BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Services and Facilities of Southern California Edison Company and San Diego Gas & Electric Company Associated with the San Onofre Nuclear Generating Station Units 2 and 3.	I.12.10-013

PREPARED TESTIMONY OF
SAN DIEGO GAS & ELECTRIC COMPANY
REGARDING PROPOSED RATE ADJUSTMENTS FOR SONGS UNITS 2 AND 3

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I.

INTRODUCTION

The purpose of this testimony is to respond to the California Public Utilities Commission ("Commission") Order Instituting Investigation ("OII") I.12-10-013, Ordering Paragraph 4(h), which directed SDG&E to submit testimony proposing rate adjustments due to the extended outages at San Onofre Nuclear Generating Station Units 2 and 3 ("SONGS"). For the reasons explained in SDG&E's Response to the OII and in this testimony, SDG&E believes that the Commission should not reduce rates at this time and should modify the subject-to-refund condition to eliminate the revenue requirement associated with activities that must be undertaken regardless of whether SONGS operates.

SDG&E's written response to the OII explained that an immediate rate adjustment prior to Southern California Edison's ("SCE's") test year ("TY") 2015 General Rate Case ("GRC") contravenes the plain language of California Public Utilities ("PU") Code Section 455.5 and Commission precedent implementing that statute, as well as Section 362. In addition, as further explained in this testimony, the removal from rates of the revenue requirement associated with SONGS is not in the public interest. Moreover, the revenue requirement associated with certain activities at SONGS should not be subject to rate reduction as they are necessary to continue to keep certain critical plant systems in a safe and secure condition and meet regulatory requirements. These activities must be pursued regardless of whether SONGS produces electricity, and as such, they are not the "portion" of the facility that is out of service, and such costs are necessary to ensure the safety of the community around the facility. SDG&E estimates the revenue requirement associated with these activities in Chapter V.

Chapter II provides SDG&E's ratemaking proposal. Chapter III provides the proposed revenue requirement to be tracked subject to rate reduction. Chapter IV discusses the financial effects of removing SONGS from rates. Chapter V identifies authorized revenue requirements associated with activities that should not be subject to rate reduction or removal from rates.

II.

RATEMAKING

A. Introduction

Ordering Paragraph 4(h) of I.12-10-013 requires SDG&E to serve testimony addressing proposed rate adjustments due to the outages at SONGS Units 2 and 3. Ordering Paragraph 4(h) specifically requires testimony showing "each utility's proposed rate adjustments, pursuant to PU Code § 455.5, due to the outages at SONGS Units 2 and 3, inclusive of a clear showing of the amount included in current rates associated with SONGS, the amount to be removed, the effective date, and any other information necessary for the Commission to make an informed decision to fully implement a just and reasonable rate adjustment pursuant to PU Code § 455.5."

As further supported in subsequent sections of this Chapter, SDG&E requests the Commission to order no rate adjustments at this time. However, if this request is not adopted, SDG&E requests the Commission to: 1) limit the scope of rate adjustment to the revenue requirement associated with activities directly linked to production of electricity, and not adjust rates for other activities that must be undertaken at SONGS regardless of whether the plant generates electricity; 2) approve appropriate account procedures; and 3) approve the appropriate ratemaking procedures.

B. The Commission Should Not Adjust Rates at This Time

The Commission should not adjust rates at this time. The first issue identified in the scope of this OII is "(w)hether or not rate adjustments should be made; if so, when they should start, the correct amount, and the correct accounting of these adjustments." The determination of the "correct amount" will impact the rate adjustment made. Instead, the Commission should wait until it completes its investigation and determination as to what this correct amount is before implementing any rate change with regard to the revenue requirement for SONGS. Deferring the decision on rate adjustments until all of the facts are known and the correct amount is determined will reduce the likelihood of rate volatility to SDG&E's ratepayers due to multiple adjustments as that correct amount is determined.

Further, whether and when Units 2 and 3 will resume electricity production is not yet known. On October 3, 2012, SCE submitted a restart plan to the Nuclear Regulatory Commission ("NRC") for approval to restart Unit 2 at 70% power and conduct scheduled midcycle outage inspections following 5 months of operation. The NRC has not yet acted on SCE's plan. SCE continues to analyze the situation with respect to Unit 3. It is not in SDG&E's customer's best interest to hastily make a decision to adjust rates now before all of the facts surrounding the status of the units are known. As discussed in Section III below, setting the SONGS-related revenue requirement subject to rate reduction through an adjustment to rates is the appropriate action at this time to ensure that customers are protected should any amount currently included in rates be required to be refunded at the conclusion of the OII. PU Code Section 455.5(d) provides for the consideration of the inclusion of the value and associated operating expenses in rates upon a facility's return to useful service. Rate volatility to SDG&E customers should also be considered in the determination of the rate making treatment of costs.

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III.

