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Decision 18-01-022 January 11, 2018

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

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| 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 (U39E). | Application 16‑08‑006 |

(See Appendix A for Appearances)

DECISION APPROVING RETIREMENT OF   
DIABLO CANYON NUCLEAR POWER PLANT

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**DECISION APPROVING RETIREMENT OF   
DIABLO CANYON NUCLEAR POWER PLANT**

# Summary

Pacific Gas and Electric Company (PG&E) proposes to retire the Diablo Canyon Power Plant in 2024 and 2025, when its federal Nuclear Regulatory Commission operating licenses expire. PG&E requests Commission approval to recover in rates over $1.76 billion in costs associated with the retirement of Diablo Canyon. Those costs include $1.3 billion for energy efficiency procurement to partially replace the output of Diablo Canyon, $363.4 million for Diablo Canyon 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, and an unspecified amount for cancelled capital projects. (PG&E Opening Brief at i‑ii.)

This order approves PG&E’s proposal to retire Diablo Canyon and approves $241.2 million in rate recovery for costs associated with the retirement of Diablo Canyon. Specifically, PG&E is authorized to recover in rates $222.6 million for employee retention and retraining, and $18.6 million for its license renewal activities, plus a portion of the cost of cancelled capital projects. Rate recovery for the Community Impacts Mitigation Program requires legislative authorization. Replacement procurement issues will be addressed in the Integrated Resource Planning proceeding. This proceeding is closed.

# Background

Pacific Gas and Electric Company’s (PG&E) Diablo Canyon nuclear power plant is located in coastal San Luis Obispo County, and consists of two units that have been operating since 1985 (Unit 1) and 1986 (Unit 2), with a combined generation capacity of 2,240 megawatts (MW). The units are currently licensed by the Nuclear Regulatory Commission (NRC) to operate until 2024 (Unit 1) and 2025 (Unit 2).

On August 11, 2016, PG&E filed its application proposing to retire Diablo Canyon upon the expiration of its NRC licenses. In addition to retiring Diablo Canyon, PG&E’s application requested approval of: 1) procurement of three tranches of greenhouse gas‑free resources to partially replace the output of Diablo Canyon; 2) retention, retraining, and severance programs for Diablo Canyon employees; 3) a program that would provide funding to the local community to mitigate the economic impact of the plant’s retirement; and 4) rate recovery of various costs, including amounts spent for environmental reviews and PG&E’s now‑suspended NRC license renewal application. (PG&E Application at 8‑12.)

PG&E’s application was supported by the Natural Resources Defense Council (NRDC), Friends of the Earth (FOE), Environment California, International Brotherhood of Electrical Workers Local 1245 (IBEW 1245), Coalition of California Utility Employees (CCUE), and the Alliance for Nuclear Responsibility (A4NR), and the proposal in the application was referred as a “Joint Proposal.”[[1]](#footnote-2)

Protests to PG&E’s application were filed by the California Large Energy Consumers Association (CLECA), Californians for Green Nuclear Power (CGNP), the Energy Producers and Users Coalition (EPUC), Energy Users Forum, Environmental Progress, LEAN Energy US, the Cities of Paso Robles, Morro Bay, San Luis Obispo, Arroyo Grande, Pismo Beach and Atascadero (filed jointly), California Solar Energy Industries Association, Sierra Club, Shell Energy North America (US), L.P. (Shell), City of Lancaster, Friends of Wild Cherry Canyon, Central Coast Wave Energy Hub, The Utility Reform Network (TURN), World Business Academy, the Commission’s Office of Ratepayer Advocates (ORA), Sonoma Clean Power Authority, Marin Clean Energy, SolarCity Corporation, City and County of San Francisco, A4NR, Women's Energy Matters (WEM), and the Green Power Institute.

Responses to PG&E’s application were filed by OhmConnect, Inc, San Luis Obispo Mothers for Peace, Inc. (Mothers for Peace), Independent Energy Producers Association (IEP), South San Joaquin Irrigation District, Direct Access Customer Coalition, Alliance for Retail Energy Markets, Large‑scale Solar Association, EnergyHub, CPower, EnerNOC, Inc., Comverge, Inc., California Energy Storage Alliance, San Luis Coastal Unified School District (School District), IBEW 1245, CCUE, Environmental Defense Fund, FOE, NRDC, Environment California, California Energy Efficiency Industry Council, Center for Energy Efficiency and Renewable Technologies (CEERT) and the County of San Luis Obispo (County).[[2]](#footnote-3)

The general timeline of the proceeding was:

August 11, 2016 – Application filed.

September 15, 2016 – Protests and Responses filed.

September 26, 2016 – PG&E Reply to Protests and Responses filed.

October 6, 2016 – Pre‑hearing Conference held.

October 20, 2016 – Public Participation Hearings held in San Luis Obispo.

November 18, 2016 ‑ Scoping Memo and Ruling issued.

January 27, 2017 ‑ Intervenor testimony served.

March 17, 2017 ‑ Rebuttal testimony served.

April 19 – 27, 2017 ‑ Evidentiary hearings held.

May 26, 2017 ‑ Opening briefs filed.

June 16, 2017 ‑ Reply briefs filed.

September 14, 2017 – Public Participation Hearings held in San Luis Obispo.

On December 28, 2016, PG&E filed a joint motion requesting approval of a partial settlement between PG&E, the County of San Luis Obispo, the Cities of Arroyo Grande, Atascadero, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo (collectively Local Cities), the School District, FOE, NRDC, Environment California, IBEW 1245, CCUE, and A4NR. The proposed settlement modified the Community Impacts Mitigation Program originally proposed by PG&E in its application.

On February 27, 2017, PG&E notified the parties that it was withdrawing its request for two of the three tranches of replacement procurement (and associated cost recovery) that it had proposed in its application, and that this change would be reflected in its rebuttal testimony.

On May 23, 2017, PG&E filed a joint motion requesting approval of a partial settlement between PG&E, A4NR, TURN, ORA, Mothers for Peace, FOE, NRDC, Environment California, IBEW 1245 and CCUE. This second proposed settlement modified PG&E’s original request for rate recovery of its NRC license renewal costs and its cancelled project costs.

# Issues Before the Commission

The Scoping Memo identified the following issues:

**Retirement of Diablo Canyon Power Plant**

PG&E has proposed to retire Diablo Canyon Unit 1 in 2024, and Unit 2 in 2025. Parties have proposed both earlier and later retirement dates. Parties may present testimony in support of PG&E’s proposed dates, or earlier or later retirement dates, including indefinite dates.

**Proposed Replacement Procurement**

PG&E has made a proposal for procurement of resources to partially replace Diablo Canyon’s output. Parties may present testimony supporting alternative procurement proposals, including proposals that all necessary replacement procurement should be addressed in this proceeding, that no replacement procurement should be addressed in this proceeding, or that some replacement procurement should be addressed in this proceeding.

**Proposed Employee Program**

PG&E has proposed an employee retention, retraining and severance program associated with approximately 1,500 employees at Diablo Canyon. Parties have raised questions about the cost and funding of this program. Parties may present testimony on the need for this program and its size, cost, structure, timing and its source of funding.

**Proposed Community Impacts Mitigation Program**

PG&E has proposed a community impacts mitigation program to mitigate some of the adverse economic impacts to the residents of San Luis Obispo County as a result of the planned retirement of Diablo Canyon. Parties may present testimony on the community impacts of the proposed retirement of Diablo Canyon, including economic and emergency response impacts, and on proposals to mitigate those impacts.

**Recovery of License Renewal Costs**

PG&E has proposed that it be granted rate recovery for costs relating to license renewal activities, including the filing of a license renewal application with the federal NRC. Parties may present testimony on whether it is reasonable for PG&E to recover some or all of these costs in rates.

**Proposed Ratemaking and Cost Allocation Issues**

PG&E has requested rate recovery for the costs of its proposals, including costs of replacement procurement, its employee program and community impacts mitigation program, and its license renewal activities, as well as other costs relating to the operation of Diablo Canyon facilities. Parties may support or criticize PG&E’s proposed rate design and cost allocation, or may present alternative rate design and cost allocation proposals.

**Additional Issues Not Addressed Above**

Parties may present testimony on issues that are within the general scope of the proceeding, as established by the record to date, that are not specifically addressed in the above sections.

The Scoping Memo determined that it was premature to address land use, facilities and decommissioning issues, and that specific recommendations on those issues would not be considered at this time, but parties were allowed to present testimony recommending how to best preserve these issues for future consideration.

# Discussion and Analysis

## Retirement of Diablo Canyon Power Plant

PG&E proposes to retire Diablo Canyon upon the expiration of its NRC licenses, which expire on November 2, 2024 for Unit 1 and August 26, 2025 for Unit 2. (Ex. PG&E‑1 at 2‑1.) PG&E’s forecasts and analysis indicates that in the near future there will be a significantly reduced need for electric generation from Diablo Canyon. (PG&E Opening Brief at 11‑18.) Because of projected increases in energy efficiency, distributed generation, renewable generation, and customers moving to community choice aggregation (CCA) and direct access, PG&E’s conclusion is that there is simply less of a need for Diablo Canyon. (*Id*.) In fact, PG&E believes that the continued operation of Diablo Canyon beyond 2025 would exacerbate over‑generation, requiring curtailment of renewable generation. (*Id*. at 16‑17; Ex. PG&E‑1 at 2‑20.) PG&E’s analysis indicates that there is no need to replace Diablo Canyon in order to maintain system reliability. (Transcript Vol. 6 at 957‑958.)

PG&E has also been unequivocal that the retirement of Diablo Canyon will not have an adverse impact on local reliability. According to PG&E, because Diablo Canyon’s output is exported on the bulk transmission system, Diablo Canyon is considered a system resource only, and is not needed for local reliability:

DCPP [Diablo Canyon Power Plant] is located in the Los Padres area of PG&E’s service territory, which includes the cities of: San Luis Obispo, Divide, Santa Maria, Mesa, Templeton, Paso Robles, and Atascadero. […] [M]ost of DCPP’s generation is exported to the north and east of the Los Padres division through 500 kilovolts (kV) bulk transmission lines, which includes a transmission connection between the Diablo Canyon and Midway substations. [fn. omitted] Los Padres customer demand is served through a network of 115 kV and 70 kV circuits and does not include DCPP as part of the local installed generation capacity as DCPP does not serve load within the division. As such, DCPP is not needed for local reliability. Unlike San Onofre Nuclear Generating Station, DCPP is considered as a system resource only and is not needed to provide support for local reliability. (Ex. PG&E‑1 at 2‑20 to 2‑21; *see also* PG&E Opening Brief at 17.)

A number of parties support PG&E’s determination that Diablo Canyon is not needed; in addition to the parties supporting the Joint Proposal,[[3]](#footnote-4) other parties also agree that it is appropriate to retire Diablo Canyon:

IEP concurs with PG&E’s decision not to renew the licenses of the two units of the Diablo Canyon Power Plant. Replacement resources that are both less expensive and better able to fit the needs of PG&E’s customers and the electric grid are available. (IEP Opening Brief at 7.)

TURN’s economic analysis demonstrates that ratepayers would benefit from retiring Diablo Canyon and satisfying customer need with incremental renewable resources. This analysis, along with the recognition that continued operations at Diablo Canyon involve the potential for a catastrophic accident or unexpected premature shutdown, affirms the reasonableness of PG&E’s decision to permanently retire the plant by 2025. (TURN Opening Brief at 2.)

The City of San Francisco supports shutting down Diablo Canyon, and states:

PG&E has persuasively demonstrated that Diablo Canyon is a no longer a good fit for PG&E’s bundled customers. PG&E has shown that Diablo Canyon should be closed because of the high cost of operating Diablo Canyon, potential regulatory requirements regarding the once through cooling technique used by Diablo Canyon, and system over‑generation problems related to Diablo Canyon’s constant operation. [fn. omitted] PG&E showed also that continued operation of Diablo Canyon is a bad fit in the context of California’s goal of reducing GHG [greenhouse gas] emissions in part by increasing use of renewable energy resources. This is because Diablo Canyon is a baseload, relatively inflexible resource that would exacerbate overgeneration and would result in continued curtailment of renewable resources. PG&E also admits that Diablo Canyon is no longer necessary for reliability. [fn. omitted]

PG&E also projects that its load will shrink considerably by the time Diablo Canyon closes. Between 2017 and 2025, PG&E forecasts that approximately 20,000 GWh [gigawatt hours] of load will migrate to CCAs . [fn. omitted] This is comparable to the amount of bundled customer load (18,500 GWh) Diablo Canyon currently serves. In PG&E’s own words “whether CCA loads depart somewhat sooner or later than expected does not change the overall conclusion that DCPP is not needed for PG&E’s customers after the expiration of the Nuclear Regulatory Commission licenses in 2024 and 2025.” [fn. omitted] (City and County of San Francisco Opening Brief at 3.)

Other parties, while not actively supporting PG&E’s proposal, do not oppose it, including: ORA (ORA Opening Brief at 4),[[4]](#footnote-5) Alliance for Retail Energy Markets, the California Clean DG Coalition, CLECA, the Direct Access Customer Coalition, the Energy Users Forum, Marin Clean Energy, Peninsula Clean Energy, Silicon Valley Clean Energy Authority, and Sonoma Clean Power Authority (Joint Opponents Opening Brief at 2).

Only one active party, CGNP, argues that Diablo Canyon should continue to operate beyond 2025.[[5]](#footnote-6) CGNP makes three substantive arguments for keeping Diablo Canyon operating: Diablo Canyon is more cost effective than the alternative sources of supply, retiring Diablo Canyon would diminish system reliability, and retiring Diablo Canyon would have an adverse impact on GHG emissions. (CGNP Opening Brief at 5.)

On the issue of the cost effectiveness of Diablo Canyon, TURN identified significant flaws and omissions in CGNP’s cost calculations and estimates. (*See*, TURN Reply Brief at 1‑7; Transcript, vol. 8 at 1,302‑1,318.) The record of this proceeding undercuts, rather than supports, CGNP’s argument that continued operation of Diablo Canyon would be cost effective. Accordingly, CGNP’s testimony on this issue is given little weight.

CGNP’s argument that retiring Diablo Canyon would be detrimental to grid reliability seems to be based on the fact that Diablo Canyon has been a reliable resource, and that other generation resources have been less reliable. (CGNP Opening Brief at 40.) The reliability of the plant and the reliability of the system are separate things, and there has been clear testimony that the retirement of Diablo Canyon would not adversely affect the reliability of the system. (Transcript Vol. 6 at 957‑958.)[[6]](#footnote-7) As Joint Opponents unequivocally state: “Diablo Canyon, an inflexible resource, is not needed either for system or local reliability. [fn omitted] It can be retired without impacting grid reliability.” [fn. omitted] (Joint Opponents Opening Brief at 3.)

CGNP’s reliability argument also appears to assume that Diablo Canyon could operate as a flexible resource that could ramp up and down to meet changing daily demand, rather than how it has been operated, as a constant‑level baseload resource. (CGNP Opening Brief at 40.) PG&E points out that this is a speculative and unrealistic assumption, and would make Diablo Canyon even less cost effective:

Operating in load‑following mode[[7]](#footnote-8) would take Diablo Canyon outside of the currently authorized NRC license conditions and would require extensive technical feasibility studies, redesign of procedures, processes and systems, maintenance practices and nuclear fuel redesign. […] It is unclear if Diablo Canyon could be retrofitted to safely and reliably operate in a different operating mode, whether the NRC would approve it, and whether it would be cost‑effective to do so given the reduction in capacity factor that would result if Diablo Canyon were to be frequently ramped down to minimum operating levels during the daytime hours when solar power is prevalent. (PG&E Reply Brief at 7.)

Finally, CGNP argues that retiring Diablo Canyon will make it “impossible” for the state to meet its GHG reduction goals, and accordingly it should be relicensed and kept available. (CGNP Opening Brief at 41‑42.) CGNP claims that the retirement of Diablo Canyon would result in California importing large amounts of fossil fuel generated electricity from PacifiCorp. (*Id*.)

While the specific arguments made by CGNP are not well supported by the record, the GHG impact of Diablo Canyon’s retirement (and any replacement procurement) does need to be considered. This issue is discussed in more detail below in the section addressing replacement procurement, which finds that the question of the GHG impact of Diablo Canyon’s retirement should be addressed in the Commission’s Integrated Resource Planning (IRP) proceeding.

