

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 12, 2017

ITEM NO: 14

SUBJECT: UPDATE ON THE DECOMMISSIONING STATUS OF SAN ONOFRE NUCLEAR GENERATION STATION, USE OF SETTLEMENTS AND COST RECOVERIES OF \$11,244,000 TO PARTIALLY DEFEASE EXISTING DEBT, RETENTION OF FINANCING TEAM FOR DEBT DEFEASANCE TRANSACTION, AND TRANSFER OF \$11,244,000 FROM UNDESIGNATED RESERVES TO A BOND DEFEASANCE DESIGNATED RESERVE

ISSUES:

Receive an update on the decommissioning status of the San Onofre Nuclear Generating Station and recommend that the City Council approve the use of settlements and cost recoveries of \$11,244,000 to partially defease existing debt, retain the financing team for the debt defeasance transaction and approve the transfer of \$11,244,000 to a designated reserve for bond defeasance.

RECOMMENDATIONS:

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

1. Receive and file the update on the status of the decommissioning of San Onofre Nuclear Generation Station;
2. Authorize the use of settlements and cost recoveries received of \$11,244,000 to partially defease existing debt;
3. Retain the various financing team members for the debt defeasance transaction, as outlined in the report below;
4. Authorize the City Manager, or his delegate, to execute individual agreements with each financing team member that will be negotiated closer to the actual defeasance of the bonds, for not to exceed \$65,000; and
5. Establish a bond defeasance designated reserve account within the Electric Fund, as determined by the Finance Department, and authorize the transfer of settlements and cost recoveries received of \$11,244,000 to the designated reserve for bond defeasance.

BACKGROUND:

Riverside owns 1.79% of the San Onofre Nuclear Generating Station (SONGS) Units 2 and 3 located in Camp Pendleton in San Diego County, near the City of San Clemente. Units 2 and 3 commenced operation in 1983 and 1984, respectively. While operational, SONGS Units 2 and 3 provided approximately 39 megawatts of capacity and approximately 15 percent of the City's annual energy requirement. The other co-owners are Southern California Edison (SCE), San Diego Gas & Electric Company, and the City of Anaheim; the co-owners lease the land on which SONGS is located from the Department of Navy. The operation of SONGS is governed by the Nuclear Regulatory Commission (NRC), which issues a license for such operation. SCE is the operating agent of SONGS and is the primary NRC license holder.

DISCUSSION:

On April 11, 2010, SCE started the work on the Steam Generator Replacement Project that would replace the four steam generators, two each in Units 2 and 3 as the generators exhibited degradation and were predicted to reach the end of their operating life within the next couple of years. Units 2 and 3 steam generators were replaced on April 11, 2010 and February 11, 2011 respectively. On January 9, 2012 during a scheduled refueling outage, inspections identified excessive tube wear in Unit 2's steam generators. On January 31, 2012 a minor tube leak was found in SONGS Unit 3. Both Units 2 and 3 were shut down for inspection. Subsequent inspections revealed that the tube leaks in both Units were caused by design flaws in the recently-installed steam generators that were only two years old in Unit 2's case and about one year old in Unit 3's case. On June 7, 2013 SCE as the operating agent for SONGS made the unilateral decision to permanently retire both SONGS Units 2 and 3 from commercial operation.

SCE formally notified the NRC on June 12, 2013 that it had permanently ceased operation of Units 2 and 3 on June 7, 2013, triggering the start of decommissioning. Decommissioning is a well-defined NRC process that involves transferring the used fuel into safe storage, followed by the removal and disposal of radioactive components and materials. The decommissioning of SONGS has 5 major phases:

