

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

Application of San Diego Gas & Electric)
Company (U 902-E) for Inclusion of the Steam) Application No. 13-03-____
Generator Replacement Project Cost Permanently)
in Rates.)
_____)

**APPLICATION OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E)
FOR INCLUSION OF THE STEAM GENERATOR REPLACEMENT
PROJECT COST PERMANENTLY IN RATES**

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Dated: March 18, 2013

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Pursuant to Ordering Paragraph 5 in Decision No. 06-11-026, and the procedural schedule set forth in the Administrative Law Judge’s (ALJ) February 21, 2013 ruling in California Public Utilities Commission (CPUC or Commission) Order Instituting Investigation No. 12-10-013, San Diego Gas & Electric Company (SDG&E) hereby submits this Application for approval to include the Steam Generator Replacement Project (SGRP) cost associated with the San Onofre Generation Station (SONGS) permanently in rates into which this Application will be consolidated together with Southern California Edison Company’s (SCE) Application for Inclusion of the SGRP Cost Permanently in Rates (SCE’s SGRP Application) that was filed on March 15, 2013.¹

**I.
SUMMARY OF REQUEST**

In this Application, in compliance with the ALJ’s February 21, 2013 Ruling, SDG&E requests that the Commission order that (1) the revenue requirement recorded in SDG&E’s Nonfuel Generation Balancing Account (hereinafter referred to as the “SGRP Balancing Account”) not be subject to refund,² (2) the recorded costs for the SGRP be permanently added

¹ A.13-03-005.

² This application does not request that the Commission immediately alter the subject-to-refund condition established in OII 12-10-013. Nor does this application seek to constrain the Commission's ability to review the costs booked in the SONGS Outage Memorandum Account. Instead, SDG&E requests that the final relief granted at the conclusion of the proceedings on this Application and OII 12-10-013 be a Commission order that the revenue requirement recorded in the SGRP Balancing Account, no longer be subject to refund.

to authorized rate base, and not be subject to refund, including the small amount of SGRP costs that will be recorded in the second quarter of 2013, and (3) continued recovery of SGRP annual revenue requirement in rates be authorized through the end of the NRC license period (2022).

II. BACKGROUND

In Decision No. 05-12-040, the Commission granted SCE's application for approval of its SGRP, which involved the removal and disposal of four existing steam generators at SONGS Unit Nos. 2 and 3, as well as the installation of replacement steam generators for these units.

The Commission approved a:

- \$782 million overall cap (100% share, 2004\$).³
- \$680 million (100% share, 2004\$) reasonableness review threshold for determining whether an after-the-fact reasonableness review would be required, which was later revised to \$670.8 million in Decision No. 11-05-035 due to a change in the project's scope.⁴

The Commission also instructed SCE to file an application for the inclusion of SGRP costs permanently in rates, after completion of the SGRP, which SCE accomplished through its SGRP Application:

11. After completion of the SGRP, SCE shall be required to file an application for inclusion of the SGRP costs permanently in rates, regardless of whether costs exceed \$680 million. If a reasonableness review of such costs is performed, it shall be done in connection with the application. In the event the removal and disposal of the original steam generators is delayed significantly beyond the commercial operation of both units, it may be addressed in a subsequent application.⁵

In Decision No. 06-11-026, the Commission approved for SDG&E a \$163 million overall cap (20% share, 2004\$) as adjusted for allocated overheads, inflation and cost of capital, and

³ Decision No. 05-12-040, *mimeo* p. 49.

⁴ *See* Decision No. 05-12-040 and Decision No. 11-05-035. Both the total cap and the reasonableness threshold excluded Allowance For Funds Used During Construction (AFUDC). Decision No. 05-12-040, *mimeo* p. 2 and p. 108, Ordering Paragraph 8. *See* Decision No. 06-11-026, Ordering Paragraph 3. (If a reasonableness review of SGRP costs is performed pursuant to Ordering Paragraph 5 of Decision No. 05-12-040, SDG&E shall be subject to that reasonableness review.)