Two parties – WEM and Mothers for Peace ‑ argue that Diablo Canyon should be shut down earlier than PG&E’s proposed 2024/2025 timing. WEM argues that Diablo Canyon will become “commercially unreasonable” to operate well before 2024/2025, that replacement energy is also available before then, and given the risks associated with nuclear power, Diablo Canyon should be shut down no later than 2020. (WEM Opening Brief at 1‑2.) Mothers for Peace similarly recommends a shutdown date of 2019/2020. (Mothers for Peace Opening Brief at 3.)

WEM and Mothers for Peace base their arguments in part upon the potential dangers of nuclear power. While this Commission has broad authority over PG&E and Diablo Canyon (including non‑nuclear safety), the Commission’s authority over *nuclear* safety is less clear; accordingly, the Commission’s decision on this issue is not based on nuclear safety.

But the economics of Diablo Canyon can provide a basis for this Commission’s decision, and WEM and Mothers for Peace also argue that Diablo Canyon will be uneconomic to operate well before 2025. WEM points out that as PG&E’s bundled load decreases, more of Diablo Canyon’s output will need to be sold at a loss on the wholesale market, and that: “This foreseeable development will make continued operation of Diablo Canyon increasingly uneconomic and dysfunctional, and this will likely begin to happen before 2020, not 2025.” (WEM Opening Brief at 12.)

Similarly, Mothers for Peace argues that Diablo Canyon costs are already high:

[T]he costs of operating and maintaining Diablo Canyon are disproportionately high for the contribution the power plant makes to PG&E’s electrical generation capacity and, therefore, further investment in the continued operation of Diablo Canyon is not a prudent economical capital expense for the utility. (*Id*. at 8.)

Mothers for Peace also raises the additional concern that PG&E will need to spend increasing amounts of money on maintenance and repair of Diablo Canyon due to its age, particularly because of the degradation of a number of major plant components. (Mothers for Peace Opening Brief at 6‑9.)

WEM and Mothers for Peace raise valid concerns about the current cost of operating Diablo Canyon, and the potential for significant costs that could be incurred between now and 2024/25, but those concerns cannot be considered in isolation. While shutting down Diablo Canyon in 2019/2020 would likely provide some cost savings, it would also provide less time for replacement procurement to be considered in the IRP proceeding and for the development and deployment of additional greenhouse gas‑free resources.[[8]](#footnote-9) These factors are difficult to balance, as we cannot forecast with certainty the precise growth of CCAs, the deployment of greenhouse gas-free resources, or the near-future costs of operating Diablo Canyon. For example, WEM argues that a foreseeable range of utility bundled sales:

[R]esults in a similar—or potentially much less—bundled load for PG&E in 2020 as PG&E projects for 2025. Therefore it is likely that constraints on the need for Diablo Canyon will arise by 2020, and possibly even earlier. When this occurs, a substantial fraction of Diablo Canyon's energy will need to be sold on the wholesale market, which is below cost. [fn. omitted] This foreseeable development will make continued operation of Diablo Canyon increasingly uneconomic and dysfunctional, and this will likely begin to happen before 2020, not 2025. (WEM Opening Brief at 12.)

Given the relatively early state of the IRP proceeding, the more prudent and conservative approach to balancing this uncertainty tips against a shutdown before 2024 and 2025. As we gain a clearer picture of future developments, such as the relative cost of operating Diablo Canyon, this balance could change. Because there is a possibility that Diablo Canyon may cease operations earlier than 2024 and 2025, PG&E should prepare for that contingency. In the IRP proceeding, PG&E should be prepared to present scenarios assuming Diablo Canyon retirement dates prior to 2024/2025, including ones that demonstrate no more than a de minimis increase in the greenhouse gas emissions of its electric portfolio.

Based on the record of this proceeding, PG&E’s proposed 2024/2025 retirement schedule for Diablo Canyon provides a reasonable amount of time for the transition process, including further examination of replacement procurement. Accordingly, PG&E’s proposed retirement schedule for Diablo Canyon is approved. If in the interim period the facts change in a manner that indicates Diablo Canyon should be retired earlier, the Commission may reconsider this determination.

## Proposed Replacement Procurement

In its initial Application, PG&E proposed to partially replace Diablo Canyon with greenhouse gas‑free resources in three tranches, consisting of: 1) 2,000 gross GWh of energy efficiency; 2) 2,000 GWh of GHG‑free energy, including energy efficiency and Renewables Portfolio Standard (RPS) eligible energy resources; and 3) a voluntary 55% RPS commitment. (PG&E Application at 9.) PG&E described these three tranches as “[A] first step towards replacing Diablo Canyon with a portfolio of GHG‑free resources.” (*Id*.)

While proposing this significant procurement of resources, PG&E noted that:

Additional resources beyond those specified in the Joint Proposal may be needed on a system‑wide basis to replace the output of Diablo Canyon. The Joint Parties envision that this issue will primarily be addressed through the Commission’s Integrated Resource Planning process (i.e., R.16‑02‑007). (*Id*.)

Multiple parties protested PG&E’s replacement procurement proposal, including Shell, Sierra Club, SolarCity, TURN, and Marin Clean Energy. While parties did not object to the idea of replacing Diablo Canyon with GHG‑free resources, they challenged the feasibility, effectiveness, cost‑effectiveness, cost, and cost allocation of PG&E’s specific proposal. (*See*, e.g. Shell Protest at 3‑4, Sierra Club Protest at 6‑12, SolarCity Protest at 2‑7, TURN Protest at 7‑11, Marin Clean Energy Protest at 7‑10.)

In their testimony, multiple parties expanded upon their criticisms of PG&E’s replacement procurement proposal. Some raised procedural objections. For example, ORA argued that no replacement procurement should be addressed in this proceeding, but it should instead be addressed in the IRP proceeding. (Ex. ORA‑3 at 1‑5, Ex. ORA‑5 at 7‑8.) Others, such as MCE, questioned the need for any replacement procurement:

It is certainly possible that there is no need at all to replace the generation that will be lost when PG&E closes Diablo Canyon. …[D]iscontinued operation of the facility, from an operational perspective, is likely a solution to PG&E’s declining energy requirements in and of itself. (Ex. MCE‑1 at 10.)

Subsequently, on February 27, 2017, PG&E provided notice to the service list that it was withdrawing part of its replacement procurement proposal:

Specifically, after careful review of the important feedback provided by parties in their January 27, 2017 opening testimony on the Diablo Canyon replacement proposal, PG&E is withdrawing the Diablo Canyon Tranches #2 and #3 replacement proposals, as well as the proposal to implement the Clean Energy Charge to recover the costs associated with Tranches #2 and #3. The Joint Parties believe that these aspects of the Diablo Canyon replacement proposal are better addressed in the Commission’s Integrated Resource Plan (“IRP”) proceeding (Rulemaking 16‑02‑007). (PG&E February 27, 2017 e‑mail.)

PG&E modified its direct testimony to reflect this change. Subsequently, the other parties took a range of positions; some parties (primarily the Joint Parties) supported PG&E’s new position, others proposed different partial replacement procurement schemes, and still others recommended that all replacement procurement be addressed in the IRP proceeding.

Some parties recommended that the Commission approve partial replacement procurement for Diablo Canyon in this proceeding, but in a form different than that proposed by PG&E:

The GPI supports the authorization in this proceeding of an early tranche of procurement of greenhouse‑gas‑free resources that can be brought online prior to the retirement of DCPP, **but only if the procurement is primarily an all‑source procurement**. (GPI Opening Brief at 19, emphasis in original.)

Thus, CEERT continues to strongly support the authorization of the Tranche #1 *and Tranche #2* competitive solicitations in *this Application, without deferral to the IRP Process,* as *critical* “early action” GHG‑free energy procurement to meet PG&E’s bundled customer need upon the retirement of Diablo Canyon and as a contingency plan in the event of early retirement or shutdown, with cost recovery approved according to existing ratemaking and cost allocation mechanisms. (CEERT Opening Brief at 7, emphasis in original.)

IEP similarly argued that PG&E should immediately be directed to do an “all‑source” solicitation in order to take advantage of federal tax credits for renewable generation projects that are expected to expire or decline in the near future. (IEP Opening Brief at 1‑2, 11‑12.)

Other parties recommend that the Commission NOT authorize any replacement procurement in this proceeding, but instead advocate that the Commission should do a need analysis (and any resulting authorization) in the IRP proceeding. Those parties include Shell:

The appropriate forum for consideration of all Diablo Canyon replacement procurement, including PG&E’s proposed first “tranche” of procurement, is the IRP proceeding. Ex. Shell‑i at pp. 4‑7 (Dyer). SB 350 provides that the investor‑owned utilities’ (“IOU”) procurement planning decisions must be made in the context of a comprehensive planning process. [fn. omitted] PG&E’s proposal in this proceeding, to replace a portion of Diablo Canyon energy output with energy efficiency, interferes with the Commission’s ability to establish a comprehensive procurement strategy for PG&E in the IRP proceeding. (Shell Opening Brief at 2‑3.)

ORA makes a similar argument as well:

In its testimony, ORA recommended that no replacement procurement be addressed in this proceeding. ORA continues to make that recommendation since PG&E has not withdrawn its Tranche #1 proposal, and other parties may seek Commission approval of the Tranche #2 and #3 proposals even though PG&E has withdrawn them.

As ORA noted in its testimony, R.16‑02‑007, the Commission’s Integrated Resource Planning and Long‑Term Procurement Planning rulemaking (“Integrated Resource Planning proceeding”) is the appropriate Commission proceeding to address all replacement procurement associated with the closure of the Diablo Canyon units. […]

PG&E will be required to perform portfolio optimization as part of its IRP in 2017. PG&E has likely included Energy Efficiency as part of its proposed preferred resources portfolio. The correct, optimized levels of these resources will be determined in the Commission’s IRP system plan.

PG&E’s proposal for replacement procurement outside of the IRP portfolio optimization process creates the potential for over‑procurement in PG&E’s service territory, thereby leading to higher costs for customers and resulting in a sub‑optimal resource plan. (ORA Opening Brief at 4‑5, fn. omitted)

In addition to arguments that replacement procurement should be addressed in the IRP proceeding rather than here, a number of parties argued that PG&E’s remaining Tranche 1 proposal itself was flawed:

TURN supports PG&E’s intention to dramatically scale up its procurement of cost‑effective EE [energy efficiency]. However, as shown in TURN’s testimony and explained below, PG&E has not met its burden of demonstrating that its Tranche 1 proposal offers the right mechanism through which to do that. [fn. omitted] In sum, Tranche 1 suffers from three fundamental design flaws: it may not be feasible, it does not ensure that the EE savings will be additional to the savings that would otherwise occur, and it does not ensure that the EE savings will still be available when Diablo Canyon comes offline. Moreover, the notion of a major EE procurement outside of PG&E’s existing EE portfolio and its new EE Business Plan is ill‑conceived, and PG&E has not demonstrated that the benefits of this separate procurement will exceed the costs. (TURN Opening Brief at 20.)

While acknowledging that Tranche 1 may exacerbate conditions of overgeneration and renewable curtailment, PG&E and the other Joint Parties fail to address it: PG&E witness Strauss agreed that procurement of just EE, as proposed in Tranche 1, may worsen overgeneration issues. (Joint Opponents Opening Brief at 4‑5, fn. omitted.)

ORA similarly opposes PG&E’s request for $1.3 billion in customer funding for its Tranche #1 EE procurement proposal and associated shareholder incentive payments. According to ORA:

PG&E fails to demonstrate that its requested Tranche #1 procurement, which is an increase of more than 50% of the currently‑identified energy efficiency potential, would be cost effective. (ORA Opening Brief at 10.)

As ORA points out, PG&E is already required under California’s loading order for energy resources to first meet its resource needs through “all available energy efficiency…resources that are cost effective, reliable, and feasible.” (*Id.,* quoting Pub. Util. Code § 454.5(b)(9)(C)(i).) According to ORA, PG&E has acknowledged that in Decision (D.) 15‑10‑028, the Commission set a goal for PG&E to procure all cost‑effective and feasible EE for the years 2016‑2024. For 2018‑2024, the period corresponding to the Tranche #1 procurement proposal, that goal is a total of 3,741 gross GWh savings. (*Id*., citing Ex. PG&E‑1, at 4‑3, Table 4‑1, lines 3‑9.)

ORA concludes:

Yet, PG&E’s Diablo Canyon application proposes to procure an additional 2,000 gross GWh installed in its service territory in the same period 2018‑2024. [fn. omitted] This represents an increase of 53.5% over currently approved goals for the years 2018‑2024. Such a substantial increase in the EE potential is only possible by lowering the Commission’s threshold criteria for cost‑effectiveness. Lowering the cost‑effectiveness standards would burden customers with the cost of Energy Efficiency measures that provide insufficient value to qualify under current standards . (ORA Opening Brief at 11.)

EPUC makes a similar argument:

While labor unions, local governments, environmental organizations and shareholders all receive firm, defined benefits, there are no benefits and no protections for ratepayers. Instead they shoulder greater uncertainty and risks, and the revenue consequences as these uncertainties are resolved. These include:

● whether any replacement of DCPP’s output is needed;

● when, if ever, that replacement should be procured;

● whether the quantity of energy efficiency (EE) to be procured in Tranche 1 is feasible and whether it will be cost‑effective, and

● whether the authorization of the Tranche 1 procurement will conflict with and potentially impair the targets of the Rolling Portfolio Business Plans filed by PG&E and the other utilities. [fn. omitted] The ratepayers assume the risk that all cost effective EE will have been procured through the Business Plan and each of its annual updates, and that any EE authorized in this docket will be more expensive and raise rates inefficiently. (EPUC Opening Brief at 1‑2.)

ORA and EPUC make a good point – it is not clear that PG&E could actually procure over 50% more energy efficiency than a goal that is already supposed to include all cost‑effective energy efficiency (unless PG&E procures energy efficiency that is not cost effective). There is no reason to approve a $1.3 billion rate increase for a proposal that will most likely either fail to achieve its goal or will achieve a goal not worth reaching. Accordingly, PG&E’s Tranche 1 proposal is not adopted.

While we are rejecting the specific replacement procurement proposed here by PG&E, the larger question remains about what, if anything, should be done here to ensure that the retirement of Diablo Canyon will not result in an increase in GHG emissions. The answer to that is that we simply cannot tell based on the record in this proceeding. It is the intent of the Commission to avoid any increase in greenhouse gas emissions resulting from the closure of Diablo Canyon. Given the time between now and 2024 and 2025, the rapid changes in the California electricity market, and the growth of renewable generation and CCAs, however, it is not clear based on the limited record in this proceeding what level of GHG‑free procurement (if any) may be needed to offset the retirement of Diablo Canyon.

The IRP proceeding, however, is better equipped to make that determination. The IRP is supposed to incorporate the analysis leading to an optimized portfolio of resources, reflecting constraints such as GHG emissions, reliability, cost, and RPS and energy efficiency requirements, while ensuring safe and reliable electricity service at just and reasonable rates. (R. 16‑02‑007 at 13.) In short, the IRP has the ability to look at a bigger picture than this proceeding, and can better analyze the potential impacts of the retirement of Diablo Canyon and its interaction with other dynamics in the electricity markets in a manner consistent with state policies. PG&E’s previous Tranche 2 and 3 proposals would better be considered in the IRP proceeding.

Overall, practical and policy reasons indicate that it is better for potential replacement procurement issues to be addressed in the Commission’s IRP process, rather than addressing it in a more piecemeal fashion in this proceeding. Accordingly, the need for and authorization of any replacement procurement should be addressed in the IRP proceeding.[[9]](#footnote-10)

## Proposed Employee Program

PG&E proposes to implement an employee retention, severance and retraining program for its Diablo Canyon employees, and requests three related approvals from the Commission:

[1]. Recover $352.1 million in costs associated with retaining approximately 1,500[[10]](#footnote-11) employees at Diablo Canyon to ensure the plant’s continued safe and efficient operation through the end of each unit’s license in 2024 and 2025, respectively, over a 7‑year period through an annual expense‑only revenue requirement of $50.9 million beginning January 1, 2018 through December 31, 2024 through the Nuclear Decommissioning Non‑Bypassable Charge (NDNBC).

[2]. Implement the Employee Severance Program and authorize PG&E to continue to forecast and recover the cost of the Employee Severance Program in each subsequent Nuclear Decommissioning Cost Triennial Proceeding (NDCTP).

