Decision **DRAFT DECISION OF ALJ LONG** **(Mailed 3/28/2006)**

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

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| Application of SOUTHERN CALIFORNIA GAS COMPANY for authority to update its gas revenue requirement and base rates. (U 904 G) | Application 02-12-027 (Filed December 20, 2002) |
| Application of SAN DIEGO GAS & ELECTRIC COMPANY for authority to update its gas and electric revenue requirement and base rates. (U 902-M) | Application 02-12-028 (Filed December 20, 2002) |
| Investigation on the Commission's Own Motion into the Rates, Operations, Practices, Service and Facilities of Southern California Gas Company and San Diego Gas & Electric Company. | Investigation 03-03-016 (Filed March 13, 2003) |

# OPINION ON PHASE 3 FOR THE LIMITED REHEARING GRANTED IN DECISION 05-05-018 FOR THE CALCULATION OF SAN DIEGO GAS & ELECTRIC'S SHARE OF SAN ONOFRE NUCLEAR GENERATING STATION COSTS

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# OPINION ON PHASE 3 FOR THE LIMITED REHEARING GRANTED IN DECISION 05-05-018 FOR THE CALCULATION OF SAN DIEGO GAS & ELECTRIC'S SHARE OF SAN ONOFRE NUCLEAR GENERATING STATION COSTS

## Summary

The Commission granted limited rehearing on the forecast of San Diego Gas & Electric Company's (SDG&E) share of San Onofre Nuclear Generating Station (SONGS) costs in order to be consistent with Decision (D.) 04-07-022 and ensure that there is a sufficient record. This decision clarifies the record and adopts a correct forecast for test year 2004 and the attrition year 2005. This decision finds that D.04-12-015 under-estimated test year 2004 expenses by $6.524 million and that post-test year 2005 expenses should include an escalated allowance to adjust for the under-estimated expenses.

## Background

In D.04-12-015, the Commission adopted, with two modifications, a multi-party Settlement Agreement (Settlement)[1] resolving contested issues in Application (A.) 02-12-028, the 2004 cost of service proceeding of SDG&E.[2] (D.04-12-015, p. 3.) SDG&E challenged the Commission's determinations with regard to SDG&E's share of SONGS costs.

Consistent with long-standing practice, the Commission addressed in Southern California Edison Company's (Edison and/or SCE) general rate case the SONGS-related expenses that Edison bills to SDG&E. (D.04-07-022, p. 60.)

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[1] The Settlement can be found as Appendix H in D.04-12-015.

[2] This is a consolidated proceeding that included the Application for Test Year 2004 Cost of Service, A.02-12-027, filed by Southern California Gas Company (SoCalGas). There was a separate all-party settlement resolving issues in the SoCalGas application. (D.04-12-015, p. 2.)

The Settlement in SDG&E's rate case included placeholder numbers and deferred the final SONGS costs to the Edison rate case. (Settlement, p. 6.) Regarding SDG&E's SONGS costs the Settlement stated:

> Most of SDG&E's 2004 revenue requirement with respect to its 20% ownership in the San Onofre Nuclear Generating Station … is being litigated in Phase 1 of Southern California Edison Company's … General Rate Case … (A.02-05-004), which still is pending. The Joint Parties agree that SDG&E's level of electric production expense adopted in the final revenue requirement in this proceeding <u>should reflect SDG&E's share of the actual SONGS costs the Commission authorizes</u> in its decision in Phase 1 of the SCE GRC. (Settlement, p. 6, emphasis added.)

The Joint Parties also agreed to serve a late-filed exhibit after the conclusion of the Edison rate case "showing SDG&E's share of the SONGS costs the Commission authorizes in A.02-05-004." (Settlement, p. 6.) The Commission issued D.04-07-022 in Phase 1 of the Edison rate case on July 16, 2004. On September 3, 2004, SDG&E provided a "Follow-up Exhibit," marked as late-filed Exhibit (Ex.) No. 169 in this proceeding. SDG&E requested that its late exhibit be received into evidence. The exhibit was noted in D.04-12-015 (mimeo., p. 22).

