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Application of San Diego Gas & Electric Company (U-902-E) to
Recover Certain Costs of Seismic And Tsunami Studies for the
San Onofre Nuclear Generating Station Unit Nos. 2 and 3

Application No. 11-05-_____
Filed May 9, 2011

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Exhibit No. SDG&E-1
Witnesses: Michael L. De Marco
 Gregory D. Shimansky

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**PREPARED DIRECT TESTIMONY
OF MICHAEL L. DE MARCO
AND GREGORY D. SHIMANSKY**

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

**San Diego, California
May 9, 2011**

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1 **I. SUMMARY OF RECOMMENDATIONS**

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3 The following table summarizes the share of costs allocable to San Diego Gas & Electric
4 Company (“SDG&E”), a minority owner with an undivided twenty-percent ownership interest in San
5 Onofre Nuclear Generating Station Unit Nos. 2 and 3 (“SONGS 2&3”), related to certain ongoing
6 seismic study programs and newly planned seismic research projects and analyses proposed by
7 Southern California Edison Company (“Edison”) in Application 11-04-006. Edison has forecasted
8 that the total costs of the proposed program, projects and analyses to be \$64.0 million (nominal
9 dollars, 100-percent level) over the period 2011 through 2015. Based upon its twenty-percent
10 interest in SONGS 2&3, SDG&E expects Edison will allocate to SDG&E and bill SDG&E for a
11 twenty-percent share of Edison’s total costs of \$64.0 million pursuant to the terms and conditions of
12 the existing Second Amended San Onofre Operating Agreement under which Edison, as the
13 majority owner of and operating agent for SONGS 2&3, allocates SONGS 2&3 operations and
14 maintenance expenses to SDG&E. The agreement also permits Edison to surcharge operations
15 and maintenance expenses allocable to SDG&E with and for certain overhead costs. The table
16 below sets forth the annual costs, inclusive of contractual overheads, SDG&E expects will be billed
17 to SDG&E, based upon our review of Application 11-04-006:

18

SDG&E's 20% Share	2011	2012	2013	2014	2015	Total
	\$ 0.7	\$ 4.0	\$ 4.4	\$ 3.3	\$ 1.0	\$ 13.3

19
20

21 SDG&E is requesting the Commission authorize SDG&E to establish and maintain a new
22 SONGS Seismic Research Balancing Account (“SONGS SRBA”), record its post-2011 allocable
23 share of any Commission-approved costs for the proposed seismic and tsunami studies and
24 research in the SONGS SRBA, set forth in the above table as \$12.6 million,¹ and recover the costs
25 recorded in the SONGS SRBA through its electric rates. SDG&E is also requesting that the
26 Commission authorize SDG&E to establish and maintain a new SONGS Seismic Research
27 Memorandum Account (“SONGS SRMA”), to record its allocable share of costs, if any, over and
28 above the level of costs for the proposed seismic and tsunami studies and research the
29 Commission may approve in Edison’s Application 11-04-006 and/or SDG&E’s application, and,

¹ The \$700,000 figure shown for SDG&E’s 2011 share of the costs will be recovered through SDG&E’s existing ratemaking mechanisms.

1 upon further order of the Commission, transfer such amounts from the SONGS SRMA to the
2 SONGS SRBA as the Commission may later find to be just and reasonable.

4 II. OVERVIEW

5 Edison originally requested funding for the SONGS 2&3 ongoing seismic program and
6 newly planned seismic research, studies and projects in Application 10-11-015, Edison's Test Year
7 2012 General Rate Case. On March 1, 2011, the Commission issued a Scoping Memo in
8 Application 10-11-015, directing Edison to submit a separate application addressing the ongoing
9 seismic program and newly planned seismic research, studies and programs "so that the
10 Commission may act more quickly and uniformly on these issues." (See *Scoping Memo and*
11 *Ruling of Assigned Commissioner*, Application 10-11-015, dated March 1, 2011, at p.15).
12 Thereafter, on March 11, 2011, a 9.0 magnitude earthquake (the "Tohoku seismic event") and
13 subsequent tsunami severely damaged the Fukushima Daiichi Nuclear Station near Sendai, Japan.
14 Edison determined, under these circumstances, it would be prudent to reevaluate the original
15 scope of the seismic hazard and risk assessments it had planned for the period 2011 to 2015.
16 Following this reevaluation, Edison augmented the original scope of work it had planned so that its
17 seismic assessments would reflect site-specific studies and lessons learned from the Fukushima
18 Daiichi issues. Pursuant to the terms of the *Scoping Memo* and the reevaluation of the original
19 scope of its proposals, Edison filed Application 11-04-006 on or about April 15, 2011, seeking
20 approval of its proposed seismic and tsunami research and studies, as revised, and the recovery of
21 its share of the costs of that research and those studies through its Commission-jurisdictional rates.