⁵ Decision No. 05-12-040, *mimeo* p. 110.

excluding AFUDC.⁶ As stated in Mr. DeMarco's testimony, SDG&E's share of SGRP costs of \$123.9 million (2004\$)⁷ is less than the Commission allowed reasonableness threshold of \$142 million (2004\$) granted in SDG&E's SGRP Decision No. 06-11-026.

The Commission instructed SDG&E to file a similar application:

3. If a reasonableness review of SGRP costs is performed pursuant to Ordering Paragraph 5 of Decision (D.) 05-12-040, SDG&E shall be subject to that reasonableness review. Such review shall be conducted in connection with SCE's application to include SGRP costs permanently in rates. SDG&E shall file its application to include SGRP costs permanently in rates jointly with SCE, separately subject to the reasonableness determination adopted in SCE's application, or in some other manner that would avoid a separate reasonableness review for SDG&E.⁸

In OII 12-10-013, the Administrative Law Judge issued a ruling ordering SDG&E on or before March 22, 2013, to file separately its application for inclusion of the SGRP cost permanently in rates if it did not file a joint application on March 15, 2013.⁹ Accordingly, in compliance with the ALJ's Ruling, SDG&E submits this application to request the permanent inclusion of its SGRP cost in rates with the understanding that its 20% share of the SGRP cost will need to be updated to reflect the items described above.

Pursuant to the January 28, 2013 scoping memo issued in the OII, this application is within the scope of Phase 3 of the OII,¹⁰ and therefore SDG&E recommends that the Commission consolidate this application with the OII and address this application together with SCE's SGRP Application in Phase 3.

⁶ Decision No. 06-11-026, *mimeo* pgs. 3 and 17.

⁷ For the reasons described at page 5 of this Application and in the testimony of SDG&E witness Mr. De Marco, these 2004\$ are subject to change.

⁸ Decision No. 06-11-026, *mimeo* pp. 17-18.

⁹ February 21, 2013 ALJ Ruling in I. 12-10-013, p. 4 (Ruling paragraph no. 1).

¹⁰ Among other things, Phase 3 of the OII will address "whether claimed SGRP expenses are reasonable, including review of utility-proposed repair and/or replacement cost proposals using cost-effectiveness analysis and other factors." January 28, 2013 scoping memo in OII 12-10-013, *mimeo* p. 4. As to these issues, SDG&E has not completed its investigation of the facts relating to SCE's role and/or responsibility, if any, in the facts and circumstances which lead to the shutdown of SONGS Units Nos. 2&3 and therefore, SDG&E currently takes no position as to whether SCE acted reasonably and prudently in its role as the Operating Agent for the SONGS SGRP and SDG&E reserves its rights in this respect.

III. SUPPORT FOR SDG&E'S REQUEST

A. **The Commission Should Permit SDG&E To Include The Recorded SGRP Costs Permanently In Rates**

As indicated in Section II above, the Commission in Decision No. 05-12-040 ordered a \$782 million (100%, 2004\$) overall cap for the SGRP. Decision No. 05-12-040 further states that the Commission “do[es] not intend to conduct an after-the-fact reasonableness review if the SGRP cost does not exceed \$680 million.”¹¹ The Commission stated that the \$782 million cost cap and the \$680 million reasonableness threshold would be adjusted for inflation.¹²

SCE witness Mr. Opitz's testimony appended to SCE's SGRP Application contains SCE's showing that the SGRP cost is \$768.5 million in nominal dollars (100% share). SCE witness Dr. Hunt's testimony appended to SCE's SGRP Application demonstrates that, in order to deflate the costs associated with the construction, fabrication, and installation of the steam generators to 2004\$, the appropriate inflation index is the Handy-Whitman index. As SCE's SGRP Application and testimony indicate, the SGRP cost of \$612.1 million (100%, 2004\$) will need to be updated to reflect some relatively minor costs associated with the December 2012 transportation of the generators and the January 2013 index value of the Handy-Whitman, both of which were not available at the time of SCE's filing. SDG&E also concurs with SCE's testimony that the escalation rate for burial costs approved in the NDCTP decision (Decision Nos. 03-10-015, 07-01-003, and 10-07-047) should be used to deflate burial costs associated with disposal of the original steam generators,. SDG&E has been billed at the project level by SCE and does not have a breakdown of SGRP costs between fabrication, transportation, installation, removal and burial and therefore is presently unable to apply NDCTP approved escalation rates to burial costs. When this information becomes available, SDG&E will update its SGRP costs in 2004 dollars.

