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Exhibit Number : DRA-4
Commissioner : Ferron
ALJ : Wong
Witness : Lindsay Laserson



DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

**Report on the Results of Operations
for
San Diego Gas & Electric Company
Southern California Gas Company
General Rate Case
Test Year 2012**

**SDG&E Electric Generation
Operation and Maintenance Expense**

San Francisco, California
September 1, 2011

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SDG&E ELECTRIC GENERATION

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding San Diego Gas & Electric Company's (SDG&E) forecasted Electric Generation activities of Operation and Maintenance (O&M) expense requirements for Test Year (TY) 2012.

II. SUMMARY OF RECOMMENDATIONS

SDG&E forecasted \$33,687,000 for its TY 2012 Electric Generation O&M expenses. The corresponding DRA estimate for SDG&E's Electric Generation O&M expenses is \$30,183,000. DRA's estimate is \$3,504,000 or 12% less than SDG&E's forecast. The following summarizes DRA's recommendations:

- DRA recommends \$27,557,000 for Generation Plant Palomar. This is \$2,051,000 less than SDG&E's request of \$29,608,000 for its 2012 Test Year.
- DRA recommends \$928,000 for Generation Plant Miramar. This is \$579,000 less than SDG&E's request of \$1,507,000 for its 2012 Test Year.
- DRA recommends \$512,000 for Renewable Generation Support. This is \$450,000 less than SDG&E's request of \$962,000 for its 2012 Test Year.
- DRA recommends \$628,000 for Generation Plant Administration. This is \$424,000 less than SDG&E's request of \$1,052,000 for its 2012 Test Year.
- DRA takes no issue with the \$558,000 requested by SDG&E for SVP Power Supply for its 2012 Test Year.

1 Table 4-1 compares DRA's and SDG&E's TY2012 forecasts of Electric
 2 Generation O&M expenses:

3 **Table 4-1**
 4 **Electric Generation Expenses for TY2012**
 5 **(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed ¹ (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Palomar	\$27,557	\$29,608	\$2,051	7%
Generation Plant Miramar	\$928	\$1,507	\$579	62%
Renewable Generation Support	\$512	\$962	\$450	88%
Generation Plant Admin	\$628	\$1,052	\$424	68%
SVP Power Supply	\$558	\$558	\$0	0
Total	\$30,183	\$33,687	\$3,504	12%

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 7 **III. DISCUSSION / ANALYSIS OF Electric Generation O&M**
 8 **Expenses**

9 **A. Overview of SDG&E's Request**

10 SDG&E's Electric Generation organization includes three main groups:
 11 Generation Plant, Renewable Generation Support, and Generation Administration.
 12 All areas work closely together to ensure that the current and future goals of the
 13 organization are being met.

14 **B. Generation – Plant**

15 **1. Generation Plant Palomar**

16 In Generation Plant Palomar, SDG&E is requesting \$29,608,000 in O&M
 17 expenses for its test year 2012.² Generation Plant Palomar encompasses the
 18 operation and maintenance of the Combined Cycle Generation Plant at Palomar
 19 Energy Center. Labor Costs include supervision, maintenance, and operations

¹ Exh. SDG&E 07 Workpapers, p.2.

² Exh. SDG&E 07 Workpapers, p.5.

1 personnel.³ Non-labor costs include items such as industrial gases, chemicals,
2 water, and maintenance parts and activities. SDG&E developed its forecast for
3 Labor and non Labor using 2009 Base Year recorded methodology. NSE (non
4 standard escalation) was calculated using a Zero Based methodology.⁴ The
5 corresponding DRA estimate is \$27,557,000, which is \$2,051,000 less than
6 SDG&E's request.

