

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.

Investigation No.: I.12-10-013
Exhibit No.: SDGE-22
Witness: Robert Schlax

**SAN DIEGO GAS & ELECTRIC COMPANY'S
TESTIMONY PROVIDING INFORMATION REQUESTED IN ADMINISTRATIVE
LAW JUDGE'S APRIL 24, 2014 RULING REQUIRING SUPPLEMENTAL
INFORMATION PERTAINING TO TWENTY QUESTIONS**

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

MAY 1, 2014

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**PREPARED TESTIMONY OF
ROBERT SCHLAX
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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I. INTRODUCTION

8 Chapter II of this testimony (Exhibit SDG&E-22) provides San Diego Gas &
9 Electric Company's (SDG&E) responses to Questions No. 1-4, 6, 7, 12, 14, 19, and 20 as
10 posed in the April 24, 2014, Administrative Law Judges' Ruling Setting Hearing and
11 Requiring Supplemental Information on Joint Motion for Adoption of Settlement
12 (Ruling) in connection with the California Public Utilities Commission (Commission)
Order Instituting Investigation (I.12-10-13 or OII).

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II. RESPONSES TO QUESTIONS

15 Q1. Section 2.6 provides a definition of "Base Plant" as "the Net Book Value of all-
16 SONGS-related capital investments, except the SGRP, in the Utilities' rate
17 bases....," including marine mitigation, and excluding Materials and Supplies
(M&S), Cash working capital, and Nuclear Fuel Investment.

- 18 • In what ways is this definition consistent or different from the list of weighted
19 SONGS- related capital assets identified in Appendices A and C in exhibit
20 SCE-36 submitted during the Phase 2 hearings in this OII?

21 A1. This question is addressed only to SCE, but in the interest of transparency,
22 SDG&E provides the following response as it applies to SDG&E. Appendices A-
23 1, A-2, and B of SDG&E-16, which is SDG&E's equivalent exhibit to SCE-36,
24 does not separate SGRP from SDG&E's total fixed asset book value in SONGS.
25 Instead, Appendices A-1, A-2, and B separate out SONGS fixed asset book value
26 for Unit 2, Unit 3, and Common at the respective dates of October 31, 2012, June
27 30, 2013, and May 31, 2013. Inclusion of SGRP, as well as inclusion of Nuclear
28 Fuel and Materials & Supplies (M&S) in SDG&E-16's Appendices, is inconsistent
29 with section 2.6 of the Settlement Agreement and the definition of "Base Plant".
30 However, consistent with the "Base Plant" definition in the Settlement Agreement,
31 base plant is not adjusted for working cash in the SDG&E-16 Appendices.

1
2 Q2. In §3.48, the Agreement states that the total amount of deferred taxes on SONGS
3 investment (excluding the SGRP) as of February 1, 2012, is \$152 million for SCE,
4 and \$4.5 million for SDG&E.

- 5 • What year dollars are these amounts (e.g., \$2011)?

6 A2. The deferred taxes in the agreement represent the accumulated balance of prior
7 deferred tax accruals at February 1, 2012 (i.e., the dollar amounts are nominal).

8
9 Q3. As set forth in §3.36, what portion of SCE’s \$597 million share, and SDG&E’s
10 \$160.4 million share, of the Net Book Value of the SGRP as of February 1, 2012
11 is CWIP?

12 A3. SDG&E's share of SGRP CWIP at February 1, 2012 is \$27.4 million. The
13 \$160.4 million balance is broken out as follows:

**SONGS Steam Generator Replacement
As of February 1, 2012
(SDG&E \$s in millions)**

	Total SGRP
Plant In Service	\$ 149.1
Accumulated Depreciation	(16.1)
	<u>133.0</u>
CWIP	27.4
Total SGRP w(CWIP)	<u>\$ 160.4</u>

14
15 Q4. In §4.2, the Agreement provides that the Capital-Related Revenue Requirement for
16 the SGRP will be terminated as of February 1, 2012, and “the Utilities shall refund
17 to ratepayers all amounts collected in rates as the Capital-Related Revenue
18 Requirement for the SGRP for all periods on or after February 1, 2012.” Further,
19 the Utilities shall not recover in rates the net Book Value of the SGRP as of
20 February 1, 2012.

21 **Settling Parties shall prepare and serve an exhibit which contains the**
22 **following information in table form for both SCE and SDG&E:**

- All amounts collected in rates as the Capital-Related Revenue Requirement for the SGRP through January 31, 2012, from February 1, 2012 through December 31, 2012, and from January 1, 2013 through December 31, 2013.
- For each time period include a breakdown between the net book value or capital investment and other capital-related revenue requirement.

