

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Application of Southern California Edison Company (U338E) for a Commission Finding that its Procurement-Related and Other Operations for the Record Period January 1 Through December 31, 2009 Complied with its Adopted Procurement Plan; for Verification of its Entries in the Energy Resource Recovery Account and Other Regulatory Accounts; and for Recovery of \$29.947 Million Recorded in Four Memorandum Accounts.

Application 10-04-002
(Filed on April 1, 2010)

**REPLY BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES**

**MITCHELL SHAPSON
NOEL OBIORA
MATT MILEY**
Attorneys

for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2727
Email: sha@cpuc.ca.gov

April 15, 2011

MICHAEL YEO
Project Coordinator

for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-5248
Email: mey@cpuc.ca.gov

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I. INTRODUCTION

Pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure and by order of the Administrative Law Judge by email on April 12, 2011 the Division of Ratepayer Advocates (DRA) submits this post hearing Reply Brief on Southern California Edison's (SCE) above referenced Application. This Reply Brief will address SCE's Opening Brief by discussing DRA's recommendations regarding two hydroelectric generation outages (Big Creek and Mammoth Pool), an outage at Four Corners and an outage at San Onofre Nuclear Generating Station (SONGS).

II. DISCUSSION

A. Causation and Cause Evaluations

Preliminarily, DRA notes that SCE continues to dispute the relevance of its own reports while missing the basic point that the facts stated in those reports are true.

While SCE states repeatedly that the reports are self critical as though that were a reason to disregard them, it fails to explain how one would do a cause evaluation of a problematic incident in one's operations without being critical of oneself. Again, if the facts stated in the reports were known or should have been known by SCE before the event, those facts are evidence that is relevant to an evaluation of the event.

B. Utility Retained Generation

1. Hydroelectric Generation

DRA has identified two major outages at SCE-retained hydroelectric generation facilities that were not reasonably incurred.

a) Big Creek 3, Unit 1, Outage of 12/14/2008

SCE's failed to maintain a dry environment around high-voltage switchgear, failure to be mindful of equipment history, and known design challenges at the Big Creek 3, Unit 1, led to an unreasonable forced outage.

As DRA detailed in its Opening Brief, SCE knew or should have known that before the fault and resulting fire:

- the high-voltage transfer switch was outside, exposed to the elements and surrounded by moisture;
- such exposure leads to deterioration, corrosion, and long-term degradation of insulation and equipment;
- degraded insulation poses a risk of short-circuit faulting the wire and could cause a fire;
- opening one circuit breaker can increase electric current in other sections of the circuitry;
- the transfer switch was over 30 years old and had been exposed to the moist conditions that entire time; and,
- the transfer switch insulation was compromised, and that this combination could cause problems in the electrical system, including a fire in a generator.

SCE admits in its Opening Brief that the “rainstorm made it easier for water to leak along the length of the electric cables into the switch cabinet, and those leaks might have accelerated a final insulation failure in power grid electrical equipment nearing the end of its service life.”¹

Failure to protect the integrity of the electrical system was the cause of the electrical fault and resulting fire. SCE’s witness admitted in Rebuttal Testimony, “that degradation and weather resulted in the failure”² Furthermore, SCE stated in its Rebuttal Testimony that “it appears that the 15kV switch faulted first, which then caused an electrical upset that resulted in the Unit 1 generator also faulting.”³ SCE’s three investigators concluded that the probable cause was that the 15 KV transfer switch had a phase to ground fault.⁴

Despite these facts, in its Opening Brief SCE attempts to avoid a finding of imprudence by arguing that it is also “possible” that the fault initiated in the generator.⁵ On a simple continuum, one can rank a cause as possible, probable, or certain, along with any number of other descriptions. There can be any number of possible causes of an event, but the probable cause of an event is the cause that is most likely. Knowing the cause of an event with certainty may be better than knowing that it is the most likely cause, but the Commission has held that finding the likely or probable cause is sufficient in the context of ERRA reasonableness review. In last year’s SCE ERRA Compliance proceeding, for example, the Commission disallowed power replacement costs without evidence that the utility’s conduct was the cause of the forced outage “for sure,” but because that conduct was the probable cause. D.10-07-049, p. 25.

¹ SCE Opening Brief, p. 26, fn. Omitted.

² SCE Rebuttal Testimony, p. 68.

