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 and Electric Company Associated with the San Onofre Nuclear Generating Station Units 2 and 3.	I.12-10-013 (Filed October 25, 2012)
And Related Matter	A.13-01-016 A.13-03-005 A.13-03-014 A.13-03-013

MOTION OF THE DIVISION OF RATEPAYER ADVOCATES TO AMEND THE SCOPING MEMO AND FOR SUMMARY DISPOSITION TO IMMEDIATELY REMOVE SPECIFIED SONGS UNITS 2 AND 3 REVENUE REQUIREMENT FROM RATES

I. INTRODUCTION & SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 11.1 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) hereby moves for an order or ruling revising the Scoping Memo issued on January 28, 2013 for this Order Instituting Investigation (OII). Specifically, DRA asks that the Scoping Memo be amended to advance for summary disposition the immediate removal of specific costs associated with the San Onofre Nuclear Generating Station (SONGS).

Currently, the Scoping Memo has scheduled consideration of whether reductions to rate base are warranted, and whether the utilities' 2013 revenue requirement should be adjusted to reflect lower-than-forecast Operations and Maintenance (O&M) expenses and capital

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expenditures to later phases of this OII.[1] However, based on evidence already in the record, and the recent public announcement by Southern California Edison Company (SCE) that it has permanently shut down both Unit 2 and Unit 3, there is no reason to delay disposition of these issues and matters regarding the current rate recovery associated with the SONGS revenue requirement. Therefore, DRA asks that the Commission issue an order or ruling amending the Scoping Memo, and immediately removing from rates the General Rate Case (GRC) revenue requirement[2] and Steam Generator (SG) Replacement revenue requirement[3] associated with SONGS Units 2 and 3 as discussed below.

II. BACKGROUND

The Scoping Memo in this case divided the investigation into four phases. Among other things, Phase 1 would consider the "nature and effects of the steam generator failures in order to assess the reasonableness of SCE's consequential actions and expenditures…"[4]; Phase 2 would consider "whether any reductions to SCE's rate base and SCE's 2012 revenue requirement are warranted or required due to the extended SONGS outages;[5] Phase 3 would consider "causes of the SG damage and allocation of responsibility;"[6] and Phase 4 would consider "…whether SCE's 2013 revenue requirement should be adjusted to reflect lower-than-forecast O&M, Capex, … and other SONGS expenditures."[7]

Circumstances have changed dramatically since January 2013, when the Scoping Memo was issued. The Scoping Memo was developed with the expectation that SONGS would ultimately return to commercial operation. At that time, SCE held out hope that one or both SONGS Units might restart and return to service. Now, even SCE has abandoned that hope. On June 7, 2013, SCE publicly announced the permanent shutdown of both SONGS Units 2 and 3.[8]

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[1] Scoping Memo, p. 4.

[2] *Decision on Test Year 2012 General Rate Case for Southern California Edison Company* (2012) D.12-11-051.

[3] *Opinion* (on A.02-04-026, Application of SCE for Authorization to Replace Steam Generators) (2005) D.05-12-040, as modified by D.11-05-035.

[4] Scoping Memo, p. 3.

[5] Scoping Memo, p. 4.

[6] Scoping Memo, p. 4.

[7] Scoping Memo, p. 4.

[8] Edison International press release, June 7, 2013: http://www.edison.com/pressroom/pr.asp?id=8143 *See* Letter to U.S. Nuclear Regulatory Commission, Subject: "Docket Nos. 50-361, 50-362, Certification of Permanent Cessation

On June 12, 2103, SCE certified through a letter to the United States Nuclear Regulatory Commission (NRC) that it permanently ceased power operation of the SONGs Units 2 and 3 effective June 7, 2013.[9]

The annual revenue requirement associated with the SONGS Units 2 and 3 should be removed from rates immediately as described below. The Scoping Memo should be revised accordingly and an order or ruling issued to that effect.

III. STATE LAW AND COMMISSION POLICY REQUIRE THE IMMEDIATE REMOVAL OF SONGS COSTS FROM RATES

When the Assigned Commissioner and Administrative Law Judge (ALJ) issued the January 28, 2013 Scoping Memo, they invited SCE, San Diego Gas & Electric Company (SDG&E)[10] and any other interested party to file briefs "… to develop and expand legal arguments regarding the scope and timing of the Commission's authority to order different types of rate reductions related to the extended outages" at SONGS.[11] The Ruling on the Legal Questions concluded as follows:

> 1. Pursuant to Pub. Util. Code §455.5, the Commission has authority to reduce SCE's and SDG&E's electric rates to reflect the value of any portion of the SONGS facility which has been out of service for more than nine months and, further, to exclude from rate recovery any expenses related to that facility, effective November 1, 2012.
>
> 2. Prior to issuing an order pursuant to §455.5, the Commission must hold a hearing to review, inter alia, the revenue, expenses, and rate base at SONGS as part of this OII, a designated general rate proceeding.[12]

These threshold requirements, as described in the Ruling relating to Section 455.5, have been met. As of the filing date of this Motion, SONGS Units 2 and 3 have been out of service for

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of Power Operations, San Onofre Nuclear Generating Station Units 2 and 3" (executed June 2, 2013), attached as Appendix A to this Motion.

[9] Id.

[10] SCE is the operating agent of SONGS; SDG&E has a 20% ownership portion of SONGS.

[11] Assigned Commissioner's and Administrative Law Judge's Ruling on Legal Questions Set Forth in Scoping Memo and Ruling (Ruling on Legal Questions), p. 1.

[12] Ruling on Legal Questions, pp. 17-18.

a year and a half.[13] In May 2013, the Commission held five days of evidentiary hearings to consider, among other things, evidence provided by SCE of expenses at SONGS in 2012.[14] In addition to the Commission's authority under Public Utilities Code §455.5, it also has the authority under Public Utilities Code §701 to do all things necessary and convenient to exercise its regulatory powers.

This is not just a matter of authority granted the Commission. Indeed, the Commission has a duty under Public Utilities Code §451 to ensure that all utility charges are just and reasonable. Allowing a non-operational plant to be part of rate base, and charging ratepayers expenses for non-operational plant is so clearly *un*reasonable that failure to remove SONGS costs from rates immediately would be a violation of Section 451.

SCE identified and commented on the current inequity by asserting that it is inappropriate for customers to pay for both the investment and expenses associated with the SONGS units and replacement power. During the shareholder/analyst call of June 7, 2013, Edison International Chief Financial Officer, Executive Vice President and Treasurer William James Scilacci stated:

> And just – so bear in mind here on the principle, so the fact -- you don't want a situation where we're paying – our customers are paying twice for power and paying for the investment. And so there's a current principle, if you're not – if you shut down a plant, there's going to be replacement power. And you have a plant that's operating, you just have to make sure you don't include it in any kind of projections that there's some exposure for double recovery.[15]

During the June 7, 2013 call, SCE said it "…estimate[s] a pretax impairment charge between $450 million to $650 million to be recorded during the second quarter of 2013."[16] Therefore, absent removal of the SONGS revenue requirement from customer rates, SCE will be

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[13] SONGS Unit 1 was shut down on November 30, 1992. The matter was addressed by the Commission in D.92-08-036.

[14] *See* Ex. SCE-4.

[15] Edison International Shareholder/Analyst Call transcript, June 7, 2013, mimeo at p. 12: http://seekingalpha.com/article/1487902-edison-international-s-ceo-hosts-san-onofre-nuclear-generating-station-conference-transcript?part=single. *See* Appendix B for a copy of the transcript of the call.

[16] Edison International Shareholder/Analyst Call transcript, June 7, 2013, Appendix B, mimeo at p. 6: http://seekingalpha.com/article/1487902-edison-international-s-ceo-hosts-san-onofre-nuclear-generating-station-conference-transcript?part=single. .

taking a pretax impairment charge for a facility that has ceased power operation but continues to generate a full rate of return on its investment through its customer rates. To allow this scenario to continue would be to allow charges that are unjust and unreasonable.

Going forward, the Commission should act now to remove the SONGS Units 2 and 3 revenue requirement from customer rates. These costs are described below.

IV. SONGS COSTS TO BE REMOVED FROM RATES

With the permanent shutdown of SONGS Units 2 and 3, DRA recommends that the Commission order the immediate removal of SONGS-related revenue requirements from rates. As required by the OII, SCE has provided monthly status reports which list, among other things, costs it is including in the SONGS Units 2 and 3 Outage Memorandum Account.[17] These reports show the monthly amounts being tracked in the memorandum account and the currently authorized revenue requirement.[18] DRA provides below the approximate revenue requirement that should be removed from rates based on 2012 adopted figures.

A. SONGS REVENUE REQUIREMENT GOING FORWARD TO BE REMOVED FROM CUSTOMER RATES

SCE's SONGS–related revenue requirement can be divided into the following primary segments: the General Rate Case (GRC) revenue requirement[19] and the Steam Generation Replacement (SGR) Project revenue requirement.[20] The 2012 GRC revenue requirement for SCE was $498.1 million, and the 2012 SGR revenue requirement was $115.2 million. This is a total revenue requirement of $613.3 million. This figure is consistent with the figure set forth in SCE's SONGS Conference Call presentation.[21] DRA recommends that the Commission direct SCE to immediately remove from its customers rates the entire GRC revenue requirement except essential safety and security costs and SGR revenue requirement. Based on the 2012 authorized

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[17] *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.* (2012) I. 12-10-013, p. 13.

[18] SCE Monthly Report in Compliance with I.12-10-013, (May 31, 2013), attached as Appendix C to this Motion.

[19] *Decision on Test Year 2012 General Rate Case for Southern California Edison Company* (2012) D.12-11-051.

[20] *Opinion* (on A.02-04-026, Application of SCE for Authorization to Replace Steam Generators) (2005) D.05-12-040, as modified by D.11-05-035.

[21] Edison International Shareholder/Analyst Call transcript, June 7, 2013, Appendix B, mimeo at p. 2: http://seekingalpha.com/article/1487902-edison-international-s-ceo-hosts-san-onofre-nuclear-generating-station-conference-transcript?part=single.

amounts, SCE would be required to remove approximately $613.3 million (less safety and security costs) from rates. The actual annualized figure for 2013 will be slightly higher. There are also additional costs associated with nuclear fuel carrying costs, replacement power costs, and seismic studies costs. DRA's recommendations for each of these are discussed below.

1. GRC Revenue Requirement

SCE's May 31, 2013 Monthly Report shows that the Authorized GRC Revenue Requirement for 2012 was $498.087 million. The 2013 authorized figure is likely a somewhat higher amount given the post-test year increases granted to SCE in its Test Year 2012 GRC Decision (D.12-11-051). At this time, the 2012 authorized figure does not appear to be in dispute. The Commission should direct SCE to remove the currently adopted and authorized GRC revenue requirement (except essential safety and security costs) associated with SONGS from customer's rates. The currently authorized GRC revenue requirement includes depreciation, taxes and shareholders' return on the non-SGR investment in the SONGS Units 2 and 3. It also includes the operation and maintenance (O&M) expenses and other GRC-related costs associated with the SONGS Units 2 and 3. The Commission should terminate SCE's recovery in customer rates of the revenue requirement associated with any GRC base capital costs and GRC O&M expenses adjusted for essential safety and security costs. Consistent with the removal of the previously authorized SONGS GRC revenue requirement from rates, SCE should be directed to make appropriate adjustments to its GRC balancing accounts.

SDG&E's May 6, 2013 Revision to its Quarterly Report in Compliance with I.12-10-013 shows an authorized revenue requirement of $185.4 million for 2012 in its SONGS Units 2 and 3 Outage Memorandum Account. SDG&E should be required to make the same adjustment to its rates as SCE by removing the SONGS revenue requirement less essential safety and security costs from its customer's rates.

2. Steam Generator Replacement Project Revenue Requirement

SCE's May 31, 2013 Monthly Report shows that the interim Authorized SGR Revenue Requirement for 2012 was $115.239 million.[22] The SGR revenue requirement represents the authorized depreciation, income taxes, ad valorem taxes and return on the SGRP

[22] SCE Monthly Report in Compliance with I.12-10-013 (May 31, 2013), Appendix C, "Southern California Edison Company SONGS Units 2 and 3 Outage Memorandum Account, I. 12-10-013, ($000)."

rate base amount of $464.6 million. Since the failure of the SGR resulted in the permanent shutdown of SONGS Units 2 and 3, SCE and SDG&E should no longer receive revenue requirements for the SGR, and the Commission should remove the current SGR revenue requirement from customer rates. At this juncture, SCE and SDG&E should look to their insurance carriers and Mitsubishi Heavy Industries for SGRP sunk cost recovery, not ratepayers.

3. Nuclear Fuel Carrying Costs

Regarding nuclear fuel carrying costs, SCE's Monthly Report shows $349,000 in nuclear fuel carrying costs in April 2013.[23] With the permanent shutdown of SONGS Units 2 and 3, the Commission should order SCE and SDG&E to stop recovering nuclear fuel carrying costs.

4. Seismic Study Costs

In D.12-05-004, the Commission authorized SCE and SDG&E to recover the costs of SONGS-related seismic research recommended by the California Energy Commission (CEC).[24] According to SCE's Monthly Report, SCE spent $435,000 on seismic safety in April 2013.[25] With the permanent shutdown of SONGS Units 2 and 3, the purpose of the SONGS Units 2 and 3-related seismic studies is no longer valid. SCE has informed the CEC that "[t]he seismic reliability evaluation of SONGS required by AB 1632 was completed and provided in our February 2011 Report. Current seismic activities are under review and will likely be

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[23] SCE Monthly Report in Compliance with I.12-10-013 (May 31, 2013), Appendix C, "Southern California Edison Company SONGS Units 2 and 3 Outage Memorandum Account, I. 12-10-013, ($000)."

[24] D.12-05-004, mimeo at 2-3: "In 2006, the California legislature enacted Assembly Bill (AB) 1632 (Blakeslee, Chapter 722, Statutes of 2006), which was codified as Public Resources Code Section 25303. AB 1632 directed the California Energy Commission (CEC) to: assess the potential vulnerability of California's largest baseload power plants, Diablo Canyon Power Plant (Diablo Canyon) and San Onofre Nuclear Generating Station (SONGS), to a major disruption due to a major seismic event or plant aging; assess the impacts of such a major disruption on system reliability, public safety, and the economy; assess the costs and impacts from nuclear waste accumulating at these plants; evaluate other major issues related to the future role of these plants in the state's energy portfolio; and include the assessment in the CEC's "2008 Integrated Energy Policy Report Update" (2008 Integrated Energy Policy Report (IEPR) Update). In response to AB 1632, as part of its 2008 IEPR update released in November 2008, the CEC issued the AB 1632 Report.

