

Investigation No.: I.12-10-013
Exhibit No.: SDGE-15
Witness: Kenneth Deremer

PREPARED DIRECT TESTIMONY OF
KENNETH DEREMER
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

July 24, 2013

**PREPARED DIRECT TESTIMONY OF
KENNETH DEREMER**

I. PURPOSE OF TESTIMONY

In accordance with the Commission’s Order Instituting Investigation (OII) I.12-10-013 (filed October 25, 2012) and ALJ Darlings’ July 1, 2013 ruling on the Miscellaneous Scheduling and Procedural Issues and Notice of Phase 2 Prehearing Conference, this testimony identifies and describes whether any reductions in rate base and 2012 revenue requirement are warranted or required due to the extended San Onofre Nuclear Generating Station (SONGS) outage.

The table in Appendix A of this testimony summarizes SDG&E’s SONGS related interim rate reductions as set forth by the Commission’s ruling.

An identification of these assets subdivided by Unit 2, Unit 3 and Common assets is contained in the testimony of Erik Daley. The purpose of this testimony is to identify which assets and costs should be removed from rates and when. Overall, the impact of my proposal herein results in an interim rate reduction of approximately \$64 million effective September 1, 2013 compared to the rates that would otherwise be in effect based on previously issued Commission decisions.

II. OVERVIEW

SONGS is operated exclusively by SCE, the Nuclear Regulatory Commission’s (NRC’s) designated operator. SDG&E relies upon SCE as the operating agent and the exclusive NRC licensed operator of the station. SDG&E’s influence as a minority owner over SCE’s expenditures related to SONGS is also subject to the terms of the Second Amended San Onofre Operating Agreement between the SONGS Co-Owners.¹²

On November 30, 2006, the Commission (CPUC) issued Decision Number (D.) 06-11-026, approving an unopposed settlement of the ratemaking treatment of SDGE’s share of costs related to the Steam Generator Replacement Program (SGRP) at the SONGS. The settlement provided for ratemaking treatment of SDG&E’s 20% share of

¹ E.g., SDG&E reserves its rights under the Second Amended San Onofre Operating Agreement to continue auditing SONGS costs as part of its customary audit procedures.

² The SONGS Co-Owners are SCE, SDG&E, and the City of Riverside.

1 SGRP costs in a manner consistent with the ratemaking treatment the CPUC authorized
2 for Southern California Edison's (SCE) share of the SGRP costs in D.05-12-040. The
3 ratemaking treatment for SDG&E was to be consistent with what was authorized for SCE
4 in D.05-12-040, as confirmed in D.11-07-049 issued on August 3, 2011.

5 The settlement also authorized SDG&E to set up a Balancing Account to recover
6 difference between authorized and actual SONGS O&M expenses billed by SCE. That
7 balancing account was to exist over the period covered by the 2008 SDG&E General
8 Rate Case (GRC) cycle. The balancing account was further approved to continue through
9 the 2012 SDG&E GRC cycle.³

10 Phase 2 of the SONGS OII (I.12-10-013) calls on SDG&E to explain what is
11 currently in authorized revenue requirement for SONGS as it pertains to O&M and
12 capital-related costs and further seeks proposals as to what should be removed from
13 current rates and at what time. My testimony addresses interim rate reductions in the
14 following areas: 1) SONGS O&M expenditures recorded to the SONGS O&M Balancing
15 Account; 2) Authorized revenue requirement for SONGS O&M; 3) Authorized revenue
16 requirement for non-SGRP capital-related costs; and, 4) SGRP authorized revenue
17 requirements.

18 **III. AMORTIZATION OF SONGS O&M BALANCING ACCOUNT** 19 **STARTING SEPTEMBER 1, 2013**

20 As mentioned above, SDG&E was approved to set up a Balancing Account to
21 record SONGS O&M in D.06-11-026. This balancing account is referred to as the
22 SONGSBA. As invoices from SCE have come to SDG&E, we have recorded them in
23 this balancing account as a debit.⁴ These costs incurred by SCE and invoiced to SDG&E
24 are then compared to the authorized revenues approved in SDG&E and SCE's GRCs.
25 Any amount of revenue that was approved for SONGS O&M that was not spent is
26 returned to ratepayers in accordance with the year-end rate changes filed. In the case of
27 the SONGSBA it is transferred annually to the Non-Fuel Generation Balancing Account
28 (NGBA). The year-end NGBA balance is submitted in an advice letter to the

³ D.13-05-010, Conclusion of Law (COL) #8 "SDG&E should be authorized to continue its two-way SONGS balancing account through this rate cycle."

