

**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

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December 17, 2012

As modified on February 11, 2013

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2 **PREPARED TESTIMONY OF**

3 **SAN DIEGO GAS & ELECTRIC COMPANY**

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5
6 **I.**

7 **INTRODUCTION**

8
9 The purpose of this testimony is to respond to the California Public Utilities Commission
10 (“Commission”) Order Instituting Investigation (“OII”) I.12-10-013, Ordering Paragraph 4(h),
11 which directed SDG&E to submit testimony proposing rate adjustments due to the extended
12 outages at San Onofre Nuclear Generating Station Units 2 and 3 (“SONGS”). For the reasons
13 explained in SDG&E’s Response to the OII and in this testimony, SDG&E believes that the
14 Commission should not reduce rates at this time and should modify the subject-to-refund
15 condition to eliminate the revenue requirement associated with activities that must be undertaken
16 regardless of whether SONGS operates.

17 SDG&E’s written response to the OII explained that an immediate rate adjustment prior
18 to Southern California Edison’s (“SCE’s”) test year (“TY”) 2015 General Rate Case (“GRC”)
19 contravenes the plain language of California Public Utilities (“PU”) Code Section 455.5 and
20 Commission precedent implementing that statute, as well as Section 362. In addition, as further
21 explained in this testimony, the removal from rates of the revenue requirement associated with
22 SONGS is not in the public interest. Moreover, the revenue requirement associated with certain
23 activities at SONGS should not be subject to rate reduction as they are necessary to continue to
24 keep certain critical plant systems in a safe and secure condition and meet regulatory
25 requirements. These activities must be pursued regardless of whether SONGS produces
26 electricity, and as such, they are not the “portion” of the facility that is out of service, and such
27 costs are necessary to ensure the safety of the community around the facility. SDG&E estimates
28 the revenue requirement associated with these activities in Chapter V.

29 Chapter II provides SDG&E’s ratemaking proposal. Chapter III provides the proposed
30 revenue requirement to be tracked subject to rate reduction. Chapter IV discusses the financial
31 effects of removing SONGS from rates. Chapter V identifies authorized revenue requirements
32 associated with activities that should not be subject to rate reduction or removal from rates.

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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 ~~\$53.734~~54.547 million (which includes \$0.8 million representing the revenue
15 requirement for Marine Mitigation and dry cask storage!) be excluded from any rate reduction
16 and remain in rates as SDG&E believes these costs are necessary to ensure a safe and secure
17 environment for SONGS. ~~Further,~~ SDG&E believes that mandated Marine Mitigation and
18 construction of dry cask storage capital expenditures of ~~\$36~~58.1 million and any additional
19 Marine Mitigation expenditures as required by the California Coastal Commission and additional
20 dry cask storage costs should be excluded from rate reductions. All of this is discussed in further
21 detail in the testimony of 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.

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

	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				24.20
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)	(\$53.73)	\$70.96

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,

1 contributions and \$0.948 million for spent nuclear storage. Table III-3 below shows the
 2 authorized 2012 and proposed 2013 revenue requirements for nuclear decommissioning, which
 3 must remain in rates regardless of the current status of SONGS Units 2 and 3, because SDG&E
 4 is obligated to fund the decommissioning trust and permitted to recover the associated revenue
 5 requirement in customer rates.⁵ Moreover, the current status of SONGS Units 2 and 3 does not
 6 change the fact that the units will be decommissioned at some time in the future and funds must
 7 be available for that purpose.

8 **Table III-3**
 9 **SONGS Nuclear Decommissioning Revenue Requirement**

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(\$ In Thousands, excluding FF&U)			
		Proposed 2013	Authorized 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		25,094	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.			

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⁵ PU Code Section 8321, *et seq.*

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(\$ in Thousands, excluding FF&U)

	Proposed 2013	Authorized 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.

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3 The \$~~25.0947.06~~ M shown in Table III-3 above reflects the anticipated end of 2012 over-
4 collection of \$16.1 in the Nuclear Decommissioning Adjustment Mechanism (“NDAM”)⁶ that is
5 being amortized during 2013. (AL 2412-E filed on October 31, 2012, proposes to amortize that
6 balance in 2013 electric commodity rates starting January 1, 2013). This over-collection is the
7 result of SDG&E’s share of a Department of Energy litigation refund to SONGS.

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

9 SDG&E proposes to establish the SRRMA to record the revenue requirement that is
10 determined to be subject to rate reduction through an adjustment to rates in this OII. SDG&E
11 requests that the balance recorded in the SRRMA accrue interest based on the three-month
12 commercial paper rate consistent with its other balancing and memorandum accounts. Having
13 the SRRMA will allow the Commission and interested parties to know how much of SDG&E’s
14 SONGS 2 and 3 revenue requirement was subjected to rate reductions as the process continues.

15 Ordering Paragraph 4 (a) of the OII requires SCE and SDG&E to establish the SONGS
16 Outage Memorandum Account (“SONGS OMA”) to track all SONGS costs and expenditures

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 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 \$35.58521 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-1
SONGS Oil 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	10%	3,163	705			693	262									4,824
4	Site Projects	0%															
5	Rad/Chemical 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	25%					2,451	919									3,369
9	Nuclear Support	25%	1,024	6,176			5,122	6,208	511		283			1,029	57		20,408
10	SCE O&M To Be Excluded From Rate Reduction		6,145	7,306	8,660	1,973	49,822	12,031	0	511	8,947	1,945	683	2,404	9,146	8,402	117,975
11	SDG&E's 20% Share of SCE's SONGS O&M That Should Not Be Subject To Rate Reduction Or Removed From Rates Without Overheads															23,595	
12	Contractual Overheads Billed to SDG&E: (a)																
13	A&G Labor Based																7,148
14	A&G Non-Labor Based																69
15	Pensions & Benefits																3,545
16	Payroll Taxes																1,228
17	Total Contractual Overheads Billed to SDG&E															11,990	
	SDG&E's 20% Share of SCE's SONGS O&M That Should Not Be Subject To Rate Reduction Or Removed From Rates With Overheads															35,585	
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																	

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 ~~\$53.48~~ million, of which ~~\$396~~ million has been
26 incurred through December 31, 201~~4~~2. SDG&E expects on-going monitoring and maintenance
27 of approximately ~~\$1.1~~0.5 million per year after the projects are completed for on-going
28 Commission monitoring. SDG&E respectfully requests that its portion of Marine Mitigation
29 costs should not be subject to rate reduction or removed from rates.

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 • \$35.5~~8521~~ million for Base O&M, including overheads, for activities related to
26 SONGS Safety and Security;
27 • \$12.8 million, plus overheads, for a total of \$13.3 million, for Seismic Activities;
28 • \$~~1.10.5~~ 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
- \$360.8 million in representing the revenue requirement for Marine Mitigation and dry cask storage capital expenditures through 12/31/14~~2~~, 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 ~~\$53.734~~53.87 million plus the revenue requirement for Marine Mitigation capital expenditures of \$36 million and any additional Marine Mitigation expenditures as required by the California Coastal Commission and any additional dry cask storage costs.

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