[3]. Recover $11.3 million in costs associated with retraining eligible employees at Diablo Canyon and to recover these costs over a 5‑year period through an annual expense‑only revenue requirement of $2.3 million from January 1, 2021 through December 31, 2025 through the NDNBC. (PG&E Opening Brief at i.)

Starting with the last one, the retraining of Diablo Canyon employees is intended to support the placement of Diablo Canyon employees who are interested in transitioning to other employment roles within PG&E as a result of the retirement of Diablo Canyon. (Ex. PG&E 1 at 7‑8.) While the precise components and details of this program have not been determined, PG&E identifies possible elements of the program, including support for an internal PG&E job search, limited wage protection, professional and technical training and relocation assistance. (*Id*.)

PG&E forecasts the cost of the retraining program to be approximately $11.3 million, to be recovered through the NDNBC. (*Id.* at 7‑11.) PG&E also requests a new two‑way expense‑only subaccount (the Employee Retraining Program Subaccount) within the existing Diablo Canyon Retirement Balancing Account.

The proposed retraining program is directly related to the retirement of Diablo Canyon, and the cost of the program is recoverable in rates through the NDNBC. (Pub. Util. Code sections 8322(g) and 8330.) PG&E’s request for the retraining program, the new two‑way expense‑only subaccount, and associated rate recovery through the NDNBC is approved.

PG&E has in place an Employee Severance Program, which provides payments of specified amounts to employees whose jobs will be eliminated upon the closure of Diablo Canyon. (Ex. PG&E ‑1 at 7‑7.) The Employee Severance Program is directly related to the decommissioning of Diablo Canyon, and $148 million in estimated costs for the program are already incorporated into PG&E’s decommissioning estimate. (Ex. PG&E‑1 at 7‑11.)[[11]](#footnote-12) PG&E does not request rate recovery for the severance program in this proceeding, as the forecast and recovery of costs are being addressed in PG&E’s NDCTP. (*Id.*) A severance program for Diablo Canyon employees is appropriate in light of the plant’s pending retirement, and the cost and ratemaking for that program should continue to be addressed in PG&E’s nuclear decommissioning proceeding.

PG&E’s proposed employee retention program, however, is not so clearly related to the decommissioning of the plant. EPUC argues that the costs of the retention program are not related to the decommissioning of the plant, but rather to its continued operation:

The retention program is part of the operating costs of the plant, incurred to ensure there are qualified employees to continue to operate the plant. As Ms. King testified, it has been a regular practice in the past to increase wages of plant employees to retain them. [fn. omitted] Such operating costs have been, and should continue to be, recovered through the energy rates charged to bundled customers, who benefit from the operation of the plant. (EPUC Reply Brief at 6.)

In response, PG&E argues that the retention program is related to the retirement of the plant, as absent that there would not be a need for the retention plan:

The only reason the Employee Program is necessary is due to the announcement that PG&E would retire and decommission the plant. Accordingly, there is a direct causal link between the closure of the plant and the Employee Program, making it appropriate to recover the costs of the Employee Program through decommissioning rates. (PG&E Reply Brief at 66.)

At the same time, however, PG&E acknowledges that it intends to continue to operate Diablo Canyon for almost a decade before it plans to actually retire the plant. (Ex. PG&E‑1 at 7‑2.) Looking at PG&E’s proposal, it appears to confirm that EPUC’s position is correct: PG&E is proposing to keep operating Diablo Canyon until 2024/2025, and is proposing the retention program for the purpose of keeping the plant operating, not for the purpose of shutting it down. (PG&E Reply Brief at 49.) This is further reinforced by the fact that the retention program ends on August 31, 2023, but the plant will not completely retire until 2025. (Ex. PG&E‑1 at 7‑4.) Accordingly, rate recovery for the employee retention plan should come through the existing ratemaking treatment for the operation of Diablo Canyon, not through the NDNBC.

In addition, there are problems with the design and the resulting cost of PG&E’s proposal. PG&E, with the support of the Joint Parties, proposes to pay retention bonuses to every employee of the plant who continues to work through specified time periods. PG&E proposes two “tiers” of retention payments. Tier 1 would run from September 1, 2016 through August 31, 2020, would provide a retention payment to each employee of 25% of the employee’s base salary at the end of each of the four years, and would cost $191.6 million. Tier 2 would run from September 1, 2020 through August 31, 2023, would provide a retention payment to each employee of 25% of the employee’s base salary at the end of each of the three years, and would cost $160.5 million. (Ex. PG&E‑1 at 7‑4 and 7‑6.) PG&E’s estimated $352.1 million cost for the retention plan assumes that approximately 1,500 employees would be retained until August 31, 2023. (*Id*. at 7‑6.)

ORA and CGNP oppose PG&E’s employee retention program as proposed. ORA argues that ratepayers should not pay for the $191.6 million cost of Tier 1, but generally supports rate recovery for the $160.5 million cost of Tier 2. (ORA Opening Brief at 25.) CGNP argues that the entire retention program is unnecessary (CGNP Opening Brief at 14‑17), but does note that retention payments may be necessary for a very limited set of hard‑to‑fill positions. (*Id*. at 15.)

PG&E’s proposal appears to have a significant “free rider” problem that PG&E does not address, and as such the proposal is overly generous with ratepayer funding. The approximately 1,500 employees eligible to receive the retention payments include all active full‑time employees working at Diablo Canyon, plus those who support Diablo Canyon operations and those whose job or job functions would be eliminated as a result of Diablo Canyon’s retirement. Contractors and temporary or rotational employees would not be eligible. (Ex. PG&E‑1 at 7‑4, fn. 1.) In short, PG&E is asking the ratepayers to pay for a retention payment for every full‑time PG&E employee at Diablo Canyon. As PG&E puts it: “The Employee Retention Program is aimed to keep the entire employee population retained until August 31, 2023.” (*Id*. at 7‑6.)

PG&E’s testimony does not adequately address factual questions such as how many employees would continue to work at Diablo Canyon (until it closes) without a retention payment, or how many employees would leave their employment at Diablo Canyon regardless of a retention payment. In both of those situations, the retention payment provides no benefit to ratepayers.[[12]](#footnote-13) PG&E has significant data about the Diablo Canyon workforce, including retirement eligibility, and has done modeling of potential retirements (PG&E Opening Brief at 45; Ex. PG&E‑6), but has chosen to just pay every employee, rather than using that information to more efficiently use ratepayer funds.

CGNP, on the other hand, has used PG&E’s data to support its analysis, and comes to a more nuanced conclusion than that embodied by PG&E’s broad‑brush proposal:

In response to Commission\_001‑Q15, PG&E witness King stated that there are 442 employees eligible for full retirement and 471 eligible for retirement with partial benefits before 2024. [fn. omitted] These employees constitute 63% of the 1458 regular Diablo employees, and it is highly unlikely they would be eager to leave when they could continue to work towards retirement. Older workers face well‑known difficulties in finding new employment, thus given the choice of transferring within PG&E vs. a severance package if their job was eliminated, there would be little incentive for employees to leave voluntarily. (CGNP Opening Brief at 15.)

In another area where there is a paucity of analysis, PG&E does not address how many employees would continue to work at Diablo Canyon after its retirement, on tasks such as decommissioning, nuclear fuel storage, maintenance and security. In fact, PG&E states that it does not currently know how many employees it expects will remain at Diablo Canyon after its retirement. (Ex. PG&E‑6 at 24.) Because these employees would have continuing employment after the plant retires, they would presumably have less of an incentive to leave because of the retirement. But under PG&E’s proposal, all of these employees would still receive ratepayer‑funded retention payments.

PG&E likewise does not address the potential employment prospects for nuclear power plant employees. PG&E cites to CCUE witness Dalzell for the argument that many Diablo Canyon employees are “high‑skill, high‑wage workers and would be attractive candidates for other jobs.” (PG&E Opening Brief at 46.) PG&E explains the basis for that argument:

The CCUE witness, Tom Dalzell, testified that based on his experience with divestiture of PG&E’s fossil fuel and geothermal generation facilities in the late 1990s, he was certain that absent an employee retention package, employees would find jobs outside of DCPP once a closure date was announced. (PG&E Opening Brief at 46.)

This is not a valid comparison; there are many more fossil fuel plants than there are nuclear plants, and the situation today is different from the divestiture of plants in the 1990s. A better comparison would be to look at the relative current and forecasted supply and demand of nuclear power plant jobs and experienced nuclear power plant employees. These factors have a significant impact on how likely Diablo Canyon employees will be to look for and obtain outside employment. PG&E did not present such an analysis in this proceeding.[[13]](#footnote-14) While there is certainly ratepayer benefit from Diablo Canyon being operated in a safe and reliable manner until its retirement, PG&E has failed to show that the amount of ratepayer dollars requested is necessary or reasonable. At the same time, the funding level recommended by ORA, while more reasonable from a ratepayer perspective, also lacks analytical support. ORA’s proposal does not adequately address the possible need for a retention payment in the earlier (Tier 1) years, nor does it consider the nature of Diablo Canyon’s workforce.[[14]](#footnote-15) As a result, while PG&E’s proposed retention payments appear to be too high, ORA’s may be too low.

Taking into consideration the benchmarking data, the presence of significant and pre-funded severance pay, the unique nature of the nuclear industry, and the extended payment period, a 15% per year retention payment level is reasonable. Accordingly, we authorize PG&E’s proposed employee retention program, but at an annual payment level of 15%, rather than 25%. This results in a maximum cost of $115 million for Tier 1, and a maximum cost of $96.3 million for Tier 2, for a total cost of $211.3 million. PG&E is authorized rate recovery for up to $211.3 million for its employee retention program.

Finally, it appears that PG&E (with the participation of at least some of its unions) has already executed retention agreements with its employees, presumably incorporating the payment levels proposed by PG&E in this proceeding. CCUE cites to these agreements, and the fact that 86% of IBEW 1245’s represented employees[[15]](#footnote-16) at Diablo Canyon have signed them, as showing that PG&E’s retention program is working. (CCUE Opening Brief at 13‑14.) CGNP, however, points out that: “[T]he 86% only means that workers will accept free money until such times as they may quit.” (CGNP Reply Brief at 10.)

The retention payments negotiated and agreed to by PG&E and its unions require funding from ratepayers, and accordingly require Commission approval for their funding. At the time it entered into those agreements, PG&E did not have authority to make the payments that the agreements (appear to) promise. This puts the Commission in the position of potentially saying “no” to PG&E’s proposal, while the employees may already be thinking that the answer is “yes.” PG&E should not be making promises (even implied ones) to its employees that it does not know it can keep.

## Proposed Community Impacts Mitigation Program

In its Application, PG&E proposed a Community Impacts Mitigation Program (CIMP), which was described as follows:

Diablo Canyon is one of the largest employers, taxpayers, and charitable contributors in the San Luis Obispo County area. Diablo Canyon currently contributes approximately $22 million in property taxes to the local community. With the retirement of Diablo Canyon, this could decline to zero by 2025. The Parties will support funding of continuing revenue streams to address community needs and concerns. PG&E will propose to compensate San Luis Obispo County for the loss of property taxes associated with the declining rate base in Diablo Canyon through a transition period ending in 2025. The payment in lieu of taxes will be recovered through nuclear decommissioning funding. PG&E estimates that the total cost of the Community Impacts Mitigation Program is approximately $49.5 million. As specified in Section 5.4.1, as a condition of the program, PG&E will recover the costs of the Community Impacts Mitigation Program through CPUC‑approved rates for nuclear decommissioning. (PG&E Application, Attachment A (Joint Proposal) at 10‑11.)

Later in the proceeding, PG&E entered into a proposed settlement with the County, the Local Cities and the School District, along with the original Joint Parties.[[16]](#footnote-17) This proposed settlement primarily addressed the Community Impacts Mitigation Program, with PG&E agreeing to increase the payment to the communities to a total $85 million, compared to the prior $49.5 million. (Joint Motion re Settlement on Community Impacts at 2.)

Of the $85 million, $75 million is called an “Essential Services Mitigation Fund” (ESMF), and would be distributed to the County. That $75 million would be allocated by the County to local cities and districts based upon their 2015-2016 unitary tax allocations; approximately $36.8 million would go to the School District, including $10 million dedicated to an educational foundation designated by the School District. (Joint Motion re Settlement on Community Impacts at 16.)

In addition to the $75 million ESMF, the proposal includes another $10 million “Economic Development Fund” (EDF). Of that $10 million, $4.24 million would go to the County, and $5.76 million would go to the six Local Cities. The County would then allocate $192,000 to the City of Grover Beach, which is not a party to this proceeding. (*Id*. at Appendix 2, Attachment A.)

It is uncontested that the retirement of Diablo Canyon would result in reduced local tax revenues and a loss of well‑paying jobs, with a corresponding potential for significant adverse economic impacts on the local area. The question before this Commission is not whether there will be economic impacts, or even the potential size and scope of those impacts,[[17]](#footnote-18) but rather whether PG&E ratepayers should pay to mitigate these impacts.[[18]](#footnote-19)

The parties presented a range of policy and legal arguments on this issue. The policy arguments focus on issues of fairness: who benefitted from Diablo Canyon, who bore the costs and risks of Diablo Canyon’s operation, and who should bear the costs and risks of the plant’s retirement. (*See*, e.g. County Opening Brief at 1‑3, 16‑17; TURN Opening Brief at 43‑44.) While it is reasonable for this Commission to consider whether the proposed payment to the community is fair, the Commission must also consider whether that payment is legal.

Based on the specific facts presented here, and consistent with this Commission’s decision in D.97‑05‑088, in the absence of legislative authorization, the CIMP is not approved. Utility rates should be used to provide utility services, not government services, no matter how beneficial those services may be. In addition, we have some concerns about the fairness of the CIMP under the proposed settlement.

Looking first at whether the CIMP under the proposed settlement is fair to PG&E, to the community, and to ratepayers, it is clear that the proposed settlement on this issue is fair to PG&E. Because the cost of the payment would be recovered in rates, PG&E itself bears no out‑of‑pocket costs.

ORA and TURN argue that PG&E’s willingness to provide funding to the community is essentially a type of charitable giving, intended to enhance PG&E’s goodwill in the community, and as such should be funded with shareholder dollars, not ratepayer dollars. (ORA and TURN Joint Comments at 6‑7.) PG&E, the Local Cities and the County respond that the CIMP payments do not meet the technical definitions of a charitable gift or a goodwill payment. (PG&E Reply at 10‑13; Coalition Cities[[19]](#footnote-20) Reply at 10‑11; County Brief at 17‑19.) While PG&E and its supporters may be correct that the payments (in large part due to their multiplicity of benefits) may not squarely fall into the technical definitions of charitable giving or goodwill payments, ORA and TURN raise a fair point that as a practical matter, PG&E will garner praise and enhance its reputation in the community as a result of the CIMP. (ORA and TURN Comments at 6‑7.)

PG&E also gets another benefit: the support (or at least non‑opposition) of the settling parties for its other litigation positions. The settling parties agreed to:

[S]upport the Employee Program as proposed by PG&E in its Application initiating this proceeding, and the County, the Cities, and the District agree not to oppose or to take no position on the remaining relief requested in PG&E’s Application, as modif[i]ed by the Agreement. (Joint Motion, December 28, 2016 at 2.)

In short, this appears to be a very good deal for PG&E – it gains some community goodwill, and gets support (or eliminates potential opposition) for its litigation positions, and all at no financial cost.

The fairness to the community is less clear. While the proposed settlement’s payment of $85 million is a clear benefit to the recipient community, not all of that payment is allocated fairly. While the majority of the CIMP appears to be allocated fairly (based upon historic unitary tax allocations), a significant portion is earmarked for the County, Local Cities, and the School District, which are parties to the proceeding and negotiated the proposed payment with PG&E. This is particularly true of the $10 million EDF.

As a result, the amount and allocation of payments appear to have more to do with PG&E’s litigation needs than the economic needs of the community. While in general the community strongly supports the proposed settlement, the allocation of payments to the affected communities does not appear to be fair, and we cannot tell from the record whether the amount of the proposed payment is fair. A clearer picture of the economic impacts on the community should be available upon completion of the assessment required under Pub. Util. Code § 712.5.

Finally, it is essential to consider whether the proposed settlement is fair to PG&E’s ratepayers, who are being asked to pay the $85 million cost of the payment program. ORA and TURN oppose the proposed payment. ORA argues that the payments to be made “would effectively be a substitute for PG&E’s property taxes,” and should not be funded by PG&E customers. (ORA Opening Brief at 29.)

