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Exhibit Number : DRA-8
Commissioner : Simon
ALJ : Darling
Witness : Burns



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations
for
Southern California Edison Company
General Rate Case
Test Year 2012**

Nuclear Generation Costs

PUBLIC VERSION

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NUCLEAR GENERATION COSTS

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Division of Ratepayer Advocates (DRA) regarding the forecasts of Southern California Edison Company (SCE or Edison) of Nuclear Generation Operation and Maintenance (O&M) expenses for Test Year (TY) 2012, and capital expenditures for 2010 through 2012.

As part of its analysis of SCE's nuclear generation testimony, DRA reviewed 5 exhibits, 5 sets of workpapers, propounded 6 sets of data requests, communicated verbally with SCE's staff and made a site visit to the San Onofre Nuclear Generating Station (SONGS). DRA also reviewed SCE's Federal Energy Regulatory Commission (FERC) Account showings. Section II summarizes DRA's recommendations. Section III summarizes DRA's analysis of SONGS O&M and capital expenditure requests. Section IV summarizes DRA's analysis of Palo Verde Nuclear Generating Station (PVNGS) O&M and capital expenditure requests. Figures cited in the testimony may vary due to rounding.

DRA addresses SCE's non-nuclear generation costs in Exhibit DRA-9.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes DRA's recommendations associated with SONGS O&M expenses for TY 2012 and capital expenditures for 2010 through 2012:

- *Reduction of SONGS personnel, pass through 100% of O&M savings, instead of SCE's proposed 50% pass through. Additional DRA savings, \$24.7 million.*
- *Removal of SONGS seismic study and NRC license renewal costs, pursuant to March 1, 2011 Scoping Memo and Ruling of Assigned Commissioner. Net savings, \$10.1 million.*
- *High Pressure Turbine (HPT) Retrofits, apply \$9.2 million cost cap to capital expenditures.*
- *Site Parking & Pedestrian Lighting capital project, DRA recommends \$0.*
- *Service Air Piping capital project, DRA recommends \$0.*

1 **III. DISCUSSION / ANALYSIS OF SONGS COSTS**

2 **A. Overview of SCE's Request**

3 Section B below discusses SCE's SONGS O&M expense request, while
4 Section C discusses SCE's SONGS capital expenditure request. SCE requests
5 \$270.5 million for TY 2012 Base O&M (2009\$, SCE share), which represents a slight
6 decrease from 2009 recorded expenses.

7 **B. SONGS O&M Expenses**

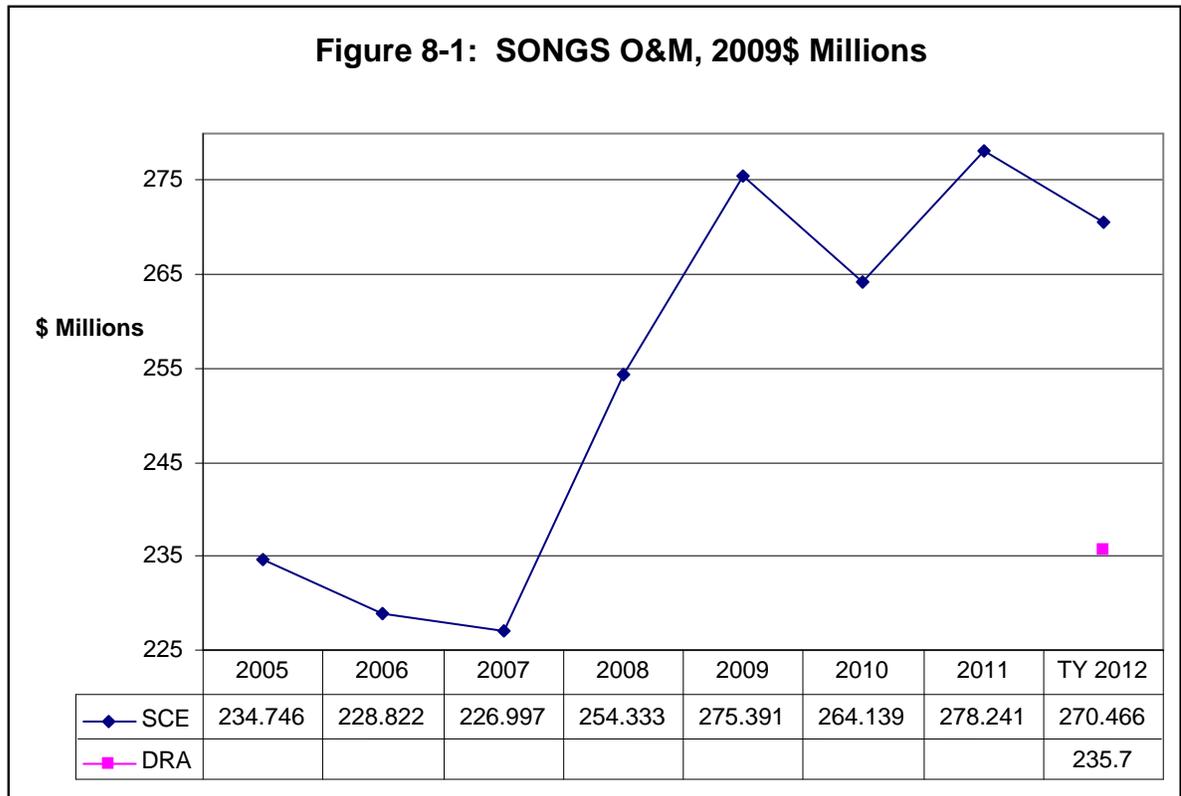
8 Table 8-3 below shows SCE's share of its historical SONGS O&M expenses,
9 along with SCE's TY 2012 O&M expense forecast and DRA's recommendation for
10 TY 2012.

