



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

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Application of Southern California Edison )  
Company (U 338-E) for a Commission ) A150104 Application No. 15-01-XXX  
Reasonableness Review of 2014 SONGS 2&3 )  
Expenses. )

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**APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR A  
COMMISSION REASONABLENESS REVIEW OF 2014 SONGS 2&3 EXPENSES**

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**Dated: January 30, 2015**

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FOR A COMMISSION REASONABLENESS REVIEW OF 2014 SONGS 2&3  
EXPENSES**

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In compliance with Decision (D.) 14-11-040 and pursuant to Rule 2 of the California Public Utilities Commission (CPUC or Commission) Rules of Practice & Procedure, Southern California Edison Company (SCE) hereby respectfully submits an Application for a Commission Reasonableness Review of 2014 SONGS 2&3 expenses.

**I.**

**INTRODUCTION AND SUMMARY**

**A. Summary of Request**

In this Application, SCE respectfully requests the Commission find that 2014 costs of \$221.2 million (2014\$, 100% level) for San Onofre Nuclear Generating Station (SONGS) 2&3 are reasonable.

**B. Background**

Pursuant to California Public Utilities Code Section 455.5, the Commission issued an Order Instituting Investigation (OII) on October 25, 2012, initiating a multi-part investigation into the actions and expenses of the Utilities associated with the extended outages at SONGS.<sup>1</sup> A year and a half later, following the parties' submissions on various issues, two evidentiary hearings, and other procedural matters, SCE, SDG&E, The Utility Reform Network (TURN), Office of Ratepayer Advocates (ORA),

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<sup>1</sup> D.14-11-040.

Friends of the Earth (FOE), and California Coalition of Utility Employees (CCUE) (collectively referred to as the Settling Parties), filed and served on April 3, 2014 a Joint Motion for Adoption of Settlement that would resolve all issues in the OII and related proceedings. On September 24, 2014, the Settling Parties submitted an Amended and Restated Settlement Agreement, agreeing to certain modifications requested by the assigned Commissioner and Administrative Law Judges for the OII. On November 25, 2014, the Commission issued D.14-11-040 approving the Amended and Restated Settlement Agreement.<sup>2</sup> As noted above, Ordering Paragraph 4 directs SCE to file this Application.<sup>3</sup>

On December 21, 2012, in a separate proceeding (not consolidated with the OII) concerning SONGS decommissioning expenses, SCE and SDG&E filed a joint application for the 2012 Nuclear Decommissioning Cost Triennial Proceeding (NDCTP). On December 22, 2014, the Commission issued D.14-12-082.<sup>4</sup> In the decision, the Commission also seeks to establish through further discussions and workshops “a more transparent and accountable format for cost disclosure by SCE when estimating and undertaking decommissioning activities for SONGS 2&3.” Specifically, Ordering Paragraph No. 5 directs SCE to organize a meeting, within 60 days of the date the decision is issued,<sup>5</sup> of Energy Division, SDG&E, and other interested parties to explain SCE’s cost accounting for SONGS 2&3 decommissioning expenses.<sup>6</sup> Ordering Paragraph No. 6 requires SCE to develop, in consultation with the Energy Division and other interested parties, a cost categorization structure for tracking decommissioning expenses, including the ability to compare actual recorded expenses to the most recently submitted DCE.<sup>7</sup>

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<sup>2</sup> Although issued November 25, 2014, the effective date of D.14-11-040 is November 20, 2014.

<sup>3</sup> D.14-11-040, Ordering Paragraph (OP) No. 4.

<sup>4</sup> On January 21, 2015, SCE filed an Application for Rehearing of D.14-12-082 requesting the Commission change solely the portion of the Decision denying recovery of SONGS 1 costs incurred in 2009-2012. SCE does not seek rehearing of other aspects of D.14-12-082

<sup>5</sup> The workshop needs to be organized by February 20, 2015 unless otherwise directed by the Commission.

<sup>6</sup> D.14-12-082, OP No. 5.

<sup>7</sup> D.14-12-082, OP No. 6.

On December 10, 2014, SCE and SDG&E jointly filed A.14-12-007, which among other things, requests the Commission to approve: (1) the SONGS 2&3 decommissioning cost estimate; (2) SCE's request to reduce annual contributions to the SONGS 2&3 decommissioning trusts to zero at this time; (3) an advice letter process for authorizing disbursements from the trusts; and (4) an annual reasonableness review process for the expenses incurred for SONGS 2&3 decommissioning activities completed during each year. If approved, this process will allow for more frequent review of decommissioning activity costs. SCE will utilize the DCE submitted in A.14-12-007 to identify and explain cost variances between 2014 recorded expenses and the DCE.

