

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA

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ADMINISTRATIVE LAW JUDGE JEFFREY P. O'DONNELL, presiding.

Application of Southern California Edison Company (U 338-E) for Authorization: (1) to replace San Onofre Nuclear Generating Station Unit Nos. 2 & 3 (SONGS 2& 3) steam generators; (2) establish ratemaking for cost recovery; and (3) address other related steam generator replacement issues.

EVIDENTIARY
HEARING

Application
04-02-026

REPORTER'S TRANSCRIPT

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1 or no, state that that is the case, then answer it.

2 If you don't know the answer to a question,
3 say so. If you accept something subject to check, the
4 record will reflect that the witness believes whatever
5 you accept it -- excuse me -- what the witness accepted
6 subject to check is correct unless the witness or
7 attorney subsequently indicates otherwise.

8 Define any acronyms that are not common
9 knowledge or haven't been used regularly in this
10 proceeding.

11 In my -- I guess it was my last ruling, I
12 posed a question. Let me rephrase it slightly or
13 clarify.

14 I want to clarify now what the Commission has
15 to decide in this proceeding. Since SDG&E has opted
16 out, it would appear that the cost-effectiveness of the
17 steam generator replacement to San Diego Gas & Electric
18 is not an issue in this proceeding.

19 Likewise, it appears that issues regarding
20 possible changes to the agreement between the owners of
21 San Onofre are not an issue in this proceeding.

22 Now that's my assumption. I don't know that
23 it's correct. I'm looking for input from the parties.
24 So how about some input.

25 Anybody disagree, let's start out with that.

26 MS. SCHMID-FRAZEE: Your Honor, Edison has a
27 statement of counsel, and Mr. Ray will be available on
28 February 7 to follow up.

1 SCE agrees the steam generator replacement is
2 cost effective regardless of the ownership share
3 retained by San Diego Gas & Electric.

4 We agree that SCE's application for steam
5 generator replacement could be approved without first
6 deciding the issue of SDG&E's participation. However,
7 we note that there are other considerations in approving
8 steam generator replacement in addition to
9 cost-effectiveness to SCE's ratepayers.

10 Furthermore, we strongly believe that SDG&E
11 should participate in steam generator replacement. The
12 cost-effectiveness of SDG&E's participation will be one
13 of many issues to be considered in SDG&E's 851
14 application. We expect to oppose that application.

15 ALJ O'DONNELL: Very well. Anybody else?

16 Mr. Weil.

17 MR. WEIL: Your Honor, I will agree with you that,
18 standing alone, the cost-effectiveness of the steam
19 generator replacement project to SDG&E is not an issue
20 before the Commission. However, I also believe that the
21 cost-effectiveness of the project to SDG&E has a direct
22 bearing on the cost-effectiveness of the project to SCE
23 ratepayers, which is a live issue in this proceeding.

24 So, to a certain extent, I think it's
25 important that the Commission determine what are the
26 consequences to SCE of SDG&E's decision not to
27 participate. Whether those consequences include
28 eventual ownership of the remaining portions of the

1 plant -- "remaining" meaning non-steam-generator
2 portions of the plant -- I don't really know yet. But
3 because eventual ownership does depend on SDG&E's
4 decision not to participate in the project itself, that
5 issue is important to the Commission's consideration of
6 cost-effectiveness from SCE's viewpoint.

7 ALJ O'DONNELL: If I understand what you're saying
8 correctly, in essence, the percentage ownership that
9 Edison will retain, which is 80 percent now and could
10 increase -- or 75 point whatever the heck it is -- and
11 could increase to the extent San Diego transfers
12 ownership ultimately to Edison, that's what you're
13 talking about, the ownership share?

14 MR. WEIL: Yes.

15 ALJ O'DONNELL: Right. That is definitely an
16 issue, but that's an issue of cost-effectiveness as from
17 Edison's point of view.

18 MR. WEIL: Agreed.

19 ALJ O'DONNELL: Okay. Anybody else?

20 MR. WALSH: Yes, your Honor. James Walsh for
21 San Diego Gas & Electric.

22 I agree with the statement that you made.

23 First, we have opted out of this project. The
24 cost-effectiveness to SDG&E of our participation in this
25 project is not an issue in this proceeding. It will be
26 an issue in the 851 application that we file perhaps as
27 early as March at the conclusion of our arbitration.

28 Further, the possible changes to SDG&E's

1 ownership share is not an issue in this proceeding.
2 That will be an issue that will be placed before the
3 Commission in an upcoming Section 851 filing.

