

**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 & Electric Company Associated with
the San Onofre Nuclear Generating Station Units
2 and 3.

I.12.10-013

**ERRATA TO EXHIBIT SDGE-1
PREPARED TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
REGARDING PROPOSED RATE ADJUSTMENTS FOR SONGS UNITS 2 AND 3**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

**December 17, 2012
As modified on February 11, 2013**

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II.

RATEMAKING

A. Introduction

Ordering Paragraph 4(h) of I.12-10-013 requires SDG&E to serve testimony addressing proposed rate adjustments due to the outages at SONGS Units 2 and 3. Ordering Paragraph 4(h) specifically requires testimony showing “each utility’s proposed rate adjustments, pursuant to PU Code § 455.5, due to the outages at SONGS Units 2 and 3, inclusive of a clear showing of the amount included in current rates associated with SONGS, the amount to be removed, the effective date, and any other information necessary for the Commission to make an informed decision to fully implement a just and reasonable rate adjustment pursuant to PU Code § 455.5.”

As further supported in subsequent sections of this Chapter, SDG&E requests the Commission to order no rate adjustments at this time. However, if this request is not adopted, SDG&E requests the Commission to: 1) limit the scope of rate adjustment to the revenue requirement associated with activities directly linked to production of electricity, and not adjust rates for other activities that must be undertaken at SONGS regardless of whether the plant generates electricity; 2) approve appropriate account procedures; and 3) approve the appropriate ratemaking procedures.

B. The Commission Should Not Adjust Rates at This Time

The Commission should not adjust rates at this time. The first issue identified in the scope of this OII is “(w)hether or not rate adjustments should be made; if so, when they should start, the correct amount, and the correct accounting of these adjustments.” The determination of the “correct amount” will impact the rate adjustment made. Instead, the Commission should wait until it completes its investigation and determination as to what this correct amount is before implementing any rate change with regard to the revenue requirement for SONGS. Deferring the decision on rate adjustments until all of the facts are known and the correct amount is determined will reduce the likelihood of rate volatility to SDG&E’s ratepayers due to multiple adjustments as that correct amount is determined.

Further, whether and when Units 2 and 3 will resume electricity production is not yet known. On October 3, 2012, SCE submitted a restart plan to the Nuclear Regulatory Commission (“NRC”) for approval to restart Unit 2 at 70% power and conduct scheduled mid-

1 cycle outage inspections following 5 months of operation. The NRC has not yet acted on SCE's
2 plan. SCE continues to analyze the situation with respect to Unit 3. It is not in SDG&E's
3 customer's best interest to hastily make a decision to adjust rates now before all of the facts
4 surrounding the status of the units are known. As discussed in Section III below, setting the
5 SONGS-related revenue requirement subject to rate reduction through an adjustment to rates is
6 the appropriate action at this time to ensure that customers are protected should any amount
7 currently included in rates be required to be refunded at the conclusion of the OII. PU Code
8 Section 455.5(d) provides for the consideration of the inclusion of the value and associated
9 operating expenses in rates upon a facility's return to useful service. Rate volatility to SDG&E
10 customers should also be considered in the determination of the rate making treatment of costs.

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3 **III.**

4 **REVENUE REQUIREMENT TO BE TRACKED SUBJECT TO RATE REDUCTION**

5 SDG&E strongly believes that the Commission should not adjust rates at this time but
6 instead wait until it completes its investigation before considering rate changes with regard to the
7 revenue requirement for SONGS. However, should the Commission determine that a rate
8 change is required at this time, it should limit the scope of the rate adjustment to the revenue
9 requirement associated with activities directly linked to the generation of electricity and not
10 adjust rates for other activities that must be undertaken at SONGS regardless of whether the
11 plant generates electricity. SDG&E strongly believes that not all costs and revenue requirements
12 associated with a facility experiencing an extended outage should be made subject to the rate
13 reduction. As shown in Table III-1 and explained in Section V. below in more detail, SDG&E
14 proposes that \$54.547 million (which includes \$0.8 million representing the revenue requirement
15 for Marine Mitigation and dry cask storage¹) be excluded from any rate reduction and remain in
16 rates as SDG&E believes these costs are necessary to ensure a safe and secure environment for
17 SONGS. SDG&E believes that mandated Marine Mitigation and construction of dry cask
18 storage capital expenditures of \$58.1 million and any additional Marine Mitigation expenditures
19 as required by the California Coastal Commission and additional dry cask storage costs should
20 be excluded from rate reductions. All of this is discussed in further detail in the testimony of
21 Michael De Marco below in Section V.

¹ An exact number for Marine Mitigation and dry cask storage revenue requirement is not available due to the settlement of the prior 2008 GRC. In order to represent the amount of revenue requirement attributable to those assets, a ratio was created by dividing the ending net plant for those assets by SONGS net plant. The ratio was then applied to the total SONGS revenue requirement of \$24.199 million, resulting in an assumed revenue requirement in rates of \$0.8 million for Marine Mitigation and dry cask storage.