³ SCE Rebuttal Testimony, p. 74.

⁴ SCE Report, p.1, attached as Appendix L to Exhibit SCE-8.

⁵ SCE Rebuttal Testimony, page 69, lines 13-14; SCE Opening Brief, p. 28.

b) Mammoth Pool Outage of June 2008

SCE's unreasonable operation of the Mammoth Pool Generator caused the stator windings in the generator to fail prematurely and resulted in an unreasonable forced outage.⁶ SCE's Opening Brief reaffirms the basis for DRA's finding of imprudence and recommended disallowance.

For example, SCE's Opening Brief confirms that "thermal aging (being subjected to operating temperatures over long periods of time) and thermal cycling (being subjected to repeated heating and cooling cycles) were the major contributors" to the failure and outage.⁷ SCE's also reconfirmed that:

- the typical lifespan of windings is approximately 30 years;
- the windings lasted 18 years;
- thermal aging increases at a higher rate whenever temperatures exceed 90°C except for occasionally running at 100°C on hot days;
- SCE chose to operate at temperatures greater than 100°C to avoid excess bypass water flow and to increase production

Knowing all of this, SCE imprudently failed to take steps to prevent a forced outage arising from such foreseeable premature aging or to conduct any cost/benefit analysis to justify the cost of the escalated thermal aging which caused the premature failure.

2. Coal Generation:

a) Four Corners Outage of January 17, 2009, at 14:05

As detailed in DRA's Opening brief, an outage at Four Corners coal plant cost ratepayers approximately \$50,000. The outage was due to SCE's imprudent maintenance

⁶ Stator windings are the large, stationary coils of very heavy wire in a generator that carry away the large currents associated with the power being produced, as opposed to the rotor coils which, carrying only the lower, "excitation" current, are substantially smaller, so as to be efficiently rotated within the stator by the mechanical prime mover, in this case, the water turbines.

⁷ SCE Opening Brief, p. 28.

and an unreasonable design failure in not having backup power, backup feed systems, and updated backup stocks of single-point-of-failure coal system controls.

DRA's Opening Brief addresses each of the substantive arguments raised in SCE's Opening Brief regarding the Four Corners outage and details why those arguments lack merit.⁸ DRA will not repeat those arguments here. However, DRA does take issue with SCE's Opening Brief characterization of the plant operator's report (SCE Alert) regarding this outage.⁹ Specifically, SCE, in its Opening Brief, attempts to minimize the importance of the SCE Alert report by emphasizing that the report (1) is a "single page," (2) has the "limited purpose" of preliminarily alerting personnel to a problem and initiating further investigation, and (3) contains "errors or omissions" that become obvious at a later time and are never incorporated into the document. These arguments lack merit.

As with SCE's dismissal of cause evaluations and regulatory reports regarding the SONGS outage, SCE attempts to minimize the significance of its own plant operator's report. The report, however, constitutes relevant and informative record evidence in this proceeding. Whether the SCE Report is one page or one hundred pages is irrelevant; the document speaks for itself as the product of the plant operator's own investigation into the Four Corners outage. The SCE Report provides DRA and the Commission with the plant operator's first-hand account of the facts surrounding the incident, the determined

⁸ DRA Opening Brief, pp. 28-32.

⁹ SCE Improvement Opportunity Alert titled "*U4&5 Coal System Control Power Failure – RCD 2009-004*" dated April 9, 2009, attached as Appendix J to Exhibit SCE-8 (SCE Alert). The SCE Report highlights SCE's imprudent maintenance of its Four Corners facility. Specifically, the section entitled "Lessons Learned" reads as follows:

No back up UPS power feed to the coal system controls.

No 480V back up feed to the coal system.

480V MCC Coal breaker overloads need to be upgraded.

Coal system manual operation is needed so Operations can continue feeding coal to the silos, while Technicians are troubleshooting.

Keep a matched pair of Allen Bradley processors (updated firmware) in stock at the Warehouse.