4 SDG&E's -- the issues that SDG&E wishes to
5 address in this proceeding involve issues involving the
6 cost-effectiveness of this project to Edison. There are
7 three aspects of that showing that we would like to
8 make.

9 First, a purchased power arrangement in which
10 San Diego sells its ownership interest to Edison and
11 takes back a purchased power agreement is a
12 cost-effective alternative to Edison taking, by way of
13 example, all of SDG&E's ownership share and putting that
14 interest in its retail rates. That was a hypothetical
15 that was described in your earlier ruling.

16 Secondly, the issues involving the tax
17 consequences of a transfer of ownership share, in spite
18 of Edison's rebuttal testimony, give rise to issues of
19 cost, tax cost, that may affect the cost-effectiveness
20 of this project because there are tax consequences to
21 Edison unless it agrees, as well as the other parties to
22 the operating agreement, that an election out of
23 subchapter K of the Internal Revenue Code should occur,
24 thereby making this a tax partnership only for tax
25 purposes.

26 Third, there are issues involving transmission
27 mitigation that San Diego believes affect or may affect
28 the cost-effectiveness of this project to Edison.

1 As to the alternatives that San Diego has put
2 forward in its testimony to its participation in this
3 project, a consideration of those alternatives, whether
4 they are cost effective, whether they are the least cost
5 among cost-effective alternatives, is an issue that
6 properly should be decided -- examined and decided in
7 San Diego's Section 851 application.

8 ALJ O'DONNELL: As far as the tax proposals that
9 you have, are you envisioning the Commission order in
10 this proceeding Edison to go forward with such a
11 proposal if it was to be adopted?

12 In other words, what am I looking -- or what
13 are you trying to get the Commission to do regarding,
14 for example, the tax proposal?

15 MR. WALSH: I am not going to seek a Commission
16 ruling that directs Edison to form a tax partnership.
17 But in considering the cost-effectiveness of this
18 project for Edison, the tax consequences, which will
19 give rise to costs to Edison ratepayers unless resolved,
20 should be taken into account in the cost-effectiveness
21 determination that the Commission will make whether this
22 project should go forward.

23 If the Commission determines that it's still
24 cost effective for Edison to go forward in spite of the
25 tax costs, or if Edison continues to resist the
26 formation of a tax partnership, to the extent that that
27 affects the cost-effectiveness of the project, that
28 should be taken into account.

1 ALJ O'DONNELL: So using the tax as an example,
2 the alternative you'll be offering, you are saying, in
3 essence, he's a way to make it -- the project, whatever
4 its cost may be, more cost effective. The Commission
5 can do whatever it chooses to with that. You are saying
6 it should be considered in the cost-effectiveness
7 calculations and determination, correct?

8 MR. WALSH: That's what I'm saying.

9 ALJ O'DONNELL: And you'll be quantifying these
10 amounts?

11 MR. WALSH: We can quantify the amount as
12 applicable to SDG&E. And I will, hopefully, through
13 cross-examination or through our own testimony attempt
14 to quantify this consequence to Edison.

15 ALJ O'DONNELL: Okay. My understanding is that
16 the parties have or will enter into arbitration on the
17 reduction ownership resulting from San Diego's
18 nonparticipation.

19 Are you anticipating doing anything with the
20 results of that arbitration in this proceeding?

21 MS. SCHMID-FRAZEE: Not in this proceeding your
22 Honor. The arbitration was completed on January 20th,
23 2005. And we understand that San Diego will be filing
24 an application once the arbitration decision is
25 announced that would be basically a Section 851
26 application, which is the application that we anticipate
27 opposing.

28 ALJ O'DONNELL: My impression, but this is from

1 dim recollections, is the agreement between the owners
2 pretty much provided for the percentage reduction to be
3 determined when the project was complete.

4 MS. SCHMID-FRAZEE: That is correct. And that
5 probably is an issue that should be addressed with
6 Mr. Walsh.

7 My understanding of the arbitration is that we
8 will come to an agreement on how to calculate the
9 reduction, in other words, how to determine the values
10 that go into the formula, but that we will not be able
11 to identify the reduction in ownership share until we
12 know the full cost of the project at the time it is
13 completed.

14 ALJ O'DONNELL: So it could be 2009, 2010,
15 something like that?

16 MS. SCHMID-FRAZEE: Yes.

17 ALJ O'DONNELL: Then in this proceeding we will be
18 using -- in essence, making determinations of what the
19 cost-effectiveness would be given the various levels of
20 ownership share reduction for Edison or for San Diego,
21 correct?