A4. See table below.

All figures shown as 1,000,000.0 USD including taxes and FF&U.

	2006	2007	2008	2009	2010	2011	Jan 2012	Total through Jan 2012	Feb - Dec 2012	2013	Total through 2013
1. Estimated 20% Removal and Disposal	-	1.1	1.2	1.3	1.3	1.4	-	6.3	-	-	6.3
2. Steam Generators	-	-	-	-	-	16.9	2.7	19.6	29.5	29.5	78.6
3. Total Rev. Req w/ FF&U	-	1.1	1.2	1.3	1.3	18.3	2.7	25.9	29.5	29.5	84.9
							Jan 31, 2012		Dec 31, 2012	Dec 31, 2013	
4. Rate Base Detail (Period-End)											
5. Gross Plant							149.1		161.8	164.0	
6. Accumulated Depreciation Reserve							(16.1)		(10.7)	(17.4)	
7. Net Book Value (Excluding CWIP)							133.0		151.1	146.6	
8. Accumulated Deferred Taxes							(5.5)		(8.0)	(6.1)	
9. Net Rate Base (Period-End)							127.5		143.1	140.5	

Q6. In §4.3(i), inter alia, the Agreement provides that each Utility will “factor in a gross-up for...income tax when calculating its revenue requirement....In addition, the revenue requirement shall include franchise fees and uncollectibles.” Appendix A provides an example of an adjustment for deferred taxes is applied as of February 1, 2012.

Settling Parties shall prepare and serve an exhibit which contains the following information in table form for both SCE and SDG&E:

- All amounts collected in rates as the Capital-Related Revenue Requirement for the Base Plant (excluding SGRP) from February 1, 2012 through December 31, 2012, and from January 1, 2013 through December 31, 2013.
- For each time period include a breakdown between the net book value or capital investment and other capital-related revenue requirement.

A6. See table below.

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February 2012 through June 2014, with a refund of over-collections based on the settlement terms occurring in July 2014.

Line No.		Feb - Dec 2012	2013
1	Base Plant Revenue Requirement - Settlement Agreement		
2	Depreciation	23.6	25.9
3	Taxes on Income	2.7	2.7
4	Ad Valorem Tax	2.6	2.8
5	Return	6.1	5.1
10	Total Base Plant Revenue Requirement (<i>excluding FF&U</i>)	35.0	36.5
11	Regulatory Asset - Base Plant		
12	Gross Investment in Base Plant	286.7	309.3
13	Depreciation Reserve	(68.0)	(93.9)
14	Net Book Value with CWIP	218.7	215.4
15	Deferred Tax Reserve	(6.8)	(5.2)
16	Net Regulatory Asset - Base Plant	211.9	210.2

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- Q12. Settling Parties shall prepare and serve an exhibit which identifies the amount of SGRP-related CWIP which is to be removed from the total CWIP balance of each Utility as of February 1, 2012.
- A12. SDG&E's share of SGRP CWIP at February 1, 2012 is \$27.4 million, which represents the total SGRP-related CWIP that is to be removed from the total CWIP balance of SDG&E. The \$160.4 million balance is broken out as follows:

**SONGS Steam Generator Replacement
As of February 1, 2012
(SDG&E \$s in millions)**

	Total SGRP
Plant In Service	\$ 149.1
Accumulated Depreciation	(16.1)
	133.0
CWIP	27.4
Total SGRP w(CWIP)	\$ 160.4

10

1 Q14. Section 4.9(b) of the Agreement provides that SCE will “retain all SONGS-related
2 revenue collected pursuant to the revenue requirement for Non-O&M expenses
3 provisionally authorized in D. 12-11-051 for calendar year 2012.” But, SCE will
4 refund to ratepayers any such SONGS- related rate revenues collected in 2012
5 “that exceed 2012 recorded Non-O&M expenses by more than \$10 million.” Also,
6 at §4.9(c) states that SDG&E will retain rate revenue “sufficient to defray all
7 recorded Non-O&M expenses.” Non-O&M expenses are defined in §2.27 by what
8 they are not, rather than specifically identified.
9

10 **Settling Parties shall prepare and serve an exhibit which contains the**
11 **following information in table form for both SCE and SDG&E:**

- 12 • An itemized list of the referenced Non-O&M expenses (e.g., Pensions,
13 benefits, regulatory, taxes, etc.), the FERC account where the expense is
14 recorded, the 2012 and 2013 provisionally authorized amount for each expense
15 category, and recorded expenses for 2012 and 2013 by expense category, using
16 consistent types of dollars.
17

18 Furthermore, it is unclear whether the Agreement anticipates recovery of the \$10
19 million benchmark in excess of 2012 allowed expenses is to be made against each
20 individual Non-O&M expense category, or in the aggregate of all Non-O&M
21 expense categories.

