

Application No.: A.16-03-004
Exhibit No.: SDGE-07 (PUBLIC)
Witness: Sue E. Garcia

PREPARED SUPPLEMENTAL TESTIMONY
ON BEHALF OF
SAN DIEGO GAS & ELECTRIC COMPANY

(SDG&E's 2015 SONGS Nuclear Fuel Contract Cancellation Costs)

(PUBLIC VERSION)

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. INTRODUCTION

This testimony identifies San Diego Gas & Electric Company's (SDG&E) 2015 nuclear fuel contract cancellation costs of \$7.8 million (SDG&E share, nominal\$) and seeks a California Public Utilities Commission ("Commission" or "CPUC") finding that these costs are reasonable.

II. PROCEDURAL BACKGROUND

On January 27, 2017, the assigned ALJ in this proceeding ordered SDG&E and Southern California Edison Company ("SCE") to serve supplemental testimony in A.16-03-004 and any related proceedings by February 17, 2017.¹ In compliance with the January 27, 2017 Ruling and concurrently with this testimony, SDG&E has submitted Ex. SDGE-06 in support of its request for a Commission finding that its 2015 recorded costs for SONGS Units 2&3 are reasonable. Nuclear fuel contract cancellation costs recorded by SDG&E in 2015 are included in Ex. SDGE-06. SDG&E has included this separate volume of testimony focused entirely on its 2015 nuclear fuel contract cancellation costs because of confidential considerations.

III. CONFIDENTIAL TREATMENT

This testimony contains confidential market sensitive information that, if disclosed, could place SDG&E and SCE, as well as their customers, at an unfair business disadvantage. Therefore, SDG&E respectfully requests confidential treatment for the testimony.²

In accordance with D.16-08-024, the specific confidential information has been identified and the pages on which the confidential information appears have been appropriately marked. In addition, the Declaration of Diana Day, Vice President of Enterprise Risk Management and Compliance, provided as Attachment A, explains the basis of SDG&E's request to treat the marked information as confidential.

In accordance with D.08-04-023 and D.16-08-024, SDG&E requests confidential treatment of these attachments pursuant to Sections 2.2(b) and 2.8 of General Order 66-C as well

¹ *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).

² SDG&E has contemporaneously submitted Ex. SDGE-06 in A.15-01-014/15-02-006 concerning its 2013 and 2014 SONGS nuclear fuel contract cancellation costs and similarly sought confidential treatment of that testimony.

1 as Public Utilities Code Section 583. SDG&E will provide the unredacted version of the
2 testimony to the Commission (on request), and will provide redacted versions to the public.

3 **IV. 2015 NUCLEAR FUEL CONTRACT CANCELLATION COSTS³**

4 As the 20% minority owner, SDG&E pays its 20% ownership share of decommissioning
5 expenses for SONGS, including costs incurred to cancel fuel contracts. When the plant was
6 operating, SCE served as operating agent for the co-owners and was recognized as such by the
7 Nuclear Regulatory Commission (“NRC”) and the Commission. As operating agent, SCE’s
8 SONGS staff has expertise and responsibilities that includes nuclear fuel purchasing and
9 contracting. SDG&E relied upon SCE as operating agent to procure nuclear fuel on its behalf.
10 When SONGS 2&3 were operating, SCE executed several contracts with nuclear fuel suppliers
11 for the purchase of uranium, conversion and enrichment services, and fabrication of new fuel
12 assemblies that would have been used in future SONGS 2&3 fuel cycles. Because of the
13 extended outages and subsequent permanent retirement, SCE no longer needed these nuclear fuel
14 services and products, and therefore, as decommissioning agent for the four parties responsible
15 for decommissioning (SCE, SDG&E, the City of Anaheim and the City of Riverside,
16 collectively, “Co-Participants”) sought to cancel those contracts.

17 SCE utilized outside counsel to terminate contracts with fuel vendors. Three contracts
18 were terminated in 2015. SCE subsequently passed 20% of these costs to SDG&E. Table 1
19 reflects SDG&E’s costs incurred in 2015 for nuclear fuel contract cancellation costs.

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³ Additional details about the contract cancellations and resulting costs are provided in Ex. SCE-10 in A.16-03-004.

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Table 1
2015 Nuclear Fuel Contract Cancellation Costs (Millions, Nominal \$)

Contract	SDG&E 20% (\$Nominal)
Uranium One	██████████
Rio Tinto	██████████
USEC (final)	██████████
Additional costs ⁴	\$0.2
Total	\$7.8

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The Uranium One settlement was executed in May 2015. SCE served as lead negotiator for SDG&E and Riverside. SCE negotiated settlement of ██████████ (100% share, nominal\$). Prior to settlement, SDG&E concluded that the settlement was reasonable.