7 SDG&E asserts that 9 new full time equivalents (FTEs) are needed for the
8 Palomar Plant: 5 maintenance Technicians, 3 Operation technicians, and 1 Plant
9 Manager.⁵ The Operations technicians are planned to augment the current
10 operations department and to create an additional crew to join the rotating shift
11 schedule.⁶ The addition of 3 Operations Technicians will support an operating crew
12 to shift their schedule allowing for full-time on-site operation of the Miramar facility.
13 The addition of 5 Maintenance Technicians is for maintenance and repairs at both
14 the Palomar and Miramar facilities. The plant manager's responsibilities will be for
15 daily operations and maintenance of Palomar and Miramar facilities.⁷ In 2009, only
16 2.3 FTE's were recorded at the Miramar Plant.⁸

17 SDG&E negated the duties of the new employees when it stated "The new
18 crew will be used to provide full time coverage at the Miramar facility."⁹ SDG&E
19 admits that the Miramar facility can be remotely operated from the Palomar
20 location.¹⁰ DRA believes it to be suspect that SDG&E is requesting new Miramar
21 employees in a Palomar account. DRA takes issue with all new employees
22 requested for the Miramar plant because this plant is operated remotely and

³ Exh. SDG&E 07 Workpaper, p.5.

⁴ Exh. SDG&E 07 Workpapers, p.5.

⁵ Exh. SDG&E-07, p.9.

⁶ Exh. SDG&E-07, p.9.

⁷ Exh. SDG&E 07, p.9.

⁸ Exh. SDG&E 07 Workpapers, p.17.

⁹ Exh. SDG&E-07, p. 9.

¹⁰ Exh. SDG&E-07, p.4.

1 because normal demand peak hours can be operated single handedly by one
2 operator.¹¹ Comparatively, the Palomar facility operates sufficiently with its current
3 staff of 3-person operating crews with two 12-hour shifts.¹² There are 4 operating
4 crews rotating through the shift schedule with an additional operator working
5 weekdays for support.¹³ If additional employees are needed for the once every few
6 years major outage expected in 2012, DRA sees no reason for these employees to
7 be hired full time when SDG&E can use outside services. SDG&E requests
8 \$3,530,000 for Labor in Test Year 2012.¹⁴ The corresponding DRA estimate for
9 labor is \$2,539,000.

10 The Palomar Energy Center was bought by SDG&E through a Turnkey
11 Acquisition Agreement (TAA) between SDG&E and Palomar Energy, LLC. The
12 TAA, as approved by the Commission, contains a provision to assign the Long-Term
13 Service Agreement (LTSA) to SDG&E.¹⁵ The LTSA was purchased through
14 General Electric Corporation (GE) and SDG&E makes payments to GE to cover
15 items such as engineering support, remote equipment monitoring by GE's
16 Monitoring and Diagnostic Center, major component refurbishment and
17 replacement, replacement parts, labor for major outages and inspections, as well as
18 on-site administration and technical support.¹⁶ Major factors influencing the cost
19 and payment schedule are the number of starts trips and operating hours.¹⁷

20 The NSE amount represents the LTSA to address maintenance of the prime
21 components of the turbines.¹⁸ SDG&E states "These factors can change

¹¹ Exh. SDG&E 07, p.4.

¹² Exh. SDG&E 07, p.4.

¹³ Exh. SDG&E-07, p.4.

¹⁴ Exh. SDG&E 07 Workpapers, p. 6.

¹⁵ Exh. SDG&E-07, p.10.

¹⁶ Exh. SDG&E-07, p. 10.

¹⁷ Exh. SDG&E-07, p. 10.

¹⁸ DRA-SDG&E-010-LJL #1b.

1 significantly from year to year and do not follow normal year to year trending.”¹⁹
 2 DRA takes issue with SDG&E’s use of zero-based methodology because it does not
 3 capture fluctuations from year to year. DRA recommends a 4 year average from
 4 2006-2009 to normalize the fluctuations from year to year and excludes 2005, when
 5 invoices were first provided.²⁰

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**Table 4-2
 O&M Expenses for TY 2012
 For Generation Plant Palomar**

In 2009\$ (000)						
Adjusted- Recorded						
	2005	2006	2007	2008	2009	2012
Labor	6	1,836	2,298	2,413	2,547	2,539
NL	4	4198	7,655	9,613	14,190	16,295
NSE	0	6589	9,414	9,037	9,850	8,723
Total	10	12,623	19,367	21,063	26,587	27,557

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10 DRA’s corresponding estimate for NSE in SDG&E’s Test Year 2012 is
 11 \$8,723,000.

