

Application of San Diego Gas & Electric
Company (U 902-E) for Inclusion of the Steam
Generator Replacement Project Cost Permanently
in Rates.

Application 13-03-____
Exhibit No.: SDG&E-4

**PREPARED DIRECT TESTIMONY OF
MICHAEL L. DE MARCO
&
GREGORY D. SHIMANSKY
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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

MARCH 18, 2013



1 **PREPARED DIRECT TESTIMONY**

2 **OF**

3 **MICHAEL L. DE MARCO**

4 **I. PURPOSE OF TESTIMONY**

5 In accordance with the Commission’s Order Instituting Investigation (OII) D.12-
6 11-051 and ALJ Darling’s February 21, 2013 ruling on the Application for Inclusion of
7 the Steam Generator Replacement Project (SGRP) Permanently in Rate base, this
8 testimony identifies and describes the SGRP subset of San Diego Gas & Electric
9 Company’s (SDG&E’s) incurred costs associated with SDG&E’s 20% minority
10 ownership interest in the San Onofre Nuclear Generating Station (SONGS).

11 The following table lists SDG&E’s SONGS related costs categorized by CPUC
12 proceeding and highlights the subset of SONGS costs to be addressed in Southern
13 California Edison’s (SCE’s) SGRP application as ordered in SCE’s SGRP Decision
14 D.05-12-040 (SCE’s SGRP)¹ and in SDG&E’s SGRP Decision D.06-11-026 (SDG&E’s
15 SGRP).

SDG&E’S SHARE OF SONGS RELATED COSTS IDENTIFIED BY PROCEEDING			
COST CATEGORY	SDG&E’s GRC	SCE’s GRC	SGRP Proceeding
SONGS Unit 1 Spent Fuel Storage	X		
SONGS Site Easement	X		
SONGS Accident & Injury Litigation	X		
SONGS Operations & Billing	X		
SONGS Utility Ratebase	X		
Escalation	X	X	X
SONGS O&M (other than refueling outages)		X	
SONGS Refueling Outage O&M		X	
SONGS Capital Additions		X	
SONGS Steam Generator Replacement Project (SGRP)			X

16
17 The purpose of this testimony is to establish that SDG&E’s 20% share of the
18 SONGS SGRP costs is below the reasonableness threshold established in D.06-11-026.

¹ A.13-03-005.

1 **II. OVERVIEW**

2 SONGS is operated by SCE, the Nuclear Regulatory Commission’s (NRC’s)
3 designated operator. SDG&E relies upon SCE as the operating agent and the exclusive
4 NRC licensed operator of the station. SDG&E’s influence as a minority owner over
5 SCE’s expenditures related to SONGS is also subject to the terms of the Second
6 Amended San Onofre Operating Agreement between the SONGS Co-Owners.²

7 Because SDG&E’s recorded costs for the SGRP are below the reasonableness
8 threshold established in D.06-11-026, there is no need for the Commission to conduct a
9 reasonableness review of the amount actually expended on the SGRP. The Commission
10 has stated that it will review the reasonableness of the SGRP costs in Phase 3 of I. 12-10-
11 013, and SDG&E understands that this review will involve consideration of whether the
12 costs should be disallowed as unreasonable based on the causes of the SG damage and
13 whether claimed SGRP expenses are reasonable, including review of SCE-proposed
14 repair and/or replacement cost proposals using cost-effectiveness analysis and other
15 factors.³ In this regard, SDG&E has not completed its investigation of the facts relating
16 to SCE’s role and/or responsibility, if any, in the facts and circumstances which lead to
17 the shutdown of Units Nos. 2 & 3, and therefore, SDG&E currently takes no position as
18 to whether SCE acted reasonably and prudently in its role as Operating Agent for the
19 SGRP. As a result, SDG&E reserves all rights with respect to questions regarding
20 reasonableness and prudence of SCE’s actions and expenditures with respect to the
21 SGRP and subsequent activities related thereto.

22 **III. SONGS SGRP EXPENDITURES**

23 SDG&E’s SONGS SGRP expenditures as set forth in this portion of Exhibit
24 SDG&E-1 are \$123.9 million (2004\$’s)⁴, corresponding to SDG&E’s 20% ownership
25 interest in SONGS.