(SCE Alert, p. 1.) For reasons detailed in DRA's Opening Brief, it is unreasonable to believe that any of these observations should not have been made prior to the event.

cause of the incident, and a list of “Lessons Learned.” Significantly, SCE implies the possibility of “errors and omissions” in the SCE Report but provides no evidence that such errors exist.¹⁰

Again, as detailed in DRA’s Opening Brief, although the Four Corners facility design failures may have first appeared in SCE’s documentation after the outage, SCE clearly knew of some of these shortcomings before the event and should have known before the event that all of the problems identified in the SCE Report—backup power, backup feed systems, and update backup stocks of single-point-of-failure apparatus—were reasonable aspects of maintaining a coal plant. Any one of these indentified problems should have triggered an engineering review of the entire power and control scheme, leading—all but inevitably—to systematic modernization of the plant’s power supply. Contrary to repeated assertions in SCE’s Opening Brief, the fact that some of these upgrades were under consideration by the utility supports DRA’s contention that the upgrades were at issue. It does not excuse the utility for not addressing these upgrades in a timely manner.

For the foregoing reasons, and reasons articulated in DRA’s Opening Brief, Four Corners suffered from imprudent maintenance and an unreasonable design failure that resulted in an outage costing ratepayers approximately \$50,000.

3. Nuclear Generation: SONGS Outage of December 28, 2008

SONGS Unit 2 had one forced outage and two scheduled outages, which included a mid-cycle outage and a Refueling/Steam Generator Replacement Outage. One of the planned outages, which started on December 28, 2008, was scheduled for 30 days, but was extended an additional 16 days due to an unexpected need to replace the drive motor of a Control Element Drive Mechanism (CEDM).¹¹ This is one of the motors that position the “control rods” that keep the nuclear reactions within the Reactor under control. The motor was successfully replaced. However, the extended outage was

¹⁰ See SCE Opening Brief, p. 31.

¹¹ RT, 71:21-23; RT, 75:27.

further extended at least 48 hours because a vent valve was “improperly/incorrectly”¹² assembled during the motor replacement procedure and had to be reassembled. These “vent valves” are critical features of the nuclear reactor pressure boundary, that allow air and gasses, that collect within the CEDMs during maintenance, to be vented without releasing the core cooling water, which is radioactive. The imprudent reassembly of the vent valve cost ratepayers approximately \$1,516,000 in replacement power.

For reasons discussed below, and contrary to arguments raised in SCE’s Opening Brief regarding the 48 hour SONGS outage:

- (1) the uncontested facts concerning the incident support a finding of imprudence;
- (2) SCE’s nuclear cause evaluations, internal audit reports, and NRC inspection reports provide support for DRA’s disallowance recommendation. These reports should be relied upon by the Commission as a consistent body of factual observations and a context of reasonably knowable information by SCE at the time of the incident; and
- (3) the value of the facts and context contained in SCE’s nuclear cause evaluations is undiminished, and arguably strengthened, by the fact that the NRC mandates these evaluations in an effort to promote nuclear safety and self-critical transparency.

i) SCE’s imprudence is established by the uncontested facts provided in SCE’s testimony, and SCE’s attempt to minimize the significance and relevance of these facts is unpersuasive

SCE repeatedly and incorrectly asserts in its Opening Brief that DRA’s reasonableness evaluation of the SONGS outage was supported “exclusively” on “after-the-fact” cause evaluations, internal auditor reports, and NRC inspections reports. The uncontested facts surrounding the challenged outage support a finding of imprudence. As described below and detailed in DRA’s Opening Brief, DRA’s finding of imprudence and recommended disallowance is supported entirely by the uncontested facts of the incident itself; facts highlighted and given clear context by SCE’s own testimony.

¹² SCE Rebuttal Testimony, p. 23:11-21.

Specifically, SCE’s testimony establishes the utility’s imprudent management of an admittedly simple reassembly of a valve containing only four parts. SCE’s witness stated that it took approximately 20 minutes for two craftspeople to reassemble the vent valve¹³ and that reassembly of the vent valve “is very simple.”¹⁴

There's a little ball that sits on a curved surface called a seat. And the ball pressing into that seat with a stem that's pressed down with a nut is what causes that surface to seal. So reassembling the vent valve is no more than putting the ball in place, the stem on top of it, and turning down the torque nut. It's a very simple operation.¹⁵

The vent valve, unfortunately, was not reassembled that way. Instead:

It was put together such that the stem was sitting on top of that curved surface, the seat I told you about. The ball was on top of the stem instead of under it. And then the nut on top was turned down but not torqued.¹⁶

SCE admits that the “outage was extended for approximately 48 hours due to the improper reassembly of the vent valve” and that “when the vent valve was reassembled, the steel ball was incorrectly placed on top of the valve stem instead of under the valve stem.”¹⁷ SCE also admits that the end result of its actions resulted in “miscommunication, incorrect assembly and incomplete documentation.”¹⁸ SCE never denies that it failed to properly reassemble the CEDM Vent Valves before attempting to restart SONGS 2. SCE’s suggestions that its failure to properly manage the correct reassembly of the valve, resulting in the breaching of the SONGS 2 containment barrier, was somehow (a) due to the unprecedented failure of the associated motor, (b) justified

¹³ RT, 81:2-16.