⁴ The Balancing Account is named the SONGS O&M Balancing Account (SONGSBA). The approved tariff can be found at http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-PRELIM_SONGSBA.pdf

1 Commission to be reviewed and allowed to be included in rates each year in SDG&E's
2 NGBA Advice Letter filing (for a January 1 rate change). The balancing account works
3 both ways in that if spending, or invoices received from SCE, is higher than the
4 authorized revenue requirement, January 1 rates would be adjusted to collect that
5 difference.

6 As of June 30, 2013, the balance in the SONGSBA is an overcollected balance of
7 approximately \$24.8 million. SDG&E predicts that the balance by the end of July 2013
8 will be overcollected in the \$25 million to \$30 million range. Due to the mechanics
9 described above and approved in Commission decisions setting up the SONGSBA, this
10 account balance is ordinarily returned to ratepayers on January 1, 2014. SDG&E is
11 proposing to transfer the balance as of the July 31, 2013 accounting close in the
12 SONGSBA to the NGBA and place the amortization of that overcollection into rates on
13 September 1, 2013 to be returned over 12 months in conjunction with the other rate
14 changes anticipated at SDG&E. This will have an anticipated effect of reducing the
15 amount of revenue requirement put into rates by approximately \$25 million to \$30
16 million.

17 Ordinarily, the balance in the SONGSBA is transferred annually to the NGBA as
18 according to its tariff. The SONGSBA tariff does not specifically call for an end of year
19 transfer as long as it is done annually. This transfer is typically done for the December
20 accounting close period and that balance is applied to rates beginning January 1. The
21 overcollection transfer to the NGBA and subsequent reduction in rates therein on
22 September 1, 2013 would amount to a deviation from the ordinary timing practice.

23 **IV. THE INCREASE ASSOCIATED WITH SONGS IN SDG&E's 2012 GRC**
24 **WILL NOT GO INTO RATES IMMEDIATELY**

25 A table outlining the components of the current versus proposed interim rate
26 reductions for the SONGS-related revenue requirement is contained in Appendix A of my
27 testimony. The revenue requirement associated with SONGS, both O&M and capital
28 costs on rate base in current rates is \$153.097 million excluding franchise fees and

1 uncollectibles (FF&U).⁵ SCE's and SDG&E's 2012 GRCs had not yet been ruled on by
2 the time the advice letter was submitted that proposed the \$153.097 million be put into
3 rates for January 1, 2013. Therefore the amount approved in the prior GRCs (SDG&E's
4 2008 GRC (D.08-07-046) and SCE's 2009 GRC (D.09-03-025)) is still in effect as of the
5 writing of this testimony. The \$153.097 million reflects the revenue requirement
6 authorized to pay for O&M and capital related costs, such as depreciation, taxes and
7 return on the authorized rate base, including SGRP.

8 In the final decision on SDG&E's 2012 GRC (D.13-05-010), SDG&E was
9 granted authority to collect \$156.344 million to cover 2012 costs for SONGS. SDG&E
10 was also allowed attrition of 2.65% for 2013⁶. After applying attrition and adjusting for
11 the reduced cost of capital from D.12-12-034, SDG&E's authorized revenue requirement
12 for SONGS in 2013 is \$159.499 excluding FF&U. With the \$29.393 million revenue
13 requirement in rates for SGRP⁷, the total SONGS revenue requirement for 2013 is
14 \$188.892 million, excluding FF&U, to be put into rates on September 1, 2013.⁸

15 SDG&E is proposing that the increase in revenue requirement from what is in
16 current rates to what is in the approved 2012 GRC rates not be implemented on
17 September 1, 2013 as previously directed in D.13-05-010 OP5. Removing this increase
18 of \$35.794 million will help to mitigate the other rate increases expected on September 1,
19 2013.

20 **V. CONCLUSION**

21 SDG&E respectfully requests that the Commission approve SDG&E's proposal to
22 reduce the increase in rates on September 1, 2013. Overall, this will result in an interim
23 rate reduction of \$61 to \$66 million, as reflected in Appendix A of my testimony. In

⁵ \$155.128 million was approved in Advice Letter 2416-E on December 19, 2012 and includes \$30.439 million for Steam Generator Replacement Program. After that approval, a final decision in SDG&E's Cost of Capital application (A.12-04-016/D.12-12-034) was reached reducing the revenue on the capital components of the revenue requirement by \$2.031 million. Therefore, in current rates, SDG&E shows \$153.097 million for SONGS total revenue requirement.