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Table III-1
SONGS Revenue Requirement Subject to Rate Adjustment

	Authorized in 2012 Rates	Already Subject to Refund	Other Required Costs	Not Subject to Rate Reduction	Incremental Subject to Refund
1 SONGS Revenue Requirement					
2 GRC-Related O&M	\$100.49			(\$53.73)	\$46.76
3 GRC-Related Capital Costs	24.20			(0.81)	23.39
4 Refueling	28.72	(28.72)			0.00
5 Steam Generator Replacement Project Unit 2	17.77		(17.77)		0.00
6 Steam Generator Replacement Project Unit 3	14.21		(14.21)		0.00
7					
8 Amortizations					
9 SONGS MAAC	13.35	(13.35)			0.00
10 SONGS O&M Balancing Account	20.07	(20.07)			0.00
11 Energy Resource Recovery Account	25.00	(23.60)	(1.40)		(0.00)
12 Nuclear Decommissioning					
13 Trust Contributions	8.07		(8.07)		0.00
14 Spent Fuel	0.95		(0.95)		0.00
15 Total	\$252.82	(\$85.74)	(\$42.40)	(\$54.55)	\$70.14

To provide “a clear showing of the amount included in current rates associated with SONGS” as required in Ordering Paragraph 4(h) of I.12-10-013, Tables III-2 and III-3, below in this section, present the amount of SDG&E’s 2012 annual revenue requirement and projected 2013 annual revenue requirement included in rates. Table III-2 represents the SONGS portion of Attachment A of SDG&E’s recently filed Advice Letter (“AL”) 2416-E, filed on November 9, 2012. The 2012 revenue requirement figures shown as “Authorized 2012” in Table III-2 were originally approved in AL 2302-E on December 23, 2011, effective December 10, 2011, and placed into rates on January 1, 2012.

**Table III-2
SONGS Revenue Requirement**

(\$ In Thousands, excluding FF&U)			
	Proposed 2013		Authorized 2012
SONGS Revenue Requirement			
Non-fuel Operations & Maintenance Revenue Requirement ^{1/}	100,490		100,490
Non-fuel Capital-related Revenue Requirement ^{1/}	24,199		24,199
Refueling - No 2013 Outages Forecasted	-		28,721
Steam Generation Replacement Program (SGRP) Removal & Disposal Costs ^{2/}	-		-
SONGS Unit 2 SGRP Installation Revenue Requirement ^{3/}	16,802		17,772
SONGS Unit 3 SGRP Installation Revenue Requirement ^{4/}	13,637		14,208
SONGS Total	155,128		185,389
SONGS MAAC Subaccount	-		13,346
SONGSBA ^{10/}	17,942		20,068
Amortization of 12/31 Balances	17,942		33,413
SONGS Revenue Requirement effective 1/1/13 ^{11/}	173,069		218,803
Notes:			
^{1/} 2011 revenue requirement (not included in this filing) included a post-test year ratemaking increase of 4.35%, as adopted in D.09-03-025. Absent a decision in A.10-11-015 (SCE's most recent GRC application) and A.10-12-005 (SDG&E's most recent GRC application) the revenue requirement will remain the same for 2012 and 2013. Revenue requirements will be trued-up pending GRC decisions.			
^{2/} Removal and Disposal is still underway for SONGS Units 2 & 3. Once completed and final costs determined, SDG&E will file to include the remaining costs in rates pursuant to D.06-11-026, Attachment A.			
^{3/} Approved in AL 2204-E on December 7, 2010. Detailed breakdown included in Attachment D of this filing.			
^{4/} Approved in AL 2243-E on June 9, 2011. Detailed breakdown included in Attachment E of this filing.			
^{10/} Under SDG&E's tariffs, the balance is transferred annually to the Non-fuel Generation Balancing Account.			
^{11/} 2013 proposed amount including FF&U is \$417,677,051. Franchise fee factor is 1.028% and uncollectible factor is .141% which computes to a 1.012 gross-up factor 1/(1-.01028-.00141).			

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2 Not included in Table III-2 is the revenue requirement amount in rates for SDG&E's
3 portion of SONGS Nuclear Decommissioning, nor is the revenue requirement in the Energy
4 Resource Recovery Account ("ERRA") associated with SONGS included, both of which are
5 discussed further below in this section.

6 **A. 2012 GRC Revenue Requirement**

7 The 2012 SONGS revenue requirement, as approved in SDG&E's AL 2302-E, includes
8 \$100.5 million for Operation and Maintenance ("O&M") costs and \$24.2 million for capital-
9 related costs. Due to the delay in the issuance of a decision by the Commission in SDG&E's
10 2012 GRC and the SCE 2012 GRC pending on the date of SDG&E's last rate increase, SDG&E
11 included authorized 2011 revenue requirement as a placeholder until such time final decisions

1 are available. Moreover, SCE had forecasted two refueling outages in 2012 for a total of \$28.7
2 million. Consistent with SCE's (the operating owner of SONGS) assumptions, SDG&E also
3 assumed two refueling outages. Therefore, the interim 2012 SONGS revenue requirement and
4 refueling outage costs reflect the existing revenue requirements that were previously authorized
5 for 2011 in Decision ("D.") 09-03-025 and D.08-07-046.

6 A final decision in SCE's 2012 GRC Application ("A.") 10-11-015 was issued on
7 November 20, 2012 (D.12-11-051). This decision gives SDG&E a clear guide as to what to
8 expect as its share of SONGS costs over the 2012 – 2014 period. However, SDG&E is still
9 awaiting a decision on own GRC (A.10-12-005) and is unable to update its SONGS revenue
10 requirement at this time. Once a decision is also reached in SDG&E's GRC, a true up to the
11 2012 authorized revenue requirement will be filed to be included in future rates. In the interim,
12 SDG&E is using the 2011 authorized revenue requirement, as explained above in Table III-2.
13 Once, approved, the 2012 authorized revenue requirement from SDG&E's GRC will in effect be
14 retroactive to January 1, 2012.²

15 SDG&E's estimated 2013 SONGS revenue requirement also maintains the 2011
16 authorized levels for both O&M and capital-related costs as reflected in SDG&E's AL 2416-E.
17 At the time of the filing of AL 2416-E, SCE had forecasted no refueling outages in 2013 and
18 therefore there is no revenue requirement for refueling outages in 2013 for SDG&E.

