Appendix B

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Decommissioning
Cost Categorization Guidelines

(Commission Approval Date: December 16, 2021)[1]

[1] See Application (A.) 18-03-009 *Decision [21-12-026] on Phase 2 and 3 of Southern California Edison Company (U338E) and San Diego Gas & Electric Company (U902E) 2018 Nuclear Decommissioning Cost Triennial Proceeding* (December 16, 2021) at Ordering Paragraph 8. See also **A.18-03-009 Exhibit SCE-011 (Decommissioning Cost Categorization) at 1-8 and Appendix A:** https://docs.cpuc.ca.gov/PublishedDocs/SupDoc/A1803009/2280/316458739.pdf

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Witnesses: Jose L. Perez



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(U 338-E)

Decommissioning Cost Categorization

Before the

Public Utilities Commission of the State of California

Rosemead, California
September 27, 2019

SCE-11 DECOMMISSIONING COST CATEGORIZATION

Table Of Contents

Section	Page	Witness
I. INTRODUCTION	1	J. Perez
II. DISTRIBUTED AND UNDISTRIBUTED COSTS	3	
III. COST CATEGORIZATION GUIDELINES	5	
A. Decommissioning Project Oversight Costs	5	
B. Site Costs	5	
C. Administrative and General (A&G) Support Costs	6	
D. Implementation	6	
1. DCEs	6	
2. Recorded Costs	7	
IV. CONCLUSION	8	
Appendix A Cost Categorization Agreement		
Appendix B Supplemental Cost Tables		
Appendix C Witness Qualifications		

I.

INTRODUCTION

In Decision (D.) 18-11-034, the Commission ordered the following in ordering paragraphs 5 and 12:

> 5. SCE and SDG&E shall meet with Energy Division staff and interested parties to develop protocols and guidance for recording staff time designated to Distributed activities, and to define what activities will be considered Undistributed and Distributed activities. SCE, SDG&E, and any interested parties participating in the discussion shall file a report in Application 18-03-009 setting forth the protocols and guidance agreed by the parties.
>
> 12. SCE shall consistent with this decision, in consultation with Energy Division staff and other interested parties, update its cost categorization structure for tracking expenditures as discussed herein, which includes a reasonable path to compare the decommissioning costs previously estimated to actual costs expended. SCE shall provide more detailed directions and instructions to its staff so that record keeping will directly and transparently reflect the appropriate location, and the appropriate detail, and support for Distributed activities. The revised cost categorization structure must set forth how costs will be recorded in the future, in a manner that can efficiently compare to forecasted costs included in the DCE. The revised cost categorization is to be submitted as testimony in the 2018 Nuclear Decommissioning Cost Triennial Proceeding consistent with this decision and the schedule set forth in A.18-03-009.

SCE conducted workshops with the Energy Division, SDG&E, and interested parties (i.e., the Public Advocates Office (Cal Advocates), The Utility Reform Network (TURN), and the Alliance for Nuclear Responsibility (A4NR)) on January 31, February 28, and March 14 of 2019 to discuss, *inter alia*, protocols and guidance for recording staff time designated to distributed activities, and what activities will be considered distributed and undistributed activities. In addition, SCE conducted several conference calls with SDG&E and some of the interested parties to reach agreement on these topics. In

June 2019, the parties finalized the Cost Categorization Guidelines (Guidelines), which are provided as Appendix A to this testimony. SCE is submitting this testimony in support of the Guidelines. The testimony includes an explanation of underlying assumptions and modifications of accounting treatments of certain costs. It also includes a supplemental 2017 SONGS 2&3 Decommissioning Cost Estimate (DCE) cost table that breaks out the undistributed costs into alternative cost groupings, including new line items, as prescribed in the Guidelines. The supplemental cost table summarizes decommissioning costs during 2018-2028 and provides mapping to the corresponding line items from the 2017 SONGS 2&3 DCE, which is being reviewed in this proceeding. This supplemental cost table is provided as Appendix B to this testimony. The Guidelines further specify how these supplemental undistributed cost line items will be incorporated in future NDCTPs.