REVENUE REQUIREMENT TO BE TRACKED SUBJECT TO RATE REDUCTION

SDG&E strongly believes that the Commission should not adjust rates at this time but instead wait until it completes its investigation before considering rate changes with regard to the revenue requirement for SONGS. However, should the Commission determine that a rate change is required at this time, it should limit the scope of the rate adjustment to the revenue requirement associated with activities directly linked to the generation of electricity and not adjust rates for other activities that must be undertaken at SONGS regardless of whether the plant generates electricity. SDG&E strongly believes that not all costs and revenue requirements associated with a facility experiencing an extended outage should be made subject to the rate reduction. As shown in Table III-1 and explained in Section V. below in more detail, SDG&E proposes that $53.734 million be excluded from any rate reduction and remain in rates as SDG&E believes these costs are necessary to ensure a safe and secure environment for SONGS. Further, SDG&E believes that Marine Mitigation capital expenditures of $36 million and any additional Marine Mitigation expenditures as required by the California Coastal Commission should be excluded from rate reductions. All of this is discussed in further detail in the testimony of Michael De Marco below in Section V.

Table III-1

SONGS Revenue Requirement Subject to Rate Adjustment

		Authorized in 2012 Rates	Already Subject to Refund	Other Required Costs	Not Subject to Rate Reduction	Incremental Subject to Refund
1	SONGS Revenue Requirement					
2	GRC-Related O&M	$100.49			($53.73)	$46.76
3	GRC-Related Capital Costs	24.20				24.20
4	Refueling	28.72	(28.72)			0.00
5	Steam Generator Replacement Project Unit 2	17.77		(17.77)		0.00
6	Steam Generator Replacement Project Unit 3	14.21		(14.21)		0.00
7						
8	Amortizations					
9	SONGS MAAC	13.35	(13.35)			0.00
10	SONGS O&M Balancing Account	20.07	(20.07)			0.00
11	Energy Resource Recovery Account	25.00	(23.60)	(1.40)		(0.00)
12	Nuclear Decommissioning					
13	Trust Contributions	8.07		(8.07)		0.00
14	Spent Fuel	0.95		(0.95)		0.00
15	Total	$252.82	($85.74)	($42.40)	($53.73)	$70.96

To provide “a clear showing of the amount included in current rates associated with SONGS” as required in Ordering Paragraph 4(h) of I.12-10-013, Tables III-2 and III-3, below in this section, present the amount of SDG&E’s 2012 annual revenue requirement and projected 2013 annual revenue requirement included in rates. Table III-2 represents the SONGS portion of Attachment A of SDG&E’s recently filed Advice Letter (“AL”) 2416-E, filed on November 9, 2012. The 2012 revenue requirement figures shown as “Authorized 2012” in Table III-2 were originally approved in AL 2302-E on December 23, 2011, effective December 10, 2011, and placed into rates on January 1, 2012.

Table III-2
SONGS Revenue Requirement

($ In Thousands, excluding FF&U)

	Proposed 2013	Authorized 2012
SONGS Revenue Requirement		
Non-fuel Operations & Maintenance Revenue Requirement [1/]	100,490	100,490
Non-fuel Capital-related Revenue Requirement [1/]	24,199	24,199
Refueling - No 2013 Outages Forecasted	-	28,721
Steam Generation Replacement Program (SGRP) Removal & Disposal Costs [2/]	-	-
SONGS Unit 2 SGRP Installation Revenue Requirement [3/]	16,802	17,772
SONGS Unit 3 SGRP Installation Revenue Requirement [4/]	13,637	14,208
SONGS Total	155,128	185,389
SONGS MAAC Subaccount	-	13,346
SONGSBA [10/]	17,942	20,068
Amortization of 12/31 Balances	**17,942**	**33,413**
SONGS Revenue Requirement effective 1/1/13 [11/]	**173,069**	**218,803**

Notes:

[1/] 2011 revenue requirement (not included in this filing) included a post-test year ratemaking increase of 4.35%, as adopted in D.09-03-025. Absent a decision in A.10-11-015 (SCE's most recent GRC application) and A.10-12-005 (SDG&E's most recent GRC application) the revenue requirement will remain the same for 2012 and 2013. Revenue requirements will be trued-up pending GRC decisions.

[2/] Removal and Disposal is still underway for SONGS Units 2 & 3. Once completed and final costs determined, SDG&E will file to include the remaining costs in rates pursuant to D.06-11-026, Attachment A.

[3/] Approved in AL 2204-E on December 7, 2010. Detailed breakdown included in Attachment D of this filing.

[4/] Approved in AL 2243-E on June 9, 2011. Detailed breakdown included in Attachment E of this filing.

[10/] Under SDG&E's tariffs, the balance is transferred annually to the Non-fuel Generation Balancing Account.

[11/] 2013 proposed amount including FF&U is $417,677,051. Franchise fee factor is 1.028% and uncollectible factor is .141% which computes to a 1.012 gross-up factor 1/(1-.01028-.00141).

Not included in Table III-2 is the revenue requirement amount in rates for SDG&E's portion of SONGS Nuclear Decommissioning, nor is the revenue requirement in the Energy Resource Recovery Account ("ERRA") associated with SONGS included, both of which are discussed further below in this section.

