

Application No.: A.18-03-XXX
Exhibit No.: SDGE-01
Witnesses: Sue E. Garcia
Tracy M. Dalu

PREPARED DIRECT TESTIMONY
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY

(SDG&E's Oversight and Fiscal Management Role at SONGS)



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

March 15, 2018

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**PREPARED DIRECT TESTIMONY
ON BEHALF OF SDG&E**

I. OVERVIEW OF SDG&E’S REQUEST (S. GARCIA)

In this 2018 Nuclear Decommissioning Cost Triennial Proceeding (“NDCTP”), San Diego Gas & Electric Company (“SDG&E”) is providing testimony in support of its requests that the California Public Utilities Commission (“CPUC” or “Commission”):

- 1) Approve as reasonable the 2018 San Onofre Nuclear Generating Station (“SONGS”) Unit 1 (“SONGS 1” or “SONGS Unit 1”) decommissioning cost estimate (“DCE”) for remaining SONGS 1 decommissioning work and SDG&E’s 20% share of the costs (\$41.8 million, 2014\$);¹
- 2) Approve as reasonable the 2017 SONGS Units 2&3 (“SONGS 2&3” or “SONGS Units 2&3”) DCE for SONGS 2&3 decommissioning work and SDG&E’s 20% share of the costs (\$895.7 million, 2014\$)²;
- 3) Approve as reasonable the \$45.9 million (SDG&E share, 2014\$) estimate of future SDG&E-only costs for SONGS 1 and SONGS 2&3³;
- 4) Approve SDG&E’s request to maintain its annual contributions to its SONGS 1 Nuclear Decommissioning Trusts (“NDTs”) at zero (\$0.00), based upon the current estimate of decommissioning costs for SONGS 1, current level of funding of the SONGS 1 NDTs, projected escalation rates, and financial market conditions known at the time the Joint Application was filed (March 15, 2018)⁴;
- 5) Approve SDG&E’s request to maintain its annual contributions to its SONGS 2&3 NDT at zero (\$0.00), based upon the current estimate of decommissioning costs for SONGS 2&3, current level of funding of the SONGS 2&3 NDTs, projected escalation rates, and financial market

¹ The total updated SONGS 1 DCE is \$209 million (100%, 2014\$). Exhibit (“Ex.”) SCE-02 at 1.

² The total updated SONGS 2&3 DCE is \$4,479 million (100%, 2014\$). Ex. SCE-03 at 1.

³ Ex. SDGE-03 at 46-47.

⁴ Ex. SDGE-04 at 7.

1 conditions known at the time the Joint Application was filed (March 15,
2 2018)⁵;

- 3 6) Approve as reasonable the \$0.2 million (SDG&E share, 2014\$) for
4 SONGS 1 decommissioning expenses invoiced to SDG&E by Southern
5 California Edison Company (“SCE”) for completed distributed activities
6 and undistributed costs for the 2018 NDCTP review period;⁶
- 7 7) Approve as reasonable the \$58.9 million (SDG&E share, 2014\$) for
8 SONGS 2&3 decommissioning expenses invoiced to SDG&E by SCE for
9 completed distributed activities and undistributed costs for the 2018
10 NDCTP review period;⁷
- 11 8) Approve as reasonable the \$7.4 million (2014\$) in SDG&E-only costs for
12 SONGS incurred January 1, 2016 through December 31, 2017;⁸
- 13 9) Approve, if necessary, SDG&E’s request to establish a Non-Qualified
14 Trust (“NQT”) for SONGS 3 (“SONGS 3 NQT”) and reallocate trust
15 funds from SONGS 1 NQT to SONGS 2 NQT and SONGS 3 NQT;⁹ and
16 10) Authorize SDG&E to record Department of Energy (“DOE”) refunds for
17 reimbursement to ratepayers in its Energy Resource Recovery Account
18 (“ERRA”) to be reviewed as part of the annual ERRA compliance filing.¹⁰

19 **A. Procedural Background**

20 Approximately every three years, the California electric utilities that have ownership
21 shares in nuclear power plants file NDCTP applications. As set forth by the Commission in
22 Decision (“D.”) 10-07-047, the objectives of the NDCTP are “[1] to set the annual revenue

⁵ Ex. SDGE-04 at 8.

⁶ Ex. SDGE-02 at 1.

⁷ Ex. SDGE-02 at 1.

⁸ Ex. SDGE-02 at 1.

⁹ See, *infra* at 14-17.

¹⁰ See, *infra* at 14.

