

Docket : A.10-12-005 / 006  
Exhibit Number : DRA-5  
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, SONGS  
Operation and Maintenance Expenses**

San Francisco, California  
September 1, 2011

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1 **SDG&E ELECTRIC GENERATION - SONGS**

2 **I. INTRODUCTION**

3 This exhibit presents the analyses and recommendations of the Division of  
4 Ratepayer Advocates (DRA) regarding San Diego Gas & Electric Company's  
5 (SDG&E) 20% ownership interest in San Onofre Nuclear Generating Station  
6 (SONGS) forecast Operation and Maintenance (O&M) expenses for Test Year (TY)  
7 2012.

8 Southern California Edison (SCE) is the majority owner and operating agent  
9 of SONGS, and is responsible for sponsoring costs at a 100% level.<sup>1</sup> SDG&E's  
10 portion of SONGS-related costs are established in two separate proceedings: this  
11 General Rate Case (GRC) for SDG&E and SCE's TY 2012 GRC, A.10-11-105.<sup>2</sup>  
12 Once SCE's SONGS revenue requirement is established in SCE's TY 2012 GRC  
13 and SDG&E's SONGS costs are determined in SDG&E's TY 2012 GRC decision,  
14 SDG&E will file an advice letter to update its SONGS TY 2012 revenue requirement  
15 using the costs approved in each of the proceedings.<sup>3</sup>

16 **II. SUMMARY OF RECOMMENDATIONS**

17 SDG&E requests \$120,196,000 in Electric Generation – SONGS for its O&M  
18 expenses for TY 2012.<sup>4</sup> The corresponding DRA estimate for SDG&E's SONGS  
19 O&M expenses is \$64,270,000. DRA's estimate is \$54,281,000 or 84% less than  
20 SDG&E's forecast. The following summarizes DRA's recommendations:

- 21 • DRA takes no issue with the \$1,003,000 forecast for SONGS Unit 1 Spent  
22 Fuel.  
23 • DRA takes no issue with the \$20,147 forecast for SONGS Site Easement.

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<sup>1</sup> Exh. SDG&E-8, p. 1.

<sup>2</sup> Exh. SDG&E-8, p. 1.

<sup>3</sup> Exh. SDG&E-8, pp. 1-2.

<sup>4</sup> Exh. SDG&E-8, p. 2.

- 1 • DRA recommends \$0 for Industrial and Accident and Injury post 2006
- 2 billings. This is \$622,000 less than SDG&E's requested \$622,000.
- 3 • DRA recommends \$64,270,000 for SDG&E's Base O&M Costs. This is
- 4 \$54,281,000 less than SDG&E's requested \$118,551,000.
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6 Table 5-1 compares DRA's and SDG&E's TY 2012 forecasts of SONGS O&M  
7 expenses:

8 **Table 5-1**  
9 **SONGS O&M Expenses for TY 2012**  
10 **(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed <sup>5</sup> (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
SONGS Unit 1 Spent Fuel (Group 1)	\$1,003	\$1,003	\$0	0%
Site Easement and Industrial and Accident Injury (Group 2)	\$20	\$642	\$622	3110%
Base O&M Costs (Ref NK)	\$64,270	\$118,551	\$54,281	84%
<b>Total</b>	<b>\$65,293</b>	<b>\$120,196</b>	<b>\$54,903</b>	<b>N/A%</b>

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13 **III. DISCUSSION / ANALYSIS OF ELECTRIC GENERATION -**  
14 **SONGS**

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

16 In its testimony, SDG&E asserts that the Total SONGS-Related Direct Costs  
17 are \$1,733,000 in 2012 dollars.<sup>6</sup> In its workpapers, SDG&E forecasts \$120,196,000  
18 in 2009 dollars.<sup>7</sup> After DRA performed a careful examination of the utility's  
19 workpapers and all expenses provided, DRA found that the Total SONGS-Related

<sup>5</sup> Exh. SDG&E-8 workpapers, p. 2.

<sup>6</sup> Exh, SDG&E-8, p. 2.

<sup>7</sup> SDG&E-8 workpapers, p.2.