A. 2012 GRC Revenue Requirement

The 2012 SONGS revenue requirement, as approved in SDG&E's AL 2302-E, includes $100.5 million for Operation and Maintenance ("O&M") costs and $24.2 million for capital-related costs. Due to the delay in the issuance of a decision by the Commission in SDG&E's 2012 GRC and the SCE 2012 GRC pending on the date of SDG&E's last rate increase, SDG&E included authorized 2011 revenue requirement as a placeholder until such time final decisions are available. Moreover, SCE had forecasted two refueling outages in 2012 for a total of $28.7 million. Consistent with SCE's (the operating owner of SONGS) assumptions, SDG&E also assumed two refueling outages. Therefore, the interim 2012 SONGS revenue requirement and refueling outage costs reflect the existing revenue requirements that were previously authorized for 2011 in Decision ("D.") 09-03-025 and D.08-07-046.

A final decision in SCE's 2012 GRC Application ("A.") 10-11-015 was issued on November 20, 2012 (D.12-11-051). This decision gives SDG&E a clear guide as to what to expect as its share of SONGS costs over the 2012 – 2014 period. However, SDG&E is still awaiting a decision on own GRC (A.10-12-005) and is unable to update its SONGS revenue requirement at this time. Once a decision is also reached in SDG&E's GRC, a true up to the 2012 authorized revenue requirement will be filed to be included in future rates. In the interim, SDG&E is using the 2011 authorized revenue requirement, as explained above in Table III-2. Once, approved, the 2012 authorized revenue requirement from SDG&E's GRC will in effect be retroactive to January 1, 2012.[1]

SDG&E's estimated 2013 SONGS revenue requirement also maintains the 2011 authorized levels for both O&M and capital-related costs as reflected in SDG&E's AL 2416-E. At the time of the filing of AL 2416-E, SCE had forecasted no refueling outages in 2013 and therefore there is no revenue requirement for refueling outages in 2013 for SDG&E.

[1] The GRC Memorandum Account will allow SDG&E to recover the difference between the actual 2012 revenue requirement in effect prior to the final 2012 GRC decision and the 2012 and partial year 2013 revenue requirements authorized in the 2012 GRC decision.

B. Steam Generator Replacement Project Revenue Requirement

The Commission in D.05-12-040 authorized SCE to replace the SONGS Units 2 and 3 steam generators. On November 30, 2006, the Commission issued D.06-11-026, approving an unopposed settlement of the ratemaking treatment of SDG&E's share of costs related to the Steam Generator Replacement Project ("SGRP") at SONGS. The settlement provided for ratemaking treatment of SDG&E's 20% share of SGRP costs in a manner consistent with the ratemaking treatment the Commission authorized for SCE's share of the SGRP costs in D.05-12-040. Pursuant to D.06-11-026, SDG&E filed AL 2156-E and AL 2243-E to update the revenue requirement associated with the SGRP for Units 2 and 3, respectively.

As shown in Table III-2, the 2012 SONGS SGRP revenue requirement includes $17.8 million for SONGS Unit 2 SGRP installation costs and $14.2 million for Unit 3 SGRP installation costs. The 2013 SONGS SGRP revenue requirement includes $16.8 million for SONGS Unit 2 SGRP installation costs and $13.6 million for Unit 3 SGRP installation costs.

C. 2012 ERRA Forecast Revenue Requirement

Each year, the Commission authorizes SDG&E to include in rate levels a forecast of its fuel and purchased power revenue requirements in ERRA Forecast proceedings. In D.12-07-006, approving SDG&E's 2012 ERRA Forecast A.11-09-022, the Commission authorized SDG&E to include fuel and fuel carrying costs associated with SONGS Units 2 and 3 in the amount of approximately $25 million. This revenue requirement was implemented in rates on September 1, 2012 consistent with SDG&E's AL 2396-E, filed on August 30, 2012, and therefore roughly 4 months' worth, or approximately one-third of this amount, has already been collected. Differences between the revenue collected in SDG&E's rates and the actual amount incurred for fuel and fuel carrying costs are recorded in the ERRA. Any over-collection recorded in the ERRA as of December 31st of each year is returned to customers in the subsequent year through lower generation rates. Likewise, any under-collections recorded in the ERRA as of December 31st of each year are recovered from customers in the subsequent year.[2]

As discussed above, the difference between the $25 million that is included in 2012 rate levels and the actual amount of recorded fuel costs will be recorded in the ERRA in 2012.

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[2] The amortization of the ERRA balance as of December 31 in rates occurs if the balance is less than 5% of the prior year's generation revenues. Ordering paragraph ("OP") 2 of D. 09-04-021 states that SDG&E shall include its year end ERRA balance in rates on January 1 of each year via the Annual Regulatory Account update if that balance is below the 5% ERRA trigger threshold.

SDG&E anticipates recording approximately $1.4 million of SONGS Units 2 and 3 fuel costs in the ERRA in 2012. The resulting over-collection of approximately $23.6 million that results from revenue of $25 million and expenses of $1.4 million will be included in the ERRA balance in the months that it occurs and dealt with as appropriate and in compliance with Commission directives. In addition, the recorded fuel costs of approximately $1.4 million will be tracked in the SONGS Outage Memorandum Account ("SONGS OMA") established in AL 2427-E[3] and will be subject to review in this proceeding.

At this time, SDG&E is in an ERRA Trigger proceeding (A.12-10-017) addressing its ERRA balance through the remainder of 2012. While this application is under review, the amortization approved in that proceeding will likely include over-collections and under-collections driven in part from the SONGS outages, among other ERRA revenue and costs elements.