¹⁴ RT, 91:15-16.

¹⁵ RT, 91:16-24.

¹⁶ RT, 91:26 – 92:3.

¹⁷ SCE Rebuttal Testimony, p. 23:11-15, emphasis added; and see, 23:21 (“incorrect placement of the steel ball”).

¹⁸ SCE Rebuttal Testimony, p. 24:14-15.

by the overall expediency of the associated motor assembly repair, or (c) excused by some supposed problematic nature of DRA's analytical approach are all unpersuasive.

SCE attempts to minimize the significance of these uncontested facts by describing the distinct 48-hour outage within the context of the 16 day driver motor failure outage. Specifically, SCE emphasizes (1) the 16 day outage involved a motor failure of a type that was unprecedented, and that even with the additional 48 hour extension the total outage time was an "excellent outcome" considering the unprecedented nature of the motor failure, and (2) the extension of the outage by 48 hours was due to SCE taking a more safety minded approach to making the repair, and (3) SCE witness Mallett's testimony that the first line supervisor's incorrect decision regarding reassembly of the valve was reasonable at the time the decision was made. Each of these arguments lacks substantive merit. Moreover, SCE's general attempt to cloud the facts surrounding its management of the distinct 48-hour outage by emphasizing preceding 16-day outage does not make sense.

(a) The unprecedented nature of the motor failure is irrelevant to the challenged 48 hour outage

The unprecedented nature of the large motor failure and the reasonableness of the subsequent 16-day repair are entirely unrelated to the reasonableness of the challenged 48-hour outage. DRA does not dispute that the 16-day motor repair was somewhat complex, nor does DRA assert that any mismanagement of the utility was involved in the motor failure. DRA's disallowance recommendation is for the distinct 48-hour extension of this outage. SCE appears to believe that properly managing one portion of its plant entitles it to mismanage another part without accountability. By taking 48 hours to properly reassemble the valve, SCE was merely doing its job responsibly. Unfortunately, for reasons discussed above, the utility simply did not perform the valve repair responsibly. SCE's arguments are merely an attempt to distract the Commission from the clearly defined issue at hand; namely, the 48-hour outage that resulted from SCE imprudent failure to correctly perform the self-described 'simple' valve reassembly.

In a similar argument, SCE unpersuasively relies on SCE witness Carpenter’s emphatic testimony that “it was a ‘huge success’ to have safely and correctly accomplished this . . . repair within just two days of the 16-day estimated schedule” and SCE “met the requirements for good planning, excellent response to an emergent activity, and very good overall management of the work.” The evidence reveals the fallacy of this argument. SCE’s self-described “huge success” was accomplished neither “safely” nor “correctly,” and did not meet any requirements for “good planning” or “good overall management” of the valve repair. To the contrary, SCE’s imprudent mismanagement failed to assure the correct assembly of a critical element of the reactor’s pressure boundary. SCE momentarily started up a nuclear power plant with a compromised cooling water pressure boundary, and exposed its facility and personnel to radioactive nuclear core cooling water. Accordingly, SCE witness Carpenter’s self-congratulatory testimony is an unsupported attempt to sugarcoat SCE’s admitted mistake.

(b) SCE’s actions after it incorrectly reassembled the valve does not excuse the incorrect reassembly

SCE’s own record evidence contradicts its Opening Brief claim that “the extension of the [16 day] outage by 48 hours was primarily due to SCE taking a more conservative, safety-minded approach to making the repair.” Specifically, SCE’s evidence states that “the mid-cycle outage was extended for approximately 48 hours due to the improper reassembly of the vent valve for CEDM #22.” Thus, SCE would prefer the Commission ignore SCE’s own evidence that the outage was a direct result of improper reassembly and instead focus on an irrelevant argument regarding a general concern for safety. Again, SCE’s argument misses the fundamental point that SCE’s imprudent act was the improper reassembly of a 3-part valve and the judging of SCE’s actions vis-a-vie reasonableness stops there. What SCE did after they committed the imprudent act may be relevant to how SCE addressed mitigation of damages, but is not relevant to whether they knew or should have known how to reassemble a part in a

nuclear power plant. Stated another way, SCE would not have had to spend two days figuring out what it did wrong had SCE done it right in the first place.