1. Plant shutdown and staff reductions – *Completed in 2016*
2. Independent Spent Fuel Storage Installation construction and Spent Nuclear Fuel transfer from wet to dry storage – *Scheduled completion by mid to late 2018*
3. Demolition, dismantling and waste removal – *Starts at the completion of Phase 2 (approximately 10+ years to complete, assuming available offsite storage for spent fuel).*
4. Site Restoration – *Starts at the completion of Phase 3 (approximately 3 to 5 years to complete)*
5. Final Disposition of Independent Spent Fuel Storage Installation

Riverside's SONGS Financial Overview

The decommissioning process of SONGS is expected to take at least 20 years, with an anticipated decommissioning cost estimate totaling \$4.4 billion developed by a third party consultant in 2014. An updated Decommissioning Cost Estimate will be developed before end of this calendar year. Based on the 2014 decommissioning cost estimate, Riverside's proportionate share is fully funded (approximately \$78.8 million) in a separate trust account which is restricted for only decommissioning activities. Currently, the value of Riverside's SONGS Decommissioning Trust Fund Account is \$79.9 million. In addition, due to the uncertainty of future unknown costs, Riverside has also established an unrestricted designated reserve in the Electric Fund for additional decommissioning liability with an annual funding of \$1.6 million. Currently, the amount in the unrestricted designated reserve account is \$6.2 million. SCE is in the process preparing an updated decommissioning cost estimate, which may adjust these numbers.

Riverside has recovered \$11,244,000 in settlements and refunds from the following parties:

Description	Amount
Nuclear Electric Insurance Limited (NEIL) Settlement	\$7,160,000
Department of Energy Settlement	\$2,175,000
Southern California Edison Settlement	\$1,198,000
Mitsubishi Heavy Industries Settlement, net of attorney's fees	\$589,000
Southern California Edison Audit Refunds	\$122,000
Total	\$11,244,000

Bond Defeasance

The Steam Generator Replacement project and other SONGS capital costs were funded in large part by bond proceeds, of which approximately \$29 million is still outstanding. Staff recommends using the \$11,244,000 in settlements and refunds to partially defease existing debt and thereby realize interest savings of approximately \$7 million to \$9 million over the life of the bonds. Staff also recommends transferring the \$11,244,000 in settlements and refunds to an unrestricted, designated reserve to hold the funds for bond defeasance.

Financing Team

To assist staff in evaluating and implementing this highly complex transaction, a financing team will be assembled consisting of the City Chief Financial Officer/Treasurer, Utilities' Assistant General Manager-Finance, the City Attorney's Office and outside consultants with whom the City and Riverside Public Utilities (RPU) have current service agreements and who are also experienced and knowledgeable in this area of financing. These include PFM, serving as the Financial Advisor and Stradling Yocca Carlson & Rauth (who is appointed by the City Attorney and on the City Attorney's Bond Counsel Panel) serving as bond and tax counsel for the City and RPU. In addition, RPU will be responsible for trustee and other fees, which are also part of the transaction. These consultants were selected in the best interest of the City due to their familiarity with these debt instruments and previous work with the City and RPU.

The City Chief Financial Officer/Treasurer concurs with the recommendations above.

FISCAL IMPACT:

The cost for these services for the partial bond defeasance will be paid from the settlement proceeds.

Contracts will be negotiated closer to the actual defeasance of the bonds. It is anticipated that the contracts will be letter agreements. Specific amounts paid to each firm will be negotiated based on the ultimate amount of work required to execute the transaction, and will be reported to the Board of Public Utilities and City Council at the time of approval of the defeasance documents.

Estimates for each transaction participant's fees are as follows:

Bond/Tax Counsel	\$25,000
Financial Advisor	\$20,000
Trustee & Other Fees	\$20,000
Total	\$65,000

SONGS settlement and refunds received, included in undesignated reserves in the Public Utilities Electric Account No. 0000510-101000, will be utilized for the transfer of \$11,244,000 to a bond defeasance designated reserve account. Remaining undesignated reserves after the transfer will adhere to RPU's Fiscal Policy as it relates to undesignated reserve balance requirements.

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Attachment: Presentation