## II.

### **REASONABLENESS REVIEW STANDARD**

#### **A. The California Nuclear Facility Decommissioning Act of 1985 Establishes The Commission's Oversight Of Decommissioning Expenses**

As discussed in D.14-12-082, the California Nuclear Facility Decommissioning Act of 1985 (Decommissioning Act), set forth in California Public Utilities Code Sections 8321- 8330, gives the Commission oversight and review both estimated and recorded of decommissioning costs. Section 8327 requires the Commission to periodically review the decommissioning cost estimates submitted by the owner utilities to establish rates or charges and ensure the estimates take account of technological and regulatory changes in decommissioning, the operating experience of the particular nuclear facility, and the general economy. Section 8328 directs the Commission's review of incurred decommissioning costs, stating that "if the money in [trust] funds is insufficient for payment of all decommissioning costs, the commission . . . shall determine whether the costs incurred in excess of the money in the funds are reasonable in amount and prudently incurred."<sup>8</sup>

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<sup>8</sup> Cal. Pub. Util. Code § 8328 (emphasis added).

**B. Summary Of Commission NDCTP Decisions**

The Commission established the NDCTP to fulfill these statutory requirements. In D.99-06-007, the Commission established the following reasonableness review standard for Phase I of SONGS 1 decommissioning, consistent with Section 8328:

If the costs incurred are within the most recent cost estimate approved by the Commission based on the scope of work completed, the costs and conduct would be presumed reasonable. Any entity claiming unreasonable costs or actions would bear the burden of proof. Applicants would bear the burden of proving that any material increase in costs for the scope of work are reasonable.<sup>9</sup>

In A.02-03-009, A.05-11-008, and A.09-04-009, SCE met its burden of proof by demonstrating that the sum of the expenses incurred for SONGS 1 decommissioning activities completed during each period were within the sum of the estimated expenses in the most recent estimate approved by the Commission for that work scope.<sup>10</sup>

In D.10-07-047, the Commission provided further guidance regarding its SONGS 1 reasonableness reviews, referencing the prudent manager standard:

[W]e define reasonableness for decommissioning expenditures consistent with prior Commission findings; i.e., that the reasonableness of a particular management action depends on what the utility knew or should have known at the time the managerial decision was made.<sup>11</sup>

Finally, in D.14-12-082, the Commission provided additional direction regarding the supporting information that SCE should provide for reasonableness reviews, indicating that SCE should: (1) tie specific decommissioning activities and recorded cost information to the most recent previously approved DCE, and (2) fully explain variances between the recorded expenses and the DCE.<sup>12</sup>

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<sup>9</sup> D.99-06-007, p. 19.

<sup>10</sup> D.03-10-015, pp. 9, 28, and 35; D.07-01-003, pp. 15 and 31, and D.07-01-003 Appendix B, p. 13; and D.10-07-047, pp. 29-30, 55.

<sup>11</sup> D.10-07-047.

<sup>12</sup> D.14-12-082, p. 49.

**C. The Commission Should Continue To Apply Standards That Adhere To The Decommissioning Act**

SCE acknowledges the need for the transparent disclosure of decommissioning expenses so that the Commission can appropriately conduct reasonableness reviews. To fulfill this objective, SCE will work with the Energy Division, SDG&E, and other interested parties to develop an appropriate cost-tracking and reporting framework, and to provide information regarding SONGS 2&3 decommissioning expenses consistent with the level of detail directed by the Commission. This will facilitate the Commission's reasonableness reviews.

When determining the reasonableness of decommissioning expenses, the Commission should apply a review standard consistent with the oversight and review framework established in the Decommissioning Act. As noted above, this statutory framework requires the Commission to ensure that the decommissioning estimate is reasonable and that there are sufficient funds in the trusts for remaining expenses. It logically follows from this statutory framework that recorded decommissioning expenses should be presumed reasonable if they are within the approved estimate. In past proceedings, the Commission correctly applied this standard – evaluating reasonableness based on the sum of all expenses incurred for completed activities against the sum of all estimated expenses (including the appropriate allocation of contingency) for those activities, and ensuring the decommissioning trusts were sufficiently funded for remaining estimated expenses.<sup>13</sup> The Commission should continue to evaluate the reasonableness of decommissioning expenditures in this manner.