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Settlement discussions with Rio Tinto in the spring of 2015 failed to result in a mutually agreed settlement amount. Thus, the dispute went to mediation where both sides put their cases before a mediator. Based upon mediation, the final settlement was ██████████ (100% share, nominal\$), which SDG&E concluded was reasonable. Under the Decommissioning Agreement executed amongst the SONGS Co-Participants in April 2015, final settlement amounts of this magnitude required Executive Committee approval. The SONGS Executive Committee approved the settlement amount.

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In 2013, SCE had entered into a partial settlement with the United States Enrichment Corporation (USEC)⁵ for a fuel contract. A partial settlement was undertaken at that time because the SONGS Co-Participants were still seeking to re-start Unit 2 at 70%, and therefore, a need for continued, but more limited supply of fuel was anticipated. However, with the permanent shut-down announced later that year, the remaining deliveries of enriched product from USEC were no longer needed. Contract termination negotiations for the remaining contract were concluded in the fall of 2015. SDG&E concluded that the settlement of ██████████ (100% share, nominal\$) was reasonable.

⁴ “Additional costs” include legal expenses and supply chain expenses incurred by SCE in support of the cancellation negotiations, and billed to SDG&E. See Ex. SCE-10.

⁵ USEC now goes by the name of Centris. For historical context, USEC terminology is retained.

1 **V. NUCLEAR FUEL CONTRACT CANCELLATION COSTS THAT SCE BILLED**
2 **TO SDG&E IN 2015 ARE REASONABLE**

3 SDG&E's 2015 nuclear fuel contract cancellation costs are reasonable. Long lead times
4 are required for the purchase of uranium, conversion and enrichment services and fabrication of
5 new fuel assemblies. Thus SCE's decision to retire SONGS Unit 2&3, left several nuclear fuel
6 contracts with remaining contractual commitments. This testimony demonstrates that the
7 negotiated settlements represented a significant reduction in the contractual obligations and/or
8 possible arbitration outcomes that the SONGS co-owners faced for the unwanted fuel and
9 associated processes. As such, SDG&E respectfully requests that the Commission find \$7.8
10 million (SDG&E share, nominal\$) costs incurred by SDG&E in 2015 for fuel contract costs
11 reasonable.

12 **A. The 2015 Nuclear Fuel Contract Termination Costs Represent a Significant**
13 **Reduction in the Original Contractual Obligations**

14 The [REDACTED] (100% share, nominal\$) settlement that SCE negotiated with Uranium
15 One represents a significant reduction from the calculated worst case outcome of the arbitration
16 for the SONGS Co-Participants [REDACTED] 100% share).⁶ Similarly, the [REDACTED]
17 (100% share, nominal\$) settlement with Rio Tinto represents a significant reduction from Rio
18 Tinto's claim of up to [REDACTED] (100% share, nominal\$). Also, the final settlement to resolve
19 the outstanding deliveries with USEC for the [REDACTED] (100% share, nominal\$) was a
20 significant reduction from USEC's claim of [REDACTED] (100% share, nominal\$).

21 **B. Comparison with the 2014 Decommissioning Cost Estimate (DCE)**

22 The 2014 DCE forecasts a total of \$17.7 million (100% share, 2014\$) for nuclear fuel
23 contract cancellation costs over the life of the decommissioning project. The DCE was being
24 drafted while settlement negotiations were underway. In 2013 and 2014, the nuclear fuel
25 contract cancellation costs were \$15.5 million (100% share). As SCE witness Lelewer describes
26 in Ex. SCE-10, the forecast of \$17.7 million in the DCE was "a good faith estimate by SCE at
27 the time [the 2014 DCE] was developed, and was based on" the 2013 and 2014 payments.⁷ At
28 the time the 2014 DCE was being developed, SCE was also engaged, or about to engage, in

⁶ In Ex. SCE-10 at 18, SCE witness Lelewer explains that the possible outcome of the arbitration with Uranium One ranged from [REDACTED] to approximately [REDACTED]

⁷ *Id.* at 20.

1 contract termination negotiations or arbitrations with other fuel vendors. Including a forecast of
2 nuclear fuel contract cancellation costs for 2015 (or later years) in a publicly-available document
3 could have undercut SCE's positions in the future settlement negotiations and arbitrations.⁸
4 Therefore, while the total nuclear fuel contract cancellation costs for SONGS (\$54.4 million;
5 2014\$; 100% share) exceeds the 2014 DCE estimate (\$17.7 million; 2014\$; 100% share), the
6 variance is justified and understandable.

⁸ Ex. SCE-10 at 20 ("SCE did not attempt to estimate the maximum possible magnitude of all nuclear fuel contract cancellation expenses in the DCE, which would be available to the public (including nuclear fuel vendors), in order to avoid prejudicing its ongoing negotiations with the fuel vendors.").

