

Investigation No.: I.12-10-013  
Exhibit No.: SDGE-13  
Witness: Andrew Scates

**PREPARED REBUTTAL TESTIMONY OF  
ANDREW SCATES  
ON BEHALF OF  
SAN DIEGO GAS & ELECTRIC COMPANY**

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

**July 24, 2013**

1 **PREPARED REBUTTAL TESTIMONY OF**  
2 **ANDREW SCATES**  
3

4 **I. INTRODUCTION**

5 The purpose of my rebuttal testimony is to respond to testimony of witness Yakov Lasko  
6 on behalf of Division of Ratepayer Advocates (“DRA”) and Kevin Woodruff on behalf of The  
7 Utility Reform Network regarding San Diego Gas & Electric Company’s (“SDG&E”) testimony  
8 concerning San Onofre Nuclear Generating Station (“SONGS”) Replacement Power Costs.

9 **II. RESPONSE TO DRA TESTIMONY**

10 **A. Price Benchmark**

11 DRAs witness Mr. Lasko recommends SDG&E using the Platts Daily SP-15 Index Price  
12 for purpose of calculating the SONGS replacement energy cost.(DRA, p. 1) Mr. Lasko further  
13 states he has no objection to using CAISO SP-15 Trading Hub Day-Ahead Hourly Price but has  
14 a slight preference to using the Platts Daily index. (DRA, p. 7) SDG&E’s still believes using the  
15 CAISO SP-15 Trading HUB Day-Ahead Hourly Prices is its preferred method of calculating  
16 replacement energy costs.

17 As described in the direct testimony of Andrew Scates, the output from SONGS energy  
18 would have generally served demand throughout Southern California. SDG&E is paid the  
19 hourly day-ahead price from its share of the output of SONGS. The CAISO SP-15 Day Ahead  
20 Hourly Price is also the average clearing price for all generation pricing points bid or self-  
21 scheduled in the CAISO within SP-15. The Platts SP-15 Index Price is a single price for On-  
22 Peak product and a single price for the Off-Peak product. The Platts Index is a survey of all  
23 trades transacted bilaterally prior to the CAISO Day-Ahead Market. The price is a  
24 representation of what the market expects the CAISO Day-Ahead price to clear. Over time  
25 SDG&E believes these two prices should be equivalent.

26 Although SDG&E believes these prices will be equivalent over time, SDG&E believe  
27 that the CAISO SP-15 Day Ahead hourly Price is the more accurate representation for  
28 replacement energy cost.

1           **B. Capacity-Related Costs**

2           DRAs witness Mr. Lasko recommends both SCE and SDG&E use the identical  
3 methodology and assumptions in regards to the calculation of Capacity-Related Costs. (DRA, p.  
4 7) As Mr. Lasko points out, SCE included three components to these costs, including CAISO  
5 Capacity Procurement Mechanism (“CPM”), CAISO Standard Capacity Product (“SCP”) penalty  
6 charges, and Resource Adequacy (“RA”) replacement capacity costs. SDG&E only included  
7 CPM and RA costs in Capacity Related Costs, and included the SCP portion in the replacement  
8 cost estimate. To have consistency between both utilities, SDG&E has no objection to DRA’s  
9 request that SCP be included as a Capacity-Related Cost. SDG&E will submit an updated  
10 calculation of its replacement power costs reflecting this change prior to hearings.

11           **C. Forced Outage Rate**

12           DRA recommends using a 1.21% annual forced outage rate as opposed to the 2.8%  
13 originally submitted by SCE.(DRA, p. 13) There were two factors leading to the difference in  
14 the outage rates. One factor was DRA recommended using a 5-year period to calculate the  
15 forced outage rate, while SCE used a 10-year window. SDG&E supports SCE’s explanation for  
16 using a 10-year window as it is a larger sample population (see SCE Rebuttal Testimony). The  
17 other factor, as stated by DRA, SCE had mistakenly calculated the outage rate, based on an  
18 outage lasting 43 days instead of the correct 4.3 days.(DRA, p. 11) Correcting for this error  
19 yields a 2.15% forced outage rate. SDG&E agrees with DRA that the 10-year period rate should  
20 be 2.15% instead of 2.8%. SDG&E will submit an updated calculation of its replacement power  
21 costs reflecting this change prior to hearings.

22           **D. Congestion Revenue Rights (CRRs)**

23           DRA recommends including allocated Congestion Revenue Rights (CRRs) in the  
24 calculation of replacement power costs. SDG&E believes the DRA position that “the  
25 Commission to direct the two utilities to run a power flow analysis and production cost model”  
26 (DRA, p. 6) is unnecessary. Using a power flow analysis and production cost model would be  
27 onerous, delay proceedings, and would only provide speculative estimates for CRRs’ values.  
28 SDG&E differs from DRA in its view of how CRRs should be included. Also the CRRs  
29 SDG&E acquired through the CAISO allocation process were mostly done on a yearly basis  
30 prior to the SONGS outage, as stated in the testimony of Mr. Scates, where “The CRR’s obtained  
31 through the CRR allocation process are at no cost to SDG&E. Thus, the CRR’s received in the

1 allocation process would have been acquired regardless of the SONGS outage.” (cite)  
2 Furthermore, SDG&E disagrees with DRA’s statement “SDG&E’s CRRs have generally  
3 incurred negative charges borne by ratepayers.” (DRA, p. 6) SDG&E has actually received net  
4 revenues from its CRR holdings in 2012.

