

Southern California Edison
SCE-SDGE Joint DCE Application A.14-12-007

DATA REQUEST SET A.14-12-007 Gilmore-SCE-005

To: GILMORE
Prepared by: Robert Bledsoe
Title: Project Manager
Dated: 06/05/2015

Question 67:

67. Please provide a narrative explaining why SCE directed EnergySolutions to apply a 25% contingency rate to all but six budget categories. For each budget category, please provide the basis of the 25% estimate including any risk analysis or risk management plan that the estimate is based on.

Response to Question 67:

SCE objects to the request on the ground that it is vague and ambiguous, particularly as to form (e.g. the question is compound). Subject to and without waiving these objections, SCE responds as follows:

“Contingencies” are defined in the American Association of Cost Engineers “Project and Cost Engineers’ Handbook” as “specific provision for unforeseeable elements of cost within the defined project scope; particularly important where previous experience relating to estimates and actual costs has shown that unforeseeable events which will increase costs are likely to occur.”

SCE researched cost engineering industry literature to identify accepted practices for applying contingency to construction projects in varying stages of planning. The consensus among all sources is that the contingency factor applied to any cost estimate should reflect several factors, including but not limited to the then-current planning status of the estimate, and the complexity of the project, the extent to which environmental restoration is included in the work scope, etc.

As stated in Exhibit SCE-01, page 23, lines 11-16, the SONGS DCE is a conceptual estimate. At the time it was developed, no detailed engineering studies for any of the decommissioning work scopes had been performed, no procurement activities had commenced, and no contracts had been signed. Moreover, whereas SCE had gained first-hand experience in many decommissioning activities while decommissioning SONGS 1, some activities in the future work scopes have not yet been performed anywhere in the industry. Therefore, SCE has only been able to include allowances for those work scopes in their cost estimates. In addition, no nuclear facility has been required to perform environmental restoration work to the extent that SCE may be required to cleanup the SONGS site to terminate its easement with the U.S. Department of the Navy.

Therefore, the level of planning in the DCE still did not meet the threshold for a “Detailed

Estimate” as defined in the industry literature. The planning status in the literature that precedes a “Detailed Estimate” is “Budget, Authorization, or Control,” or a “Preliminary Estimate.” The consensus in the industry literature, including sources from the U.S. Department of Energy (DOE), the Association for the Advancement of Cost Engineering International (AACEI), and the Electric Power Research Institute is that an appropriate contingency factor for cost estimates in this stage of development should fall within a range of 15% to 30%. When the work scope requires environmental restoration activities, the contingency factor is generally increased.

In addition, PG&E identified several other documents, including several documents that originated from the U.S. Nuclear Regulatory Commission (NRC), that specifically identify 25% as an appropriate contingency factor for nuclear plant decommissioning cost estimates. PG&E compiled and summarized these documents in a document titled, “Technical Position Paper for Establishing an Appropriate Contingency Factor for Inclusion in the Decommissioning Revenue Requirements“, dated February 2008. In summary, each of the industry and regulatory documents cited in this technical position paper concluded that it is appropriate to add a contingency factor of 25% to the sum of all estimated decommissioning costs because the 25% contingency factor provides reasonable assurance for unforeseen circumstances that could increase decommissioning costs, and should not be reduced or eliminated simply because foreseeable costs are low.

For all of these reasons, SCE directed EnergySolutions to apply a contingency factor of 25% to nearly all of the estimated decommissioning costs. SCE believes a 25% contingency factor was both conservative and appropriate for use this decommissioning cost estimate.