In response to that report Southern California Edison Company (SCE), in this application, seeks $64 million to continue its seismic research projects in conformity with the recommendations of the CEC. SCE requests authority to establish balancing accounts and memorandum accounts to record and recover its seismic research costs.

San Diego Gas & Electric Company (SDG&E), as a minority owner of 20% of San Onofre Nuclear Generating Station Unit Nos. 2 and 3 (SONGS Units 2 and 3), expects a 20% share of the costs of these activities will be allocated and billed to SDG&E by SCE pursuant to an agreement between SCE and SDG&E."

[25] SCE Monthly Report in Compliance with I.12-10-013 (May 31, 2013), Appendix C, "Southern California Edison Company SONGS Units 2 and 3 Outage Memorandum Account, I. 12-10-013, ($000)."

terminated."[26] SCE's SONGS-related seismic studies were not mandated by the CEC or NRC, therefore, termination of continued seismic studies at SONGS Units 2 and 3 does not violate a CEC or NRC order or statute. The Commission should direct SCE and SDG&E to immediately stop additional spending on SONGS Units 2 and 3 seismic safety studies.

5. Marine Mitigation Costs

Regarding marine mitigation costs, SCE's SONGS-related marine mitigation efforts are under the jurisdiction of the California Coastal Commission (CCC)[27]. SCE has informed the CEC that "[f]low through the intake and discharge conduits will be approximately 25% of that at full power operations."[28] With the permanent shutdown of SONGS Units 2 and 3, the Commission should direct SCE to petition the CCC for relief or a reduction of its marine mitigation obligations. SCE's ratepayers should no longer be responsible for these costs.

B. Effective Date for Removal of Costs from Rates

For the effective date for removal of the SONGS revenue requirement from rates going forward, DRA recommends the date of the ruling or order on this Motion.

The SCE Test Year (TY) 2012 General Rate Case decision, D.12-11-051, authorized a SONGS Memorandum Account, effective on January 1, 2012, before the SONGS Unit 2 maintenance outage started on January 9, 2012 and the SONGS Unit 3 forced outage occurred on January 31, 2012:

> Therefore, we authorize SCE to establish a SONGS Memorandum Account (SONGSMA) **effective January 1, 2012,** to track for post-2011:
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> - 100% of O&M;
> - 100% of cost savings from scheduled personnel reductions;
> - 100% of maintenance and refueling outage expenses, if any; and
> - 100% of capital expenditures.

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[26] "Briefing on San Onofre Nuclear Generating Station, Units 2 and 3, Retirement Plans," SCE Briefing to the CEC June 19, 2013, p. 5. *See* Appendix D to this Motion.

[27] California Coastal Commission coastal development permit number 6-81-330. SCE discussed 2012 marine mitigation costs in Ex. SCE-4, pp. 112-113.

[28] "Briefing on San Onofre Nuclear Generating Station, Units 2 and 3, Retirement Plans," SCE Briefing to the CEC June 19, 2013, p. 6. *See* Appendix D

> No later than January 30, 2013, SCE shall file an application for a reasonableness review of the expenses tracked in the SONGSMA. All expenses disallowed by the reasonableness review will be refunded to ratepayers. The SONGSMA application will be consolidated with the SONGS Order Instituting an Investigation (SONGS OII), Investigation (I.) 12-10-013, which, inter alia, will examine the facts and circumstances of the Unit 2 and 3 shutdowns and SCE's operational response.[29]

The SONGS OII continued the SONGSMA and expanded SCE and SDG&E's reporting requirements:

> SCE and SDG&E should each establish a memorandum account for this purpose, called the SONGS Outage Memorandum Account (SONGS OMA). SONGS OMA should contain subaccounts that separately identify:
>
> a. existing SONGS fixed costs (e.g., capital costs in rate base);
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> b. revenue requirements for SONGS rate base costs (e.g., depreciation, return, taxes);
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> c. existing SONGS variable costs (e.g., fuel, operation, maintenance);
>
> d. existing SONGS seismic safety program costs;
>
> e. SGRP costs;
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> f. other existing SONGS costs;
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> g. outage investigation costs;
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> h. replacement generation costs;
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> i. safety-related program costs implemented pursuant to NRC findings or orders;
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> j. the cost of other energy products or services to provide reliable electric service during the period of the outage (including Demand Response programs);
>
> k. the cost of other transmission upgrades or other system improvements to provide reliable electric service during the period of the outage (including substation or line related work);

[29] *Decision on Test Year 2012 General Rate Case for Southern California Edison Company* (2012) D.12-11-051, mimeo at 30, emphasis added.

l. other repair costs (separately identified as fixed and variable);
m. other routine operational costs;
n. regulatory costs;
o. litigation costs; and
p. any other costs related to SONGS.

The subaccounts should include reasonable and appropriate subdivisions as necessary to further identify costs and cost categories. The memorandum account should record all costs incurred beginning January 1, 2012 and thereafter with the exception of the SGRP subaccount. The SGRP subaccount should track all SGRP costs.[30]

Given the SONGSMA established in SCE's TY 2012 GRC by D.12-11-051, and continued in the SONGS OII, the Commission has the authority to order refunds to ratepayers of the costs incurred by SCE and SDG&E from January 1, 2012 through the date that the Commission directs SCE to remove from customer's rates the revenue requirement associated with SONGS Units 2 and 3. DRA reserves the right to address that issue later.

V. CONCLUSION

For all the foregoing reasons, DRA asks that the Scoping Memo of January 28, 2013 be amended to remove from rates immediately the GRC revenue requirement and the SGR revenue requirement associated with SONGS Units 2 and 3, except the sessential safety and security costs as described above.

[30] I.12-10-013, pp. 10-11, emphasis added.

Respectfully submitted,

MITCHELL SHAPSON
LAURA TUDISCO

/s/ LAURA TUDISCO
Staff Counsel

Attorney for the Division of Ratepayer Advocates

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June 25, 2013

APPENDICES

APPENDIX A

SOUTHERN CALIFORNIA
EDISON
An EDISON INTERNATIONAL Company

Peter T. Dietrich
Senior Vice President & Chief Nuclear Officer

10 CFR 50.82(a)(1)(i)

U. S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D. C. 20555

Subject: **Docket Nos. 50-361 and 50-362**
Certification of Permanent Cessation of Power Operations
San Onofre Nuclear Generating Station Units 2 and 3

Dear Sir or Madam:

Pursuant to 10 CFR 50.82 (a) (1) (i), Southern California Edison (SCE) hereby certifies that it has permanently ceased power operation of the San Onofre Nuclear Generating Station, Units 2 and 3 effective June 7, 2013.

On that date, SCE publicly announced its decision to permanently shut down both Unit 2 and Unit 3 and filed its announcement with Securities and Exchange Commission on Form 8-K, pursuant to the requirements of the Securities Exchange Act of 1934.

There are no new commitments contained in this letter.

If you have any questions regarding this matter, please feel free to contact Mr. Mark E. Morgan, Licensing Lead, at 949-368-6745.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 12, 2013.
(Date)

Sincerely,

cc: A. T. Howell III, Regional Administrator, NRC Region IV
R. Hall, NRC Project Manager, San Onofre Units 2 and 3
B. Benney, NRC Project Manager, San Onofre Units 2 and 3
G. G. Warnick, NRC Senior Resident Inspector, San Onofre Units 2 and 3

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APPENDIX A

APPENDIX B

Edison International's CEO Hosts San Onofre Nuclear Generating Station Conference (Transcript)

Jun 7 2013, 12:50 | about: EIX

APPENDIX B

Executives

Scott S. Cunningham - Vice President of Investor Relations

Theodore F. Craver - Chairman, Chief Executive Officer and President

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

Peter T. Dietrich - Chief Nuclear Officer and Senior Vice President

Analysts

Dan Eggers - Crédit Suisse AG, Research Division

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Steven I. Fleishman - Wolfe Research, LLC

Angie Storozynski - Macquarie Research

Stephen Byrd - Morgan Stanley, Research Division

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Edison International (EIX) San Onofre Nuclear Generating Station Conference June 7, 2013 8:30 AM ET

Operator

Good morning, my name is Fran, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Edison International San Onofre Nuclear Generating System -- Station Teleconference Call. [Operator Instructions] Today's call is being recorded. I'd now like to turn the call over to Mr. Scott Cunningham, Vice President of Investor Relations. Thank you, Mr. Cunningham. You may begin your conference.

Scott S. Cunningham

Thank you, Fran, and good morning, everyone. Our principal speakers today will be Chairman and CEO, Ted Craver; and Chief Financial Officer, Jim Scilacci. Also with us are SCE President, Ron Litzinger; and other members of the management team. The presentation that accompanies Jim's comments, the 8-K and press release related to today's decision regarding SONGS are available on our website at www.edisoninvestor.com. In addition, Ted's prepared remarks will be posted shortly.

During this call, we will make forward-looking statements about the financial outlook for Edison International and Southern California Edison and about other future events. Actual results could differ materially from current expectations. Important factors that could cause different results are set forth in our SEC filings. We encourage you to read these carefully. The presentation includes certain guidance assumptions, as well as reconciliation to non-GAAP earnings guidance to the nearest GAAP measure. [Operator Instructions]

With that, I'll turn the call over to Ted Craver.

Theodore F. Craver

Thank you, Scott, and good morning. By now I assume you've seen our announcement that we have decided to no longer seek restart of Unit 2 and Unit 3 of our San Onofre Nuclear Generating Station. The principal reason for this decision is our assessment that it is unlikely Unit 2 could achieve restart by the end of the year. This is especially true given the additional uncertainties introduced to the Nuclear Regulatory Commission process by the recent atomic safety and licensing board ruling. Only after considerable work with outside experts convinced us it was safe did we submit a restart plan to the NRC last October. When we submitted our plan, it had a clear cost advantage compared with the alternative of closing the plant and buying power from the market. However, that cost advantage decays with time, and if Unit 2 can't be restarted by the end of this year, that advantage is largely lost. Our conclusion is that the current odds of successfully getting through the complex approval processes by year end have deteriorated to significantly less of than 50%. Rather than continue to spend approximately $30 million a month to keep the plant ready for restart and prolong the uncertainty surrounding the plant, we have decided to no longer seek to restart SONGS.

For well over a year, since the tube leak occurred in 1 of the steam generators of Unit 3, we have had 3 objectives regarding our San Onofre Nuclear Generating Station or SONGS as we generally call it. Those objectives have been safety, reliability of the electric system and fair cost recovery. Safety has been our primary concern, which is why we spent so much time and effort to understand what caused the tube leak and how we could mitigate those causes. We engaged in a careful analytical process, which relied heavily on multiple independent teams of third-party experts and steam generator design and manufacturing coming at the problem from different angles. Through this work, we concluded that it was safe to restart Unit 2, operating it at 70%

power for an initial period of 5 months. Remember, Unit 2 ran at 100% power for a normal 22-month fuel cycle, and inspection showed that it had only the smallest signs of tube-to-tube wear in 2 out of the nearly 20,000 tubes. Contrast that with Unit 3, where the tube leak occurred after only 11 months of operation at full power and which sustained substantial tube-to-tube wear in several hundred tubes.

After concluding it was safe to restart Unit 2 at 70% power, we focused on how best to ensure the reliability of the Southern California electric system. SONGS plays an important role in grid stability, in part, because of its sheer size, 1,100 megawatts of capacity for each of its units but even more so, because of its critical location between San Diego and Los Angeles. The summers when we have our peak load on the system and we have been doing everything we can to get Unit 2 approved for restart in time for the hot months. All of us would breathe considerably easier if Unit 2 were operating.

Once we understood the cause of the steam generator tube wear and that we could mitigate it through operating Unit 2 at reduced power, we had to determine that it was economical to do so. As a regulated utility, we have an obligation to serve all customers in our service territory. Along with that requirement is an obligation to serve our customers in a cost-effective manner. We examine the costs of the alternatives to running SONGS, including closing the plant and simply buying replacement power from the market and shutting the plant and building replacement generation and transmission lines. The analysis showed that even if Unit 3 never restarted and we were only able to run Unit 2 at 70% power for the remaining 9 years of the license period, that is after 2022, it was the least cost alternative. However, every day that SONGS is not running is another day that we incur replacement power costs and the cost of keeping the plant ready for restart. These readiness costs amount to about $1 million a day or approximately $30 million a month. Every day of delaying restarting Unit 2 also means there is one less day of operating this low-cost source of generation. So at some point, with an uptime delay, there is a crossover point where operating Unit 2 is no longer less costly than the alternatives.

In our first quarter Investor Call, we signaled that this crossover point was around the end of the year. There are some things we could do to extend that crossover date by cutting cost associated with Unit 3, and in fact, we have been doing some of that. But at most, it extends the break-even point by months, not by years. In that call, we stated that if we couldn't see a clear path to Unit 2 restart by the end of the year, we would have to seriously contemplate closing the plant. In this case, we believe we must be able to represent to our customers, to the public and to the regulators that we are pursuing the least cost alternative. We also pointed out in our investor call that without clarity around the restart date or the rate-making treatment for SONGS' cost, our shareholders were essentially underwriting the regulatory risk of recovery for a growing level of cost at SONGS.

Over the last several weeks, particularly with the results of the May 13 Atomic Safety and Licensing Board decision, significantly more uncertainty has been introduced about the process and the timing for obtaining approvals for restarting Unit 2. To actually restart Unit 2, we need to not only get approval from the NRC staff but also have that approval survive the inevitable legal challenges of stay motions and appeals to the Nuclear Regulatory Commission and the U.S. Court of Appeals. We need to be able to conclude that the combined effect of these multiple parts of the approval process still leaves us with a reasonable chance of getting restart accomplished by the end of the year. We have concluded that it is too improbable that we will get through the process in time to restart Unit 2 this year. Indeed, it is likely that it will take us well into next year or perhaps even past that to get to a definitive yes or no. This means that on a risk-adjusted basis, restarting Unit 2 is no longer the least cost alternative. Therefore, it no longer makes sense for us to seek restart of San Onofre.

With this decision, we will now center our attention on 3 main efforts: one, ensuring system reliability; two, decommissioning the plant and treating our displaced workers fairly; and three, working with the California Public Utilities Commission and affected parties to resolve the rate-making aspects of SONGS and receive fair cost recovery.

We have been working with several government agencies and San Diego Gas & Electric to prepare for the contingency of SONGS continuing to be out of service this summer. Several of the actions we took last summer and the ones we are using to prepare for this summer are clearly not ideal longer term. We know that if a combination of events occur at the same time, we could have reliability problems. An example might be if we had a multi-day heatwave, coupled with wildfires taking down a major transmission line or losing a gas-fired generation plant in the L.A. basin. As of several weeks ago, we knew we were facing this risk when it became clear SONGS was not going to be approved to restart this summer. We are anxious to start working with the California Independent system Operator and the California Public Utilities Commission on the longer-term solutions to ensure reliability for our customers. It is not simply a question of SONGS versus no SONGS, rather it is a question of running SONGS or building new generation and transmission to replace SONGS.