1 Direct Costs forecasted was \$120,196,000 and not \$1,733,000 for its TY 2012  
2 SONGS O&M expenses in 2009 as expressed in its workpapers.<sup>8</sup> The difference is  
3 attributable to DRA factoring in SONGS Base O&M costs as discussed in this  
4 exhibit. SDG&E's TY 2012 forecasts for SONGS O&M expenses were zero based  
5 plus an additional incremental expense for proposed projects and activities.

6 **B. Storage Costs of Unit 1 Spent Fuel Assembly: EG-SONGS Work**  
7 **Group 1**

8 In EG-SONGS Workgroup 1, SDG&E is requesting \$1,003,000 for TY 2012.  
9 SDG&E has stored spent fuel assemblies from SONGS Unit 1 at the General  
10 Electric Hitachi spent fuel storage facility located in Morris, Illinois since 1972. There  
11 are currently 270 spent fuel assemblies from SONGS Unit 1 in storage at that  
12 facility.<sup>9</sup> There are no other facilities currently available in the U.S. for the  
13 commercial storage of spent nuclear fuel and those 270 assemblies are expected to  
14 remain at the Morris facility until they are accepted for ultimate disposal by the  
15 Department of Energy (DOE) in accordance with timetables yet to be established by  
16 the DOE.<sup>10</sup> Payments are made monthly to General Electric by SCE, which in turn  
17 bills SDG&E for its 20% share.<sup>11</sup> SDG&E developed its forecast by utilizing zero  
18 based methodology using the 2010 SONGS Nuclear Fuel Management Plan.<sup>12</sup>  
19 SDG&E asserts that linear and averaging forecast methods are not applicable for  
20 cost escalation due to their contract with General Electric Hitachi, which specifies  
21 that escalation shall be based on Bureau Labor of Statistics data.<sup>13</sup> After a review  
22 of SDG&E's testimony, workpapers, and discovery responses, DRA takes no issue  
23 with EG-SONGS Workgroup 1 forecast.

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<sup>8</sup> Exh. SDG&E-8 workpapers, p. 1.

<sup>9</sup> Exh. SDG&E-8, p. 5.

<sup>10</sup> Exh. SDG&E-8, p. 5.

<sup>11</sup> Exh. SDG&E-8 workpapers, p. 5.

<sup>12</sup> Exh. SDG&E-8 workpapers, p. 5.

<sup>13</sup> Exh. SDG&E-8 workpapers, p. 5.

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**Table 5-2**  
**SONGS Group 1 Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed <sup>14</sup> (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Unit 1 Spent Fuel (Grp1)	\$1,003	\$1,003	\$0	0%

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5 **C. SONGS Site Easement**

6 SONGS resides on Camp Pendleton. The property which is owned by the  
7 U.S. Department of the Navy is held by SONGS owners through an easement (i.e.,  
8 the SONGS Site Easement).<sup>15</sup> Under the terms of the SONGS Site Easement, the  
9 SONGS owners are billed individually by the Navy for their respective shares of the  
10 annual easement fee.<sup>16</sup> SDG&E makes fixed annual payments of \$20,147 for its  
11 20% share of the SONGS Site Easement fee. SDG&E's TY 2012 SONGS Site  
12 Easement expense remains at \$20,147 in 2012 dollars.<sup>17</sup> Easement expense is  
13 fixed through 2014 when it will be renegotiated with the Navy.<sup>18</sup> DRA takes no  
14 issue with this expense.

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<sup>14</sup> Exh. SDG&E-8, workpapers, p. 5.

<sup>15</sup> Exh. SDG&E-8, p. 6.

<sup>16</sup> Exh. SDG&E-8, p. 6.

<sup>17</sup> Exh. SDG&E-8 Workpapers, p. 24.

<sup>18</sup> Exh. SDG&E-8 Workpapers, p. 24.

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**Table 5-3**  
**SONGS Site Easement Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed <sup>19</sup> (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
Easement Expenses	\$20	\$20	\$0	0%

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**D. Industrial Accident and Litigation: EG-SONGS Group 2**

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In Electric Generation-SONGS Group 2, SDG&E requests \$622,000 excluding Easement costs for TY 2012. DRA takes no issue with SDG&E’s zero based methodology for labor and non-labor and similarly used this methodology in DRA’s workpapers provided for this chapter.

