

# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE: NOVEMBER 28, 2022**

**SUBJECT: SAN ONOFRE NUCLEAR GENERATING STATION 2020 DECOMMISSIONING COST ESTIMATE UPDATE AND TRANSFER UP TO \$9,721,693 FROM THE DESIGNATED ADDITIONAL DECOMMISSIONING LIABILITY RESERVE ACCOUNT TO THE RESTRICTED TRUST FUND ACCOUNTS FOR DECOMMISSIONING OBLIGATION**

**ISSUES:**

Consider recommending that City Council receive an update on the San Onofre Nuclear Generating Station Units 2 & 3 2020 Decommissioning Cost Estimate, adjusting the level of funding in the Restricted Trust Fund Accounts for the City's decommissioning obligation, and to approve the transfer of funds, up to \$9,721,693, from the Designated Additional Decommissioning Liability Reserve Account to the Restricted Trust Fund Accounts for the City's decommissioning obligation.

**RECOMMENDATIONS:**

That the Board of Public Utilities recommend that the City Council:

1. Receive an update of the San Onofre Nuclear Generating Station 2020 Decommissioning Cost Estimate;
2. Approve the transfer of up to \$9,721,693 from the Designated Additional Decommissioning Liability Reserve Account to the Restricted Trust Fund Accounts for the City's decommissioning obligation; and
3. Authorize the City Manager, or designee, to execute all documents necessary to administer the transfer of funds from the Designated Additional Decommissioning Liability Reserve Account to the Restricted Trust Fund Accounts.

**BACKGROUND:**

Riverside owns 1.79% of the San Onofre Nuclear Generating Station (SONGS) Units 2 & 3 located within Camp Pendleton on land owned by the U.S Department of Navy. SONGS Units 2 & 3 had a combined capacity of 2,250-megawatts and commenced operation in 1983 and 1984, respectively. SONGS is co-owned by the City of Anaheim, City of Riverside, San Diego Gas & Electric Company, and Southern California Edison (SCE).

On June 7, 2013, SCE announced its decision to permanently retire SONGS Units 2 & 3 and

begin the SONGS Decommissioning Project. Decommissioning involves transferring the spent fuel into safe storage, dismantlement of structures, followed by the removal and disposal of radioactive components and materials. SCE is currently serving as the Decommissioning Agent.

The Board of Public Utilities and City Council approved the SONGS Decommissioning Agreement on February 20, 2015 and March 3, 2015, respectively, which set forth the decommissioning process and Riverside's decommissioning obligations.

## **DISCUSSION:**

### *Decommissioning Cost Estimate (DCE)*

In accordance with the California Nuclear Facilities Decommissioning Act of 1985, SCE is required by the California Public Utilities Commission (CPUC) to update the SONGS Units 2 & 3 Decommissioning Cost Estimate (DCE) every three years. A DCE is a site-specific, detailed estimate of expenditures to be incurred in performing decommissioning work. The estimate is developed to reflect the total cost of decommissioning and must be based on reasonable assumptions at the time the estimate is prepared. In December 2014, SCE submitted its first DCE report to the CPUC. The estimated decommissioning cost in the 2014 DCE was approximately \$4.411 billion in 2014 dollars. Riverside's proportionate share was \$79M.

In March 2018, SCE submitted the 2017 DCE to the CPUC. The estimated decommissioning cost in the 2017 DCE was approximately \$4.702 billion in 2017 dollars. Riverside's proportionate share was \$84M.

In late 2021, SCE finalized the 2020 DCE and submitted to the CPUC in early 2022. The 2020 DCE of \$5.243 billion, in 2020 dollars, reflected the actual project costs and all updated project progress on SCE's decommissioning activities through end of 2020. The Liability amount is updated regularly by SCE to reflect the recorded costs incurred since the last published DCE. As of December 31, 2021, Riverside's share of SONGS decommissioning liability is \$55,362,731 in 2021 dollars:

| Total SONGS DCE Cost (2021\$) | Total Recorded Costs (December 31, 2021) | Annually Adjusted Decommissioning Cost Estimate (AADCE) | Riverside's Share of the AADCE (1.79%) | Riverside's Floor Balance (80% of Riverside's Share of the AADCE) |
|-------------------------------|------------------------------------------|---------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------|
| 5,554,010,000                 | 2,461,120,000                            | 3,092,890,000                                           | <b>55,362,731</b>                      | <b>44,290,185</b>                                                 |

### *The Restricted Trust Fund and Additional Decommissioning Liability Reserve*

Nuclear power plants are required by the Nuclear Regulatory Commission (NRC) to set aside funds for decommissioning while the plant is operating. Consistent with NRC regulations, Riverside had set aside funds to pay for its share of SONGS Units 2 & 3 decommissioning obligations in certain restricted trust accounts while the plant was operational. On March 8, 1991, Riverside entered into a Decommissioning Trust Fund Agreement with the Bank of California (now US Bank) to meet the NRC's requirements for financial assurances and began depositing funds into the accounts. Under the terms of the Decommissioning Trust Fund Agreement, the funds in the Restricted Trust Fund Accounts ("Restricted Account") can only be used for decommissioning related activities. Prior to accessing the trust funds, the Board and City Council adopted a Resolution, which was approved on January 22, 2016, and February 23, 2016, respectively. The

Resolution authorized access to the decommissioning trust funds to pay for Riverside's share of SONGS decommissioning costs.