22 SDG&E is a minority owner of SONGS 2&3, holding an undivided twenty-percent interest
23 in those facilities. Under the terms and conditions of the existing Second Amended San Onofre
24 Operating Agreement, Edison, as the majority owner and Operating Agent of SONGS 2&3,
25 allocates twenty percent of its operations and maintenance expenses to SDG&E and bills SDG&E
26 for a twenty-percent share of those expenses, plus additional amounts for certain overheads as
27 provided in the Agreement. SDG&E is generally obligated under the terms of the Second
28 Amended San Onofre Operating Agreement to reimburse Edison for the allocated and billed share
29 of these costs. The costs associated with the seismic program, research and studies described in
30 Edison's Application 11-04-006 will be treated as operations and maintenance expenses, and
31 SDG&E expects Edison will allocate a twenty-percent share of those specific expenses to SDG&E

1 and bill SDG&E for them. SDG&E filed this application to establish the ratemaking procedures
2 under which its share of the post-2011 costs for the proposed seismic program, research and
3 studies billed to SDG&E by Edison will be recovered through SDG&E's Commission-jurisdictional
4 electric rates.

5
6 **III. SONGS SEISMIC STUDIES: DETERMINATION OF SDG&E SHARE OF COSTS**

7 The Commission has provided that, in order to ensure consistency of treatment of SONGS
8 Operations and Maintenance expenses and to avoid litigating the same costs and expenditures in
9 more than one proceeding, those SONGS-related expenses Edison allocates and bills to SDG&E
10 should be considered within those proceedings initiated by Edison.² This approach has been
11 followed by SDG&E in Edison's prior general rate cases using test years of 1985, 1988, 1992,
12 1995, 2003, 2006 and 2009. SDG&E had intended to address the SONGS 2&3 seismic program,
13 research and study costs in Edison's pending Test Year 2012 General Rate Case, but the removal
14 of these costs from that proceeding and the separate application filed by Edison related to those
15 costs compelled SDG&E to file its own separate application.

16 The determination of SDG&E's allocable share of the SONGS 2&3 seismic program,
17 research and study expenses is derived from the information provided in Edison's Application 11-
18 04-006. A detailed calculation of amounts used in the derivation of the SDG&E share of the
19 SONGS 2&3 seismic program, research and study costs is set forth in Table MLD-1 below:
20

² See Decision 04-07-022, at p.324 (Finding of Fact 43); also, Decision 06-05-016, at pp.39 to 40 (Section 7.8), and Decision 09-03-025 at p. 295 (Section 12).

Table MLD-1
SONGS 2&3 Seismic Program, Research and Study Costs
Based Upon Edison Forecast of Expenditures
From Application 11-04-006
2011 to 2015
(\$ millions, nominal)

SDG&E Share	2011	2012	2013	2014	2015	Total
	\$0.7	\$4.0	\$4.4	\$3.3	\$1.0	\$13.3

100-Percent Level Direct Charges	2011	2012	2013	2014	2015	Total
Labor	\$0.4	\$0.6	\$0.6	\$0.6	\$0.6	\$2.8
Non-Labor	\$2.7	\$18.8	\$20.6	\$15.2	\$3.9	\$61.2
Total Direct Charges	\$3.1	\$19.4	\$21.2	\$15.8	\$4.5	\$64.0
Contractual Overheads						
Labor (71.46%)	\$0.29	\$0.43	\$0.43	\$0.43	\$0.43	\$2.00
Non-Labor (1%)	\$0.03	\$0.19	\$0.21	\$0.15	\$0.04	\$0.61
Total 100% Level w/ OHD	\$3.4	\$20.0	\$21.8	\$16.4	\$5.0	\$66.6