5 However, SDG&E does include in its replacement power calculation the costs of CRRs it  
6 procured through the CAISO auction process. These CRRs were acquired monthly and done  
7 specifically to manage the congestion risk related to the SONGS outage.

#### 8 **E. Avoided Nuclear Fuel Cost**

9 DRA recommends excluding the avoided cost of Nuclear Fuel from the replacement  
10 energy costs. In the testimony of Mr. Lasko, he states “Following SCE’s announcement on June  
11 7, 2013 to permanently retire SONGS, the assumption that the nuclear fuel at SONGs would be  
12 used at a later date is no longer valid.” (DRA, p. 8) SDG&E agrees that due to the changed  
13 circumstances with the announced permanent shutdown of SONGS, it is no longer appropriate to  
14 treat the costs of nuclear fuel as an avoided cost. SDG&E will submit an updated calculation of  
15 its replacement power costs reflecting this change prior to hearings.

### 16 **III. RESPONSE TO TURN TESTIMONY**

#### 17 **A. Foregone Sales**

18 Mr. Woodruff’s testimony states that “I interpret SDG&E’s computations to date to be  
19 consistent with my broader definition of the term ‘replacement power cost.’” (TURN, p. 25) It is  
20 not clear what Mr. Woodruff intends by this statement. In SDG&E’s reporting of its 2012  
21 SONGS costs, in compliance with the instructions in the SONGS OII, SDG&E reports its  
22 replacement power costs in a separate category from forgone sales. The rate making question of  
23 how to account for these categories, i.e., whether, if imprudence were found, replacement power  
24 should be disallowed and foregone sales revenues also added to the disallowance, is a question  
25 for Phase 3.

#### 26 **B. Replacement Costs**

27 Mr. Woodruff’s testimony discusses “the implicit assumption in SCE’s methodology that  
28 load and generation were priced the same. As discussed in my Prepared Direct Testimony, prices  
29 at load nodes tend to exceed prices at generation nodes. But since SCE’s methodology implicitly  
30 assumes they are the same, the gap between load and generation costs that is paid by customers

1 is also assumed away.” (TURN, p 18) Mr. Woodruff’s testimony does not account for the fact  
2 that under the structure of the CAISO market, the outage of SONGS does not change the volume  
3 of power purchased by the utilities at their respective DLAP prices, and the true impact to the  
4 customers is actually the lost value of the SONGS generation. The SP15 price is the best  
5 indicator for the value of the SONGS generation. As described in the direct testimony of  
6 Andrew Scates, the output from SONGS energy would have generally served demand  
7 throughout Southern California. SDG&E is paid the hourly day-ahead price from its share of the  
8 output of SONGS. The CAISO SP-15 Day Ahead Hourly Price is also the average clearing price  
9 for all generation pricing points bid or self-scheduled in the CAISO within SP-15.

### 10 **C. CRR’s Costs**

11 Mr. Woodruff asserts that the CRR’s acquired through the CAISO allocation process  
12 prior SONGS outage should be included in the calculation of replacement costs. Mr. Woodruff  
13 further states that “Any change in CRR charges that can be clearly attributed to the SONGS  
14 outages should thus be included in SDG&E’s estimates of power costs, even if such CRRs were  
15 obtained prior to the SONGS outages.” (TURN, page 26)

16 As previously stated above in response to DRA and in Mr. Scates’ direct testimony,  
17 allocated CRR’s would have been acquired anyway, thus SDG&E does not believe that TURN’s  
18 approach to accounting for the CRR’s is appropriate. The CRRs attributed to SONGS that were  
19 procured during the allocation process actually resulted in revenues, which result in a reduction  
20 to the cost of replacement power. SDG&E has provided the financial results for 2012 from the  
21 CRR’s related to SONGS, which were obtained in the CAISO’s allocation process in response to  
22 TURN-SDG&E-DR-09, which is attached hereto. SDG&E received revenues of \$1.48 million  
23 from its CRR holdings associated with SONGS in 2012.

### 24 **D. Accounting for CRR’s**

25 Mr. Woodruff expressed concerns that revenues from the CRR’s that SDG&E acquired in  
26 the monthly auction to manage congestion risk specifically related to the SONGS outage might  
27 be double counted. Mr. Woodruff states that “CRR revenues would ordinarily be credited  
28 against SDG&E rates in its regular Energy Recovery Account (ERRA) filings and be passed  
29 through the ratepayers in the process.” (TURN, p. 27) The Commission directed SCE and  
30 SDG&E to establish a memorandum account to track all costs associated with SONGS Units 2  
31 and 3 that were or are incurred on and after January 1, 2012, and to the extent included in rates,

1 collect these costs subject to refund. Because the SONGS Outage Memorandum Account  
2 (SONGS OMA) is a tracking mechanism, the net \$1.7M of CRR revenues is not double counted.  
3 All replacement power costs are accounted for in ERRA, and are subject to refund, pending  
4 conclusion of the SONGS OII.

5 **E. SDG&E Response to Data Request**

6 Mr. Woodruff states that SDG&E did not provide cost data related to “Cost Category p”  
7 from Q4 2012 in response to TURN’s 6th Data Request. (TURN, p. 28) SDG&E has included  
8 October-December invoice data in response to TURN Data Request #9, which is attached hereto.

9 This concludes my prepared rebuttal testimony.