(c) SCE’s Knowledge Controls, Not just that of an Employee

Notably, SCE continues to assert the unpersuasive argument that the reasonableness of SCE’s actions as to this outage should be judged by what the supervisor knew at the time of the improper valve reassembly.¹⁹ As outlined in DRA’s Opening Brief,²⁰ by repeating statements about what the supervisor knew at the time, SCE is attempting to distract the Commission from the test it has applied for over two decades, that “the event [] is to be reviewed based on facts that are known or should have been known by the utility management at the time.”²¹

ii) Internal and regulatory reports serve to highlight both the mistakes that contributed to the imprudent valve reassembly and the managerial environment in which these imprudent mistakes were allowed to occur

SCE’s lengthy discussion regarding the use of nuclear cause evaluations, internal audit reports, and NRC inspection reports demonstrates a fundamental misunderstanding of the relevance of this evidence to DRA’s disallowance recommendation for the 48 hour SONGS outage. Contrary to SCE’s repeated assertions, DRA does not expect the Commission to draw a direct correlation between the findings of these documents and the Commission’s reasonable manager standard. However, the nuclear cause evaluations, internal audit reports, and regulatory reports do provide a consistent and reliable body of factual observations and a context of known and reasonably knowable information at the time of the 48-hour SONGS outage. The reports do provide support for DRA’s recommendation by highlighting the existence of a problematic management

¹⁹ SCE Opening Brief, pp. 22-23. For example, SCE notes that the cause evaluation was critical of the supervisor’s assembly of the valve but, according to SCE, “[t]his does not . . . mean that the first line supervisor’s decision was unreasonable at the time it was made.” (SCE Opening Brief, p. 22.)

²⁰ DRA Opening Brief, pp. 34-35.

²¹ D.90-09-088, p, 21, emphasis added.

environment in which the clearly imprudent reassembly of the valve took place and went uncorrected prior to release of radioactive material.²² As demonstrated above, the facts surrounding the admittedly “simple” but incorrect and imprudent reassembly of the valve at issue stand on their own.

iii) Cause Evaluations have Value to the Analysis of Outages

SCE’s Opening Brief makes several related and equally unpersuasive arguments regarding the nuclear cause evaluations specifically.

SCE instructs us that the NRC’s regulatory standards regarding the NRC mandated nuclear cause evaluations are more stringent than the Commission’s reasonableness standard. SCE asserts that the purpose of nuclear cause evaluations is to improve and ensure safety at nuclear power plants, and that the reports are “not . . . intended to judge the reasonableness of decisions made at the time of the event under [the] Commission’s standard.”²³ This argument supports DRA’s position as to the 48 hour SONGS outage.

Specifically, SCE unpersuasively asserts that that the cause evaluations “are intended to be self-critical” and that “[their] descriptions of ‘inappropriate actions’ or

²² The Nuclear Regulatory Commission report states: From the NRC Report:

Specifically, work control and maintenance personnel did not use work documents and procedures to reassemble the vent valve for the control element drive mechanism associated with control element Assembly 22, which resulted in a reactor coolant system leak during the fill and vent process.

...

The finding is greater than minor because it is associated with the reactor coolant system equipment and barrier performance attribute of the Barrier Integrity Cornerstone and affects the associated cornerstone objective to provide reasonable assurance that physical design barriers protect the public from radionuclide releases caused by accidents or events.

...

This finding has a crosscutting aspect in the area of human performance associated with work control because the licensee did not appropriately coordinate work activities by incorporating actions to address the impact of work on different job activities...” DRA-7, p. 5.

²³ SCE Opening Brief, pp. 10-11.