11 **Table 8-3**
12 **2005-2009 Recorded / 2012 Forecast SONGS O&M Expenses**
13 **(in Millions of 2009 Dollars)**

Description	2005	2006	2007	2008	2009	TY 2012
SCE	\$234.746	\$228.822	\$226.997	\$254.333	\$275.391	\$270.466
DRA						\$235.7

14 Source: Exh. SCE-2, Vol. 1 at 22, Fig. II-1.

15 Figure 8-1 below provides a graphic representation of SCE's share of
16 historical SONGS O&M expenses, SCE's TY 2012 forecast and DRA's
17 recommendation.



1

2 DRA requested 2010 recorded SONGS O&M expenses in a format similar to
 3 what SCE has provided in its workpapers, but they were not provided.³ In summary,
 4 DRA recommends TY 2012 O&M of \$235.7 million, a reduction of \$34.8 million.

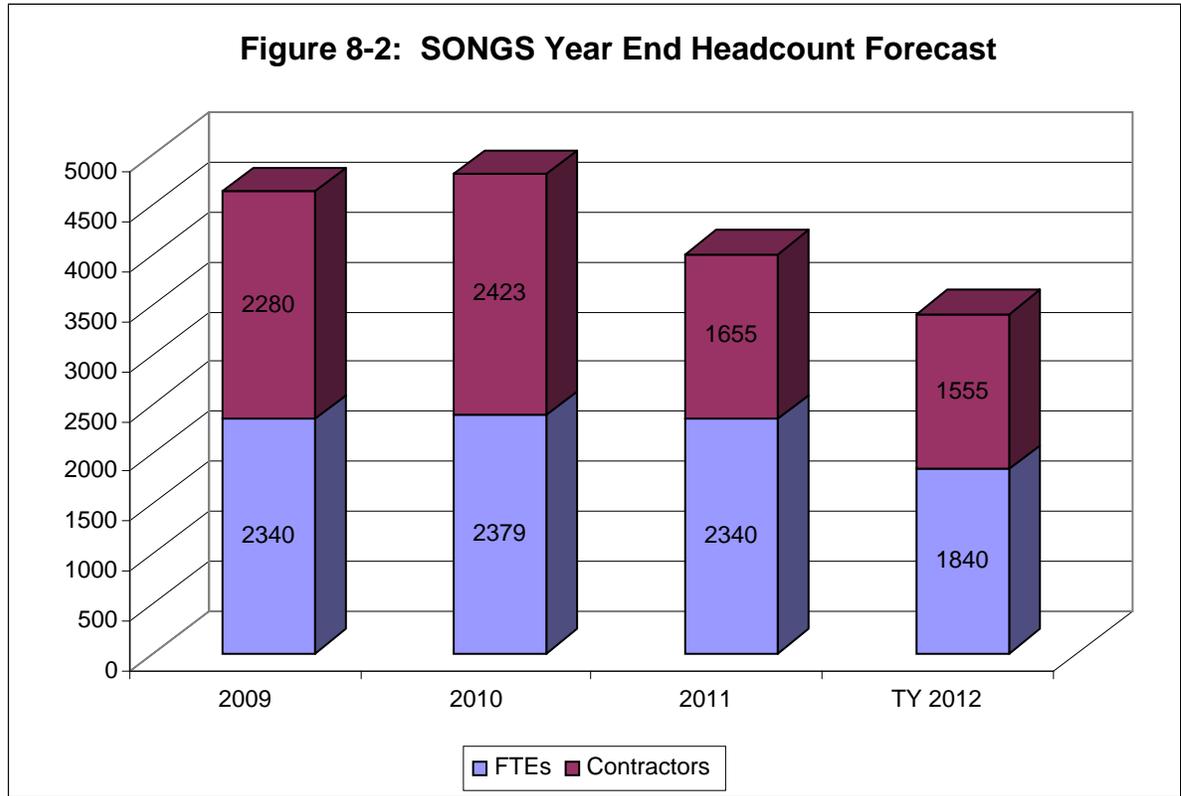
5 **1. Reduction of SONGS Personnel**

6 SCE’s testimony discusses its proposal to make significant personnel
 7 reductions at SONGS.⁴ The personnel reductions were the result of SONGS

³ SCE response to DRA data request 211, Q.1 (excerpt): “SCE does not have the 2010 total recorded O&M expenses in the manner requested.”

⁴ Exh. SCE-2, Vol. 1 at 12-16; SCE workpapers Ch. II, IV-VII at 127-132.

1 management initiatives and consultant recommendations.⁵ Figure 8-2 below shows
2 SCE's forecast of reduced headcounts at SONGS in 2011 and TY 2012.



3
4

Source: SCE response to DRA data request 211, Q.5.

5 SCE proposes a reduction of 100 contractor personnel from the contractor
6 headcount expected as of the end of 2011, and 500 SCE Full Time Equivalent (FTE)
7 personnel.⁶ For modeling purposes, SCE assumed an October 1, 2012 termination
8 date,⁷ and made additional assumptions about salary savings and severance costs

⁵ Exh. SCE-2, Vol. 1 at 8-11; SCE response to DRA data request 27, Q.1 (Goodnight Consulting and Huron Consulting Group recommendations). SCE asserts a confidentiality claim over this data response.

⁶ Exh. SCE-2, Vol. 1 at 12-13.

