Investigation No.: I.12-10-013 Exhibit No.: SDGE-12
Witness: Michael D

Michael De Marco

# PREPARED REBUTTAL TESTIMONY OF MICHAEL DE MARCO ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

### BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

July 24, 2013

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# PREPARED REBUTTAL TESTIMONY OF MICHAEL DE MARCO

Although it is SDG&E's position that the nuclear fuel cost is a fully recoverable cost which will be addressed in phase 3 of this OII, as Mr. Scates testifies, SDG&E agrees it should not be included in the calculation of replacement power costs. The DRA's assertion that the unused fuel costs at SONGS should not be recoverable prejudges SCE's responsibility for MHI's faulty steam generators. As the ALJ has reiterated previously, the Commission will consider the allocation of responsibility for the RSG failures during Phase 3.

Secondly, DRA's testimony suggests a misunderstanding related to nuclear fuel carrying costs. The development of SONGS nuclear fuel requires a long lead time which includes fuel in various stages of development from the initial ore mining, through the transformation, enrichment, and eventually fabrication. The recovery of fuel the amortized fuel cost occurs when it is eventually placed in the reactor and used. Thus fuel carrying cost accounts for the nuclear fuel inventory in all stages of preparation and fabrication and not simply fuel in the reactor core that has not yet been used. To disallow the entire fuel carrying costs would necessitate clairvoyance on the utilities part when signing the various long lead-time procurement contracts that would eventually result in fuel capable of being placed in the reactor.

The foundation for the DRA's intended disallowance of the carrying costs related to the small portion of fuel that was placed in the Unit 2 reactor but not used, is that SCE had a comprehensive understanding of the replacement steam generator tube failures prior to inserting the new fuel in the Unit 2 reactor. However, SCE only determined that the Unit 2 steam generators were susceptible to the same type of wear phenomena experienced in the Unit 3 steam generators after SCE had already removed the worn Unit 2 steam generator tubes from service and loaded the fuel into the Unit 2 reactor.

In summary, the DRA has not provided any testimony to support the basis for its erroneous conclusion that these fuel costs were unreasonable or imprudent based on facts and circumstances known at the time the contracts were signed or when fuel was placed

- in the Unit 2 reactor. Therefore, the utilities should be allowed to recover both the carrying cost and the unamortized fuel costs.
  - This concludes my prepared rebuttal testimony.