In its reply brief, PG&E argues that the CIMP: “is not intended to be an in‑lieu or substitute tax.” (PG&E Reply Brief at 53.) According to PG&E: “The decline in tax revenues is one measure of the magnitude of the direct fiscal impacts to local governments, and it was therefore appropriate for the settling parties to consider the size of those tax revenue declines in negotiating the appropriate amount of mitigation,” but the payment should not be thought of as a tax payment or a substitute for a tax payment. (PG&E Reply Brief at 53‑55; *see* *also* County Opening Brief at 19.)

One problem with this attempt to finesse the nature of the CIMP into something other than a substitute for lost tax revenue is that it is contradicted by other statements on the record:

With regard to economic and fiscal impacts, the Cities argued that, at a minimum, PG&E should be required to make payments to the Cities equal to their combined property, sales, and other local taxes over the nine‑year period to mitigate the decline in the taxes that the plant’s operations have traditionally provided. (Joint Motion at 10, citing to Protest.)

And: “The District intervened in this proceeding because the property tax PG&E pays for Diablo Canyon each year accounts for a significant portion of the District’s annual funding.” (*Id.* at 10, citing to Response of School District.)

While all of the money at issue may not be specifically designated as a substitute for tax payment, as a practical matter a significant amount of the money to be collected from ratepayers is in fact a substitute for tax revenue. Accordingly, we have to analyze whether it is appropriate to substitute ratepayers for taxpayers, which raises legal as well as policy issues.

The parties contesting this issue cite to Commission Resolution E‑3535, adopted in 1998, which addressed a similar issue, also for Diablo Canyon. The parties are correct that Resolution E‑3535 is on point here; but in order to understand and apply the logic of Resolution E‑3535, it is essential to consider D.97‑05‑088, which led to the Commission’s adoption of Resolution E‑3535. In the proceeding leading to D.97‑05‑088, in the wake of electric restructuring:

The County of San Luis Obispo and the San Luis Coastal Unified School District (County) seek protection against the risk that Diablo Canyon‑related property taxes will decrease precipitously and jeopardize the ability of the County to provide basic public and educational services. If the threat actually materializes, the County wants to be made whole. By its recommendation, the County seeks adoption by the Commission of a mechanism that insures that the County has the opportunity to recover the property tax revenues they had a reasonable expectation of receiving but for electric restructuring. (D.97‑05‑088 at 91.)

In that proceeding, the Commission held that: “The County's proposal that ratepayers pay for property taxes that PG&E does not incur is not permitted under either general ratemaking principles or public utility law.” (*Id*. at 100.) As a result, the Commission held that the County should direct its request for relief to the Legislature, not the Commission.[[20]](#footnote-21) (*Id.*) In large part because the facts presented in this proceeding are unusually aligned with those in D.97-05-088, the Commission reaches the same result today.

Because the analysis set forth by the Commission in D.97‑05‑088 is directly on point, we quote it here at length:

The County of San Luis Obispo and the San Luis Coastal Unified School District (County) seek protection against the risk that Diablo Canyon‑related property taxes will decrease precipitously and jeopardize the ability of the County to provide basic public and educational services. If the threat actually materializes, the County wants to be made whole. By its recommendation, the County seeks adoption by the Commission of a mechanism that insures that the County has the opportunity to recover the property tax revenues they had a reasonable expectation of receiving but for electric restructuring.  
  
The County recommendation is that this Commission should:

• Find that $ 158 million (NPV in 1999 dollars) represents a reasonable estimate of the potential difference between property tax revenues that the County would have received from PG&E in the absence of accelerated recovery of Diablo Canyon depreciation and what the County could actually receive given restructuring.  
[…]  
• Order that the $ 158 million in potentially forgone property taxes be collected by PG&E as CTC at a rate of $ 39.5 million per year during the CTC recovery period and held in a separate, segregated interest‑bearing account until 2026.  
  
• Order PG&E, starting in 1999 and continuing thereafter on an annual basis, to withdraw funds from the segregated CTC account and to remit to the County the difference between the estimated tax payments based upon straight‑line depreciation of Diablo Canyon through the year 2026 […] and any amount of property taxes actually determinated [sic] to be due and payable by PG&E to the County in each year, to the extent such actual taxes are less than the estimated straight‑line depreciation based property taxes […].  
[…]

The County asserts that adoption of its recommendation will provide protection against the possibility that the County will experience drastic reductions in property tax revenues as a direct result of electric restructuring. If the risk of property tax reductions does not materialize or produces lower tax revenue losses than predicted, any excess amounts otherwise reserved for payment to the County will be returned to ratepayers.  
  
The County contends that the evidence produced by it shows:

• that the County enjoys unique status by reason of long‑standing, mutual commitments with PG&E relating to the location and operation of Diablo Canyon within the County;  
   
• that electric restructuring, and PG&E's related pricing proposal for Diablo Canyon in particular, create the real possibility that the County will suffer far greater negative consequences from restructuring than any other similarly situated stakeholder, primarily in the form of dramatic reductions in the level of otherwise expected property tax revenues to be received from PG&E;  
   
• that the consequence for the County of any property tax revenue reductions resulting from PG&E's Diablo Canyon pricing proposal includes severe reductions in essential public services available to the residents and schoolchildren of San Luis Obispo County;  
   
• that the mutual commitments between the County and PG&E and, in particular, the County's reliance on PG&E's promises to provide identifiable economic benefits in exchange for siting and operating a nuclear generation facility within San Luis Obispo County, create an enforceable entitlement to a stable and predictable level of property tax revenues for the County throughout the projected operating life of Diablo Canyon; and  
   
• that the difference between property tax revenues that the County would have received from PG&E in the absence of accelerated recovery of Diablo Canyon depreciation and what the County actually receives given implementation of electric restructuring is properly recoverable (by PG&E and payable to the County)[…].

This evidence, in the opinion of the County, leads to only one conclusion of law: It is consistent with law, policy, and the public interest for the Commission to adopt a mechanism that will provide a safety net for the County by ensuring that the County's property tax receipts are unaffected by any accelerated depreciation of Diablo Canyon authorized by the Commission in conjunction with its initiative to restructure the state's electric industry.  
  
PG&E and ORA oppose the County. […]  
  
In addition to the problems in predicting the actual impacts of restructuring on the County, PG&E asserts that the County's proposal to recover lost property tax revenues is legally suspect. AB 1890 contains no explicit provision to allow utilities to recover costs or lost governmental revenues that they are not liable for but which are incurred by third parties, such as counties, under restructuring. In addition, as a general principle of ratemaking, utilities are not permitted to include in their cost of service payments which in fact they have not incurred or accrued, or forecast to incur, and which they have not become legally obligated to incur or accrue.  
  
ORA states that the County has not cited any statute or rule that would support its position. ORA notes that there has never been any guarantee that Diablo Canyon property tax revenues would not decrease, even in the absence of electric restructuring and PG&E's accelerated depreciation proposal. For example, if Diablo Canyon continued to perform at current levels in the future such that PG&E recovered more in revenues than intended under the original ratemaking settlement, the Commission could require a reduction in prices as was done in 1995, or the early termination of the ratemaking treatment. This would impact San Luis Obispo tax revenues, even in the absence of electric restructuring. In addition, nothing in the existing Diablo Canyon ratemaking treatment precludes the facility from shutting down, not just for catastrophic failure, but for economic reasons as well. Under such circumstances, regardless of electric restructuring, there would likely be no tax revenues for San Luis Obispo. […]

[…]

Most telling is ORA's argument that San Luis Obispo would have the Commission impose on ratepayers what is essentially a tax that is entirely unrelated to utility service. The County’s proposal that ratepayers pay for property taxes that PG&E does not incur is not permitted under either general ratemaking principles or public utility law. Section 451 of the PU Code requires:

“All charges demanded or received by any public utility ... for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.”

A utility cannot charge ratepayers costs that are unrelated to the provision of any product or commodity or service, and the Commission cannot lawfully order such charges. [fn. omitted]  
  
However, ORA supports San Luis Obispo's efforts to seek relief in a more appropriate forum. It is within the state's powers, not the Commission's, to levy taxes and to disburse tax revenues. […]  
  
The arguments of PG&E and ORA are persuasive. There is no legal basis for this Commission to authorize PG&E to include in its rates and cost of service estimated property taxes which it is not lawfully obligated or forecasted to pay. Taxes which are included in rates are those in effect at the time the rates are approved, unless the existing law provides for a change at a future date. (Re Pac. Tel. & Tel. (1954) 53 CPUC 276, 295.) Absent legislative change, or Board of Equalization change, PG&E's taxes are what they are under existing law and the County's proposal will not change that fact. The County must direct its request for relief to the Legislature and the Board, not this Commission.  (D.97‑05‑088 at 91‑100.)

As in 1997, this Commission is reluctant to require ratepayers to pay for the cost of local government services that are typically paid for by taxpayers, no matter how beneficial those services may be. Absent legislative authorization, utility rates should be used to provide utility services, not government services. While Resolution E‑3535 subsequently did authorize ratepayer payment to the County and the School District, it is important to take into consideration what happened in between D.97‑05‑008 and Resolution E‑3535. As described in Resolution E‑3535:

After the Commission's Decision was issued, the California Legislature passed into law Chapter 282, section 8660‑001‑0462, paragraph 3, of Statutes of 1997. This new law states that if PG&E and the County and School District enter into a settlement that resolves claims by the latter parties relating to the effects of AB 1890 (Brulte), enacted 1996, Chapter 854, then PG&E may recover an additional amount, not to exceed $ 10 million, through base rates in 1998. (Resolution E‑3535 at 3.)

In short, there was express legislative authorization for rate recovery for a payment to the community, which was implemented by Resolution E‑3535.

Accordingly, ratepayer funding of the CIMP is not authorized. If legislation specifically directs this Commission to provide ratepayer funding for the CIMP (or a similar payment to the community), the Commission would do so, as it did in 1998. PG&E may also choose to use shareholder funds to support the CIMP.

## Recovery of License Renewal Costs

In its Application, PG&E requested rate recovery for $52.688 million in costs incurred for its efforts to renew the NRC operating licenses for Diablo Canyon. (Ex. PG&E‑1 at 9‑1.) This request was opposed by TURN, ORA, A4NR and Mothers for Peace, who argued that PG&E should not get rate recovery for any of the costs associated with relicensing Diablo Canyon. (*See*, e.g. TURN Protest at 4‑6; A4NR Protest at 5‑13.)

In late 2009, PG&E filed an application with the NRC to renew Diablo Canyon’s operating licenses. In early 2010, PG&E filed an application with this Commission requesting rate recovery for its estimate of $85 million in costs for Diablo Canyon NRC license renewal and related activities. (Ex. PG&E‑1 at 9‑4.) In that proceeding (Application (A.) 10‑01‑022), PG&E, the Commission’s Division of Ratepayer Advocates (DRA)[[21]](#footnote-22) and TURN reached a tentative settlement. (D.12‑02‑004 at 2.)

In March, 2011, prior to a hearing on the settlement, an earthquake and tsunami caused serious damage to a nuclear plant located at Fukushima, Japan, and the NRC effectively halted the relicensing of Diablo Canyon pending further seismic studies. (*Id*. at 2‑4; Ex. PG&E‑1 at 9‑5 to 9‑6.) The Commission then closed A.10‑01‑022 without addressing the proposed settlement. (D.12‑02‑004 at 5‑7.) The proposed settlement between PG&E, DRA and TURN would have allowed PG&E rate recovery for $80 million in licensing renewal costs. (Ex. PG&E‑5‑2 at 5‑19.)

While the license renewal process at the NRC was suspended, PG&E reduced its spending on license renewal activities, but continued with some activities in order to keep its application up‑to‑date (Ex. PG&E‑1 at 9‑6) and to retain the ability to re‑start and complete the license renewal process in the future. (Ex. PG&E 5‑2 at 5‑22.) PG&E’s license renewal spending ramped back up significantly in 2014 (although PG&E’s testimony does not clearly identify when it re‑started active work on the license renewal). (Ex. PG&E ‑7 at 278.) PG&E did not return to the Commission to request approval for rate recovery of the license renewal costs it incurred until it filed the present application in August 2016.

PG&E divides the costs it incurred for Diablo Canyon license renewal into three time periods: Original LRA Review (2009‑11), LR On‑Hold (2012‑13), and LR Re‑Start (2014‑16). (*Id*.) PG&E’s request breaks down as follows:

Original LRA Review (2009‑11) $23,651,457

LR On‑Hold (2012‑2013) $ 9,290,172

LR Re‑Start $19,744,364

Total $52,687,764

For all three periods, PG&E’s original request included rate recovery for Allowance for Funds Used During Construction (AFUDC), reflecting the financing cost of the license renewal project. (*Id.*) TURN and A4NR questioned PG&E’s request for recovery of AFUDC, given that the license renewal project was abandoned or cancelled. (*See*, Transcript Vol. 8 at 1214‑1246.)

Subsequent to evidentiary hearings, a joint motion for adoption of a settlement agreement was filed by PG&E, A4NR, TURN, ORA, Mothers for Peace, FOE, NRDC, Environment California, IBEW 1245, and CCUE (Settling Parties). The proposed settlement addresses the costs incurred by PG&E for its license renewal activities, and recommended that PG&E be granted $18.6 million in rate recovery. (May 23, 2017 Joint Settlement Motion at 13, 15.) The motion explained the basis for this number:

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 the Nuclear Regulatory Commission (“NRC”) defer issuance of the Diablo Canyon renewed operating licenses. [fn. omitted] 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. (*Id.* at 12‑13.)

The parties opposing PG&E’s original request support the settlement. The $18.6 million figure is supported by the record, is well within the range of possible litigation outcomes in this proceeding, and provides significant ratepayer saving compared to PG&E’s original request of more than $52 million. It was reasonable for PG&E to have spent that amount of money in 2009 to 2011 to seek to renew the operating licenses for Diablo Canyon. The removal of AFUDC from the amount sought, given that the relicensing was not completed, also supports the conclusion that the amount is reasonable. The proposed settlement meets the requirements of Rule 12.1(d).

While nuclear power plants are controversial, and renewal of Diablo Canyon’s licenses would have drawn opposition, the record supports a finding that PG&E’s decision to seek renewal of Diablo Canyon’s operating license (and its approach for doing so) from 2009 to April 2011 was reasonable. PG&E requested Commission approval for rate recovery of the costs of renewal at approximately the time they began to actively pursue license renewal, which provided an opportunity for parties (and the Commission) to address the reasonableness of their decision. In that proceeding, DRA and TURN agreed to a proposed settlement allowing PG&E rate recovery for its relicensing costs, which implies that whether or not they believed PG&E’s course of action to be reasonable, they believed it likely the Commission would find it reasonable. The Commission also had a potential opportunity to determine that it was unreasonable for PG&E to seek to renew Diablo Canyon’s NRC licenses, but did not do so. And finally, the realities on the ground in California were very different in 2009 than they are in 2017. Our current situation, with the rapid growth of renewable generation and CCAs, had not so fully manifested itself yet, making Diablo Canyon look to be a potentially more valuable asset then than it is now. There is not a good basis to now find unreasonable PG&E’s decision in 2009 to pursue relicensing of Diablo Canyon.[[22]](#footnote-23) Accordingly, it is reasonable to grant PG&E rate recovery for the costs (not including AFUDC) that it incurred through April 2011, as proposed by the settlement.

The rate recovery structure of the proposed settlement is described:

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. (May 23, 2017 Joint Settlement Motion at 15.)

The proposed settlement on license renewal costs is approved, including the amount of cost recovery and the ratemaking structure. The provisions of the proposed settlement addressing cancelled capital projects are discussed in the Proposed Ratemaking and Cost Allocation Issues section below.

## Proposed Ratemaking and Cost Allocation Issues

PG&E’s proposed ratemaking treatment for Diablo Canyon as it approaches retirement does not alter the existing ratemaking treatment, which has generation rates based on a depreciation schedule that assumes Diablo Canyon will be retired (and depreciated to zero) at the end of 2024 for Unit 1 and the end of 2025 for Unit 2. (PG&E Opening Brief at 70.)[[23]](#footnote-24) PG&E does propose to add an annual true‑up to reflect actual depreciation and capital spending at Diablo Canyon. (*Id*., citing Ex. PG&E‑1, at 10‑4.)