⁷ Exh. SCE-2, Vol. 1 at 14; SCE response to DRA data request 33, Q.2.

1 for FTEs.⁸ DRA asked SCE for additional information on how the company
2 calculated FTE salary savings⁹ and contractor salary savings.¹⁰ SCE proposes to
3 normalize the net savings over the three year (2012-2014) rate case cycle.¹¹
4 Finally, SCE proposes to share only 50% of the net cost savings with ratepayers,
5 citing prior Commission decisions in the 1992 and 2006 GRCs.¹²

6 DRA does not oppose SCE's FTE and contractor personnel reduction
7 proposal, but DRA does oppose SCE's request to share only 50% of the net cost
8 savings with ratepayers. As FTE and contractor costs increased significantly prior to
9 TY 2012, ratepayers were not saved from 50% of those cost increases; now that
10 there are potentially significant savings, SCE should not be permitted to keep half of
11 the savings. For example, post-9/11 increases in security and other costs at
12 SONGS were incorporated into prior GRCs.¹³ In between GRC decisions, SCE was
13 also made whole with attrition increases. DRA does not oppose SCE's assumptions
14 about the number of FTEs and contractors subject to termination, the assumed
15 October 1, 2012 termination date, the estimated salary savings or estimated
16 severance costs. DRA recalculated the net cost savings from eliminating SCE's
17 50% sharing proposal and adjusted an additional \$18.7 million from FTE savings
18 and an additional \$6 million from contractor savings, for a total of \$24.7 million.

⁸ Exh. SCE-2, Vol. 1, Ch. II, IV-VII workpapers at 127-132.

⁹ SCE response to DRA data request 33, Q.3.

¹⁰ SCE response to DRA data request 33, Q.6.

¹¹ Exh. SCE-2, Vol. 1 at 15.

¹² Exh. SCE-2, Vol. 1 at 15-16.

¹³ A.07-11-011, Exh. DRA-6, April 15, 2008 at 5 shows SONGS 2 & 3 FTEs of 1606 in 2002, rising to 2051 by 2007, citing SCE's response to DRA data request DRA-SCE-086-TXB, Q.6.