Section II of this testimony discusses the differences between distributed and undistributed costs. Section III describes the Cost Categorization Guidelines discussed by SCE, SDG&E (the Utilities), and other interested parties. Section IV concludes SCE's testimony and discusses the reasons that the Cost Categorization Guidelines will assist the Commission and interested parties in reviewing the reasonableness of recorded decommissioning costs.

II.

DISTRIBUTED AND UNDISTRIBUTED COSTS

The SONGS decommissioning project includes two broad categories of costs: (1) distributed costs and (2) undistributed costs. Distributed costs are typically activity-specific costs that include costs associated with the physical work performed by the project team assigned to that activity—the activity has been forecast with a defined scope and duration. These costs also include the costs for planning and preparation costs as well as costs for decontamination, dismantling, packaging, disposal, and removal of major components and systems.[1] Examples of SONGS distributed costs include discrete physical decontamination and dismantling (D&D) activities such as the segmentation, packaging, and disposal of the SONGS 2&3 reactor vessel internals or the demolition and removal of the SONGS 2&3 turbine buildings. The estimation of distributed decommissioning project costs is relatively straightforward. Consistent with industry practices, the estimator uses material quantity take-offs, unit cost factors, executed contract pricing or actual cost data when available, lessons learned from on-site performance to date, other industry experiences, and an appropriate contingency factor to estimate the cost of each discrete physical D&D activity. To the extent that utility labor is directly required to perform the activity, that labor cost is included in the estimated cost for the distributed activity.[2] Each major D&D activity and its estimated cost is identified with a specific line item in the DCE. Following SCE policy, each utility staff employee who is assigned to work on a distributed activity is instructed to charge his or her time to that activity.[3]

Undistributed costs, on the other hand, are costs or fees for activities, programs, and other requirements that are necessary to oversee, manage, and support the overall decommissioning project.

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1 *See* 2014 SONGS 2&3 Decommissioning Cost Estimate at p. 12 of 37.

2 *See* Exhibit SCE-03C, Appendix B, p. B-20.

3 At the beginning of each year, SONGS Finance sends instructions to each project team assigned to a distributed activity. The instructions contain account charging information so that the project team can record their time and costs to the distributed activity. SONGS Finance also reviews recorded costs and may make manual corrections if it identifies cost-recording errors.

By their nature, such costs are not assignable to specific activities representing the physical work performed to decommission a nuclear plant. Undistributed activities and cost items generally are characterized by a uniform rate of activity over a specific timeframe. Undistributed costs include: (1) time-dependent costs incurred throughout the duration of the project regardless of whether decontamination and dismantling (D&D) is actively in progress (i.e., utility staff, including core contractor staff, service level agreements (SLAs), and security); and (2) unavoidable recurring expenses required to comply with regulatory and contractual requirements (i.e., NRC fees, insurance, lease and easement payments, and environmental fees and permits).

Undistributed cost activities are required on an ongoing basis to support the overall decommissioning project, including the performance of D&D activities. However, undistributed costs are also incurred during periods when active D&D projects are not being performed. Utility staff is the largest component of undistributed costs, and includes functions such as plant management, finance, and security. Varying levels of utility staff are required throughout the entire decommissioning project schedule, including periods in which active D&D projects are being performed and periods when they are not being performed. Utility staff oversight of decommissioning projects performed by contractors, including D&D activities performed by the DGC, is a substantial component of utility staff work.

During the 2015 and 2018 NDCTP proceedings, TURN raised questions regarding the categorization of utility staff costs between distributed and undistributed cost activities. TURN offered multiple recommendations, including developing a process to allocate undistributed costs to distributed activities. The utilities oppose any process of allocating undistributed costs to distributed activities as it would be the antithesis of the Commission's direction to develop an efficient process to compare costs (see Section V for further discussion on the problems raised by allocation). The purpose of the Cost Categorization Guidelines negotiated by the Utilities, Energy Division, and other interested parties, is to provide a greater level of detail regarding undistributed costs for the Commission's review of such costs.

III.