26 The annual invoiced charges SDG&E incurred from SCE during 2006-2012
27 included direct charges and contractual overhead costs added to the direct charges

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

³ OII Scoping Memo, mimeo at p. 4.

⁴ Based upon conversion to 2004\$’s using Handy Whitman Index - Total Nuclear Plant – Pacific Region

1 through an applicable contractual overhead⁵ (A&G, P&B, and Payroll Taxes) rate
2 multiplier under the terms of the Second Amended San Onofre Operating Agreement.
3 The total payments made to SCE for the SGRP are \$155.7 million in Year of Expense
4 (YOE) dollars.

5 SDG&E then applied its own capital A&G overheads to its share of SONGS
6 capital expenditures using a uniform rate applied to all SDG&E capital projects, in order
7 to recover the administrative costs such as accounting, finance, and legal expenses that
8 SDG&E incurs. In addition, some SDG&E labor costs are charged to projects in
9 connection with SDG&E's role as a minority owner. Application of overhead A&G for
10 capital projects is an established convention approved in SDG&E's 2009 GRC D.08-07-
11 046 and again proposed in SDG&E's 2012 GRC application.⁶ The total payments made
12 to SCE with contractual overheads and SDG&E costs added are \$161.1 million (YOE)
13 excluding Allowance for Funds Used During Construction (AFUDC). Adding AFUDC
14 would bring the total to \$179.1 million (YOE). These figures exclude the amounts
15 SDG&E has already collected in estimated removal and disposal cost for the original
16 steam generators over the period 2006 through 2011.

17 The table attached as Appendix A summarizes SDG&E's SGRP costs in the year
18 of expenditure (YOE) of \$179.1 million which SDG&E requests the Commission permit
19 SDG&E to add permanently to authorized rate base. This amount will be updated to
20 reflect costs incurred for periods after October 12, 2012 which had not yet been billed to
21 SDG&E, as well as applicable escalation.

22 **IV. ESCALATION**

23 SDG&E concurs with SCE's testimony contained in Exhibit SCE-6 that the
24 Handy Whitman index Total Nuclear Plant – Pacific Region (Handy Whitman) is the
25 most reliable and relevant index to use for converting the construction, fabrication, and
26 installation costs of the nuclear steam generators into 2004 dollars for comparison with

⁵ Contractual overheads are from the Exhibit Ratios in the Second Amended San Onofre Operating Agreement between SCE and the SONGS Co-Owners. The overheads address A&G, P&B, and Payroll Tax on pages 50-56 and Exhibits G, H, I, J, and K.

⁶ The A&G cost put forth in this instant proceeding will be revised in update testimony in the event the Commission decision in SDG&E's 2012 GRC authorizes a different A&G rate.

1 the costs adopted in the SGRP decisions.⁷ The Commission has used Handy-Whitman
2 Indexes of Public Utility Construction Costs in previous proceedings from General Rate
3 Cases to reasonableness review of large construction projects as the basis to calculate
4 escalation and deflation of construction costs and capital additions.⁸ In addition, the
5 Commission has stated “The Handy-Whitman index is a widely recognized publication
6 which reflects the costs of different types of utility construction.”⁹ The Handy-Whitman
7 Indexes of Public Utility Construction Costs represent the standard for utility
8 construction cost price indexes at this Commission.

9 As shown in the previous table implementing Handy Whitman indexes of Public
10 Utility Construction Costs to de-escalate the construction, fabrication, and installation
11 costs of the nuclear steam generators from \$179.1 million (YOE) to \$123.9 million
12 (2004\$), SDG&E’s share of these SGRP costs are less than the Commission allowed
13 reasonableness threshold of \$142 million (2004\$’s) granted in D.06-11-026.