1 **2. SONGS Seismic Studies & Nuclear Regulatory**
2 **Commission (NRC) License Renewal**

3 The March 1, 2011, Scoping Memo and Ruling of Assigned Commissioner
4 removed from the scope of the proceeding “all funding for seismic studies
5 recommended by the California Energy Commission as a result of AB 1632, and
6 funding related to renewal of SCE’s [NRC] license [for SONGS].”¹⁴ The Scoping
7 Memo and Ruling states “these issues should be addressed through separate
8 applications so that the Commission may act more quickly and uniformly on these
9 issues.”¹⁵

10 The estimated cost of seismic studies and license renewal costs that appear
11 in the GRC are approximately \$12.9 million, and there is a separate participants’
12 credit of \$(2.8) million.¹⁶ DRA has adjusted these amounts from SCE’s request. On
13 April 18, 2011, the Commission calendared SCE application A.11-04-006, which
14 includes \$50.1 million (SCE share) in expanded SONGS-related seismic studies and
15 project management costs.¹⁷ A.11-04-006 states that SCE will file a separate
16 application for SONGS-related NRC license renewal cost recovery.¹⁸

¹⁴ Scoping Memo and Ruling of Assigned Commissioner, Mar. 1, 2011 at 15.

¹⁵ Id.

¹⁶ Exh. SCE-2, Vol. 10 workpapers at 101. Exh. SCE-2, Vol. 10 states on page 40 that “SCE includes in this GRC filing, incremental O&M expenses of \$2.0 million (constant 2009 Dollars, SCE share) for test year 2012.” Participants credit of \$(2.8) million appears in Exh. SCE-2, Vol. 10 workpapers at 117.

¹⁷ A.11-04-006, Exh. SCE-1 at 2.

¹⁸ A.11-04-006, Exh. SCE-1 at 7, fn. 10.

1 **C. SONGS Capital Expenditures**

2 SCE requests \$115.9 million in capital expenditures for 2010, \$125.7 million
3 for 2011 and \$151.1 million for TY 2012 for SONGS.¹⁹ As discussed below, DRA
4 has made adjustments to SCE’s requests regarding High Pressure Turbine retrofits,
5 site parking and pedestrian lighting, service air piping and remodeling of the
6 cafeterias capital projects.

7 **1. High Pressure Turbine (HPT) Retrofits**

8 SCE’s testimony proposes to spend \$36.6 million in 2011 to retrofit the High
9 Pressure Turbine (HPT) at SONGS 2 and an additional \$36.6 million on SONGS 3 in
10 2013, for a total of \$73.2 million.²⁰ SCE assumes that the retrofit will increase
11 SONGS 2 and 3’s energy output and capacity by 2%, approximately 48 MW.²¹ SCE
12 includes a 40% contingency rate for the project: \$10.5 million for SONGS 2 and
13 \$9.9 million for SONGS 3.²²

14 DRA requested from SCE a HPT retrofit cost-effectiveness study, and learned
15 that SCE estimated a 1.4 benefit-to-cost ratio under “conservative” assumptions; but
16 the benefit-to-cost ratio drops to 1.0 if lower gas prices are assumed.²³ SCE’s data
17 response included a portion of the company’s 2009 GRC testimony, which shows a
18 \$41 million capital cost to retrofit SONGS 2 in 2011 and a 1.22 benefit-cost ratio.²⁴

¹⁹ Exh. SCE-2, Vol. 2 at 9, Table III-1.

²⁰ Exh. SCE-2, Vol. 2 at 25.

²¹ Exh. SCE-2, Vol. 2 at 24.

²² Exh. SCE-2, Vol. 2, Part 2 workpapers at 126 and 132.

²³ SCE response to DRA data request 34, Q.4.

²⁴ SCE response to DRA data request 34, Q.4, citing SCE TY 2009 GRC testimony SCE-02, Vol. 5 at 1 and 8.