D. SONGS-related Balancing Account Amortizations

Also included in current 2012 and proposed 2013 rates are amortizations of balances related to prior SONGS activities. In particular, as Table III-2 shows, SDG&E has included the balances in the SONGS Major Additions Adjustment Clause ("MAAC") and also the SONGS O&M Balancing account.

1. SONGS MAAC

   Upon the return to operations of SONGS Unit 3 on February 18, 2011, SDG&E recorded the revenue requirement associated with its share of installation costs that were authorized in AL 2243-E to the SONGS MAAC Subaccount. SDG&E is authorized to transfer the balance of the SONGS MAAC Subaccount at the end of the year following commercial operation of each unit or upon completion of the removal and disposal of the old steam generators for each unit.

2. SONGS O&M Balancing Account

   This account records the difference between SDG&E's authorized SONGS O&M revenue requirement and actual costs billed by SCE under the SONGS Operating Agreement, including refueling outage O&M.

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[3] AL 2427-E was filed on December 3, 2012 to set up the SONGS OMA in compliance with Ordering Paragraph 4.1. of the SONGS OII.

E. Nuclear Decommissioning Triennial Proceeding

The Commission in D.10-07-047 authorized SDG&E to include in its Nuclear Decommission rate component an annual revenue requirement for the decommissioning trust in the amount of $9.018 million, as reflected in AL 2188-E (approved September 8, 2010 and effective September 9, 2010). This annual revenue requirement represents $8.07 million for trust contributions and $0.948 million for spent nuclear storage. Table III-3 below shows the authorized 2012 and proposed 2013 revenue requirements for nuclear decommissioning, which must remain in rates regardless of the current status of SONGS Units 2 and 3, because SDG&E is obligated to fund the decommissioning trust and permitted to recover the associated revenue requirement in customer rates.[4] Moreover, the current status of SONGS Units 2 and 3 does not change the fact that the units will be decommissioned at some time in the future and funds must be available for that purpose.

Table III-3
SONGS Nuclear Decommissioning Revenue Requirement

($ In Thousands, excludingFF&U)	Proposed 2013	Authorized 2012
SONGS Nuclear Decommissioning		
Trust Contributions (SONGS Units 2 and 3)[1/]	8,070	8,070
Spent Nuclear Fuel[1/]	948	948
December 31, 2012 Balances [2/]		
Nuclear Decommissioning Adjustment Mechanism	16,076	-
SONGSNuclear Decommissioning Revenue Requirement effective 1/1/13	**25,094**	**9,018**

Notes:
[1/] Approved in AL 2188-E on September 8, 2010.

[2/] Year-end 2012 balances reflect actual data through September 2012 and forecasted amounts for October - December 2012.

The $25.094 M shown in Table III-3 above reflects the anticipated end of 2012 over-collection of $16.1 in the Nuclear Decommissioning Adjustment Mechanism ("NDAM")[5] that is

[4] PU Code Section 8321, *et seq.*

[5] According to the SDG&E Electric Tariff Book – Preliminary Statement Section II., Balancing Accounts, the purpose of the NDAM is to 1) record revenue from the Nuclear Decommissioning component of SDG&E's rates, 2) record the authorized revenue requirement for the amount SDG&E contributes to the Nuclear Decommissioning Trust authorized in D.10-07-047, and 3) record the SONGS costs authorized in D.04-12-015 and modified by D.08-07-046, relating to spent nuclear fuel storage fees.

being amortized during 2013. (AL 2412-E filed on October 31, 2012, proposes to amortize that balance in 2013 electric commodity rates starting January 1, 2013). This over-collection is the result of SDG&E's share of a Department of Energy litigation refund to SONGS.

F. SONGS Units 2 and 3 Revenue Requirement Memorandum Account ("SRRMA")

SDG&E proposes to establish the SRRMA to record the revenue requirement that is determined to be subject to rate reduction through an adjustment to rates in this OII. SDG&E requests that the balance recorded in the SRRMA accrue interest based on the three-month commercial paper rate consistent with its other balancing and memorandum accounts. Having the SRRMA will allow the Commission and interested parties to know how much of SDG&E's SONGS 2 and 3 revenue requirement was subjected to rate reductions as the process continues.

Ordering Paragraph 4 (a) of the OII requires SCE and SDG&E to establish the SONGS Outage Memorandum Account ("SONGS OMA") to track all SONGS costs and expenditures incurred on and after January 1, 2012 and the revenues collected in recovery of those costs. AL 2427-E was filed on December 3, 2012 establishing the SONGS OMA and is pending approval.

The new SRRMA proposed in this application differs from the SONGS OMA in that the SONGS OMA tracks the required costs and revenues in a tracking account not held on SDG&E's balance sheet whereas the SRRMA would book periodic amounts to the company's general ledger for the amount of revenue removed from rates as a result of this proceeding that otherwise would have been included in rates and collected from customers. Being able to place revenues removed from rates into the SRRMA would avoid future problems with retroactive ratemaking when those revenues are potentially placed back into rates.