We also need to immediately start the work to reduce the cost at San Onofre. This will have a very human face to it as we have around 1,500 employees at the plant today, which will be reduced to around 400 within a year. This is after having already reduced about 730 employees in the last year. We will also start the very different work with the NRC and others to decommission SONGS Unit 2 and unit 3. We have a decommissioning trust that has been well managed over the years of operating the plant and is well funded, which is good because decommissioning will take many years to complete.

Announcing that we are no longer seeking restart of SONGS is clearly not the decision I wanted to have to make. San Onofre Nuclear Generating Station has been a major generating resource and critical to grid stability in California for over 40 years. During its tenure, it has provided good paying jobs for thousands of workers and contributed substantial taxes and economic stimulus to the communities we serve. But it is a decision that had to be made under the circumstances. Having made this decision, we have a great deal of work to do to implement it. We want to start working with all stakeholders. That means customers, state regulators and policymakers, our communities, employees and the NRC to complete this job as efficiently and professionally as possible.

I know many investors want to dig into the financial implications of this decision, so I'm going to turn it over to our CFO, Jim Scilacci, to take you through those considerations.

William James Scilacci

Thanks, Ted. For my part of today's presentation, I'm going to take you through 4 primary topics. First, I'll provide an overview of all the numbers associated with San Onofre as of March 31, 2013. Next, I'll provide color on the impairment charge that we announced earlier today and the accounting guidance associated with this action. Then, I'll do an update on San Onofre nuclear decommissioning costs and the status of our investment trust. And I'll finish with an update on our 2013 earnings guidance.

Turning to Page 2 in the presentation. This is the same page from our business update, and all the numbers are as of March 31, 2013. We will update these numbers for our second quarter earnings release set for early August. The key numbers you should focus on are the $1.2 billion in rate base as it relates to our guidance that I will cover later in the presentation and the $2.1 billion net investment in San Onofre as it relates to the impairment charge. We have provided the breakdown of our net investment in San Onofre on this page for your reference. As shown at the bottom of the page, the differences between our net investment of $2.1 billion and a $1.2 billion of rate base are nuclear fuel, construction work in progress and deferred taxes. Total rate base for San Onofre is about 5% of our 1 point -- excuse me, our 21.8 billion weighted average rate base we used for our 2013 earnings guidance. Later in my presentation, I will discuss the impact on 2013 earnings guidance of the SONGS shutdown decision.

Turning to Page 3. The accounting for San Onofre is complicated, and the purpose of this page is to summarize our approach. The first point is that we will reclassify SONGS from plant to a regulatory asset to the extent management considers it probable that such costs are recoverable through future rates. The second point is that precedent has generally provided for cost recovery of the remaining net investment for early retired assets previously placed in service and related materials, supplies and fuel. However, the precedent varies whether a full, partial or no rate of return is allowed on the investment on such assets. Because precedent has varied, we were not able to conclude for accounting purposes what, if any, return on rate base would be allowed for the net investment or allowance for funds used during construction or FUDC on construction work in progress from the date of our decision to retire the units until such time there is regulatory certainty. I'll address this further when I discuss earnings guidance.

The third point is that the CPUC order instituting investigation or OII process will continue to determine final recovery together with whether to refund prior amounts to customers. And following that, we will aggressively pursue recoveries from both, MHI and NEIL. GAAP accounting does not allow us to record these expected recoveries at this time.

Turning to Page 4, as you are aware, all San Onofre issues to be considered by the CPUC have been consolidated into one proceeding under the San Onofre OII. As a result, in assessing whether to record regulatory assets or liabilities for refunds, SCE considered the interrelationship of recovery of costs and refunds to customers as a single unit of account for accounting purposes. In making our accounting determination, we reviewed the net investment in San Onofre, authorized revenues collected subject to refund and estimated substitute market power costs. We have outlined those costs on Page 4. We have also included different time frames of cost associated with the 455.5 process, which we roughly estimated at November 1 for this purpose. Moreover, we continue to believe that the actions we have taken and the costs we have incurred in connection with San Onofre's steam generators and outages have been prudent.

Based on this review, we estimate a pretax impairment charge between $450 million to $650 million to be recorded during the second quarter of 2013. The after-tax amounts range between $300 million to $425 million. The impairment charge considers the exposure for recovery of the net investment in San Onofre and potential refunds to customers. Although, we will record regulatory assets that we believe are probable of recovery. Such conclusion is a matter of management judgment. We have to apply what we believe to be relevant regulatory principles to the issues under review in the OII proceeding and in accordance with GAAP. Such judgment is subject to uncertainty and regulatory principles, and precedents are not necessarily binding and are capable of interpretation. No decisions have been rendered, and the OII proceeding regarding recoverability of cost from future rates or refunds of amounts to customers and the current proceedings are either in their early phases or not yet scheduled.

The CPUC may or may not agree with us. After review of all the facts and circumstances, we may abdicate positions, which we believe are supported by the relevant precedent and regulatory principles that are more favorable to us than the charges we have recorded in accordance with GAAP. Accordingly, there can be changes in the amounts we have recorded, higher or lower, based on the outcome of the CPUC OII or other developments. From a tax standpoint, recognition of the shutdown in San Onofre is complicated for the time frame for recording the shutdown on our federal tax return is unlikely to occur until the outcomes of contractual matters are known. Furthermore, in light of our consolidated net operating losses, we do not expect to realize cash tax benefits for some time.

Let me now cover the status of nuclear decommissioning trust. Please turn to Page 5 of the presentation. In previous disclosures, the numbers provided for nuclear decommissioning were a combination of costs and investment balances for both San Onofre and our 15.8% interest in Palo Verde. With the decision to shut San Onofre, we have decided to break out specific costs and investment balances. By way of background, funding for nuclear decommissioning is not included in traditional general rate case proceedings. It has its own separate proceeding, which is conducted every 3 years. As the chart indicates, the current nuclear decommissioning funding is approximately $23 million a year. Contributions used to be much higher, but over time, we have gradually reduced them based upon updated decommissioning cost studies and investment performance.

In the current perennial proceeding, we are seeking an increase in our decommissioning contributions to $39 million a year in order to achieve our goal of being fully funded by the start of decommissioning in 2022. The key thing to focus on is that as of March 31, 2013, the market value of planned assets totaled just over $3 billion. Decommissioning trusts are taxable, so focus on the after-tax value or $2.7 billion.

The current plan for decommissioning in San Onofre will last in excess of 40 years. Moreover, the estimated timing and cost escalation for labor, materials and burial greatly affect decommissioning costs. Based on our most recent estimate, the approximate value of the net future cost to decommission San Onofre is approximately $3 billion. The funded ratio is derived by dividing the after-tax trust balance by the estimated decommissioning cost. As you can see, the ratio is currently 90%. To emphasize the point, our funding strategy is to be 100%

funded by the initiation of the decommissioning activities. Therefore, the investment returns and annual contributions work together to achieve 100% funded status. Of course, investment returns can cause us to exceed or fall below a fully-funded position. With the early shutdown of SONGS, we will be evaluating the feasibility of accelerating the decommissioning of the plant. One important factor to note is that many of our workers at SONGS have experienced with decommissioning nuclear facilities having previously decommissioned San Onofre Unit 1.

Turning to Page 6 of the presentation. During our second quarter earnings call, we expect to update our capital spending forecast through 2017 to reflect the 2015 General Rate Case Notice of Intent we plan to file in July. We also updated the forecast to reflect the shutdown of San Onofre. As a rough order of magnitude, capital expenditures at San Onofre averaged about $100 million a year.

Turning to Page 7. We expect to do the same update of our rate base forecast during our second quarter earnings call. We continue to expect rate base growth in the 6% to 8% range through the next General Rate Case cycle.

Turning to Page 8, we show an updated 2013 earnings guidance. We continue to believe the simplified earnings model as an appropriate starting point for modeling core earnings, so we've continued that approach here. As of today, we will remove the San Onofre portion or $1.2 billion from rate base for the balance of the year. We have taken the conservative view of not recognizing any return even on debt return due to the very precedent and pending final regulatory treatment to be determined through the OII process. For the 7 remaining months, this amounts to a $0.15 per share reduction in guidance. We have also assumed no additional return on SONGS-related CWIP pending the outcome of the OII. This results in a reduction of $0.03 per share for the balance of 2013. We also expect to incur various other transition-related costs of $0.02 per share reducing the midpoint of the core guidance range by $0.20 per share in total.

We believe that we are taking a prudent and conservative approach by removing the full rate base for San Onofre and eliminating the entire return on the investment. This approach will continue until we've obtained regulatory clarity. And regulatory proceedings, we would obviously seek to improve upon this position. I would also like to note that we expect our share of severance costs related to plant personnel to be in the range of $70 million to $80 million, which we believe is probable of recovery through the OII process. We have continued our $0.10 range above and below the midpoint for an updated core guidance of $3.25 to $3.45 per share. We have also updated our guidance for the noncore impairment charge range. All other guidance assumptions remain unchanged. For modeling earnings beyond 2013, a full year reduction of rate base of $1.2 billion for SONGS would be appropriate. Finally, we continue to have no plans for common equity, including today's actions.

Okay, thank you, and I'll turn it over to the operator for questions and answers.

Question-and-Answer Session

Operator

[Operator Instructions] Our first, from Dan Eggers, Credit Suisse.

Dan Eggers - Crédit Suisse AG, Research Division

Just on the sequencing of events kind of here forward, can you talk a little bit about as you guys perceive with the process with the OII from here and kind of what rate of progression is realistic to expect based on past precedent or maybe some preliminary conversations? And with, outstanding issues with NEIL and Mitsubishi, can you really work to resolution on OII until you know what the money paid into these other partners is going to be?

William James Scilacci

Okay, Dan, we'll do there. That's a multi-part question. And I think on the MHI and the NEIL, we just don't have dates to tell you for that. We're submitting information, going through the process, and that will take some time.

The OII process really sets the pace and the standard for where we go going forward. We're in Phase 1 of 4. And I'll pause there and look over to Ron Litzinger, if you want to add anything more because we're right in the middle or nearing the end of the first phase, which really only to do with 2012 costs. Phase 2 and Phase 3 haven't even been scheduled yet. I'll pause here and look at Ron.

Ronald L. Litzinger

That's right, Jim. They're wrapping up Phase 1 right now, which just looks at the 2012 rates collected subject to refund. The third phase, which focuses on the reasonableness of the steam generator project and then the future viability of SONGS, clearly this decision will have some impacts there. But that's not scheduled yet, and it would be tough for us to speculate on it.

Dan Eggers - Crédit Suisse AG, Research Division

So just -- among those lines, Ron, if you think about timing here on 3 and 4, if you guys were to even prognosticate, does this get to resolution and -- by mid '14, late '14 or some period beyond that?

Ronald L. Litzinger

It's really hard to judge, Dan. We just really can't speculate on that.

Operator

Our next request now is from Hugh Wynne with Sanford Bernstein.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

I have a question regarding Slide 4 where you developed the estimated impairment range of $450 million to $650 million. How does that relate to the other numbers on this chart? Or put another way, what's in the $450 million to $550 million (sic) [$450 million to $650 million] impairment and what is not?

William James Scilacci

That's a very good question. We've developed this chart, and if you read the comments carefully, there are 3 categories of cost. There's the SONGS net investment, the total authorized revenue. That's really the base rates going back to January 1, 2012. Hugh, remember those are subject to refund as part of the OII process. So base rate's, just for clarity, that's the O&M, the depreciation and the return on plus taxes. And we broke it out in 2 different categories here since January 1, 2012, and we added November 1, and really that's a line of demarcation if that's the end of the 9-month period and initiation of 455.5 process date. And then the third category, there's net market costs. So those are the replacement power of energy and capacity and related, and that's been added since we had the $444 million through the end of March, and now we have a additional amount for -- estimated for April and May. So you need to think about it as 3 different categories. And we took an impairment charge of $450 million to $650 million because ultimately we have to go through a series of processes to figure out ultimately what we will be able to recover. And so our net investment going back to it was $2.1 billion, and we're establishing a regulatory asset. And that regulatory asset reflects a fact of how we view our ability to recover the dollars. And again, we believe that all actions have been prudent, but we felt, overall, we have some exposure here. So think of it as 3 different categories. We'll go through the process with the commission, and we'll be able to determine through final decisions what the ultimate recovery is. And remember, too, we're bound by GAAP here, and GAAP will cause us to be certainly more conservative in terms of how we view our things because you have to have a standard of probability for GAAP. And it's a very hard standard, and that really kind of shaped our -- some of our thinking in terms of how we came up with this number. So I'll pause here and look at my colleagues if they'd like to add anything else. And I'll let you clarify, Hugh, if you have additional questions.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

I appreciate it. So the regulatory asset, I assume, is -- I guess this is what I'm trying to understand. The $450 million to $650 million impairment reflects the difference between the $2.1 billion investment and your estimate of the regulatory asset or does it simply reflect some portion of the past costs on Page 4 that you believe are unrecoverable?

William James Scilacci

Yes, so the -- we've reduced the net investment by the impairment. So -- but think of it as a single unit of account here for accounting purposes, and that's why you have these 3 categories. And so as you go through the process, we don't know ultimately what's going to occur, and so we have to think about this as 3 separate buckets all in 1 unit of account. And that's what's reflected here.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Okay. So just because you've written the investment down by $450 million to $650 million, does not mean that these other revenues are sure to be collected or rather sure to be yours as opposed to refunded. Those are still at risk and could lead to a higher impairment.

William James Scilacci

Yes. Well, within this, this is our judgment of the range. And yes, it's you have to think about it all as 1 bucket of costs, and we got 3 categories to reflect that. So there is risk. Now there's strong precedent. As we said on our script, just to go over again, the $2.1 billion of the remaining net investment, there's strong precedent from prior decisions to recover the investment. Other concern here is the return on the investment, and there's a range of different precedent associated with that. Some, you get a full return. Some, you get no return. And so we're trying to reflect that the fact that here are the dollars. Here's what's been recovered to date and the replacement power assumptions, and so there's a level of risk here that we're identifying. And it's all as one bucket of costs.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

And I guess the -- just the last point to clarify on this cost issue for me is the guidance going forward. It seems to me that the basic assumption underpinning your guidance is that revenues will be sufficient to recover the remaining investment balance after the writeoff, but you're simply assuming no return on that investment balances. Is that right?