COST CATEGORIZATION GUIDELINES

Under the Cost Categorization Guidelines, the cost tables already provided in the DCEs will not change. Beginning with the 2017 SONGS 2&3 DCE, SCE will provide a supplemental cost table that will group the DCE undistributed cost line items into three main categories: (1) Decommissioning Project Oversight Costs, (2) Site Costs, and (3) Administrative and General Support Costs. Each of these main categories will be further divided into subcategories that will provide a more detailed breakdown of the category's costs. This increased level of detail will provide interested parties with additional information regarding the costs being recorded and continue to facilitate a comparison of undistributed costs to the estimated cost.

A. Decommissioning Project Oversight Costs

Decommissioning Project Oversight Costs include costs related to the planning, monitoring, supervision, and management of decommissioning work which is primarily the work to be accomplished by the DGC. This category includes the following subcategories:

- Key Oversight personnel (including senior site/decommissioning management)
- Decommissioning oversight personnel
- DGC undistributed costs
- Non-labor undistributed costs associated with planning, monitoring, supervision, and management of decommissioning work

B. Site Costs

Site Costs are those costs necessary to maintain and operate the site as a whole that adjust over time based on the completion of decommissioning phases, and are not part of the Decommissioning Project Oversight functions. This category includes the following subcategories:

- Security
- Plant Management (includes operations, other plant management costs, and emergency planning)
- Non-labor undistributed costs associated with maintaining and operating the site

C. Administrative and General (A&G) Support Costs

A&G Support Costs provide corporate and site administrative activities necessary to support decommissioning that is not part of the Decommissioning Project Oversight or Site Cost categories. This category includes the following subcategories:

- Site Management and Administration
- Service Level Agreements
- Non-labor undistributed costs associated with A&G Support
- Other A&G support costs that can be separately identified

D. Implementation

1. DCEs

As explained above, the line items for undistributed costs in the current DCE cost tables and future DCE cost tables will not change. To provide the additional information that the parties agreed to in the Guidelines, SCE will create a new account for SCE's Key Oversight personnel. Additionally, in this proceeding and in each subsequent NDCTP, SCE will provide a supplemental cost table that organizes all undistributed costs into three main categories and their corresponding subcategories as described above. These supplemental cost tables will include mapping to corresponding DCE undistributed cost line items. SDG&E also will forecast and record their additional costs in the same categories and subcategories as described above for SCE.

The above changes will be made for the 2017 SONGS 2&3 DCE in a supplemental table[4] for 2018-2028 that presents annual forecasts for each of the main categories, subcategories and each SLA with references to the relevant DCE line items. In future NDCTPs, the Utilities will provide similar supplemental cost tables for undistributed costs through the end of the decommissioning project.

[4] *See* Appendix B to this testimony.

2. Recorded Costs

In future NDCTPs, SCE will provide recorded cost data by the categories identified in the Guidelines. To the extent that complete information on recorded costs is not available for 2018 and the first half of 2019, SCE will provide an approximation of recorded costs for each main category and subcategory, as well as, any recorded costs associated with incentive payments made each year to utility staff supporting SONGS decommissioning, including results sharing incentive compensation.

IV.

CONCLUSION

The Cost Categorization Guidelines fulfill the requirements of D.18-11-034 to develop protocols and guidance for recording staff time designated to distributed activities; define what activities will be considered distributed and undistributed activities;[5] and set forth how costs will be recorded in the future. The Guidelines accomplish this by providing additional information for the Commission and other interested parties to reconcile recorded costs to estimated costs for distributed and undistributed activities.

The Guidelines strike the right balance. Whereas it would be impractical and burdensome for utility personnel (who currently record their time as undistributed costs) to record portions of their time to specific distributed projects, it would be impossible for SCE or a third party cost estimator to accurately estimate (in advance) the amount of time and associated costs that each utility oversight employee would work on among the hundreds of distributed activities in the SONGS decommissioning project. Similarly, it would be unreasonable to expect SCE or a cost estimator to accurately allocate in advance the amounts of utility oversight costs that will be required for each distributed activity. To do so would build estimating or allocation errors into the DCE that would inevitably result in false variances to recorded costs. This was discussed during workshops, and interested parties agreed that an allocation method that introduced false variances should be avoided.