G. PU Code Section 455.5 Requirements Should Rates Be Adjusted

Although SDG&E requests that rates not be adjusted at this time, if the Commission disagrees and requires a rate adjustment, SDG&E proposes to move the SONGS 2 and 3 ratebase recorded in the general ledger as of the date the rate adjustment is ordered into a deferred debit account. Consistent with PU Code Section 455.5, the ratebase recorded in the deferred debit account will accrue Allowance For Funds Used During Construction ("AFUDC"). The AFUDC rate, as calculated to be applied to Construction Work In Progress ("CWIP"), will be applied to the SONGS rate base in the deferred debit account in the same manner as is done with CWIP.

SDG&E proposes that when making any rate adjustment, consideration must be made for its impact on working cash. As a matter of background, working cash is an adjustment to ratebase. When working cash is positive, meaning the company has cash on the books to serve short term needs, that working cash is applied as a reduction to ratebase in the ratebase calculation. The reason for this is that the company would have surplus funds in order to satisfy business needs and therefore would not need the compensation. The opposite certainly holds – when working cash is negative, an adder to ratebase is needed to compensate the company for using their own cash to satisfy short term needs. In the current, pending GRC, SDG&E asked for no working cash additions to ratebase. However, if rates are adjusted for this OII and the SRRMA as proposed above is not granted, it would require the company to maintain additional working cash. SDG&E proposes it be able to make an adjustment to its ratebase to account for the change in working cash associated with this OII.

For the reasons discussed in its testimony, SCE recommends against reducing rates in respect of personnel costs, as expenditures to pursue a possible return of SONGS 2 and 3 to service remain in the public interest. SDG&E, as a 20% owner, will continue to record its share of that O&M expense to the existing SONGS O&M balancing account. If the Commission orders a rate adjustment, SDG&E requests the Commission not require removal of O&M expenses from the SONGS O&M balancing account, and instead handle the adjustment inside of the proposed SRRMA.

In the event the Commission disagrees and orders the removal of revenue requirement for non-capital expenses from rates, including O&M, and taxes, SDG&E proposes to track those authorized revenue requirements in the SRRMA. As noted above, the balance in the SRRMA accrues interest based on the three-month commercial paper rate.

If the Commission orders a rate reduction, SDG&E would apply for inclusion of the capital and non-capital revenue requirement amounts, along with their respective carrying costs as described above, in rates when or if Unit 2 and/or Unit 3 is/are restored to service.

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IV.

FINANCIAL EFFECTS OF REMOVING SONGS 2 AND 3 FROM RATES

A. Introduction

This section of testimony describes the potential financial effects of prematurely removing the SONGS Units 2 and 3 from rates. Prejudging the conclusion from the investigation will have long lasting impacts beyond this investigation and ultimately will be borne by the ratepayers. The Commission needs to act reasonably and responsibly during its investigation to avoid invoking unintended consequences. The financial effects, which could result from a premature rate adjustment, include, but are not necessarily limited to, a perceived increase in regulatory risk as a result of uncertainty, higher financial risk due to a change in regulatory recovery mechanisms and working cash, and higher costs of future projects undertaken by the SDG&E, as discussed in more detail below.

B. Uncertainty Creates Risk

1. Regulatory Risk

Investors generally view the California regulatory environment as cooperative and supportive of the utilities in advancing California's energy policy. The uncertainty and unpredictability of the Commission's actions should it direct the removal of investments out from rates without a diligent and thorough investigation will have long term effects. Removal of SONGS Units 2 and 3 from rates prior to completion of the investigation is premature and sends a message to credit and equity investors ("investors") that the California regulatory environment may no longer be a constructive balanced environment. As investors have a multitude of choices for investments, this new risk may cause investors to redirect their investments to other more constructive and balanced jurisdictions. None of California, the California utilities, nor customers of the California utilities can afford to lose these investors given the state of California's robust energy policy, and the California utilities' significant role in advancing this policy.

2. Financial Risk

Investors also consider the financial integrity and creditworthiness of investments when evaluating their opportunities. SDG&E has a strong "A" investment grade rating. Should the

Commission decide to prematurely remove this project from customer rates, the financial impact could result in an adverse assessment of SDG&E's credit profile.

Pending before the Commission in SDG&E's Cost of Capital proceeding (A.12-04-016), SDG&E has requested a capital structure of 45.25% long-term debt, 2.75% preferred stock, and 52% common stock equity. To demonstrate the specific impact to the credit profile, the Commission must understand the ramifications of prematurely removing SONGS from rates. Operational costs will continue to be incurred "regardless of whether SONGS operates" and in costs pertaining to "functions oriented to returning the Units to service" (SCE, p. 14 lines 21-23.) Currently, SDG&E's share of the O&M costs are included in rates and balanced. These balanced costs have essentially no impact to SDG&E's financial results or condition. If SONGS is removed from rates, the recovery mechanism stops. These costs will then no longer be balanced and will adversely impact SDG&E's cash flow and net earnings, which will result in lower the common equity. Given the capital structure components, the lower common equity level automatically shifts more weighting to long-term debt. An otherwise investment grade company becomes more highly debt leveraged and is deemed to be a high financial risk to investors. High risk companies are challenged when attempting to access capital markets and, as a result, incur higher debt service costs. To meet the ongoing cash requirements of SONGS without any recovery, SDG&E will have to access the capital markets more frequently and in larger denominations.