1 requirements for the decommissioning trusts for the nuclear powerplants owned by Southern
2 California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric
3 Company, [2] to verify the utilities are in compliance with prior decisions applicable to
4 decommissioning and [3] to determine whether actual expenditures by the utilities for
5 decommissioning activities are reasonable and prudent.”¹¹

6 The Administrative Law Judge’s Ruling Modifying Schedule in Application (A.) 16-03-
7 004 dated June 27, 2017 set forth that SCE and SDG&E were to file on March 15, 2018 updated
8 SONGS 2&3 DCE testimony and the 2018 NDCTP application.¹²

9 **B. Content Of SDG&E’s NDCTP Testimony Volumes**

10 SDG&E offers the following testimony to cover these various areas:

11 **1. Overview**

12 Testimony in Ex. SDGE-01 provides an overview of SDG&E’s Oversight role at
13 SONGS, SDG&E’s Oversight and Fiscal Management roles and processes, DOE
14 settlement recovery, SDG&E’s request, if necessary, to establish a SONGS 3
15 NQT and reallocate trust funds from SONGS 1 NQT to SONGS 2 NQT and
16 SONGS 3 NQT, and SDG&E’s request to record DOE refunds for reimbursement
17 to ratepayers in its ERRA.

18 **2. SONGS 1 and SONGS 2&3 Reasonableness Reviews**

19 Testimony in Ex. SDGE-02 presents SONGS 1 and SONGS 2&3
20 decommissioning expenses incurred by SDG&E that are subject for review in this
21 2018 NDCTP. It also provides support for a finding of reasonableness for these

¹¹ D.10-07-047 at 2.

¹² A.16-03-004, *Administrative Law Judge’s Ruling Modifying Schedule* (June 27, 2017) at 4.

1 costs recorded by SDG&E for SONGS 1 and SONGS 2&3. Ex. SDGE-02 also
2 includes testimony from SDG&E’s nuclear industry expert addressing the
3 reasonableness of SONGS 1 and SONGS 2&3 decommissioning activities.

4 **3. 2017 SONGS 1 and SONGS 2&3 DCE**

5 Testimony in Ex. SDGE-03 provides support for a finding of reasonableness for
6 the updated SONGS 1 DCE and SONGS 2&3 DCE, including future SDG&E-
7 only incurred costs.

8 **4. SONGS 1 and SONGS 2&3 Trust Fund Contributions, Trust Fund**
9 **Management, Tax Issues and Regulatory Accounting**

10 Testimony in Ex. SDGE-04 presents SDG&E’s financial assumptions and
11 analyses, and trust fund contribution requests for SONGS 1 and SONGS 2&3,
12 addresses tax issues associated with the decommissioning of SONGS and
13 describes the regulatory accounting for SONGS 1 and SONGS 2&3.

14 **II. SONGS OVERSIGHT BY SDG&E (S. GARCIA)**

15 In this testimony, I address SDG&E’s role in SONGS decommissioning activities.¹³

16 SONGS is licensed under the Nuclear Regulatory Commission (“NRC”) as three units. SDG&E
17 has a 20% minority ownership stake in each of the three nuclear units and, as such, is
18 contractually obligated to pay its 20% ownership share of all expenses including
19 decommissioning expenses. Ever since the SONGS site entered the decommissioning period in
20 June 2013, SDG&E has worked to create decommissioning oversight – both of activities at
21 SONGS and the related fiscal and accounting activities – by bolstering current and establishing

¹³ The costs that SDG&E has recorded associated with its activities described in this section (“SDG&E-only” costs) are described in more detail in Ex. SDGE-03.

1 new processes and procedures. This testimony describes SDG&E’s oversight processes and
2 procedures.

3 **A. SDG&E’s Oversight Role of Activities at SONGS (S. Garcia)**

4 While SDG&E is neither the NRC licensee for SONGS (the licensee is SCE), nor the
5 decommissioning agent for SONGS (the agent is SCE), SDG&E has sought to make significant
6 improvements in its decommissioning oversight role at SONGS through different processes.

7 First, ever since SCE announced SONGS’ permanent cessation of operations, SDG&E
8 has sought to create an effective internal SONGS decommissioning group (“SONGS Team” or
9 “SONGS Group”) that reports to SDG&E’s Vice President – Enterprise Risk Management and
10 Compliance. In 2016 and 2017, SDG&E increased the number of employees working on
11 SONGS decommissioning and at the end of 2017, SDG&E had seven employees focused on
12 SONGS decommissioning oversight. The Manager of Nuclear Decommissioning is responsible
13 for managing the SONGS Group to ensure that SDG&E’s oversight is effective. The Principal
14 Nuclear Decommissioning Advisor is located on-site and focuses on day-to-day oversight
15 activities at SONGS. The Project Manager focuses on major projects, such as Decommissioning
16 General Contractor selection and the 2017 DCEs. The Nuclear Decommissioning Fiscal
17 Manager and a team of three other employees (“Fiscal Team”), a subset of the SONGS Group,
18 are responsible for SDG&E’s fiscal management role as a minority owner of SONGS.