William James Scilacci

That's correct.

Operator

Our next now is from Michael Lapides, Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Two questions. One, Jim, can you talk a little bit about things that could drive future write-downs or the alternative where you could potentially be taking a gain somehow regarding this down the road, meaning -- and just kind of stay high level in drivers? And then the second, given the write-down you're taking right now, it would seem that you're creating a bit of an equity hole at the utility. How does that keep you from not needing to issue equity?

William James Scilacci

Let me -- I'll do it in reverse order here. And I said in my prepared comments that we have no plans for equity. There's different things that we could do to manage our overall capital structure, and so we stick by our statement that we just don't see any need. In terms of what can drive it, did you want to follow up on that, Michael?

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

No, go right ahead, please.

William James Scilacci

Right. In terms of what can drive it up or down in terms of the level of the impairment, that's going to be a regulatory process. And I can't say it in any other way. So they're going to go through and review these costs, and the underlying assumption here is prudency, too. Now we believe our actions in the past and what we've done around the replacement steam generator project was prudent. If they determine otherwise, that could cause some additional exposure here.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Okay. A follow-up, I remember reading detail regarding some of the precedent, meaning I think around either Palo Verde 1 or around -- I mean, either regarding Palo Verde or around SONGS 1. Just curious in terms of time frame. Like at what point do you expect to get certainty regarding the kind of the regulatory treatment of both the investment and the market power cost? And at what point do you expect to get resolution with Mitsubishi? And do you see the Mitsubishi process taking a arbitration- or a litigation-related path?

William James Scilacci

The -- I think we already answered a part of that on MHI. The path is really uncertain. We don't have any clear dates that we can provide to you. I'll let others comments on in a second. The time frame really is bound up under the OII process. And we're in Phase 1. We're getting near the end of that phase. And the subsequent phases haven't been scheduled, but I would expect that roughly that we'd get through at least the first 3 phases maybe through the end of next year. But that's just a rough estimate on my part. We still haven't -- the PUC has not set a schedule for the subsequent phases as of just yet.

Operator

Our next request, from Steve Flashman, Wolfe Research.

Steven I. Fleishman - Wolfe Research, LLC

Just a couple of questions. First to clarify on the equity. Obviously, this does reduce the equity ratio at So Cal Edison, so can you more specifically say how you will bring back the equity ratio at So Cal Edison to what's allowed?

William James Scilacci

I think I said already that we have no plans for equity. And as we go through and manage the capital structure, there are things we can do. And we have excess equity sitting there now if you look at our ratios at the end of the first quarter, and then we just manage around it. And we can issue some short-term debt at the utility, and we're able to manage that accordingly because we just don't see over time that we actually have a need for equity. And the worst thing you'd want us to do is issue equity and repurchase it back. And just -- I think that's just a waste. And remember, Steve, we're managing it over a 13-month weighted average period, so it's not a stock period that you're needing to be at the 48%. You can manage around that.

Steven I. Fleishman - Wolfe Research, LLC

Okay. Another question on the earnings power impact that you showed. So it looked like between the lost return on the plant and CWIP, it was about $0.18, $0.15 plus $0.03 for 7 months. And I have been getting about $0.22 on a full year basis just removing it from any kind of equity return. So it seems bigger than we thought. Is just that you're also assuming that there's no recovery of debt or preferred, so you have that debt or preferred expense but no recovery of at all offline

[ph] ?

William James Scilacci

Yes, that's correct. We took the conservative assumption that there'd be no return at all on either equity debt or preferred.

Steven I. Fleishman - Wolfe Research, LLC

Okay. And then one last question, just how -- is there any -- not to tie this in too much, but just is there anything in your agreements on Edison Mission related to the SONGS and further write-offs because it does seem to further kind of push out any period when you'll be attached there?

William James Scilacci

Yes. I can't speculate that -- on that, Steve. Obviously, we have a settlement agreement that's still in place, and that will develop over time.

Operator

Angie Storozynski, Macquarie.

Angie Storozynski - Macquarie Research

Most of my questions have just been asked, but when I look at your earnings power beyond 2013, you suggested to remove the $1.2 billion of the rate base in our estimates. How about the CWIP and the nuclear fuel costs? Shouldn't that be also removed from our projections?

William James Scilacci

Angie, this is Jim. What we were leaning towards that over time as you get out to be on the rate case initial, this current rate case period, the '12, '13, '14, you're looking at the '15 to the next rate case cycle that we think the more appropriate way to do it is just use the $1.2 billion reduction. CWIP can go up and down and whatnot, and it will get all blended to all the other numbers. So we think the simplified model is a better way to approach it.

Angie Storozynski - Macquarie Research

Okay. Now with this decision to retire the plant, can you actually talk me through what's happening with the replacement power costs and their treatment on your balance sheet and the P&L?

William James Scilacci

Currently and as of the end of March, we had $444 million of market power that we've purchased for our customers, and there's some additional numbers you can see on the prior charts. And we believe our actions were prudent around San Onofre, so we're carrying those as a regulatory asset on the books. And we would look to do that going forward.

Angie Storozynski - Macquarie Research

Okay. Now I mean, we're about to enter -- well, we haven't in the summer, and those costs are going to be going pretty quickly. Now is -- I mean, from our perspective, that would be the biggest risk, right, the recovery of the --

of those replacement power costs? And as the amount grows, I mean, the uncertainty grows. Now are you attempting to at least reach some sort of settlement besides recovery of those costs and recovery of your investment on SONGS? I mean because it seems like as the amount grows that the -- that as I mentioned, the uncertainty grows.

William James Scilacci

Angie, I can't speculate. We have the OII process, and for all intents and purposes, unless we're able to achieve something outside of that, that's the process we will use. And just -- so bear in mind here on the principle, so the fact -- you don't want a situation where we're paying -- our customers are paying twice for power and paying for the investment. And so there's a current [ph] principle, if you're not -- if you shut down a plant, there's going to be replacement power. And you have a plant that's operating, you just have to make sure you don't include it in any kind of projections that there's some exposure for double recovery.

Angie Storozynski - Macquarie Research

Okay. So basically, you're saying as the replacement power cost is collected, we shouldn't be assuming any ability to return -- to earn any return on the asset?

William James Scilacci

Correct. Under the accounting principles, that's correct. Now we may abdicate for something else in the regulatory proceedings, but for financial -- for GAAP purposes and for guidance purposes, we're not going to include a return on the investment in SONGS.

Operator

Our next request is from Rajeev Lalwani, Morgan Stanley.

Stephen Byrd - Morgan Stanley, Research Division

It's Stephen Byrd. Most of our questions have been answered. Just wanted to turn over to planning for reliability from here. Could you talk a little bit further about what we should be thinking about in the future in terms of a process to determine what needs to happen in terms of transmission upgrade, new plant build, et cetera, to ensure the reliability in California?

Ronald L. Litzinger

Steve, this is Ron. We go through a long-term procurement planning. We work with the PUC, the Energy Commission and the CAISO. We were already addressing the potential for coastal power plants being shut down for water quality requirements or the ones through cooling issues. This will add another increment to deal with as we go through those plans. We will need to add replacement generation over time for both the ones through cooling plants and San Onofre, and that work will begin in earnest now that we've eliminated the uncertainty of whether SONGS is around or not. And then depending on where that generation is located, here inside the Los Angeles basin or outside, will determine whether additional transmission lines are required. We are anxious to get that started right away given the permitting time frames, both for new generation and for new transmission.

Stephen Byrd - Morgan Stanley, Research Division

Okay, great. And just following up on that, if most of the generation is, in fact, in the basin, would it be fair to say there would not be much incremental transmission that will be needed? Or in any event, as you look at it, is it likely transmission has to be a material part of the solution?

Ronald L. Litzinger

Current projections are if we can get all of the generation inside the basin and near the coast, in essence, repowering the existing facilities. The amount of transmission is fairly small, but once you start getting away from the coast and outside the basin, the potential for transmission goes up very quickly.

Stephen Byrd - Morgan Stanley, Research Division

Understood. And I guess, you'll find that more as you go through the process. But the prospects of citing plants on the coast, what do you -- how do you generally look at that?

Ronald L. Litzinger

I think repowering sites along the coast is a reasonable thing to assume, comes down to how many air quality credits are available, and initial reviews indicates that it is solvable with an all-generation option at this point.

Theodore F. Craver

Steve, this is Ted Craver I want to just add a little bit in here. The last couple of days, I've been able on the phone with the Governor, as well as President Peevey. There's a big focus on the part of the state, all of us really, to jump on this quickly and make sure that we're everything possible to ensure that we've got good system reliability. So I think you'll see some announcements later on here today driven by the PUC that they want to convene a group, including San Diego Gas & Electric and ourselves, all of the state agencies, so the Cal ISO, CEC, PUC, perhaps even Air Quality Management District, to all get together and really work this with a sense of urgency. So I think this is going to be a very important element. Obviously, we have a big responsibility, a big shared responsibility with all these groups to get after this. And I think there's good focus on it by the Governor, by the PUC and others.

Operator

Our next request is from Anthony Crowdell, Jefferies.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I just wanted some clarity. I think you mentioned earlier that there was roughly about $2.1 billion, I believe, of net plant investment. I just wondered if that include purchase power and O&M associated with the facility since it's been out. Or is that in separate buckets?

William James Scilacci

Separate buckets. If go to Page 2 on the deck -- and this is Jim Scilacci -- it shows the investment of $2.1 billion. It builds it up. And if you go to Page 4 of the deck, that $2.1 billion is at the top of the page where it says total SONGS net investment. Then, it breaks it down in the other categories, which we're calling authorized revenues, which is the base rates, base rates or O&M depreciation return on and taxes. And that third category is what we call net market cost. That's our replacement power for SONGS, and you can see the totals there.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I apologize. I'm just -- I'm not online. I don't have the deck in front of me. So you're saying, it's $2.1 billion, that includes [indiscernible] . Separately, you have the purchase power and O&M, so what's the total number?

William James Scilacci

Okay. So I realize it. I didn't know you didn't have the deck. So if you go to -- when you have a chance to take a look at it, it's $2.1 billion for the net investment. The authorized revenue is all the way back to January 1, 2012, for $813 million. And the net market costs, all the way back to January 1, are $529 million. Those are the 3 buckets of costs that we were talking about in total. And that's the single, when I was referring to, there's the single unit of account. Those are the 3 categories for accounting purposes that we've identified, and the impairment is related to all 3.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And any O&M is part of the purchase power one or the authorized revenue?

William James Scilacci

Authorized revenue.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Okay. And just separately, last question, I know there's some investigation, OII investigations. Do you know if the -- if they released those to the public, so those become public? Or are they already public? Like what's typically the process that happened to them?

Theodore F. Craver

The NRC investigations?

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Yes.

Theodore F. Craver

Anthony, are you asking about the CPUC or the NRC? Just...

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Probably more the NRC, I apologize.

Peter T. Dietrich

The -- Tony, this is Pete Dietrich, the Chief Nuclear Officer. Traditionally, the outcomes will become public at some point, but the specifics of the investigation do not.

William James Scilacci

Before we get to the next question, Angie, I think I want to clarify on the purchase power just so we're clear. And once you have a chance to read our 8-K, there's additional good information in here. So I'm just going to read from the 8-K on the principles regarding recovery of purchase power. So once the units are removed from rate base, under normal principles of cost of service rate making and relevant statutory provisions, SCE should absent and in prudence recover the costs it incurs to purchase power that might otherwise have been produced by San Onofre. That what I was attempting to get at, and I think I garbled it, so I wanted to clarify.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Just sorry to revisit this on the ongoing guidance. Jim, so as I understand it, what -- as you look beyond 2013, would we be grossing up the $0.15 and the $0.03 for a full year? Or is the $0.03 sort of a -- you said that's a number that's just going to jump around.

William James Scilacci

Yes, I think what we're saying is that for the longer term, just take the $1.2 billion out on the return on common equity.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So okay. So -- but I mean, you're obviously -- you're putting out an assumption that you -- that there's no return on the rest of the capital structure either in '13. Are you -- absent some resolution, how would you guide '14?

William James Scilacci

Yes, well, what we're thinking is we haven't put out guidance for '14, but you understand, too, that we have cost reductions that we will realize in '14. And we've already indicated some in '13, so those will roll forward in '14. So that will get in blended into some of the offsets, the puts and takes that occur. So we're trying to suggest that use the $1.2 billion as -- and the return on common equity elimination as the reference point for earnings going forward.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So that $0.20 kind of drag versus what it would otherwise have been as net of all these offsets is rather the right number for '14 and beyond?

William James Scilacci

Correct, correct.

Operator

Our last question at this time from Michael Lapides, Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Sorry for the repeat. Ted, how does all of this make you think through both size, scale and timing for changes near term and long term to your dividend?

Theodore F. Craver

I actually think that we're still in the same bracket that we were before. We've chosen those words extremely carefully that we see additional CapEx, annual CapEx being around the levels that we have now for several years forward. But because the base of our earning assets or the size of the rate base has grown so significantly, this means that we'll end up having continual additions and growth to rate base, but it will be growing at a decreasing rate. And that produces quite a bit of cash and that we expect to be able to dedicate that cash to meeting all of our equity needs and to also to be able to increase the dividend rate at a rate faster than our earnings growth rate. And that will restore our dividend payout ratio to our target range of 45% to 55%. We've been very careful to use the words in steps over time. But I don't see any change to the direction. I don't see any change to that basic strategy. And it's also why we've never wanted to commit to a specific time frame when we would get there.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

How do you inject the uncertainty around potential disallowances or imprudence ruling on either things like fuel and purchase power replacement cost for SONGS or potential future write-downs that are SONGS related that would negatively impact the equity ratio on the utility balance sheet?

Theodore F. Craver

Well, again, I think we've discussed that here this morning. There's elements of the accounting here that because you have a very high threshold of probability that you have to be conservative around. But we're going to be advocating for significantly more than that. But we have to make the accounting decisions in accordance with GAAP. So as we look forward, I don't think we anticipate that we're going to have additional write-downs or writeoffs that are going to put pressure on our basic strategy of returning our dividend rate to the targeted payout ratio of 45% to 55%.

Operator

And that was our last question. I now would like to turn the call back to Mr. Cunningham.

Scott S. Cunningham

Thanks very much, Fran. Thank you all for joining us today. And for follow-up questions, media representatives should contact media relations at (626) 302-2255. Investors and analysts, please feel free to contact Felicia Williams or myself. Thanks very much. Bye-bye.

Operator

Conference has now concluded. Thank you for your participation. All lines may please disconnect.