In granting rehearing in D.05-05-018, the Commission recognized its record may have been insufficient to support the SONGS calculation in D.04-12-015 which relied on the results of operations model (Ex. 409 in the Edison rate case) and which was not included in the record for SDG&E's test year. The Commission concluded:

> We will, therefore, grant limited rehearing in order to revisit this issue. Limited rehearing will give the parties an opportunity to help <u>clarify and develop an adequate evidentiary record</u> on the calculation of the SONGS costs. (D.05-05-018, p.5, emphasis added.)

In Ordering Paragraph 2, the Commission ruled:

> Rehearing is limited to the calculation of SDG&E's share of SONGS costs, consistent with D.04-07-022, and to the development and clarification of the evidentiary record for the issues related to this calculation.

## Procedural History Phase 3

In its rehearing order, the Commission did not rely on Ex. 169 and adopt the revenue requirement as argued by SDG&E. Nor did it rely on Ex. 409 from the Edison rate case and affirm the estimate as adopted in D.04-12-015. Therefore, it is clear the Commission required SDG&E to make a sufficient showing on rehearing to justify a test year 2004 estimate of the SONGS revenue requirement upon which the Commission could then make sufficient findings and conclusions to adopt a reasonable test year estimate.

A prehearing conference was held on July 19, 2005, in San Diego, Ca., to allow parties an opportunity to be heard on the matter. SDG&E alone served a prehearing conference statement on July 15, 2005, as directed by a July 5, 2005 Ruling. On July 22, 2005, SDG&E served additional testimony in response to both the July 5, 2005, Ruling and the direction of the Administrative Law Judge (ALJ) at the prehearing conference. No party requested a hearing and evidentiary hearings are not necessary in order to resolve the rehearing.

## Scope of the Rehearing

This phase of A.02-12-028 must adopt a specific revenue requirement for the 2004 SONGS costs billed by Edison to SDG&E. The Commission has, however, adopted the correct SDG&E revenue requirement for SONGS costs incurred directly by SDG&E that are not billed by Edison. Based on the Order Granting Limited Rehearing, the narrowly defined scope for this new phase of the proceeding is as follows:

1. Identify and receive in evidence all necessary exhibits and testimony to forecast SDG&E's reasonable test year 2004 revenue requirement for its share of the ownership and operation of SONGS, as billed by Edison (but not those costs incurred directly by SDG&E) regardless of whether these exhibits and this testimony were previously available to the Commission when issuing D.04-12-015.

2. Calculate and adopt a forecast for test year 2004 consistent with D.04-07-022. This may not necessarily be the amount that SDG&E asserts is reasonable in Ex. 169.

Additionally, because of the passage of time, this phase will:

3. Adopt an appropriate rate recovery method if the SONGS revenue requirement changes as a result of this rehearing.

4. Adopt an appropriate adjustment to attrition year 2005 rates.

## Relevant Record and Exhibits

The ALJ directed SDG&E and other parties to serve as a part of a prehearing conference statement a list to:

1. identify any new exhibits they would propose to serve as necessary to support a reasonable 2004 test year estimate, and the witness(es) competent to sponsor these exhibits;

2. identify all existing exhibits already admitted in the proceeding (with specific citations for portions of those exhibits that may address a broader array of issues), including Ex. 169;

3. identify all existing transcript citations in this proceeding that are applicable to the SONGS forecast;

4. identify all existing exhibits in Edison's A.02-05-004 that are applicable to support a reasonable 2004 test year estimate, and the witness(es) competent to sponsor these exhibits;

5. identify all existing transcript citations in Edison's A.02-05-004 that are applicable to the SONGS forecast; and

6. identify the appropriate ratemaking mechanism (ERRA or elsewhere) to implement any potential adjustments to 2004 and 2005 revenue requirements.

Although parties were directed to identify relevant portions of the existing record in A.02-05-004 and A.02-12-028, the record for the disposition of the rehearing encompasses the entire record in both proceedings as may be identified herein.