⁶ D.13-05-010 Ordering Paragraph (OP)4.

⁷ AL2416-E "Annual Non-Fuel Generating Balancing Account Update", approved on December 19, 2012, approved SGRP for Unit 2 without FF&U of \$16.802 million and for Unit 3 without FF&U of \$13.637 million. Those approved numbers were reduced by \$0.571 million at Unit 2 and \$0.476 million at Unit 3 for the new cost of capital in D.12-12-034. Total revenue requirement without FF&U for the SGRP program is \$29.393 million.

⁸ D.13-05-010 OP5.

1 particular, SDG&E would like to put two different rate proposals in place that would
2 partially offset rate increases previously filed. First, SDG&E would like to amortize the
3 overcollection in the SONGSBA July 31, 2013, balance over 12 months beginning on
4 September 1, 2013. This will reduce rates by \$25 to \$30 million. Second, SDG&E
5 would like to remove the increase in the collection of SONGS revenue requirement
6 associated with the recently approved 2012 GRC. This will reduce rates by an additional
7 \$36 million.

8 This concludes my prepared direct testimony.
9

1 **VI. WITNESS QUALIFICATIONS**

2 My name is Kenneth J. Deremer and my business address is 8330 Century Park
3 Court, San Diego, California 92123. I am currently employed by SDG&E as the Director
4 of Financial Planning and Regulatory Accounts. My current responsibilities include the
5 development, implementation and analysis of SDG&E's annual and multi-year financial
6 planning process and regulatory account and cost recovery mechanisms. I assumed my
7 current position in May 2011. Prior to this, I served as the Director of Financial Analysis
8 since January 2009, where my responsibilities included overseeing the financial
9 evaluation of major projects, the development and implementation of financing strategies
10 and the oversight of regulatory account and cost recovery mechanisms for SDG&E and
11 SoCalGas. Previously, I was the Director of Tariffs and Regulatory Accounts since May
12 2007, where my responsibilities included the implementation and oversight of the
13 utilities' tariffs and regulatory compliance process. Prior to May 2007, I served as the
14 Regulatory Accounts Manager since April 2002. In that position, I managed the process
15 for implementing and maintaining regulatory accounts.

16 Over the past 10 years, I have served testimony in several regulatory proceedings,
17 including the General Rate Case, Cost of Capital and Electric Commodity Cost Recovery
18 (i.e. ERRRA).

19 I have been employed by SDG&E and Sempra Energy since 1991. In addition to
20 my work experience described above, I worked from 1999 through 2002 as a Regulatory
21 Tariff Administrator and held various positions in the Financial Reporting Department.

22 I received a Bachelors of Science in Business Administration from the University
23 of California, Riverside in June 1987. I also received a Masters in Business
24 Administration, with an emphasis in Finance, from the University of California,
25 Riverside in December 1989.

26 I have previously testified before this Commission.

27

1 **APPENDIX A – Components of SONGS Rate Reduction Proposal**

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APPENDIX A						
Proposed SONGS RATE REDUCTION						
<i>(\$ in millions without FF&U)</i>						
			Change due to		Current rates	Proposed
	TY2012 from	2.65% Attrition	"New" GRC rates	for 2013	Proposed	Rate
	D.13-05-010	and COC adj.	for 9/1/2103	(Consol rate filing)	Reduction	
SONGS O&M (D.08-07-046 and D.09-03-025)	118.077	2.936	121.013	100.490	20.523	
Spent Fuel in GRC recovered through Nucl. Decomm.	1.003	0.027	1.030	-	1.030	
	119.080	2.963	122.043	100.490	21.553	
SONGS Capital (D.08-07-046)	37.264	0.192	37.456	22.931	14.525	
GRC Revenue Requirement before SGRP	156.344	3.155	159.499	123.421	36.078	
SGRP Capital	29.676	(0.283)	29.393	29.676	(0.283)	
Total SONGS Revenue Requirement	186.020	2.872	188.892	153.097	35.795	
Overcollection - SONGSBA (est. 7/31/13)						\$25 to \$30 mil.
Total Rate Reduction						\$61 to \$66 mil.

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