19 Second, when the plant was producing electricity, and now that it is in decommissioning,
20 SDG&E stationed a dedicated employee, the Principal Nuclear Decommissioning Advisor, at the
21 plant to follow major activities at the site and to report to SDG&E management plant status
22 relative to projects and budget. As such, the Principal Nuclear Decommissioning Advisor
23 participates in middle and upper management site meetings to keep apprised of decommissioning
24 activities and plans. To keep apprised of the activities occurring at the plant, the Principal

1 Nuclear Decommissioning Advisor participates in daily plant meetings, weekly project status
2 meetings, monthly project update meetings, and monthly SONGS Participants Executive
3 Committee and Budget Committee meetings. In addition, in order to keep current on NRC
4 issues, SDG&E also attends NRC inspection entrance and exit conferences and reviews NRC
5 inspection reports and other relevant NRC reports related to SONGS.

6 Third, in April 2015, SDG&E and the other three SONGS Participants¹⁴ executed a
7 decommissioning agreement (“Decommissioning Agreement”) that governs SDG&E co-owner
8 participation roles and responsibilities during decommissioning for all three units. This
9 agreement materially improved the rights of the minority co-owners in dealing with SCE. The
10 Decommissioning Agreement establishes the decommissioning agent, participant funding
11 responsibilities and participant involvement in the governance of the decommissioning agent.
12 The Decommissioning Agreement also establishes the Executive, Budget, Fiscal, and Legal
13 committees. The Budget and Executive committees approve major monetary commitments.
14 SDG&E actively participates in all four of the committees. In addition, an independent nuclear
15 expert (i.e., the Decommissioning Advisor) assists the Executive Committee on an as-needed
16 basis.

17 Fourth, soon after shutdown, SDG&E retained a spent nuclear fuel/decommissioning
18 consultant, Mr. Adam Levin, to serve as an industry consultant to its SDG&E SONGS team. Mr.
19 Levin provides valuable insight as to past and present decommissioning activities within the
20 industry, NRC requirements, and nuclear issues before the DOE. He serves as SDG&E’s

¹⁴ SONGS 1 Participants are SCE and SDG&E. SONGS 2&3 Participants are SCE, SDG&E, the City of Anaheim, and the City of Riverside.

1 industry expert when we seek confirmation that activities or plans for SONGS comport with
2 industry practices.

3 Fifth, starting in 2017, SDG&E retained Mr. Joseph Carignan and Mr. Thomas
4 LaGuardia, both decommissioning cost estimate experts, to provide technical support in
5 SDG&E's review of the decommissioning cost estimate, schedule, and supporting
6 documentation provided by SCE. This support and guidance included training and review of
7 numerous decommissioning documents, including assumptions and decommissioning cost
8 estimates prepared for SONGS 1 and SONGS 2&3. These reviews included on-site meetings
9 with SDG&E and SCE personnel at both the SDG&E offices and at SONGS. SDG&E's
10 intention was that by bringing this level of experience and expertise to its effort, SDG&E was
11 ensuring that its due diligence over SCE's activities was accomplished and the work product for
12 the SONGS 1 and SONGS 2&3 DCEs would be improved.

13 In addition, in 2017, Messrs. Carignan and LaGuardia provided a training course for
14 SDG&E focused on introductions to the challenges of decommissioning, industry lessons
15 learned, and the methods and approaches for providing decommissioning oversight.

16 Sixth and lastly, SDG&E personnel attended an Argonne National Laboratories three-day
17 decommissioning training course. In November 2016 the Manager of Nuclear
18 Decommissioning, in March 2017 the Principal Nuclear Decommissioning Advisor and in March
19 2018 the Nuclear Decommissioning Fiscal Manager and the Principal Financial Analyst attended
20 the course.

21 **B. SDG&E's Fiscal Management Role and Procedures (T. Dalu)**

22 As a 20% minority owner of all three units at SONGS, SDG&E has a fiscal responsibility
23 to fund 20% of the decommissioning activities at SONGS. Since the June 2013 shutdown

1 announcement, SDG&E has developed several procedures and processes to fulfill its fiscal
2 management role as a minority owner of SONGS.

3 First, SDG&E has structured its new internal Fiscal Team, a subset of the SONGS Group,
4 to emphasize fiscal review. Prior to decommissioning, SDG&E had one employee dedicated to
5 fiscal review for SONGS. As described in Section A above, this group now has four employees
6 as of the year ending 2017, with the primary goal of the Fiscal Team being to provide diligent
7 fiscal management over the decommissioning of SONGS, its related costs and regulatory
8 requirements and filings. SDG&E added a Nuclear Decommissioning Fiscal Manager in 2016.
9 The Nuclear Decommissioning Fiscal Manager is dedicated to ensuring that costs billed by SCE
10 and SDG&E internal costs are reviewed, reported and in compliance with CPUC and NRC
11 requirements. The Fiscal Team also has two principal financial/budget analysts and one
12 associate level business analyst, all of whom are dedicated to the accounting, reporting and
13 review of SONGS decommissioning expenses.

