

**STAFF REPORT
INFORMATIONAL**

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**STATUS UPDATE ON PACIFIC GAS AND ELECTRIC'S
DIABLO CANYON POWER PLANT JOINT PROPOSAL APPLICATION PENDING
BEFORE THE CALIFORNIA PUBLIC UTILITIES COMMISSION,
NEAR AVILA BEACH, SAN LUIS OBISPO COUNTY**

BACKGROUND:

On June 28, 2016, the Commission authorized execution of a lease with Pacific Gas and Electric (PG&E) for the continued operation of the Diablo Canyon Power Plant (DCPP) until 2025, with PG&E expected to retire DCPP at that time. ([Item 96, June 28, 2016](#)). The Commission based its approval, in part, on a [Joint Proposal](#) between PG&E, a labor union, and several environmental organizations. The Joint Proposal is an agreement that provides for the orderly transition and ultimate retirement of the DCPP while facilitating the replacement of nuclear power with other greenhouse gas-free resources and supporting local works and the community. The Joint Proposal is subject to approval by the California Public Utilities Commission (CPUC). Recently, a CPUC administrative law judge issued a proposed decision, effective upon CPUC adoption, refusing to approve many of the beneficial terms of the Joint Proposal.

THE JOINT PROPOSAL AND PROPOSED CPUC DECISION:

Through the Joint Proposal, executed on June 21, 2016, the parties agreed that PG&E would:

- Retire DCPP.
- Procure and implement a Greenhouse Gas free portfolio of renewable energy resources, energy efficiency and energy storage replacement resources, including a voluntary 55 percent renewable energy portfolio commitment standard.
- Implement an employee retention and severance program.
- Implement a community impacts mitigation program.

To pay for these elements of the Joint Proposal, PG&E is seeking approval of electricity rate changes before the CPUC. Subsequently, PG&E proposed several changes to the Joint Proposal. These changes included procedural changes to its proposed energy replacement plan ([Procedural Modifications to Diablo Canyon Joint Proposal](#)) and an increased commitment in its community

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impact mitigation program ([Increased Proposed Community Impacts Mitigation Program](#)). After briefing and evidentiary hearings, a CPUC administrative law judge issued a proposed decision for the CPUC to adopt. This proposed decision has no legal effect unless the CPUC adopts it. If adopted as proposed, however, the decision would approve only a fraction of the total increased rate recovery that PG&E requested.

PG&E requested CPUC approval to recover in rates over \$1.76 billion in costs associated with the retirement of DCP. Those costs include:

- \$1.3 billion for energy efficiency procurement to partially replace the output of DCP.
- \$363.4 million for DCP employee retention and retraining.
- \$85 million for a [Community Impacts Mitigation Program](#).
- \$18.6 million in costs previously incurred for its Nuclear Regulatory Commission license renewal process.

The proposed decision, if adopted, would:

- Approve retirement of DCP.
- Defer approval or denial of the replacement energy efficiency procurement to a subsequent Integrated Resource Planning proceeding.
- Approve recovery in rates of \$171.8 million for employee retention and retraining.
- Deny request for recovery in rates of any amount for the proposed Community Impacts Mitigation Program.
- Approve recovery in rates of \$18.6 million for license renewal activities.

The Integrated Resource Planning (IRP) rulemaking procedure has commenced ([R 16-02-007](#)). According to the CPUC, this is an umbrella planning proceeding to consider all of the CPUC's electric procurement policies and programs and ensure that California has a safe, reliable, and cost-effective electricity supply. This IRP is also the CPUC's primary venue for implementing Senate Bill 350 (Stats. 2015, Ch. 547), which mandates that the CPUC adopt a process for integrated resource planning to ensure that load serving entities meet targets to be established by the California Air Resources Board to achieve greenhouse gas emissions reductions of 40 percent from 1990 levels by 2030. According to PG&E, retirement of the DCP is part of the scenario planning for this IRP process. Further PG&E will submit to the CPUC its long-term resource plan that demonstrates how its specific portfolio will meet the SB 350 requirements through 2030. As part of PG&E's portfolio, PG&E intends to submit details about the GHG-free resources PG&E identified to replace the lost generation from the

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DCPP following its retirement. PG&E states that the replacement resources described in Tranches 2 and 3 of the Joint Proposal will be addressed as part of that submission.

EFFECTS ON THE STATE LANDS COMMISSION LEASE AUTHORIZATION:

If adopted, the proposed decision could have two significant effects on the Commission's lease authorization on June 28, 2016. First, the Commission's analysis relied heavily on the terms of the Joint Proposal in its authorization of the lease. Second, PG&E reserves the right to rescind the Joint Proposal if rejected by CPUC, which would allow PG&E to seek relicensing of DCPP instead of retiring the facility.

The proposed decision, if adopted, may undermine many of the terms the Commission determined were beneficial to the State. The administrative law judge proposed to defer consideration of procurement of additional renewable energy resources, deny entirely the Community Impact Mitigation Program, and approve less than PG&E requested for its worker retention and retraining program.

The Joint Proposal states that:

if the CPUC fails to adopt this Joint Proposal and the associated settlement in its entirety and without modification, the Parties shall . . . discuss whether the Joint Proposal and associated settlement should be renegotiated with alternative terms and resubmitted to the [CPUC] for approval. The Parties agree under such circumstances to bargain in good faith to restore the balance of benefits and burdens under the Joint Proposal. If the Parties cannot mutually agree to resolve the issues raised by the CPUC's actions, the Joint Proposal and the associated settlement agreement may be rescinded by any Party and the Parties shall be released from their obligations under the Joint Proposal. (Joint Proposal, pg. 18.)

There is no means within the Joint Proposal to compel any party to agree to alternative terms. Accordingly, if the CPUC adopts the proposed decision, PG&E may have the right, after participating in discussions to renegotiate, to rescind the agreement and seek relicensing to continue operating DCPP. The executed lease with the Commission requires PG&E to withdraw its relicensing application with the Nuclear Regulatory Commission or to submit a new lease application with the Commission by August 27, 2018. Otherwise, the lease will terminate on that date. Thus, if PG&E seeks relicensing, the Commission may have to consider an application for a long-term lease for continued DCPP operation.

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NEXT STEPS:

Commission staff will continue to ensure PG&E's compliance with its existing lease, monitor the CPUC proceedings, and report back to the Commission.