19 **B. Steam Generator Replacement Project Revenue Requirement**

20 The Commission in D.05-12-040 authorized SCE to replace the SONGS Units 2 and 3
21 steam generators. On November 30, 2006, the Commission issued D.06-11-026, approving an
22 unopposed settlement of the ratemaking treatment of SDG&E's share of costs related to the
23 Steam Generator Replacement Project ("SGRP") at SONGS. The settlement provided for
24 ratemaking treatment of SDG&E's 20% share of SGRP costs in a manner consistent with the
25 ratemaking treatment the Commission authorized for SCE's share of the SGRP costs in D.05-12-
26 040. Pursuant to D.06-11-026, SDG&E filed AL 2156-E and AL 2243-E to update the revenue
27 requirement associated with the SGRP for Units 2 and 3, respectively.

² The GRC Memorandum Account will allow SDG&E to recover the difference between the actual 2012 revenue requirement in effect prior to the final 2012 GRC decision and the 2012 and partial year 2013 revenue requirements authorized in the 2012 GRC decision.

1 As shown in Table III-2, the 2012 SONGS SGRP revenue requirement includes \$17.8
2 million for SONGS Unit 2 SGRP installation costs and \$14.2 million for Unit 3 SGRP
3 installation costs. The 2013 SONGS SGRP revenue requirement includes \$16.8 million for
4 SONGS Unit 2 SGRP installation costs and \$13.6 million for Unit 3 SGRP installation costs.

5 **C. 2012 ERRA Forecast Revenue Requirement**

6 Each year, the Commission authorizes SDG&E to include in rate levels a forecast of its
7 fuel and purchased power revenue requirements in ERRA Forecast proceedings. In D.12-07-
8 006, approving SDG&E's 2012 ERRA Forecast A.11-09-022, the Commission authorized
9 SDG&E to include fuel and fuel carrying costs associated with SONGS Units 2 and 3 in the
10 amount of approximately \$25 million. This revenue requirement was implemented in rates on
11 September 1, 2012 consistent with SDG&E's AL 2396-E, filed on August 30, 2012, and
12 therefore roughly 4 months' worth, or approximately one-third of this amount, has already been
13 collected. Differences between the revenue collected in SDG&E's rates and the actual amount
14 incurred for fuel and fuel carrying costs are recorded in the ERRA. Any over-collection
15 recorded in the ERRA as of December 31st of each year is returned to customers in the
16 subsequent year through lower generation rates. Likewise, any under-collections recorded in the
17 ERRA as of December 31st of each year are recovered from customers in the subsequent year.³

18 As discussed above, the difference between the \$25 million that is included in 2012 rate
19 levels and the actual amount of recorded fuel costs will be recorded in the ERRA in 2012.
20 SDG&E anticipates recording approximately \$1.4 million of SONGS Units 2 and 3 fuel costs in
21 the ERRA in 2012. The resulting over-collection of approximately \$23.6 million that results
22 from revenue of \$25 million and expenses of \$1.4 million will be included in the ERRA balance
23 in the months that it occurs and dealt with as appropriate and in compliance with Commission
24 directives. In addition, the recorded fuel costs of approximately \$1.4 million will be tracked in
25 the SONGS Outage Memorandum Account ("SONGS OMA") established in AL 2427-E⁴ and
26 will be subject to review in this proceeding.

³ The amortization of the ERRA balance as of December 31 in rates occurs if the balance is less than 5% of the prior year's generation revenues. Ordering paragraph ("OP") 2 of D. 09-04-021 states that SDG&E shall include its year end ERRA balance in rates on January 1 of each year via the Annual Regulatory Account update if that balance is below the 5% ERRA trigger threshold.

⁴ AL 2427-E was filed on December 3, 2012 to set up the SONGS OMA in compliance with Ordering Paragraph 4.1. of the SONGS OIL.

1 At this time, SDG&E is in an ERRA Trigger proceeding (A.12-10-017) addressing its
2 ERRA balance through the remainder of 2012. While this application is under review, the
3 amortization approved in that proceeding will likely include over-collections and under-
4 collections driven in part from the SONGS outages, among other ERRA revenue and costs
5 elements.

6 **D. SONGS-related Balancing Account Amortizations**

7 Also included in current 2012 and proposed 2013 rates are amortizations of balances
8 related to prior SONGS activities. In particular, as Table III-2 shows, SDG&E has included the
9 balances in the SONGS Major Additions Adjustment Clause (“MAAC”) and also the SONGS
10 O&M Balancing account.

11 1. SONGS MAAC

12 Upon the return to operations of SONGS Unit 3 on February 18, 2011, SDG&E
13 recorded the revenue requirement associated with its share of installation costs that
14 were authorized in AL 2243-E to the SONGS MAAC Subaccount. SDG&E is
15 authorized to transfer the balance of the SONGS MAAC Subaccount at the end of the
16 year following commercial operation of each unit or upon completion of the removal
17 and disposal of the old steam generators for each unit.

18 2. SONGS O&M Balancing Account

19 This account records the difference between SDG&E’s authorized SONGS O&M
20 revenue requirement and actual costs billed by SCE under the SONGS Operating
21 Agreement, including refueling outage O&M.