SDG&E's Mr. De Marco addresses in Exhibit SDG&E-4 SDG&E's proposal to include its ownership share of SGRP cost permanently in rates.

¹¹ Decision No. 05-12-040, Ordering Paragraph 4.

¹² Decision No. 05-12-040, pp. 3 (footnote 4), 62.

B. The Commission Should Find That The Cost Of The SGRP Is Below The Reasonableness Threshold

SDG&E witness Mr. De Marco's testimony discusses SDG&E's SONGS SGRP expenditures during 2006-2012, reflecting SDG&E's 20% minority ownership share of SONGS. These expenditures include SCE invoiced direct charges, SCE contractual overheads pursuant to the Second Amended San Onofre Nuclear Generating Station (SONGS) Operating Agreement, and SDG&E's own capital A&G overheads and SDG&E labor costs involving SDG&E's activities as a minority owner. Mr. De Marco demonstrates that the total payments made to SCE with contractual overheads and SDG&E's A&G added are \$161.1 million in the year of expenses (YOE), excluding Allowance for Funds Used During Construction (AFUDC). Adding AFUDC would bring the total figure to \$179.1 million (YOE). These figures exclude the amounts SDG&E has already collected in estimated removal and disposal costs for the original steam generators over the period 2006 through 2011 as authorized by Decision No. 06-11-026. SDG&E has been billed at the project level by SCE and does not have a breakdown of SGRP costs between fabrication, transportation, installation, removal and burial, and therefore is presently unable to apply NDCTP approved escalation rates to burial costs. When this information becomes available, SDG&E will update its SGRP costs in 2004\$. Also, the \$179.1 million figure will be updated to reflect costs incurred for periods after October 2012 which had not yet been invoiced to SDG&E, as well as the Handy-Whitman index for periods after 2012 for which the index is not yet available.

SDG&E witness Mr. Gregory D. Shimansky's testimony supports SDG&E's request that the Commission find SDG&E's recovery of its share of SGRP SONGS costs to be supported by a history of decisions and advice letters discussed therein and that those costs incurred by SDG&E reflect SDG&E's SONGS SGRP expenditures during 2006-2012 corresponding to SDG&E's 20% minority ownership share of SONGS and that these costs recoverable from ratepayers under cost of service ratemaking.

This application is made pursuant to the ALJ's February 21, 2013 Ruling. The scope of this application is narrower than the issues the Commission will examine in the OII. Specifically, because SDG&E's recorded costs for the SGRP are below the reasonableness threshold established in D.06-11-026, the Commission should not conduct a further reasonableness review of the SDG&E amount actually expended. Therefore, in this application SDG&E demonstrates that there is no need to conduct such a reasonableness review of the

amount actually expended on the SGRP because the recorded costs for the SGRP are below the thresholds the Commission established.

SDG&E is not suggesting that the Commission should not review the reasonableness of the SGRP costs. To the contrary, the Commission has stated that it will review the reasonableness of these costs in Phase 3 of I.12-10-013.¹³ In this regard, SDG&E has not completed its investigation of the facts relating to SCE's role and/or responsibility, if any, in the facts and circumstances which lead to the shutdown of Units Nos. 2 & 3, and therefore, SDG&E currently takes no position as to whether SCE acted reasonably and prudently in its role as the Operating Agent for the SGRP. As a result, SDG&E reserves all rights with respect to questions regarding reasonableness and prudence of SCE's actions and expenditures with respect to the SGRP and subsequent activities related thereto.

