

Application No.: A.16-03-004  
Exhibit No.: SDGE-02  
Witnesses: Sue E. Garcia  
Tracy M. Dalu

**PREPARED SUPPLEMENTAL TESTIMONY**

**ON BEHALF OF**

**SAN DIEGO GAS & ELECTRIC COMPANY**

**(SDG&E's Oversight and Fiscal Management Role at SONGS)**

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

**February 17, 2017**

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**PREPARED SUPPLEMENTAL TESTIMONY  
ON BEHALF OF SDG&E**

**I. OVERVIEW OF SDG&E’S REQUEST IN A.16-03-004 (S. GARCIA)**

In this 2015 Nuclear Decommissioning Cost Triennial Proceeding (“NDCTP”), San Diego Gas & Electric Company (“SDG&E”) is providing testimony in support of its requests that the California Public Utilities Commission (“CPUC” or “Commission”):

- 1) Approve as reasonable the 2016 SONGS 1 decommissioning cost estimate (“DCE”) for remaining SONGS 1 decommissioning work and SDG&E’s 20% share of the costs (\$47.9 million, 2014\$);<sup>1</sup>
- 2) Approve as reasonable the \$2.9 million (SDG&E share, 2014\$) estimate of future SDG&E-only costs for SONGS 1;<sup>2</sup>
- 3) Approve SDG&E’s request to maintain its annual contributions to its SONGS 1 Nuclear Decommissioning Trusts (“NDTs”) at \$0, based upon the current estimate of decommissioning costs for SONGS 1, current level of funding of the SONGS 1 NDTs, projected escalation rates, and financial market conditions known at the time the Joint Application was filed (March 1, 2016);
- 4) Approve as reasonable the \$1.3 million (SDG&E share, 2014\$) for SONGS 1 decommissioning expenses invoiced to SDG&E by Southern California Edison Company (“SCE”) between January 1, 2013 and December 31, 2015;

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<sup>1</sup> The total updated SONGS 1 DCE is \$239.4 million (100%; 2014\$). *See Joint Application of Southern California Edison Company (U 338-E) and San Diego Gas & Electric Company (U 902-E) for the 2015 Nuclear Decommissioning Cost Triennial Proceeding* (March 1, 2016) (“Joint Application”), at 2; Ex. SCE-04 at 1.

<sup>2</sup> The Joint Application and SDGE-01 (served March 1, 2016) originally requested Commission approval as reasonable the forecast of \$42.6 million (2014\$) in future SDG&E-only costs for all three Units. Ex. SDGE-04 (served today) supersedes SDGE-01. Ex. SDGE-04 is provided in support of SDG&E’s revised request that the Commission approve as reasonable the forecast of \$2.9 million (2014\$) in future SDG&E-only costs only for Unit 1. SDG&E will serve testimony in support of its request that the Commission approve as reasonable a forecast for future SDG&E-only costs only for Units 2&3 in accordance with any future scoping memos and schedules issued in this proceeding.

- 1           5)     Approve as reasonable the \$2.8 million (SDG&E share, 2011\$) for  
2                 SONGS 1 decommissioning expenses incurred between January 1, 2009  
3                 and December 31, 2012;
- 4           6)     Approve as reasonable the \$34.3 million (SDG&E share, 2014\$) for  
5                 SONGS Units 2&3 decommissioning expenses invoiced to SDG&E by  
6                 SCE between January 1, 2015 and December 31, 2015;<sup>3</sup>
- 7           7)     Approve as reasonable the \$2.6 million (2014\$) in SDG&E-only costs for  
8                 SONGS incurred January 1, 2015 through December 31, 2015;<sup>4</sup>
- 9           8)     Approve as reasonable the updated DCE for SONGS 2&3, and the  
10                forecasted SDGE-only costs for SONGS 2&3, as presented in future  
11                testimony;<sup>5</sup> and
- 12           9)     Consolidate A.15-01-014 and A.15.02-006 with this proceeding and  
13                approve the Utilities’ joint requests and SDG&E’s requests presented in  
14                that proceeding.<sup>6</sup>

15           This testimony (Ex. SDGE-02) and concurrently served testimonies (Exs. SDGE-03, -04,  
16 and -05) supersede Ex. SDGE-01.

17           **A.     Procedural Background**

18           Approximately every three years, the California electric utilities that have ownership  
19 shares in nuclear power plants file NDCTP applications. As set forth by the Commission in  
20 Decision (“D.”) 10-07-047, the objectives of the NDCTP are “[1] to set the annual revenue  
21 requirements for the decommissioning trusts for the nuclear power plants owned by Southern  
22 California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric  
23 Company, [2] to verify the utilities are in compliance with prior decisions applicable to

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<sup>3</sup> SDGE-06.