SDG&E listed ten exhibits[3] and three transcript citations in A.02-12-028, and twenty-seven exhibits and six transcript citations in A.02-05-004, that it considered relevant to the SONGS O&M forecast. SDG&E also served two new exhibits, Exs. 170 and 171.[4]

We consider the relevant exhibits and transcript references as the underlying record for forecasting test year 2004 SONGS costs billed to SDG&E by Edison. We also include in the record Ex. 409, the Edison results of operation model used in D.04-12-015, and we will again rely on it as appropriate. We will waive the requirement under Rule 72 for SDG&E to serve copies of testimony already on file and in the record of A.02-05-004. We also note that at least some exhibits SDG&E listed are reproduced as attachments to Ex. 170.

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[3] Ex. 169 was filed and served as a component of the settlement agreement for SDG&E's test year revenue requirement. As such, it was unopposed and was received into evidence when filed without protest. Therefore SDG&E is wrong in its assertion that the Commission failed to receive this exhibit into the record. The formal files often appear incomplete prior to closing a proceeding.

[4] These exhibits were unopposed and therefore received into the record on the first business day 30 days after service.

As permitted by Rule 72 of the Commission's Rules of Practice and Procedure (Rule)[5], we receive in evidence by reference the following exhibits from A.02-05-004: Ex. 409, the adopted results of operations, and both Ex. 261, and Ex. 414 which were prepared testimony for SDG&E.

### Revenue Requirement Adopted in D.04-12-015

In D.04-12-015 the Commission adopted a test year 2004 revenue requirement based upon the following discussion:

> Based on D.04-07-022, this decision [D.04-12-015] includes $27.648 million for 2004 capital expenditures and $61.067 million for 2004 operating expenses. It should be noted that these costs were based in principle on the text of D.04-07-022, and numerically relied upon the SCE Results of Operation (RO) model [Ex. 409] for calculations of SONGS costs billed to participants by SCE. While it appears that SCE and SDG&E have an intricate system for billing of SONGS-related costs pursuant to their Operating Agreement, the costs approved in this Decision reflect not only the deductions that the Commission made in the SCE Decision, but also the costs that SCE deducted in its model to reflect billing to the other participants. This is what ultimately determines the approved revenue requirement. (Mimeo., p. 24.)

SDG&E sought rehearing for a portion of this calculation in D.04-12-015. There is no dispute over the forecast for any of the costs directly incurred by SDG&E.

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[5] Rule 72 Commission Records. If any matter contained in a document on file as a public record with the Commission is offered in evidence, unless directed otherwise by the presiding officer, such document need not be produced as an exhibit, but may be received in evidence by reference, provided that the particular portions of such document are specifically identified and are competent, relevant and material. If testimony in proceedings other than the one being heard is offered in evidence, a copy thereof shall be presented as an exhibit, unless otherwise ordered by the presiding officer.

It should be noted that the ALJ's Proposed Decision described the same test year 2004 allowance differently:

> Based on D.04-07-022, this decision includes $7.597 million for 2004 capital expenditures and $41.848 million for 2004 operating expenses.[6]

The ALJ's Proposed Decision is helpful here because it delineated the specific Edison Operation and Maintenance (O&M) accounts (in footnote 201) which were used as the basis of the Commission's calculation in both the ALJ's Proposed Decision and the alternate that was subsequently adopted as D.04-12-015.

SDG&E seeks an additional $9.485 million for the test year 2004 forecast of SONGS O&M costs.[7]

| | |
|---|---|
| 1. Edison Results Sharing | $2.999 million |
| 2. Edison Internal Market Mechanism | $2.486 million |
| 3. Edison PBOPs[8] | $0.683 million |
| 4. Methodology for Contractual Overheads | $2.538 million |
| 5. Escalation Rates | $0.779 million |
| Total | $9.485 million |

SDG&E's original request was $66.180 million for SONGS 2 and 3 O&M expenses in the Edison rate case,[9] and a further $2.579 million for SONGS 1

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[6] "These expenses are included in Accounts 517, 519, 520, 523, 524, 525, 528, 529, 530, 531, and 532, in the results of operations in support of this decision." This was footnote 201 in the ALJ's Proposed Decision. This detailed listing of accounts was not included in D.04-12-015.

[7] Ex. 170, p. MRO-8.

[8] Post-retirement Benefits Other than Pensions.