1 SCE's testimony refers to the inclusion of the HPT retrofit project in the
2 SONGS 2 and 3 Steam Generator Replacement (SGRP) cost estimate, which was
3 the subject of a separate application by SCE:

4 [t]he SONGS 2 & 3 Steam Generator Replacement Project (SRGP)
5 cost estimate, adopted by the Commission in D.05-12-040 included
6 funding to replace the SONGS 2 & 3 HPT diaphragms and perform
7 other turbine work. The HP Turbine Project described [in SCE's TY
8 2012 testimony] includes replacement of diaphragms on the High
9 Pressure Turbine at SONGS 2 & 3. SCE will seek to remove the
10 cost of replacing the diaphragms on the High Pressure Turbine at
11 SONGS 2 & 3 from the SONGS 2 & 3 SGRP cost estimate in an
12 appropriate filing prior to recovery of its SGRP costs.
13

14 Exh. SCE-2, Vol. 2 at 23, fn. 24.

15 On October 8, 2010, SCE filed a Petition for Modification of Decision (D.) 05-
16 12-040, asking to remove "from the SGRP cost estimate the costs related to
17 replacing and refurbishing certain components in the low and high pressure turbines
18 (LPTs and HPTs) at SONGS 2 & 3. SCE initially included the cost of this work
19 (approximately \$9.2 million, 2004 dollars) in the SGRP cost estimate (approximately
20 \$680 million, 2004 dollars), which the Commission approved as a reasonable
21 estimate in D.05-12-040. SCE, however, has removed this turbine-related work from
22 the SGRP, and has decided to complete the work as part of the separate HPT
23 retrofit project (HPT Project) for SONGS 2 & 3, scheduled for completion in 2012.
24 [footnote omitted] The HPT Project involves a more extensive retrofit of the SONGS
25 2 & 3 HPTs than the turbine work included in the SGRP."²⁵

26 On November 19, 2010, DRA filed a Response opposing SCE's Petition for
27 Modification; DRA stated that "[t]he Petition's impact of removing the HPT and LPT
28 Retrofit Projects from the SGRP Cost Estimate and Cost Cap would significantly
29 alter D.05-12-040 and the other decisions within Application ('A') 04-02-026. First,
30 the HPT and LPT Retrofit Projects were incorporated as contingencies, or
31 assumptions, to the SCE's SGRP cost estimate and reflected in the SGRP Cost

²⁵ SCE Petition for Modification, A.04-02-026, Oct. 8, 2010 at 1-2.

1 Estimate and Cost Cap authorized by the Commission in D.05-12-040. As such,
2 SCE will be altering more than just the LPT and HPT Retrofit Projects. There is no
3 provision for a manipulation of the SGRP Cost Estimate and Cost Cap. Therefore,
4 removing these project scope contingencies from the Commission's Cost Cap would
5 extensively modify D.05-12-040, Ordering Paragraph No. 4 to an undesired result
6 and render the Cost Cap and attendant cost-effectiveness analyses,[footnote
7 omitted] as adopted within this proceeding, worthless."²⁶

8 On January 14, 2011, DRA filed Sur-Reply in opposition to SCE's request;
9 DRA argued that "SCE fails to provide a justification as to why the cost, which have
10 already been determined by D.05-12-040 to be \$9.2 million, [should] be removed to
11 a General Rate Case (GRC) where SCE is replacing it with a significantly higher
12 cost of \$73.2 million.[footnote omitted] In its Petition, SCE conveniently leaves out
13 the significant cost jump that D.05-12-040 set as reasonable."²⁷ At this point, the
14 Commission has not made a decision resolving SCE's Petition. DRA's
15 recommendation below is based on an assumption that the Commission removes
16 the HPT retrofit project from the SGRP proceeding and moves it to SCE's 2012
17 GRC.

18 On April 26, 2011 a Proposed Decision (PD) was released that reduces the
19 SGRP cost cap by \$9.2 million (2004\$) and carries forward "the limit of \$9.2 million,
20 as estimated and adopted in 2004 dollars, for the same components which now are
21 contained within the larger steam generator replacement program included in SCE's
22 2009 and 2012 general rate cases."²⁸

²⁶ DRA Response in Opposition to SCE's Petition for Modification of D.05-12-040, Nov. 19, 2010 at 1-2.

²⁷ DRA Sur-Reply in Opposition to SCE's Petition for Modification of D.05-12-040, Jan. 14, 2011 at 1.