14 Second, SDG&E tracks performance to budget and to the decommissioning cost estimate
15 for decommissioning activities on a monthly basis. SDG&E reviews the monthly budget and
16 performance reports prepared by SCE each month. SDG&E follows up with SCE regarding
17 significant under- and over-budget line items to determine the reason for the variance. In
18 addition, under the Decommissioning Agreement, upon the Budget Committee's
19 recommendation, the Executive Committee reviews and approves the annual decommissioning
20 budget. Both committees also review and approve budgets for specific decommissioning
21 projects. Contracts or change orders to existing contracts in excess of \$3 million dollars require
22 unanimous approval by the SONGS Participants. SDG&E is an active member of these
23 committees.

1 Third, SDG&E reviews SCE's monthly decommissioning invoices before authorizing
2 payments. Each invoice is reviewed for accuracy and SDG&E follows up with SCE concerning
3 any unusual or unexpected fluctuations. Payment of invoices are approved by the SONGS Team
4 management. Beginning in 2015, SCE's monthly decommissioning invoices segregated costs by
5 unit and by decommissioning cost categories as required by the NRC and the Commission. SCE
6 invoices also started including an Advanced Funding Request ("AFR") line item. The AFR line
7 item is an estimate of the funding needed by SCE to fund decommissioning operations for the
8 upcoming month and is included to mitigate the lag between SCE's payment of
9 decommissioning charges and its recovery from the Participants.

10 SDG&E's review processes includes confirming the detailed actual cost support files and
11 the AFR support files, provided by SCE, properly support and reconcile to the monthly invoiced
12 amount for each unit. Costs are also reviewed to ensure they are classified by the appropriate
13 cost categories. When necessary, SDG&E disputes invoiced expenses. During 2016 and 2017,
14 SDG&E sent five disputes/billing issues to SCE. In Attachment A is a log of questions and
15 disputes by SDG&E surrounding SONGS decommissioning costs billed by SCE during 2016 and
16 2017. The resolution of each dispute is noted in the table provided in Attachment A.

17 Lastly, in 2016 and 2017 in accordance with the Decommissioning Agreement, an
18 attestation was done by PricewaterhouseCoopers concerning decommissioning costs incurred by
19 SCE for the period June 7, 2013 through December 31, 2016. The attestation report concluded
20 that SONGS decommissioning costs for the period were accurate, only included actual
21 decommissioning costs, and were appropriately allocated among the Participants. In addition to
22 the PricewaterhouseCoopers attestation, SDG&E's Internal Audit Department reviewed the
23 adequacy and effectiveness of the SDG&E business controls in place over nuclear

1 decommissioning expenditures billed by SCE, trust payments, withdrawal processes and
2 reporting to the CPUC in 2015 and 2016. The outcome of the review was positive and no
3 business control issues were identified.

4 **C. Nuclear Decommissioning Trust Cost Recovery Process (T. Dalu)**

5 SDG&E also has established processes to retrieve funds from its “NDTs” to pay for
6 nuclear decommissioning costs. The procedures vary by unit, and follow directives established
7 by the Commission.

8 **1. SONGS 1**

9 In D.99-06-007, the Commission established continuing authorization for SDG&E to
10 access trust funds for SONGS 1 decommissioning costs as needed. The decision “authorize[d]
11 the decommissioning of San Onofre Nuclear Generating Station Unit 1 (SONGS 1) and
12 amendment of the Master Trust Agreements (“MTAs”) to facilitate timely availability of the
13 funds to pay the costs of decommissioning.”¹⁵ SDG&E’s resulting process is to request trust
14 reimbursement for actual SONGS 1 costs billed by SCE on a quarterly basis. The request is
15 supported by the SCE SONGS 1 decommissioning invoices that have been reviewed and
16 approved by SDG&E’s SONGS Fiscal Management Group. Once the request is approved by the
17 Nuclear Decommissioning Fiscal Manager, SDG&E’s Fiscal Team prepares a “Withdrawal
18 Certificate,” which is approved and signed by the SDG&E Controller/Chief Financial Officer
19 (“CFO”) and the authorized representative designated by the SDG&E NDT Committee. Upon
20 approval of the Withdrawal Certificate, the SDG&E Pension and Trust Investment team contacts
21 the SDG&E NDT Trustee, currently BNY Mellon, and arranges for assets to be sold from the

¹⁵ D.99-06-007 at 2.

1 NDTs. Once this is complete, the Trustee wires cash to reimburse SDG&E for decommissioning
2 payments made to SCE or for its own internal decommissioning costs.