[9] See Ex. 261, Table 1 (Edison's A. 02-05-004), and also, Appendix A-7 in Ex. 170 (SDG&E's A.02-12-028). Both citations are relevant because it is important to discern

*Footnote continued on next page*

Shutdown O&M[10] for a total of $68.759 million for test year 2004. These were later updated to $67.586 million and $2,635 million for a total of $70.221 million. In its own rate proceeding SDG&E offered testimony that it estimated the costs as (1) a 20% share of the 100% level of SONGS O&M costs, (2) a share of Edison overhead costs for Administrative and General expenses, Pension and Benefits, and Payroll taxes billed to SDG&E by Edison, and (3) "adjustments were made to account for costs which do not appear in SCE's (Edison's) SONGS GRC exhibits, but which are billed to SDG&E (i.e., SCE's Results Sharing, SCE Post-Retirement Benefits other than Pensions and SCE Internal Market Mechanism Costs)."[11] The following table is derived from Ex. 261, Table 1, and Appendix A-6 in Ex. 170 without SDG&E's rounding upward. (Thus, SDG&E variously refers to $66.179 million or $66.2 million or $66.180 million.)

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whether or not the evidence presented now by SDG&E in rehearing was before the Commission when it decided A.02-05-004.

[10] Ex. 261 Table 3 and Ex. 170, Appendix A-8.

[11] Ex. 261, pp. 1 – 2, and Ex. 170, Appendix A-3.

| **SDG&E's Original Request for 2004 SONGS O&M** ($000) | |
|---|---|
| Songs 2 & 3 at 100% - 2000$[12] | $196,967 |
| SDG&E Share 2000$ | 39,393 |
| SCE Results Sharing | 2,400 |
| Total SDG&E Share (2000$) | $41,793 |
| Escalation (2000$ to 2004$) | 5,687 |
| SCE Labor A&G Overhead | 8,919 |
| SCE Non-Labor Overhead | 192 |
| SCE Pension and Benefits Overhead | 4,821 |
| SCE Payroll Taxes | 1,948 |
| SCE Internal Market Mechanisms | 2,316 |
| SCE PBOPS | 503 |
| Total SDG&E SONGS 2&3 O&M (2004$) | $66,179 |

[12] Dollar values are stated in a constant-year value as 2000$, 2001$, etc., to denote the constant year.

SDG&E updated its SONGS 2 and 3 O& M request in Table 1, Ex. 414, (Ex. 170, Appendix B-4).

| **SDG&E's Updated Request for 2004 SONGS O&M** ($000) | |
|---|---|
| Songs 2 & 3 at 100% - 2000$ | $197,783 |
| SDG&E Share 2000$ | 39,557 |
| SCE Results Sharing | 2,400 |
| Total SDG&E Share (2000$) | $41,793 |
| Escalation (2000$ to 2004$) | 5,287 |
| SCE Labor A&G Overhead | 8,860 |
| SCE Non-Labor Overhead | 192 |
| SCE Pension and Benefits Overhead | 6,141 |
| SCE Payroll Taxes | 2,211 |
| SCE Internal Market Mechanisms | 2,435 |
| SCE PBOPS | 503 |
| Total SDG&E SONGS 2&3 O&M (2004$) | $67,586 |

SDG&E also requested SONGS 1 Shutdown costs that totaled $2.579 million – or rounded as $2.6 million. Again, SDG&E rounded $2,581 million down in Ex. 261, Table 3, and Appendix A-7, Ex. 170 to $2.579 million.

| **SDG&E Request for 2004 SONGS 1 Shutdown O&M** ($000) | |
|---|---|
| Songs 1 Direct 100% - 2000$ | $3,864 |
| SONGS 1 Common – 2000$ | 3,310 |
| Total SONGS 1 – 2000$ | $7,174 |
| SDG&E Share (2000$) | $1,435 |
| Escalation (2000$ to 2004$) | 208 |
| SCE Labor A&G Overhead | 405 |
| SCE Non-Labor Overhead | 5 |
| SCE Pension and Benefits Overhead | 219 |
| SCE Payroll Taxes | 80 |
| SCE Internal Market Mechanisms | 49 |
| SCE PBOPS | 180 |
| Total SDG&E SONGS 1 Shutdown (2004$) | $2,581 |