<sup>4</sup> SDGE-06.

<sup>5</sup> SDG&E and SCE will provide testimony in support of the updated SONGS 2&3 DCE and the forecasted SDG&E-only costs for SONGS 2&3 in accordance with any future scoping memos and schedules issued in this proceeding.

<sup>6</sup> As of the service date of this testimony (February 17, 2017), the proceedings had not been consolidated.

1 decommissioning and [3] to determine whether actual expenditures by the utilities for  
2 decommissioning activities are reasonable and prudent.”<sup>7</sup>

3 On March 1, 2016,<sup>8</sup> SCE and SDG&E jointly filed A.16-03-004 and served testimony in  
4 support of the Joint Application.<sup>9</sup> On March 9, 2016, SCE and SDG&E filed a Joint Motion to  
5 Consolidate this proceeding (A.16-03-004) with related proceedings, specifically A.16-03-006  
6 (PG&E’s 2015 NDCTP); A.15-01-014 (SCE’s 2014 SONGS 2&3 Cost Reasonableness Review)  
7 and A.15-02-006 (SDG&E’s 2014 SONGS 2&3 Cost Reasonableness Review). A prehearing  
8 conference was held on June 13, 2016 for the related proceedings. The assigned Commissioner  
9 and ALJ declined to consolidate the NDCTP applications or issue a scoping memo or schedule  
10 for the Joint NDCTP Application.<sup>10</sup>

11 On January 27, 2017, the assigned ALJ in this proceeding ordered SDG&E and SCE to  
12 serve supplemental testimony in this proceeding and any related proceedings (i.e., A.15-01-014/  
13 A.15-02-006) by February 17, 2017.<sup>11</sup> This testimony is being served in compliance with the  
14 January 27, 2017 ruling. This testimony, and the concurrently served volumes, supersede  
15 SDG&E’s previously served testimony (Ex. SDGE-01).

16 **B. Content of SDG&E’s NDCTP Testimony Volumes**

17 SDG&E offers the following testimony to cover these various areas:  
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<sup>7</sup> D.10-07-047 at 2.

<sup>8</sup> On September 18, 2015, Commission Executive Director Timothy Sullivan granted by letter and email the joint request by PG&E, SCE and SDG&E for extension of time to file the 2015 NDCTP application on March 1, 2016 instead of December 21, 2015.

<sup>9</sup> SDG&E served SDGE-01 (March 1, 2016) in support of its requests. SDGE-01 has been superseded by subsequently served testimonies.

<sup>10</sup> *Joint Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* (July 15, 2016), at 5. A.15-01-014 and A.15-02-006 were consolidated at the prehearing conference on June 4, 2015 (A.15-01-014/15-02-006, TR at 4:11-13).

<sup>11</sup> *Administrative Law Judge’s Ruling Directing the Parties to Meet and Confer and File an Updated Report for 2015 Nuclear Decommissioning Cost Triennial Proceeding and Related Dockets*, A.16-03-004 and related dockets (January 27, 2017).

1           **1. Overview**

2           This volume of testimony, Ex. SDGE-02, provides an overview of SDG&E’s  
3           Oversight role at SONGS, and describes SDG&E’s Oversight and Fiscal  
4           Management roles and processes.

5           **2. SONGS 1 Reasonableness Reviews (2009-2012, 2013-2015)**

6           Ex. SDGE-03 presents SONGS 1 decommissioning expenses incurred by SDG&E  
7           during the periods 2009-2012 and 2013-2015. It also provides support for a  
8           finding of reasonableness for costs recorded by SDG&E for Unit 1 during these  
9           time periods. Ex. SDGE-03 also includes testimony from SDG&E’s nuclear  
10          industry expert addressing the reasonableness of SONGS 1 decommissioning  
11          activities.

12          **3. 2016 SONGS 1 DCE**

13          Ex. SDGE-04 provides testimony from SDG&E in support of a finding of  
14          reasonableness for the updated SONGS 1 DCE, including future SDG&E-only  
15          incurred costs.

16          **4. SONGS 1 Trust Fund Contributions and Trust Fund Management**

17          Ex. SDGE-05 presents SDG&E’s financial assumptions and analyses, and trust  
18          fund contribution requests for SONGS 1, describes the regulatory accounting for  
19          SONGS 1 and addresses tax issues associated with the decommissioning of  
20          SONGS.

