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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company
for Approval of the Retirement of Diablo Canyon
Power Plant, Implementation of the Joint
Proposal, And Recovery of Associated Costs
Through Proposed Ratemaking Mechanisms

(U 39 E)

Application 16-08-006
(Filed August 11, 2016)

**JOINT MOTION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), THE
ALLIANCE FOR NUCLEAR RESPONSIBILITY, THE UTILITY REFORM
NETWORK, THE OFFICE OF RATEPAYER ADVOCATES, THE SAN LUIS OBISPO
MOTHERS FOR PEACE, FRIENDS OF THE EARTH, NATURAL RESOURCES
DEFENSE COUNCIL, ENVIRONMENT CALIFORNIA, INTERNATIONAL
BROTHERHOOD OF ELECTRICAL WORKERS LOCAL 1245, AND COALITION OF
CALIFORNIA UTILITY EMPLOYEES FOR ADOPTION OF SETTLEMENT
AGREEMENT REGARDING LICENSE RENEWAL PROJECT AND CANCELLED
PROJECT COST RECOVERY AT DIABLO CANYON**

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CALIFORNIA UTILITY EMPLOYEES FOR ADOPTION OF SETTLEMENT
AGREEMENT REGARDING LICENSE RENEWAL PROJECT AND CANCELLED
PROJECT COST RECOVERY AT DIABLO CANYON**

I. INTRODUCTION AND REQUEST FOR COMMISSION ACTION

Pursuant to Rule 12.1 of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure ("Rules"), Pacific Gas and Electric Company ("PG&E"), the Alliance For Nuclear Responsibility ("A4NR"), The Utility Reform Network ("TURN"), the Office of Ratepayer Advocates ("ORA"), the San Luis Obispo Mothers for Peace ("Mothers for Peace"), Friends of The Earth ("FOE"), the Natural Resources Defense Council ("NRDC"), Environment California, International Brotherhood of Electrical Workers Local 1245 ("IBEW 1245"), and the Coalition of California Utility Employees ("CCUE"),¹ (collectively, the "Settling Parties") hereby jointly request that the Commission approve the Settlement Agreement Regarding License Renewal Project and Future Cancelled Project Cost Recovery (the "Agreement"), which is included as Attachment 1 to this Motion.

¹ Together, PG&E, FOE, NRDC, Environment California, IBEW 1245, CCUE, and A4NR are the "Joint Parties" to the Joint Proposal filed as Attachment A to the Application in the above-referenced proceeding.

The Agreement is a compromise among the Settling Parties' respective litigation positions to resolve some, but not all, of the disputed issues raised by parties in the above-referenced proceeding. Specifically, the Agreement addresses the mechanisms and amounts proposed by PG&E in this proceeding for recovery of costs associated with both PG&E's suspended License Renewal Project² and other Diablo Canyon Power Plant ("Diablo Canyon") projects that are cancelled during the remaining operational life of the facility.³ Unless otherwise provided in the Agreement, all proposals and recommendations by the Settling Parties in relation to these issues, including the Joint Parties' proposal regarding the issues in the original Joint Party Proposal, are superseded by the Agreement. The Settling Parties request the Commission approve the Agreement as just and reasonable and as part of its final decision resolving this proceeding.

The Agreement, which is set forth in Attachment 1 to this Motion, is comprised of two substantive components: (1) compromise terms governing the recovery of capital costs expended from 2009-2016 on a project initiated and now suspended by PG&E to seek the renewal of the Nuclear Regulatory Commission operating licenses for Diablo Canyon (the "License Renewal Project"); and (2) compromise terms regarding governing the recovery of costs for any other capital projects that are cancelled (i.e., abandoned) in the future at Diablo Canyon.

First, the Agreement would authorize PG&E to recover a total of \$18.6 million for the License Renewal Project through an annual, levelized, expense-only revenue requirement of approximately \$2.4 million to be recovered from customers over an 8-year period from January 1, 2018, through December 31, 2025, through the generation rate component of PG&E's

² Identified in the Scoping Memorandum issued in this proceeding as Issue 2.5. *See* Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, filed in A.16-08-006 on November 18, 2016, at p. 5.

³ Recovery of future cancelled project costs at Diablo Canyon were included within the scope of Issue 2.6 in the Scoping Memorandum. *See* Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, filed in A.16-08-006 on November 18, 2016, at pp. 5-6.

rates. This is reduced from PG&E's original request of \$52.7 million for the License Renewal Project.⁴

Second, the Agreement would authorize a cost recovery mechanism to be applied to any cancelled capital projects at Diablo Canyon through the end of the plant's operations in 2025. Under the mechanism, PG&E would be authorized to recover 100% of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project as of June 30, 2016, and would be further authorized to recover 25% of the direct costs associated with cancelled capital projects recorded after June 30, 2016. All other direct costs and the Allowance for Funds Used During Construction ("AFUDC") associated with such projects would not be recovered from customers.

Each of these substantive components of the Agreement, the principles upon which the settlement is based, and the other general and miscellaneous provisions of the Agreement, are summarized more fully below. The Settling Parties submit that, for the reasons described in this Motion, the Agreement is reasonable in light of the whole record, is consistent with law, and is in the public interest.

The remainder of this Motion is organized as follows:

- Section II describes the interests represented by the Settling Parties.
- Section III provides a procedural history of the issues addressed in the Agreement.
- Section IV summarizes the litigation positions taken by the Settling Parties.
- Section V explains why the Agreement is reasonable in light of the whole record, consistent with law, and in the public interest, as required by Rule 12.1(d).
- Section VI summarizes the Agreement and the associated ratemaking.
- Section VII discusses the impact of this Motion on the overall schedule for this proceeding.

⁴ Application at p. 17 (Request 11).

- Section VIII corrects an inconsistency in the record that PG&E discovered during the process of these settlement negotiations.
- Section IX provides a conclusion.

II. INTERESTS OF SETTLING PARTIES

The Settling Parties represent a variety of interests. PG&E represents the interests of its customers. A4NR represents the interests of consumers concerned about the costs and safety of PG&E's nuclear operations. ORA and TURN advocate on behalf of energy consumers. The Mothers for Peace is a non-profit public benefit corporation concerned with the health, safety, environmental, and economic impacts of nuclear weapons and nuclear power and the development of alternative energy sources. FOE, NRDC, and Environment California represent the interests of their members and supporters by defending the environment, championing a healthy and just world, and protecting California's air, water and open spaces. FOE also represents the economic interest of PG&E's customers, especially low-income customers, in obtaining their electric service at just and reasonable rates. IBEW 1245 and CCUE represent the interests of their member electrical workers, including employees of PG&E.

III. PROCEDURAL HISTORY

On August 11, 2016, PG&E filed the Application initiating this proceeding and seeking the Commission's approval of requests related to four sections in the Joint Parties' Proposal, including recovery of the costs associated with the Joint Proposal through proposed ratemaking mechanisms.⁵ Concurrent with filing the Application, PG&E also served its prepared testimony.

On September 14, 2016, A4NR filed a protest to the Application primarily related to the License Renewal Project cost issue. On September 15, 2016, TURN and ORA both filed protests that addressed, among other issues, the issues addressed by the Agreement. Mothers for Peace filed a response to the Application on September 15, 2016, that addressed the timing of the

⁵ The Joint Proposal was included as Attachment A to the Application. PG&E's specific requests are included in Section IV of the Application.

plant retirement, the prudence of the generator stator project, and other issues. FOE, NRDC, and Environment California filed a joint response to the Application on the same date. IBEW 1245 and CCUE filed a separate joint response to the Application on the same date.

On September 26, 2016, PG&E filed a reply to the responses and protests filed by parties, including those of the other Settling Parties.

On October 20, 2016, the Commission conducted two Public Participation Hearings on this Application, held in San Luis Obispo County.

On October 27, 2016, ALJ Allen ordered PG&E to serve supplemental testimony addressing issues related to the ownership and disposition of lands associated with Diablo Canyon. PG&E served this supplemental testimony on November 18, 2016.