3 **2. SONGS 2&3**

4 SDG&E received authority in 2016¹⁶ to access trust funds for the upcoming year of
5 forecasted decommissioning expenditures. Specifically, D.16-04-019 authorizes SDG&E to file
6 annually Forecast and Recorded Decommissioning Disbursement Tier 2 Advice letters consistent
7 with its share of SONGS 2&3 decommissioning costs as presented by SCE and billed to SDG&E
8 by SCE, plus any additional administrative costs unique to SDG&E. Such advice letters must
9 show information supporting the requested disbursements.

10 Based on information provided by SCE and forecasted amounts included in the approved
11 DCE, SDG&E files the forecasted decommissioning disbursement Tier 2 advice letter in the
12 fourth quarter every year to request the authority to withdraw funds up to that forecasted amount
13 in the following year. This includes the estimated disbursement amounts required to cover the
14 cost of SDG&E's 20% share billed from SCE and SDG&E-only costs that are expected during
15 the following year. It also includes an estimated amount to be spent for each activity during the
16 period, a correlation of the activities and costs to the most recently approved DCE, and an
17 explanation for any differences (amount and timing) from the most recently approved DCE.
18 SDG&E files the recorded decommissioning disbursement Tier 2 advice letter in the following
19 year with a true-up of actual expenses to the forecast.

20 Accordingly, SDG&E initiated new processes in 2016 to allow for timely and accurate
21 reimbursement from the NDTs after the forecast advice letter is approved by the Commission.

¹⁶ D.16-04-019, Ordering Paragraph ("OP") 5; SDG&E Advice Letter 2909-E, dated August 2, 2016, effective August 1, 2016.

1 Similar to the process noted above for SONGS 1, after reviewing SONGS 2&3 decommissioning
2 costs billed by SCE (or incurring an SDG&E-only cost), SDG&E’s SONGS Fiscal Management
3 Group prepares a “Withdrawal Certificate,” which requires the approval of the Nuclear
4 Decommissioning Fiscal Manager and signature of the SDG&E Controller/CFO and the
5 authorized representative designated by SDG&E’s NDT Committee. Upon approval of the
6 Withdrawal Certificate, the Pension and Trust Investment team contacts the SDG&E NDT
7 Trustee, currently BNY Mellon, and arranges for assets to be sold from the NDTs. Once this is
8 complete, the Trustee wires cash to reimburse SDG&E for decommissioning payments made to
9 SCE or for its own internal decommissioning costs.

10 **III. DOE SETTLEMENT RECOVERY (T. DALU)¹⁷**

11 In April 2016, SCE, acting on behalf of the SONGS Participants (SCE, SDG&E and the
12 Cities of Riverside and Anaheim), signed and executed a spent fuel settlement agreement for
13 \$162 million with the United States Department of Justice to resolve claims through 2013
14 resulting from the United States DOE’s failure to timely pick up spent nuclear fuel (“DOE
15 Settlement”).¹⁸ SDG&E’s share of the settlement, net litigation costs, was approximately \$32
16 million for costs incurred through 2013. The Commission has previously stated that it expects

¹⁷ This testimony is provided in accordance with OP 12 of D.14-12-082.

¹⁸ The damages can be attributed to the DOE’s failure to begin taking spent fuel and high-level waste from SONGS for permanent storage in a federal depository, as required under the Standard Contract that SCE and SDG&E entered into with the DOE pursuant to the requirements of the Nuclear Waste Policy Act of 1982. Specific information about the April 2016 Settlement was presented on page 1 of the “Summary of SONGS OII Amended Settlement Agreement and Settlement Implementation,” attached as Attachment A to the *Response of San Diego Gas & Electric Company (U 902 E) to Joint Ruling of Assigned Commissioner and Administrative Law Judge Reopening Record, Imposing Ex Parte Contact Ban, Consolidating Advice Letters, and Setting Briefing Schedule*, I.12-10-013 (filed June 2, 2016).

1 that “the net proceeds [of a settlement or litigation award from the DOE] should be credited
2 appropriately back to the source of the funds used for these activities.”¹⁹

3 SDG&E credited its share of the DOE Settlement award back to ratepayers. Of the \$32
4 million received, \$23.5 million was recorded as a reduction to SDG&E’s SONGS Regulatory
5 Asset related to its net investment in Non-Steam Generator Replacement Project, Construction
6 Work in Progress, and Materials and Supplies; \$0.9 million was credited to the SONGS
7 Operations & Maintenance Balancing Account for operation and maintenance costs incurred
8 from 2007 to 2012; and \$7.6 million was credited to the Nuclear Decommissioning Adjustment
9 Mechanism account²⁰ for offsite Morris storage costs paid for SONGS 1.