21          **5. SONGS 2&3 2015 Reasonableness Review**

22          Ex. SDGE-06 presents the costs SDG&E incurred, as billed by SCE for SONGS  
23          2&3 decommissioning projects completed in 2015, and SDG&E-only costs  
24          incurred in 2015, for a reasonableness review by the Commission. Ex. SDGE-07  
25          provides additional detail regarding the costs SDG&E recorded for nuclear fuel  
26          contract cancellation costs in 2015.

1 **II. SONGS OVERSIGHT BY SDG&E (S. GARCIA)**

2 In this testimony, I address SDG&E’s role in SONGS decommissioning activities.<sup>12</sup> The  
3 San Onofre Nuclear Generating Station (“SONGS”) is licensed under the Nuclear Regulatory  
4 Commission (“NRC”) as three units. SDG&E has a 20% minority ownership stake in each of  
5 the three nuclear units and, as such, is contractually obligated to pay its 20% ownership share of  
6 all expenses including decommissioning expenses. Ever since the SONGS site started  
7 transitioning to a closed nuclear facility and entered the decommissioning period in June 2013,  
8 SDG&E has worked to create decommissioning oversight – both of activities at SONGS and the  
9 related fiscal and accounting activities – by bolstering current and establishing new processes  
10 and procedures. This testimony describes the processes and procedures.

11 **A. SDG&E’s Oversight Role of Activities at SONGS (S. Garcia)**

12 While SDG&E is neither the NRC licensee for SONGS (the licensee is SCE), nor the  
13 decommissioning agent for SONGS (the agent is SCE), SDG&E has sought to refine its  
14 decommissioning oversight role at SONGS through different processes.

15 First, ever since SCE announced SONGS’ permanent cessation of operations, SDG&E  
16 has sought to create an internal SONGS decommissioning group (“SONGS Team” or “SONGS  
17 Group”). Through 2015, SDG&E had three employees working on SONGS decommissioning:  
18 one on-site employee, a budget analyst and a manager. The on-site employee and budget analyst  
19 served on the SONGS Co-Participant’s (*i.e.*, SCE, and the Cities of Anaheim and Riverside)  
20 Budget Committee and the manager served as an alternate on the SONGS Co-Participant’s  
21 Executive Committee. In late 2015, SDG&E added another financial analyst position to support  
22 additional regulatory analytical efforts. Also, in late 2015, SDG&E added a project manager to  
23 assist with additional oversight and project management work related to the Decommissioning  
24 General Contractor selection and regulatory filings.

25 Second, when the plant was producing electricity, and now that it is in decommissioning,  
26 SDG&E stationed a dedicated employee at the plant to follow major activities at the site and to  
27 report to SDG&E management plant status relative to projects and budget. As such, this  
28 employee participates in middle and upper management site meetings to keep apprised of

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<sup>12</sup> The costs that SDG&E has recorded associated with its activities described in this section (“SDG&E-only” costs) are described in more detail in Ex. SDGE-03 (SDG&E-only costs for Unit 1 for 2013-2015) and Ex. SDGE-06 (SDG&E-only costs for Units 2&3 for 2015).

1 decommissioning activities and plans. To keep apprised of the activities occurring at the plant,  
2 the employee attended daily plant meetings, weekly project status meetings, monthly project  
3 update meetings, and monthly SONGS Co-Participants Executive Committee and Budget  
4 Committee meetings.

5 Third, in April 2015, SDG&E and the other three SONGS Co-Participants executed a  
6 decommissioning agreement (“Decommissioning Agreement”) that governs SDG&E co-owner  
7 participation roles and responsibilities during decommissioning. The Decommissioning  
8 Agreement establishes a decommissioning agent, participant funding responsibilities and  
9 participant involvement in the governance of the decommissioning agent. This  
10 Decommissioning Agreement governs the decommissioning of all three units. The  
11 Decommissioning Agreement also establishes the Executive, Budget, Fiscal, and Legal  
12 committees. The Budget and Executive committees approve major monetary commitments.  
13 SDG&E actively participates in all four of the committees. In addition, an independent nuclear  
14 expert (i.e. Decommissioning Advisor) assists the Executive Committee on an as-needed basis.

15 Fourth, soon after shutdown, SDG&E retained a spent nuclear fuel/decommissioning  
16 consultant, Mr. Adam Levin, to serve as an industry consultant to its SDG&E SONGS team. Mr.  
17 Levin provides valuable insight as to past and present decommissioning activities within the  
18 industry, NRC’s requirements, and nuclear issues before the Department of Energy (“DOE”).  
19 He serves as SDG&E’s industry expert when we seek confirmation that activities or plans for  
20 SONGS comport with industry practices.