On November 18, 2016, the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (“Scoping Memo”) was issued. In relevant part, the Scoping Memo allowed parties to present testimony on whether it is reasonable for PG&E to recover some or all of the License Renewal Project costs in rates.⁶ The Scoping Memo also allowed testimony on whether PG&E’s rate recovery proposals, including those regarding the License Renewal Project and future cancelled projects, should be approved.⁷ The Scoping Memo found hearings to be necessary.⁸

Intervenors, including some of the Settling Parties, served testimony on January 27, 2017. PG&E and other parties served rebuttal testimony on March 17, 2017. As part of their rebuttal testimony, PG&E and A4NR stipulated to clarifications on the process that PG&E would use to notify parties and the Commission regarding capital additions and cancellations in the future.⁹

⁶ Scoping Memo at p. 5.

⁷ See *id.* at p. 6.

⁸ *Id.*, p. 11.

⁹ See Ex. A4NR-1, Appendix; Ex. PG&E 5-2 at p. 6-5, lines 5-28 (Marre).

Hearings were held in this proceeding from April 19, 2017, through April 28, 2017. A4NR, TURN, and Mothers for Peace cross-examined PG&E witnesses Jearl Strickland and Charles Marre regarding the recovery of License Renewal Projects costs.¹⁰

With regard to settlement, the Scoping Memo noted that while it did not include specific dates for settlement conferences, it did not preclude parties from meeting at other times provided notice was given consistent with the Commission's Rules.¹¹ Accordingly, PG&E and other Settling Parties conducted settlement discussions and announced an agreement in principle regarding the License Renewal Project and future cancelled projects on May 12, 2017, when PG&E served notice of a settlement conference on all parties to this proceeding. In accordance with the Commission's Rule 12.1(b), the Settling Parties held the settlement conference seven days later, on May 19, 2017. Following the settlement conference, the Settling Parties executed the Agreement.

Throughout the duration of this proceeding, PG&E has responded to discovery propounded by several of the Settling Parties regarding the issues resolved by the Agreement.

IV. SUMMARY OF SETTLING PARTIES' LITIGATION POSITIONS REGARDING LICENSE RENEWAL PROJECT AND FUTURE CANCELLED PROJECT COST RECOVERY

The following subsections summarize the various Settling Parties' litigation positions with regard to the issues addressed by the Agreement.

A. Position of PG&E and the Other Joint Parties Except A4NR

The Joint Parties' Proposal represents an agreement to ensure the orderly retirement of Diablo Canyon, which has provided reliable energy to California for more than 30 years, and to replace it with GHG-free resources, while at the same time addressing the needs of employees and the community. In Section 5.2 of the Joint Proposal, the Joint Parties, except A4NR, agreed that it was reasonable and prudent for PG&E to conduct the evaluations and incur the costs of

¹⁰ Tr. at pp. 814-913 (PG&E, Strickland); 1016-1120 (PG&E, Strickland); 1191-1255 (PG&E, Marre).

¹¹ *Id.*, p. 12.

state and federal regulatory review in order to preserve all options, including license renewal, during a period of resource planning uncertainty.¹² Accordingly, the Joint Parties, except A4NR, supported PG&E's request for the recovery of the full \$52.7 million in costs associated with the License Renewal Project.¹³ This request was included in PG&E's Application.¹⁴

PG&E's position is that undertaking the License Renewal Project prudently kept open the option to renew the Diablo Canyon operating licenses.¹⁵ It did so through incurring reasonable and prudent costs to support the federal and state processes that were necessary to preserve the option to operate Diablo Canyon through 2045.¹⁶ In PG&E's view, it would have been imprudent based on the facts PG&E had available to it at the time for PG&E to not have considered and acted to preserve the potential value to customers of relicensing a facility dedicated to public use.¹⁷ PG&E argued that because the License Renewal Projects costs were prudently incurred during times of unusual and protracted regulatory and market uncertainty, and because the decision to retire Diablo Canyon and cancel the License Renewal Project will result in long-term net benefits to customers, the costs of the License Renewal Project, including AFUDC, should be eligible for full recovery pursuant to Commission precedent.¹⁸

Additionally, the Joint Parties' Proposal supported full cost recovery of PG&E's investment in and return on Diablo Canyon, fully amortized/depreciated to a zero book value by the end of 2024 for Unit 1 and the end of 2025 for Unit 2.¹⁹ PG&E's Application requested authority to update the Diablo Canyon capital depreciation expense revenue requirement

¹² Joint Parties' Proposal, Attachment A to Application, at pp. 11-12.

¹³ *Id.* at p. 12.

¹⁴ Application at p. 17 (Request 11).

¹⁵ Ex. PG&E-1 at p. 9-3, lines 7-8 (Strickland).

¹⁶ *Id.* at p. 9-3, lines 11-12.

¹⁷ Ex. PG&E-5-2 at p. 5-33, lines 5-11 (Marre).

¹⁸ *See generally id.* at pp. 5-32 to 5-39.

¹⁹ Joint Parties' Proposal, Attachment A to Application, at p. 11.

annually to true-up the previous year's authorized revenues with actual capital depreciation expense through a Tier 3 advice letter to be filed in May of each year through the remainder of Diablo Canyon's licenses.²⁰

PG&E's testimony addressed cancelled project cost recovery specifically and stated that as part of its ongoing internal assessment, PG&E may, prior to the end of Diablo Canyon's license, determine that the most prudent action is to cancel a capital project that had already incurred costs charged to Construction Work in Progress ("CWIP").²¹ Consistent with standard accounting practice, capital project costs charged to CWIP would include the AFUDC for each such project. In any instance in which PG&E decided in the future to cancel Diablo Canyon capital projects, PG&E proposed that the total projects costs incurred at the time of the decision to cancel be recovered from customers.²² PG&E proposed to recover the costs through an annual expense-only revenue requirement from the year the cancellation decision was made through December 31, 2024, to be recovered as part of the Annual Electric True-Up ("AET") advice letter through generation rates.²³ Tracking of the actual revenues, including Franchise Fees and Uncollectibles ("FF&U"), collected through the generation rate component would occur through the Utility Generation Balancing Account ("UGBA").²⁴ The costs would not be included in Diablo Canyon's rate base, and therefore would not earn a return after cancellation.²⁵ PG&E proposed to submit an annual Tier 3 advice letter describing the factors and circumstances that it believed justified the cancellation of each such project.²⁶ PG&E expects, and represents as part of the Agreement, that any projects cancelled at Diablo Canyon in the future will have been

²⁰ Application at p. 18 (Request 13).

²¹ Ex. PG&E-1 at p. 10-6, lines 14-22 (Marre).

²² *Id.* at p. 10-7, lines 1-4.

²³ *Id.* at p. 10-7, lines 5-9.

²⁴ *Id.* at p. 10-7, lines 9-11.

²⁵ *Id.* at p. 10-7, lines 11-12.

²⁶ *Id.* at p. 10-7, lines 14-21 (as modified by Stipulation between A4NR and PG&E, Appendix to Ex. A4NR-1).

reasonably and prudently initiated, administered, and cancelled in light of the uncertainties given the license renewal decision and the circumstances that exist at the time of cancellation.

B. Position of A4NR and Mothers for Peace

A4NR and Mothers for Peace submitted joint testimony regarding the License Renewal Project.²⁷ In that testimony, A4NR and Mothers for Peace recommended that the Commission deny recovery of the costs of the License Renewal Project on the following two primary grounds: (1) that PG&E failed to obtain regulatory approvals to proceed with license renewal;²⁸ (2) that PG&E failed to demonstrate the reasonableness of license renewal costs.²⁹

More specifically, A4NR and Mothers for Peace raised the following concerns with regard to the license renewal project: (1) that PG&E's original economic analysis submitted as part of Application 10-01-022, which sought cost recovery for the License Renewal Project and was ultimately dismissed without prejudice, was flawed;³⁰ (2) that PG&E's seismic risk assessments had been deficient;³¹ (3) that important changes in the regulatory environment should have caused PG&E to proceed with license renewal more cautiously;³² (4) that PG&E failed to update its original 2010 economic analysis;³³ and (5) that Commission precedent supported denying AFUDC recovery in order to share the risk of the License Renewal Project between shareholders and customers, even if the Commission allowed recovery of direct costs.³⁴

With regard to future cancelled projects at Diablo Canyon, PG&E and A4NR agreed that reporting of such projects should be part of the annual Tier 3 advice letter that PG&E had

²⁷ Ex. A4NR-1 at p. 2, lines 1-3.