10 The DOE Settlement also sets forth an administrative procedure for the submission of
11 claims for costs incurred from 2014 through 2016. SCE, acting for itself and SONGS
12 Participants submitted claims for 2014 and 2015 in the amount of \$56 million (100% share) in
13 September 2016. In March 2017, SCE on behalf of itself and the SONGS Participants accepted
14 the DOE’s determination of claims in the amount of \$43.3 million (100% share) for spent fuel
15 management costs incurred during 2014 and 2015. SDG&E received its share of the DOE
16 Settlement award, net of litigation costs, of \$8.6 million in June 2017. Of the \$8.6 million, \$2
17 million was credited to the Nuclear Decommissioning Adjustment Mechanism account²¹ for
18 offsite Morris storage costs paid for SONGS 1, \$0.4 million was credited to SDG&E’s
19 Regulatory Asset for Construction Work in Progress, \$0.04 million was credited to Operations

¹⁹ D.14-12-082 at 35.

²⁰ Ex. SDGE-04 at 15.

²¹ Ex. SDGE-04 at 15.

1 and Maintenance and refunded to customers through ERRA and \$6.2 million was credited to the
2 SONGS Permanent Memo Closure Account, which reduced future trust withdrawals.

3 In October 2017, SCE, acting for itself and SONGS Participants filed claims in the
4 amount of \$58 million (100% share) for spent fuel management costs incurred in 2016.
5 SDG&E's 20% share of the claim is approximately \$12 million. Resolution of the claim is
6 expected in the second half of 2018; the amount of any final award is unclear. SDG&E will
7 provide supplemental testimony concerning the outcome of these claims to the Commission.

8 **IV. SDG&E REQUEST TO MODIFY ITS ERRA (T. DALU)**

9 SDG&E is seeking Commission approval to track and record settlement or litigation
10 awards received after December 2017 from damages for dry fuel storage costs from the DOE as
11 a credit to its ERRA. SDG&E proposes to return DOE settlement or litigation awards to
12 ratepayers by recording a credit entry to ERRA to reflect proceeds from the DOE in an amount
13 reflective of any withdrawals from the Trusts. These credits will be reviewed as part of the
14 annual ERRA compliance proceeding.

15 **V. ESTABLISH SONGS 3 NON-QUALIFIED TRUST AND REALLOCATE NON-** 16 **QUALIFIED TRUST FUNDS (T. DALU)**

17 SDG&E intends to establish a SONGS 3 Non-Qualified Trust ("NQT"). In addition,
18 SDG&E intends to reallocate funds from the current SONGS 1 NQT to the SONGS 2 NQT and
19 newly created SONGS 3 NQT. SDG&E intends to request Commission authorization to
20 establish the SONGS 3 NQT, and to reallocate funds through an advice letter process.²² In the
21 event that the Commission determines that these requests are better suited for an application

²² SDG&E's Non-Qualified Trust Master Trust Agreement recognizes that "modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of the Trust" and such modifications or amendments may be approved by Commission order or resolution. NQT MTA §§ 2.10 and 1.01(9).

1 proceeding instead of the advice letter process, SDG&E provides the following information
2 herein.

3 **A. Creation of SONGS 3 NQT**

4 SDG&E currently allocates expenses that are eligible for reimbursement from a
5 decommissioning trust fund among the trusts established for each unit. SDG&E maintains five
6 separate trusts associated with SONGS: SONGS 1 Qualified Trust (“QT”) and NQT, SONGS 2
7 QT and NQT and SONGS 3 QT. SDG&E does not currently have a SONGS 3 NQT, but has
8 recently recognized the benefit of having a NQT for SONGS 3.

9 The benefit of having a SONGS 3 NQT has become clear as a result of two recent events.
10 First, in December 2014, the IRS issued a private letter ruling pertaining to spent fuel
11 management (“SFM”) costs. This private letter ruling is commonly known as the “Dominion”
12 Ruling in the industry and is discussed in greater detail in SDGE-04 by Mr. Reeves.²³ As a result
13 of the “Dominion” Ruling, SDG&E’s practice has been to exclude withdrawing certain Spent
14 Fuel Management (“SFM”) costs from the QTs for SONGS 2&3 that it expects will be the
15 subject of litigation or settlement claims with the DOE.²⁴ As a result, SDG&E has been paying

²³ In December 2014, the IRS issued a Private Letter Ruling (“PLR”) for a Dominion nuclear facility. The PLR states that the three NRC bucket categories (i.e., License Termination, Spent Fuel Storage and Site Restoration) are nuclear decommissioning costs and may be paid out of the Trust. However, the PLR also states that certain spent fuel storage costs may not be reimbursed from the Trust now if they will be recovered from litigation or settlement with the DOE. While the favorable ruling that SCE received from the IRS on December 8, 2015, provides some guidance on the issue, it is not directly applicable to SDG&E’s situation and has no precedential value for any utility except for SCE. SDG&E intends to work with the IRS to gain clarity on its situation.