SDG&E up-dated its SONGS 1 Shutdown O&M request also in Table 3, Ex. 414 (Ex. 170, Appendix B-6).

| **SDG&E Updated Request for 2004 SONGS 1 Shutdown O&M** ($000) | |
|---|---|
| Songs 1 Direct 100% - 2000$ | $3,864 |
| SONGS 1 Common – 2000$ | 3,310 |
| Total SONGS 1 – 2000$ | $7,174 |
| SDG&E Share (2000$) | $1,435 |
| Escalation (2000$ to 2004$) | 193 |
| SCE Labor A&G Overhead | 402 |
| SCE Non-Labor Overhead | 5 |
| SCE Pension and Benefits Overhead | 279 |
| SCE Payroll Taxes | 90 |
| SCE Internal Market Mechanisms | 51 |
| SCE PBOPS | 180 |
| Total SDG&E SONGS 1 Shutdown (2004$) | $2,635 |

From the Commission's discussions in D.04-07-022 of (1) SDG&E's request in A.02-05-004, and (2) other Edison costs related to SONGS O&M, we need to determine what the Commission intended to allow SDG&E for rate recovery in D.04-07-022, and compare that to the allowance included in D.04-12-015 for SDG&E's A.02-12-028.

### Sufficient Evidence Requirement

For SDG&E to prevail in the rehearing of its request for SONGS costs billed by Edison, SDG&E must demonstrate the correct calculation, or correction of the Commission's alleged error, for each cost component included in its supplemental testimony.[13]

[13] D.04-12-015; See also D.01-10-031.

**Results Sharing**

One of the costs Edison recovered in its general rate case is an allowance for "results sharing" which is an incentive pay plan. This Edison program links compensation to employees' annual job performance as well as business unit and Company performance. All full time Edison employees are eligible and all performance is measured against stated goals. Edison "forecast Results Sharing program expenses of $80.884 million for the 2003 test year. This forecast is distributed among Federal Energy Regulatory Commission (FERC) Accounts 500, 588, 905, and 920."[14] We can immediately see that these accounts are not included in the list of accounts we used to develop the SDG&E forecast in D.04-12-015. Therefore, we know the Results Sharing costs for Edison are not included in the adopted SDG&E forecast of SONGS O&M. We now need to answer the question of whether they are costs billed by Edison to SDG&E, and if so, we need to develop the correct 2004 forecast.

According to Edison's rate case manager, the rate case costs for Results Sharing were net of the SDG&E share.[15] We know this to be likely because our intention was to only include the costs that Edison would recover from its own customers, and not costs assignable to SDG&E or the other owners of SONGS. We also know from the ALJ's proposed Decision that the estimate for SDG&E in D.04-12-015 did not include costs from Edison's FERC Accounts 500, 588, 905, or 920. Therefore, we can conclude that SDG&E is entitled to an allowance in the 2004 forecast for Results Sharing costs as billed by Edison.

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[14] D. 04-07-022, mimeo., p. 214.

[15] Declaration of Russell G. Worden, Appendix E, Ex. 170, at p. E-2.

SDG&E requested $2.4 million in A.02-05-004, in 2000$ (Ex. 414), or $2.999 million in 2004$ (Ex. 170). Ex. 169 is completely inadequate to determine the request in A.02-12-028 for Result Sharing because the exhibit lacks any detailed descriptions and is devoid of citations to either D.04-07-022 or the underlying exhibits in the Edison proceeding. Here, and throughout this decision, we accord little weight to Ex. 169.

SDG&E included in Ex. 170 a copy of an invoice (Appendix K-65) which shows Edison billed SDG&E for $2.607 million for Results Sharing in 2003. We will accept that in fact, Edison charges SDG&E for Results Sharing as a part of SONGS 2 and 3 O&M expense.[16] We can determine whether the up-dated request of $2.4 million is reasonable by comparing it to Edison's allowance for its share of the expense in D.04-07-022. We note that neither Ex. 169 nor Ex. 170 made any adjustment to the estimate, even though both were prepared after the Edison decision. We therefore find Ex. 170 misstates the likely SDG&E forecast to be derived from D.04-07-022.