²⁸ *Id.* at p. 6, line 15 to p. 13, line 2.

²⁹ *Id.* at p. 13, line 3 to p. 39, line 13.

³⁰ *Id.* at p. 13, line 19 to

³¹ *Id.* at p. 28, line 8 to p. 34, line 18.

³² *Id.* at p. 34, line 19 to p. 37, line 2.

³³ *Id.* at p. 37, lines 3-21.

³⁴ *Id.* at p. 39, lines 5-13.

originally proposed to use regarding capital additions.³⁵ A4NR supported the use of the proposed Tier 3 advice letter mechanism because “the cancellation of a capital project bears a logical nexus to the reconciliation of actual [Diablo Canyon] net plant-in-service to the forecast net plant-in-service values adopted in a general rate case.”³⁶

C. TURN’s Position

TURN opposed any recovery of costs associated with the License Renewal Project since it believed that the costs had not been prudently incurred.³⁷ In the event that the Commission disagreed with that primary position, TURN urged no recovery for AFUDC and a 50/50 split of the remaining direct costs (\$37.3 million) between ratepayers and shareholders.³⁸ TURN’s position was based on its view that PG&E’s original 2010 economic analysis of license renewal had been unrealistic and failed to consider certain factors that could have made license renewal not cost-effective.³⁹ TURN also raised concerns that PG&E had increased its spending on license renewal while simultaneously opposing TURN’s requests to meaningfully review the reasonableness of extended operations in PG&E’s general rate cases.⁴⁰ TURN also raised concerns about PG&E’s claim that it needed to file the license renewal application with the Nuclear Regulatory Commission in 2009 in order to take advantage of a “slot” informally assigned to PG&E.⁴¹ In short, TURN viewed PG&E as having taken the risk related to the License Renewal Project because it proceeded without Commission authorization, even though TURN believed there was no pressing need to do so.⁴² TURN also expressed strong opposition

³⁵ *Id.* at p. 40, lines 16-18 and Appendix.

³⁶ *Id.* at p. 40, lines 18-20.

³⁷ Ex. TURN-1 at pp. 28, 34. (Marcus).

³⁸ *Ibid.*

³⁹ *Id.* at pp. 28-29.

⁴⁰ *Id.* at p. 31.

⁴¹ *Id.* at pp. 31-32.

⁴² *Id.* at p. 33.

to the recovery of AFUDC for the license renewal project in light of past precedents and practices.⁴³ Finally, TURN raised concerns with apparent inconsistencies in the License Renewal Project accounting between data responses provided in A.10-01-022 and in this proceeding.⁴⁴

D. ORA's Position

ORA did not support PG&E's request for License Renewal Project cost recovery.⁴⁵ ORA set forth two reasons for its recommendation of no cost recovery: (1) that PG&E had cited no authority supporting the License Renewal Project cost recovery request, such as a memorandum or balancing account, a Commission decision, ruling, or statutory language; and (2) that the Project Team and AFUDC costs comprise over 50 percent of the total costs.⁴⁶ ORA did not oppose PG&E's Diablo Canyon book value amortization proposal, including the proposed mechanism to seek cancelled project cost recovery.⁴⁷

V. THE COMMISSION SHOULD APPROVE THE AGREEMENT AS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW AND IN THE PUBLIC INTEREST

A. Legal Standard for Settlements

Commission Rule 12.1(d) sets forth the standard for approval of settlements:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

The Commission approves settlement agreements based on whether the settlement agreement is just and reasonable as a whole, not based on its individual terms:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single

⁴³ *Id.* at p. 34; Ex. TURN-4, Attachment 4.

⁴⁴ *Id.* at pp. 33-34.

⁴⁵ Ex. ORA-7 at p. 19, lines 16-17 (Logan).

⁴⁶ *Id.* at p. 20, lines 2-5.

⁴⁷ *Id.* at p. 23, lines 4-9.

provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.⁴⁸

Numerous Commission decisions “have endorsed settlements as an ‘appropriate method of alternative ratemaking’ and express a strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.”⁴⁹ It is long-standing Commission policy to strongly favor settlement.⁵⁰ This policy supports many worthwhile goals, including not only reducing the expense of litigation and conserving scarce Commission resources, but also allowing parties to reduce the risk that litigation will produce unacceptable results.⁵¹

The Commission’s general policy supporting settlements and alternative dispute resolution was reiterated in the current proceeding.⁵²

B. The Agreement Is Reasonable in Light of the Record as a Whole

The Agreement reflects a reasonable balance of the various interests affected in this proceeding. With regard to the License Renewal Project, the summary above of the Settling Parties’ respective litigation positions shows that parties tended to either recommend recovery of all or none of the License Renewal Project costs. TURN presented an alternative recommendation that would have allowed PG&E to recover 50 percent of the direct costs of the License Renewal Project and none of the AFUDC.

In approaching settlement on this issue, the Settling Parties desired to identify a set of principles upon which to base that settlement. One principle was that PG&E should recover its direct costs incurred during the time that the project was reasonably and prudently undertaken. In this regard, the Settling Parties agreed, for the purpose of compromise and without conceding their litigation positions, that the Commission should consider the project reasonably and prudently undertaken from its inception in 2009 until April 10, 2011, when PG&E requested that

⁴⁸ Commission Decision (D.) 10-04-033, p. 9.

⁴⁹ See, e.g., D.05-10-041, p. 47; D.15-03-006, p. 6; and D.15-04-006, p. 8.

⁵⁰ D.10-06-038, p. 38.

⁵¹ D.14-12-040, p. 15.

⁵² Scoping Memo, pp. 12-13.

the Nuclear Regulatory Commission (“NRC”) defer issuance of the Diablo Canyon renewed operating licenses.⁵³ The Settling Parties then agreed that PG&E should not recover the direct costs incurred subsequent to that deferral request. After reviewing the costs of the project as summarized in Exhibit PG&E-2, as corrected in Attachment 2 to this Motion, the Settling Parties submit that \$18.6 million is a reasonable approximation of the direct costs incurred between the project inception and April 10, 2011 that should be authorized for recovery. Finally, the Settling Parties agreed that no AFUDC should be recovered for the License Renewal Project as a reasonable sharing of risk between customers and shareholders.

With regard to future cancelled projects at Diablo Canyon, the Settling Parties agreed to apply the same general cost recovery principles (although the two methodologies are not identical). The Settling Parties agreed to use June 30, 2016, the approximate date upon which the Joint Parties announced the Joint Parties Agreement and PG&E’s intention to retire Diablo Canyon, as the appropriate demarcation line for purposes of cost recovery associated with future cancelled projects.⁵⁴ The application of these principles to both the License Renewal Project and other future cancelled projects at Diablo Canyon is described in more detail as part of the summary of the Agreement, below.

C. The Agreement Is Consistent with Law and Prior Commission Decisions

The Settling Parties believe, and herein represent, that no term of the Agreement contravenes statutory provisions or prior Commission decisions.⁵⁵ The Settling Parties are aware of no statutory provisions or controlling law that would be contravened or compromised by the Agreement.

⁵³ See Ex. PG&E-5-2, Attachment 5-16.

⁵⁴ Application at p. 7 (stating that the Joint Proposal was announced on June 21, 2016).

⁵⁵ In D.00-09-037 (p. 11), the Commission based its finding that the third criteria had been met on representation by the settling parties that they expended considerable effort ensuring that the Settlement Agreement comports with statute and precedents, and did not believe that any of its terms or provisions contravene statute or prior Commission decisions. *See also*, D.07-04-043, p. 88.