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**Table 4-3
 O&M Expenses for TY2012
 For Generation Plant Palomar
 (In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed²¹ (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Palomar EG003.000	\$27,557	\$29,608	\$2,051	7%

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2. Miramar Plant

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18 In Generation Plant Miramar, SDG&E is requesting \$1,507,000 for its Test
 19 Year 2012.²² Generation Plant Miramar encompasses the operation and

¹⁹ DR-SDG&E-010-LJL, #1b.

²⁰ Exh. SDG&E 07, p.10.

²¹ Exh. SDG&E-9 Workpapers, p.14.

²² Exh. SDG&E-07, p. 8.

1 maintenance of two turbines at the Miramar Energy facility.²³ The Miramar units are
2 defined as peakers. SDG&E has owned one peaker since 2005 and the second
3 became operational in August of 2009.²⁴ Labor costs include supervision,
4 maintenance, and operations personnel.²⁵ Non-labor costs include items such as
5 industrial gases, demineralized water and maintenance parts and activities. SDG&E
6 uses Base Year recorded data for Labor and non-Labor forecasts.²⁶ The
7 corresponding DRA estimate is \$928,000 which is \$579,000 lower than SDG&E's
8 request.

9 SDG&E states "The actual recording of the expenses for the Miramar facility
10 are not broken down on a per-turbine basis. Rather, the base year data represents
11 the expenses associated with operating one turbine for 12 months plus expenses to
12 operate the second turbine for 5 months, basically the equivalent of running one
13 turbine for 17 months. To determine the cost of running both turbines for 12 month,
14 the total Base Year expenses were divided by 17 (months) then multiplied by 12
15 (months) resulting in the forecast for running one turbine for 1 year. That total was
16 then doubled to represent the total expenses for operating both turbines for 1 year.
17 Each of the forecast years was then increased by the percentage of change in the
18 projected forecast year service hours. This methodology has the effect of averaging
19 the expenses over all equipment and compensating for seasonal or individual
20 equipment variations."²⁷ DRA takes no issue with this Base Year expense
21 methodology.

22 SDG&E asserts the addition of a Second Turbine at Miramar (online since
23 August 2009) and Planned Outages and Inspections are the main cost drivers for its
24 requested increase.²⁸ Because DRA recommends \$0 for Miramar Plant

²³ Exh. SDG&E-07 Workpapers, p.17.

²⁴ Exh. SDG&E 07, p.12.

²⁵ Exh. SDG&E-07 Workpapers, p.17.

²⁶ Exh. SDG&E 07 Workpapers, p.17.

²⁷ Exh. SDG&E-07, p.12.

²⁸ Exh. SDG&E 07, p.12.

1 Operational enhancements in its Capital portion of Generation expenses, DRA also
 2 recommends \$0 for and zero employees for all items related to the adjustment
 3 increase for the operation of 2 units at Miramar.

4 DRA does not oppose the \$300,000 requested for each of the years 2010-
 5 2012 for the addition for extended maintenance outage.

6 **Table 4-4**
 7 **O&M Expenses for TY2012**
 8 **For Plant Miramar**
 9 **(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed ²⁹ (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Miramar EG002.000	\$928	\$1,507	\$579	62%

10

11 **C. Renewable Generation Support**

12 In Renewable Generation Support, SDG&E requests \$962,000 for Test Year
 13 2012.³⁰ Renewable Generation Support provides support for solicitations, contract
 14 negotiations, and contract administration for renewable and conventional generation,
 15 as well as providing technical support to resource planning, regulatory and others
 16 internally.³¹ It also provides due diligence of renewable energy bilateral offers as it
 17 pertains to technical or developmental viability.³² SDG&E utilizes a 3 year average
 18 for Labor and non labor. No NSE items were included.³³ DRA's corresponding
 19 estimate is \$512,000 which is \$450,000 less than SDG&E's request.

20 SDG&E requests the need for a consultant in 2012. In a data request
 21 response from SDG&E regarding the new position, SDG&E responded:

²⁹ Exh. SDG&E 7 Workpapers, p.14.

³⁰ Exh. SDG&E 07 Workpapers p.26.

³¹ Exh. SDG&E 07 Workpapers p.26.

³² Exh. SDG&E 07 Workpapers p.26.

³³ Exh. SDG&E 07 Workpapers p.26.