²⁸ A.04-02-026, PD at 1 and 2: <http://docs.cpuc.ca.gov/efile/PD/134184.pdf>

1 While DRA does not oppose the proposed HPT retrofit project, DRA
2 recommends retention of the \$9.2 million cost cap, as decided in D.05-12-040. As
3 discussed above, given the \$9.2 million cost cap in D.05-12-040, DRA opposes
4 SCE's increased HPT cost estimate of \$73.2 million. DRA notes that SCE has
5 included a 40% contingency level as part of its current cost estimate.²⁹

6 **2. Site Parking & Pedestrian Lighting**

7 SCE's testimony proposes to spend \$1.2 million in 2010-2013 to install
8 battery-powered, solar-cell charged light emitting diode (LED) overhead lighting in
9 three parking lots at SONGS.³⁰ SCE's plans are preliminary at best: "SCE will
10 conduct lighting surveys in SONGS parking lots 2, 3 and 4, and as well survey
11 access and ingress/egress routes to the parking areas. SCE will use this data to
12 select areas to modify or replace SONGS parking lot lighting, including light poles
13 and fixtures."³¹ The project cost includes a relatively high 42% contingency of
14 \$290,000.³²

15 SCE's justification states "[t]here are certain areas of SONGS parking lots 2,
16 3 and 4 where vision is limited due to insufficient lighting. This could *potentially*
17 contribute to a situation where an injury *may* occur (e.g. an injury caused by an
18 inconspicuous object or presence of rattlesnakes *and* mountain lions)."³³ DRA
19 asked SCE whether improving the lighting in the SONGS parking lots would improve
20 the predation opportunities of "rattlesnakes and mountain lions"; SCE responded
21 that "SCE does not know whether the lighting improvements in SONGS parking lots

²⁹ Exh. SCE-2, Vol. 2, Part 2 workpapers at 126 and 132.

³⁰ Exh. SCE-2, Vol. 2 at 28; see also Appendix B, reference #17 at B-19.

³¹ *Id.* at 28, Ins. 10-12.

³² Exh. SCE-2, Vol. 2, Pt. 2 workpapers at 141, In. 4.

³³ Exh. SCE-2, Vol. 2 at 28, Ins. 20-22 (emphasis added).

1 would improve or reduce predation opportunities of ‘rattlesnakes and mountain
2 lions.’”³⁴

3 Despite the irony of installing solar-powered lighting at a nuclear power plant,
4 DRA recommends \$0 for the site parking and pedestrian lighting project. SCE does
5 not appear to have fully planned out this project, the company’s justification for the
6 project is questionable given the lack of evidence of snake or mountain lion
7 incidents, or that installing lighting in the parking lot would deter such incidents.
8 Finally, the 42% contingency appears high for what should be a relatively straight-
9 forward project.³⁵

10 **3. Service Air Piping**

11 SCE’s testimony proposes to spend \$1.1 million in 2013 to upgrade the
12 SONGS’ service air system piping.³⁶ SCE’s testimony admits that the project was
13 delayed from 2009: “[t]his project was deferred from its originally estimated in-
14 service year of 2009 to provide funding for emergent projects having higher
15 priority.”³⁷ In response to a DRA data request, SCE confirmed that the project was
16 part of the last GRC: “SCE listed the Service Air Piping Project as a planned capital
17 project within the 2009 GRC. SCE did not complete this project as planned.”³⁸ The
18 project cost includes a 20% contingency cost of \$150,000.³⁹

19 DRA recommends \$0 for the service air piping project. This project was
20 included in the 2009 GRC. DRA does not oppose the project itself, only that
21 ratepayers should not pay in TY 2012 for a project included in the 2009 GRC.

³⁴ SCE response to DRA data request 34, Q.5 (excerpt).

³⁵ Exh. SCE-2, Vol. 2, Part 2 workpapers at 126 and 132.

³⁶ Exh. SCE-2, Vol. 2 at 45-46; see also Appendix B, reference #45 at B-47.

³⁷ *Id.* at 46.

³⁸ SCE response to DRA data request 34, Q.11 (excerpt).

³⁹ Exh. SCE-2, Vol. 2, Pt. 2 workpapers at 407, ln. 4.

1 **4. Remodeling of Cafeterias**

2 SCE’s testimony proposes to spend \$1.5 million in 2011 to remodel two
3 cafeterias at SONGS.⁴⁰ SCE’s testimony offered a justification for the remodeling
4 proposal:

5 [t]here have been no upgrades or modifications made to the
6 cafeterias since the early 1980s. Consequently the cafeterias have
7 degraded, and do not meet expected levels of cleanliness and
8 lighting to satisfy the needs of the present day worker. Because of
9 food preparation, years of grease residue have built up on the
10 ceilings and portions of the walls of the cafeteria. In addition, the
11 equipment and appliances have withstood many years of repair and
12 replacement parts are no longer available.