2

3 The figures shown in the calculation of direct charges are taken from Edison's Application
4 11-04-006. As noted previously, Edison also adds overhead charges to allocable direct charges
5 under the terms of the Second Amended San Onofre Operating Agreement. Those overhead
6 charges are calculated and shown in Table MLD-1. Labor direct charges are surcharged by 71.46
7 percent and Nonlabor direct charges are surcharged by one percent, representing Edison-incurred
8 administrative and general expenses, pension and benefits expenses, and payroll taxes.³ Thus,
9 SDG&E would expect to be billed for SONGS 2&3 seismic program research and study costs in
10 annual amounts equal to twenty percent of the figures shown in the line described as "Total 100%
11 Level w/ OHD"; those amounts are shown at the top of Table MLD-1 in the highlighted section of
12 the table. In the event Edison changes or updates its forecast of SONGS 2&3 seismic program
13 research and study expenses as currently reflected in its Application 11-04-006, SDG&E will make

³ Appendix A attached hereto provides the source of the surcharges related to these contractual overheads.

1 the appropriate changes or updates to the allocable share of those expenses and modify the
2 figures shown in Table MLD-1. Additionally, SDG&E will conform its final rate filings to the
3 decisions issued by the Commission in this matter.

4 5 **IV. SEISMIC STUDIES COST TREATMENT**

6 In Decision 06-11-026, the Commission authorized SDG&E to adopt a SONGS-specific
7 ratemaking mechanism for SONGS operations and maintenance expenses: a two-way SONGS
8 O&M balancing account (the "SONGSBA") allows SDG&E to recover in rates the actual operations
9 and maintenance expenses allocated and billed to SDG&E by Edison. This account is structured
10 so that SDG&E recovers no more and no less than the actual SONGS operations and maintenance
11 costs allocated and billed to SDG&E by Edison. With respect to the ongoing and proposed
12 SONGS 2&3 seismic program, research and study costs, SDG&E will simply record costs allocated
13 and billed to SDG&E by Edison during 2011 to the SONGSBA pursuant to that ratemaking
14 mechanism's terms and conditions.

15 For SONGS 2&3 seismic program, research and study expenses approved by the
16 Commission for the period after December 31, 2011, SDG&E proposes to treat its allocable share
17 of those expenses as follows. SDG&E proposes to establish and maintain a "SONGS Seismic
18 Research Balancing Account (SONGS SRBA)". This request is similar in purpose and design to
19 Edison's request in Application 11-04-006 that the Commission authorize Edison to record its
20 allocable share of the seismic research and study costs in a subaccount of its Base Revenue
21 Requirement Balancing Account.

22 In addition, SDG&E proposes to establish and maintain, for SONGS 2&3 seismic program
23 research and study expenses, if any, over and above those approved by the Commission for the
24 period after December 31, 2011, a "SONGS Seismic Research Memorandum Account (SONGS
25 SRMA)". SDG&E will record in the SONGS SRMA those additional seismic research and study
26 costs incurred by Edison and billed to SDG&E, if any, over and above the level of costs authorized
27 by the Commission in the disposition of Edison's Application 11-04-006 and this application filed by
28 SDG&E. Upon the Commission's approval of those additional costs pursuant to the Tier III advice
29 letter process described by Edison's Application 11-04-006, SDG&E will transfer from the SONGS
30 SRMA to the SONGS SRBA its share of the amounts approved by the Commission under Edison's
31 proposed advice letter process. Collectively, the SONGS SRBA and SONGS SRMA will serve to

1 assure the public interests inherent in the conduct and completion of the proposed seismic and
2 tsunami research and studies will be addressed, and that only their just and reasonable costs will
3 be reflected in SDG&E's electric rates.