1 The proposed salary for the external consultant/technical advisor for
2 San Onofre Nuclear Facility (SONGS) is \$250,000 ~ 1000 hours at
3 \$250/hour. This position is necessary to further increase SDG&E's
4 oversight of Southern California Edison's (SCE) activities. This
5 additional resource, having extensive knowledge of practices at other
6 nuclear facilities, will provide SDG&E industry insight that it is not
7 exposed to by its activities at SONGS or trade publications. The
8 consultant will review SONGS operations at a high level and then
9 select specific areas where SONGS was not following "Best in Class"
10 processes/operations and make recommendations to SDG&E
11 management on how to mitigate risk and improve SONGS operations.
12 The enhanced oversight is pursuant to the SGRP [Steam Generator
13 Replacement Project] settlement agreement between SCE and
14 SDG&E that was filed as part of A. 06-04-018.³⁴

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16 A. 06-04-018 is an application filed by SDG&E in 2006 for recovery of SGRP
17 costs and other costs related to SONGS Units 2 and 3. In the application, SDG&E
18 requested an increase to its revenue requirement to cover its share of capital-related
19 costs for the SGRP beginning in January 2011, as well as expedited recovery
20 through depreciation of its 20% share of the estimated costs of removal and disposal
21 of the existing steam generators beginning in January 2007 and continuing through
22 2011.³⁵ DRA was unable to find any language for "enhanced oversight" in the
23 application. Furthermore, SCE already has experienced analysts with extensive
24 knowledge of practices at other nuclear facilities that review SONGS operations at a
25 high level. It is not necessary for SDG&E to have a consultant to select specific
26 areas where SONGS was not following "Best in Class" processes/operations and
27 make recommendations to SDG&E management on how to mitigate risk and
28 improve SONGS operations. SDG&E only has a 20% share of the facility; it is
29 excessive for SDG&E to request a consultant for SONGS at \$250 an hour plus an
30 additional \$200,000 for consulting costs to address efforts assessing opportunities
31 brought to SDG&E outside of the procurement process.³⁶

³⁴ DRA-LJL-010 #8.

³⁵ A. 06-04-018.

³⁶ Exh. SDG&E 07 workpapers p.28.

1 Lastly, the SONGS steam generator replacement project was completed
2 earlier this year; SCE was working on it when DRA visited in January 2011, and
3 Units 2 & 3 are at full power today. There is no logical reason for SDG&E to have a
4 consultant regarding SONGS steam generator replacement going forward.³⁷

5 Furthermore, SONGS is a nuclear facility, not a renewable facility. It should
6 not even be included in renewable generation support in the first place. It makes no
7 sense that SDG&E requests a consultant related to a steam generation project that
8 has long since ended. Thus, DRA recommends that Commission deny SDG&E's
9 request for an additional consultant in the Test Year 2012.

10 DRA also takes issue with the \$200,000 proposed in 2012 non labor for the
11 need of consulting costs to address efforts assessing opportunities brought to
12 SDG&E outside of the procurement process.³⁸ In DRA's procurement exhibit, DRA
13 recommends the Commission remove AB 32 or Renewable Administrative
14 Fees from this rate case. D.10-12-026 says that utilities cannot collect AB 32
15 implementation costs in a GRC until the Commission determines in the next
16 phase of the proceeding that such costs are recoverable.³⁹ The language
17 used in D.10-12-026 is as follows:

18 This decision authorizes the establishment of the AB 32 Fee
19 memorandum accounts proposed by the Joint IOUs. We defer to a
20 subsequent phase of this proceeding determination of whether costs
21 incurred and recorded in the memorandum accounts prior to each of
22 the Joint IOUs' next general rate case will be recoverable in rates, and
23 the appropriate manner in which any approved costs will be
24 recovered.
25

26 Because this item is not necessary and AB 32 is going to be delayed a
27 year, DRA recommends \$0 for consulting costs to address efforts assessing
28 outside opportunities brought to SDG&E outside of the procurement process.

³⁷ <http://sciencedude.ocregister.com/2010/10/06/cutting-in-big-new-parts-for-nuclear-plant/112208/>

³⁸ Exh. SDG&E 07 Workpapers, p.28.

³⁹ D.10-12-026 p.2.