Executives

Scott S. Cunningham - Vice President of Investor Relations

Theodore F. Craver - Chairman, Chief Executive Officer and President

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

Peter T. Dietrich - Chief Nuclear Officer and Senior Vice President

Analysts

Dan Eggers - Crédit Suisse AG, Research Division

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Steven I. Fleishman - Wolfe Research, LLC

Angie Storozynski - Macquarie Research

Stephen Byrd - Morgan Stanley, Research Division

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Edison International (EIX) San Onofre Nuclear Generating Station Conference June 7, 2013 8:30 AM ET

Operator

Good morning, my name is Fran, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Edison International San Onofre Nuclear Generating System -- Station Teleconference Call. [Operator Instructions] Today's call is being recorded. I'd now like to turn the call over to Mr. Scott Cunningham, Vice President of Investor Relations. Thank you, Mr. Cunningham. You may begin your conference.

Scott S. Cunningham - Vice President of Investor Relations

Thank you, Fran, and good morning, everyone. Our principal speakers today will be Chairman and CEO, Ted Craver; and Chief Financial Officer, Jim Scilacci. Also with us are SCE President, Ron Litzinger; and other members of the management team. The presentation that accompanies Jim's comments, the 8-K and press release related to today's decision regarding SONGS are available on our website at www.edisoninvestor.com. In addition, Ted's prepared remarks will be posted shortly.

During this call, we will make forward-looking statements about the financial outlook for Edison International and Southern California Edison and about other future events. Actual results could differ materially from current expectations. Important factors that could cause different results are set forth in our SEC filings. We encourage you to read these carefully. The presentation includes certain guidance assumptions, as well as reconciliation to non-GAAP earnings guidance to the nearest GAAP measure. [Operator Instructions]

With that, I'll turn the call over to Ted Craver.

Theodore F. Craver - Chairman, Chief Executive Officer and President

Thank you, Scott, and good morning. By now I assume you've seen our announcement that we have decided to no longer seek restart of Unit 2 and Unit 3 of our San Onofre Nuclear Generating Station. The principal reason for this decision is our assessment that it is unlikely Unit 2 could achieve restart by the end of the year. This is especially true given the additional uncertainties introduced to the Nuclear Regulatory Commission process by the recent atomic safety and licensing board ruling. Only after considerable work with outside experts convinced us it was safe did we submit a restart plan to the NRC last October. When we submitted our plan, it had a clear cost advantage compared with the alternative of closing the plant and buying power from the market. However, that cost advantage decays with time, and if Unit 2 can't be restarted by the end of this year, that advantage is largely lost. Our conclusion is that the current odds of successfully getting through the complex approval processes by year end have deteriorated to significantly less of than 50%. Rather than continue to spend approximately $30 million a month to keep the plant ready for restart and prolong the uncertainty surrounding the plant, we have decided to no longer seek to restart SONGS.

For well over a year, since the tube leak occurred in 1 of the steam generators of Unit 3, we have had 3 objectives regarding our San Onofre Nuclear Generating Station or SONGS as we generally call it. Those objectives have been safety, reliability of the electric system and fair cost recovery. Safety has been our primary concern, which is why we spent so much time and effort to understand what caused the tube leak and how we could mitigate those causes. We engaged in a careful analytical process, which relied heavily on multiple independent teams of third-party experts and steam generator design and manufacturing coming at the problem from different angles. Through this work, we concluded that it was safe to restart Unit 2, operating it at 70% power for an initial period of 5 months. Remember, Unit 2 ran at 100% power for a normal 22-month fuel cycle, and inspection showed that it had only the smallest signs of tube-to-tube wear in 2 out of the nearly 20,000 tubes. Contrast that with Unit 3, where the tube leak occurred after only 11 months of operation at full power and which sustained substantial tube-to-tube wear in several hundred tubes.

After concluding it was safe to restart Unit 2 at 70% power, we focused on how best to ensure the reliability of the Southern California electric system. SONGS plays an important role in grid stability, in part, because of its sheer size, 1,100 megawatts of capacity for each of its units but even more so, because of its critical location between San Diego and Los Angeles. The summers when we have our peak load on the system and we have been doing everything we can to get Unit 2 approved for restart in time for the hot months. All of us would breathe considerably easier if Unit 2 were operating.

Once we understood the cause of the steam generator tube wear and that we could mitigate it through operating Unit 2 at reduced power, we had to determine that it was economical to do so. As a regulated utility, we have an obligation to serve all customers in our service territory. Along with that requirement is an obligation to serve our customers in a cost-effective manner. We examine the costs of the alternatives to running SONGS, including closing the plant and simply buying replacement power from the market and shutting the plant and building replacement generation and transmission lines. The analysis showed that even if Unit 3 never restarted and we were only able to run Unit 2 at 70% power for the remaining 9 years of the license period, that is after 2022, it was the least cost alternative. However, every day that SONGS is not running is another day that we incur replacement power costs and the cost of keeping the plant ready for restart. These readiness costs amount to about $1 million a day or approximately $30 million a month. Every day of delaying restarting Unit 2 also means there is one less day of operating this low-cost source of generation. So at some point, with an uptime delay, there is a crossover point where operating Unit 2 is no longer less costly than the alternatives.

In our first quarter Investor Call, we signaled that this crossover point was around the end of the year. There are some things we could do to extend that crossover date by cutting cost associated with Unit 3, and in fact, we have been doing some of that. But at most, it extends the break-even point by months, not by years. In that call, we stated that if we couldn't see a clear path to Unit 2 restart by the end of the year, we would have to seriously contemplate closing the plant. In this case, we believe we must be able to represent to our customers, to the public and to the regulators that we are pursuing the least cost alternative. We also pointed out in our investor call that without clarity around the restart date or the rate-making treatment for SONGS' cost, our shareholders were essentially underwriting the regulatory risk of recovery for a growing level of cost at SONGS.

Over the last several weeks, particularly with the results of the May 13 Atomic Safety and Licensing Board decision, significantly more uncertainty has been introduced about the process and the timing for obtaining approvals for restarting Unit 2. To actually restart Unit 2, we need to not only get approval from the NRC staff but also have that approval survive the inevitable legal challenges of stay motions and appeals to the Nuclear Regulatory Commission and the U.S. Court of Appeals. We need to be able to conclude that the combined effect of these multiple parts of the approval process still leaves us with a reasonable chance of getting restart accomplished by the end of the year. We have concluded that it is too improbable that we will get through the process in time to restart Unit 2 this year. Indeed, it is likely that it will take us well into next year or perhaps even past that to get to a definitive yes or no. This means that on a risk-adjusted basis, restarting Unit 2 is no longer the least cost alternative. Therefore, it no longer makes sense for us to seek restart of San Onofre.

With this decision, we will now center our attention on 3 main efforts: one, ensuring system reliability; two, decommissioning the plant and treating our displaced workers fairly; and three, working with the California

Public Utilities Commission and affected parties to resolve the rate-making aspects of SONGS and receive fair cost recovery.

We have been working with several government agencies and San Diego Gas & Electric to prepare for the contingency of SONGS continuing to be out of service this summer. Several of the actions we took last summer and the ones we are using to prepare for this summer are clearly not ideal longer term. We know that if a combination of events occur at the same time, we could have reliability problems. An example might be if we had a multi-day heatwave, coupled with wildfires taking down a major transmission line or losing a gas-fired generation plant in the L.A. basin. As of several weeks ago, we knew we were facing this risk when it became clear SONGS was not going to be approved to restart this summer. We are anxious to start working with the California Independent system Operator and the California Public Utilities Commission on the longer-term solutions to ensure reliability for our customers. It is not simply a question of SONGS versus no SONGS, rather it is a question of running SONGS or building new generation and transmission to replace SONGS.

We also need to immediately start the work to reduce the cost at San Onofre. This will have a very human face to it as we have around 1,500 employees at the plant today, which will be reduced to around 400 within a year. This is after having already reduced about 730 employees in the last year. We will also start the very different work with the NRC and others to decommission SONGS Unit 2 and unit 3. We have a decommissioning trust that has been well managed over the years of operating the plant and is well funded, which is good because decommissioning will take many years to complete.

Announcing that we are no longer seeking restart of SONGS is clearly not the decision I wanted to have to make. San Onofre Nuclear Generating Station has been a major generating resource and critical to grid stability in California for over 40 years. During its tenure, it has provided good paying jobs for thousands of workers and contributed substantial taxes and economic stimulus to the communities we serve. But it is a decision that had to be made under the circumstances. Having made this decision, we have a great deal of work to do to implement it. We want to start working with all stakeholders. That means customers, state regulators and policymakers, our communities, employees and the NRC to complete this job as efficiently and professionally as possible.

I know many investors want to dig into the financial implications of this decision, so I'm going to turn it over to our CFO, Jim Scilacci, to take you through those considerations.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Thanks, Ted. For my part of today's presentation, I'm going to take you through 4 primary topics. First, I'll provide an overview of all the numbers associated with San Onofre as of March 31, 2013. Next, I'll provide color on the impairment charge that we announced earlier today and the accounting guidance associated with this action. Then, I'll do an update on San Onofre nuclear decommissioning costs and the status of our investment trust. And I'll finish with an update on our 2013 earnings guidance.

Turning to Page 2 in the presentation. This is the same page from our business update, and all the numbers are as of March 31, 2013. We will update these numbers for our second quarter earnings release set for early August. The key numbers you should focus on are the $1.2 billion in rate base as it relates to our guidance that I will cover later in the presentation and the $2.1 billion net investment in San Onofre as it relates to the impairment charge. We have provided the breakdown of our net investment in San Onofre on this page for your reference. As shown at the bottom of the page, the differences between our net investment of $2.1 billion and a $1.2 billion of rate base are nuclear fuel, construction work in progress and deferred taxes. Total rate base for San Onofre is about 5% of our 1 point -- excuse me, our 21.8 billion weighted average rate base we used for our 2013 earnings guidance. Later in my presentation, I will discuss the impact on 2013 earnings guidance of the SONGS shutdown decision.

Turning to Page 3. The accounting for San Onofre is complicated, and the purpose of this page is to summarize our approach. The first point is that we will reclassify SONGS from plant to a regulatory asset to the extent management considers it probable that such costs are recoverable through future rates. The second point is that precedent has generally provided for cost recovery of the remaining net investment for early retired assets previously placed in service and related materials, supplies and fuel. However, the precedent varies whether a full, partial or no rate of return is allowed on the investment on such assets. Because precedent has varied, we were not able to conclude for accounting purposes what, if any, return on rate base would be allowed for the net investment or allowance for funds used during construction or FUDC on construction work in progress from the date of our decision to retire the units until such time there is regulatory certainty. I'll address this further when I discuss earnings guidance.

The third point is that the CPUC order instituting investigation or OII process will continue to determine final recovery together with whether to refund prior amounts to customers. And following that, we will aggressively pursue recoveries from both, MHI and NEIL. GAAP accounting does not allow us to record these expected recoveries at this time.

Turning to Page 4, as you are aware, all San Onofre issues to be considered by the CPUC have been consolidated into one proceeding under the San Onofre OII. As a result, in assessing whether to record regulatory assets or liabilities for refunds, SCE considered the interrelationship of recovery of costs and refunds to customers as a single unit of account for accounting purposes. In making our accounting determination, we reviewed the net investment in San Onofre, authorized revenues collected subject to refund and estimated substitute market power costs. We have outlined those costs on Page 4. We have also included different time frames of cost associated with the 455.5 process, which we roughly estimated at November 1 for this purpose. Moreover, we continue to believe that the actions we have taken and the costs we have incurred in connection with San Onofre's steam generators and outages have been prudent.

Based on this review, we estimate a pretax impairment charge between $450 million to $650 million to be recorded during the second quarter of 2013. The after-tax amounts range between $300 million to $425 million. The impairment charge considers the exposure for recovery of the net investment in San Onofre and potential refunds to customers. Although, we will record regulatory assets that we believe are probable of recovery. Such conclusion is a matter of management judgment. We have to apply what we believe to be relevant regulatory principles to the issues under review in the OII proceeding and in accordance with GAAP. Such judgment is subject to uncertainty and regulatory principles, and precedents are not necessarily binding and are capable of interpretation. No decisions have been rendered, and the OII proceeding regarding recoverability of cost from future rates or refunds of amounts to customers and the current proceedings are either in their early phases or not yet scheduled.

The CPUC may or may not agree with us. After review of all the facts and circumstances, we may abdicate positions, which we believe are supported by the relevant precedent and regulatory principles that are more favorable to us than the charges we have recorded in accordance with GAAP. Accordingly, there can be changes in the amounts we have recorded, higher or lower, based on the outcome of the CPUC OII or other developments. From a tax standpoint, recognition of the shutdown in San Onofre is complicated for the time frame for recording the shutdown on our federal tax return is unlikely to occur until the outcomes of contractual matters are known. Furthermore, in light of our consolidated net operating losses, we do not expect to realize cash tax benefits for some time.

Let me now cover the status of nuclear decommissioning trust. Please turn to Page 5 of the presentation. In previous disclosures, the numbers provided for nuclear decommissioning were a combination of costs and investment balances for both San Onofre and our 15.8% interest in Palo Verde. With the decision to shut San Onofre, we have decided to break out specific costs and investment balances. By way of background, funding for nuclear decommissioning is not included in traditional general rate case proceedings. It has its own separate proceeding, which is conducted every 3 years. As the chart indicates, the current nuclear decommissioning funding is approximately $23 million a year. Contributions used to be much higher, but over time, we have gradually reduced them based upon updated decommissioning cost studies and investment performance.

In the current perennial proceeding, we are seeking an increase in our decommissioning contributions to $39 million a year in order to achieve our goal of being fully funded by the start of decommissioning in 2022. The key thing to focus on is that as of March 31, 2013, the market value of planned assets totaled just over $3 billion. Decommissioning trusts are taxable, so focus on the after-tax value or $2.7 billion.

The current plan for decommissioning in San Onofre will last in excess of 40 years. Moreover, the estimated timing and cost escalation for labor, materials and burial greatly affect decommissioning costs. Based on our most recent estimate, the approximate value of the net future cost to decommission San Onofre is approximately $3 billion. The funded ratio is derived by dividing the after-tax trust balance by the estimated decommissioning cost. As you can see, the ratio is currently 90%. To emphasize the point, our funding strategy is to be 100% funded by the initiation of the decommissioning activities. Therefore, the investment returns and annual contributions work together to achieve 100% funded status. Of course, investment returns can cause us to exceed or fall below a fully-funded position. With the early shutdown of SONGS, we will be evaluating the feasibility of accelerating the decommissioning of the plant. One important factor to note is that many of our workers at SONGS have experienced with decommissioning nuclear facilities having previously decommissioned San Onofre Unit 1.