PG&E also proposes:

For capital additions after 2016, PG&E proposes to simplify the recovery over the remaining years of Diablo Canyon’s operations by calculating a remaining life depreciation rate based on the vintage of the addition. Thus, a capital addition project that goes into service in 2017 would have an assumed 8‑year life/depreciation schedule and a capital addition project added in 2018 would have an assumed 7‑year life/depreciation schedule.

Beginning in 2017, PG&E will true‑up the depreciation rates for plant and capital additions set in the 2017 GRC with the actual costs incurred/recorded for these two categories. To implement this proposal, PG&E proposes to establish a new 2‑way subaccount within the proposed Diablo Canyon Retirement Balancing Account that would be called the “Diablo Canyon Capital Depreciation Subaccount.” This subaccount would track and adjust the capital revenue requirements associated with Diablo Canyon’s net book value and capital additions. Starting in 2018, PG&E proposes to file in May of each year a Tier 3 advice letter trueing‑up the prior year’s forecast to recorded costs and establishing the amount of the depreciation rate adjustment that will be incorporated into the AET advice letter for January 1 of the next year. (PG&E Opening Brief at 70‑71, fn. omitted.)

In general, this approach (and the new subaccount) is reasonable. However, the review and true‑up process should be reviewed in a GRC (or in a process established in a GRC) rather than by advice letter.

For the employee retraining program, as discussed in the employee program section above, the estimated cost of $11.3 million is recoverable in rates through the NDNBC. PG&E’s request for a new two‑way expense‑only subaccount (the Employee Retraining Program Subaccount) within the existing Diablo Canyon Retirement Balancing Account is approved.

For the employee retention program, as discussed in the employee program section above, PG&E is authorized rate recovery for up to $211.3 million through the existing ratemaking treatment for the operation of Diablo Canyon. PG&E is authorized to establish a two‑way expense‑only balancing account (or sub‑account) consistent with this decision.

For the costs of PG&E’s NRC license renewal project, as discussed in the license renewal costs section above, PG&E is authorized to recover $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 rates.

For cancelled capital projects at Diablo Canyon, PG&E is authorized rate recovery generally consistent with the proposed settlement on relicensing costs, under which:

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. (May 23, 2017 Joint Settlement Motion at 3.)

PG&E’s original position in its Application was that:

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.[[24]](#footnote-25) (*Id*. at 8.)

Accordingly, the proposed settlement results in potentially significant (albeit unquantified) cost savings to ratepayers. The proposed settlement on cancelled capital projects is approved, with one modification. PG&E should make its specific cost recovery requests through its GRC process (or another formal application), rather than through an advice letter process.

## Additional Issues

The Scoping Memo in this proceeding stated:

It is premature to address land use, facilities and decommissioning issues. At the same time, parties expressed concern that deferring consideration of these issues could result in PG&E making changes that would preclude future options. PG&E must obtain Commission approval under Pub. Util. Code § 851 prior to selling, leasing, or otherwise encumbering utility‑owned land or facilities. While some of the land at issue is owned by a subsidiary of PG&E, PG&E has committed to take no action with any of the lands and facilities, whether owned by the utility or a subsidiary, before completion of a future process including a public stakeholder process, and states that the parties will not be prejudiced by excluding these issues from the current scope of this proceeding. PG&E is directed to abide by that commitment. (Scoping Memo at 6.)

The commitments and directions in the Scoping Memo are reiterated here in order to ensure that there will be local input and further Commission review prior to the disposition of Diablo Canyon facilities and surrounding lands.

All unaddressed motions are denied.

# Comments on Proposed Decision

The proposed decision of ALJ Allen was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission’s Rules of Practice and Procedure. Comments were filed on November 29, 2017. Reply comments were filed on December 4, 2017.

During the course of the proceeding, PG&E consistently argued that it intended to operate Diablo Canyon until 2024/2025, particularly in response to parties’ suggestion that PG&E develop a contingency plan for an earlier shutdown. (*See*, e.g. WEM Opening Brief at 4, quoting PG&E witness Strauss.) Now, in the wake of the proposed decision (and its reduction in PG&E’s requested rate recovery), PG&E is warning that it may in fact shut down Diablo Canyon earlier. (PG&E Comments at 4.) The proposed decision has been modified to reflect an increased probability of Diablo Canyon shutting down earlier than 2024/2025.

While many parties support the proposed decision’s deferral of replacement procurement issues, including GHG impacts, to the IRP proceeding (*see*, e.g. Comments of CLECA, California Clean DG Coalition, AReM, Joint Intervenors and the City and County of San Francisco), a number of parties argue that the Commission should not defer to the IRP proceeding consideration of the GHG impacts of the retirement of Diablo Canyon (*see*, e.g. Comments of CEERT, FOE, PG&E and NRDC).

CEERT, for example, argues that by doing so the proposed decision ignores SB 350 and that law’s GHG emission reduction requirements. (CEERT Comments at 5.) According to CEERT, the proposed decision rejects “a commitment to or procurement of GHG-free energy to replace Diablo Canyon,” and accordingly is inconsistent with the Governor’s objectives for clean energy, clean air, and pollution reduction. (*Id*.)

This is a mischaracterization of the proposed decision. Deferring consideration to the IRP proceeding of the GHG impacts of Diablo Canyon replacement procurement does not reject a commitment to procurement of greenhouse gas-free energy. Consideration of GHG impacts in the IRP proceeding is consistent with SB 350 and the GHG reduction policies of the State of California. The scope of the IRP proceeding expressly includes the following:

Based on the OIR, parties’ comments on the OIR, and the discussion at the PHC, the scope of this proceeding will be focused around two of the new sections of the Public Utilities Code, codified by SB 350. These sections are as follows:

**454.51.** The commission shall do all of the following:

(a) Identify a diverse and balanced portfolio of resources needed to ensure a reliable electricity supply that provides optimal integration of renewable energy in a cost-effective manner. The portfolio shall rely upon zero carbon-emitting resources to the maximum extent reasonable and be designed to achieve any statewide greenhouse gas emissions limit established pursuant to the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with Section 38500) of the Health and Safety Code) or any successor legislation. […]

**454.52.**

(a) (1) Commencing in 2017, and to be updated regularly thereafter, the commission shall adopt a process for each loadserving entity, as defined in Section 380, to file an integrated resource plan, and a schedule for periodic updates to the plan, to ensure that   
load-serving entities do the following:

(A) Meet the greenhouse gas emissions reduction targets established by the State Air Resources Board, in coordination with the commission and the Energy Commission, for the electricity sector and each load-serving entity that reflect the electricity sector’s percentage in achieving the economy-wide greenhouse gas emissions reductions of 40 percent from 1990 levels by 2030.   
(R.16-02-007 Scoping Memo and Ruling at 3-5.)

IRP is implementing SB350 and California’s GHG policies. Careful consideration of the relationship between Diablo Canyon, SB 350, and California’s GHG policies in the IRP proceeding is more consistent with SB 350 and those policies than attempting to do so in this more narrowly focused proceeding. To clarify this issue, the decision has been modified to direct PG&E to be prepared to demonstrate in the IRP proceeding the greenhouse gas emissions of its electric portfolio in scenarios assuming Diablo Canyon retirement dates prior to 2024/2025.

CUE and PG&E, in arguing for higher employee retention payments, cast the choice of payment level as an either/or choice – the $352.1 million originally proposed,[[25]](#footnote-26) or the $160.5 million approved by the proposed decision. (CUE Comments at 2-8, PG&E Comments at 3.) CUE then argues that because more evidence was presented supporting the $352.1 million figure than the $160.5 million figure, the proposed decision errs by adopting the lower figure.

This is a false dichotomy. Rather than a binary choice, the Commission must consider a spectrum. Absent a showing that it is reasonable to charge a cost to ratepayers, the proper amount is zero. With an adequate showing by a party, the needle moves off of zero, up to whatever level is supported by the record. The proposed decision found that in this case the parties had provided adequate support to move off of zero (although there was also record support for zero), but failed to support a level of $352.1 million. ORA’s testimony in support of $160.5 million helped push the needle up to that level. At the same time, it is not clear that $160.5 million is the correct level, particularly since it does not provide funding for the earlier (Tier 1) years.

CUE and PG&E further fault the proposed decision for not deferring to the retention payment “benchmarking” data cited by PG&E. (CUE Comments at 2, 4-6, 14; PG&E Comments at 6.) But as ORA points out:

[T]here is no data presented in the record regarding an applicable time-period for retention payments. Nothing was presented by PG&E’s consultant in testimony, workpapers, or discovery responses regarding the reasonableness of a seven year retention payment plan relative to the time frame for those programs included within its industry data. (ORA Reply Comments at 3.)

In addition, the retention payment benchmarking data that was used appears to be broad, across a range of industries, rather than specific to the unique characteristics of the nuclear power industry. There is also nothing in the record to indicate that the retention payment benchmarking data reflects an equivalent level of severance pay as is present here. PG&E forecasts severance payment costs of $168 million. (Exhibit PG&E-1 at 7-7.) If that amount were to be distributed equally to 1,461 employees, each employee would receive a severance payment of $115,000. If anything, the benchmarking data appear to confirm that a 25% per year retention payment level is too generous.

There is, however, a benefit to providing certainty as to the contours of the retention program. Continued uncertainly could exacerbate employee concerns, possibly resulting in increased attrition. In addition, the comments do support the desirability of retention payments throughout the entire period of Diablo Canyon’s continuing operations, including the early years. (*See*, PG&E Comments at 3, 9.) Accordingly, the proposed decision has been modified to provide a reasonable fixed level of retention plan payments for Diablo Canyon’s remaining years of operation.

The supporters of the CIMP make two arguments – first, that the CIMP is not a substitute for tax revenues, and second, that the CIMP is authorized (or at least not prohibited) by statute.

The Local Cities argue that the CIMP is not a substitute for tax revenues, and accordingly, the current situation is distinguishable from that addressed in D.97-05-088. The Local Cities argue that D.97-05-088 addressed a situation in which the County was explicitly “seeking a substitute for lost tax revenue,” while claiming: “Here, the CIMP is not explicitly based on tax revenues at all. Calculating the amount under the CIMP does not involve a computation of tax revenues.” (Local Cities Comments at 3.) This argument, however, is undercut by the County, which states:

Of the 91 taxing jurisdictions in the County, 20 have budgets that will not decrease as Diablo Canyon's unitary tax payments decrease. For the remaining 7l taxing jurisdictions whose budgets will decrease as Diablo Canyon is depreciated to $0, the County re‑allocated the unitary tax factors for the 20 unaffected jurisdictions to the 7l affected jurisdictions and arrived at $75 million as the amount necessary to maintain the status quo. Under the settlement, the County would distribute the annual payment to each of the affected jurisdictions according to its proportional factor; the remaining 20 jurisdictions would receive funding from the State to make up the shortfall from Diablo Canyon's taxes. (County Comments at 7-8, footnotes omitted.)

Accordingly, it appears that the CIMP is based on tax revenues, and calculating the amount of the CIMP does involve a computation of tax revenues. The Cities have failed to distinguish the present case from D.97-05-088.

A number of parties attempted to cobble together arguments, based on Public Utilities Code Sections 701 and 712.5, to show that the Commission has at least implied authority to approve rate recovery for the CIMP payments to the community. (*See*, e.g. School District Comments at 3-6; A4NR Reply Comments at 1-4.) While Public Utilities Code Section 701 is very broad, and does grant the Commission significant authority, it does not directly address the situation here, and does not specifically authorize substituting ratepayers for taxpayers.

By comparison, Pub. Util. Code § 712.5 (SB 968) is much narrower, and is specifically focused on Diablo Canyon, but (as TURN points out) also does not expressly authorize the Commission to approve ratepayer funding for the CIMP:

Contrary to the claims made by A4NR and SLCUSD, Public Utilities Code §712.5 (SB 968) does not expressly authorize the Commission to approve ratepayer funding for this purpose. The provision merely directs the Commission to “cause an assessment to be completed’ regarding the “net economic effects” of a Diablo Canyon shutdown. The bill does not provide sweeping (and unbounded) authorization for unlimited ratepayer-funded payments to the affected communities to compensate for any impacts identified in the assessment. (TURN Reply Brief at 2, footnotes omitted.)

TURN is correct; even read in a broad way, Section 712.5 does not provide a basis for rate recovery of the CIMP. Minor clarifying changes have been made to the proposed decision on this issue.[[26]](#footnote-27)

The County requested clarification or greater emphasis of: “PG&E's commitment to continue funding local emergency response-related equipment, programs, and personnel, through the cessation of plant operations in 2025.” (County Comments at 13.) According to the County: “[T]he emergency response programs are of such importance to the community that there should be no ambiguity as to PG&E's continued funding.” (*Id*.) As the County notes, the proposed decision states in a footnote that “[e]xisting support for local emergency services provided through PG&E rates is not at issue in this proceeding, and remains in effect.” (*Id*., citing Proposed Decision at 32, fn. 18.) This decision is addressing rate recovery for new costs; the cost of PG&E funding of emergency services that is already in rates is not at issue in this proceeding, and accordingly this decision does not reduce or eliminate that funding.

A number of parties criticize the proposed decision for inadequately valuing the “joint” aspect of the Joint Proposal, and argue that the proposed decision should have given the Joint Proposal more deference, as it was the product of a multi-party collaborative process. As FOE puts it:

While it is certainly true that PG&E is the Applicant in this case, it is incorrect to describe the various aspects of the Joint Proposal or the First Amendment as “PG&E proposals.” Doing so obscures the important fact that the Joint Proposal was a negotiated agreement among a diverse group of arms-length parties representing various and often conflicting interests, including labor unions and environmental organizations. (FOE Comments at 13; see also NRDC Comments at 2-3, CEERT Comments at 2-3.)

PG&E takes a similar position, including an argument that the employee retention benefit levels were agreed upon in an “arm’s length” bargaining process, and that the end result was “hard-bargained.” (PG&E Comments at 6.) The Local Cities likewise argue that the CIMP was the result of “good-faith, arms-length” negotiations among “numerous parties.” (Local Cities Comments at 2.)

These arguments are undercut by the significant fact that the ratepayers were not at the table for these “arms-length” and “hard bargained” negotiations that decided they should pay for the costs of replacement procurement, employee retention, and the CIMP. This is akin to joining a group for dinner, who inform you that they have already ordered, and have decided that you will pay the bill. While the parties to the Joint Proposal may often have conflicting interests, that does not appear to have been the case here, and the Joint Proposal would have received more deference if it had included the interests of those who were being asked to pick up the tab. No changes have been made to the proposed decision on this issue.

Some parties argue that the proposed decision is too short, and that it does not adequately discuss the proposals that it rejects, particularly the deferral of replacement procurement issues to the IRP proceeding. (*See*, CEERT Comments at 1-2; IEP Comments at 2.) But as the Joint Intervenors point out:

There is detailed and extensive record support for the PD’s conclusion that the IRP should address replacement procurement, including testimony from PG&E’s own witnesses and the other Joint Parties. The PD briefly references solid record evidence supporting deferral of replacement procurement to the IRP, citing ORA and MCE testimony. More than those two parties offered experts who testified on the record that the replacement procurement should be considered in the IRP; the long list of experts whose record testimony supports deferral to the IRP includes: CCSF Witness Kinosian; CLECA witness Barkovich; Joint Intervenor Witnesses Kinosian and Barkovich; MCE Witness Dusel; ORA Witness Myers; Shell Witness Dyer; Solar City Witness Franz; and TURN Witnesses Marcus and Woodruff. These experts spoke to many reasons why the IRP is the right forum for a determination of need and replacement procurement. (Joint Intervenors Comments at 4, footnotes omitted.)

The Joint Intervenors are correct that there is extensive record support for the proposed decision, particularly on this issue. The decision is based on the record and cites to the record; it is not necessary for it to address in detail every argument made in this proceeding.[[27]](#footnote-28) Other than the changes noted above, the proposed decision has not been expanded.