‘causes’ are not evenhanded assessments of the reasonableness of a particular decision.’²⁴ This argument lacks merit. DRA would agree that the NRC might call certain utility behavior an “inappropriate action,” while the Commission may call that same behavior something else. However, it is preposterous to suggest that behavior one regulatory agency describes as “inappropriate” should not justifiably undergo scrutiny by a party or other agency charged with assessing the reasonableness of that same behavior. Similarly, it is inconceivable that technical reports, prepared by the utility’s own staff and published by the utility, however “self-critical,” would present an unreasoned or unreasonable condemnation of the utility’s own best efforts.

Finally, SCE suggests that DRA’s consideration and the Commission’s examination of the nuclear plant cause evaluation reports will lead to reduced nuclear safety.²⁵ That could only be true if one believes that SCE will knowingly violate NRC regulations that are intended to insure the safety of the plants if this Commission makes any reference to those reports. DRA does not suggest that safety is irrelevant, only that, while the NRC has the luxury of focusing on safety alone, this Commission bears the duty to consider the economic prudence of a utility’s operations. DRA does not want either safety or economy to be sacrificed to the other, but for both to be appropriately balanced.

From the foregoing and for reasons detailed in DRA’s Opening Brief, it is clear that SCE imprudently allowed management systems within SONGS to deteriorate. The repair of the vent valve added at least 48 hours to the existing outage, implicating 40,168 MWh of additional lost energy, costing approximately \$1,516,000 to replace. Because the SONGS generating unit was not prudently administered in this instance, ratepayers should not be responsible for these replacement power purchase costs.

²⁴ SCE Opening Brief, p. 12, citing Exhibit SCE-7 (Mallett), p. 11.

²⁵ SCE Opening Brief, p. 14-16.

4. POWER REPLACEMENT COSTS

SCE's Opening Brief challenges both DRA's calculation of lost energy for SCE's hydroelectric units, as well as DRA's general methodology for calculating power replacement costs.²⁶

i) Lost energy values for SCE's hydroelectric units

DRA presented the entire, technically possible, analysis of the power replacement costs. SCE's Opening Brief asserts that "it is not possible to calculate the exact cost of the economic loss due to a specific outage," but that SCE is capable of "estimate[ing]" the value of "lost energy" by consideration of certain factors.²⁷ DRA notes that this assertion by SCE perfectly highlights the reasonableness of DRA's position on this issue.

If SCE has a counter argument, it is incumbent upon them to document its historic hydroelectric production and current hydro bypass profile. SCE does argue that (1) the actual annual average capacity of Big Creek 3 and Mammoth Pool is 50% and 33%, respectively, and (2) DRA's energy loss calculation ignores seasonal factors and the concept of outage bypassed energy.²⁸ Factoring in outage bypassed energy, SCE proposes lost energy values of for Big Creek 3 and Mammoth Pool of 70,089 MWh and 29,477 MWh, respectively.²⁹ As a result of new information, DRA is satisfied that SCE's methodology for calculating lost energy costs is not necessarily unreasonable. Therefore, DRA will accept for this proceeding only annual average capacity factors for Big Creek 3 and Mammoth Pool of 50% and 33%, respectively. DRA will further accept for this proceeding only an additional 50% reduction to take account of seasonal factors and outage bypassed energy. Accordingly, DRA will accept for, this proceeding only, lost energy values for Big Creek 3 and Mammoth Pool of 74,460 MWh and 38,254 MWh,

²⁶ SCE Opening Brief, pp. 34-36.

²⁷ SCE Opening Brief, p. 35, emphasis added.

²⁸ SCE Opening Brief, pp. 34-35.

²⁹ SCE Opening Brief, p. 35.

respectively, for a total hydroelectric outage bypass energy for replacement value of 112,714 MWh.

C. Market Redesign and Technology Upgrade (MRTU)

i) DRA's Recommended Disallowance of \$77,000 for SCE's Incremental O&M Costs and Benefits for its Customers is Correct and is Well Supported

SCE asserts that DRA did not explain how it derived its recommended O & M cost disallowance of \$76,723 in DRA's Report.³⁰ This assertion is incorrect. As DRA explains on pages 5-4 through 5-6 of DRA's Report, the \$76,723 recommended disallowance is derived from Table 1-1 on page 5-5 of DRA's Report. Specifically, as DRA explained in its Report, this recommendation is the result of DRA disallowing an embedded cost element for SCE's Power Procurement Business Unit (PPBU), which SCE had erroneously classified as incremental costs for MRTU implementation. The difference between SCE's and DRA's amount is contained in the first line of the table, corresponding to the description "2007 and 2008 MRTUMA Recommendation".