14 **IV. CONCLUSION**

15 SDG&E respectfully requests that the Commission allow SDG&E to add
16 permanently to its authorized rate base its share of SGRP SONGS costs of \$179.1 million
17 (\$123.9 million 2004\$’s) , subject to the after-the-fact reasonableness review in Phase 3
18 of OII.12-10-013. Additionally, SDG&E respectfully requests that the Commission
19 adopt the Handy Whitman Index Total Nuclear Plant – Pacific Region as the appropriate
20 index to convert the construction, fabrication, and installation costs of the nuclear steam
21 generators to equivalent 2004\$’s.¹⁰

22 This concludes my prepared direct testimony.
23

⁷ SDG&E also concurs with SCE’s testimony that the escalation rate for burial costs adopted in the NDTCP decision should be used to deflate burial costs associated with disposal of the original steam generators, i.e., Decision Nos. 03-10-015, 07-01-003, and 10-07-047... 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\$.

⁸ D.12-11-051, mimeo, p. 608; D.07-01-040, mimeo., p. 115, Ordering Paragraph No. 10; D.99-05-030, mimeo, p 67, Finding of Fact No 17, p 72, Conclusion of Law No 6, p 72, Ordering Paragraph 4.

⁹ D.03-10-015, D.07-01-003, and D.10-07-047.

¹⁰ Subject to the use of the burial escalation factor approved in the NDTCP decision for burial costs.

1 **PREPARED DIRECT TESTIMONY**

2 **OF**

3 **GREGORY D. SHIMANSKY**

4 **I. RATEMAKING**

5 On November 30, 2006, the Commission (CPUC) issued Decision Number
6 (D.)06-11-026, approving an unopposed settlement of the ratemaking treatment of
7 SDGE's share of costs related to the Steam Generator Replacement Project (SGRP) at the
8 San Onofre Nuclear Generating Station (SONGS). The settlement provided for
9 ratemaking treatment of SDG&E's 20% share of SGRP costs in a manner consistent with
10 the ratemaking treatment the CPUC authorized for Southern California Edison's (SCE)
11 share of the SGRP costs in D.05-12-040. The ratemaking treatment for SDG&E was to
12 be consistent with what was authorized for SCE in D.05-12-040, as confirmed in D.11-
13 07-049 issued on August 3, 2011.

14 As approved by the CPUC in D.05-12-040, SCE was to submit certain advice
15 letters to implement interim revenue requirements for recovery of the SGRP costs.¹¹
16 Pursuant to the Administrative Law Judge's February 21, 2013 ruling in OII 12-10-013,
17 SDG&E is submitting this testimony to address this interim relief.

18 In this proceeding, subject to the after-the-fact reasonableness review in Phase 3
19 of OII.12-10-013, SDG&E requests authorization to add its recorded SGRP costs
20 permanently to authorized rate base, to continue to recover the revenue requirement
21 associated with its share of the SGRP costs, including accrued AFUDC, in rates through
22 the end of the NRC license period (2022), and for an order declaring that the amounts
23 recorded in the SDG&E's Nonfuel Generation Balancing Account (hereinafter referred to
24 as SGRP Balancing Accounts) not be subject to refund.¹² As explained in more detail
25 below, consistent with D.05-12-040 and D.06-11-026, SDG&E has already recovered a

¹¹ Decision No. 05-12-040, mimeo p. 109-110, Ordering Paragraphs 9 and 10.

¹² 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 Accounts no longer be subject to refund.

1 portion of its plant and associated revenue requirement, and also requests to continue to
2 recover its annual revenue requirement, through the NRC license period for SONGS, or
3 2022.

4 **II. HISTORY OF RECOVERY**

5 Prior to the completion of SGRP, the Commission allowed SDG&E to recover
6 through depreciation 20% of its ownership share of the estimated removal and disposal
7 cost for the original steam generators over the period 2006 through 2011.¹³

8 For cost recovery after completion of the SGRP for each unit, (i.e. the
9 replacement costs and the recorded removal and disposal costs) D.05-12-040 allows
10 SDG&E to put an estimated annual revenue requirement in rates on an interim basis at
11 the beginning of the year following completion of the replacement of each unit and
12 completion of the removal and disposal of each of the old units. Because this work is all
13 capital-related, the revenue requirement consists of depreciation expense, return on rate
14 base, and taxes. Annual over- or under-collections (i.e. differences between the amounts
15 realized in revenue and the approved revenue requirement) are recorded in the SDG&E
16 SONGS Major Additions Adjustment Clause (MAAC) subaccount in the Non-Fuel
17 Generation Balancing Account (NGBA) and are either returned to, or recovered from
18 customers in the subsequent year. The year-end NGBA balance is submitted in an advice
19 letter to the Commission to be reviewed and allowed to be included in rates each year in
20 SDG&E's NGBA Advice Letter filing. As such, consistent with the ratemaking
21 implemented in compliance with D.05-12-040, SDG&E is recovering its actual revenue
22 requirement in rates (i.e. estimated revenue requirements are adjusted to the actual
23 revenue requirements).