13 Exh. SCE-2, Vol. 2 at 30, Ins. 8-12.

14 DRA asked SCE to provide workpapers on options SCE considered regarding
15 remodeling the cafeterias. SCE provided no workpapers, but did provide this
16 explanation:

17 [t]he remodeling design was based on the age of equipment and
18 structures and was developed using the constraints of the existing
19 footprint for both the serving and food preparation areas. Because
20 of the limited space and work area in the SONGS cafeterias, SCE
21 could not consider multiple remodeling options. Therefore, SCE
22 considered one remodeling option. As discussed in SCE’s
23 testimony in SCE-02, Volume 2 on page 30, ‘There have been no
24 upgrades or modification made to the [SONGS] cafeterias since the
25 early 1980s. Consequently the cafeterias have degraded.... In
26 addition, the equipment and appliances have withstood many years
27 and repairs and replacement parts are no longer available.’
28 Because of the degraded condition of the cafeterias, SCE rejected
29 the option of not remodeling them.

30 SCE response to DRA data request 34, Q.6.

31 SCE’s capital cost forecast includes a 40% contingency amount: “[d]etailed
32 plans, including design documents (diagrams/drawings), project plans, schedules,

⁴⁰ Exh. SCE-2, Vol. 2 at 29-30; see also Appendix B, reference # 19 at B-21.

1 and Work Breakdown Structure (WBS), have not been developed at this stage,
2 requiring a 40% contingency.”⁴¹

3 SCE’s justification does not appear to be related to either safety or plant
4 reliability. DRA recommends \$0 for the cafeteria remodeling project, given what
5 appears to be deficient project planning, an excessive 40% contingency amount and
6 the lack of a safety or plant reliability rationale.

7 **IV. DISCUSSION / ANALYSIS OF PVNGS COSTS**

8 **A. Overview of SCE’s Request**

9 Section B below discusses SCE’s PVNGS O&M expense request, while
10 Section C discusses SCE’s PVNGS capital expenditure request. SCE requests
11 \$83.1 million for TY 2012 Base O&M (2009\$, SCE share), which represents a slight
12 increase from 2009 recorded expenses.

13 **B. PVNGS O&M Expenses**

14 Table 8-4 below shows SCE’s share of its historical PVNGS O&M expenses,
15 along with SCE’s TY 2012 O&M expense forecast, and DRA’s recommendation for
16 TY 2012. DRA does not oppose SCE’s Palo Verde O&M expense request. DRA
17 notes that the TY 2012 O&M increases are due mainly to water fee increases⁴² and
18 NRC fee increases.⁴³

19 **Table 8-4**
20 **2005-2009 Recorded / 2012 Forecast PVNGS O&M Expenses**
21 **(in Millions of 2009 Dollars)**

Description	2005	2006	2007	2008	2009	2012
SCE	\$55.298	\$67.395	\$74.980	\$89.505	\$80.438	\$83.101
DRA						\$83.101

22 Source: Exh. SCE-2, Vol. 3 at 2, Fig. I-1.

⁴¹ SCE response to DRA data request 34, Q.16 (excerpt).

⁴² Exh. SCE-2, Vol. 3 at 11.

⁴³ Exh. SCE-2, Vol. 3 at 10.

1 **C. PVNGS Capital Expenditures**

2 SCE requests \$38.0 million in capital expenditures for 2010, \$36.7 million for
3 2011 and \$30.4 million to TY 2012 for PVNGS.⁴⁴ As discussed below, DRA has
4 made adjustments to SCE’s requests regarding the Component Design Basis
5 Review documentation and the Nuclear Administrative and Technical Manual
6 replacement, Phase I capital projects. SCE’s testimony states that SCE owns
7 15.8% of PVNGS and that “[a]s the operating agent for Palo Verde, Arizona Public
8 Service (APS) develops and manages capital expenditures.”⁴⁵

9 **1. Component Design Basis Review Documentation**

10 SCE’s testimony discusses deficiencies in NRC-required Design Basis
11 documentation: “[d]uring an inspection of the plant, the NRC found a number of
12 deficiencies between the Architectural Engineering (A-E) and Nuclear Steam Supply
13 System (NSSS) vendors Design Basis documentation. A design basis identifies the
14 specific engineering design parameters and the functions to be performed by a
15 structure, system, or component of a facility. [footnote omitted] At Palo Verde this
16 information is documented in a set of design basis manuals. In general, *it was*
17 *discovered that Palo Verde’s Design Basis Project (conducted in the early to mid-*
18 *1990s) did not complete development of all planned Design Basis Manuals.”⁴⁶*

19 For the Component Design Basis Review documentation project, SCE’s
20 testimony shows prior capital expenditures of \$3.7 million, a 2010 forecast of \$1.3
21 million and a 2011 forecast of \$0.7 million, for a total of \$5.7 million.⁴⁷ DRA asked
22 SCE who was responsible for development of the Design Basis Manuals -- Arizona
23 Public Service (APS) or SCE? SCE responded:

⁴⁴ Exh. SCE-2, Vol. 4 at 9, Table IV-1.