²⁴ In December 2016, the IRS and the Department of the Treasury issued proposed regulations that clarify the definition of “nuclear decommissioning costs” as being costs that may be paid for or reimbursed from a qualified fund. The proposed regulations state that costs related to the construction and maintenance of independent spent fuel storage installations (“ISFSI”), also known as spent fuel management costs, are included in the definition of nuclear decommissioning costs. Although a clarification was made in regard to specific nuclear decommissioning costs the proposed regulations were ambiguous regarding the on-going industry-wide “Dominion Issue.” As a result,

1 for so-called “Dominion” SFM costs itself, and then waiting for reimbursement from the DOE in
2 the form of a settlement or litigation award. The establishment of a NQT for SONGS 3 would
3 allow SDG&E to pay SFM costs allocated to SONGS 3 that it cannot pay from its SONGS 3 QT
4 because of the “Dominion” issue.

5 The second event that has prompted SDG&E to establish a NQT for SONGS 3 is that the
6 settlement with the DOE for the SONGS Participants expired on December 31, 2016. DOE has
7 not provided any indication that it will enter into a new settlement for costs incurred on or after
8 January 1, 2017. Without a settlement agreement with the DOE, SDG&E and the SONGS
9 Participants will have to file litigation with the DOE seeking recovery of spent fuel management
10 costs incurred on or after January 1, 2017. Litigation can be protracted; the last time SCE (on
11 behalf of itself and Participants) litigated over SFM costs with the DOE, the litigation took 13
12 years after the first costs were incurred to reach resolution. In the meantime, SDG&E will have
13 to pay for the costs. The establishment of a NQT for SONGS 3 would allow SDG&E to pay
14 SFM costs allocated to SONGS 3 from the Trust while it awaits resolution of any litigation for
15 those costs.

16 **B. Reallocation of SDG&E’s SONGS 1 NQT Funds**

17 Once it establishes a NQT for SONGS 3, SDG&E must fund the Trust. SDG&E intends
18 to request Commission authorization to transfer funds from its SONGS 1 NQT to its SONGS 2
19 NQT and newly created SONGS 3 NQT.

20 Table 1 presents the SDG&E SONGS 1, 2 and 3 trust balances as of December 31, 2017.
21

SDG&E has continued its current practice of waiting for a reimbursement from the DOE before withdrawing any of its spent fuel management costs from the qualified trusts.

1 **Table 1**

2 **SDG&E Trust Balances**

3

	SONGS 1		SONGS 2		SONGS 3	
	Qualified	Non- Qualified	Qualified	Non- Qualified	Qualified	Non- Qualified
Balance as of 12/31/17 (liquidated)	\$121.3M	\$29.2M	\$364.8M	\$4.2M	\$423.7M	---

4
5 Based on the current trust balances show in Table 1, as well as SDG&E’s preliminary
6 estimates of “Dominion” SFM costs, SDG&E believes that it has sufficient funds in its NQTs to
7 pay all of “Dominion” SFM costs expected to be incurred in 2017 through 2019. However,
8 SDG&E’s NQTs are not adequately allocated across the Units. While SDG&E’s SONGS 1
9 NQT has more than sufficient funds (\$29.2M) to pay for its expected “Dominion” SFM costs in
10 2017 through 2019, SONGS 2 NQT (\$4.2M) and SONGS 3 NQT (\$0) does not. As a result,
11 SDG&E will seek authorization through an Advice Letter procedure or, if necessary, in the
12 instant application process, to re-allocate between SONGS 1, 2 and 3 NQT funds to pay 2017
13 through 2019 “Dominion” SFM costs.

14 This re-allocation is consistent with the trust funds’ intended purpose and is consistent
15 with SDG&E’s commitment to the Commission to properly manage its trust funds. SDG&E will
16 be providing notice to the NRC of its intent to reallocate NQT funds from SONGS 1 to SONGS
17 2&3. SDG&E’s movement of the funds will be contingent on Commission approval, either
18 through the advice letter process or this instant application.

19 This concludes our prepared direct testimony.

20

1 **VI. STATEMENT OF QUALIFICATIONS**

2 **WITNESS QUALIFICATIONS FOR SUE E. GARCIA**

3 My name is Sue E. Garcia. My business address is 8315 Century Park Court, San Diego,
4 CA 92123. I am employed by SDG&E as the Manager – Nuclear Decommissioning,
5 responsible for the oversight and management of SDG&E’s interest in the decommissioning of
6 the San Onofre Nuclear Generation Station. Previously I was the Manager - Settlements and
7 Systems in the Electric and Fuel Procurement Department. My duties included the settlements
8 of all electric and fuel commodity transactions as well as the management and administration of
9 existing power purchase agreements. I have been employed by SDG&E since 1995. I have been
10 in my current position since March 2016.