The Settling Parties dispute whether Commission precedent would allow the recovery of AFUDC associated with the License Renewal Project on the record of this proceeding.⁵⁶ The Agreement makes this issue moot by excluding AFUDC from the calculation of costs authorized for recovery.

D. The Agreement Is in the Public Interest

The Agreement is in the public interest because it resolves a contested issue efficiently and in the interest of customers. First, the Agreement avoids an outcome, like the zero recovery proposal set forth by some of the Settling Parties, in which PG&E would be effectively penalized by undertaking the License Renewal Project and then later cancelling that effort when it believed that doing so was in the best long-term interest of its customers. Second, the Agreement reduces significantly the total costs that customers will bear for the License Renewal Project and any other cancelled projects at Diablo Canyon in the future when compared with PG&E's original proposal. Finally, the Agreement streamlines the recovery of costs associated with future cancelled projects at Diablo Canyon by reducing the high potential for litigation, thereby conserving Commission and party resources.

Importantly, the Agreement reflects the policy of the Commission in past decisions that, in general, the costs of prudent and reasonably incurred cancelled project costs should be shared by customers and shareholders.⁵⁷ This policy protects the public interest by providing appropriate incentives for the prudent management and cancellation of projects.⁵⁸

⁵⁶ Compare, e.g., Ex. TURN-1 at p. 34 and Attachment 4 (Marcus) with Ex. PG&E 5-2 at pp. 5-32 to 5-40.

⁵⁷ See, e.g., Decision ("D.") 11-05-018 at pp. 42-48 (collecting Commission precedents regarding abandoned plant and stranded asset cost recovery and recognizing that in past cases the Commission had "allocated the direct feasibility costs to ratepayers and AFUDC costs to shareholders"); D.84-05-100, 15 CPUC 2d. 123, 1984 Cal. PUC LEXIS 1100, at *9-10 (modifying D.83-12-068) (authorizing recovery of direct costs and AFUDC through a certain date for the Montezuma coal generation project given unusual and protracted uncertainty, but reaffirming the Commission's "usual policy" under which the Commission does not allow AFUDC for cancelled projects even where allowing the utility to recover its direct costs."); D.92497, 4 CPUC 2d 725, 1980 Cal. PUC LEXIS 1024 at *6-7, 117, 126 (authorizing Southern California Gas Company to recover the prudently incurred expenses of abandoned project exclusive of AFUDC citing the Commission's "longstanding policy of assignment of AFUDC as a cost

VI. SUMMARY OF SETTLEMENT AGREEMENT

The Agreement is Attachment 1 to this Motion and is comprised of background, the settlement terms and conditions, and general provisions that are standard in settlement agreements filed with the Commission. The Agreement is intended to provide a complete and final resolution of the cost recovery issues raised in this proceeding associated with the License Renewal Project and future cancelled projects at Diablo Canyon.

A. Summary of License Renewal Project Provisions

The Agreement provides that PG&E should be allowed to recover \$18.6 million, which approximates the direct costs it recorded to the License Renewal Project from the time of the Project's inception until April 10, 2011.⁵⁹ The Agreement further provides that PG&E should be authorized to recover the \$18.6 million through an annual, levelized, expense-only revenue requirement to be recovered from customers over an 8-year period from January 1, 2018, through December 31, 2025, through the generation rate component of PG&E's rates.⁶⁰

B. Summary of Cancelled Project Cost Recovery Provisions

With regard to future cancelled projects at Diablo Canyon, the Agreement provides that PG&E should be authorized to recover all direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project as of June 30, 2016, which is the approximate date on which PG&E announced publicly that it would suspend its license renewal project and retire Diablo Canyon at the end of its current license life.⁶¹ Further, the Agreement provides that

the investor should bear in the event that no construction results"); *Id.* at *108-109 (cataloging other prior precedents in which the Commission had allowed recovery of prudently incurred costs associated with abandoned projects or stranded assets, but disallowed AFUDC in prior D.90405).

⁵⁸ D.84-05-100, 1984 Cal. PUC LEXIS 1100, at *3-4 (finding with regard to abandoned projects that "[a]t all times, the shareholder will bear some of the risks of abandoned projects . . . in order to provide proper management incentives").

⁵⁹ Agreement at ¶ 1.1. April 10, 2011 is the date upon which PG&E requested that the Nuclear Regulatory Commission delay final processing of the pending license renewal application for Diablo Canyon.

⁶⁰ *Id.* at ¶ 1.2.

⁶¹ *Id.* at ¶ 2.1.

PG&E should be authorized to recover only 25 percent of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project after June 30, 2016.⁶² Finally, the Agreement makes clear that PG&E should not be authorized to recover the accumulated AFUDC associated with cancelled projects at Diablo Canyon.⁶³

With regard to process, the Agreement states that the costs of such cancelled projects that are recoverable under Section 2.1 of the Agreement should be submitted to the CPUC for cost recovery using the ratemaking mechanism and advice letter process proposed in the Application, as modified in the stipulation between A4NR and PG&E.⁶⁴ That is, PG&E should be authorized to recover the costs of such projects through an annual expense-only revenue requirement from cancellation decision is made through December 31, 2024.⁶⁵ However, PG&E's annual Tier 3 advice letter filing on project cancellations and additions will contain the following content with regard to cancelled projects, rather than the content set forth in prior testimony and the stipulation between PG&E and A4NR: (1) an accounting of the direct costs recorded to each cancelled project as of June 30, 2016; (2) an accounting of the direct costs recorded each cancelled project after June 30, 2016; (3) a calculation of 25% of the direct costs recorded to each cancelled project after June 30, 2016; and (4) the sum of 25% of the direct costs recorded to each cancelled project after June 30, 2016, together with the direct costs for the same project that were recorded as of June 30, 2016.⁶⁶ The Agreement specifies that these costs will be subject to audit.⁶⁷ The Settling Parties agree not to contest the recovery of the direct costs for future cancelled projects at Diablo Canyon in the Tier 3 Advice Letter proceeding, except to the extent

⁶² *Ibid.*

⁶³ *Ibid.*

⁶⁴ *Id.* at ¶ 2.2.

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

⁶⁷ *Ibid.*

the protest is related to alleged errors in the calculations set forth in the advice letter that cause the advice letter to be inconsistent with the Agreement.⁶⁸

For purposes of clarity, the Settling Parties understand that PG&E's initial annual Tier 3 Advice Letter filing, to be submitted to the Commission in May 2018, will provide a true-up of rate base at Diablo Canyon based on actual capital additions in the prior year and cancelled projects as compared to the 2017 forecast approved in PG&E's most-recent general rate case ("GRC"). For purposes of illustration, assume PG&E cancels a capital project that had been forecasted as part of the GRC to go operative in 2017 and that the cancellation occurred prior to May 2018. In that case, the Diablo Canyon capital revenue requirement provided in the May 2018 Tier 3 Advice Letter filing would not include the cancelled project's costs in rate base, and the difference between PG&E's actual 2017 Diablo Canyon capital revenue requirement and the 2017 GRC Diablo Canyon capital revenue requirement would be trued up in the AET. This process would occur annually.

The Agreement further provides, for purposes of clarity, that any cancellation of the Unit 2 Generator Stator Project should be treated in the same manner as other cancelled projects pursuant to the Agreement.⁶⁹ The Agreement contains this provision because the Stator Project is a significant project, and parties specifically disputed the need for and prudence of the project in PG&E's 2017 GRC.

Next, the Agreement provides that it should not be considered precedential or binding regarding the ratemaking treatment of Diablo Canyon assets in the event that Diablo Canyon experiences extended outages or is retired prior to the end of the current operating license life.⁷⁰

Finally, the Settling Parties agree that any decision to cancel a capital project at Diablo Canyon will be based solely upon the judgment of and at the discretion of PG&E, which

⁶⁸ *Ibid.* at ¶ 2.3.

⁶⁹ *Id.* at ¶ 2.4.