22 MS. SCHMID-FRAZEE: That's correct.

23 ALJ O'DONNELL: I don't know what else we would
24 do.

25 MS. SCHMID-FRAZEE: Yes.

26 ALJ O'DONNELL: Okay.

27 MR. WALSH: If I may, your Honor.

28 ALJ O'DONNELL: Please.

1 MR. WALSH: The operating agreement does
2 contemplate that the final share reduction will be
3 determined at the time that the **costs** of the **restoration**
4 work is **known**. That will be at some point **after** the
5 **restoration** work is complete and the **units** are put in
6 service and costs finally tallied for both Units 2
7 and 3. The **agreement, nonetheless**, contemplates that
8 **estimates** can be made.

9 The arbitration will determine only the value
10 of Edison's interest in SONGS capacity at that time and
11 San Diego's value of SONGS -- of its SONGS capacity at
12 that time.

13 My **intention** -- and the **Commission** or your
14 Honor will have an opportunity to determine if **you'll**
15 let us go **forward** -- is to **nonetheless**, after the
16 arbitration, file a Section 851 application that seeks a
17 present determination that it's in the best interest of
18 San Diego not to participate, to reduce its ownership
19 share reduction on an estimated basis so that San Diego
20 can move forward on a timely basis to effect the
21 **alternatives** that **exist** to San Diego's participation.

22 And if and to the extent that there is a, if
23 you will, a true-up in 2010, 2011, 2012, I would be
24 asking the **Commission** for a conclusion of law and
25 ordering paragraph that would avoid the need to **file**
26 another 851, but rather to **effect** the conclusions of the
27 **Commission's** actions on the 851 that I'll be **filing**
28 shortly. I would request that an ordering paragraph be

1 stated that would allow this decision that would issue
2 in 2006 could be implemented without going through
3 another 851.

4 ALJ O'DONNELL: And there is no reason to
5 consolidate that 851, if and when it's filed, with this
6 proceeding, separate and --

7 MR. WALSH: I do not see a need, and I would
8 recommend that they not be consolidated. They will be
9 on different time tracks.

10 MS. SCHMID-FRAZEE: Edison concurs, your Honor.

11 ALJ O'DONNELL: Will, in this proceeding, Edison
12 and San Diego be able to give a range of the likely
13 outcomes of the ownership share?

14 MR. WALSH: Your Honor, the range of likely
15 outcomes that --

16 ALJ O'DONNELL: I assume it's not zero and 20, or
17 maybe it is.

18 MR. WALSH: The evidence presented in the
19 arbitration leave a range of from zero to an amount of
20 approximately 14 to 15 percent. I suppose the
21 arbitrator could on some basis come to some other
22 conclusion, but the testimony adduced suggests that it
23 could be one or the other.

24 MS. SCHMID-FRAZEE: Your Honor, SCE does believe
25 that the testimony it provided in Exhibit SCE-9, which
26 shows the variety of outcomes from zero 20 percent is
27 the appropriate analysis for the Commission to make.

28 ALJ O'DONNELL: So you would not have --

1 MS. SCHMID-FRAZEE: I would not limit the analysis
2 to either zero percent or 15 percent, as Mr. Walsh seems
3 to indicate. I would look at a range.

4 ALJ O'DONNELL: Well, I'm definitely considering a
5 range. I'm just wondering if it's zero to 20.

6 I'll assume it's zero to 20 unless somebody
7 during the course of the proceeding says otherwise.

8 Okay. At some point during the proceeding,
9 I'm going to want an exhibit from Edison, and it's
10 purely a question of a calculation. The exhibit would
11 identify the net present value of the revenue
12 requirement in 2004 dollars of the total project costs,
13 including financing and removal and disposal of the old
14 steam generators assuming conventional ratemaking
15 treatment and also using Edison's proposal based on the
16 2006 general rate case basis. Also included would be
17 the net present value of the revenue requirement of the
18 benefits in 2004 dollars.

19 So I'm assuming this will just end up being a
20 simple table, but it remains to be seen.

21 MS. SCHMID-FRAZEE: Okay. So you want Edison to
22 prepare a new exhibit. And in terms of -- when you say
23 assuming conventional ratemaking treatment, are you
24 assuming that we apply an allowance for funds to use
25 during construction rather than the construction
26 financing cost proposal that SCE has made?

27 ALJ O'DONNELL: Correct. Because I'm looking for,
28 one, what the cost-effectiveness is going to be if that

1 conventional -- what I'm calling conventional treatment
2 is adopted versus yours, so the record is sufficient for
3 the Commission to go whichever way it wants to go.