Evaluating reasonableness without considering how overall expenses compare to the overall estimate, will ignore the nature of estimates and overall project expenses. There will always be some variances between estimated and recorded expenses for each discrete activity within a project. Further, it is important to consider the sufficiency of the decommissioning trusts for remaining expenses. The Decommissioning Act provides that recorded expenses should be considered as a whole, in relation to the approved estimate and remaining funds, to ensure that sufficient funds remain in the trusts for

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<sup>13</sup> See, e.g., D.03-02-049; D.07-01-003, D.10-07-047.

remaining decommissioning activities. The Commission should apply this standard in its reasonableness review of 2014 SONGS 2&3 expenses.

SCE will use its best efforts to provide cost information and variance explanations regarding discrete activities contained in the DCE, as required by the Commission. SCE's submission of this information should constitute sufficient evidence that such expenses were incurred reasonably, so as long as overall expenses are within the overall estimate, as provided in the Decommissioning Act. Also, the absence of any substantive challenge to any decommissioning activity and associated expenses should support a finding that SCE has been prudent and expenses are reasonable.

**D. The Commission Should Complete Reasonableness Reviews Only For Completed Work**

In D.03-10-015, the Commission adopted criteria for determining the completion of decommissioning work:

A decontamination and dismantling activity is complete if: (1) the activity has been completed in its entirety, or (2) the activity has eliminated a specifically identifiable decommissioning liability.

Decommissioning liability is eliminated when material is removed from the SONGS site. For Independent Spent Fuel Storage Installation (ISFSI) design, licensing, and construction work, completed work satisfied a defined regulatory activity or construction milestone. (A.02-03-039, Exhibit SCE-1, p. 13).<sup>14</sup>

All Commission reasonableness reviews for nuclear decommissioning expenses (SONGS 1 and Humboldt Bay 3) have been based on completed decommissioning activities consistent with the above criteria. SCE anticipates that the Commission generally will apply the same criteria for completed work on the SONGS 2&3 decommissioning project. SCE recommends that the Commission adopt these standards and policies for future reasonableness reviews.

The Commission, however, has directed SCE to report 2014 SONGS 2&3 expenses for Commission review at this time, even though certain activities have not been completed. SCE recommends that the reasonableness of 2014 recorded expenses be evaluated based on the sum of all expenses incurred for activities versus the sum of all 2014 estimated expenses (including contingency) for those activities, and ensuring the decommissioning trusts are sufficiently funded for remaining

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<sup>14</sup> D.03-10-015, p. 34.

estimated expenses. SCE presents information and variances discussions for the 2014 activities in supporting testimony contained in Exhibit SCE-1.

### III.

#### **STATUTORY AND PROCEDURAL REQUIREMENTS**

##### **A. Statutory Authority**

This Application is made consistent with Public Utilities Code Section 8321-8330. In addition, this request complies with the Commission's Rules, and prior decisions (including D.14-11-040), orders and resolutions of this Commission.

##### **B. Compliance With Commission Rule Of Practice And Procedure 2.1**

Commission Rule 2.1 requires that “[a]ll applications shall state clearly and concisely the authorization or relief sought; shall cite by appropriate reference the statutory provision or other authority under which Commission authorization or relief is sought, shall be verified by at least one applicant . . . ; and . . . shall state the following: (a) [applicant information]; (b) [applicant service information]; (c) The proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule. . . .; (d) Such additional information as may be required by the Commission in a particular proceeding.” California Public Utilities Code § 1701.1(c)(3) defines ratesetting as “cases in which rates are established for a specific company, including, but not limited to, general rate cases, performance-based ratemaking, and other ratesetting mechanisms.” SCE propose this Application be designated as a “ratesetting” proceeding.

SCE anticipates that hearings will be necessary in this proceeding, and proposes the procedural schedule shown below.

**Table III-1  
Proposed Schedule**

Application Filed/Supporting Testimony Submitted	January 30, 2014
Prehearing Conference	TBD
Public Workshops	February/March, 2015
Intervener Testimony	July 1, 2015
Rebuttal Testimony	July 15, 2015
Evidentiary Hearings	Mid-to-late August, 2015
Opening Briefs	Mid-to-late September, 2015
Reply Briefs	September/October, 2015
Proposed Decision Issued	November, 2015

The principal issue to be considered in this Application is the reasonableness of SCE's 2014 SONGS 2&3 expenses.

**C. Legal Name And Correspondence**

**1. SCE**

SCE is a corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for light, heat and power in portions of central and southern California as a public utility subject to the jurisdiction of the Commission. SCE's properties, substantially all of which are located within the State of California, primarily consist of hydroelectric and thermal electric generating plants, together with transmission and distribution lines and other property necessary in connection with its business.