24 In recent Advice Letter filings, SDG&E has been authorized to collect revenue
25 requirements for recovery of costs related to the replacement of the steam generators at
26 SONGS units Nos. 2 and 3. AL 2156-E, approved May 10, 2010, effective April 24,
27 2010, authorized the recovery of an annual revenue requirement for SONGS unit 2
28 reactor plant equipment for 2010-2016. AL 2243-E, approved June 9, 2011, effective

¹³ Ordering Paragraph No. 12 of D.05-12-040 and Advice Letter 2302-E at page 2, approved on December 23, 2011 effective December 10, 2011.

1 May 9, 2011, authorized the recovery of an annual revenue requirement for SONGS unit
2 3 reactor plant equipment for 2011-2016. Further, in AL 2302-E, approved on December
3 23, 2011, effective December 10, 2011, and AL 2416-E, approved on December 19,
4 2012, effective December 9, 2012, attachments were provided showing the 2011-2012
5 and 2012-2013 cost projections, respectively. These filings are known as our annual
6 NGBA filings.

7 These advice letters were authorized to be consolidated and recovered in rates
8 through AL 2323-E, approved on January 31, 2012, effective January 1, 2012, and AL
9 2443-E, approved on January 28, 2013, effective January 1, 2013.¹⁴

10 In each of these advice letters, the revenue requirement was prepared using the
11 same methodologies. The revenue requirements are set up to only recover the approved
12 costs for Operations and Maintenance (O&M) and Capital Costs (depreciation, taxes and
13 return). Depreciation calculated in these advice letters was calculated such that all
14 SONGS assets would have the same remaining useful life regardless of when the asset
15 was put in service and tied to the license expiration date. The authorized returns were
16 determined in D.07-12-049.

17 **III. CONCLUSION**

18 SDG&E respectfully requests that the Commission find SDG&E's recovery of its
19 share of SGRP SONGS costs to be supported by a history of Decisions and Advice
20 Letters as shown herein and that they reflect SDG&E's SONGS SGRP expenditures and
21 are recoverable from ratepayers under cost of service ratemaking.

22 This concludes my prepared direct testimony.
23

¹⁴ The return as shown in AL 2416-E was using the approved Cost of Capital at that time and was adjusted in the Consolidated Filing in compliance with D.12-12-034 (SDG&E's 2013 Cost of Capital).

1 **STATEMENT OF QUALIFICATIONS**

2 My name is Michael L. De Marco, and I have been employed by San Diego Gas
3 & Electric Company (SDG&E) since May of 2007 as Team Leader of the Nuclear
4 Section in the Electric Project Development & Business Planning Department. My
5 current responsibilities include representing SDG&E's ownership interests at SONGS.

6 Prior to working for SDG&E, I worked for Southern California Edison. Previous
7 positions relevant to my testimony include: Nuclear Plant Operator, SONGS (1989 –
8 2001), Technical Specialist, Nuclear Rate Regulation (2002 – 2003), Senior Financial
9 Analyst, Energy Supply and Management (2003 – 2006), and Senior Project Manager,
10 Power Procurement (2006 – 2007).

11 I received a Bachelor of Science degree in Workforce Education from Southern
12 Illinois University at Carbondale in 1998 and a Master of Business Administration degree
13 from the University of California, Irvine in 2001. I am a registered Project Management
14 Professional with the Project Management Institute.

15 My business address is 5000 Pacific Coast Highway, San Clemente, California
16 92672. I have previously testified before the Commission.