4 As part of its pending Test Year 2012 General Rate Case (Application 10-12-006), SDG&E
5 has requested the Commission permit it to maintain the SONGSBA through the 2012-to-2014
6 general rate case period. In the event the Commission grants that request, SDG&E will merge the
7 SONGS SRBA and SONGS SRMA into the SONGSBA in order to simplify its tariffs and
8 consolidate all SONGS 2&3 operations and maintenance expenses within a single ratemaking
9 mechanism. In the event the Commission does not grant that request, SDG&E will continue to
10 maintain the SONGS SRBA and SONGS SRMA in order to address SONGS 2&3 seismic program
11 research and study expenses allocated and billed to it by Edison in accordance with the foregoing
12 testimony. Under either of these alternative regulatory outcomes, SDG&E would recover no more
13 and no less than the SONGS 2&3 seismic program research and study expenses allocated and
14 billed to it by Edison.

15

1 **STATEMENT OF QUALIFICATIONS**

2 **MICHAEL L. DE MARCO**

3
4 My name is Michael L. De Marco.

5 My business address is 5000 Pacific Coast Highway, San Clemente, California 92672.

6 I have been employed by San Diego Gas & Electric Company (SDG&E) since May of 2007
7 as Team Leader of the Nuclear Section in the Electric Project Development & Business Planning
8 Department. My current responsibilities include representing SDG&E's ownership interests at the
9 San Onofre Nuclear Generating Station.

10 Prior to working for SDG&E, I worked for the Southern California Edison Company. I held
11 the following positions while employed by Edison: Nuclear Plant Operator, SONGS (1989 – 2001);
12 Technical Specialist, Nuclear Rate Regulation (2002 – 2003); Senior Financial Analyst, Energy
13 Supply and Management (2003 – 2006); and, Senior Project Manager, Power Procurement (2006
14 – 2007).

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

19 I have previously testified before the Commission.

20 I am sponsoring Sections I, II and III of SDG&E's testimony in this proceeding.
21

1 **STATEMENT OF QUALIFICATIONS**

2 **GREGORY D. SHIMANSKY**

3
4 My name is Gregory D. Shimansky.

5 My business address is 8330 Century Park Court, San Diego, California 92123.

6 I am employed by San Diego Gas & Electric Company ("SDG&E"), as the Financial
7 Services and Regulatory Accounts Manager in the Financial Analysis Department. My business
8 address is 8330 Century Park Court, San Diego, California 92123. My current responsibilities
9 include managing the process for the development, implementation, and analysis of regulatory
10 balancing and memorandum accounts. I also have oversight responsibility over the Utility Treasury
11 function. I assumed my current position in July 2010.

12 I have been employed with SDG&E and Sempra Energy since June 30, 2003. In addition
13 to my current position in Regulatory Affairs, I served as Financial Planning Manager for Sempra
14 Energy Corporate (Parent) from June 2009 through April 2010. From August 2008 to June 2009, I
15 was the Regulatory Reporting Manager. From June 2003 through August 2008, I worked for
16 SDG&E in the Utility Planning Department, working my way up to Financial Planning Manager in
17 charge of yearly outlooks, the five-year forecast, monthly actual variance reporting, and *ad hoc*
18 analyses.

19 I received a Bachelors of Science degree in Economics from the University of California,
20 Los Angeles in June 1993. I also received a Masters of Science in Management, with
21 concentrations in Finance and Marketing, from Purdue University in May 1998.

22 I have not previously testified before this Commission.

23 I am sponsoring Section IV of SDG&E's testimony in this proceeding.
24

APPENDIX A

Contractual Overheads Billed to SDG&E by Southern California Edison

San Diego Gas & Electric Company (“SDG&E”) is billed by Southern California Edison Company (“Edison”) for Administrative and General expenses on labor, non-labor and capital expenditures (at different rates), as well as costs related to pensions and benefits and payroll taxes on labor expense. The amount billed is based on ratios defined in the Second Amended San Onofre Operating Agreement between Edison, as the majority owner and operating agent, and the co-ownership Participants and minority owners. This Appendix A includes the most recent update to the ratios based on 2008 recorded data by Edison.

Labor and non-labor expenses are multiplied by the appropriate overhead ratios to arrive at the amount to be billed to the Participants. Excerpts of the Second Amended San Onofre Operating Agreement are attached to this Appendix.