Due to the uncertainties around future decommissioning costs on a project that could potentially span across half a century, the City, in 2013, established an unrestricted, designated reserve account, the Decommissioning Additional Decommissioning Liability Reserve Account ("Unrestricted Account"), in the Electric Fund with an annual funding of \$1.6 million. The funding amount was subsequently increased to \$2 million annually beginning in Fiscal Year 2020-2021, upon approval by the Board and the City Council on June 1, 2020, and June 16, 2020, respectively. The cumulation of this additional reserve is intended to supplement the Restricted Account to ensure the City's financial means to cover 100% of its decommissioning obligations.

#### *The Annual Decommissioning Fund Status Report and the Floor Balance*

In accordance with the SONGS Decommissioning Agreement, an Annual Decommissioning Fund Status Report must be filed in the beginning of each calendar year to demonstrate Riverside's decommissioning fund sufficiency in its Restricted Account. The report must show that the liquidation value of the funds is equal to or above the Floor Balance, or eighty percent (80%) of Riverside's share of the Annually Adjusted Decommissioning Cost Estimate. The Annually Adjusted Decommissioning Cost Estimate represents remaining costs to complete decommissioning work, based on the most recent DCE in current year dollars subtracting the recorded costs to date.

If a co-owner's funding amount is below the Floor Balance, then such co-owner would be considered as underfunded. The underfunded co-owner must prepare a cure plan to bring the liquidation value of its funds up to the Floor Balance within a three-year period. If the underfunded co-owner fails to adopt a cure plan or fails to execute according to the cure plan, then the co-owner would be in default. A co-owner in default will not be relieved from any obligations under the SONGS Decommissioning Agreement for payment of its share of the decommissioning costs. However, a co-owner in default loses the ability to be represented on and participate in votes by the committees that manage the decommissioning activities until the default is cured.

#### *Recommend Transfer to Restricted Account*

The Additional Decommissioning Liability Reserve is defined in RPU's Fiscal Policies as a Designated Reserve and the use is subject to Board and City Council approval.

As of December 31, 2021, the balance in the SONGS Trust Fund Accounts is \$45,641,038, which is 82.44% of RPUs total share of the SONGS Liability amount of \$55,362,731, at risk of falling below the 80% Floor Balance by end of calendar year 2022. A transfer of \$9,721,693 from the Designated Reserve will bring the funding level of the Trust Fund Accounts to 100 percent.

|                | <b>SONGS Liability</b> | <b>% Funded</b> | <b>SONGS Trust Funds Balance</b> | <b>Transfer Amount</b> | <b>Designated Reserve Bal</b> |
|----------------|------------------------|-----------------|----------------------------------|------------------------|-------------------------------|
| 12/31/2021     | 55,362,731             | 82.44%          | 45,641,038                       |                        | 14,916,770                    |
| Recommendation | 55,362,731             | 100%            | 55,362,731                       | <b>9,721,693</b>       | 5,195,077                     |

#### **STRATEGIC PLAN ALIGNMENT:**

This item aligns with Strategic Priority No. 5 High Performing Government and contributes to Goal 5.4 to achieve and maintain financial health by addressing fiscal resources to yield the greatest impact.

This item aligns with EACH of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The SONGS Trust Fund discussion is a transparent process to best serve the public interests.
2. **Equity** – The SONGS Decommissioning Project activities are being closely monitored to prevent and minimize cost overruns that could unfairly burden current ratepayers.
3. **Fiscal Responsibility** – Riverside's Decommissioning Trust Fund is a prudent steward of public funds to ensure responsible fiscal management.
4. **Innovation** – The Additional Decommissioning Liability Reserve was created and approved by the City to serve as an extra layer of protection to cover City's decommissioning liabilities to prepare for future needs.
5. **Sustainability & Resiliency** – City's continued active participation in SONGS Decommissioning Project's governing activities is a key to successfully managing the decades-long project economically and sustainably.

#### **FISCAL IMPACT:**

The Designated Reserve for the SONGS Decommissioning Trust was established to budget and set aside additional funds to supplement the City's Restricted Decommissioning Trust Account to meet the City's changing contractual decommissioning liability. Even though a Designated Reserve is included in fiscal reporting for Days Cash on Hand, or Liquidity used for credit rating purposes, it is imperative to use the funds in the Designated Reserve for the purposes for which it was budgeted. There are sufficient funds in the Designated Reserves to fund the recommended transfer. The recommended transfer of \$9,721,693 from the Designated Additional Decommissioning Liability Reserve Account to the Restricted Trust Fund Account for the City's decommissioning obligation would reduce the Days Cash by approximately 11 days; however, the transfer will avoid the City's Restricted Trust Account from being underfunded.

Prepared by: Todd M. Corbin, Utilities General Manager  
Approved by: Kris Martinez, Assistant City Manager  
Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability  
of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer

#### **Attachments:**

1. Annual Decommissioning Funding Status Reports 12/31/2021
2. Presentation