Turning to Page 6 of the presentation. During our second quarter earnings call, we expect to update our capital spending forecast through 2017 to reflect the 2015 General Rate Case Notice of Intent we plan to file in July. We also updated the forecast to reflect the shutdown of San Onofre. As a rough order of magnitude, capital expenditures at San Onofre averaged about $100 million a year.

Turning to Page 7. We expect to do the same update of our rate base forecast during our second quarter earnings call. We continue to expect rate base growth in the 6% to 8% range through the next General Rate Case cycle.

Turning to Page 8, we show an updated 2013 earnings guidance. We continue to believe the simplified earnings model as an appropriate starting point for modeling core earnings, so we've continued that approach here. As of today, we will remove the San Onofre portion or $1.2 billion from rate base for the balance of the year. We have taken the conservative view of not recognizing any return even on debt return due to the very precedent and pending final regulatory treatment to be determined through the OII process. For the 7 remaining months, this amounts to a $0.15 per share reduction in guidance. We have also assumed no additional return on SONGS-related CWIP pending the outcome of the OII. This results in a reduction of $0.03 per share for the balance of 2013. We also expect to incur various other transition-related costs of $0.02 per share reducing the midpoint of the core guidance range by $0.20 per share in total.

We believe that we are taking a prudent and conservative approach by removing the full rate base for San Onofre and eliminating the entire return on the investment. This approach will continue until we've obtained regulatory clarity. And regulatory proceedings, we would obviously seek to improve upon this position. I would also like to note that we expect our share of severance costs related to plant personnel to be in the range of $70 million to $80 million, which we believe is probable of recovery through the OII process. We have continued our $0.10 range above and below the midpoint for an updated core guidance of $3.25 to $3.45 per share. We have also updated our guidance for the noncore impairment charge range. All other guidance assumptions remain unchanged. For modeling earnings beyond 2013, a full year reduction of rate base of $1.2 billion for SONGS would be appropriate. Finally, we continue to have no plans for common equity, including today's actions.

Okay, thank you, and I'll turn it over to the operator for questions and answers.

Question-and-Answer Session

Operator

[Operator Instructions] Our first, from Dan Eggers, Credit Suisse.

Dan Eggers - Crédit Suisse AG, Research Division

Just on the sequencing of events kind of here forward, can you talk a little bit about as you guys perceive with the process with the OII from here and kind of what rate of progression is realistic to expect based on past precedent or maybe some preliminary conversations? And with, outstanding issues with NEIL and Mitsubishi, can you really work to resolution on OII until you know what the money paid into these other partners is going to be?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Okay, Dan, we'll do there. That's a multi-part question. And I think on the MHI and the NEIL, we just don't have dates to tell you for that. We're submitting information, going through the process, and that will take some time. The OII process really sets the pace and the standard for where we go going forward. We're in Phase 1 of 4. And I'll pause there and look over to Ron Litzinger, if you want to add anything more because we're right in the middle or nearing the end of the first phase, which really only to do with 2012 costs. Phase 2 and Phase 3 haven't even been scheduled yet. I'll pause here and look at Ron.

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

That's right, Jim. They're wrapping up Phase 1 right now, which just looks at the 2012 rates collected subject to refund. The third phase, which focuses on the reasonableness of the steam generator project and then the future viability of SONGS, clearly this decision will have some impacts there. But that's not scheduled yet, and it would be tough for us to speculate on it.

Dan Eggers - Crédit Suisse AG, Research Division

So just -- among those lines, Ron, if you think about timing here on 3 and 4, if you guys were to even prognosticate, does this get to resolution and -- by mid '14, late '14 or some period beyond that?

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

It's really hard to judge, Dan. We just really can't speculate on that.

Operator

Our next request now is from Hugh Wynne with Sanford Bernstein.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

I have a question regarding Slide 4 where you developed the estimated impairment range of $450 million to $650 million. How does that relate to the other numbers on this chart? Or put another way, what's in the $450 million to $550 million (sic) [$450 million to $650 million] impairment and what is not?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

That's a very good question. We've developed this chart, and if you read the comments carefully, there are 3 categories of cost. There's the SONGS net investment, the total authorized revenue. That's really the base rates going back to January 1, 2012. Hugh, remember those are subject to refund as part of the OII process. So base rate's, just for clarity, that's the O&M, the depreciation and the return on plus taxes. And we broke it out in 2 different categories here since January 1, 2012, and we added November 1, and really that's a line of demarcation if that's the end of the 9-month period and initiation of 455.5 process date. And then the third category, there's net market costs. So those are the replacement power of energy and capacity and related, and that's been added since we had the $444 million through the end of March, and now we have a additional amount for -- estimated for April and May. So you need to think about it as 3 different categories. And we took an impairment charge of $450 million to $650 million because ultimately we have to go through a series of processes to figure out ultimately what we will be able to recover. And so our net investment going back to it was $2.1 billion, and we're establishing a regulatory asset. And that regulatory asset reflects a fact of how we view our ability to recover the dollars. And again, we believe that all actions have been prudent, but we felt, overall, we have some exposure here. So think of it as 3 different categories. We'll go through the process with the commission, and we'll be able to determine through final decisions what the ultimate recovery is. And remember, too, we're bound by GAAP here, and GAAP will cause us to be certainly more conservative in terms of how we view our things because you have to have a standard of probability for GAAP. And it's a very hard standard, and that really kind of shaped our -- some of our thinking in terms of how we came up with this number. So I'll pause here and look at my colleagues if they'd like to add anything else. And I'll let you clarify, Hugh, if you have additional questions.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

I appreciate it. So the regulatory asset, I assume, is -- I guess this is what I'm trying to understand. The $450 million to $650 million impairment reflects the difference between the $2.1 billion investment and your estimate of the regulatory asset or does it simply reflect some portion of the past costs on Page 4 that you believe are unrecoverable?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes, so the -- we've reduced the net investment by the impairment. So -- but think of it as a single unit of account here for accounting purposes, and that's why you have these 3 categories. And so as you go through the process, we don't know ultimately what's going to occur, and so we have to think about this as 3 separate buckets all in 1 unit of account. And that's what's reflected here.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

Okay. So just because you've written the investment down by $450 million to $650 million, does not mean that these other revenues are sure to be collected or rather sure to be yours as opposed to refunded. Those are still at risk and could lead to a higher impairment.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes. Well, within this, this is our judgment of the range. And yes, it's you have to think about it all as 1 bucket of costs, and we got 3 categories to reflect that. So there is risk. Now there's strong precedent. As we said on our script, just to go over again, the $2.1 billion of the remaining net investment, there's strong precedent from prior decisions to recover the investment. Other concern here is the return on the investment, and there's a range of different precedent associated with that. Some, you get a full return. Some, you get no return. And so we're trying to reflect that the fact that here are the dollars. Here's what's been recovered to date and the replacement power assumptions, and so there's a level of risk here that we're identifying. And it's all as one bucket of costs.

Hugh Wynne - Sanford C. Bernstein & Co., LLC., Research Division

And I guess the -- just the last point to clarify on this cost issue for me is the guidance going forward. It seems to me that the basic assumption underpinning your guidance is that revenues will be sufficient to recover the remaining investment balance after the writeoff, but you're simply assuming no return on that investment balances. Is that right?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

That's correct.

Operator

Our next now is from Michael Lapides, Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Two questions. One, Jim, can you talk a little bit about things that could drive future write-downs or the alternative where you could potentially be taking a gain somehow regarding this down the road, meaning -- and just kind of stay high level in drivers? And then the second, given the write-down you're taking right now, it would seem that you're creating a bit of an equity hole at the utility. How does that keep you from not needing to issue equity?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Let me -- I'll do it in reverse order here. And I said in my prepared comments that we have no plans for equity. There's different things that we could do to manage our overall capital structure, and so we stick by our statement that we just don't see any need. In terms of what can drive it, did you want to follow up on that, Michael?

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

No, go right ahead, please.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Right. In terms of what can drive it up or down in terms of the level of the impairment, that's going to be a regulatory process. And I can't say it in any other way. So they're going to go through and review these costs, and the underlying assumption here is prudency, too. Now we believe our actions in the past and what we've done around the replacement steam generator project was prudent. If they determine otherwise, that could cause some additional exposure here.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Okay. A follow-up, I remember reading detail regarding some of the precedent, meaning I think around either Palo Verde 1 or around -- I mean, either regarding Palo Verde or around SONGS 1. Just curious in terms of time frame. Like at what point do you expect to get certainty regarding the kind of the regulatory treatment of both the investment and the market power cost? And at what point do you expect to get resolution with Mitsubishi? And do you see the Mitsubishi process taking a arbitration- or a litigation-related path?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

The -- I think we already answered a part of that on MHI. The path is really uncertain. We don't have any clear dates that we can provide to you. I'll let others comments on in a second. The time frame really is bound up under the OII process. And we're in Phase 1. We're getting near the end of that phase. And the subsequent phases haven't been scheduled, but I would expect that roughly that we'd get through at least the first 3 phases maybe through the end of next year. But that's just a rough estimate on my part. We still haven't -- the PUC has not set a schedule for the subsequent phases as of just yet.

Operator

Our next request, from Steve Flashman, Wolfe Research.

Steven I. Fleishman - Wolfe Research, LLC

Just a couple of questions. First to clarify on the equity. Obviously, this does reduce the equity ratio at So Cal Edison, so can you more specifically say how you will bring back the equity ratio at So Cal Edison to what's allowed?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

I think I said already that we have no plans for equity. And as we go through and manage the capital structure, there are things we can do. And we have excess equity sitting there now if you look at our ratios at the end of the first quarter, and then we just manage around it. And we can issue some short-term debt at the utility, and we're able to manage that accordingly because we just don't see over time that we actually have a need for equity. And the worst thing you'd want us to do is issue equity and repurchase it back. And just -- I think that's just a waste. And remember, Steve, we're managing it over a 13-month weighted average period, so it's not a stock period that you're needing to be at the 48%. You can manage around that.

Steven I. Fleishman - Wolfe Research, LLC

Okay. Another question on the earnings power impact that you showed. So it looked like between the lost return on the plant and CWIP, it was about $0.18, $0.15 plus $0.03 for 7 months. And I have been getting about $0.22 on a full year basis just removing it from any kind of equity return. So it seems bigger than we thought. Is just that you're also assuming that there's no recovery of debt or preferred, so you have that debt or preferred expense but no recovery of at all offline

[ph] ?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes, that's correct. We took the conservative assumption that there'd be no return at all on either equity debt or preferred.

Steven I. Fleishman - Wolfe Research, LLC

Okay. And then one last question, just how -- is there any -- not to tie this in too much, but just is there anything in your agreements on Edison Mission related to the SONGS and further write-offs because it does seem to further kind of push out any period when you'll be attached there?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes. I can't speculate that -- on that, Steve. Obviously, we have a settlement agreement that's still in place, and that will develop over time.

Operator

Angie Storozynski, Macquarie.

Angie Storozynski - Macquarie Research

Most of my questions have just been asked, but when I look at your earnings power beyond 2013, you suggested to remove the $1.2 billion of the rate base in our estimates. How about the CWIP and the nuclear fuel costs? Shouldn't that be also removed from our projections?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Angie, this is Jim. What we were leaning towards that over time as you get out to be on the rate case initial, this current rate case period, the '12, '13, '14, you're looking at the '15 to the next rate case cycle that we think the more appropriate way to do it is just use the $1.2 billion reduction. CWIP can go up and down and whatnot, and it will get all blended to all the other numbers. So we think the simplified model is a better way to approach it.

Angie Storozynski - Macquarie Research

Okay. Now with this decision to retire the plant, can you actually talk me through what's happening with the replacement power costs and their treatment on your balance sheet and the P&L?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Currently and as of the end of March, we had $444 million of market power that we've purchased for our customers, and there's some additional numbers you can see on the prior charts. And we believe our actions were prudent around San Onofre, so we're carrying those as a regulatory asset on the books. And we would look to do that going forward.

Angie Storozynski - Macquarie Research

Okay. Now I mean, we're about to enter -- well, we haven't in the summer, and those costs are going to be going pretty quickly. Now is -- I mean, from our perspective, that would be the biggest risk, right, the recovery of the -- of those replacement power costs? And as the amount grows, I mean, the uncertainty grows. Now are you attempting to at least reach some sort of settlement besides recovery of those costs and recovery of your investment on SONGS? I mean because it seems like as the amount grows that the -- that as I mentioned, the uncertainty grows.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Angie, I can't speculate. We have the OII process, and for all intents and purposes, unless we're able to achieve something outside of that, that's the process we will use. And just -- so bear in mind here on the principle, so the fact -- you don't want a situation where we're paying -- our customers are paying twice for power and paying for the investment. And so there's a current [ph] principle, if you're not -- if you shut down a plant, there's going to be replacement power. And you have a plant that's operating, you just have to make sure you don't include it in any kind of projections that there's some exposure for double recovery.

Angie Storozynski - Macquarie Research

Okay. So basically, you're saying as the replacement power cost is collected, we shouldn't be assuming any ability to return -- to earn any return on the asset?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Correct. Under the accounting principles, that's correct. Now we may abdicate for something else in the regulatory proceedings, but for financial -- for GAAP purposes and for guidance purposes, we're not going to include a return on the investment in SONGS.

Operator

Our next request is from Rajeev Lalwani, Morgan Stanley.

Stephen Byrd - Morgan Stanley, Research Division

It's Stephen Byrd. Most of our questions have been answered. Just wanted to turn over to planning for reliability from here. Could you talk a little bit further about what we should be thinking about in the future in terms of a process to determine what needs to happen in terms of transmission upgrade, new plant build, et cetera, to ensure the reliability in California?

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

Steve, this is Ron. We go through a long-term procurement planning. We work with the PUC, the Energy Commission and the CAISO. We were already addressing the potential for coastal power plants being shut down for water quality requirements or the ones through cooling issues. This will add another increment to deal with as we go through those plans. We will need to add replacement generation over time for both the ones through cooling plants and San Onofre, and that work will begin in earnest now that we've eliminated the uncertainty of whether SONGS is around or not. And then depending on where that generation is located, here inside the Los Angeles basin or outside, will determine whether additional transmission lines are required. We are anxious to get that started right away given the permitting time frames, both for new generation and for new transmission.

Stephen Byrd - Morgan Stanley, Research Division

Okay, great. And just following up on that, if most of the generation is, in fact, in the basin, would it be fair to say there would not be much incremental transmission that will be needed? Or in any event, as you look at it, is it likely transmission has to be a material part of the solution?

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

Current projections are if we can get all of the generation inside the basin and near the coast, in essence, repowering the existing facilities. The amount of transmission is fairly small, but once you start getting away from the coast and outside the basin, the potential for transmission goes up very quickly.