The following Tables detail the various overheads billed to SDG&E by Edison for Contractual Overheads:

Table 1: Payroll Tax Ratio (labor only)

Table 2: Pensions & Benefits (labor only)

Table 3: Operations and Maintenance Administrative and General Expenses (labor only)

Table 4: Non-labor Administrative and General Expenses (non-labor only)

Table 1

SECOND AMENDED SAN ONOFRE OPERATING AGREEMENT

EXHIBIT G

PAYROLL TAX RATIO

2008

The payroll tax ratio is determined in the following manner using, where indicated, expenses reported in the Annual Report of Edison to the Federal Energy Regulatory Commission ("FERC Form 1") :

Payroll Taxes

Payroll taxes applicable to labor charged to operation and maintenance, construction and other accounts per FERC Form 1, pages 262 and 263, column (d).

FICA	Sch 2	\$112,658,201
FUTA		1,076,941
SUI (All States)		3,327,598
Total		<u>\$117,062,740</u>

Labor Base

Total labor charged to operation and maintenance, construction and other accounts, per FERC Form 1, page 355, column (d), line 96.

\$1,591,238,131

\$1,591,238,131

Payroll tax ratio for 2008 $\frac{\$117,062,740}{\$1,591,238,131} = 7.36\%$

Table 2

SECOND AMENDED SAN ONOFRE OPERATING AGREEMENT

EXHIBIT I
BENEFITS RATIO
2008

The benefits ratio shall be determined in the following manner using, where indicated, expenses reported in the Annual Report of the Operating Agent to the Federal Energy Regulatory Commission ("FERC Form 1"):

Pensions and Benefits Expenses

		<u>Labor</u>	<u>Total</u>
Employee pensions and benefits charged to account 926, per FERC Form 1, page 323 column (b), line 187	Sch D, E	\$8,265,763	\$216,464,570
Less direct Billed costs	Sch 8	(892,496)	(598,269)
Plus employee pensions and benefits transferred Sch E supt			108,794,157
Plus employee pensions and benefits charged to/paid by others			11,933,398
	Jul - Dec		(689,837)
Subtotal		<u>7,373,267</u>	<u>335,904,019</u>
Payroll taxes	7.36%		542,672
Workers' compensation	1.41%		103,963
			<u>\$336,550,654</u>
Total pensions and benefits expenses			
Total labor charged to operation and maintenance, construction, and other accounts, per FERC Form 1, page 355, column (d) line 96			\$1,591,238,131
Less: labor charged to employee pensions and benefits (see above)		\$7,373,267	
Less: labor deducted from base for calculation of employee benefits:			
Corporate Temporary Labor	(A)	-	
Premium time adjustment:			
O&M		-	
Construction		-	
Net labor base			<u>7,373,267</u>
			<u>\$1,583,864,864</u>
Benefits ratio for 2008		<u>\$336,550,654</u>	
		\$1,583,864,864	21.25%

(A) Temporary labor is currently under review to identify labor that is not subject to pension and benefits.

Table 3

SECOND AMENDED SAN ONOFRE OPERATING AGREEMENT

EXHIBIT J

OPERATION AND MAINTENANCE A&G RATIO
2008

The O&M A&G ratio shall be determined in the following manner using, where indicated, expenses reported in the Annual Report of Operating Agent to the Federal Energy Regulatory Commission ("FERC Form 1") :

Administrative and General Expenses for 2008
(per FERC Form 1, pages 322-332)