The Commission determined that Edison "has not demonstrated the reasonableness of its estimation method." And later, "conclude[d] that both SCE's [Edison's] and ORA's forecast methodologies yield questionable forecasts for Results Sharing program costs, and we therefore adopt an alternative method." Nowhere in D.04-07-022 is this alternative method identified as SDG&E's method. The Commission adopted a two-year average amount of $73.432 million instead of $80.884 million, for Edison in 2003, a reduction of

[16] Actual 2004 costs billed to SDG&E are not relevant because we are adopting the test year forecast with the information that was available at the time the parties litigated the Edison general rate case.

$7.452 million, or 9.21%.[17] We cannot tell if SDG&E estimated its costs for Results Sharing more, or less, conservatively than Edison did. The Commission expected Edison to incur 9.21% less in Results Sharing expense. Therefore, we can reasonably conclude that, at the same time and in the same proceeding, SDG&E's adopted forecast, on an otherwise comparable basis, would be 9.21% less too. SDG&E could not anticipate this 9.21% reduction by the Commission in Exs. 261 and 414, but SDG&E should have included it in Ex. 169 and Ex. 170. SDG&E did make other adjustments in O&M expenses in Ex. 169, but ignored this adjustment to Edison's forecast. We will therefore make a comparable adjustment to SDG&E's request, reducing it by $0.221 million (9.21%), to $2.179 million, and then escalate the result to 2004 dollars levels. The 2004 allowance is $2.524 million. ($2.179 million x 1.1583, using the labor escalation rate of 15.83%.)

### Internal Market Mechanism

Edison first introduced an Internal Market Mechanism in 1998:

> The three-year average provides a better forecast because in 1998, SCE implemented an internal market mechanism (IMM) process throughout the company.[18] Beginning in 1998, procurement costs charged to SONGS 2&3 were increased to include support personnel located at the corporate office.[19] This additional allocation increased Nuclear Support/FERC Account 532 costs beginning in 1998. The five-year average includes 1996 and 1997 which don't reflect these increased cost allocations and therefore do not provide full funding

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[17] D.04-07-022, mimeo., pp. 215 – 216. ($80.884 million - $73.432 million = $7.452 million. $7.452 million/$80.884 million = 9.21%.)

[18] Exhibit 283, pp. 18 and 19. (Footnote 19 in D.04-07-022.)

[19] Id.

> of known allocated costs. We therefore adopt SCE's proposal to use a three-year average.[20]

We know that Account 532 was used to develop the estimate included in D.04-12-015 (ALJ's Proposed Decision) so we must see whether SDG&E has demonstrated an error. SDG&E asserts that the Commission's estimate "excluded" IMM costs, and SDG&E relies on the Worden Declaration.[21] Worden states that the Edison forecast in the Results of Operations (RO) model was "net" of SDG&E's share, which is as it should be, because Ex. 409 only calculated a forecast for Edison's revenue requirement. But Worden cannot know how the Commission derived the SDG&E estimate in D.04-12-015 when we used Ex. 409. We therefore discount his speculative opinion on our development of the SDG&E forecast. We will only consider – and apply appropriate weight to - those statements by Worden dealing with specific actions or ratemaking proposals by Edison that were under his control as project manager for A.02-05-004.

SDG&E does not show how it calculated $2.486 million in excluded IMM costs. There is nothing to compare with the O&M allowance in D.04-12-015. We therefore find SDG&E has not met its burden of proof and we do not adjust our forecast of SONGS 2 & 3 O&M costs to include IMM costs. Edison's FERC Account 532 included IMM costs and this Edison account was considered in the D.04-12-015 estimate for test year 2004. SDG&E has not shown how the estimate in D.04-12-015 is in error.

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[20] D.04-07-022, mimeo., p. 51.

[21] Ex. 170, pp. MRO-8 – MRO-10.