# Assignment of Proceeding

Michael Picker is the assigned Commissioner and Peter V. Allen is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Continuing operation of Diablo Canyon Unit 1 beyond 2024 and Unit 2 beyond 2025 would require renewal of NRC licenses, and would not be cost effective.
2. The retirement of Diablo Canyon will not cause adverse impacts on local or system reliability.
3. The impact of the retirement of Diablo Canyon on GHG emissions is not clear.
4. The IRP proceeding is broader in scope than this proceeding, and is considering issues including optimized portfolios of generation resources to achieve the statewide GHG emissions target.
5. PG&E employees at Diablo Canyon who want to transfer to other jobs at PG&E due to the retirement of Diablo Canyon may require retraining and related assistance.
6. PG&E’s proposed employee retention plan is costly and inefficient.
7. A less costly employee retention plan would be more reasonable, and may help to ensure the continued safe operation of Diablo Canyon until its retirement.
8. The CIMP is largely intended to substitute for anticipated lost tax revenue.
9. PG&E’s original request for rate recovery for relicensing costs totaled $52.688 million for expenses from 2009 through 2016, including AFUDC.
10. The proposed settlement on relicensing costs would provide PG&E $18.6 million in rate recovery for expenses from 2009 through 2011, and excludes AFUDC.
11. The proposed settlement on cancelled capital projects reduces ratepayer exposure to the cost of those projects.
12. It is premature to address land use, facilities and decommissioning issues.
13. PG&E has committed to take no action with any of the Diablo Canyon lands and facilities before completion of a future public stakeholder process.

Conclusions of Law

1. PG&E’s proposal to retire Diablo Canyon Unit 1 by 2024 and Unit 2 by 2025 is reasonable, and should be approved.
2. The need for procurement to replace Diablo Canyon should be addressed in the IRP proceeding.
3. Any procurement to replace Diablo Canyon should be addressed in the IRP proceeding to avoid increased GHG emissions in the most optimal manner.
4. Implementation of a retraining program for PG&E employees at Diablo Canyon is reasonable, and should be approved.
5. PG&E’s proposed employee retention plan is not reasonable, and should not be approved.
6. A cost‑effective employee retention plan for employees at Diablo Canyon is reasonable, and should be approved.
7. Having ratepayers take the place of taxpayers in paying for government services is not reasonable, and should not be approved.
8. The proposed settlement on relicensing costs is reasonable, and should be approved.
9. The proposed settlement on cancelled capital projects is reasonable as modified, and should be approved.
10. Land use, facilities and decommissioning issues do not need to be addressed in this decision.
11. The proposed settlement on NRC license renewal cost meets the requirements of Rule 12.1.

ORDER

**IT IS ORDERED** that:

1. Pacific Gas and Electric Company’s proposal to retire Diablo Canyon Unit 1 by 2024 and Unit 2 by 2025 is approved.
2. Pacific Gas and Electric Company’s “Tranche 1” proposal to procure 2,000 gigawatt hours of energy efficiency is not approved.
3. Pacific Gas and Electric Company’s withdrawn “Tranche 2” and “Tranche 3” replacement procurement proposals are not approved.
4. Replacement procurement will be addressed in the Integrated Resource Planning proceeding or a proceeding designated by the Integrated Resource Planning proceeding.
5. Efforts to avoid an increase in greenhouse gas emissions relating to the retirement of Diablo Canyon, including any replacement procurement, will be addressed in the Integrated Resource Planning proceeding or a proceeding designated by the Integrated Resource Planning proceeding.
6. Pacific Gas and Electric Company should be prepared to present scenarios for Diablo Canyon retirement in the Integrated Resource Planning proceeding that demonstrate no more than a de minimis increase in the GHG emissions of its electric portfolio.
7. Pacific Gas and Electric Company is authorized to recover $11.3 million in rates for its Diablo Canyon employee retraining program.
8. Pacific Gas and Electric Company’s proposed employee retention program is approved at a reduced payment level.
9. Pacific Gas and Electric Company is authorized to recover up to $211.3 million in rates for a Diablo Canyon employee retention program.
10. Ratepayer funding of the Community Impacts Mitigation Program is not approved.
11. The proposed settlement on Nuclear Regulatory Commission (NRC) license renewal costs is approved, and Pacific Gas and Electric Company is authorized to recover $18.6 million in rates for its NRC license renewal costs.
12. The proposed settlement on cancelled capital projects is approved as modified.
13. Pacific Gas and Electric Company will take no action with respect to any of the lands and facilities, whether owned by the utility or a subsidiary, before completion of a future process including a public stakeholder process; there will be local input and further Commission review prior to the disposition of Diablo Canyon facilities and surrounding lands.
14. Application 16‑08‑006 is closed

This order is effective today.

Dated January 11, 2018, at San Francisco, California.

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|  |  | MICHAEL PICKER  President  CARLA J. PETERMAN  LIANE M. RANDOLPH  MARTHA GUZMAN ACEVES  CLIFFORD RECHTSCHAFFEN  Commissioners |