			<u>Labor</u>	<u>Total</u>	
A/C	920	Administrative and general salaries	FF1	\$378,987,725	\$378,987,725
	921	Office supplies and expenses	FF1		157,971,038
	920	Exclusions (Jan-Jun)	Exh 6	(23,065,696)	(23,065,696)
	920	Exclusions (Jul-Dec)	Exh 6	(22,100,419)	(22,100,419)
	921	Exclusions (Jan-Jun)	Exh 6	0	(1,393)
	921	Exclusions (Jul-Dec)	Exh 6	0	(5,811,845)
	920	Exclude Results Sharing	Sch 3	(89,197,987)	(89,197,987)
		Net of Results Sharing for A&G	Sch 3		29,644,707
		LTI Adjustment	Sch 8		(8,228,092)
Total accounts 920 and 921				<u>\$244,623,623</u>	<u>\$418,198,040</u>
59.66% See Exhibit K-4 of accounts 920 and 921 applicable to operations and maintenance				\$145,942,453	\$249,496,951
A/C	923	Outside services	FF1	0	49,216,322
	923	Exclusions (Jan-Dec)	Exh 6	0	(1,251,242)
	923	Directly Billed Adjustment	Sch 7	0	(1,547,735)
	935	Maintenance of general plant	Sch 1, F	3,194,551	12,308,049
	935	Exclusions (Jan-Dec)	Exh 6	0	(1,930,748)
Subtotal				<u>\$149,137,004</u>	<u>306,291,597</u>
Payroll taxes			7.36%		10,976,483
Workers' compensation			1.41%		2,102,832
Pensions and benefits			21.25%		31,691,613
Results Sharing Payroll Taxes for A&G Dept. Labor				29,644,707	<u>1,301,692</u>
Total A & G expenses allocable to operations and maintenance					<u>352,364,217</u>
Less: A&G expenses allocable to O&M non-labor at 1% (see Exhibit J-3 Supplement)					<u>11,432,014</u>
Total A&G expenses allocable to O&M labor					<u>\$340,932,203</u>

Table 3 – continued

SECOND AMENDED SAN ONOFRE OPERATING AGREEMENT OPERATION AND MAINTENANCE A&G RATIO - 2008			
Operation and Maintenance Labor Base			
Total labor charged to operation and maintenance accounts, per FERC Form 1, page 355, column (d), line 65	\$932,746,141		
Plus: operation and maintenance labor included in other accounts receivable per FERC Form 1, page 355, column (d), line 78, 79	<u>106,290,291</u>		\$1,039,036,432
Less: Amount of such labor charged to Administrative and general accounts:			
Labor per FERC Form 1, page 354 column (b), line 27	\$242,916,052		
Labor per FERC Form 1, page 355 column (b), line 61	153,769		
Labor included in FERC Form 1, page 355, column (b), line 64	Sch G 232,916		
Labor included in FERC Form 1, page 355, column (c), line 65	Sch I 0		
		<u>243,302,737</u>	
Subtotal			795,733,695
Less: O&M labor deducted from base for calculation of A&G expense:			
Premium time adjustment			0
Net operation and maintenance labor base			<u>\$795,733,695</u>
		<u>\$340,932,203</u>	
A & G ratio for 2008	\$795,733,695	-	<u>42.85%</u>

Table 4

1 shall provide statements to the Other Parties showing the
2 amounts due; payments therefor shall be made in accordance
3 with current participant billing methodologies in effect as
4 approved by the Fiscal Representatives.

5 10.4 Administrative and general expenses (including
6 payroll tax expenses, Workers' Compensation expenses, and
7 pensions and benefits expenses applicable thereto) incurred by
8 the Operating Agent on behalf of the Parties which are
9 allocable to the operation and maintenance of SONGS Unit 1,
10 SONGS Units 2 and 3, and the SONGS Common Facilities shall be
11 shared by the Parties in proportion to their respective
12 Ownership Shares in the facility or land area to which such
13 expenses are allocated. The amount of such allocable expenses
14 shall be the sum of (1) the product of the total Edison labor
15 cost portion of the expenses determined in accordance with
16 Section 10.1 times a decimal fraction (hereinafter, "O&M A&G
17 Ratio"), plus (2) 1% of the non-labor costs chargeable
18 thereto. The O&M A&G Ratio shall be determined and applied as
19 follows:

20 10.4.1 During each calendar year, an estimated O&M
21 A&G Ratio shall be used to determine the amount of
22 administrative and general expenses to be paid monthly by each
23 Other Party. Such estimated O&M A&G Ratio shall be determined
24 in accordance with the method shown in Exhibit J based on the
25 Operating Agent's expenses for the preceding year; provided,
26 however, by agreement of the Fiscal Representatives, such