21 **B. SDG&E’s Fiscal Management Role and Procedures (S. Garcia)**

22 As a 20% minority owner of all three units at SONGS, SDG&E has a fiscal responsibility  
23 to fund 20% of the decommissioning activities at SONGS. Since the June 2013 shutdown  
24 announcement, SDG&E has developed several procedures and processes to fulfill its fiscal  
25 management role as a minority owner of SONGS.

26 First, SDG&E has structured its new internal SONGS decommissioning group with an  
27 emphasis on fiscal review. As described in Section A above, this group had three employees but  
28 two additional employees were added in late 2015 to provide more fiscal management.

29 Second, SDG&E tracks performance to budget for decommissioning activities on a  
30 monthly basis. SDG&E reviews the monthly budget and performance reports prepared by SCE  
31 each month. SDG&E follows up with SCE regarding significant under- and over-budget line



1 items to determine the reason for the variance. In addition, under the Decommissioning  
2 Agreement, upon the Budget Committee’s recommendation, the Executive Committee reviews  
3 and approves the annual decommissioning budget. Both Committees also review and approve  
4 budgets for specific decommissioning projects. Contracts or change orders to existing contracts  
5 in excess of \$3 million dollars require unanimous approval by the SONGS Co-Participants.  
6 SDG&E is an active member of the Committees.

7 Third, SDG&E reviews SCE’s monthly decommissioning invoices before authorizing  
8 payments. Each invoice is reviewed for accuracy and any unusual or unexpected fluctuations are  
9 followed up with SCE. Invoices are approved by the SONGS Team management. Starting in  
10 2015, SCE’s monthly decommissioning invoices segregate costs by unit and by  
11 decommissioning cost categories required by the NRC and/or the Commission. SDG&E’s  
12 review processes include confirming that the detailed actual cost files and the advanced funding  
13 request support package provided by SCE reconcile to the monthly invoiced amount for each  
14 unit and that all costs are classified by the appropriate cost categories to ensure trust fund  
15 withdrawals are made pursuant to applicable regulatory requirements.

16 Lastly, in 2016 in accordance with the Decommissioning Agreement, an audit was done  
17 by PricewaterhouseCoopers of decommissioning costs for the period June 7, 2013 through  
18 December 31, 2015. The audit report concluded that the SONGS decommissioning costs for the  
19 period were an accurate presentation of decommissioning costs, only including eligible  
20 decommissioning costs, and were appropriately allocated among the Co-Participants.

21 **C. NDT Cost Recovery Process (T. Dalu)**

22 SDG&E also has established processes in place to retrieve funds from its Nuclear  
23 Decommissioning Trusts to pay for nuclear decommissioning costs. The procedures vary by  
24 unit, and have been largely established by the Commission.

25 **1. SONGS Unit 1**

26 As approved in D.99-06-007, SDG&E currently has the authority to access trust funds for  
27 SONGS Unit 1 decommissioning costs as needed. The decision “authorize[d] the  
28 decommissioning of San Onofre Nuclear Generating Station Unit 1 (SONGS 1) and amendment  
29 of the Master Trust Agreements (“MTAs”) to facilitate timely availability of the funds to pay the

1 costs of decommissioning.”<sup>13</sup> SDG&E’s current process is to request trust reimbursement for  
2 actual costs billed by SCE on a quarterly basis. The request is supported by SCE Unit 1  
3 decommissioning invoices that have been reviewed and approved by SDG&E Generation  
4 Accounting, the SDG&E SONGS Team and by SDG&E Accounting Management. Once the  
5 request is approved, SDG&E Generation Accounting prepares a “Withdrawal Certificate,” which  
6 is approved and signed by authorized representatives designated by the SDG&E NDT  
7 Committee. Upon approval of the Withdrawal Certificate, the SDG&E Pension and Trust  
8 Investment team contacts the SDG&E NDT Trustee, currently BNY Mellon, and arranges for  
9 assets to be sold from the NDTs. Once this is complete, the Trustee wires cash to reimburse  
10 SDG&E.

## 11 **2. SONGS Units 2&3**

12 SDG&E received authority in 2016<sup>14</sup> to access trust funds for the upcoming year of  
13 forecasted decommissioning expenditures. D.16-04-019 authorizes SDG&E to file annually  
14 Forecast and Recorded Decommissioning Disbursement Tier 2 Advice letters consistent with its  
15 share of SONGS Units 2&3 decommissioning costs as presented by SCE and billed to SDG&E  
16 by SCE, plus any additional administrative costs unique to SDG&E. Such advice letters must  
17 show information supporting the requested disbursements.