⁷⁰ *Id.* at ¶ 2.5.

warrants that the decision to cancel any capital was or will be consistent with public safety, reliable operations and applicable regulations, licenses and/or permits.⁷¹ The Settling Parties agree that the Agreement shall not constitute any waiver by any party to contest the prudence or reasonableness of PG&E's decision to cancel a capital project at Diablo Canyon in other proceedings.⁷² This is intended to address a situation in which a Settling Party believes that PG&E's decision to cancel a capital project at Diablo Canyon was inconsistent with its commitment to public safety, reliable operations, and compliance with applicable regulations, licenses, or permits.

C. Other General and Miscellaneous Provisions

In addition to the specific terms found in the Appendix, the Agreement contains a number of general and miscellaneous provisions. Several of these have already been summarized above or are general provisions common to settlement agreements, but a few warrant specific mention.

First, the Settling Parties agree to waive any request that PG&E should be required to refund the costs of the License Renewal Feasibility Study, plus interest.⁷³ Second, the Joint Parties agree to modify their prior Joint Proposal to accommodate the Agreement.⁷⁴ Third, Section 5.5 provides that if the Commission does not approve the Agreement in its entirety and without modification, the Settling Parties will meet and confer to try to resolve next steps. If they cannot agree to a resolution, the Agreement will terminate and be rescinded by its own terms.⁷⁵ This provision should be read in conjunction with Section 6.3, which provides that the provisions of the Agreement are not severable and, therefore, that the Agreement will be rescinded if any governmental authority modifies or declares invalid any of the provisions.

⁷¹ See *id.* at ¶ 2.6.

⁷² *Ibid.*

⁷³ *Id.* at ¶ 3.1.

⁷⁴ *Id.* at ¶ 4.1.

⁷⁵ *Id.* at ¶ 5.5.

D. Ratemaking Issues Associated with the Agreement

PG&E originally proposed to recover \$52.7 million for the License Renewal Project over an 8-year period.⁷⁶ Recovery would have been through an annual expense-only revenue requirement of \$6.7 million from January 1, 2018 through December 31, 2025, to be recovered as part of the AET advice letter through the generation rate component.⁷⁷ Tracking of the actual revenues, including FF&U, collected through the generation rate component would occur through the UGBA.⁷⁸

The Agreement changes PG&E's original ratemaking proposal for the License Renewal Project by decreasing the total amount to be recovered from \$52.7 million to \$18.6 million and reducing the annual revenue requirement from \$6.7 million to approximately \$2.4 million. In all other respects, the ratemaking proposal remains the same.

With regard to the any future cancelled projects at Diablo Canyon, the ratemaking mechanism originally proposed does not change, but the Agreement provides that PG&E will forego seeking recovery related to such cancelled projects of any AFUDC and for 75% of direct costs incurred after June 30, 2016.

VII. IMPACT ON THE SCHEDULE OF THIS PROCEEDING

The Settling Parties, through TURN, requested via e-mail to the Administrative Law Judge and other parties that briefing related to the issues addressed by this Agreement be deferred pending resolution of this Motion. The ALJ granted that request via an e-mail ruling issued on May 19. Accordingly, the Settling Parties will not brief their opening litigation positions on these issues in the opening briefs due May 26, 2017. The Settling Parties will reply to any comments filed on this Motion in accordance to the process and timeline set forth in Rule 12. The Settling Parties respectfully request the opportunity in the future to fully brief their

⁷⁶ Ex. PG&E-1 at p. 10-12, lines 18-21 (Hoglund).

⁷⁷ *Id.* at p. 10-12, lines 19-23. Attachment 4 provides a revised version of information found in Table 10-1 of Exhibit PG&E-1 to show the calculation of the revised License Renewal Project revenue requirement and how it compares to the original calculation.

⁷⁸ *Id.* at p. 10-12, lines 23-25.

opening litigation positions on these issues in the event that the Agreement is terminated for any reason, including rejection by the Commission. The Settling Parties propose that this Motion be resolved in the same Commission decision resolving other issues within the scope of the proceeding.

VIII. CORRECTION OF INCONSISTENCY IN THE RECORD REGARDING THE LICENSE RENEWAL PROJECT COST CALCULATION

As part of the settlement negotiations regarding the License Renewal Project, PG&E became aware of a minor calculation error in the record that caused one version of a table summarizing the annual costs of the License Renewal Project provided to parties and admitted to the record to be slightly different and inconsistent with another version of the table provided to parties in response to an ORA data request. Given the small magnitude of the error in light of the total License Renewal Costs requested, it is unlikely that this error will cause parties inconvenience or require changes to any parties' substantive position on the issue. Nonetheless, PG&E apologizes for this inadvertent error and seeks to notify the Commission and parties of the error as part of this Motion.

Attachment 2 to this Motion is a redline showing the minor corrections to Exhibit PG&E-2 (Workpapers). These corrections, which include corrections to formula errors in the original spreadsheet, increase the 2009 License Renewal Project recorded cost shown in the annual summary table by \$146, increase the 2015 recorded cost shown in the annual summary table by \$589, and increase the 2016 recorded cost shown in the annual summary table by \$713,810. Attachment 3 to this Motion is a redline showing the same minor corrections to Exhibit PG&E-7 (Responses to ALJ Data Requests), which had incorporated an earlier data response to A4NR that provided the incorrect table originally included in Exhibit PG&E-2.

Since PG&E provided or referred to this table in a number of data responses and admitted exhibits, and since the table was correct in some cases and contained the same minor errors in others, PG&E is providing the following table to clarify the record.

**TABLE 1: CORRECTIONS TO LICENSE
RENEWAL PROJECT ANNUAL COST TABLE**

#	Document Number	Impacted by Revised Table?	Notes
1	Exhibit PG&E-2 (Workpapers)	Yes	Original document that contained the error.
2	Exhibit PG&E-7 (Responses to ALJ Data Requests)	Yes	This includes the data request in line 5, below.
3	DiabloCanyonRetirementJointProposal DR A4NR 001-Q08Atch01	Yes	Same as that provided in original Exhibit PG&E-7
4	DiabloCanyonRetirementJointProposal DR A4NR 001-Q25Atch01	Yes	Same as that provided in original Exhibit PG&E-7
5	DiabloCanyonRetirementJointProposal DR CPUC 001-Q21Atch01	Yes	This is included in Exhibit PG&E-7.
6	DiabloCanyonRetirementJointProposal DR ORA 004-Q01Atch01	No	Consistent with revised tables attached
7	DiabloCanyonRetirementJointProposal DR TURN 010-Q01Atch01	Yes	Same as that provided in original Exhibit PG&E-7
8	Exhibit PG&E-1 (Prepared Testimony), Table 9-1	No	Consistent with revised tables attached
9	PG&E Rebuttal Testimony, Chapter 5, Q40, Footnote 79	No	Only makes reference to the workpaper table, does not include as attachment; Referenced portion of workpaper is not impacted by the revisions

IX. CONCLUSION

The record of this proceeding, Commission precedent, and the public interest support the granting of this Motion and adoption of the Agreement. This Agreement fairly and efficiently resolves a highly contested issue in this proceeding and also reduces the high likelihood of future litigation over additional cancelled project costs. While this outcome represents a compromise of each of the Settling Parties' litigation positions, this compromise is reasonable when viewed in its entirety and in light of the record. For the foregoing reasons, the Settling Parties hereby request that the Commission approve the Agreement in its entirety.

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Pursuant to Commission Rule 1.8(d), counsel or representatives for the Settling Parties have authorized PG&E to submit this Motion on their behalf.