Stephen Byrd - Morgan Stanley, Research Division

Understood. And I guess, you'll find that more as you go through the process. But the prospects of citing plants on the coast, what do you -- how do you generally look at that?

Ronald L. Litzinger - President of Southern California Edison Company and Director of SCE

I think repowering sites along the coast is a reasonable thing to assume, comes down to how many air quality credits are available, and initial reviews indicates that it is solvable with an all-generation option at this point.

Theodore F. Craver - Chairman, Chief Executive Officer and President

Steve, this is Ted Craver I want to just add a little bit in here. The last couple of days, I've been able on the phone with the Governor, as well as President Peevey. There's a big focus on the part of the state, all of us really, to jump on this quickly and make sure that we're everything possible to ensure that we've got good system reliability. So I think you'll see some announcements later on here today driven by the PUC that they want to convene a group, including San Diego Gas & Electric and ourselves, all of the state agencies, so the Cal ISO, CEC, PUC, perhaps even Air Quality Management District, to all get together and really work this with a sense of urgency. So I think this is going to be a very important element. Obviously, we have a big responsibility, a big shared responsibility with all these groups to get after this. And I think there's good focus on it by the Governor, by the PUC and others.

Operator

Our next request is from Anthony Crowdell, Jefferies.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I just wanted some clarity. I think you mentioned earlier that there was roughly about $2.1 billion, I believe, of net plant investment. I just wondered if that include purchase power and O&M associated with the facility since it's been out. Or is that in separate buckets?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Separate buckets. If go to Page 2 on the deck -- and this is Jim Scilacci -- it shows the investment of $2.1 billion. It builds it up. And if you go to Page 4 of the deck, that $2.1 billion is at the top of the page where it says total SONGS net investment. Then, it breaks it down in the other categories, which we're calling authorized revenues, which is the base rates, base rates or O&M depreciation return on and taxes. And that third category is what we call net market cost. That's our replacement power for SONGS, and you can see the totals there.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

I apologize. I'm just -- I'm not online. I don't have the deck in front of me. So you're saying, it's $2.1 billion, that includes [indiscernible] . Separately, you have the purchase power and O&M, so what's the total number?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Okay. So I realize it. I didn't know you didn't have the deck. So if you go to -- when you have a chance to take a look at it, it's $2.1 billion for the net investment. The authorized revenue is all the way back to January 1, 2012, for $813 million. And the net market costs, all the way back to January 1, are $529 million. Those are the 3 buckets of costs that we were talking about in total. And that's the single, when I was referring to, there's the single unit of account. Those are the 3 categories for accounting purposes that we've identified, and the impairment is related to all 3.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

And any O&M is part of the purchase power one or the authorized revenue?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Authorized revenue.

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Okay. And just separately, last question, I know there's some investigation, OII investigations. Do you know if the -- if they released those to the public, so those become public? Or are they already public? Like what's typically the process that happened to them?

Theodore F. Craver - Chairman, Chief Executive Officer and President

The NRC investigations?

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Yes.

Theodore F. Craver - Chairman, Chief Executive Officer and President

Anthony, are you asking about the CPUC or the NRC? Just...

Anthony C. Crowdell - Jefferies & Company, Inc., Research Division

Probably more the NRC, I apologize.

Peter T. Dietrich - Chief Nuclear Officer and Senior Vice President

The -- Tony, this is Pete Dietrich, the Chief Nuclear Officer. Traditionally, the outcomes will become public at some point, but the specifics of the investigation do not.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Before we get to the next question, Angie, I think I want to clarify on the purchase power just so we're clear. And once you have a chance to read our 8-K, there's additional good information in here. So I'm just going to read from the 8-K on the principles regarding recovery of purchase power. So once the units are removed from rate base, under normal principles of cost of service rate making and relevant statutory provisions, SCE should absent and in prudence recover the costs it incurs to purchase power that might otherwise have been produced by San Onofre. That what I was attempting to get at, and I think I garbled it, so I wanted to clarify.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

Just sorry to revisit this on the ongoing guidance. Jim, so as I understand it, what -- as you look beyond 2013, would we be grossing up the $0.15 and the $0.03 for a full year? Or is the $0.03 sort of a -- you said that's a number that's just going to jump around.

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes, I think what we're saying is that for the longer term, just take the $1.2 billion out on the return on common equity.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So okay. So -- but I mean, you're obviously -- you're putting out an assumption that you -- that there's no return on the rest of the capital structure either in '13. Are you -- absent some resolution, how would you guide '14?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Yes, well, what we're thinking is we haven't put out guidance for '14, but you understand, too, that we have cost reductions that we will realize in '14. And we've already indicated some in '13, so those will roll forward in '14. So that will get in blended into some of the offsets, the puts and takes that occur. So we're trying to suggest that use the $1.2 billion as -- and the return on common equity elimination as the reference point for earnings going forward.

Jonathan P. Arnold - Deutsche Bank AG, Research Division

So that $0.20 kind of drag versus what it would otherwise have been as net of all these offsets is rather the right number for '14 and beyond?

William James Scilacci - Chief Financial Officer, Executive Vice President and Treasurer

Correct, correct.

Operator

Our last question at this time from Michael Lapides, Goldman Sachs.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

Sorry for the repeat. Ted, how does all of this make you think through both size, scale and timing for changes near term and long term to your dividend?

Theodore F. Craver - Chairman, Chief Executive Officer and President

I actually think that we're still in the same bracket that we were before. We've chosen those words extremely carefully that we see additional CapEx, annual CapEx being around the levels that we have now for several years forward. But because the base of our earning assets or the size of the rate base has grown so significantly, this means that we'll end up having continual additions and growth to rate base, but it will be growing at a decreasing rate. And that produces quite a bit of cash and that we expect to be able to dedicate that cash to meeting all of our equity needs and to also to be able to increase the dividend rate at a rate faster than our earnings growth rate. And that will restore our dividend payout ratio to our target range of 45% to 55%. We've been very careful to use the words in steps over time. But I don't see any change to the direction. I don't see any change to that basic strategy. And it's also why we've never wanted to commit to a specific time frame when we would get there.

Michael J. Lapides - Goldman Sachs Group Inc., Research Division

How do you inject the uncertainty around potential disallowances or imprudence ruling on either things like fuel and purchase power replacement cost for SONGS or potential future write-downs that are SONGS related that would negatively impact the equity ratio on the utility balance sheet?

Theodore F. Craver - Chairman, Chief Executive Officer and President

Well, again, I think we've discussed that here this morning. There's elements of the accounting here that because you have a very high threshold of probability that you have to be conservative around. But we're going to be advocating for significantly more than that. But we have to make the accounting decisions in accordance with GAAP. So as we look forward, I don't think we anticipate that we're going to have additional write-downs or writeoffs that are going to put pressure on our basic strategy of returning our dividend rate to the targeted payout ratio of 45% to 55%.

Operator

And that was our last question. I now would like to turn the call back to Mr. Cunningham.

Scott S. Cunningham - Vice President of Investor Relations

Thanks very much, Fran. Thank you all for joining us today. And for follow-up questions, media representatives should contact media relations at (626) 302-2255. Investors and analysts, please feel free to contact Felicia Williams or myself. Thanks very much. Bye-bye.

Operator

Conference has now concluded. Thank you for your participation. All lines may please disconnect.

EIX vs. ETF alternatives

ETFs	Today	3 Mths	1 Yr	YTD
SSO	1.6%	10.6%	50.9%	32.7%
IPU	1.6%	8.8%	14.7%	4.5%
EPS	1.1%	5.8%	23.1%	16.7%
RWL	0.9%	5.6%	29.0%	18.8%
SPY	0.8%	5.6%	22.6%	15.5%
EIX	0.7%	-6.8%	2.9%	5.1%
PRF	0.7%	5.7%	29.2%	18.2%
SDY	0.6%	4.8%	23.0%	17.2%
XLU	0.3%	0%	3.2%	9.2%

ETF Alternatives

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APPENDIX C

SOUTHERN CALIFORNIA
EDISON®
An EDISON INTERNATIONAL® Company

Russell G. Worden
Director
External Relations

May 31, 2013

Mr. Ed Randolph
Director, Energy Division
California Public Utilities Commission
501 Van Ness Avenue
San Francisco, CA 94102

Re: Monthly Report in Compliance with I. 12-10-013

Dear Mr. Randolph:

Enclosed is SCE's monthly report as directed by the Commission in I. 12-10-013. Specifically, I. 12-10-013 states on page 13:

SCE and SDG&E shall each file a monthly status report with the Commission's Energy Division with service on the service list. The monthly report shall include an operational update for the units, description of any NRC actions, estimated replacement energy and capacity costs, estimated other operational expenses, estimated foregone revenues due to lost sales of excess energy, and any other information either utility believes is relevant that may impact the Commission's consideration of safe and reliable service at just and reasonable rates, including any additional information directed by the Energy Division Director.

If you have any questions, please feel free to contact me.

Sincerely,

Russell G. Worden

Russell G. Worden
SONGS Strategic Review

Enclosure

cc: Comm. Mike Florio
ALJ Melanie Darling
ALJ Kevin R. Dudney
Ms. Sepideh Khosrowjah,
Comm. Florio's Office
Mr. Eric Greene, Energy Division
Mr. Truman Burns, DRA
All Parties to I. 12-10-013

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APPENDIX C

San Onofre Nuclear Generating Station (SONGS)
MONTHLY STATUS REPORT AS DIRECTED BY I. 12-10-013
June 1, 2013

Operational Update

Unit 2

Unit 2 was taken off line to start its regularly scheduled refueling outage (R2C17) on January 9, 2012 at 20:36[1] and the Refueling Outage (RFO) was scheduled to last to March 5, 2012. Unit 2 is in day 452 of the Steam Generator Inspection and Repair outage. On October 3, 2012, SCE submitted its restart plan and response to the NRC's Confirmatory Action Letter (CAL) for Unit 2, for the Nuclear Regulatory Commission's review and approval. The restart plan, if approved, will allow for operation of Unit 2 at 70% reactor power for 150 days, followed by a mid-cycle outage to inspect the steam generators. Unit 2 will restart (at 70% reactor power) once SCE and the NRC determine it is safe to do so.

Unit 3

Unit 3 was manually removed from service on January 31, 2012 at 17:31 as a precaution when a steam generator tube leak was detected. Unit 3 is in day 487 of the Steam Generator Inspection and Repair outage. Fuel has been removed from its reactor and safely stored for future use. Critical systems have been configured to protect them during the extended outage period.

Nuclear Regulatory Commission (NRC) Actions

Unit 2

NRC is reviewing SCE's Confirmatory Action Letter (CAL) response including on-site inspections on December 3-7, 2012, along with technical reviews and discussions. SCE is providing information to the NRC as requested.

Several public meetings have been held by the NRC in connection with its consideration of the CAL response. On April 3, 2013 the NRC staff held a public meeting with SCE representatives at NRC headquarters to discuss a proposed license amendment request that would restrict Unit 2 operation to no more than 70% of rated thermal power for a specified time. According to the NRC website, the next public meeting is estimated to occur in late June to discuss close out of the CAL inspection and completion of the Technical Evaluation Report (TER). Please note this date could change.

On January 16, 2013, an NRC Petition Review Board held a public meeting with Friends of the Earth related to its petition under 10 CFR § 2.206, which alleges SCE violated 10 CFR § 50.59 by not seeking a license amendment for the replacement steam generators. Both Friends of the Earth and SCE have submitted papers arguing their positions on the 2.206 petition. The NRC Petition Review Board is currently reviewing the petition. A determination has not yet been made. On

[1] The SONGS R2C17 RFO outage was scheduled for 55 days with close of breakers on March 5, 2012.

March 6, 2013, redacted versions of MHI's Root Cause Analysis and a Supplemental Technical Evaluation Report supporting that analysis were made available to the public by the NRC.

On March 14, 2013, SCE submitted to the NRC an operational assessment for Unit 2 for operation at 100% power. That operational assessment demonstrates that Unit 2 would meet its steam generator tube performance criteria at 100% power for the next 5 month operating period, even though SCE is committed to operate Unit 2 at 70% power during that period. This operational assessment was submitted to the NRC in response to Request for Additional Information (RAI) 32.

On March 22, 2013, the NRC's Atomic Safety and Licensing Board (Board) heard oral arguments on the proceeding relating to whether the CAL issued to SCE constitutes a de facto license amendment.

On May 13, 2013 the ASLB determined that the CAL was a *de facto* license amendment with three considerations: 1) Operation of Unit 2 at 70% does not satisfy T.S. 5.5.2.1 (Technical Specification 5.5.2.1) 2) The Final Safety Analysis Report assumes that the replacement steam generators are not subject to fluid elastic instability and 3) The Final Safety Analysis Report does not include an analysis of the acceptability of operating with fluid elastic instability conditions in the steam generators.

On March 22, 2013, SCE announced that it was considering filing a license amendment request as an alternative approach to resolve an issue raised by the NRC in RAI 32. SCE met with the NRC on April 3, 2013 to discuss a possible license amendment request.

On April 5, 2013 SCE submitted a license amendment request to the NRC for SONGS Unit 2. The proposed license amendment would restrict Unit 2 operation to no more than 70 percent of the maximum authorized power level and would revise the Technical Specification requirements for steam generator tube integrity to reflect this change. SCE proposed that these changes remain in effect for the duration of Unit 2, Cycle 17, a period of roughly 18 to 24 months of plant operation.

The NRC has accepted SCE's amendment request for review, and proposed a No Significant Hazards Consideration (NSHC) determination. A notice of the requested license amendment was published in the Federal Register on April 16, 2013. The Federal Register notice describes the process for the public to comment on the proposed NSHC determination, and provides an opportunity to request a hearing on the proposed amendment.

Unit 3
SCE has not submitted a CAL response on SONGS Unit 3.

Matters Common to the SONGS Site

As of April 1, 2013 SONGS has returned to the Licensee Response Column (#1) as a result of the closure of the white finding in the Security Cornerstone (safeguards) dated August 14, 2012.

The NRC 1st quarter inspection exit meeting was held on April 5, 2013. The inspection report will be issued within 45 days after the exit.

NRC Milestones for SONGS

Note: these milestones have been extended about 2 months from the status provided on March 1

Milestone	Expected Date
• CAL inspection (Unit 2)	November 2012 – June 2013
• Technical Evaluation Report (Unit 2)	November 2012 – June 2013
• Comment Period for Proposed No Significant Hazards Consideration Determination of the License Amendment Request Closes	May 16, 2013
• Last day to file a petition for review by the Commission of the ASLB decision.	June 7, 2013
• 60-day Period to Request a Hearing on License Amendment Request Closes	June 17, 2013
• Public meeting in southern California with licensee on completion of CAL inspection & Technical Evaluation Report	est. late June 2013
• Technical Evaluation Report and Unit 2 CAL inspection report complete and publicly available	est. late June 2013
• Notify ASLB and parties of intent to issue decision regarding restart for Unit 2	TBD
• Issue Decision to Approve or Deny SCE's April 5, 2013 License Amendment	TBD
• Issue decision regarding restart for Unit 2	TBD

Source of Milestone Information: NRC Website. Please note these dates may change.