### Post-retirement Benefits Other than Pensions

SDG&E argues that D.04-12-015 under-stated the test year estimate by excluding PBOPs. In the Edison rate case SDG&E forecast $503,000 for SONGS 2 and 3 and $180,000 for SONGS 1, or a total of $683,000 in PBOPs O&M expense. It is clear from D.04-07-022 that Edison's PBOPs expenses were not allocated to other accounts but they were included in Administrative & General Account 926 – Employee Pensions and Benefits. This account was not used in D.04-12-015 to forecast SDG&E's share of SONGS costs and therefore an allowance for PBOPs is appropriate. There were no adopted adjustments to Edison's forecast, parties were aware of SDG&E's forecast and made no alternative proposals, so we will adopt the SDG&E forecast of $683,000 which is already in 2004 dollars.

### Contractual Overheads

SDG&E argues that D.04-12-015 under-stated the test year estimate by using an incorrect method to forecast Contractual Overheads. It seeks an additional $2.538 million on rehearing. The Worden declaration asserts there is a $3.317 million difference for "contractual escalation and overhead rates [which] are not applied within the SCE RO model and need to be calculated using labor and non-labor expenses authorized in D.04-07-022 and added to the SDG&E SONGS O&M revenue requirement outside the SCE model."[22]

In re-examining the method and estimate we included in D.04-12-015 for SONGS costs, we find that we did not specifically forecast an allowance for Contractual Overheads. The method we used, to extrapolate the Edison nuclear O&M expense accounts for SDG&E's equivalent share, does not support an

[22] Ex. 170, Appendix E-2.

adequate allowance for Contractual Overheads and we therefore find that D.04-12-015 was in error for this item and authorize SDG&E to recover the $2.538 million in Contractual Overheads it requests on rehearing.

### Escalation Rates

SDG&E argues that D.04-12-015 under-stated the test year estimate by using an incorrect escalation so that the test year is understated by $0.779 million. In Ex. 170, (Appendix F-1) SDG&E presented its calculation for $5.319 million in total escalation from 2000 dollars to 2004 dollars. We accept this calculation and adopt SDG&E's request. This results in an increase of $0.779 million to the 2004 test year revenue requirement.

### Adopted Changes to the Revenue Requirement

Based on a review of SDG&E's testimony in Exs. 169, 170 and 171, and after considering other cited testimony included in the record of A.02-05-004 (Exs. 261 and 414) and A.02-12-28 (Exs. 38, 38-E, 95, and 96) we find that SDG&E met its burden of proof to demonstrate an error in D.04-12-015 for four of the alleged errors or omissions. Although SDG&E provided a lengthy list of other exhibits in both A.02-05-004 and A.02-12-028, its only testimony on rehearing, Exs. 170 and 171, made little use of this ostensibly complete list and SDG&E relied on its original showing in A.02-05-004. We have reviewed rehearing testimony, re-examined both D.04-07-022 and D.04-12-015, and have made those changes where SDG&E has persuaded us that there were errors or omissions in the 2004 forecast of SONGS O&M expenses.

| **Adjustments to 2004 SONGS O&M Expenses** ($million) | | |
|---|---|---|
| | SDG&E | Adopted |
| Results Sharing | $2.999 | $2.524 |
| Internal Market Mechanism | $2.486 | 0 |
| PBOPs | $0.683 | 0.683 |
| Contractual Overheads | $2.538 | 2.538 |
| Escalation Rates | $0.779 | 0.779 |
| Total Adjustments | $9.485 | $6.524 |

### Attrition Year 2005

SDG&E is entitled to adjust its 2005 attrition year revenue requirement based on the changes to the test year to recover the revenue shortfall. Consistent with the escalation rates and method authorized in Phase 2 of this proceeding, D.05-03-023, SDG&E may recover an adjustment for the revenue shortfall in 2005 rates as a result of the changes adopted for test year 2004.

### Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed by SDG&E on April 17, 2006. No other party commented.

SDG&E comments that the proposed decision is "overly strict" for SDG&E's burden of proof, arguing the Commission is in the best position to interpret the Edison general rate case decision. SDG&E suggests the "entire dispute is about the meaning and intent of an already-issued Commission decision." (Comments, p. 4.) We disagree: the burden has been SDG&E's - beginning in the Edison proceeding and carried forward into this proceeding - to offer persuasive evidence of a reasonable test year forecast. As noted, rehearing was granted to "give the parties an opportunity to help clarify and develop an

adequate evidentiary record." (D.05-05-018, p. 5.) On rehearing SDG&E alleged specific errors and it has the burden to support its specific contentions of error. It is not extreme to impose a burden of proof even when SDG&E's testimony was unopposed. (Comments, p. 5.)