22 **E. Nuclear Decommissioning Triennial Proceeding**

23 The Commission in D.10-07-047 authorized SDG&E to include in its Nuclear
24 Decommission rate component an annual revenue requirement for the decommissioning trust in
25 the amount of \$9.018 million, as reflected in AL 2188-E (approved September 8, 2010 and
26 effective September 9, 2010). This annual revenue requirement represents \$8.07 million for trust
27 contributions and \$0.948 million for spent nuclear storage. Table III-3 below shows the
28 authorized 2012 and proposed 2013 revenue requirements for nuclear decommissioning, which
29 must remain in rates regardless of the current status of SONGS Units 2 and 3, because SDG&E
30 is obligated to fund the decommissioning trust and permitted to recover the associated revenue

1 requirement in customer rates.⁵ Moreover, the current status of SONGS Units 2 and 3 does not
 2 change the fact that the units will be decommissioned at some time in the future and funds must
 3 be available for that purpose.

4 **Table III-3**
 5 **SONGS Nuclear Decommissioning Revenue Requirement**

6 (\$ in Thousands, excluding FF&U)

	Proposed	Authorized
	2013	2012
SONGS Nuclear Decommissioning		
Trust Contributions (SONGS Units 2 and 3) ^{1/}	8,070	8,070
Spent Nuclear Fuel ^{1/}	948	948
December 31, 2012 Balances ^{2/}		
Nuclear Decommissioning Adjustment Mechanism	(16,076)	-
SONGS Nuclear Decommissioning Revenue Requirement effective 1/1/13	(7,058)	9,018

Notes:

^{1/} Approved in AL 2188-E on September 8, 2010.

^{2/} Year-end 2012 balances reflect actual data through September 2012 and forecasted amounts for October - December 2012.

7
 8 The \$7.06 M shown in Table III-3 above reflects the anticipated end of 2012 over-
 9 collection of \$16.1 in the Nuclear Decommissioning Adjustment Mechanism (“NDAM”)⁶ that is
 10 being amortized during 2013. (AL 2412-E filed on October 31, 2012, proposes to amortize that
 11 balance in 2013 electric commodity rates starting January 1, 2013). This over-collection is the
 12 result of SDG&E’s share of a Department of Energy litigation refund to SONGS.

13 **F. SONGS Units 2 and 3 Revenue Requirement Memorandum Account (“SRRMA”)**

14 SDG&E proposes to establish the SRRMA to record the revenue requirement that is
 15 determined to be subject to rate reduction through an adjustment to rates in this OII. SDG&E
 16 requests that the balance recorded in the SRRMA accrue interest based on the three-month

⁵ PU Code Section 8321, *et seq.*

⁶ According to the SDG&E Electric Tariff Book – Preliminary Statement Section II., Balancing Accounts, the purpose of the NDAM is to 1) record revenue from the Nuclear Decommissioning component of SDG&E’s rates, 2) record the authorized revenue requirement for the amount SDG&E contributes to the Nuclear Decommissioning Trust authorized in D.10-07-047, and 3) record the SONGS costs authorized in D.04-12-015 and modified by D.08-07-046, relating to spent nuclear fuel storage fees.

1 commercial paper rate consistent with its other balancing and memorandum accounts. Having
2 the SRRMA will allow the Commission and interested parties to know how much of SDG&E's
3 SONGS 2 and 3 revenue requirement was subjected to rate reductions as the process continues.

4 Ordering Paragraph 4 (a) of the OII requires SCE and SDG&E to establish the SONGS
5 Outage Memorandum Account ("SONGS OMA") to track all SONGS costs and expenditures
6 incurred on and after January 1, 2012 and the revenues collected in recovery of those costs. AL
7 2427-E was filed on December 3, 2012 establishing the SONGS OMA and is pending approval.

8 The new SRRMA proposed in this application differs from the SONGS OMA in that the
9 SONGS OMA tracks the required costs and revenues in a tracking account not held on
10 SDG&E's balance sheet whereas the SRRMA would book periodic amounts to the company's
11 general ledger for the amount of revenue removed from rates as a result of this proceeding that
12 otherwise would have been included in rates and collected from customers. Being able to place
13 revenues removed from rates into the SRRMA would avoid future problems with retroactive
14 ratemaking when those revenues are potentially placed back into rates.

15 **G. PU Code Section 455.5 Requirements Should Rates Be Adjusted**

16 Although SDG&E requests that rates not be adjusted at this time, if the Commission
17 disagrees and requires a rate adjustment, SDG&E proposes to move the SONGS 2 and 3 ratebase
18 recorded in the general ledger as of the date the rate adjustment is ordered into a deferred debit
19 account. Consistent with PU Code Section 455.5, the ratebase recorded in the deferred debit
20 account will accrue Allowance For Funds Used During Construction ("AFUDC"). The AFUDC
21 rate, as calculated to be applied to Construction Work In Progress ("CWIP"), will be applied to
22 the SONGS rate base in the deferred debit account in the same manner as is done with CWIP.

23 SDG&E proposes that when making any rate adjustment, consideration must be made for
24 its impact on working cash. As a matter of background, working cash is an adjustment to
25 ratebase. When working cash is positive, meaning the company has cash on the books to serve
26 short term needs, that working cash is applied as a reduction to ratebase in the ratebase
27 calculation. The reason for this is that the company would have surplus funds in order to satisfy
28 business needs and therefore would not need the compensation. The opposite certainly holds –
29 when working cash is negative, an adder to ratebase is needed to compensate the company for
30 using their own cash to satisfy short term needs. In the current, pending GRC, SDG&E asked for
31 no working cash additions to ratebase. However, if rates are adjusted for this OII and the

1 SRRMA as proposed above is not granted, it would require the company to maintain additional
2 working cash. SDG&E proposes it be able to make an adjustment to its ratebase to account for
3 the change in working cash associated with this OIL.