4 MS. SCHMID-FRAZEE: Thank you, your Honor.

5 We will endeavor to provide that as soon as
6 possible.

7 Did you want just a base case, or did you want
8 a variety of sensitivities in that exhibit?

9 ALJ O'DONNELL: The more the better.

10 MS. SCHMID-FRAZEE: Okay. Thank you.

11 MR. FREEDMAN: Your Honor, this is an exhibit that
12 I imagine parties might have questions on depending on
13 how it comes out. And I'm hoping that Edison would have
14 someone available to answer those questions.

15 MS. SCHMID-FRAZEE: This exhibit would likely be
16 sponsored by Mark Nelson. We can try to put it together
17 before he takes the stand, but given his health, we may
18 not be able to bring him back and forth. So we will
19 endeavor to get this ready before he is on the stand.
20 It may be same day. We will try to get it to you as
21 soon as we can.

22 ALJ O'DONNELL: I'm assuming that this exhibit is
23 primarily just a change in calculations, and not some
24 big policy thing. So, hopefully, it's pretty
25 straightforward.

26 MS. SCHMID-FRAZEE: Yes. Maybe Mr. Petmecky could
27 sponsor it, but I don't know quite where he's going to
28 fit in the order. So we will endeavor --

1 ALJ O'DONNELL: The other possibility is if any of
2 the parties have specific questions they want answered
3 either now or when they receive it, if there's a problem
4 getting the witness here, maybe a written interrogatory?

5 MR. FREEDMAN: That would be fine, your Honor.

6 ALJ O'DONNELL: Just as a possibility at this
7 point. We haven't seen the exhibit.

8 MR. FREEDMAN: I'm imagining that the questions
9 would go to issues of was X included or Y included, just
10 to make sure that we're all on the same page about
11 what's in and out of that analysis.

12 ALJ O'DONNELL: Perhaps The exhibit could explain
13 that, may be a simple way to do it. In other words,
14 explain here's the changes we made, and here's the
15 result.

16 I'll leave it to Edison to figure out how to
17 present that, but to the extent you can avoid additional
18 recall of the witness out of time, that would help.

19 MS. SCHMID-FRAZEE: We'll certainly endeavor to
20 avoid a recall.

21 ALJ O'DONNELL: Thank you.

22 Any other preliminary matters before we call
23 the first witness?

24 Mr. Weil.

25 MR. WEIL: Your Honor, given the anticipated time
26 constraints based on the cross-examination estimates
27 that I've seen on behalf of Aglet alone, I request that
28 the lunch hours be truncated to one hour, Friday

1 excepted.

2 ALJ O'DONNELL: Well, we can give it a try. But
3 you'll have to remind me at the start of the lunch hour,
4 probably every day.

5 Anything else before we get started?

6 (No response)

7 ALJ O'DONNELL: Okay. Edison, call your first
8 witness, please.

9 MS. SCHMID-FRAZEE: Thank you, your Honor.

10 Edison calls Dr. Mary Simpson.

11 ALJ O'DONNELL: Off the record.

12 (Off the record)]

13 ALJ O'DONNELL: On the record.

14 MARY SIMPSON, called as a witness by
15 Southern California Edison Company,
16 having been sworn, testified as follows:

17 ALJ O'DONNELL: Please be seated. State your
18 name, spell your last name and give business your
19 address.

20 THE WITNESS: Mary Simpson, S-i-m-p-s-o-n,
21 Southern California Edison Company, 2244 Walnut Grove,
22 Rosemead, California, 91770.

23 ALJ O'DONNELL: Proceed, Counsel.

24 MS. SCHMID-FRAZEE: Thank you, your Honor.

25 DIRECT EXAMINATION

26 BY MS. SCHMID-FRAZEE:

27 Q Dr. Simpson, are you sponsoring the portions
28 of Exhibits SCE 1, SCE-1C, and SCE 10 identified in the

1 table of contents to those exhibits and the associated
2 errata applicable to your portions of those exhibits?

3 A Yes.

4 Q With respect to the material which are you are
5 sponsoring, do you have any additions or corrections to
6 make to any of those materials?

7 A No, I do not.

8 Q Was the material that I have indicated you're
9 sponsoring prepared by you or under your direct
10 supervision?

11 A Yes.

12 Q Do you adopt it as your testimony here today?

13 A Yes, I do.

14 Q To the extent this material is factual in
15 nature, is it true and correct to the best of your
16 knowledge?

17 A Yes.

18 Q To the extent this material is in the nature
19 of judgment, is it your best judgment?

20 A Yes.

21 MS. SCHMID-FRAZEE: Your Honor, this witness is
22 available for cross-examination.

23 ALJ O'DONNELL: Very well.

24 Off the record.

25 (Off the record)

26 ALJ O'DONNELL: On the record.

27 Next.

28 Mr. Weil.