- 22 • Clarify the provision that SCE will refund rate revenues collected in 2012 “that
23 exceed 2012 recorded Non-O&M expenses by more than \$10 million.”¹

24 A14. As a minority owner, SDG&E records all costs paid to SCE for SONGS as either
25 O&M or Capital, including allocating pensions, benefits, and taxes. Therefore,
26 SDG&E does not have Non-O&M Expenses except for the insurance charges
27 listed below. This itemized list of the referenced Non-O&M expenses is shown
28 below with the FERC account where the expense is recorded and the recorded
29 expenses for 2012 and 2013 in nominal dollars. As this figure is embedded with

¹ Settlement Agreement (Agreement) at §4.9(b).

1 overall costs authorized by GRC for FERC Accounts 924 and 925, specifically-
2 authorized amounts for San Onofre are not available.

3 *Dollars are shown in millions.*

<u>FERC</u>	<u>Description</u>	<u>2012</u>	<u>2013</u>
924	Property Insurance	1.0	1.2
925	Nuclear Excess Liability Insurance	1.4	2.5

4
5 The second question pertains only to SCE; therefore, SDG&E does not respond
6 herein.

7
8 Q19. Section 4.14 provides that, except as expressly provided in the Agreement,
9 “all costs recorded in SCE’s SONGSMA, SDG&E’s
10 SONGSBA, and both Utility’s SONGSOMA shall be
11 recovered in rates and shall not be subject to any
12 disallowance, refund, or any form of reasonableness review
13 by the Commission.”

14 **Settling Parties shall prepare and serve an exhibit which contains the**
15 **following information in table form for each account:**

- 16 • A list of expense categories not expressly provided for in the Agreement which
17 are referenced by this section (e.g., regulatory, seismic, etc.) and recorded 2012
18 and 2013 expenses by category.
- 19 • Reference to where the expenses would otherwise be subject to reasonableness
20 review.

21 A19. SDG&E’s SONGSBA contains all of the O&M expenses not expressly provided
22 for in the Agreement which are referenced by Section 4.14, except for the MHI
23 Refund. The table in attachment A delineates the recorded 2012 and 2013
24 expenses by category.

25

- 1 Q20. In §3.42, the Agreement identifies SCE’s share of O&M costs recorded in
2 connection with the U2Cycle 17 Refueling Outage as \$41.1 million, and
3 SDG&E’s recorded costs as \$9.3 million, for a total of \$50.4 million.
- 4 • What year dollars are used, and explain why this amount is in excess of the \$45
5 million SCE asserted was provisionally authorized in the 2012 GRC.
- 6 A20. The Refueling Outage (“RFO”) amounts set forth in section 3.42 are in nominal
7 dollars.

8
9 The question states that SCE asserted that the 2012 GRC provisionally authorized
10 \$45 million for the RFO. Actually, in D. 12-11-051, the Commission declined to
11 authorize any amount for the RFO, and instead authorized SCE to establish the
12 SONGSMA for post-2011 RFO expenditures and to continue the Flexible RFO
13 mechanism. See SCE-7, p. 5. Accordingly, SCE filed Advice Letter 2851-E (Feb.
14 14, 2013), noting that total RFO expenses for the U2C17 outage recorded through
15 December 31, 2012 were \$40.2 million, and that the 2012 recorded RFO expenses
16 of \$35.3 million were recorded in the SONGSMA and SONGSOMA. SCE
17 intended to recover the full recorded costs of the U2C17 outage, including those
18 incurred in 2011, through the OII docket.

19
20 Section 3.42 recites that SCE’s share of the RFO costs was \$41.1 million. Section
21 3.42 recites that SDG&E’s share was \$9.3 million as is shown in SDG&E’s OMA
22 report. These figures correspond to the record in the OII. In SCE-4, page 76, SCE
23 witness Perez testified that “...2012 recorded costs for the Unit 2 Cycle 17 RFO
24 were \$45.1 million.” The testimony continues in footnote 74: “Additionally,
25 \$6.6M (2011\$) was expended in 2011 for outage planning and preparation
26 activities.” The specific activities are detailed in Appendix 3 of SCE-4. In live
27 testimony, Mr. Perez also distinguished between costs recorded in 2011 and those
28 recorded in 2012. Tr. 361. While the scope of Phase 1 was limited to the \$45.1
29 million in RFO costs recorded in 2012, the settlement agreement would enable the
30 Utilities to recover all recorded O&M costs incurred in connection with the U2C17
31 RFO. Section 4.9(1).