4 For the reasons discussed in its testimony, SCE recommends against reducing rates in
5 respect of personnel costs, as expenditures to pursue a possible return of SONGS 2 and 3 to
6 service remain in the public interest. SDG&E, as a 20% owner, will continue to record its share
7 of that O&M expense to the existing SONGS O&M balancing account. If the Commission
8 orders a rate adjustment, SDG&E requests the Commission not require removal of O&M
9 expenses from the SONGS O&M balancing account, and instead handle the adjustment inside of
10 the proposed SRRMA.

11 In the event the Commission disagrees and orders the removal of revenue requirement for
12 non-capital expenses from rates, including O&M, and taxes, SDG&E proposes to track those
13 authorized revenue requirements in the SRRMA. As noted above, the balance in the SRRMA
14 accrues interest based on the three-month commercial paper rate.

15 If the Commission orders a rate reduction, SDG&E would apply for inclusion of the
16 capital and non-capital revenue requirement amounts, along with their respective carrying costs
17 as described above, in rates when or if Unit 2 and/or Unit 3 is/are restored to service.

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3 **IV.**

4 **FINANCIAL EFFECTS OF REMOVING SONGS 2 AND 3 FROM RATES**

5 **A. Introduction**

6 This section of testimony describes the potential financial effects of prematurely
7 removing the SONGS Units 2 and 3 from rates. Prejudging the conclusion from the
8 investigation will have long lasting impacts beyond this investigation and ultimately will be
9 borne by the ratepayers. The Commission needs to act reasonably and responsibly during its
10 investigation to avoid invoking unintended consequences. The financial effects, which could
11 result from a premature rate adjustment, include, but are not necessarily limited to, a perceived
12 increase in regulatory risk as a result of uncertainty, higher financial risk due to a change in
13 regulatory recovery mechanisms and working cash, and higher costs of future projects
14 undertaken by the SDG&E, as discussed in more detail below.

15 **B. Uncertainty Creates Risk**

16 **1. Regulatory Risk**

17 Investors generally view the California regulatory environment as cooperative and
18 supportive of the utilities in advancing California’s energy policy. The uncertainty and
19 unpredictability of the Commission’s actions should it direct the removal of investments out
20 from rates without a diligent and thorough investigation will have long term effects. Removal of
21 SONGS Units 2 and 3 from rates prior to completion of the investigation is premature and sends
22 a message to credit and equity investors (“investors”) that the California regulatory environment
23 may no longer be a constructive balanced environment. As investors have a multitude of choices
24 for investments, this new risk may cause investors to redirect their investments to other more
25 constructive and balanced jurisdictions. None of California, the California utilities, nor
26 customers of the California utilities can afford to lose these investors given the state of
27 California’s robust energy policy, and the California utilities’ significant role in advancing this
28 policy.

29 **2. Financial Risk**

30 Investors also consider the financial integrity and creditworthiness of investments when
evaluating their opportunities. SDG&E has a strong “A” investment grade rating. Should the

1 Commission decide to prematurely remove this project from customer rates, the financial impact
2 could result in an adverse assessment of SDG&E’s credit profile.

3 Pending before the Commission in SDG&E’s Cost of Capital proceeding (A.12-04-016),
4 SDG&E has requested a capital structure of 45.25% long-term debt, 2.75% preferred stock, and
5 52% common stock equity. To demonstrate the specific impact to the credit profile, the
6 Commission must understand the ramifications of prematurely removing SONGS from rates.
7 Operational costs will continue to be incurred “regardless of whether SONGS operates” and in
8 costs pertaining to “functions oriented to returning the Units to service” (SCE, p. 14 lines 21-23.)
9 Currently, SDG&E’s share of the O&M costs are included in rates and balanced. These
10 balanced costs have essentially no impact to SDG&E’s financial results or condition. If SONGS
11 is removed from rates, the recovery mechanism stops. These costs will then no longer be
12 balanced and will adversely impact SDG&E’s cash flow and net earnings, which will result in
13 lower the common equity. Given the capital structure components, the lower common equity
14 level automatically shifts more weighting to long-term debt. An otherwise investment grade
15 company becomes more highly debt leveraged and is deemed to be a high financial risk to
16 investors. High risk companies are challenged when attempting to access capital markets and, as
17 a result, incur higher debt service costs. To meet the ongoing cash requirements of SONGS
18 without any recovery, SDG&E will have to access the capital markets more frequently and in
19 larger denominations.

20 **3. Combination of Regulatory and Financial Risk, Possible Downgrade**

21 As investors perceive an increase in regulatory risk due to uncharacteristically premature
22 Commission actions which might be interpreted as prejudging the outcome of the investigation,
23 the access to capital markets tighten and financing costs increase. As these premature decisions
24 are implemented, the financial impacts are immediately recognized by the financial markets.
25 The markets respond quickly in their analysis of SDG&E’s financial health. The combined
26 regulatory and financial risks that would result by prematurely deciding to remove SONGS from
27 rates are negative factors that may result in a downgrade of SDG&E’s credit rating.

28 **C. Overall Credit Downgrade Results in Higher Overall Costs to Ratepayers**

29 SDG&E’s investment grade “A” rating is a key factor in achieving low cost long-term
30 debt and preferred equity. Should SDG&E face a credit downgrade from perception of a change
31 in the investors’ and/or rating agencies perception of the supportive and cooperative nature of the

1 California regulatory environment or due to the stressed capital structure and financial metrics
2 described above, all future capital financings will be at a higher cost. These higher finance costs
3 will apply not only to SONGS related capital needs but to all of SDG&E's future projects since
4 SDG&E finances its capital needs on a portfolio basis-meaning that capital needs for multiple
5 projects are collectively financed as one. Over the longer term, the higher costs of long-term
6 debt and preferred stock are borne by customers as a result of the resetting of SDG&E's
7 embedded financing costs in future Cost of Capital proceedings. The resetting of the embedded
8 costs of long-term debt and preferred stock are passed onto the ratepayers for the term of the
9 long-term debt, up to 30 years, or perpetually for preferred stock.