ATTACHMENT A

Declaration of Diana Day Regarding Confidentiality of Certain Treatment

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

**DECLARATION OF DIANA DAY
REGARDING CONFIDENTIALITY OF CERTAIN DATA**

I, DIANA DAY, do declare as follows:

1. I am the Vice President of Enterprise Risk Management and Compliance for San Diego Gas & Electric Company ("SDG&E"). I have reviewed the testimonies addressing SONGS 2015 Nuclear Fuel Contract Cancellation Costs (Exhibit SDGE-07) submitted concurrently herewith in the *SONGS 2015 Nuclear Decommissioning Cost Triennial Proceeding* (A.16-03-004). In addition, I am personally familiar with the facts and representations in this Declaration and, if called upon to testify, I could and would testify to the following based upon my personal knowledge and/or belief.

2. I hereby provide this Declaration in accordance with Decision ("D.") 16-08-024 to demonstrate that the confidential information ("Protected Information") provided in Exhibit SDGE-07 submitted concurrently herewith and as described in specificity in paragraph 3 and Exhibit 1 to this document, is within the scope of data protected as confidential under applicable statutory provisions including, but not limited to, Public Utilities Code ("PUC") § 583 and General Order ("GO") 66-C.

3. Listed below are the data for which SDG&E is seeking confidential protection and the bases for SDG&E's confidentiality request:

Location of Confidential Data	Pages (if available)	Description of Information that is Confidential	Basis for SDG&E's Confidentiality Claim
SDGE-07	Throughout the volume	Contract cancellation settlement amounts and settlement terms	GO 66-C, sections 2.2(b) and 2.8 (see Exhibit 1)
SDGE-07	Page 4	Analysis of dispute	GO 66-C, section 2.2(b) (see Exhibit 1)

4. I am not aware of any instance of public disclosure of the Protected Information.

5. The Protected Information cannot be provided in a form that can be further aggregated, redacted, summarized, masked, or otherwise protected in a manner that would allow partial disclosure of the data while still protecting confidential information.

6. In accordance with the provisions described herein, the Protected Information should be protected from public disclosure.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Executed this 16 day of February 2017, at San Diego, California.



 Diana Day
 Vice President, Enterprise Risk
 Management and Compliance

Exhibit 1

SDG&E Identification of Confidential Information in Exhibit SDGE-07 (SONGS 2015 Nuclear Fuel Contract Cancellation Costs)

SDG&E has identified confidential information in Exhibit SDGE-07 and has marked the information accordingly. The identified information is protected by statute and Commission order as detailed below.

Exhibit SDGE-07 discusses the cancellation of contracts between Southern California Edison Company (SCE) as operating agent of SONGS and three nuclear fuel vendors, and costs associated with the cancellations. The contract cancellation costs (and the details of the underlying settlements) have not been made public.

1. Information about contract price and unit price of fuel and fuel reprocessing is market sensitive information, the disclosure of which could place SDG&E (and SCE) at an unfair business disadvantage. SCE and SDG&E still possess fuel inventory that will be re-sold in the fuel market. If information regarding SCE's nuclear fuel contract and termination settlement quantities and pricing terms were publicly disclosed without protection, market competitors could misuse the information during negotiations for quantities being re-sold to the detriment of SCE and SDG&E. For example, if a competitor seeking to purchase existing inventory knew the termination/settlement quantity and price terms, they would have an opportunity to adjust their bid prices. Because customers of SDG&E and SCE benefit under the SONGS OII Settlement Agreement (Section 4.7), approved by the Commission in D.14-11-040, from the re-sale of nuclear fuel, public disclosure of this information could also disadvantage those customers.

2. Exhibit SDGE-07 also contains information about the utilities' assessments of the cancellation disputes and potential settlement amounts. Public disclosure of this information could place SDG&E (and SCE) at an unfair business disadvantage because they reveal the utilities' settlement analysis and

approaches. Public release of this information could hinder SDG&E's (and SCE's) flexibility in future negotiations to cancel supply contracts at SONGS.

3. The SONGS 2 and 3 nuclear fuel contracts and termination/settlement agreements between SCE and the vendors contain confidentiality clauses identifying commercially sensitive information. Some of the Protected Information is considered sensitive information under those contracts and agreements and public dissemination is prohibited. Therefore, SDG&E is obligated to protect the information from public disclosure.

For these reasons, SDG&E maintains that the information about the original contracts, the utilities' analysis of the dispute and resulting contract cancellation costs contained in Exhibit SDGE-07 are market sensitive information which should remain confidential under GO 66-C Section 2.2(b) ("unfair business advantage"). In addition, SDG&E maintains that the contracts and settlement agreements executed by SCE and the vendors shall not be publicly disclosed. Therefore, the information required confidential treatment under GO 66-C Section 2.8 ("Information obtained in confidence from other than a business regulated by this Commission where the disclosure would be against the public interest.")