SOUTHERN CALIFORNIA EDISON COMPANY
SONGS 2&3 Outage Memorandum Account
I.12-10-013
($000)

		2013														Inception
		January	February	March	April	May	June	July	August	September	October	November	December	YTD	2012	To Date
1.	**I. Base Capital Cost Subaccount**															
2.	Capital Expenditures	3,623	2,921	5,578	4,086	-	-	-	-	-	-	-	-	16,209	133,606	149,815
3.	CWIP Balance	217,579	219,030	218,210	223,800	-	-	-	-	-	-	-	-	-	216,652	223,800
4.	Rate Base - End of Month	634,479	629,459	651,304	645,644	-	-	-	-	-	-	-	-			645,644
5.	Depreciation	7,349	7,200	7,363	7,093	-	-	-	-	-	-	-	-	29,004	80,331	109,335
6.	Taxes on Income	3,010	3,199	4,238	2,250	-	-	-	-	-	-	-	-	12,697	13,856	26,552
7.	Ad Valorem Taxes	601	601	601	601	-	-	-	-	-	-	-	-	2,406	6,568	8,973
8.	Return	4,202	4,159	4,215	4,268	-	-	-	-	-	-	-	-	16,843	55,845	72,689
9.	Subtotal Revenue Requirement	15,162	15,160	16,417	14,212	-	-	-	-	-	-	-	-	60,950	156,600	217,550
10.	**II. Steam Gen Replacement/Removal Capital Cost Subaccount**															
11.	Capital Expenditures -Replace	219	284	326	35	-	-	-	-	-	-	-	-	864	11,268	12,132
12.	Capital Expenditures -Remove	-	-	95	9	-	-	-	-	-	-	-	-	104	107,783	107,886
13.	CWIP Balance - Replace	-	-	-	-	-	-	-	-	-	-	-	-	-	6,749	-
14.	CWIP Balance - Remove	-	-	-	-	-	-	-	-	-	-	-	-	-	1,465	-
15.	Rate Base - Replace - End of Month	477,155	472,765	468,783	464,571	-	-	-	-	-	-	-	-		475,068	464,571
16.	Rate Base - Remove - End of Month	47,415	46,987	46,552	46,073	-	-	-	-	-	-	-	-		46,901	46,073
17.	Depreciation	4,891	4,957	4,955	4,957	-	-	-	-	-	-	-	-	19,759	51,731	71,490
18.	Taxes on Income	1,597	1,738	1,724	1,716	-	-	-	-	-	-	-	-	6,776	11,268	18,043
19.	Ad Valorem Taxes	531	531	531	531	-	-	-	-	-	-	-	-	2,123	4,821	6,944
20.	Return	3,444	3,437	3,406	3,376	-	-	-	-	-	-	-	-	13,663	41,143	54,806
21.	Subtotal Revenue Requirement	10,463	10,662	10,616	10,580	-	-	-	-	-	-	-	-	42,320	108,963	151,283
22.	**III. O&M Expense Subaccount**															
23.	Fuel (ERRA)	-	-	-	-	-	-	-	-	-	-	-	-	-	4,657	4,657
24.	Fuel Carrying Costs (ERRA)	353	351	349	349	-	-	-	-	-	-	-	-	1,401	3,480	4,881
25.	Replacement Power (ERRA)	19,410	15,909	21,879	7,081	-	-	-	-	-	-	-	-	64,279	200,597	264,876
26.	Capacity Payments (ERRA)	155	460	341	-	-	-	-	-	-	-	-	-	955	33,141	34,097
27.	Foregone Sales Revenue (ERRA)	18,759	17,950	20,640	34,522	-	-	-	-	-	-	-	-	91,871	95,304	187,175
28.	Routine O&M	22,077	16,591	17,929	21,560	-	-	-	-	-	-	-	-	78,157	300,489	378,645
29.	Refueling (1 in 2012)	133	22	21	40	-	-	-	-	-	-	-	-	216	35,255	35,471
30.	Seismic Safety	304	318	217	435	-	-	-	-	-	-	-	-	1,273	3,261	4,534
31.	Investigation	818	256	938	511	-	-	-	-	-	-	-	-	2,524	67,059	69,582
32.	Repairs - After Outage	-	-	-	-	-	-	-	-	-	-	-	-	-	27,302	27,302
33.	Regulatory - After Outage	2,185	2,511	(110)	597	-	-	-	-	-	-	-	-	5,183	6,401	11,584
34.	Defueling	-	-	-	-	-	-	-	-	-	-	-	-	-	932	932
35.	Litigation	(1,146)	959	1,210	1,191	-	-	-	-	-	-	-	-	2,214	6,145	8,360
36.	Payroll Taxes	900	827	905	860	-	-	-	-	-	-	-	-	3,492	13,442	16,934
37.	Other (Pensions, PBOP, Insurance)	1,805	2,318	2,380	1,983	-	-	-	-	-	-	-	-	8,485	23,059	31,545
38.	Subtotal	65,752	58,472	66,697	69,128	-	-	-	-	-	-	-	-	260,050	820,525	1,080,574
39.	**IV. Huntington Beach Subaccount**	612	625	673	810	-	-	-	-	-	-	-	-	2,720	16,868	19,588
40.	**V. Demand Response Subaccount**	47	(2)	50	(0)	-	-	-	-	-	-	-	-	96	2,769	2,865
41.	**VI. Transmission Upgrades Subaccount**															
42.	Capital Expenditures	33	245	17	55	-	-	-	-	-	-	-	-	350	236	586

SOUTHERN CALIFORNIA EDISON COMPANY
SONGS 2&3 Outage Memorandum Account
I.12-10-013
($000)

		2013														
		January	February	March	April	May	June	July	August	September	October	November	December	YTD	2012	Inception To Date
43.	Rate Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
44.	Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
45.	Taxes on Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
46.	Ad Valorem Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
47.	Return	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
48.	Subtotal Revenue Requirement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49.	O&M (if any)	18	-	0	15	-	-	-	-	-	-	-	-	33	190	223
50.	**VII. Authorized Revenue Requirment Subaccount**															
	Monthly Revenue Requirement GRC	30,759	26,725	33,281	29,751	-	-	-	-	-	-	-	-	120,516	498,087	618,603
	Monthly Revenue Requirement SGR	7,977	6,931	8,631	7,715	-	-	-	-	-	-	-	-	31,253	115,239	146,492

NOTES:

1. All amounts shown above reflect SCE's 78.21% share
2. Severance costs (SCE Share) included in Line No. 28 for 2012 reflect an accrued amount of $36.0 million, however $32.7 million has been paid out as of January 31, 2013.
3. Received $45.4 million (100% share) from MHI and this amount is not included above.
4. The costs shown in the Huntington Beach subaccount includes other ISO market costs that were incurred as a result of the outages.

IV. Huntington Beach Subaccount	April
Reverse Congestion Costs	389
Net Standard Capacity Product (SCP) Charges	(72)
Auxilary Load Costs charged in Real-Time Imbalance market	493
Subtotal	810

APPENDIX D

Briefing on San Onofre Nuclear Generating Station, Units 2 & 3 Retirement Plans

IEPR Nuclear Workshop

June 19, 2013

Mark Nelson

Director,

Integrated Planning & Strategy

Southern California Edison

SONGS Status

- As announced on June 7, both units of SONGS are being retired
  - A certification of permanent cessation of power operations has been submitted to the NRC
  - Preliminary planning for permanent shutdown and decommissioning SONGS is underway
- SONGS 2 & 3 provided power to Southern California for 30 years, supported by many dedicated employees
- "...the continuing uncertainty about when or if SONGS might return to service was not good for our customers, our investors, or the need to plan for our region's long-term electricity needs."

SONGS Retirement

- Nuclear Safety
  - As always, we will continue to operate SONGS's remaining systems safely, to the highest standards, to protect the health and safety of the public and our employees

- Key SONGS Issues
  - Decommissioning
  - Staffing
  - Used Fuel Storage
  - Seismic
  - Once Through Cooling

- Grid Reliability
  - Short term considerations
  - Longer term considerations

SONGS Issues

- Decommissioning
  - Long process over many years
  - Removal of radioactive material from site and storage of used fuel in approved dry cask containers
  - Funded by SONGS decommissioning trust
    - Current SCE trust is $2.7 Billion
    - Re-evaluating estimate in light of retirement decision
- Staffing
  - Staffing will be reduced from about 1500 to 400
    - Mostly this year
    - Transition plans will ensure orderly and compliant plant closure
  - Working with unions and Human Resources for a fair transition plan
  - Evaluating contractor support on a case-by-case basis

SONGS Issues

- Used Fuel Storage
  - Assemblies in wet storage - 2346
  - Assemblies in dry cask storage - 792
  - Removal of Unit 2 fuel from the reactor will begin in July
  - Movement of used fuel from pools to dry cask storage will occur over the next 7 – 12 years
- Seismic
  - Research (e.g., GPS, shallow surveys, seismometers)
    - The seismic reliability evaluation of SONGS required by AB 1632 was completed and provided in our February 2011 Report
    - Current seismic activities are under review and likely will be terminated
  - Analysis of seismic data
    - Support of NRC's 50.54(f)
    - Assessing what analysis is required for support of used fuel pools and dry cask storage facility

SONGS Issues

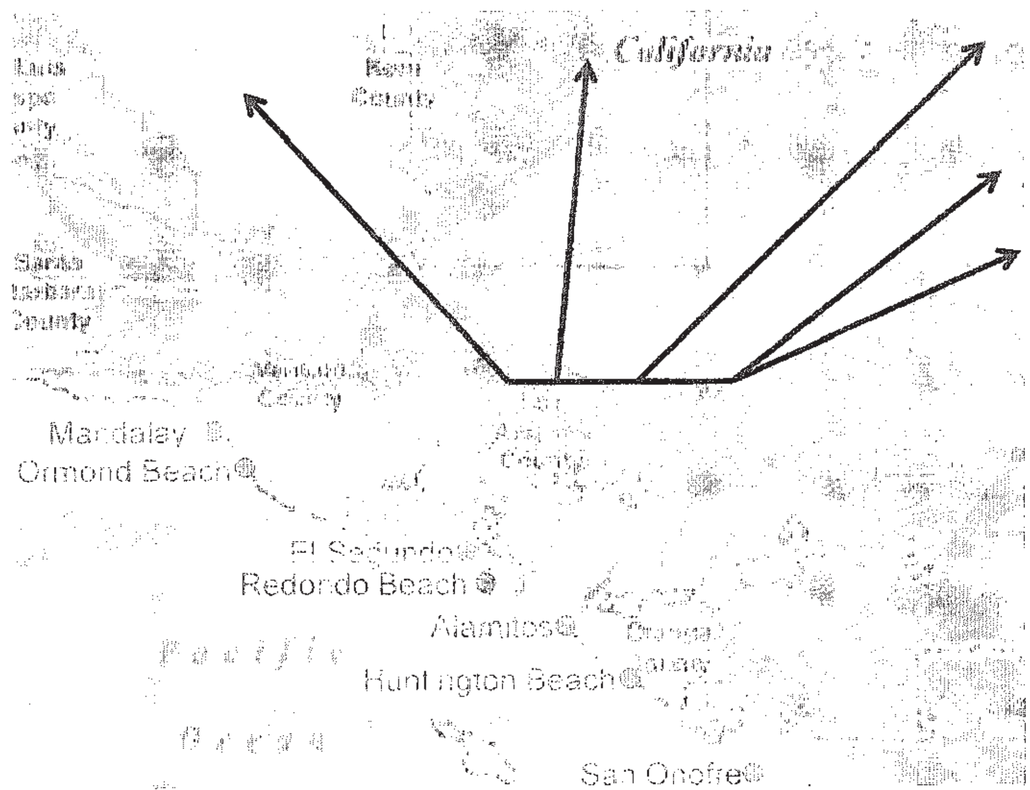
- Once Through Cooling
  - Flow through the intake and discharge conduits will be approximately 25% of that at full power operations
    - Required for used fuel pool cooling
    - May be required during decommissioning
  - Project Activities
    - OTC Nuclear Special Studies
      - No need to continue the study for SONGS
      - Implementation of selected technology is post 2022
    - Large Organism Exclusion Device
      - Assessing scope

Short Term Reliability Considerations

- SCE & SDG&E have been actively pursuing steps to provide reliable power to our communities during the summer months without SONGS
- We've worked with CAISO and CPUC since early last year
- No power outages or incidents last year
  - Moderate summer
  - Demand Side Resources
  - Generation and transmission projects
- Summer readiness plan for this year
  - New generation
  - Transmission projects
  - Demand Side Resources
  - Communications and Outreach

Longer Term Reliability Considerations: Local Reliability in the LA Area

- **SCE Service Territory Generation Reductions**
  - Fossil OTC retirements 6,592 MW
  - SONGS retirement 2,150 MW
  - Total 8,742 MW
- Recent CAISO studies show a need for 3,000-4,600 MW of "West LA Basin" generation to replace OTC plants and the SONGS retirement
- The local transmission grid (220kV) was built to serve load using coastal generation
- Re-powering at beach sites may face stiff opposition
- As a non-attainment area, AQMD rule 1304 is one of the few sources of emissions offsets for new generation



Longer Term Reliability Considerations: Resource Mix

- Aggressive use of preferred resources
  - Use of living pilots to learn how to drive deeper preferred resource penetrations and develop better understanding of efficacy and grid operational impacts
- New and Upgraded Transmission
  - Development or upgrade of lines and substations to better move power, development of reactive support as needed
- Targeted Generation
  - Construction of fossil generation in targeted locations to support grid reliability and provide a backstop to pursue higher levels of preferred resources

Longer Term Reliability Considerations: Any Solution is Multi-Jurisdictional

- Federal Law - CWA 316(b)
- State Regulations - SWRCB OTC Policy
- Reliability Assessment – CAISO
- Power Plant Permitting – Energy Commission and the Application for Certification process
- Determination of Need for IOUs – Public Utilities Commission and the Long Term Procurement Plan
- Air Permitting (Clean Air Act) – South Coast AQMD (Rule 1304) and other APCDs
- OTC Impacts on Reliability - California Assembly Bill 1318 Study
- Local Zoning – Redondo Beach Measure A (Rezone to 60-70% parks and 30-40% commercial/industrial)