Respectfully Submitted,

WILLIAM MANHEIM
CHARLES MIDDLEKAUFF
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PACIFIC GAS AND ELECTRIC COMPANY

Dated: May 23, 2017

ATTACHMENT 1

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company for Approval of the Retirement of
Diablo Canyon Power Plant, Implementation of
the Joint Proposal, And Recovery of Associated
Costs Through Proposed Ratemaking
Mechanisms

(U 39 E)

Application 16-08-006
(Filed August 11, 2016)

**SETTLEMENT AGREEMENT REGARDING LICENSE RENEWAL PROJECT AND
FUTURE CANCELLED PROJECT COST RECOVERY BETWEEN PACIFIC GAS AND
ELECTRIC COMPANY (U 39 E), ALLIANCE FOR NUCLEAR RESPONSIBILITY,
THE UTILITY REFORM NETWORK, THE OFFICE OF RATEPAYER ADVOCATES,
THE SAN LUIS OBISPO MOTHERS FOR PEACE, FRIENDS OF THE EARTH,
NATURAL RESOURCES DEFENSE COUNCIL, ENVIRONMENT CALIFORNIA,
INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS LOCAL 1245,
AND COALITION OF CALIFORNIA UTILITY EMPLOYEES**

SETTLEMENT AGREEMENT REGARDING LICENSE RENEWAL PROJECT AND FUTURE CANCELLED PROJECT COST RECOVERY BETWEEN PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), ALLIANCE FOR NUCLEAR RESPONSIBILITY, THE UTILITY REFORM NETWORK, THE OFFICE OF RATEPAYER ADVOCATES, THE SAN LUIS OBISPO MOTHERS FOR PEACE, FRIENDS OF THE EARTH, NATURAL RESOURCES DEFENSE COUNCIL, ENVIRONMENT CALIFORNIA, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS LOCAL 1245, AND COALITION OF CALIFORNIA UTILITY EMPLOYEES

Pacific Gas and Electric Company (“PG&E”), the Alliance For Nuclear Responsibility (“A4NR”), the Utility Reform Network (“TURN”), the Office of Ratepayer Advocates (“ORA”), the San Luis Obispo Mothers for Peace (“SLOMFP”), Friends of The Earth, Natural Resources Defense Council, Environment California, International Brotherhood of Electrical Workers Local 1245, Coalition of California Utility Employees (collectively, the “Parties”), enter into this Settlement Agreement (“Settlement”) as a compromise of their respective litigation positions to resolve certain of the disputed issues between the Parties raised in the above-captioned proceeding. This Settlement addresses the mechanisms and amounts proposed by PG&E in this proceeding for recovery of costs associated with both PG&E’s suspended License Renewal Project¹ and other Diablo Canyon Power Plant (“Diablo Canyon”) projects that are cancelled during the remaining operational life of the facility.² The Parties request the California Public Utilities Commission (“Commission”) approve the Settlement as just and reasonable.

BACKGROUND

A. On August 11, 2016, PG&E filed this Application seeking the Commission’s approval to implement portions of a Joint Proposal for the Retirement of Diablo Canyon Power

¹ Identified in the Scoping Memorandum issued in this proceeding as Issue 2.5. Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, filed in A.16-08-006 on November 18, 2016, p. 5.

² Recovery of future cancelled project costs at Diablo Canyon were included within the scope of Issue 2.6 in the Scoping Memorandum. Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge, filed in A.16-08-006 on November 18, 2016, pp. 5-6.

Plant (“Joint Proposal”). Concurrent with filing the Application, PG&E also served its Prepared Testimony and workpapers. Each of the other Parties have intervened in the proceeding.

B. In its Application, PG&E proposed to recover \$52.7 million in costs associated with the Diablo Canyon License Renewal Project through an expense-only revenue requirement of \$6.7 million to be recovered from customers over an 8-year period from January 1, 2018 through December 31, 2025 through the generation rate component. These costs represented the total direct costs and the carrying costs (Allowance for Funds Used during Construction (“AFUDC”)) recorded to the License Renewal Project from its inception in 2009 until its indefinite suspension in June 2016.

C. PG&E’s Application also addressed cost recovery for cancelled projects. PG&E noted that PG&E may, prior to the end of Diablo Canyon’s license, determine the most prudent action is to cancel a capital project recorded as Construction Work in Progress (CWIP). In those instances in which PG&E determines that the best alternative is to cancel a project, PG&E proposed that the total project costs (including AFUDC) incurred at that the time the decision is made to cancel the project be recovered from customers. PG&E proposed to recover those costs through an annual expense-only revenue requirement from the year the cancellation decision is made through December 31, 2024, to be recovered as part of the Annual Electric True-Up (“AET”) advice letter through its existing generation rate component. The costs would not be included in Diablo Canyon’s rate base. In an annual advice letter filing, PG&E proposed to address the following factors with regard to such cancelled projects: (1) whether the initial decision to bill the project was reasonable; (2) whether the costs incurred to date were reasonable and prudent; (3) whether the project was reasonable throughout the projects duration in light of both the relevant uncertainties that then existed and of the alternatives for meeting the needs of the customers; and (4) whether the project was cancelled promptly when conditions warranted.

D. A4NR, SLOMFP, ORA, TURN, and the Californians for Green Nuclear Power (“CGNP”) opposed PG&E’s request to recover the recorded license renewal costs on various grounds, including whether the license renewal project had been initiated, continued, and suspended in a reasonable and prudent manner. A4NR, SLOMFP, ORA, and TURN also specifically contested the issue of whether the AFUDC associated with the License Renewal Project should be recovered.

E. With regard to the recovery of costs associated with cancelled projects in the future, A4NR and PG&E executed a stipulation attached to A4NR’s testimony in this Proceeding in which those parties agreed to further details regarding the specific content that would be included in the annual advice letter filing that PG&E had proposed in the Application. Both under the Application as originally filed and under the stipulation executed by A4NR and PG&E, parties retained the ability to contest PG&E’s future requests for recovery of Diablo Canyon cancelled project costs through filing protests to any or all advice letters filed by PG&E in the future.

F. PG&E entered into settlement discussions with A4NR, TURN, and ORA regarding the contested issues surrounding both the License Renewal Project and future cancelled projects of Diablo Canyon. The Parties have reached a compromise on the appropriate cost recovery mechanisms and amounts, as set forth in this Settlement.

SETTLEMENT TERMS AND CONDITIONS

In order to avoid the risks and costs of litigation, the Parties agree to the following terms and conditions as a complete and final resolution of the issues related to License Renewal Project cost recovery and the recovery of costs associated with other cancelled projects at Diablo Canyon in the future. While not all parties to the proceeding have joined this settlement, the

Parties include nearly all parties that submitted substantive testimony regarding these issues.

The terms of Settlement are as follows:

1. License Renewal Project Cost Recovery

1.1. The Parties agree that PG&E should be allowed to recover the direct costs it recorded to the License Renewal Project from the time of the Project's inception until April 10, 2011, which is the date on which PG&E sent a letter to the Nuclear Regulatory Commission ("NRC") requesting that the NRC delay the final processing of the license renewal application for Diablo Canyon. The Parties stipulate and agree that application of the foregoing cost recovery principle results in authorization for PG&E to recover in rates a total of \$18.6 million associated with the License Renewal Project. The Parties agree that this total amount is a reasonable approximation of the direct costs incurred by PG&E for the License Renewal Project activities through April 10, 2011. Further, the Parties agree that PG&E should not be authorized to recover the accumulated AFUDC associated with the License Renewal Project.

1.2. The Parties agree that the License Renewal Project costs should continue to be recovered in the same manner and using the same mechanism as originally proposed in the Application. That is, PG&E should be authorized to recover a total of \$18.6 million through an annual, levelized, expense-only revenue requirement to be recovered from customers over an 8-year period from January 1, 2018, through December 31, 2025, through the generation rate component of PG&E's rates.

2. Cost Recovery for Cancelled Projects

2.1. The Parties agree PG&E should be authorized to recover 100% of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project as of June 30, 2016, which is the approximate date on which PG&E announced publicly that it would suspend its license renewal project and retire Diablo Canyon at the end of its current license life. PG&E

should be authorized to recover only 25% of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project after June 30, 2016. Further, the Parties agree that PG&E should not be authorized to recover the accumulated AFUDC associated with cancelled projects at Diablo Canyon. By approval of this Settlement, the following cost recovery rules shall apply to cancelled projects submitted to the Commission for cost recovery as proposed in PG&E's Application (and modified herein): 1) PG&E is authorized to recover 100% of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project as of June 30, 2016; 2) PG&E shall recover 25% of the direct costs associated with cancelled capital projects at Diablo Canyon recorded to the project on or after June 30, 2016, and the remaining 75% of the direct costs recorded to any such cancelled project after June 30, 2016, should not be recovered from customers; and 3) PG&E should not be authorized to recover AFUDC associated with any such cancelled projects, regardless of whether the AFUDC was accumulated before or after June 30, 2016.