17

1 **STATEMENT OF QUALIFICATIONS**

2 My name is Gregory D. Shimansky. I am employed by San Diego Gas & Electric
3 Company (SDG&E), as the Regulatory Accounts and Financial Services Manager in the
4 Financial Analysis Department. My business address is 8330 Century Park Court, San
5 Diego, California 92123. My current responsibilities include managing the process for
6 the development, implementation, and analysis of regulatory balancing and memorandum
7 accounts as well as supervising the treasury function at SDG&E. I assumed my current
8 position in July 2010.

9 I have been employed with SDG&E and Sempra Energy since June 30, 2003. In
10 addition to my current position in Regulatory Affairs, I served as the Financial Planning
11 Manager for Sempra Energy Corporate (Parent), the Regulatory Reporting Manager at
12 SDG&E and from June 2003 through August 2008, I worked for SDG&E in utility
13 planning. I earned a Bachelor's of Science degree in Economics from the University of
14 California, Los Angeles in June 1993. I also earned a Master's of Science in
15 Management, with concentrations in Finance and Marketing, from Purdue University in
16 May 1998.

17 I have previously provided written testimony to the Commission.
18

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APPENDIX A – SDG&E’s SONGS SGRP EXPENDITURES

San Onofre Nuclear Generating Station ("SONGS") - I. 13-03-XXX

Purpose: Detailed SDG&E Costs for SGRP by Year

All figures shown as 1,000 USD

	2006	2007	2008	2009	2010	2011	2012	Total
Net Payments to SCE	\$ 23,603.10	\$ 12,666.00	\$ 13,917.00	\$ 43,435.40	\$ 52,940.90	\$ 7,724.90	\$ 1,420.50	\$ 155,707.80
SDG&E Direct Charges	\$ 10.20	\$ 20.30	\$ 19.20	\$ 23.40	\$ 23.70	\$ 23.40	\$ 0.20	\$ 120.40
SDG&E Overheads	\$ 837.80	\$ 577.20	\$ 1,293.30	\$ 506.70	\$ 1,785.90	\$ 216.10	\$ 35.40	\$ 5,252.40
Gross SDG&E Excluding AFUDC	\$ 24,451.10	\$ 13,263.50	\$ 15,229.50	\$ 43,965.50	\$ 54,750.50	\$ 7,964.40	\$ 1,456.10	\$ 161,080.60
Recovery of OSG Removal Costs ⁽¹⁾	\$ -	\$ -	\$ -	\$ (0.10)	\$ (2,669.00)	\$ (3,719.00)	\$ -	\$ (6,388.10)
Net SDG&E Cost Before AFUDC	\$ 24,451.10	\$ 13,263.50	\$ 15,229.50	\$ 43,965.40	\$ 52,081.50	\$ 4,245.40	\$ 1,456.10	\$ 154,692.50
SDG&E AFUDC	\$ 248.40	\$ 2,594.00	\$ 3,989.40	\$ 6,277.70	\$ 6,592.80	\$ 2,585.80	\$ 2,087.60	\$ 24,375.70
SDG&E Net Investment in SGRP	\$ 24,699.50	\$ 15,857.50	\$ 19,218.90	\$ 50,243.10	\$ 58,674.30	\$ 6,831.20	\$ 3,543.70	\$ 179,068.20
Handy-Whitman De-Escalation Factors ⁽²⁾	0.894	0.853	0.799	0.794	0.758	0.729	0.711	
SGRP Costs excl AFUDC in 2004's	\$ 21,859.28	\$ 11,313.77	\$ 12,168.37	\$ 34,908.53	\$ 39,477.78	\$ 3,094.90	\$ 1,035.29	\$ 123,857.91

⁽¹⁾ Represents recovery of the original old steam generator costs authorized by D.06-11-026

⁽²⁾ SDG&E Proposes, as does SCE, that Handy Whitman index Total Nuclear Plant – Pacific Region be adopted as the appropriate escalation factor in this proceeding

NOTES

AFUDC is excluded in calculating SGRP costs into 2004's per D.06-11-026 for comparison against the \$163 million cap

All figures rounded to nearest 1 digit

All data excludes SONGS costs incurred by SCE since November 1, 2012, which will be reported in a subsequent cost update

2