As explained in DRA's Report, SCE derived its revenue requirement for MRTU implementation by taking the difference between the recorded costs for its PPBU and SCE's authorized system average costs in its last GRC and calling the resulting cost amount the incremental cost for MRTU implementation. However, SCE's methodology overstates the MRTU implementation cost because it includes incremental power purchase activities that are not MRTU-related. Therefore, DRA adjusted the MRTU revenue requirement to exclude the cost for these power purchases from the incremental revenue requirement for SCE's MRTU implementation.

DRA calculated the MRTU incremental implementation costs by adding up the activities that are directly related to MRTU implementation. For 2007 and 2008, DRA's revenue requirement is \$4,980,929 which is \$107,222 less than SCE's amount. For 2009, DRA's revenue requirement is \$3,627,500 which is \$30,500 more than SCE's

³⁰ SCE Opening Brief, p. 39.

amount. The sum of these adjustments is \$76,723 ($-\$107,723 + \$30,000 = \$76,723$), DRA's recommended disallowance.

ii) SCE is Not Entitled to Recover Additional Incremental Revenue Requirement for its 2007 through 2009 MRTU Investments in future ERRA Review Applications

SCE states that if the Commission approves its \$56.2 million of direct capital expenditures for MRTU, "then SCE is entitled to recover this revenue requirement (i.e., depreciation, taxes, and return on rate base) over the life of the project."³¹ SCE takes issue with DRA's recommendation that SCE should not be allowed to request "further reimbursements for MRTU costs prior to the end of year 2009" in future ERRA Review applications.

DRA does not dispute that SCE is entitled to recover the depreciation, taxes, and return on rate base associated with its MRTU capital investments over the life of the MRTU project. However, DRA recommends that SCE should not be authorized "further reimbursements for MRTU costs incurred prior to the end of year 2009".

SCE incurred \$56.2 million in capital expenses and \$8.608 million in operating maintenance expenses (O&M) for MRTU implementation in 2007, 2008 and 2009. When analyzed for 2009, this equates to an incremental revenue requirement of \$11.062 million in 2009, including O&M, depreciation, taxes and return on rate base. This is the amount of incremental revenue requirement DRA recommends be approved for SCE in 2009 (see Table 1-1, page 5-5, in DRA confidential Report, dated October 6, 2010). SCE will be able to include in its GRC proceedings the \$56.2 million in capital expenses for MRTU implementation as part of its overall accumulated rate base for which it will recover a rate of return, depreciation expenses and taxes throughout the life of the MRTU plant investments until they are fully depreciated.

DRA is recommending that SCE receive an incremental revenue requirement in 2009 for its 2007 2008, and 2009 MRTU incremental capital investments. In addition,

³¹ SCE Opening Brief, p. 40.

SCE will also be able to request and receive additions to rate base, depreciation expenses, and taxes associated with its 2007, 2008 and 2009 MRTU investments in its future GRC proceedings. DRA is concerned that SCE will seek additional revenue requirements in the 2010 ERRRA compliance proceeding and beyond, that are cumulative. In other words, SCE's future ERRRA requests may include the revenue requirement amount approved in 2009, plus the incremental amount for 2010. . If SCE is authorized to recover additional incremental revenue requirements in future ERRRA proceedings, this would amount to double recovery for the same MRTU investments made in 2007, 2008 and 2009. SCE will have the opportunity to reflect the \$56.2 million capital expenses it incurred for MRTU investment in 2007, 2008 and 2009 in its future GRC proceedings during which it may seek a rate of return, depreciation and taxes associated with this investment as part of its overall accumulated rate base.

III. CONCLUSION

For the reasons stated herein and in DRA's previous filings in this proceeding, DRA's recommendations should be adopted. Specifically DRA's recommended disallowances should be adopted for the two hydroelectric outages (Big Creek 3 and Mammoth Pool), the Four Corners outage, and the SONGS outage. In addition, the Commission should adopt DRA's proposal to bifurcate and consolidate MRTU, as well as DRA's additional MRTU related recommendations as outlined herein and in DRA's previous filings in this proceeding.

Respectfully submitted,

/s/ MITCHELL SHAPSON

Mitchell Shapson

Attorney for the Division of Ratepayer
Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

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Phone: (415) 703-2727
Email: sha@cpuc.ca.gov