10 **D. Conclusion**

11 A prejudged result and premature removal from rates will have long-lasting financial
12 ramifications that would be borne by the ratepayers. The Commission needs to be diligent in
13 following their procedures for a thorough investigation to avoid unintended consequences.

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15 [Remainder of page intentionally left blank]
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V.

A PORTION OF THE SONGS O&M REVENUE REQUIREMENT SHOULD NOT BE SUBJECT TO RATE REDUCTION OR REMOVED FROM RATES

A. Introduction

SDG&E agrees with and supports SCE’s OII Testimony on Proposed Rate Adjustments (“SCE’s OII Testimony”) for SONGS Unit 2 and 3. Under Section 455.5, not *all* costs associated with a facility experiencing an extended outage are made subject to rate reduction; instead, the only costs that may be made subject to rate reduction are those associated with the *portion* of the facility that is out of service—for SONGS, these are costs associated with planning, engineering and repair work activities required to return the units to service.

SCE’s OII testimony details SONGS activities that must be performed regardless of whether SONGS generates electricity. The revenue requirement associated with those activities should not be subject to rate reduction. These are activities undertaken for four main purposes: (1) to safeguard the nuclear material by insuring the radiological safety and security of SONGS is in accordance with the NRC’s⁷ federal regulations; (2) to implement seismic studies directed by the Commission in D.12-05-004; (3) to implement marine mitigation for SONGS required by the California Coastal Commission, and (4) for dry cask storage of used fuel.

B. Used Fuel Storage and Other Activities Related to Safety and Security at SONGS.

O&M expenses related to used fuel storage and other safety/security activities at SONGS must be incurred regardless of whether either Unit at SONGS is in service; the revenue requirement associated with these activities also should not be subject to rate reduction or removed from rates. All used fuel assemblies for Units 1, 2 and 3, except for 270 assemblies from Unit 1, are stored on-site at SONGS in spent fuel pools or in dry cask storage. The spent fuel will continue to be stored on-site until it is ultimately accepted for disposal by the Department of Energy (“DOE”) in accordance with timetables yet to be established by the DOE.

As a non-operating, minority owner of SONGS, SDG&E must rely upon SCE, the NRC licensed operator, to estimate on-going SONGS expenses that continue to be incurred regardless

⁷ “The U.S. Nuclear Regulatory Commission (“NRC”) is an independent agency created by Congress. The mission of the NRC is to license and regulate the Nation’s civilian use of byproduct, source, and special nuclear materials in order to protect public health and safety, promote the common defense and security, and protect the environment.” (From NUREG-1350.)

1 of whether SONGS generates electricity. SDG&E adopts and concurs with SCE's cost-
2 engineering estimate presented in their OII Testimony for calculating the percentage of each
3 functional group needed to perform the particular safety and security functions that must
4 continue. As SCE's OII Testimony explains in Table V-3, the basis for its estimates is shown by
5 each functional group's costs. SCE estimates that \$116.979 million (100% level), of such safety-
6 and security-related costs should not be subject to rate reduction or removed from rates.

7 SDG&E's 20% share of SONGS costs that will continue to occur regardless of whether SONGS
8 continues to generate electricity is \$35.521 million including contractual overheads billed to
9 SDG&E by SCE under the terms of the Second Amended Operating Agreement. The rates
10 applied are:

11 Labor:

12 42.85% Administrative & General Expense

13 21.25% Pension and Benefits, and

14 7.36% Payroll Tax

15 Non-Labor:

16 1% Administrative & General Expense

17 SDG&E's share of Base O&M of \$35.521 million including contractual overheads is
18 detailed in Table V-1 below.

19
20 [Remainder of page intentionally left blank]
21

SDG&E Table V-I SONGS OII I.12-10-013 SDG&E Share of SONGS 2&3 Base O&M That Should Not Be Subject To Rate Reduction Or Removed From Rates (Constant 2009 Dollars x 1000)																	
Line #	SCE O&M Excluded from Reduction (%)	517		520		524		525		528		529		532		Total	
		labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor		
1	Operations	30%			5,301	99	3,422	910									9,732
2	Maintenance	30%									8,947	1,662	683	2,404	8,117	8,345	30,159
3	Engineering	15%	4,745	1,057			1,040	393									7,235
4	Site Projects	0%															
5	Control	30%			3,359	1,874	987	390									6,610
6	Regulatory Affairs	75%	1,958	425			4,185	2,191									8,759
7	Security	90%					32,963	1,152									34,115
8	Training	30%					2,941	1,103									4,043
9	Nuclear Support	20%	819	4,940			4,097	4,966		409		226			823	46	16,327
10	SONGS O&M To Be Excluded From Rate Reduction		7,522	6,423	8,660	1,973	49,634	11,104	409	8,947	1,888	683	2,404	8,940	8,391		116,979
11	SDG&E's 20% Share of SCE's SONGS O&M To Be Excluded From Rate Reduction and Remain In Rates Without Overheads															23,396	
12	Contractual Overheads Billed to SDG&E: (a)																
13	A&G Labor Based																7,232
14	A&G Non-Labor Based																65
15	Pensions & Benefits																3,586
16	Payroll Taxes																1,242
17	Total Contractual Overheads Billed to SDG&E															12,125	
	SDG&E's 20% Share SONGS O&M To Be Excluded From Rate Reduction and Remain In Rates Without Overheads															35,521	
Footnotes:																	
(a) See Workpapers, SCE-07, Volume 1, Chapter IX: A&G Labor Based = 42.85% x Labor, excluding RS & Outage Incentive A&G Non-Labor Based = 1% x Non-Labor & Other, including RS & Outage Incentive Pensions & Benefits = 21.25% x Labor, excluding RS Payroll Taxes = 7.36% x Labor, including RS																	

C. Additional SONGS Costs That Should Not Be Subject to Rate Reduction or Removed from Rates

In addition to the Base O&M expenses related to plant safety, spent fuel storage and security, SCE’s OII Testimony lists two other categories of expenses that must continue regardless of whether SONGS generates electricity and thus should not be subject to rate reduction or removed from rates.