**Appendix A**

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| **\*\*\*\*\*\*\*\*\*\*\*\*\*\* PARTIES \*\*\*\*\*\*\*\*\*\*\*\*\*\***   Marc D. Joseph  Attorney At Law  ADAMS, BROADWELL, JOSEPH & CARDOZO  601 GATEWAY BLVD., STE. 1000  SOUTH SAN FRANCISCO CA 94080  (650) 589-1660  MDJoseph@AdamsBroadwell.com  For: IBEW Local Union 1245 and The Coalition of California Utility Employees \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Evelyn Kahl  Counsel  ALCANTAR & KAHL LLP  345 CALIFORNIA ST., STE. 2450  SAN FRANCISCO CA 94104  (415) 421-4143  EK@a-klaw.com  For: Energy Producers and Users Coalition \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Nora Sheriff  Counsel  ALCANTAR & KAHL LLP  345 CALIFORNIA ST., STE. 2450  SAN FRANCISCO CA 94104  (415) 421-4143  nes@a-klaw.com  For: California Large Energy Consumers Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Danielle O. Mills  Dir  AMERICAN WIND ENERGY ASSN CALIF CAUCUS  1970 MEADOW OAK LANE  MEADOW VISTA CA 95722  (916) 320-7584  Danielle@RenewableEnergyStrat.com  For: American Wind Energy Association California Caucus (AWEA) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Ty Tosdal  Of Counsel  BRAUN BALISING MCLAUGHLIN & SMITH, P.C.  915 L. STREET, SUITE 1270  SACRAMENTO CA 95814  (916) 682-9702  Ty@TosdalLaw.com  For: City of Lancaster \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Scott Blaising  Counsel  BRAUN BLAISING SMITH WYNNE P.C.  915 L STREET, SUITE 1480  SACRAMENTO CA 95814  (916) 712-3961  Blaising@Braunlegal.com  For: Silicon Valley Clean Energy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Kellie Smith  Policy Dir.  CAL. ENERGY EFFICIENCY INDUSTRY COUNCIL  1535 FARMERS LANE, SUITE 312  SANTA ROSA CA 95405  (707) 480-1844  Policy@EfficiencyCouncil.org  For: California Energy Efficiency Industry Council \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Barbara Hale  President  CALIFORNIA COMMUNITY CHOICE ASSOCIATION  1125 TAMALPAIS AVE.  SAN RAFAEL CA 94901  info@cal-cca.org  For: California Community Choice Association (CalCCA) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Brad Heavner, Policy Dir.  CALIFORNIA SOLAR ENERGY INDUSTRIES  1107 9TH STREET, NO.820  SACRAMENTO CA 95814  (415) 328-2683  Brad@Calseia.org  For: California Solar Energy Industries Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Gene Nelson, Ph.D., Co-Government Liaison  CALIFORNIANS FOR GREEN NUCLEAR POWER  1375 EAST AVE, STE. 103 NO. 523  ARROYO GRANDE CA 93420  (805) 363-4697  Liaison@CGNP.org  For: Californians for Green Nuclear Power \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Sam Blakeslee, Ph.D., Dir  CENTRAL COAST WAVE ENERGY HUB  1530 BROAD STREET  SAN LUIS OBISPO CA 93401  (805) 234-7313  Samuel@Blakeslee-Blakeslee.com  For: Central Coast Wave Energy Hub \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Austin M. Yang  Deputy City Attorney  CITY AND COUNTY OF SAN FRANCISCO  1 DR. CARLTON B. GOODLETT PL, RM 234  SAN FRANCISCO CA 94102-4682  (415) 554-6761  Austin.Yang@sfgov.org  For: City and County of San Francisco \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  David P. Lowrey  Director, Regulatory Strategy  COMVERGE, INC.  999 18TH STREET, SUITE 2300  DENVER CO 80202  (626) 260-2698  DLowrey@Comverge.com  For: Comverge, Inc. (Joint DR Parties) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Jennifer A. Chamberlin  Exe Dir - Mrkt Development / Caiso  CPOWER  2633 WELLINGTON COURT  CLYDE CA 94520  (925) 332-5960  JAC@CPowerEnergyManagement.com  For: CPower (Joint DR Parties) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Vidhya Prabhakaran  Attorney  DAVIS WRIGHT & TREMAINE LLP  505 MONTGOMERY STREET, SUITE 800  SAN FRANCISCO CA 94111  (415) 276-6568  VidhyaPrabhakaran@dwt.com  For: South San Joaquin Irrigation District \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Vidhya Prabhakaran  Attorney  DAVIS WRIGHT TREMAINE LLP  505 MONTGOMERY ST., STE. 800  SAN FRANCISCO CA 94111-6533  (415) 276-6500  VidhyaPrabhakaran@dwt.com  For: SolarCity Corporation \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Patrick Ferguson  Attorney  DAVIS WRIGHT TREMAINE, LLP  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 276-6500  PatrickFerguson@dwt.com  For: Peninsula Clean Energy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Ann L. Trowbridge  Attorney At Law  DAY CARTER & MURPHY LLP  3620 AMERICAN RIVER DRIVE, STE. 205  SACRAMENTO CA 95864  (916) 246-7303  ATrowbridge@DayCarterMurphy.com  For: California Clean DG Coalition \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  John W. Leslie  Attorney  DENTONS US LLP  4655 EXECUTIVE DRIVE, SUITE 700  SAN DIEGO CA 92121  (619) 699-2536  John.Leslie@Dentons.com  For: Shell Energy North America (US), L.P. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Daniel W. Douglass  Attorney  DOUGLASS & LIDDELL  4766 PARK GRANADA, STE. 209  WOODLAND HILLS CA 91302  (818) 961-3001  douglass@energyattorney.com  For: Direct Access Customer Coalition (DACC) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Donald C. Liddell, Pc  Counsel  DOUGLASS & LIDDELL  2928 2ND AVENUE  SAN DIEGO CA 92103  (619) 993-9096  liddell@EnergyAttorney.com  For: California Energy Storage Alliance (CESA) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Gregory Klatt, Attorney  DOUGLASS & LIDDELL  411 E. HUNTINGTON DRIVE, STE. 107-356  ARCADIA CA 91006  (626) 802-5733  Klatt@EnergyAttorney.com  For: San Luis Coastal Unified School District \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Matthew Vespa  Attorney  EARTHJUSTICE, CALIF. OFFICE  50 CALIFORNIA STREET, STE. 500  SAN FRANCISCO CA 94111  (415) 217-2000  MVespa@Earthjustice.org  For: Sierra Club \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Andrew B. Brown, Attorney At Law  ELLISON SCHNEIDER & HARRIS LLP  2600 CAPITOL AVENUE, SUITE 400  SACRAMENTO CA 95816-5905  (916) 447-2166  abb@eslawfirm.com  For: Alliance for Retail Energy Market (AreM) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Carolyn M. Kehrein, Consultant  ENERGY MANAGEMENT SERVICES  2602 CELEBRATION WAY  WOODLAND CA 95776  (530) 668-5600  cmkehrein@ems-ca.com  For: Energy Users Forum \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Erika Diamond  ENERGYHUB  232 3RD STREET, SUITE 201  BROOKLYN NY 11215  (718) 522-7051  diamond@energyhub.net  For: EnergyHub (Joint DR Parties) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Mona Tierney-Lloyd, Sr. Dir., Western Regulatory Affairs  ENERNOC, INC.  PO BOX 378  CAYUCOS CA 93430  (805) 995-1618  MTierney-Lloyd@enernoc.com  For: EnerNOC, Inc. (Joint DR Parties) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Dan Jacobson  Legislative Dir  ENVIRONMENT CALIFORNIA  3435 WILSHIRE BLVD., STE. 385  LOS ANGELES CA 90010  (916) 446-8062 X305  DJacobson@EnvironmentCalifornia.org  For: Environment California \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Larissa Koehler  Senior Attorney  ENVIRONMENTAL DEFENSE FUND  123 MISSION STREET, 28TH FLOOR  SAN FRANCISCO CA 94105  (415) 293-6093  lkoehler@edf.org  For: Environmental Defense Fund \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Kara A. Woodruff, J.D.  Founder  FRIENDS OF WILD CHERRY CANYON  1163 PISMO ST.  SAN LUIS OBISPO CA 93401  (805) 440-6650  KaraSlo@Charter.net  For: Friends of Wild Cherry Canyon \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Mark Shahinian  President  FUTURE GRID COALITION  15 LAPIDGE STREET, APT. 2  SAN FRANCISCO CA 94110  (917) 902-5721  Mark.Shahinian@FutureGridCoalition.org  For: Future Grid Coalition \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Brian T. Cragg  Attorney  GOODIN, MACBRIDE, SQUERI & DAY , LLP  505 SANSOME STREET, SUITE 900  SAN FRANCISCO CA 94111  (415) 392-7900  BCragg@GoodinMacBride.com  For: Independent Energy Producers Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Megan Somogyi  Attorney  GOODIN, MACBRIDE, SQUERI, & DAY, LLP  505 SANSOME ST., STE. 900  SAN FRANCISCO CA 94111  (415) 392-7900  MSomogyi@GoodinMacBride.com  For: County of San Luis Obispo \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Gregory Morris  Director  GREEN POWER INSTITUTE  2039 SHATTUCK AVENUE, STE 402  BERKELEY CA 94704  (510) 644-2700  GMorris@emf.net  For: Green Power Institute \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Laurence G. Chaset  Counsel  KEYES & FOX LLP  436 14TH STREET, STE. 1305  OAKLAND CA 94612  (510) 314-8386  LChaset@kfwLaw.com  For: World Business Academy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Tim Mason  Policy Director  LARGE-SCALE SOLAR ASSOCIATION  EMAIL ONLY  EMAIL ONLY CA 00000  (510) 812-1416  Tim@LargeScaleSolar.org  For: Large-Scale Solar Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Alvin S. Pak  Attorney At Law  LAW OFFICES OF ALVIN S. PAK  827 JENSEN COURT  ENCINITAS CA 92024  (619) 209-1865  Apak@AlPakLaw.com  For: Alliance for Nuclear Responsibility (A4NR) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Megan M. Myers, Attorney  LAW OFFICES OF SARA STECK MYERS  122 - 28TH AVENUE  SAN FRANCISCO CA 94121  (415) 994-1616  MeganMMyers@yahoo.com  For: Geothermal Energy Association (GEA) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Sara Steck Myers, Attorney At Law  LAW OFFICES OF SARA STECK MYERS  122 - 28TH AVENUE  SAN FRANCISCO CA 94121  (415) 387-1904  ssmyers@att.net  For: Center for Energy Efficiency and Renewable Technologies (CEERT) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Shawn Marshall, Director  LEAN ENERGY US  PO BOX 961  MILL VALLEY CA 94941  (415) 888-8007  SMarshall@LeanEnergyUS.org  For: Lean Energy US \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Frank R. Lindh, Attorney At Law  340 SANTA MARGARITA  SAN RAFAEL CA 94901  (415) 596-3931  FrankRichLindh@gmail.com  For: Friends of the Earth (FOE) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Michael Callahan, Reg. Counsel  MARIN CLEAN ENERGY  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 464-6045  MCallahan@MCECleanEnergy.org  For: Marin Clean Energy (MCE) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Steven R. Meyers, Attorney  MEYERS NAVE  555 12TH STREET, STE. 1500  OAKLAND CA 94607  (510) 808-2100  SMeyers@MeyersNave.com  For: City of San Luis Obispo, Pismo Beach, Paso Robles, Arroyo Grande, Morro Bay and Atascadero. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Ralph Cavanagh  Counsel  NATURAL RESOURCES DEFENSE COUNCIL  111 SUTTER STREET, 21/F  SAN FRANCISCO CA 94104  (415) 875-6100  RCavanagh@nrdc.org  For: Natural Resources Defense Council \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Matthew Duesterberg  Ceo  OHMCONNECT, INC.  350 TOWNSEND ST., STE. 210  SAN FRANCISCO CA 94107  (404) 881-8659  Matt@ohmConnect.com  For: OhmConnect, Inc. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  William V. Manheim  Attorney  PACIFIC GAS & ELECTRIC COMPANY LAW DEPT.  77 BEALE STREET / PO BOX 7442 (B30A)  SAN FRANCISCO CA 94120  (415) 973-6628  wvm3@pge.com  For: Pacific Gas and Electric Company \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Charles R. Middlekauff  PACIFIC GAS AND ELECTRIC COMPANY  LAW DEPT.  77 BEALE STREET, B30A / BOX 7442  SAN FRANCISCO CA 94105  (415) 973-6971  CRMd@pge.com  For: Pacific Gas and Electric Company \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Frank Jablonski  Attorney  PROGRESSIVE LAW GROUP, LLC  354 W. MAIN STREET  MADISON WI 53703  (608) 258-8511  FrankJ@ProgressiveLaw.com  For: Environmental Progress \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Marcie Milner  Vp - Regulatory Affairs  SHELL ENERGY NORTH AMERICA (US), L.P.  4445 EASTGATE MALL, SUITE 100  SAN DIEGO CA 92121  (858) 526-2106  marcie.milner@shell.com  For: Shell Energy North America (US), L.P. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Steven S. Shupe  General Counsel  SONOMA CLEAN POWER AUTHORITY  50 SANTA ROSA AVE., 5TH FL.  SANTA ROSA CA 95404  (707) 890-8485  SShupe@SonomaCleanPower.org  For: Sonoma Clean Power Authority \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Matthew Freedman, Staff Attorney  THE UTILITY REFORM NETWORK  785 MARKET STREET, 14TH FL  SAN FRANCISCO CA 94103  (415) 929-8876 X-308  matthew@turn.org  For: TURN \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Laura J. Tudisco  Legal Division  505 Van Ness Avenue, RM. 5032  San Francisco CA 94102 3298  (415) 703-2164  ljt@cpuc.ca.gov  For: ORA   Sabrina D. Venskus, Attorney  VENSKUS & ASSOCIATES P.C.  603 WEST OJAI AVE., STE. F  OJAI CA 93023  (805) 272-8628  venskus@lawsv.com  For: San Luis Obispo Mothers for Peace, Inc. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Jean Merrigan  WOMEN'S ENERGY MATTERS  PO BOX 2615  MARTINEZ CA 94553  (925) 957-6070  jnmwem@gmail.com  For: Women's Energy Matters \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **\*\*\*\*\*\*\*\*\*\* STATE EMPLOYEE \*\*\*\*\*\*\*\*\*\*\***   Peter V. Allen  Administrative Law Judge Division  RM. 5022  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2195  pva@cpuc.ca.gov   Daniel Buch  Office of Ratepayer Advocates  AREA 4-A  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2292  db1@cpuc.ca.gov   Truman L. Burns  Office of Ratepayer Advocates  RM. 4205  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2932  txb@cpuc.ca.gov   Leuwam Tesfai  Energy  CALIFORNIA PUBLIC UTILITIES COMMISSION  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 703-2403  Leuwam.Tesfai@cpuc.ca.gov   David Peck  CPUC - EXEC  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 703-1213  dbp@cpuc.ca.gov   Suzanne Casazza  Energy Division  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-5906  sc8@cpuc.ca.gov   Radu Ciupagea  Office of Ratepayer Advocates  RM. 4104  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-5235  rc5@cpuc.ca.gov | Eric Greene  Energy Division  AREA 4-A  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-5560  eg1@cpuc.ca.gov   Mea Halperin  Office of Ratepayer Advocates  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-1368  mh3@cpuc.ca.gov   Iryna Kwasny  Legal Division  RM. 4107  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-1477  iak@cpuc.ca.gov   Diana L. Lee  Legal Division  RM. 4107  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-4342  dil@cpuc.ca.gov   Dina S. Mackin  Energy Division  AREA 4-A  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2125  dm1@cpuc.ca.gov   Rachel Peterson  Executive Division  AREA 4-A  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 757-7844  rp1@cpuc.ca.gov   Robert M. Pocta  Office of Ratepayer Advocates  RM. 4205  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2871  rmp@cpuc.ca.gov |
| Terrie D. Prosper  Executive Division  RM. 5301  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2160  tdp@cpuc.ca.gov   James Ralph  Executive Division  RM. 5037  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-4673  jr8@cpuc.ca.gov   Sean A. Simon  Executive Division  AREA 4-A  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-3791  svn@cpuc.ca.gov   Clayton K. Tang  Office of Ratepayer Advocates  RM. 4205  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2728  ckt@cpuc.ca.gov  For: ORA   Sarah R. Thomas  Legal Division  RM. 5033  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2310  srt@cpuc.ca.gov   David Zizmor  Energy Division  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-1575  dz1@cpuc.ca.gov   **\*\*\*\*\*\*\*\*\* INFORMATION ONLY \*\*\*\*\*\*\*\*\*\*** | Gerald Lahr  ABAG PUBLICLY OWNED ENERGY RESOURCES  101 8TH STREET (P.O. BOX 2050)  OAKLAND CA 94607  (510) 464-7908  jerryl@abag.ca.gov   Mila A. Buckner  Attorney  ADAMS BROADWELL JOSEPH & CARDOZO  601 GATEWAY BLVD., STE. 1000  SOUTH SAN FRANCISCO CA 94080  (650) 589-1660  MBuckner@AdamsBroadwell.com   James S. Adams  9394 MIRA DEL RIO DRIVE  SACRAMENTO CA 95827  (916) 361-0606  jsadams4910@yahoo.com   Donald Brookhyser  Attorney At Law  ALCANTAR & KAHL LLP  345 CALIFORNIA STREET, SUITE 2450  SAN FRANCISCO CA 94104  (415) 421-4143  deb@a-klaw.com  For: Energy Producers and Users Coalition \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Nora Sheriff  Counsel  ALCANTAR & KAHL LLP  345 CALIFORNIA ST., STE. 2450  SAN FRANCISCO CA 94104  (415) 421-4143  nes@a-klaw.com  For: California Large Energy Consumers Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Amie Burkholder  ALCANTAR & KAHL, LLP  345 CALIFORNIA STREET, SUITE 2450  SAN FRANCISCO CA 94104  (415) 421-4143  filings@a-klaw.com   Mike Cade  Industry Specialist  ALCANTAR & KAHL, LLP  EMAIL ONLY  EMAIL ONLY OR 00000  (503) 402-8711  wmc@a-klaw.com |
| David Jay Weisman  ALLIANCE FOR NUCLEAR RESPONSIBILITY  EMAIL ONLY  EMAIL ONLY CA 00000  DavidJayWeisman@gmail.com   Rochelle Becker  Executive Director  ALLIANCE FOR NUCLEAR RESPONSIBILITY  EMAIL ONLY  EMAIL ONLY CA 93406  (858) 337-2703  Rochelle@A4NR.org   Jerimiah Booream  Power And Utilities Research  BANK OF AMERICA MERRILL LYNCH  ONE BRYANT PARK  NEW YORK NY 10036  (646) 855-2109  jerimiah.booream@baml.com   Josephine Moore  Power And Utilities Research  BANK OF AMERICA MERRILL LYNCH  ONE BRYANT PARK  NEW YORK NY 10036  (646) 855-1470  josephine.moore@baml.com   Julien Dumoulin-Smith  Head Of Us Pwr, Utilities & Alt Energy  BANK OF AMERICA MERRILL LYNCH  ONE BRYANT PARK  NEW YORK NY 10036  (646) 855-5855  julien.dumoulin-smith@baml.com   Nicholas Campanella  Power And Utilities Research  BANK OF AMERICA MERRILL LYNCH  ONE BRYANT PARK  NEW YORK NY 10036  (646) 743-2122  nicholas.campanella@baml.com   Barbara Barkovich  Consultant  BARKOVICH & YAP  EMAIL ONLY  EMAIL ONLY CA 00000  (707) 937-6203  Barbara@BarkovichAndYap.com  For: California Large Energy Consumers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Camille Stough, Esq.  BRAUN BLAISING MCLAUGHLIN & SMITH PC  915 L STREET, STE. 1480  SACRAMENTO CA 95814  (415) 314-8312  Stough@BraunLegal.com  For: Silicon Valley Clean Energy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Regulatory Clerk  BRAUN BLAISING SMITH WYNNE  915 L STREET, STE. 1480  SACRAMENTO CA 95814  Regulatory@BraunLegal.com   S. David Freeman  C/O FRIENDS OF THE EARTH  1100 15TH STREET, NW, 11TH FLOOR  WASHINGTON DC 20005  (310) 902-2147  greencowboysdf@gmail.com   James H. Caldwell, Jr.  EMAIL ONLY  EMAIL ONLY CA 00000  JHCaldwellJr@gmail.com   Kavya Balaraman  CALIFORNIA ENERGY MARKETS  EMAIL ONLY  EMAIL ONLY CA 00000  (347) 342-6484  kavya@newsdata.com   Matthew Barmack  Dir. - Market & Regulatory Analysis  CALPINE CORPORATION  4160 DUBLIN BLVD., SUITE 100  DUBLIN CA 94568  (925) 557-2267  BarmackM@calpine.com   Liz Anthony Ph.D  Director  CENTER FOR ENERGY EFFICIENCY  1100 11TH STREET, STE. 311  SACRAMENTO CA 95814  (916) 442-7785  liz@CEERT.org |
| Jeanne M. Sole  Deputy City Attorney  CITY AND COUNTY OF SAN FRANCISCO  1 DR. CARLTON B. GOODLETT PLACE, RM. 234  SAN FRANCISCO CA 94102-4682  (415) 554-4619  jeanne.sole@sfgov.org   J. Christine Dietrick  City Attorney  CITY OF SAN LUIS OBISPO  990 PALM STREET, ROOM 10  SAN LUIS OBISPO CA 93401  (805) 781-7140  CDietrick@slocity.org  For: City of San Luis Obispo \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Tam Hunt  COMMUNITY RENEWABLES SOLUTIONS, LLC  EMAIL ONLY  EMAIL ONLY CA 00000-0000  (805) 214-6150  tam@communityRenewables.biz   Howard Choy  General Mgr.  COUNTY OF LOS ANGELES  OFFICE OF SUSTAINABILITY  1100 NORTH EASTERN AVENUE  LOS ANGELES CA 90063  (323) 267-2006  HChoy@isd.lacounty.gov  For: County of Los Angeles Office of Sustainability \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  DAVIS WRIGHT TREMAINE LLP  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 276-6500  dwtcpucdockets@dwt.com   Emily P. Sangi  Attorney  DAVIS WRIGHT TREMAINE LLP  505 MONTGOMERY ST., STE. 800  SAN FRANCISOC CA 94111-6533  (415) 276-6500  EmilySangi@dwt.com  For: SolarCity Corp. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Katie Jorrie  DAVIS WRIGHT TREMAINE, LLP  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 276-6500  katiejorrie@dwt.com   Constantine Lednev  Associate-Us Utilities & Power Research  DEUTSCHE BANK SECURITIES INC.  60 WALL STREET  NEW YORK CITY NY 10005  (212) 250-2591  Constantine.Lednev@db.com   Jonathan Arnold  DEUTSCHE BANK SECURITIES INC.  60 WALL STREET  NEW YORK NY 10005  (212) 250-3182  jonathan.arnold@db.com   Donald H. Korn  Principal  DHK ASSOCIATES  355 N SAN ANTONIO ROAD  LOS ALTOS CA 94022  (650) 941-1055  dhkorn@earthlink.net   DIABLO CANYON INDEPENDENT SAFETY COMM  857 CASS STREET, STE. D  MONTEREY CA 93940  Info@dcisc.org   John L. Geesman  Attorney  DICKSON GEESMAN LLP  EMAIL ONLY  EMAIL ONLY CA 94612  (510) 899-4670  John@DicksonGeesman.com  For: Alliance for Nuclear Responsibility \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Gregory Klatt  DOUGLASS & LIDDELL  4766 PARK GRANADA, STE. 209  CALABASAS CA 91302  (818) 961-3002  klatt@energyattorney.com |
| Sean M. Neal  Attorney  DUNCAN WEINBERG GENZER & PEMBROKE, P.C.  915 L STREET, STE. 1410  SACRAMENTO CA 95814  (916) 498-0121  smn@dwgp.com  For: Imperial Irrigation District (IID) and Transmission Agency of Northern California (TANC) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Michael Postar  Attorney  DUNCAN WEINBERG, GENZER & PEMBROKE  EMAIL ONLY  EMAIL ONLY DC 00000  (202) 467-6370  mrp@dwgp.com   Nkechi Ogbue  Mgr - Regulatory Affairs  ECOBEE, INC.  250 UNIVERSITY AVE. SUITE 400  TORONTO ON M5H 3E5  CANADA  (647) 531-2342  NkechiO@ecobee.com   Ronald Liebert  Attorney At Law  ELLISON SCHNEIDER HARRIS & DONLAN LLP  2600 CAPITOL AVENUE, STE. 400  SACRAMENTO CA 95816  (916) 447-2166  RL@eslawfirm.com  For: California Manufacturers & Technology Association (CMTA) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Cynthia Mitchell  ENERGY ECONOMICS, INC.  EMAIL ONLY  EMAIL ONLY NV 00000  (775) 324-5300  CynthiaKMitchell@gmail.com   Jayant Kairam  California Dir. - Clean Energy  ENVIRONMENTAL DEFENSE FUND  123 MISSION STREET, 28TH FL.  SAN FRANCISCO CA 94105  (512) 691-3456  JKairam@edf.org | Kelly Crandall  EQ RESEARCH, LLC  1580 LINCOLN STEET, SUITE 880  DENVER CO 80203  (720) 573-8109  CPUCdockets@eq-research.com   Alexey Orkin  Consultant  FLYNN RESOURCE CONSULTANTS INC  5440 EDGEVIEW DRIVE  DISCOVERY BAY CA 94505  (301) 787-6204  AlexeyOrkin@FlynnRCI.com   Barry R. Flynn  FLYNN RESOURCE CONSULTANTS, INC.  5440 EDGEVIEW DRIVE  DISCOVERY BAY CA 94505  (888) 634-7516  BRFlynn@Flynnrci.com   Pushkar Wagle  FLYNN RESOURCE CONSULTANTS, INC.  2900 GORDON AVENUE, STE. 100-3  SANTA CLARA CA 95051  (888) 634-3339  PushkarWagle@flynnrci.com   Damon Moglen  Sr. Advisor - Climate & Energy Project  FRIENDS OF THE EARTH  1100 15TH STREET NW, 11TH FL.  WASHINGTON DC 20005  (202) 783-7400  DMoglen@foe.org   Rhonda Mills  Western Issues Rep  GEOTHERMAL ENERGY ASSOCIATION  EMAIL ONLY  EMAIL ONLY CA 00000  Rhonda@rtides.com   John Mcintyre  Attorney  GOODIN, MACBRIDE, SQUERI & DAY, LLP  505 SANSOME ST., STE. 900  SAN FRANCISCO CA 94111  (415) 392-7900  JMcIntyre@GoodinMacBride.com |
| Lujuana Medina  Regulatory Mgr.  ICF  601 W. 5TH STREET, STE. 900  LOS ANGELES CA 90071  (213) 312-1781  Lujuana.Medina@ICF.com   Jamie Asbury  Deputy Energy Mgr., Bus / Regulartory  IMPERIAL IRRIGATION DISTRICT  333 E. BARIONI BLVD.  IMPERIAL CA 92251  (760) 482-3379  jlasbury@iid.com   Robert A. Laurie  Assistant General Counsel - Energy  IMPERIAL IRRIGATION DISTRICT  333 E.BARIONI BLVD.  IMPERIAL CA 92251  (760) 335-3640  RALaurie@iid.com   Curt Barry  Senior Writer  INSIDE WASHINGTON PUBLISHERS  EMAIL ONLY  EMAIL ONLY CA 00000  (916) 449-6171  cbarry@iwpnews.com   Jeff Hirsch  JAMES J. HIRSCH & ASSOCIATES  12185 PRESILLA ROAD  SANTA ROSA VALLEY CA 93012-9243  (805) 553-9000  James.J.Hirsch@gmail.com   Kathy Treleven  KATHY TRELEVEN CONSULTING  103 BANDOL CT.  SAN RAMON CA 94582  (925) 719-3749  KTreleven@gmail.com   Tim Lindl  Counsel  KEYES & FOX LLP  436 14TH STREET, STE. 1305  OAKLAND CA 94612  (510) 314-8385  TLindl@kfwlaw.com | Jason Caudle  LANCASTER CHOICE ENERGY  44933 FERN AVE.  LANCASTER CA 93534  JCaudle@CityofLancaster.org   Danielle O. Mills  Sr. Policy Advisor  LARGE-SCALE SOLAR ASSOCIATION  EMAIL ONLY  EMAIL ONLY CA 00000  (916) 320-7584  Danielle@LargeScaleSolar.org   Shannon Eddy  LARGE-SCALE SOLAR ASSOCIATION  EMAIL ONLY  EMAIL ONLY CA 00000  (916) 731-8371  eddyconsulting@gmail.com  For: Large-Scale Solar Association \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Irene K. Moosen  Attorney At Law  LAW OFFICE OF IRENE K. MOOSEN  53 SANTA YNEZ AVENUE  SAN FRANCISCO CA 94112  (415) 587-7343  irene@igc.org  For: Local Government Sustainable Energy Coalition (LGSEC) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Mce Regulatory  MARIN CLEAN ENERGY  EMAIL ONLY  EMAIL ONLY CA 00000  (888) 632-3674  regulatory@mceCleanEnergy.org   Dawn Weisz  MARIN CLEAN ENERGY  1125 TAMALPAIS AVE.  SAN RAFAEL CA 94901  DWeisz@mceCleanEnergy.org   Nathaniel Malcolm  Regulatory Law Clerk  MARIN CLEAN ENERGY  1125 TAMALPAIS AVE.  SAN RAFAEL CA 94901  (415) 464-6048  NMalcolm@mceCleanEnergy.org |
| Shalini Swaroop  Regulatory & Legislative Counsel  MARIN CLEAN ENERGY  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 464-6040  SSwaroop@mceCleanEnergy.org   Susan Griffin  Paralegal  MEYERS NAVE  555 12TH STREET, STE. 1500  OAKLAND CA 94607  (510) 808-2055  sgriffin@meyersnave.com   Brandon Halter  Attorney  MEYERS, NAVE, RIBACK, SILVER & WILSON  555 12TH STREET, STE. 1500  OAKLAND CA 94607  (510) 808-2059  BHalter@MeyersNave.com   Britt Strottman  Attorney At Law  MEYERS, NAVE, RIBACK, SILVER & WILSON  555 12TH STREET, STE. 1500  OAKLAND CA 94607  (510) 808-2083  bstrottman@meyersnave.com   Sarah M. Keane  Attorney  MORGAN LEWIS & BOCKIUS, LLP  ONE MARKET, SPEAR STREET TOWER  SAN FRANCISCO CA 94105  (415) 442-1000  sarah.keane@morganlewis.com   Dustin C. Elliott  Attorney  MORRISON & FOERSTER LLP  425 MARKET STREET  SAN FRANCISCO CA 94105  (415) 268-6286  DElliott@MoFo.com   MRW & ASSOCIATES LLC  EMAIL ONLY  EMAIL ONLY CA 00000  (510) 834-1999  MRW@mrwAssoc.com | Peter Miller  NATURAL RESOURCES DEFENSE COUNCIL  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 875-6100  pmiller@nrdc.org   David Cohen  NAVIGANT CONSULTING  2855 SW SCENIC DRIVE  PORTLAND OR 97225  (503) 708-7852  DCohen@navigant.com   Martin A. Mattes  Attorney  NOSSAMAN LLP  50 CALIFORNIA STREET, 34TH FL.  SAN FRANCISCO CA 94111  (415) 398-3600  mmattes@nossaman.com   Brian Kooiman  OHMCONNECT, INC.  350 TOWNSEND ST., STE. 210  SAN FRANCISCO CA 94107  (415) 697-1271  Brian@ohmConnect.com   M. Grady Mathai-Jackson  Attorney  PACIFC GAS & ELECTRIC COMPANY  EMAIL ONLY  EMAIL ONLY CA 00000  (415) 973-3386  MGML@pge.com   Shilpa Ramaiya  PACIFIC GAS & ELECTRIC COMPANY  77 BEALE STREET, 9BA  SAN FRANCISCO CA 94105  (415) 973-3186  SRRD@pge.com   PACIFIC GAS AND ELECTRIC COMPANY  REGULATORY FILE ROOM  PO BOX 7442  SAN FRANCISCO CA 94120  (415) 973-4377  cpuccases@pge.com |
| Case Coordination  PACIFIC GAS AND ELECTRIC COMPANY  EMAIL ONLY  EMAIL ONLY CA 94177  RegRelCPUCCases@pge.com   Conor Doyle  Regulatory Affairs  PACIFIC GAS AND ELECTRIC COMPANY  PO BOX 770000, MC B23A  SAN FRANCISCO CA 94177  (415) 973-7817  JCDT@pge.com   Deanna Toy  PACIFIC GAS AND ELECTRIC COMPANY  EMAIL ONLY  EMAIL ONLY CA 00000  dct4@pge.com   William Toman  PACIFIC MARINE RENEWABLES, LLC  391 SOUTH COURT ST.  LOS OSOS CA 93402  (707) 731-9261  WITomanium@gmail.com   Jan Pepper  PENINSULA CLEAN ENERGY  455 COUNTY CENTER, 4TH FL.  REDWOOD CITY CA 94063  JPepper@PeninsulaCleanEnergy.com  For: CalCCA \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Luisa F. Elkins  Sr. Associate  PROCOPIO, CORY, HARGREAVES & SAVITCH LLP  1117 S CALIFORNIA AVE., STE. 200  PALO ALTO CA 94304  (650) 645-9032  Luisa.Elkins@Procopio.com   Sue Mara  Consultant  RTO ADVISORS, LLC  164 SPRINGDALE WAY  REDWOOD CITY CA 94062  (415) 902-4108  sue.mara@RTOAdvisors.com | Emma D. Salustro  Attorney  SAN DIEGO GAS & ELECTRIC COMPANY  8330 CENTURY PARK COURT, CP32D  SAN DIEGO CA 92123  (858) 654-1861  ESalustro@SempraUtilities.com   Brian Stevens  Cleanpowersf-Power Enterprise  SAN FRANCISCO PUBLIC UTILITIES COMM.  525 GOLDEN GATE AVE., 7TH FL.  SAN FRANCISCO CA 94102  (415) 554-3439  BStevens@sfwater.org   James Hendry  Utilities Specialist  SAN FRANCISCO PUBLIC UTILITIES COMM.  525 GOLDEN GATE AVE., 7TH FLOOR  SAN FRANCISCO CA 94102-3220  (415) 554-1526  jhendry@sfwater.org   Clean Power Sf - Power Enterprise  SAN FRANCISCO PUC  525 GOLDEN GATE AVE.  SAN FRANCISCO CA 94102  (415) 554-3439  RegCleanPowers@SFWater.org   Lauren Alper  SAN FRANCISCO PUC  525 GOLDEN GATE AVENUE, 7TH FLOOR  SAN FRANCISCO CA 94103  LAlper@sfwater.org   Ellen Sheffer  Trustee  SAN LUIS COASTAL UNIFIED SCHOOL DISTRICT  EMAIL ONLY  EMAIL ONLY CA 00000  esheffer@slcusd.org   Sherry Lewis  SAN LUIS OBISPO MOTHERS FOR PEACE, INC.  PO BOX 3608  SAN LUIS OBISPO CA 93403  Sherry.Lewis66@att.net |
| David A. Silberman  General Counsel  SAN MATEO COUNTY COUNSEL'S OFFICE  400 COUNTY CENTER, 6TH FL.  REDWOOD CITY CA 94063  (650) 363-4749  DSilberman@smcgov.org  For: Peninsula Clean Energy \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Phillip Muller  President  SCD ENERGY SOLUTIONS  436 NOVA ALBION WAY  SAN RAFAEL CA 94903  (415) 479-1710  PhilM@SCDenergy.com   Tom Habashi  SILICON VALLEY CLEAN ENERGY  EMAIL ONLY  EMAIL ONLY CA 00000  TomH@SVCleanEnergy.org   Hilary Staver  Manager Regulatory & Legislative Affairs  SILICON VALLEY CLEAN ENERGY AUTHORITY  333 W. EL CAMINO REAL, STE. 290  SUNNYVALE CA 94087  (408) 721-5301  Hilary.Staver@SVCleanEnergy.org   Audra Hartmann  Principal  SMITH, WATTS & HARTMANN  925 L STREET, SUITE 220  SACRAMENTO CA 95814  (916) 446-5508  AHartmann@swmconsult.com   Neal Reardon  Regulatory Affairs Manager  SONOMA CLEAN POWER  EMAIL ONLY  EMAIL ONLY CA 00000  (707) 890-8488  NReardon@SonomaCleanPower.org   Case Administration  SOUTHERN CALIFORNIA EDISON COMPANY  8631 RUSH STREET  ROSEMEAD CA 91770  (626) 302-6906  Case.Admin@sce.com | Walker A. Matthews, Iii  Sr. Attorney  SOUTHERN CALIFORNIA EDISON COMPANY  2244 WALNUT GROVE AVE. / PO BOX 800  ROSEMEAD CA 91770  (626) 302-6879  walker.matthews@sce.com   Steve Mccarty  STEVEN MCCARTY AND ASSOCIATES  2460 LAVENDER DRIVER, SUITE 101  WALNUT CREEK CA 94596  (925) 330-4776  sjm001@sbcglobal.net   Alex Morris  Dir - Policy & Regulatory Affairs  STRATEGEN CONSULTING  2150 ALLSTON WAY, STE. 210  BERKELEY CA 94709  (310) 617-3441  amorris@strategen.com   Jin Noh  Sr. Consultant  STRATEGEN CONSULTING  2150 ALLSTON WAY, STE.210  BERKELEY CA 94709  (703) 507-8809  JNoh@Strategen.com   Yuliya Shmidt  Executive Division  RM. 4209  505 Van Ness Avenue  San Francisco CA 94102 3298  (415) 703-2719  ys2@cpuc.ca.gov   Damon Franz  Dir - Policy & Electricity Markets  TESLA, INC.  444 DE HARO STREET, STE. 101  SAN FRANCISCO CA 94107  (415) 636-9341  DFranz@Tesla.com   Francesca Wahl  Sr. Associate, Bus. Development  TESLA, INC.  444 DE HARO STREET, STE. 101  SAN FRANCISCO CA 94107  (650) 435-0422  FWahl@Tesla.com |
| Hayley Goodson, Staff Attorney  THE UTILITY REFORM NETWORK  785 MARKET ST., STE. 1400  SAN FRANCISCO CA 94103  (415) 929-8876 X360  hayley@turn.org   Kevin Kitz  U.S. GEOTHERMAL, INC.  390 E. PARKCENTER BLVD., STE. 250  BOISE ID 83706  KKitz@USGeothermal.com   Laura Wisland, Sr. Energy Analyst  UNION OF CONCERNED SCIENTISTS  500 12TH ST., STE. 340  OAKLAND CA 94607  (510) 809-1565  lwisland@ucsusa.org   Michael Cohen  Western States Power Systems Engineer  UNION OF CONCERNED SCIENTISTS  EMAIL ONLY  EMAIL ONLY CA 00000  (510) 809-1572  MCohen@ucsusa.org  For: Union of Concerned Scientists \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Sarah Kozal, Attorney  WESTERN ENERGY & WATER  500 CAPITOL MALL, STE. 2350  SACRAMENTO CA 95814  (916) 877-8872  SKozal@weawLaw.com   Robert Freehling, Consultant  WOMENS ENERGY MATTER  E-MAIL ONLY  EMAIL ONLY CA 00000  rfreeh123@sbcglobal.net   Kevin Woodruff  WOODRUFF EXPERT SERVICES  1127 - 11TH STREET, SUITE 514  SACRAMENTO CA 95814  (916) 442-4877  kdw@woodruff-expert-services.com | Jerry B. Brown, Ph.D  Director - Safe Energy Project  WORLD BUSINESS ACADEMY  2020 ALAMEDA PADRE SERRA, STE. 135  SANTA BARBARA CA 93103  (805) 892-4600  JBBrown@gate.net |