1 **III. WITNESS QUALIFICATIONS**

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

8 I have a Bachelor’s Degree in Accountancy from the University of Illinois and a
9 Master’s Degree in Business Administration from Pepperdine University. Prior to
10 joining the Company, I served as CFO, Treasurer and Vice President of Finance at
11 Mercury Air Group, Inc. from 2002 to 2005. Before 2002, I held various management
12 positions of increasing responsibilities within the accounting and finance departments at
13 Unocal Corporation.

14 I have previously submitted testimony before the California Public Utilities
15 Commission, including in the OII.

ATTACHMENT A

SDG&E Response to Question 19

All figures shown as 1,000.0 USD.

	2012 ^{[01],[03]}	2013 ^[03]	Cost Recovery Addressed
1. I. Base Capital Cost Subaccount			
2. Capital Expenditures	38,474.9	15,328.5	Settlement
3. CWIP Balance	110,854.7	129,031.1	Settlement
4. Rate Base - End of Month	106,896.3	118,601.8	Settlement
5. Depreciation	10,384.7	5,626.5	Settlement
6. Taxes on Income	4,067.4	3,667.3	Settlement
7. Ad Valorem Taxes	3,916.9	1,977.1	Settlement
8. Return	8,979.3	9,239.1	Settlement
9. Subtotal Revenue Requirement	27,348.3	20,510.0	Settlement
10. II. Steam Gen Replacement/Removal Capital Cost Subaccount			
11. Capital Expenditures -Replace	12,863.2	2,059.3	Settlement - No recovery ^[10]
12. Capital Expenditures -Remove	(9,319.5)	6.1	Settlement - No recovery ^[10]
13. CWIP Balance - Replace	129,013.2	123,725.9	Settlement - No recovery ^[10]
14. CWIP Balance - Remove	1,334.6	17,180.6	Settlement - No recovery ^[10]
15. Rate Base - Replace - End of Month	136.6	-	Settlement - No recovery ^[10]
16. Rate Base - Remove - End of Month	-	-	Settlement - No recovery ^[10]
17. Depreciation	12,888.0	6,656.9	Settlement - No recovery ^[10]
18. Taxes on Income	4,789.4	4,316.7	Settlement - No recovery ^[10]
19. Ad Valorem Taxes	495.9	650.1	Settlement - No recovery ^[10]
20. Return	10,949.3	10,976.6	Settlement - No recovery ^[10]
21. Subtotal Revenue Requirement	29,122.6	22,600.3	Settlement - No recovery ^[10]
22. III. O&M Expense Subaccount			
23. Fuel (ERRA)	1,223.0	-	ERRA/ Settlement
24. Fuel Carrying Costs (ERRA)	192.0	115.7	Settlement
25. Replacement Power (ERRA)	66,304.7	111,814.9	Settlement - Replacement Power
26. Capacity Payments (ERRA)	3,502.7	4,765.5	Settlement - Replacement Power
27. Foregone Sales Revenue (ERRA)	23,138.3	42,390.2	Settlement - Replacement Power
28. Routine O&M	72,864.8 ^[11]	43,074.9 ^[12]	Settlement
29. Refueling (1 in 2012) ^[02]	9,107.7 ^[11]	153.6 ^[12]	Settlement
30. Seismic Safety ^[02]	815.5 ^[11]	1,847.1 ^[12]	D. 12-05-004 Allowed recovery up to \$12.8 million, SDG&E share
31. Investigation ^[02]	17,155.3 ^[11]	736.9 ^[12]	Settlement
32. Repairs - After Outage ^[02]	6,004.2 ^[11]	- ^[12]	Settlement
33. Regulatory - After Outage ^[02]	1,605.9 ^[11]	761.1 ^[12]	Settlement
34. Defueling ^[02]	166.9 ^[11]	- ^[12]	Settlement
35. Litigation ^[02]	- ^[11]	- ^[12]	Settlement
36. Payroll Taxes ^[02]	3,744.1 ^[11]	2,242.3 ^[12]	Settlement
37. Other (Pensions, PBOP, Insurance) ^[02]	31,623.9 ^[11]	19,930.7 ^[12]	Settlement
38. Subtotal	237,449.0	227,832.9	See above
39. IV. Huntington Beach Subaccount			
	-	3,453.8	Settlement - Replacement Power
40. V. Demand Response Subaccount			
41. Peak Time Rebate - Small Commercial (PTRA)	-	-	Demand Response proceedings
42. Demand Bidding Program (DBP 2012)	-	-	Demand Response proceedings
43. Marketing, Education & Outreach (ME&O)	90.6	-	Demand Response proceedings
44. Subtotal DR	90.6	-	Demand Response proceedings
45. VI. Transmission Upgrades Subaccount			
46. Capital Expenditures	3,012.5	4,275.1	FERC/GRC
47. Rate Base	-	1,839.5	FERC/GRC
48. Depreciation	-	48.1	FERC/GRC
49. Taxes on Income	-	4.8	FERC/GRC
50. Ad Valorem Taxes	-	-	FERC/GRC
51. Return	-	143.3	FERC/GRC
52. Subtotal Revenue Requirement	-	196.2	FERC/GRC
53. O&M (if any)	-	-	FERC/GRC