IV. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Statutory Authority

This Application is made in compliance with Decision Nos. 05-12-040 and 06-11-026 and pursuant to the February 21, 2013 Ruling in I.12-10-013. In addition, this request complies with the Commission's Rules of Practice and Procedure (Commission Rule), and prior decisions, orders and resolutions of this Commission.

B. Compliance With Commission Rule of Practice and Procedure 2.1

Commission Rule 2.1 requires that "[a]ll applications shall state clearly and concisely the authorization or relief sought; shall cite by appropriate reference the statutory provision or other authority under which Commission authorization or relief is sought, shall be verified by at least one applicant . . . ; and . . . shall state the following: (a) [applicant information]; (b) [applicant service information]; (c) The proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule. . . . ; (d) Such additional information as may be required by the Commission in a particular proceeding." California Public Utilities Code § 1701.1(c)(3) defines ratesetting as "cases in which rates are established for a specific company, including, but not limited to, general rate cases, performance-based ratemaking, and other ratesetting mechanisms." SDG&E proposes this application be designated as a "ratesetting"

¹³ January 28, 2013 scoping memo in OII 12-10-013, *mimeo* p. 4.

proceeding and consolidated with OII 12-10-013, which has also been designated as a “ratesetting” proceeding.

The Commission has indicated that a prehearing conference for Phase 3 of OII 12-10-013 will be held in the future,¹⁴ at which time SDG&E believes a schedule should be developed.

The issues to be considered in this application concern whether the costs recorded in the SGRP Balancing Accounts are consistent with the directives and parameters of Decision Nos. 05-12-040 and 11-05-035 and whether SDG&E’s ratemaking proposal is reasonable.

C. Legal Name and Correspondence

1. SDG&E

SDG&E is a public utility organized and existing under the laws of the State of California. The location of SDG&E’s principal place of business is 8330 Century Park Court, San Diego, California 92123. Correspondence or communications regarding this application should be addressed to:

James F. Walsh
Stacy Van Goor
San Diego Gas & Electric Company
101 Ash Street
Post Office Box 1831
San Diego, California 92101-3017
Telephone: (619) 699-5022
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To request a copy of this application, please contact:

Wendy Keilani
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E-mail: wkeilani@semprautilities.com

D. Articles of Incorporation

1. SDG&E

SDG&E is a corporation duly created under the laws of the State of California. A certified copy of the Restated Articles of Incorporation of San Diego Gas & Electric Company

¹⁴ January 28, 2013 Scoping Memo for OII 12-10-013, *mimeo* p. 4.

presently in effect and certified by the California Secretary of State was filed with the Commission on August 31, 2009, in connection with SDG&E's Application No. 09-08-019 and is incorporated herein by reference.

E. CEQA Compliance

Rule 2.4(c) states that any application for authority to undertake a project that is statutorily or categorically exempt from CEQA requirements shall so state, with citation to the relevant authority. CEQA does not apply to this application. Public Resources Code section 21080(b)(8) states that CEQA does not apply to the "establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies."

**V.
CONCLUSION**

In this Application, SDG&E request that the Commission order (1) that the revenue requirement recorded in the SGRP Balancing Account not be subject to refund, (2) that the recorded SDG&E costs for the SGRP be permanently added to authorized rate base, and not be subject to refund, including the small amount of SDG&E SGRP costs that will be recorded in the second quarter of 2013, and (3) the continued recovery of SDG&E SGRP annual revenue requirement in rates be authorized through the end of the NRC license period (2022).

Respectfully submitted,

/s/ James F. Walsh
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Attorneys for
SAN DIEGO GAS & ELECTRIC COMPANY

Dated: March 18, 2013

VERIFICATION

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing document are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 18th day of March, 2013, at San Diego, California.

/s/ LEE SCHAVRIEN _____

Lee Schavrien

Senior Vice President

Finance, Regulatory and Legislative Affairs

SAN DIEGO GAS & ELECTRIC COMPANY