D.12-05-004 authorized \$64.0 million (100% share) for activities that the Commission has expressly directed⁸ SCE to conduct for the ongoing seismic program and new seismic research projects and analyses (collectively referred to as SONGS 2 and 3 seismic activities, recommended in the Assembly Bill (“AB”) 1632 Report). Regardless of whether either SONGS unit is restored to service used fuel will be stored on-site for the foreseeable future. The SONGS

⁸ See letter from Commission President Peevey to Alan Fohrer dated June 25, 2009 (directing SCE to “[r]eport on the major findings and conclusions from the seismic/tsunami hazards and vulnerability studies, as recommended in the AB 1632 Report (pp. 9, 10 and 13), and the implications of these findings and conclusions for the long-term seismic vulnerability and reliability of the plant”).

1 2 and 3 seismic activities are required to ensure this used fuel continues to be safely maintained.
2 Moreover, much of the fuel stored on site is from SONGS Unit 1 and should not be subject to
3 rate reduction or removed from rates. The Commission, in D.12-05-004, directed that seismic
4 costs should not be made subject to refund. SDG&E respectfully requests that its share, \$12.8
5 million, plus overheads, for a total of \$13.3 million, should not be subject to rate reduction or
6 removed from rates.

7 In addition, the California Coastal Commission directed that SONGS complete marine
8 mitigation activities. As SCE's OII Testimony supports, the 1974 California Coastal Zone
9 Conservation Commission permit (No. 6-81-330- A, formerly 183-73) required SONGS to study
10 the impacts of the operation of Units 2 and 3 on the marine environment offshore from San
11 Onofre, and mitigate any adverse impacts. As a result of these impact studies, in 1991, the
12 Coastal Commission added new conditions requiring SONGS to mitigate the adverse impacts of
13 the power plant on the marine environment which include: (1) creating or substantially restoring
14 at least 150 acres of southern California wetlands, (2) installing fish barrier devices to reduce the
15 biomass of fish killed inside the power plant, and (3) constructing a 300-acre kelp reef. The
16 conditions specify both physical and biological performance standards for the wetland
17 restoration and kelp reef, require continuing monitoring of the effectiveness of the fish barriers,
18 and require SCE to provide the funds necessary for the Commission to contract scientific staff to
19 provide on-going technical oversight and independent monitoring of the mitigation projects. In
20 1993, the Commission added a requirement for SCE to partially fund construction of an
21 experimental White Sea Bass Hatchery.

22 All of these monitoring and mitigation activities are ongoing and must continue,
23 regardless of the operational status of SONGS, through 2050. Therefore, expenses associated
24 with such activities should not be subject to rate reduction or removed from rates. SDG&E's
25 share of the mitigation expense is estimated to be \$48 million, of which \$39 million has been
26 incurred through December 31, 2012. SDG&E expects on-going monitoring and maintenance of
27 approximately \$0.5million per year after the projects are completed for on-going Commission
28 monitoring. SDG&E respectfully requests that its portion of Marine Mitigation costs should not
29 be subject to rate reduction or removed from rates.

1 **D. SDG&E's SONGS Costs Addressed in SDG&E's 2012 GRC That Should Not Be**
2 **Subject to Rate Reduction or Removed from Rates**

3 SDG&E incurs SONGS cost not included in the SONGS portion of SCE's 2012 GRC.
4 These costs are addressed in SDG&E's 2012 GRC A.10-12-006. These costs are on-going
5 regardless of whether the SONGS units generate electricity. Therefore, expenses associated with
6 these activities should not be subject to rate reduction or removed from rates.

7 **1. Unit 1 Used Fuel Storage**

8 In addition to Unit 1 spent fuel assemblies stored on-site at SONGS, 270 spent fuel
9 assemblies from Unit 1 have been stored at the General Electric spent fuel storage facility
10 located in Morris, Illinois, since 1972. Because there are no other facilities currently available in
11 the U.S. for the commercial storage of spent nuclear fuel, those 270 assemblies are expected to
12 remain at the Morris facility until they are accepted for ultimate disposal by the DOE in
13 accordance with timetables yet to be established by the DOE. Payments are made monthly to
14 General Electric by SCE, which in turn bills SDG&E for its 20% share. SDG&E estimates its
15 TY2012 SONGS Unit 1 Spent Fuel Storage expense to be \$1.003 million (2012\$). This estimate
16 is based on the 2010 SONGS Nuclear Fuel Management Plan prepared by SCE.

17 **2. SONGS Site Easement**

18 SONGS resides on Camp Pendleton property, which is owned by the U.S. Department of
19 the Navy ("Navy"), and held by the SONGS owners through an easement (*i.e.*, the SONGS Site
20 Easement). Under the terms of the SONGS Site Easement, the SONGS owners are billed
21 individually by the Navy for their respective shares of the annual easement fee. SDG&E makes
22 fixed annual payments of \$20,147 for its 20% share of the SONGS Site Easement fee.
23 SDG&E's TY2012 SONGS Site Easement expense remains at \$20,147 (2012\$). Easement
24 expense is fixed through 2014 when it will be renegotiated with Navy.