SCE's principal place of business is 2244 Walnut Grove Avenue, Rosemead, California, and its post office address and telephone number are:

Southern California Edison Company  
Post Office Box 800  
Rosemead, California 91770  
Telephone: (626) 302-1212

Correspondence or communications regarding this application should be addressed to:

Walker A. Matthews Senior Attorney Southern California Edison Company 2244 Walnut Grove Avenue Rosemead, CA 91770 Telephone: (626) 302-6879 Facsimile: (626) 302-3990 E-mail: walker.matthews@sce.com	Esther Park Attorney Southern California Edison Company 2244 Walnut Grove Avenue Rosemead, CA 91770 Telephone: (626) 302-7172 Facsimile: (626) 302-6795 E-mail: <a href="mailto:esther.park@sce.com">esther.park@sce.com</a>
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To request a copy of this application, please contact:

Raquel Ippoliti  
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P. O. Box 800  
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Telephone: (626) 302-6699  
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**D. Articles Of Incorporation**

**1. SCE**

A copy of SCE's Certificate of Restated Articles of Incorporation, effective on March 2, 2006, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 14, 2006, in connection with Application No. 06-03-020, and is incorporated herein by this reference pursuant to Rule 2.2 of the Commission's Rules of Practice and Procedure.

A copy of SCE's Certificate of Determination of Preferences of the Series D Preference Stock filed with the California Secretary of State on March 7, 2011, and presently in effect, certified by the California Secretary of State, was filed with the Commission on April 1, 2011, in connection with Application No. 11-04-001, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series E Preference Stock filed with the California Secretary of State on January 12, 2012, and a copy of SCE's

Certificate of Increase of Authorized Shares of the Series E Preference Stock filed with the California Secretary of State on January 31, 2012, and presently in effect, certified by the California Secretary of State, were filed with the Commission on March 5, 2012, in connection with Application No. 12-03-004, and are incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series F Preference Stock filed with the California Secretary of State on May 5, 2012, and presently in effect, certified by the California Secretary of State, was filed with the Commission on June 29, 2012, in connection with Application No. 12-06-017, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series G Preference Stock filed with the California Secretary of State on January 24, 2013, and presently in effect, certified by the California Secretary of State, was filed with the Commission on January 31, 2013, in connection with Application No. 13-01-016, and is incorporated herein by this reference.

A copy of SCE's Certificate of Determination of Preferences of the Series H Preference Stock filed with the California Secretary of State on February 28, 2014, and presently in effect, certified by the California Secretary of State, was filed with the Commission on March 24, 2014, in connection with Application No. 14-03-013, and is incorporated herein by this reference.

Certain classes and series of SCE's capital stock are listed on a "national securities exchange" as defined in the Securities Exchange Act of 1934 and copies of SCE's latest Annual Report to Shareholders and its latest proxy statement sent to its stockholders has been filed with the Commission with a letter of transmittal dated March 14, 2014, pursuant to General Order Nos. 65-A and 104-A of the Commission.

**E. CEQA Compliance**

Rule 2.4(c) states that any application for authority to undertake a project that is statutorily or categorically exempt from CEQA requirements shall so state, with citation to the relevant authority. CEQA does not apply to this application. Public Resources Code section 21080(b)(8) states that CEQA

does not apply to the “establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies.”

**F. Rule 3.2**

This Application, if granted, will not result in any rate change. Therefore, Rule 3.2 does not apply to this Application.

**G. Index Of Exhibits and Appendices To This Application**

SCE hereby incorporates by reference into this Application the following exhibits:

*Table III-2  
List of Exhibits*

<b><u>Exhibit No.</u></b>	<b><u>Title</u></b>
SCE-1	Testimony and Preliminary Report of Southern California Edison Regarding 2014 Expenses for SONGS Unit Nos. 2&3
SCE-2	Witness Qualifications

IV.

**CONCLUSION**

In this Application, SCE respectfully requests the Commission find that 2014 costs of \$221.2 million (2014\$, 100% level) for SONGS 2&3 are reasonable.

WALKER A. MATTHEWS, III  
ESTHER K. PARK

By: /s/ Walker A. Matthews, III

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Dated: January 30, 2015

**VERIFICATION**

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in the foregoing document are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 30<sup>th</sup> day of January, 2015, at Rosemead, California.

*/s/ J. Christopher Thompson*

J. Christopher Thompson  
Vice President of SONGS Decommissioning  
Edison International