11 I received a B.S. in Business Administration, with an Accounting emphasis, from San
12 Diego State University. I am a Certified Public Accountant and a Certified Internal Auditor.

13 I have previously testified before this Commission.
14

1 **WITNESS QUALIFICATIONS FOR TRACY M. DALU**

2 My name is Tracy M. Dalu and my business address is 8315 Century Park Court, San
3 Diego, California 92123. I am employed by SDG&E as a CPA and am the SONGS Nuclear
4 Decommissioning Fiscal Manager. My primary responsibilities are to provide oversight and
5 proper fiscal management of SDG&E’s 20% ownership interest in SONGS and to provide
6 financial information to support legal and regulatory filings. I have been in my current role since
7 April of 2016. Prior to my current role, I was the Generation Accounting Supervisor for SDG&E
8 where my primary responsibilities were to account for and report on all SDG&E owned
9 generation facilities, including SONGS. I was also responsible for the accounting and financial
10 reporting of SDG&E’s asset retirement obligations and ensuring that SDG&E was in compliance
11 with Securities Exchange Commission (“SEC”) and regulatory reporting requirements. I began
12 work at Sempra Energy in May 2002 as an accountant for Sempra Energy’s Global division and
13 was responsible for the financial reporting of their generation fleet. My responsibilities included
14 preparing financial statements, consolidations, cash flows, variance analysis and ensuring
15 compliance with SEC reporting. Prior to my career at SDG&E I spent three years working as an
16 auditor for Price Waterhouse Coopers. I graduated from San Diego State University with a
17 Bachelor of Science in Business Administration (Accounting emphasis) and obtained my CPA
18 license in 2001.

19 I have previously testified before this Commission.

ATTACHMENT A

**QUESTIONS AND DISPUTES BY SDG&E REGARDING SONGS
DECOMMISSIONING COSTS BILLED BY SCE DURING 2016 AND 2017**

QUESTIONS AND DISPUTES BY SDG&E REGARDING SONGS

DECOMMISSIONING COSTS BILLED BY SCE DURING 2016 AND 2017

Issue #	Date	Amount (SDG&E 20% Share)	Issue	Description of Issue	Resolution
1	1/10/2017	\$936	Legal Cost Billing Dispute	SDG&E protested charges paid to outside counsel attributable to work categorized as Chief Nuclear Officer research. SDG&E believes this work product is specific to SCE's internal management and corporate governance and should not be charged to any of the co-owners.	After various discussions with SCE's counsel, SDG&E legal concluded that the charges were appropriate and allocable to the co-owners.
2	4/25/2017	\$80,000	Site Lease & Easement Accrual	SDG&E noted a credit balance in the Site Lease & Easement 2017 activity as of March 2017. SDG&E inquired as to the cause of the credit balance.	SCE indicated that the credit balance in 2017 was caused by an accrual reversal. SCE acknowledged that they incorrectly charged SDG&E for an accrual in 2016, which reversed in 2017. SCE reaffirmed that they will only bill SDG&E for actual charges.
3	6/13/2017	\$88,536	Billing SCE Only Costs (SLA-CPUC Reg Affairs)	Edison billed SDG&E a 20% share of the "SLA-CPUC Reg Affairs" amount. SDG&E indicated these were SCE only costs and should not be allocated to the participants. Approximately \$40k was incurred though April 2017 cost month billings & charges continued to be shared with the participants in several of the months that followed.	SCE acknowledged the error and concurred with SDG&E's assessment that they should be 100% SCE costs and not allocated to the participants. SCE issued credits in the months of August 2017 and December 2017 to offset previous charges.
4	8/8/2017	\$3,123	Legal Billing Dispute	SDG&E protested legal services provided due to the appearance of being related to beach erosion and the Wheeler North Reef Expansion Project, which is not considered a decommissioning cost.	SCE responded indicating that the charges were for SONGS decommissioning activities and not associated with the SONGS Wheeler North Reef expansion, nor any other marine mitigation activity. SCE retained counsel to review materials on rigs to reef legislation and whether it was applicable to the disposition of SONGS conduits. SDG&E legal reviewed and accepted the response.
5	12/5/2017	\$17,340	Billing SCE Only Costs (Consultant)	SDG&E protested charges paid for services rendered by a consultant in support of the Internal Nuclear Management Group which is an internal SCE management review group and should be paid 100% by SCE.	SCE agreed that the consultant's charges should be 100% SCE. SCE has issued a credit for the months initially protested (March-Sept 2017), but inadvertently charged SDG&E in the month of December 2017. SCE has acknowledged the error and will be issuing a credit in 2018.