25 **3. SONGS Insurance**

26 SDG&E incurs and is responsible for paying its 20% share of SONGS site insurance for
27 property liability and property damage ("PL/PD") insurance. SDG&E incurs \$1.847 million
28 (2012\$'s) in SONGS PL/PD insurance annually.

1 **4. SDG&E’s SONGS Operations and Billing Oversight**

2 In D.06-11-026, the Commission ordered SDG&E to enhance its oversight⁹ This was
3 reaffirmed in SCE’s 2012 GRC Decision D.12-11-051, as the decision stated that “[a]s a co-
4 owner of SONGS, SDG&E has an obligation to oversee and monitor SCE’s performance and to
5 protect its ratepayers.”¹⁰ SDG&E provides oversight of SONGS expenditures through:

- 6 a. A SONGS Team Lead monitoring SCE’s daily activities at the SONGS worksite.
- 7 b. A Principal Accountant implementing a continuous monitoring (audit) program to
8 validate costs and support informed inquiries regarding costs incurred.
- 9 c. A Financial Project Manager to monitor O&M, capital expenditures, fuel contracts,
10 and decommissioning expenditures.
- 11 d. Further, SDG&E has requested in its 2012 GRC application, A.10-12-006, \$250,000
12 in additional funding to engage an external consultant/technical advisor with
13 extensive knowledge of practices at other nuclear facilities.

14 These functions and costs continue regardless of whether either SONGS unit generates
15 electricity. SDG&E requested \$ 0.879 million in its 2012 GRC A.10-12-006 for the oversight
16 the Commission ordered in these prior decisions. SDG&E’s oversight has resulted in ratepayer
17 recoveries from SCE.

18 SDG&E respectfully requests that the revenue requirement of \$879,000 needed for
19 providing and enhancing SONGS oversight as ordered in the decisions above should not be
20 subject to rate reduction or removed from rates.

21 **E. Summary of SDG&E SONGS Costs That Should Not Be Subject to Rate Reduction**
22 **or Removed from Rates**

23 SDG&E respectfully requests that the following costs are not subject to rate reduction or
24 removed from rates:

- 25 • \$35.521 million for Base O&M, including overheads, for activities related to SONGS
26 Safety and Security;
- 27 • \$12.8 million, plus overheads, for a total of \$13.3 million, for Seismic Activities;
- 28 • \$0.5 million for on-going Marine Mitigation maintenance activities;
- 29 • \$1.003 million for Unit 1 Spent Fuel Storage;

⁹ See D.06-11-026, p. 12.

¹⁰ See Final Decision A.10-11-015, page 40.

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- \$20,147 for SONGS Site Easements;
- \$1.847 million for SONGS PL/PD insurance;
- \$879,000 for SDG&E’s SONGS oversight; and
- \$0.8 million representing the revenue requirement for Marine Mitigation and dry cask storage capital expenditures through 12/31/12, plus additional capital expenditures as required by California Coastal Commission.

The total of SDG&E SONGS costs that should not be subject to rate reduction or removed from rates is \$53.87 million plus the revenue requirement for any additional Marine Mitigation expenditures as required by the California Coastal Commission and any additional dry cask storage costs.

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1 **WITNESS QUALIFICATIONS – ROBERT M. SCHLAX**

2 My name is Robert M. Schlax. I am the Vice President, Controller and CFO and
3 Treasurer of SDG&E and SoCalGas. I joined the company in 2005 as Vice President and
4 Controller of SDG&E and SoCalGas. In October 2008, I was additionally appointed CFO. In
5 my expanded position, I oversee all of the financial planning and budgeting, energy risk
6 management, financial reporting, debt management, utility accounting, and affiliate compliance
7 for SDG&E and SoCalGas.

8 I have a Bachelor’s Degree in Accountancy from the University of Illinois and a Master’s
9 Degree in Business Administration from Pepperdine University.

10 Prior to joining the Company, I served as CFO, Treasurer and Vice President of Finance
11 at Mercury Air Group, Inc. from 2002 to 2005. Before 2002, I held various management
12 positions of increasing responsibilities within the accounting and finance departments at Unocal
13 Corporation.

14 I am sponsoring Chapters I, II, III and IV of this testimony. I have previously testified
15 before this Commission.

16

1 **WITNESS QUALIFICATIONS –MICHAEL L. DE MARCO**

2 My name is Michael L. De Marco, and I have been employed by San Diego Gas &
3 Electric Company (“SDG&E”) since May of 2007 as Team Leader of the Nuclear Section in the
4 Electric Project Development & Business Planning Department. My current responsibilities
5 include representing SDG&E’s ownership interests at SONGS.

6 Prior to working for SDG&E, I worked for Southern California Edison. Previous
7 positions relevant to my testimony include: Nuclear Plant Operator, SONGS (1989 – 2001),
8 Technical Specialist, Nuclear Rate Regulation (2002 – 2003), Senior Financial Analyst, Energy
9 Supply and Management (2003 – 2006), and Senior Project Manager, Power Procurement (2006
10 – 2007).

11 I received a Bachelor of Science degree in Workforce Education from Southern Illinois
12 University at Carbondale in 1998 and a Master of Business Administration degree from the
13 University of California, Irvine in 2001. I am a registered Project Management Professional with
14 the Project Management Institute (“PMI”).

15 I am sponsoring Chapter V of this testimony. My business address is 8315 Century Park
16 Court, San Diego, California 92123. I have previously testified before this Commission.