3. Combination of Regulatory and Financial Risk, Possible Downgrade

As investors perceive an increase in regulatory risk due to uncharacteristically premature Commission actions which might be interpreted as prejudging the outcome of the investigation, the access to capital markets tighten and financing costs increase. As these premature decisions are implemented, the financial impacts are immediately recognized by the financial markets. The markets respond quickly in their analysis of SDG&E's financial health. The combined regulatory and financial risks that would result by prematurely deciding to remove SONGS from rates are negative factors that may result in a downgrade of SDG&E's credit rating.

C. Overall Credit Downgrade Results in Higher Overall Costs to Ratepayers

SDG&E's investment grade "A" rating is a key factor in achieving low cost long-term debt and preferred equity. Should SDG&E face a credit downgrade from perception of a change in the investors' and/or rating agencies perception of the supportive and cooperative nature of the

California regulatory environment or due to the stressed capital structure and financial metrics described above, all future capital financings will be at a higher cost. These higher finance costs will apply not only to SONGS related capital needs but to all of SDG&E's future projects since SDG&E finances its capital needs on a portfolio basis-meaning that capital needs for multiple projects are collectively financed as one. Over the longer term, the higher costs of long-term debt and preferred stock are borne by customers as a result of the resetting of SDG&E's embedded financing costs in future Cost of Capital proceedings. The resetting of the embedded costs of long-term debt and preferred stock are passed onto the ratepayers for the term of the long-term debt, up to 30 years, or perpetually for preferred stock.

D. Conclusion

A prejudged result and premature removal from rates will have long-lasting financial ramifications that would be borne by the ratepayers. The Commission needs to be diligent in following their procedures for a thorough investigation to avoid unintended consequences.

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V.

A PORTION OF THE SONGS O&M REVENUE REQUIREMENT SHOULD NOT BE SUBJECT TO RATE REDUCTION OR REMOVED FROM RATES

A. Introduction

SDG&E agrees with and supports SCE's OII Testimony on Proposed Rate Adjustments ("SCE's OII Testimony") for SONGS Unit 2 and 3. Under Section 455.5, not *all* costs associated with a facility experiencing an extended outage are made subject to rate reduction; instead, the only costs that may be made subject to rate reduction are those associated with the *portion* of the facility that is out of service—for SONGS, these are costs associated with planning, engineering and repair work activities required to return the units to service.

SCE's OII testimony details SONGS activities that must be performed regardless of whether SONGS generates electricity. The revenue requirement associated with those activities should not be subject to rate reduction. These are activities undertaken for four main purposes: (1) to safeguard the nuclear material by insuring the radiological safety and security of SONGS is in accordance with the NRC's[6] federal regulations; (2) to implement seismic studies directed by the Commission in D.12-05-004; (3) to implement marine mitigation for SONGS required by the California Coastal Commission, and (4) for dry cask storage of used fuel.

B. Used Fuel Storage and Other Activities Related to Safety and Security at SONGS.

O&M expenses related to used fuel storage and other safety/security activities at SONGS must be incurred regardless of whether either Unit at SONGS is in service; the revenue requirement associated with these activities also should not be subject to rate reduction or removed from rates. All used fuel assemblies for Units 1, 2 and 3, except for 270 assemblies from Unit 1, are stored on-site at SONGS in spent fuel pools or in dry cask storage. The spent fuel will continue to be stored on-site until it is ultimately accepted for disposal by the Department of Energy ("DOE") in accordance with timetables yet to be established by the DOE.

As a non-operating, minority owner of SONGS, SDG&E must rely upon SCE, the NRC licensed operator, to estimate on-going SONGS expenses that continue to be incurred regardless

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6 "The U.S. Nuclear Regulatory Commission ("NRC") is an independent agency created by Congress. The mission of the NRC is to license and regulate the Nation's civilian use of byproduct, source, and special nuclear materials in order to protect public health and safety, promote the common defense and security, and protect the environment." (From NUREG-1350.)

of whether SONGS generates electricity. SDG&E adopts and concurs with SCE's cost-engineering estimate presented in their OII Testimony for calculating the percentage of each functional group needed to perform the particular safety and security functions that must continue. As SCE's OII Testimony explains in Table V-3, the basis for its estimates is shown by each functional group's costs. SCE estimates that $116.979 million (100% level), of such safety- and security-related costs should not be subject to rate reduction or removed from rates. SDG&E's 20% share of SONGS costs that will continue to occur regardless of whether SONGS continues to generate electricity is $35.521 million including contractual overheads billed to SDG&E by SCE under the terms of the Second Amended Operating Agreement. The rates applied are:

Labor:

42.85% Administrative & General Expense

21.25% Pension and Benefits, and

7.36% Payroll Tax

Non-Labor:

1% Administrative & General Expense

SDG&E's share of Base O&M of $35.585 million including contractual overheads is detailed in Table V-1 below.