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**Table 4-5
O&M Expenses for TY2012
For Renewable Generation Support
(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed ⁴⁰ (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Renewable Generation Support EG004.000	\$512	\$962	\$450	88%

5

D. Generation-Administration

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1. Generation Plant Administration

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8 SDG&E requests \$1,052,000 in Generation Plant Administration for its Test
9 Year 2012. Generation Plant Administration provides managerial support, plant cost
10 analysis, budgeting engineering and workforce administration. Expenses in this
11 area include administrative labor, training, safety equipment, computers, office
12 supplies and equipment, and employee travel.⁴¹ SDG&E developed its forecast by
13 utilizing a 3 year average for Labor and non labor. No NSE was recorded.⁴²

14 SDG&E requests the addition of 4 FTEs: 1 project engineer to assist with
15 ongoing engineering efforts at the plants, 1 project manager to assist with the
16 transition of new generation assets (El Dorado and the Cal Peak El Cajon peaking
17 plant), and 2 compliance administrators to ensure that all existing and future
18 requirements are being met in the areas of NERC Cyber Security.⁴³

19 DRA takes issue with any costs (O&M and capital) related to the El Dorado
20 facility that should be recorded in the Non-fuel Generation Balancing Account
21 (NGBA)⁴⁴ and included in SDG&E's annual advice letter filing. DRA recommends
22 disallowance of the \$16,000 requested by SDG&E for travel to and from the El

⁴⁰ Exh. SDG&E 07 Workpapers, p.26.

⁴¹ Exh. SDG&E 07 Workpapers, p.34.

⁴² Exh. SDG&E 07, Workpapers, p.34.

⁴³ Exh. SDG&E 07, p. 6.

⁴⁴ D. 07-11-046, p. 17.

1 Dorado facility for 2010, 2011, and 2012.⁴⁵ DRA also recommends disallowance of
 2 the addition of 1 project manager for the transition of new assets for El Dorado and
 3 El Cajon forecasted at \$115,000 annually for 2010-2012.⁴⁶ Also, considering that
 4 the El Cajon Electrical facility fixed O&M costs is forecasted by SDG&E to cost
 5 \$679,000 in 2012, DRA believes the \$115,000 for a part time Project Manager is
 6 also excessive.⁴⁷

7 DRA takes issue with the 2 compliance administrators forecasted at
 8 \$195,000. The purpose of these 2 compliance administrators is to ensure that all
 9 existing and future requirements are being met in the areas of NERC Cyber
 10 Security. DRA recommends disallowance of this cost due to lack of support.⁴⁸

11 SDG&E did not provide adequate support for the need of one additional
 12 engineer to assist with ongoing engineering efforts at the plants at \$98,000.⁴⁹ DRA
 13 believes that it is in the best interest of the ratepayers to not have to pay for any new
 14 employee without need or a detailed justification for this new position.

15 **Table 4-6**
 16 **O&M Expenses for TY2012**
 17 **For Generation Plant Administration**
 18 **(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed ⁵⁰ (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Generation Plant Administration EG001.000	\$628	\$1,052	\$424	68%

⁴⁵ Exh. SDG&E 07 Workpapers, p. 35-37.

⁴⁶ Exh. SDG&E 07 Workpapers, p.35-37.

⁴⁷ A. 11-01-004.

⁴⁸ Exh. SDG&E 07, p. 6

⁴⁹ Exh. SDG&E 07 Workpapers, p.35-36.

⁵⁰ Exh. SDG&E 07 Workpapers, p.14.

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2. SVP Power Supply

In account number EG005.000, SVP- power supply, SDG&E is requesting \$558,000 in its Test Year 2012. SVP-Power Supply provides managerial support to the entire Power Supply division. Expenses in this area include salaries for the SVP and Administrative Assistant, employee travel, office equipment and supplies, and other outside services.⁵¹ SDG&E developed its forecast by utilizing a 5 year average for Labor and Non Labor, and no NSE was included in this forecast. DRA reviewed SDG&E’s workpapers and testimony, and does not take issue with this request.

**Table 4-7
O&M Expenses for TY2012
For SVP Power Supply
(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed⁵² (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
SVP Power Supply EG005.000	\$558	\$558	\$0	0%

⁵¹ Exh. SDG&E 07 workpapers, p.41.

⁵² Exh. SDG&E 07 Workpapers, p.41.