(End of Appendix A)

1. The parties supporting the application are referred to as the “Joint Parties.” While generally supporting the Joint Proposal, the A4NR did not support PG&E’s request for rate recovery of its NRC license renewal costs. [↑](#footnote-ref-2)
2. Some responses were filed jointly by multiple parties. [↑](#footnote-ref-3)
3. Those parties are: NRDC, FOE, Environment California, IBEW 1245, CCUE and A4NR. [↑](#footnote-ref-4)
4. Elsewhere, however, ORA states: “ORA supports PG&E’s proposed retirement of the DCPP units at the end of their respective operating license periods in 2024 and 2025.” (Ex. ORA‑2 at 4.) [↑](#footnote-ref-5)
5. One other party, Environmental Progress, made a similar argument in its protest of the application, but did not present testimony or file briefs. [↑](#footnote-ref-6)
6. For example, if a person owned 12 cars, but never used more than three cars at one time, selling cars 11 and 12 – even if they were more reliable than cars 9 and 10 – would not significantly change the ability to have three operable cars. [↑](#footnote-ref-7)
7. In this mode Diablo Canyon would ramp up and down to meet daily variations in load. [↑](#footnote-ref-8)
8. An early shutdown would also accelerate the impacts on plant employees and the local community. [↑](#footnote-ref-9)
9. Or in another proceeding as determined in the IRP proceeding. [↑](#footnote-ref-10)
10. PG&E’s cost estimates used a headcount of 1,461. (Exhibit PG&E-1 at7-6.) [↑](#footnote-ref-11)
11. PG&E’s more recent estimate of the cost of the program is $168 million. [↑](#footnote-ref-12)
12. There may also be employees who would continue to work at Diablo Canyon only because of the retention payment, but are otherwise unhappy or unmotivated with their job, so their retention would provide little or no benefit to ratepayers. [↑](#footnote-ref-13)
13. Nor did ORA or CGNP. One commenter at a public participation hearing stated: “Given the current status of the nuclear industry, there is no need to pay Diablo Canyon employees an additional $352 million in order to retain them for the eight years in question. The industry is in serious decline.” (Transcript v. 9 at 1,446.) [↑](#footnote-ref-14)
14. Significant amounts of Diablo Canyon employee data were put into the record in response to a Commission data request. (Ex. PG&E-6.) [↑](#footnote-ref-15)
15. 410 out of 476 represented employees. [↑](#footnote-ref-16)
16. PG&E filed a joint motion on December 28, 2016 with the County Of San Luis Obispo, the Cities of Arroyo Grande, Atascadero, Morro Bay, Paso Robles, Pismo Beach, San Luis Obispo, the San Luis Coastal Unified School District, FOE, NRDC, Environment California, IBEW 1245, CCUE, and A4NR. (Joint Motion re Settlement on Community Impacts.) [↑](#footnote-ref-17)
17. The economic impacts of the retirement of Diablo Canyon are to be studied pursuant to Pub. Util. Code § 712.5, enacted in 2016. [↑](#footnote-ref-18)
18. Existing support for local emergency services provided through PG&E rates is not at issue in this proceeding, and remains in effect. [↑](#footnote-ref-19)
19. The “Coalition Cities” are the same as the “Local Cities”: Arroyo Grande, Atascadero, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo. [↑](#footnote-ref-20)
20. The County did so, and received limited relief, which was then implemented via Resolution E‑3535. [↑](#footnote-ref-21)
21. Now ORA. [↑](#footnote-ref-22)
22. Whether PG&E was reasonable to continue relicensing activities after April 2011 is less clear, and the proposed settlement’s use of that date as a cutoff is reasonable and is supported by the record. [↑](#footnote-ref-23)
23. The net plant cost for Diablo Canyon (which PG&E forecasts to be $1.805 billion) and its recovery in rates are addressed in PG&E’s general rate case (GRC). [↑](#footnote-ref-24)
24. In addition, those capital project costs charged would include AFUDC. [↑](#footnote-ref-25)
25. In its Reply Comments, CUE acknowledges that approximately $303 million would likely provide the same effective level of payment. [↑](#footnote-ref-26)
26. The retirement of Diablo Canyon and the CIMP proposal, along with D.97-05-088, present a unique situation. This decision is based on and limited to the specific facts presented, and is not a broad or general statement of the scope of the Commission’s authority. [↑](#footnote-ref-27)
27. The record in this proceeding includes 21 opening briefs, 17 reply briefs and over 100 exhibits. [↑](#footnote-ref-28)