mr. Peevey would allow utility retention of any amounts recovered from MHI as follows: 50% of the first $200 million; 70% of the next $200 million; 80% of any additional recovery until the disallowance amount was met; and 25% of any recovery beyond that. The March 27, 2014 settlement proposal awarded the utilities 85% of the first $100 million; two-thirds of the next $800 million; and 25% of any recovery above $900 million. While it is extremely speculative to estimate whether there will be any recovery from MHI, Mr. Peevey's "framework" was $52 million more favorable to ratepayers for a $200 million recovery; $49 million more favorable for a $300 million recovery; $45 million more favorable for a $400 million recovery; and $33 million more favorable for a $500 million recovery. It is only in the hyper-optimistic scenario of a recovery from MHI approaching $700 million that the two approaches converge. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by $33 - $52 million.***

5. The Notes indicate that Mr. Peevey would restrict recovery of O&M to the amounts conditionally approved in the previous GRC through August 1, 2012. The March 27, 2014 settlement proposal expands O&M recovery to all of 2012 and 2013 with no reasonableness review, minus $126 million for the incremental Steam Generator Inspection and Repair costs. O&M for August 2012 thru December 2013 totaled $656 million. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by $530 million.***

6. The Notes indicate that Mr. Peevey would demand SCE make an annual environmental mitigation contribution of $10 million for nine years from 2014 thru 2022. The March 27, 2014

settlement proposal is silent on this point. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by $90 million.***

Significantly, the Notes make no mention of CWIP but the March 27, 2014 settlement proposal rolls CWIP into Base Plant. If the omission of CWIP in the Notes is logically interpreted to preclude recovery of CWIP which never went into service after February 1, 2012, the $919 -- 938 million difference identified above would be increased by $584 million. ***Ratepayer bottom line:*** ***Peevey framework was more favorable by $584 million.***

To summarize the regress from the Hotel Bristol Notes to the March 27, 2014 settlement proposal:

Enriched return:	No quantification
RSG disallowance:	$194 million
NEIL insurance claims:	At least $72 million
MHI recovery formula:	$33 – 52 million
Excess O&M:	$530 million
CO_2 mitigation:	$90 million
Excess CWIP	$584 million
TOTAL:	**$1.503 – 1.522 billion**

While he has few defenders today, Mr. Peevey's position as identified in the Notes would have provided ratepayers with substantially more than the March 27, 2014 settlement proposal. My point is not to denigrate the negotiating capabilities of TURN or ORA, but to quantify the impact of SCE's unlawful defiance of the CPUC's ex parte requirements. Obviously, Mr. Peevey did not feel strongly enough about his Hotel Bristol definition of "acceptable" to insist that it be imposed on the final settlement after lesser amounts had been agreed to by TURN and ORA.

These are material amounts, and strongly reinforce the concerns expressed earlier by Chairman Rendon about the settlement and the manner in which it was entered into.

Sincerely,

/s/ John L. Geesman
Attorney for Alliance for Nuclear Responsibility

cc: I.12-10-013 service list