2.2. The Parties agree that the costs of such cancelled projects that are recoverable under Section 2.1 should be submitted to the CPUC for cost recovery using the ratemaking mechanism and advice letter process proposed in the Application, as modified in the stipulation between A4NR and PG&E. That is, PG&E should be authorized to recover the costs of such projects through an annual expense-only revenue requirement from the date the cancellation decision is made through December 31, 2024. However, PG&E's annual Tier 3 advice letter filing on project cancellations and additions will contain the following content with regard to cancelled projects, rather than the content set forth in prior testimony and the stipulation between PG&E and A4NR: (1) an accounting of the direct costs recorded to each cancelled project as of June 30, 2016; (2) an accounting of the direct costs recorded each cancelled project after June 30, 2016; (3) a calculation of 25% of the direct costs recorded to each cancelled project after June

30, 2016; and (4) the sum of 25% of the direct costs recorded to each cancelled project after June 30, 2016, together with the direct costs for the same project that were recorded as of June 30, 2016. These costs will be subject to audit.

2.3. The Parties agree not to contest the recovery of the direct costs for future cancelled projects at Diablo Canyon in the Tier 3 Advice Letter proceeding, except to the extent the protest is related to alleged errors in the calculations set forth in the advice letter that cause the advice letter to be inconsistent with this Settlement.

2.4. Without limiting the foregoing, the Parties expressly acknowledge that any cancellation of the Unit 2 Generator Stator Project should be treated in the same manner as other cancelled projects pursuant to this Settlement.

2.5. The Parties further agree that neither this Settlement, nor its terms, should be precedential or bind the Parties or the Commission in any way regarding the ratemaking treatment of Diablo Canyon assets in the event that Diablo Canyon experiences extended outages or is retired prior to the end of the current operating license life.

2.6. The Parties further agree that the decision to cancel any capital project subject to the terms of this Settlement was or will be based solely upon the judgment of and at the discretion of PG&E, which warrants that the decision to cancel any capital project subject to the terms of this Settlement was or will be consistent with public safety, reliable operations and applicable regulations, licenses and/or permits. While the Parties have agreed that the direct costs associated with cancelled Diablo Canyon projects shall be recoverable as specified in Section 2 of this Settlement, such agreement shall not constitute a waiver by any party to contest in other proceedings whether PG&E's decision to cancel a capital project is prudent, reasonable or in the public interest. Further, the Parties agree that this Settlement does not constitute any

assent or admission that the cancellation of any capital project is consistent with public safety, reliable operations and applicable regulations, licenses and/or permits.

3. Waiver of Request for Reimbursement of License Renewal Feasibility Study Costs

3.1. The parties agree to waive any request that PG&E should be required to refund the costs of the License Renewal Feasibility Study, plus interest.

4. Modification to the Joint Proposal

4.1. This Settlement results in a modification to Section 5.2 of the Joint Proposal, filed as Attachment A to the Application and amended as shown in Attachment 2-2 of Exhibit PG&E 5-1, by and among PG&E, Friends of The Earth, Natural Resources Defense Council, Environment California, International Brotherhood of Electrical Workers Local 1245, Coalition of California Utility Employees, and Alliance For Nuclear Responsibility. The Joint Parties hereby agree upon and support such modification.

GENERAL PROVISIONS

5. Scope and Approval

5.1. In accordance with Rule 12.5, the Parties intend that Commission adoption of this Settlement will be binding on the Parties, including their legal successors, assigns, partners, members, agents, parent or subsidiary companies, affiliates, officers, directors, and/or employees. The Parties also intend for this Settlement to be observed by and binding on the Parties in any future Commission proceeding in which PG&E seeks recovery of the costs associated with Diablo Canyon cancelled projects, except to the extent the exception in Section 2.6 applies. Unless the Commission expressly provides otherwise, and except as otherwise expressly provided herein, such adoption does not constitute approval or precedent for any principle or issue in this or any future proceeding.

5.2. The Parties agree that this Settlement is subject to approval by the Commission. After the Parties have signed this Settlement, the Parties shall jointly file a motion for Commission approval and adoption of this Settlement. The Parties will furnish such additional information, documents, and/or testimony as the ALJ or the Commission may require in granting the motion adopting this Settlement.

5.3. The Parties agree to support the terms of this Settlement to which they have expressly agreed and to use their best efforts to secure Commission approval of those terms in their entirety without modification.

5.4. The Parties agree to recommend that the Commission approve and adopt this Settlement in its entirety without change.

5.5. The Parties agree that, if the Commission fails to adopt this Settlement in its entirety and without modification, the Parties shall convene a settlement conference within fifteen (15) days thereof to discuss whether they can resolve the issues raised by the Commission's actions. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded and the Parties shall be released from their obligation to support the Settlement. Thereafter, the Parties may pursue any action they deem appropriate, but agree to cooperate in establishing a procedural schedule addressing these matters.

5.6. The Parties agree to actively and mutually defend all terms of this Settlement if the adoption of those terms is opposed by any other party.

5.7. This Settlement constitutes the Parties' entire Settlement concerning the License Renewal Project and the recovery of costs for Diablo Canyon cancelled projects in the future, which cannot be amended or modified without the express written and signed consent of all the Parties hereto.

6. Miscellaneous Provisions

6.1. The Parties agree that no signatory to the Settlement or any employee thereof assumes any personal liability as a result of the Settlement.

6.2. If any Party fails to perform its respective obligations under the Settlement, the other Party may come before the Commission to pursue a remedy including enforcement.

6.3. The provisions of this Settlement are not severable. If the Commission, or any competent court of jurisdiction, overrules or modifies as legally invalid any material provision of the Settlement, the Settlement may be considered rescinded as of the date such ruling or modification becomes final, at the discretion of the Parties.

6.4. The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other party. Each party states that it has read and fully understands its rights, privileges, and duties under the Settlement, including each Party's right to discuss the Settlement with its legal counsel and has exercised those rights, privileges, and duties to the extent deemed necessary.

6.5. In executing this Settlement, each Party declares and mutually agrees that the terms and conditions to which it has expressly agreed are reasonable, consistent with law, and in the public interest.

6.6. No Party has relied, or presently relies, upon any statement, promise, or representation by any other Party, whether oral or written, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

6.7. This Settlement may be executed in separate counterparts by the different Parties hereto with the same effect as if all Parties had signed one and the same document. All such

counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

6.8. This Settlement shall become effective and binding on the Parties as of the date it is approved by the Commission in a final and non-appealable decision.

6.9. This Settlement shall be governed by the laws of the State of California as to all matters, including but not limited to, matters of validity, construction, effect, performance, and remedies.


The Parties mutually believe that, based on the terms and conditions stated above, this Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. The Parties' authorized representatives have duly executed this Settlement on behalf of the Parties they represent.