⁴⁵ Exh. SCE-2, Vol. 4 at 1.

⁴⁶ Exh. SCE-2, Vol. 4 at 19 (emphasis added).

⁴⁷ Exh. SCE-2, Vol. 4, Table IV-2 at 10.

1 As noted in SCE's direct testimony SCE-02, Vol. 3, page 4, 'SCE,
2 through its ownership role, regularly reviews the budget and cost
3 control processes. Further, SCE and the other owners' participation in
4 the E&O and Administrative Committees provides assurance that,
5 based on the best available information, APS properly plans and
6 controls Palo Verde O&M expenses in a way that is consistent with the
7 objective of excellent safety performance, regulatory compliance, and
8 cost effective maximization of generation'. In addition within SCE-02,
9 Vol. 4, page 1, SCE's direct testimony states, 'As the operating agent
10 for Palo Verde, Arizona Public Service (APS) develops and manages
11 capital expenditures. APS identifies and implements capital projects as
12 necessary to support safe operation of the plant to meet regulatory
13 requirements, optimize overall cost-effective plant operation, or to
14 continue to increase reliable plant operation'. *In conclusion, as the*
15 *operating agent, APS is responsible for the development of the Design*
16 *Basis manual.*

17
18 SCE response to DRA data request 37, Q.3 (emphasis added).

19 Considering SCE's 15.8% minority ownership of Palo Verde, the responsibility
20 for the proper development of the Design Basis Manuals belongs with the operating
21 agent, APS, not SCE; SCE's ratepayers should not pay for the long overdue
22 completion of the Design Basis Manuals. Since APS did not complete the
23 development of the Design Basis Manuals in the "early to mid-1990s" as they should
24 have, SCE's ratepayers should not be responsible now for these long-delayed costs.
25 DRA recommends an adjustment rejecting the inclusion in rates of \$5.7 million for
26 the Design Basis Manuals.

27 **2. Nuclear Administrative and Technical Manual**
28 **Replacement, Phase I**

29 SCE's testimony discusses measures to address maintenance issues at Palo
30 Verde:

31 The NRC and Palo Verde internal audits group have identified
32 instances of ineffective program administration and areas for
33 potential improvement with regards to human behavior and
34 performance. To address these concerns, Palo Verde is replacing
35 the Nuclear Administrative and Technical Manual (NATM). The
36 replacement of the NATM will improve technical specifications and
37 reduce the likelihood of inoperable equipment, such as main steam

1 The NRC document refers to three non-cited violations of NRC regulations.⁵⁰ DRA
2 asked SCE who is responsible for program administration, human behavior and
3 performance issues at Palo Verde -- APS or SCE? SCE responded that "xxxxxx
4 xxxxxxxxxxxxxxxxxxx, xxx, xxxxxx xxxxxxxx
5 xxx xxxxxxxxxxxxxxx." ⁵¹

6 Considering SCE's 15.8% minority ownership of Palo Verde, the responsibility
7 for the replacement of the NATM belongs with the operating agent, APS, not SCE;
8 SCE ratepayers should not pay for the replacement of the NATM. Both APS and the
9 NRC identified "instances of ineffective program administration and areas for
10 potential improvement with regards to human behavior and performance" that are
11 the responsibility of the operating agent, APS; SCE's ratepayers should not be
12 responsible for NATM replacement. DRA recommends an adjustment rejecting the
13 inclusion in rates of \$3.8 million for the NATM.

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⁵⁰ U.S. NRC, Palo Verde Nuclear Generating Station – NRC Integrated Inspection Report, February 6, 2007 at pp. 3, 6 and 7:
http://adamswebsearch.nrc.gov/idmws/DocContent.dll?library=PU_ADAMS^pbntad01&Logo.nID=7d61373b96af683965bd6758f3acaecd&id=070380249

⁵¹ SCE response to DRA data request 37, Q.4 (excerpt). SCE asserts a confidentiality claim over this data response.