The Guidelines achieve the Commission's goal of providing additional cost transparency and facilitating the Commission's reasonableness reviews. It maintains the Commission-approved Milestone Framework, including the "checkpoints" for the Commission's reasonableness reviews of undistributed costs while not imposing burdensome recordkeeping or cost estimating changes upon the utilities. Each of the parties who participated in the negotiations has agreed to the Guidelines.

Therefore, the Commission should find that the Cost Categorization Guidelines are reasonable.

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[5] D.18-11-034, Ordering Paragraph 5.

Appendix A

Cost Categorization Agreement

Cost Categorization Guidelines

SCE will organize all undistributed costs into the three main categories and subcategories described in the following sections. All undistributed costs include utility staff, contractors, Service Level Agreements, and any other expenditure categorized as undistributed.

The three main cost categories are:

1. Decommissioning Project Oversight
2. Site Costs
3. Administrative and General Support Costs

Descriptions of the three main categories and subcategories are described in detail in the following sections.

1. Decommissioning Project Oversight

Decommissioning Project Oversight includes all costs related to the planning, monitoring, supervision, and management of decommissioning work which is primarily the work to be accomplished by the DGC. This category includes the following subcategories:

a. Key Oversight (including top site/decommissioning management)
b. Decommissioning oversight personnel
c. DGC undistributed costs
d. Non-labor undistributed costs associated with planning, monitoring, supervision, and management of decommissioning work[1]

2. Site Costs

Site Costs are those necessary to maintain and operate the site as a whole, that adjust over time based on completion of decommissioning phases, and are not part of the Decommissioning Project Oversight functions. This category includes the following subcategories:

a. Security
b. Plant Management (includes operations, other plant management costs and emergency planning)
c. Non-labor undistributed costs associated with maintaining and operating the site[2]

[1] This includes the decommissioning advisor and associated contracted services.
[2] These include contracted services, environmental permits and fees, emergency preparedness fees, association fees, NRC fees, site lease and easement expenses, health physics supplies, security related expenses, spent fuel maintenance, DAW disposal, tools and equipment, community engagement panel, energy, utilities, computers, telecommunications, and information technology.

3. Administrative and General (A&G) Support Costs

A&G Support Costs provide corporate and site administrative support necessary for support of decommissioning not part of the Decommissioning Project Oversight or Site Cost categories. This includes the following subcategories:

a. Site Management and Administration (includes Regulatory Affairs and Nuclear Oversight, accounting, finance and personnel costs)
b. Service Level Agreements
c. Non-labor undistributed costs associated with A&G Support[3]
d. Other A&G support costs that can be separately identified

Additional considerations:

a. SDG&E will forecast and record their additional costs in the same categories and sub categories as described above for SCE.
b. SCE will report any recorded costs associated with incentive payments made each year to utility staff supporting SONGS decommissioning, including Results Sharing Incentive Compensation.
c. No changes to the milestone framework relating to checkpoints and timing for review of undistributed costs.
d. The above changes will be made for the 2017 DCE in the form of a supplement for 2018-2028 that presents annual forecasts for each of the main categories, subcategories and each service level agreement with references to the relevant DCE line items. In future NDCTPs, the utilities shall provide similar supplements for undistributed costs through the end of the decommissioning project.
e. The utilities will provide annual recorded cost data by Category and Subcategory along with any additional breakdown of costs by Division, Service Level Agreement, or other account within each subcategory.[4] To the extent that complete information on recorded costs is not available for 2018 and the first half of 2019, the utilities shall provide an approximation of recorded costs for each main category and subcategory.

[3] These include bank fees and interest, insurance, workers compensation, severance, property tax, and third party legal.

[4] Core contractor staffing (utility staff augmentation) will be treated as separate line items for recorded costs within the corresponding main category and subcategory for the related utility staff where the augmentation is being provided.