**PACIFIC GAS AND ELECTRIC
COMPANY**


Name: STEVEN E. MACKNIGHT
Title: SENIOR VICE PRESIDENT, REGULATORY AFFAIRS

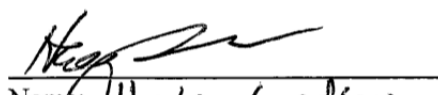
Date: May 23, 2017

**ALLIANCE FOR NUCLEAR
RESPONSIBILITY**



Name: Rochelle Becker
Title: Executive Director

Date: May 22, 2017

THE UTILITY REFORM NETWORK


Name: Hayley Goodson
Title: Staff Attorney
Date: 5/22/2017

OFFICE OF RATEPAYER ADVOCATES


Name:
Title: PROGRAM MANAGER
Date: 5/22/2017

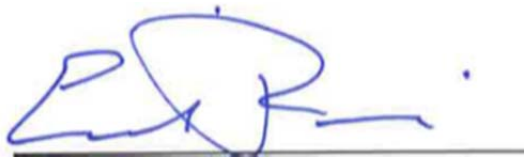
**NATURAL RESOURCES DEFENSE
COUNCIL**



Name: Peter Miller
Title: Director, Western Energy Project

Date: May 21, 2017

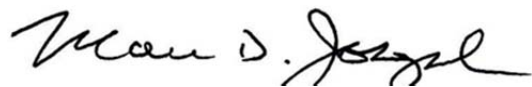
FRIENDS OF THE EARTH



Name: Erich Pica
Title: President

Date: May 22, 2017

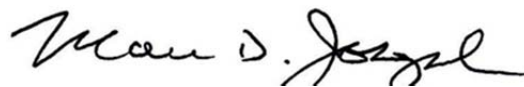
**INTERNATIONAL BROTHERHOOD
OF ELECTRICAL WORKERS
LOCAL 1245**



Name: March D. Joseph
Title: Attorney

Date: May 22, 2017

**COALITION OF CALIFORNIA
UTILITY EMPLOYEES**



Name: Marc D. Joseph
Title: Attorney

Date: May 22, 2017

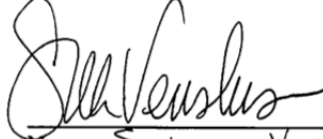
ENVIRONMENT CALIFORNIA



Name: Dan Jacobson
Title: Legislative Director

Date: May 22, 2017

**THE SAN LUIS OBISPO MOTHERS
FOR PEACE**



Name: Sabrina Venskus
Title: Attorney For San Luis Obispo MFP

Date: 5/22/17

ATTACHMENT 2

Pacific Gas and Electric Company

A.16-08-006

Workpapers Supporting Chapter 9: License Renewal Costs

~~7/14/2016~~5/8/2017

The below table provides the summary of license renewal (LR) costs incurred by PG&E for work performed June 2009 through June 2016 including associated Allowance for Funds Used During Construction. The total costs per cost category are presented in testimony Table 9-1.

LR Code	Description	Costs ¹	2009	2010	2011	2012	2013	2014	2015	2016 Q1 - Q2
1	Project Team	\$14,530,977	1,505,062	3,216,658	3,107,498	1,740,938	1,140,861	1,849,887	1,608,802	361,273
1.1	Project Technical, Management, and Support	\$13,573,386								
1.2	Travel	\$172,882								
1.3	Expenses	\$784,710								
2	License Renewal Application Preparation	\$2,542,014	2,542,014	0	0	0	0	0	0	0
2.1	LRA Preparation	\$2,258,776								
2.2	Aging Management Review	\$97,276								
2.3	Environmental Report	\$185,962								
3	Safety/Technical Review	\$4,651,257	0	2,264,593	440,440	320,327	151,346	56,939	1,240,611	177,002
3.1	Sufficiency Review	\$0								
3.2	Audits and Inspections	\$1,227,741								
3.3	Request for Additional Information	\$1,389,460								
3.4	Safety Evaluation Report	\$16,075								
3.5	Technical Analysis	\$2,018,198								
4	Environmental Review	\$374,487	0	170,219	1,657	9,298	63,988	34,022	75,107	20,196
4.1	Sufficiency Review	\$0								
4.2	Onsite Audits	\$200,513								
4.3	Request for Additional Information	\$108,324								
4.4	Suppl. Environmental Impact Statement	\$0								
4.5	Historic Properties Management Plan	\$65,650								
5	Severe Accident Mitigation Alternatives	\$519,099	0	244,258	6,092	0	0	70,947	238,788	-40,986

LR Code	Description	Costs ¹	2009	2010	2011	2012	2013	2014	2015	2016 Q1 - Q2
6	Adjudicatory Process	\$2,183,290	0	499,669	301,009	186,918	169,754	436,076	542,109	47,755
7	NRC Staff Review Fees	\$7,071,853	0	3,116,017	1,377,589	47,172	17,208	23,690	830,820	1,658,323 <u>1,659,359</u>
8	Advisory Committee on Reactor Safeguards	\$221,657	0	5,492	216,165	0	0	0	0	0
9	CZMA Consistency/ Coastal Development Permit	\$1,954,375	0	623,251	274,027	291,898	251,341	197,621	274,725	41,512
10	Other State Processes	\$1,628,053	35,078	251,527	212,056	45,987	103,485	410,310	317,439	252,170
11	Cap A&G	\$1,113,124	100,969	244,060	350,980	61,849	70,749	74,868	110,344	99,305
12	AFUDC	\$15,419,062	104,320	805,335	1,633,629	2,204,593	2,409,921	2,704,527	3,289,964	2,266,772
13	Other Expenses	\$478,516	0 <u>146</u>	658	1,137	1,586	954	0	0 <u>589</u>	473,447
	TOTALS	\$52,687,764	4,287,443 <u>590</u>	11,441,736	7,922,278	4,910,566	4,379,607	5,858,886	8,528,529,708 <u>298</u>	4,643,995 <u>5,357,805</u>
Original LRA Review						LR On-Hold		LR Re-Start		
Total 23,651, 457 <u>603</u>						Total	9,290,172	Total	19, 395 <u>745,364</u> <u>989</u>	

Notes

1 "Total Cost Incurred" are nominal dollars (actual cost in the year they were spent)

ATTACHMENT 3

DCPP License Renewal Costs Incurred Roll-up Table

LR Code	Description	Total Cost ¹	2009	2010	2011	2012	2013	2014	2015	2016 Q1 - Q2
1	Project Team	14,530,977	1,505,062	3,216,658	3,107,498	1,740,938	1,140,861	1,849,887	1,608,802	361,273
1.1	Project Technical, Management, and Support	13,573,386								
1.2	Travel	172,882								
1.3	Expenses	784,710								
2	License Renewal Application Preparation	2,542,014	2,542,014	0	0	0	0	0	0	0
2.1	LRA Preparation	2,258,776								
2.2	Aging Management Review	97,276								
2.3	Environmental Report	185,962								
3	Safety/Technical Review	4,651,257	0	2,264,593	440,440	320,327	151,346	56,939	1,240,611	177,002
3.1	Sufficiency Review	0								
3.2	Audits and Inspections	1,227,741								
3.3	Request for Additional Information	1,389,460								
3.4	Safety Evaluation Report	16,075								
3.5	Technical Analysis	2,018,198								
4	Environmental Review	374,487	0	170,219	1,657	9,298	63,988	34,022	75,107	20,196
4.1	Sufficiency Review	0								
4.2	Onsite Audits	200,513								
4.3	Request for Additional Information	108,324								
4.4	Suppl. Environmental Impact Statement	0								
4.5	Historic Properties Management Plan	65,650								
5	Severe Accident Mitigation Alternatives	519,099	0	244,258	6,092	0	0	70,947	238,788	-40,986
6	Adjudicatory Process	2,183,290	0	499,669	301,009	186,918	169,754	436,076	542,109	47,755
7	NRC Staff Review Fees	7,071,853	0	3,116,017	1,377,589	47,172	17,208	23,690	830,820	1,659,359
8	Advisory Committee on Reactor Safeguards	221,657	0	5,492	216,165	0	0	0	0	0
9	Coastal Development Permit	1,954,375	0	623,251	274,027	291,898	251,341	197,621	274,725	41,512
10	Other State Process	1,628,053	35,078	251,527	212,056	45,987	103,485	410,310	317,439	252,170
11	Cap A&G	1,113,124	100,969	244,060	350,980	61,849	70,749	74,868	110,344	99,305
12	AFUDC	15,419,062	104,320	805,335	1,633,629	2,204,593	2,409,921	2,704,527	3,289,964	2,266,772
13	Other Expenses	478,516	146	658	1,137	1,586	954	0	589	473,447
	TOTALS	52,687,764	4,287,590	11,441,736	7,922,278	4,910,566	4,379,607	5,858,886	8,529,298	5,357,805
			Original LRA Review			LR On-Hold		LR Re-Start		
			Total 23,651,603			Total 9,290,172		Total	19,745,989	

Notes

1 "Total Cost Incurred" are nominal dollars (actual cost in the year they were spent)

ATTACHMENT 4

Revenue Requirement Calculations (\$ Millions)

[illegible]