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SCE bills SDG&E for costs arising from industrial accident and litigation related to incidents that occurred at SONGS.<sup>20</sup> These costs were not included in SCE’s SONGS revenue requirement. These SONGS costs have been separately identified by SCE in their TY 2012 GRC.<sup>21</sup> The “Master Insurance Program” or MIP insured the Owners and all Contractors and Subcontractors under one insurance program for General Liability and Worker’s Compensation insurance. The MIP program was started in 1972, and was terminated in 1999. Since it was terminated in 1999, no premiums were coming into the program to pay for the claims.<sup>22</sup> SDG&E asserts there are still numerous open claims which SONGS is responsible for paying and that they were sustained during the entire MIP history 1972-1999.<sup>23</sup> SDG&E states that since claims covered by the MIP have a long life, the MIP remains open until all claims are closed. SDG&E used a 3 year average of amounts

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<sup>19</sup> Exh. SDG&E-8 workpapers, p. 24.  
<sup>20</sup> Exh. SDG&E-8 workpapers, p. 24.  
<sup>21</sup> Exh. SDG&E-8 workpapers, p. 24.  
<sup>22</sup> Exh. SDG&E-8 workpapers, p. 22.  
<sup>23</sup> Exh. SDG&E-8 workpapers, p. 22.

1 billed by SCE to SDG&E from 2007 through 2009 to estimate on-going costs billed  
2 to SDG&E.<sup>24</sup>

3 Industrial accident and injury costs historical records are incomplete due to  
4 other SONGS O&M expenses.<sup>25</sup> The forecasted cost reflects a 3 year average  
5 expense level for SONGS Industrial Account and Injury from 2007-2009.<sup>26</sup> Injury  
6 and accident expense should not be escalated. SCE does not separately forecast  
7 SONGS Industrial Accident and Injury costs nor are the costs included in the  
8 SONGS portion of SCE's RO model.<sup>27</sup>

9 Claims may still be open from 1999; however, that was more than a decade  
10 ago. SDG&E has not received funding for these claims in prior GRCs. It is  
11 unreasonable to provide and recover these costs in this rate case and burden  
12 ratepayers, especially given the difficult economic conditions. Even though the  
13 program was terminated in 1999 and there are no longer premiums coming into the  
14 program, DRA recommends that these expenses should not be paid by ratepayers  
15 through higher rates. DRA recommends \$0 for this expense, consistent with prior  
16 years when SDG&E received \$0 for 2005-2008.<sup>28</sup> DRA suggests SDG&E should  
17 file an advice letter if it expects to recover additional costs for Industrial Accident and  
18 Injury costs because in its application SDG&E has not provided sufficient justification  
19 for these expenses. This is a past expenditure, and it is no longer an appropriate  
20 expense to recover in 2012 given it was incurred so long ago in the past.

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<sup>24</sup> Exh. SDG&E-8 workpapers, p.22.

<sup>25</sup> Exh. SDG&E-8 workpapers, p.22.

<sup>26</sup> Exh. SDG&E-8 workpapers, p.22.

<sup>27</sup> Exh. SDG&E-8 workpapers, p. 22.

<sup>28</sup> Exh. SDG&E-8 workpapers, p. 23

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**Table 5-4**  
**Industrial Accident and Litigation Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

Description (a)	DRA Recommended (b)	SDG&E Proposed <sup>29</sup> (c)	Amount SDG&E>DRA (d=c-b)	Percentage SDG&E>DRA (e=d/b)
SONGS Group 2 (not including Easement Costs)	\$0	\$622	\$622	NA%

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5 **E. SONGS Base O&M**

6 SDG&E requests \$118,551,000 for SONGS base O&M costs in TY 2012.<sup>30</sup>

7 SDG&E utilized a zero based methodology to develop its forecast.<sup>31</sup> The  
8 corresponding DRA estimate is \$64,270,000, which is \$54,903,000 less than  
9 SDG&E's request.

10 SDG&E asserts that SONGS base O&M costs have not been separately  
11 identified by SCE in its TY 2012 GRC, either in A&G testimony or the SONGS  
12 related portion.<sup>32</sup> SDG&E further goes on to explain that "SONGS base O&M will  
13 be established in SCE's 2012 GRC decision as will post test year attrition/escalation.  
14 As such, the amount is subject to non-standard escalation (NSE) as escalation is  
15 determined in SCE's GRC"<sup>33</sup> thus proving that SCE did include these costs in its TY  
16 2012 GRC. DRA takes issue with SDG&E's forecast because DRA developed an  
17 independent forecast. A final forecast will be determined when the Commission  
18 issues a final decision in the SCE GRC which is expected either later in 2011 or in  
19 2012. Until then, because SDG&E is relying on an SCE forecast for its own  
20 forecast, DRA has developed its SDG&E forecast based on DRA's SONGS forecast  
21 in the SCE GRC.