18 Based on information provided by SCE and forecasted amounts included in the approved  
19 DCE, SDG&E files the Forecasted Decommissioning Disbursement Tier 2 advice letter in the  
20 fourth quarter every year to request the authority to withdraw funds up to that forecasted amount  
21 in the following year. This includes the estimated disbursement amounts required to cover the  
22 cost of SDG&E’s 20% share billed from SCE and SDG&E-only costs that are expected during  
23 the following year. It also includes an estimated amount to be spent for each activity during the  
24 period, a correlation of the activities and costs to the most recent DCE, and an explanation for  
25 any differences (amount and timing) from the most recent DCE. SDG&E files the Recorded  
26 Decommissioning Disbursement Tier 2 advice letter in the following year with a true-up of  
27 actual expenses to the forecast.

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<sup>13</sup> D.99-06-007 at 2.

<sup>14</sup> D.16-04-019, Ordering Paragraph 5, and SDG&E Advice Letter 2909-E, effective August 1, 2016.

1           Accordingly, SDG&E has initiated new processes to allow for quick and accurate  
2 reimbursement from the NDTs after the Forecast advice letter is approved by the Commission.  
3 Similar to the process noted above for Unit 1, after reviewing SONGS Units 2&3  
4 decommissioning costs billed by SCE (or incurring an SDG&E-only cost), SDG&E’s Generation  
5 Accounting Group prepares a “Withdrawal Certificate,” which requires the approval and  
6 signature of authorized representatives designated by SDG&E’s NDT Committee. Upon  
7 approval of the Withdrawal Certificate, the Pension and Trust Investment team contacts the  
8 SDG&E NDT Trustee, currently BNY Mellon, and arranges for assets to be sold from the NDTs.  
9 Once this is complete, the Trustee wires cash to reimburse SDG&E for decommissioning  
10 payments made to SCE or for its own internal decommissioning costs.

11           **D.     DOE Settlement Recovery (T. Dalu)<sup>15</sup>**

12           In April 2016, SCE, acting on behalf of the SONGS co-owners (SCE, SDG&E and the  
13 Cities of Riverside and Anaheim), signed and executed a spent fuel settlement agreement for  
14 \$162 million with the Department of Justice to resolve claims through 2013 resulting from the  
15 Department of Energy’s failure to timely pick up spent nuclear fuel (“DOE Settlement”).<sup>16</sup>  
16 SDG&E’s share of the settlement, net litigation costs, is approximately \$32 million. The  
17 Commission has previously stated that it expects that “the net proceeds [of a settlement or  
18 litigation award from the DOE] should be credited appropriately back to the source of the funds  
19 used for these activities.”<sup>17</sup>

20           SDG&E credited its share of the DOE award back to ratepayers. Of the \$32 million  
21 received, \$23.5 million was recorded as a reduction to SDG&E’s SONGS Regulatory Asset  
22 related to its net investment in Non-Steam Generator Replacement Project (“SGRP”),  
23 Construction Work in Progress (“CWIP”), and Materials and Supplies (“M&S”); \$0.9 million  
24 was credited to the SONGS O&M Balancing Account (“SONGSBA”) for O&M costs incurred

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<sup>15</sup> This testimony is provided in accordance with OP 12 of D.14-11-082.

<sup>16</sup> Information about the April 2016 Settlement was presented in p. 1 of the “Summary of SONGS OII Amended Settlement Agreement and Settlement Implementation,” attached as Attachment A to the *Response of San Diego Gas & Electric Company (U 902 E) to Joint Ruling of Assigned Commissioner and Administrative Law Judge Reopening Record, Imposing Ex Parte Contact Ban, Consolidating Advice Letters, and Setting Briefing Schedule (I.12-10-013, June 2, 2016)*.

<sup>17</sup> D.14-12-082 at 35.

1 from 2007 to 2012; and \$7.6 million was credited to the Nuclear Decommissioning Adjustment  
2 Mechanism (“NDAM”) account for offsite Morris storage costs paid for Unit 1.

3         The DOE Settlement sets forth an administrative procedure for the submission of claims  
4 for costs incurred from 2014 through 2016, which provides for arbitration if the settlement  
5 process is unsuccessful. SCE, acting for itself and SDG&E, submitted claims for spent fuel  
6 management costs incurred during 2014 and 2015 on September 30, 2016. These claims are still  
7 pending at the time this testimony was submitted. Claims for spent fuel management costs  
8 incurred during 2016 must be submitted by September 30, 2017. SDG&E is not guaranteed  
9 recovery of its claims. SDG&E will provide supplement testimony concerning the outcome of  
10 these claims to the Commission.