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Line #		SCE O&M Excluded from Reduction (%)	517		520		524		525		528		529		532		Total
			labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	labor	non-labor	
1	Operations	30%			5,301	99	3,422	910									9,732
2	Maintenance	30%									8,947	1,662	683	2,404	8,117	8,345	30,159
3	Engineering	10%	3,163	705			693	262									4,824
4	Site Projects	0%															
5	Rad/Chemical Control	30%			3,359	1,874	987	390									6,610
6	Regulatory Affairs	75%	1,958	425			4,185	2,191									8,759
7	Security	90%					32,963	1,152									34,115
8	Training	25%					2,451	919									3,369
9	NuclearSupport	25%	1,024	6,176			5,122	6,208		511		283			1,029	57	20,408
10	SCE O&M To Be Excluded From Rate Reduction		6,145	7,306	8,660	1,973	49,822	12,031	0	511	8,947	1,945	683	2,404	9,146	8,402	117,975
11	**SDG&E's 20% Share of SCE's SONGS O&M That Should Not Be Subject To Rate Reduction Or Removed From Rates WithoutOverheads**																**23,595**
	ContractualOverheads Billed to SDG&E: (a)																
12	A&G Labor Based																7,148
13	A&G Non-Labor Based																69
14	Pensions & Benefits																3,545
15	Payroll Taxes																1,228
16	**Total Contractual Overheads Billed to SDG&E**																**11,990**
17	**SDG&E's 20% Share of SCE's SONGS O&M That Should Not Be Subject To Rate Reduction Or Removed From Rates With Overheads**																**35,585**

Footnotes:

(a) See Workpapers, SCE-07, Volume 1, Chapter IX:

A&G Labor Based = 42.85% x Labor, excluding RS & Outage Incentive

A&G Non-Labor Based = 1% x Non-Labor & Other, including RS & Outage Incentive

Pensions & Benefits = 21.25% x Labor, excluding RS

PayrollTaxes = 7.36% x Labor, including RS

C. Additional SONGS Costs That Should Not Be Subject to Rate Reduction or Removed from Rates

In addition to the Base O&M expenses related to plant safety, spent fuel storage and security, SCE's OII Testimony lists two other categories of expenses that must continue regardless of whether SONGS generates electricity and thus should not be subject to rate reduction or removed from rates.

D.12-05-004 authorized $64.0 million (100% share) for activities that the Commission has expressly directed[7] SCE to conduct for the ongoing seismic program and new seismic research projects and analyses (collectively referred to as SONGS 2 and 3 seismic activities, recommended in the Assembly Bill ("AB") 1632 Report). Regardless of whether either SONGS unit is restored to service used fuel will be stored on-site for the foreseeable future. The SONGS

[7] *See* letter from Commission President Peevey to Alan Fohrer dated June 25, 2009 (directing SCE to "[r]eport on the major findings and conclusions from the seismic/tsunami hazards and vulnerability studies, as recommended in the AB 1632 Report (pp. 9, 10 and 13), and the implications of these findings and conclusions for the long-term seismic vulnerability and reliability of the plant").

2 and 3 seismic activities are required to ensure this used fuel continues to be safely maintained. Moreover, much of the fuel stored on site is from SONGS Unit 1 and should not be subject to rate reduction or removed from rates. The Commission, in D.12-05-004, directed that seismic costs should not be made subject to refund. SDG&E respectfully requests that its share, $12.8 million, plus overheads, for a total of $13.3 million, should not be subject to rate reduction or removed from rates.

In addition, the California Coastal Commission directed that SONGS complete marine mitigation activities. As SCE's OII Testimony supports, the 1974 California Coastal Zone Conservation Commission permit (No. 6-81-330- A, formerly 183-73) required SONGS to study the impacts of the operation of Units 2 and 3 on the marine environment offshore from San Onofre, and mitigate any adverse impacts. As a result of these impact studies, in 1991, the Coastal Commission added new conditions requiring SONGS to mitigate the adverse impacts of the power plant on the marine environment which include: (1) creating or substantially restoring at least 150 acres of southern California wetlands, (2) installing fish barrier devices to reduce the biomass of fish killed inside the power plant, and (3) constructing a 300-acre kelp reef. The conditions specify both physical and biological performance standards for the wetland restoration and kelp reef, require continuing monitoring of the effectiveness of the fish barriers, and require SCE to provide the funds necessary for the Commission to contract scientific staff to provide on-going technical oversight and independent monitoring of the mitigation projects. In 1993, the Commission added a requirement for SCE to partially fund construction of an experimental White Sea Bass Hatchery.

All of these monitoring and mitigation activities are ongoing and must continue, regardless of the operational status of SONGS, through 2050. Therefore, expenses associated with such activities should not be subject to rate reduction or removed from rates. SDG&E's share of the mitigation expense is estimated to be $53 million, of which $36 million has been incurred through December 31, 2011. SDG&E expects on-going monitoring and maintenance of approximately $1.1 million per year after the projects are completed for on-going Commission monitoring. SDG&E respectfully request that its portion of Marine Mitigation costs should not be subject to rate reduction or removed from rates.

D. SDG&E's SONGS Costs Addressed in SDG&E's 2012 GRC That Should Not Be Subject to Rate Reduction or Removed from Rates

SDG&E incurs SONGS cost not included in the SONGS portion of SCE's 2012 GRC. These costs are addressed in SDG&E's 2012 GRC A.10-12-006. These costs are on-going regardless of whether the SONGS units generate electricity. Therefore, expenses associated with these activities should not be subject to rate reduction or removed from rates.