SDG&E Response to Question 19

All figures shown as 1,000.0 USD.

	2012 ^{[01],[03]}	2013 ^[03]	Cost Recovery Addressed
56. VIII. Adders to SCE-Originated SONGS Costs			
57. SCE-Billed Costs Not Included by SCE in § III	4,290.2 ^[11]	22,009.1 ^[12]	Settlement
58. SDG&E Portion of Nuclear and Related Insurance	2,363.9	3,692.3	GRC
59. SDG&E Portion of SONGS Site Easement	20.1	20.1	GRC
60. SDG&E Overheads on SONGS Costs - Capital (Adder to § I)	9,983.2	4,677.7	Settlement
61. SDG&E Overheads on SONGS Costs - O&M (Adder to § III)	9,515.2	47,748.5	GRC
62. Net Impact of Billing Lag (Temporary Adder to §§ I & III)			
(a) Capital Expense - SONGS Invoice Lag Adjustment ^[07]	775.9	2,443.5	Settlement (No Recovery for RSG Component ^[10])
(b) O&M Expense - SONGS Invoice Lag Adjustment ^[07]	(4,260.3) ^[11]	(13.2) ^[12]	Settlement
63. IX. SDG&E Direct Cost of SONGS Oversight			
64. Operational and Financial Oversight Team	668.3	458.0	GRC
64. SONGSBA - Amounts Not Shown in SONGS-OMA			
66. Prior-Period Adjustments	272.1 ^[11]	0.2 ^[12]	Settlement
67. Accruals / Reversals	(1,732.6) ^[11]	5,351.8 ^[12]	Settlement
68. Removal of MHI Refund ^[13]	-	8,697.8 ^[12]	Settlement
69. Less: Expenses Not Posted to SONGSBA ^[09]	(106.6) ^[11]	166.0 ^[12]	Settlement

Footnotes

[01] Includes January 2012, which represents costs incurred prior to the forced outage.

[02] SCE invoices SDG&E for O&M by FERC account and is unable to provide sufficient invoice detail to allow SDG&E to extract costs paid by category. Therefore, for OMA reporting purposes, SCE has provided these estimates by category.

[03] Footnotes provided herein specifically relate to the Attachment A - Q19 reponse; additional footnotes pertaining to the OMA Report are referenced within that filing.

[04] Invoiced costs inadvertently excluded by SCE from its estimates of O&M costs by category.

[05] Non-standard or off-cycle invoices issued by SCE to SDG&E and excluded by SCE from its estimates of O&M costs by category.

[06] Identified O&M costs erroneously billed by SCE to SDG&E as Capital.

[07] OMA Report §III non-ERRA line items are shown based upon the SCE incurrence date, rather than the SDG&E payment date. This line adjusts such costs to the period incurred by SDG&E.

[08] December 2013 value erroneously reported as 7,951.3, instead of 1,078.6, within the filed OMA Report.

[09] In January 2014, a credit of 695.3 was posted to SONGSBA for November and December Decommissioning Planning costs reimbursed by the Nuclear Decommissioning Trusts and originally paid from SONGSBA in November and December 2013.

[10] No recovery intended to represent that there is no recovery of any specified balance since February 1, 2012.

[11] Sums to \$141.6 million shown in Settlement \$3.45.

[12] Sums to \$105.0 million shown in Settlement \$3.47 after removal of MHI credit of \$8,697.8K.

[13] MHI refund is removed due to transfer to the SONGS Litigation Memorandum Account \$4.11.