Results Sharing: SDG&E's comments demonstrate that the ALJ's proposed decision incorrectly escalated Results Sharing only from 2003 to 2004 (which are Edison's test year and SDG&E's, respectively) when the forecast begins with 2000 costs. (Comments, pp. 6 – 7). SDG&E also comments that the proposed decision fails to include contractual overheads. (Comments pp. 5 – 6.) This decision is changed to clarify and correctly escalate the forecast. We do not agree that Results Sharing requires a separate contractual overhead allowance when contractual overheads were separately at issue as an alleged error. In fact, this decision grants SDG&E the full contractual overheads request sought on rehearing. Therefore, a further allowance would constitute a duplicate recovery.

We otherwise find that SDG&E's remaining comments do not persuade us to further alter the proposed decision.

## Assignment of Proceeding

Geoffrey Brown is the Assigned Commissioner and Douglas M. Long is the assigned ALJ in this proceeding.

## Findings of Fact

1. The Commission did not adopt a specific ratemaking forecast for the SONGS costs billed by Edison to SDG&E in D.04-07-022, the Edison general rate case where the forecast was litigated. SDG&E's Ex. 169 does not persuasively demonstrate the correct forecast for SDG&E's share of SONGS costs.

2. D.04-12-015, which adopted SDG&E's test year 2004 revenue requirement, omitted an allowance for Results Sharing costs in the SONGS costs billed by

Edison to SDG&E. After correcting SDG&E's forecast for the adjustment made to Edison's forecast in D.04-07-022, the correct forecast is $2.179 million that should have been included in test year revenue requirements.

3. SDG&E did not demonstrate that the test year allowance in D.04-12-015 incorrectly calculated an allowance for Internal Market Mechanism costs.

4. D.04-12-015 omitted an allowance for PBOPs costs in the SONGS costs billed by Edison to SDG&E. The correct forecast is $0.683 million that should have been included in test year revenue requirements.

5. D.04-12-015 omitted an allowance for Contractual Overheads in the SONGS costs billed by Edison to SDG&E. The correct forecast is $2.538 million that should have been included in test year revenue requirements.

6. SDG&E demonstrated that the test year allowance incorrectly calculated an allowance for escalation.

7. The attrition year revenue requirement for 2005 should be adjusted to reflect the shortfall as a result of the stated omissions in the test year 2004 revenue requirement.

## Conclusions of Law

1. Exs. 261, 408 and 414, from A.02-05-004, can be received in evidence by reference pursuant to Rule 72.

2. SDG&E provided persuasive evidence that the allowance for Results Sharing costs in the SONGS costs billed by Edison to SDG&E was omitted from D.04-12-015.

3. SDG&E provided persuasive evidence that an allowance for PBOPs costs in the SONGS costs billed by Edison to SDG&E was omitted from D.04-12-015.

4. SDG&E provided persuasive evidence that an allowance for Contractual Overheads costs in the SONGS costs billed by Edison to SDG&E was omitted from D.04-12-015.

5. SDG&E provided persuasive evidence that escalation was calculated incorrectly in D. 04-12-015.

6. SDG&E failed to provide persuasive evidence that there were any other omissions or errors in D.04-12-015 that should be rectified on rehearing.

## O R D E R

**IT IS ORDERED** that:

1. On rehearing of Decision (D.) 04-12-015, San Diego Gas & Electric Company (SDG&E) is authorized to recover an additional $6.524 million in test year 2004 expenses.

2. SDG&E is authorized to recover the corresponding adjustment to revenue requirement for attrition year 2005.

3. SDG&E shall file an advice letter, with supporting work papers, to recover the under-collected revenue requirement in its base margin revenue requirement for 2004 and 2005. The advice letter will be effective on the date filed subject to Energy Division determining that the filings are in compliance with this order.

4. Phase 3 of this proceeding is concluded.

5. Applications (A.) 02-12-027, A.02-12-028, and Investigation 03-03-016 are closed.

This order is effective today.

Dated _____, at San Francisco, California.