1. Unit 1 Used Fuel Storage

In addition to Unit 1 spent fuel assemblies stored on-site at SONGS, 270 spent fuel assemblies from Unit 1 have been stored at the General Electric spent fuel storage facility located in Morris, Illinois, since 1972. Because there are no other facilities currently available in the U.S. for the commercial storage of spent nuclear fuel, those 270 assemblies are expected to remain at the Morris facility until they are accepted for ultimate disposal by the DOE in accordance with timetables yet to be established by the DOE. Payments are made monthly to General Electric by SCE, which in turn bills SDG&E for its 20% share. SDG&E estimates its TY2012 SONGS Unit 1 Spent Fuel Storage expense to be $1.003 million (2012$). This estimate is based on the 2010 SONGS Nuclear Fuel Management Plan prepared by SCE.

2. SONGS Site Easement

SONGS resides on Camp Pendleton property, which is owned by the U.S. Department of the Navy ("Navy"), and held by the SONGS owners through an easement (*i.e.*, the SONGS Site Easement). Under the terms of the SONGS Site Easement, the SONGS owners are billed individually by the Navy for their respective shares of the annual easement fee. SDG&E makes fixed annual payments of $20,147 for its 20% share of the SONGS Site Easement fee. SDG&E's TY2012 SONGS Site Easement expense remains at $20,147 (2012$). Easement expense is fixed through 2014 when it will be renegotiated with Navy.

3. SONGS Insurance

SDG&E incurs and is responsible for paying its 20% share of SONGS site insurance for property liability and property damage ("PL/PD") insurance. SDG&E incurs $1.847 million (2012$'s) in SONGS PL/PD insurance annually.

4. SDG&E's SONGS Operations and Billing Oversight

In D.06-11-026, the Commission ordered SDG&E to enhance its oversight[8] This was reaffirmed in SCE's 2012 GRC Decision D.12-11-051, as the decision stated that "[a]s a co-owner of SONGS, SDG&E has an obligation to oversee and monitor SCE's performance and to protect its ratepayers."[9] SDG&E provides oversight of SONGS expenditures through:

a. A SONGS Team Lead monitoring SCE's daily activities at the SONGS worksite.

b. A Principal Accountant implementing a continuous monitoring (audit) program to validate costs and support informed inquiries regarding costs incurred.

c. A Financial Project Manager to monitor O&M, capital expenditures, fuel contracts, and decommissioning expenditures.

d. Further, SDG&E has requested in its 2012 GRC application, A.10-12-006, $250,000 in additional funding to engage an external consultant/technical advisor with extensive knowledge of practices at other nuclear facilities.

These functions and costs continue regardless of whether either SONGS unit generates electricity. SDG&E requested $ 0.879 million in its 2012 GRC A.10-12-006 for the oversight the Commission ordered in these prior decisions. SDG&E's oversight has resulted in ratepayer recoveries from SCE.

SDG&E respectfully requests that the revenue requirement of $879,000 needed for providing and enhancing SONGS oversight as ordered in the decisions above should not be subject to rate reduction or removed from rates.

E. Summary of SDG&E SONGS Costs That Should Not Be Subject to Rate Reduction or Removed from Rates

SDG&E respectfully requests that the following costs are not subject to rate reduction or removed from rates:

- $35.585 million for Base O&M, including overheads, for activities related to SONGS Safety and Security;
- $12.8 million, plus overheads, for a total of $13.3 million, for Seismic Activities;
- $1.1 million for on-going Marine Mitigation maintenance activities;
- $1.003 million for Unit 1 Spent Fuel Storage;

[8] *See* D.06-11-026, p. 12.

[9] *See* Final Decision A.10-11-015, page 40.

- $20,147 for SONGS Site Easements;
- $1.847 million for SONGS PL/PD insurance;
- $879,000 for SDG&E's SONGS oversight; and
- $36 million in Marine Mitigation capital expenditures through 12/31/11, plus additional capital expenditures as required by California Coastal Commission.

The total of SDG&E SONGS costs that should not be subject to rate reduction or removed from rates is $53.734 million plus Marine Mitigation capital expenditures of $36 million and any additional Marine Mitigation expenditures as required by the California Coastal Commission.

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WITNESS QUALIFICATIONS – ROBERT M. SCHLAX

My name is Robert M. Schlax. I am the Vice President, Controller and CFO and Treasurer of SDG&E and SoCalGas. I joined the company in 2005 as Vice President and Controller of SDG&E and SoCalGas. In October 2008, I was additionally appointed CFO. In my expanded position, I oversee all of the financial planning and budgeting, energy risk management, financial reporting, debt management, utility accounting, and affiliate compliance for SDG&E and SoCalGas.

I have a Bachelor's Degree in Accountancy from the University of Illinois and a Master's Degree in Business Administration from Pepperdine University.

Prior to joining the Company, I served as CFO, Treasurer and Vice President of Finance at Mercury Air Group, Inc. from 2002 to 2005. Before 2002, I held various management positions of increasing responsibilities within the accounting and finance departments at Unocal Corporation.

I am sponsoring Chapters I, II, III and IV of this testimony. I have previously testified before this Commission.

WITNESS QUALIFICATIONS –MICHAEL L. DE MARCO

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

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

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

I am sponsoring Chapter V of this testimony. My business address is 8315 Century Park Court, San Diego, California 92123. I have previously testified before this Commission.