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<sup>29</sup> Exh. SDG&E-8, p. 23.

<sup>30</sup> Exh. SDG&E-8 workpapers, p.39.

<sup>31</sup> Exh. SDG&E-8 workpapers, p. 39.

<sup>32</sup> SDG&E-8 workpapers, p. 39.

<sup>33</sup> SDG&E-8 workpapers, p. 40.

1 SCE estimates \$270.466 million as its 78.21% share for TY 2012 O&M.<sup>34</sup> It  
2 shows the participants (100%-78.21%= 21.79%) with \$75.549 million.<sup>35</sup> This means  
3 the total O&M to operate SONGS would be \$270.466 million plus \$75.549 million to  
4 yield \$346.015 million.<sup>36</sup> SDG&E's SONGS ownership share is 20% which means  
5 20% of \$346.015 million is \$69.203 million. That would be the maximum O&M  
6 SDG&E should get for SONGS, assuming no reductions to SCE's request.

7 DRA's forecast of SONGS O&M for SCE's recommendation is \$251.2 million,  
8 versus SCE's request of \$270.466 million. So the ratio of reasonable costs for SCE  
9 is  $251.2/270.466 = 93\%$ . DRA applies that level of funding to SDG&E by multiplying  
10 93% by \$69.203 million to yield \$64.270 million for SDG&E's share of SONGS base  
11 O&M.

12 SDG&E requests \$118.551 million total SONGS O&M cost by adding in IT,  
13 Nuclear Regulatory Commission (NRC) license renewal costs and its 20% share of  
14 the proposed SONGS' seismic program.<sup>37</sup> The Commission should note that  
15 SDG&E's proposed seismic program is now in a separate application, A.11-05-011.  
16 SDG&E adds in SCE results sharing to get to \$384 million (ln. 5), then SDG&E takes  
17 20% of that to get SDG&E's 20% share, \$76.963 million (ln. 6). SDG&E includes  
18 overheads, payroll taxes and escalation (Tables MLD-4 and MLD-5) to get to  
19 \$118.463 million. Because SDG&E's GRC will be resolved after SCE's, DRA  
20 recommends \$64.27 million for SDG&E's share of SONGS base O&M until a  
21 decision has been reached in SCE's GRC. DRA recommends the Commission  
22 disallow SDG&E's IT (\$9.5 million), license renewal/seismic (\$12.9 million), and SCE  
23 results sharing costs (\$15.9 million).

24 Therefore, DRA recommends \$64,270,000 for SDG&E TY 2012 for base  
25 O&M. SDG&E requests the continuation of balancing account treatment for its

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<sup>34</sup> Exh. SCE-2, vol. 1, p. 144.

<sup>35</sup> Exh. SCE-2, vol. 1, p. 144.

<sup>36</sup> This does not include refueling outage costs. DRA did not oppose SCE's refueling cost request. Total refueling costs (100% level) are \$46.009 million. (Exh. SCE-2, vol. 1, p.156.) SDG&E's share would be 20% of that, \$9.2 million.

<sup>37</sup> Exh. SDG&E-8, p. MLD-10, Table MLD-4.

1 share of SONGS O&M cost recovery.<sup>38</sup> DRA does not oppose the continuation of  
2 the SONGS balancing account for O&M expenses.

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**Table 5-5**  
**SONGS Base O&M Expenses for TY 2012**  
**(In Thousands of 2009 Dollars)**

<b>Description (a)</b>	<b>DRA Recommended (b)</b>	<b>SDG&amp;E Proposed<sup>39</sup> (c)</b>	<b>Amount SDG&amp;E&gt;DRA (d=c-b)</b>	<b>Percentage SDG&amp;E&gt;DRA (e=d/b)</b>
SONGS Base O&M	\$64,270	\$118,551	\$54,903	84%

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<sup>38</sup> Exh. SDG&E-8, p. 7

<sup>39</sup> Exh. SDG&E-8, workpapers, p. 39.