



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**FILED**  
8-18-16  
04:59 PM

Application of Pacific Gas and Electric Company )  
For Authority, Among Other Things, to Increase )  
Rates and Charges for Electric and Gas Service )  
Effective January 1, 2017 (U 39 M) )  
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Application 15-09-001  
(Filed September 1, 2015)

**OPENING COMMENTS ON SETTLEMENT AGREEMENT  
OF ALLIANCE FOR NUCLEAR RESPONSIBILITY**

Pursuant to Rule 12.2 of the Commission's Rules of Practice and Procedure<sup>1</sup> and the *Assigned Commissioner's Ruling and Second Amended Scoping Memo* issued in this proceeding on or about August 10, 2016,<sup>2</sup> Intervenor Alliance for Nuclear Responsibility ("A4NR") hereby files its opening comments on the comprehensive, multi-party settlement agreement proposed in the above-captioned matter.<sup>3</sup>

A4NR is one of the parties which served written testimony in this proceeding with the intention of appearing during the scheduled evidentiary hearings. Thereafter, A4NR actively participated in the negotiations leading to the *Settlement Agreement*. A4NR's participation in those negotiations and, ultimately, in the *Settlement Agreement* was limited to two substantive topics: (1) the regulatory oversight of and ratemaking for Pacific Gas & Electric's ("PG&E's") Diablo Canyon Nuclear Power Plant ("Diablo Canyon"); and (2) the proposed adoption of a third year of attrition allowances. As to the first topic, A4NR fully supports the provisions of the *Settlement Agreement* related to Diablo Canyon.<sup>4</sup> As to the second,

<sup>1</sup> All references to a "Rule" in these *Opening Comments*, unless otherwise specified, are to the Commission's Rules of Practice and Procedure.

<sup>2</sup> See *Assigned Commissioner's Ruling and Second Amended Scoping Memo*, Docket A.15-09-001, August 10, 2015 ("Scoping Memo"), at page 4.

<sup>3</sup> The settlement agreement ("*Settlement Agreement*") was provided to the record of this proceeding as Attachment 1 to the *Joint Motion of Office of Ratepayer Advocates, the Utility Reform Network, Alliance for Nuclear Responsibility, Center for Accessible Technology, Coalition of California Utility Employees, Collaborative Approaches to Utility Safety Enforcement, Consumer Federation of California, Environmental Defense Fund, Marin Clean Energy, Merced Irrigation District, Modesto Irrigation District, National Diversity Coalition, Small Business Utility Advocates, South San Joaquin Irrigation District, and Pacific Gas Electric Company for Adoption of Settlement Agreement*, Docket A.15-09-001, August 3, 2016 ("*Joint Motion*"). The *Settlement Agreement* was negotiated among and executed by virtually all of the active parties, i.e., those which, as A4NR, served written testimony in accordance with the *Assigned Commissioner's Ruling and Scoping Memo*, Docket A.15-09-001, December 1, 2015.

<sup>4</sup> See *Settlement Agreement*, Sections 3.1.10.1, and 3.2.3.1.1 to 3.2.3.1.5, at pp. 1-15, and 1-21 to 1-22.

A4NR opposes the proposal to adopt a third attrition year for PG&E.<sup>5</sup> Notwithstanding its opposition to the adoption of a third attrition year, A4NR waives its rights to a hearing under the terms of Rules 12.2 and 12.3 on this matter and submits the Commission can and should address the issue without conducting evidentiary hearings. As to all other matters addressed in Articles 3 and 4 of the *Settlement Agreement*, A4NR takes no position as to those matters other than to say, based upon its participation in and observation of the settlement negotiations, A4NR believes those provisions were negotiated in good faith and in a manner comporting with the Commission's rules and processes.

## **A. Regulatory Oversight of and Ratemaking for Diablo Canyon**

### **1. Introduction**

A4NR's principal objective in this proceeding is to have the Commission address and limit the financial risks faced by PG&E electric customers related to and arising from PG&E's operations at Diablo Canyon. PG&E's case-in-chief demonstrates that the capital and expense requirements of operating and maintaining the safety and reliability of the plant are extremely high relative to the utility's other energy supply assets.<sup>6</sup> In addition to the rate impacts resulting from the high costs of Diablo Canyon as forecasted by PG&E, PG&E electric customers faced considerable uncertainty as to other foreseeable, significant, but indeterminate costs which are beyond the scope of this general rate case and consequently not reflected in PG&E's case-in-chief.<sup>7</sup> Adding to these financial uncertainties was the undefined period during which PG&E intended to operate Diablo Canyon. While the Diablo Canyon Unit 1 and 2 reactor operating licenses are due to expire in 2024 and 2025, respectively, PG&E filed an application with the Nuclear Regulatory Commission in 2009 seeking to extend those licenses for another twenty years. Extending the operating lives of these two aging units would also extend the period during which PG&E might experience the occurrence of any number of reliability and safety failures.<sup>8</sup> A4NR has little doubt PG&E customers

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<sup>5</sup> See *Settlement Agreement*, Section 4.1, at p.1-34.

<sup>6</sup> See *Exhibit PG&E-5 (Harbor)*, at Chapter 3, pp.3-1 to 3-50; also, *Exhibit A4NR-2 (Geesman)*, at pp.15 to 16, indicating the non-variable per-unit cost of production under PG&E's forecast of expenses, capital expenditures and outputs were expected to be between \$53 and \$59 per megawatt-hour during the three-year rate case period.

<sup>7</sup> See *Exhibit A4NR-1 (Becker)*, at p.8, noting in particular the escalating costs of plant decommissioning, unknown but expected costs related to compliance with State Water Resources Control Board once-through cooling restrictions and costs related to federal operating and safety regulations recovered through the Nuclear Regulatory Commission Regulatory Balancing Account.

<sup>8</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.9 to 13 and 35 to 36, discussing generic risks associated with nuclear operations and unique risks related to Diablo Canyon's seismic setting.

stand first in line to absorb the potential costs of addressing and recovering from any such failures.<sup>9</sup> As a result, A4NR intervened in this proceeding with the intention of having the Commission address and reallocate to PG&E management and shareholders more of the financial risks inherent in nuclear operations.

## **2. A4NR's Proffered Testimony and Recommendations**

A4NR served written testimony in support of six recommendations that individually and collectively addressed the high costs, financial uncertainties and a more appropriate and balanced allocation of financial risks associated with Diablo Canyon operations.

First, A4NR recommended that the Commission require PG&E to file an annual report the contents of which would keep the Commission, PG&E customers and the public informed as to the status of plant operations and regulatory requirements materially affecting PG&E's ability to operate the plant safely, reliably and economically, as well as the financial prudence of seeking to extend the operating life of the plant.<sup>10</sup> While two Commission Presidents have asked PG&E to submit some aspects of the information encompassed by A4NR's recommendation, PG&E was allowed to determine if and when it would provide any information. To date, PG&E has not submitted any of this information despite the Commission's desire to receive it and despite PG&E's having spent over \$50 million in the NRC license-extension proceedings.<sup>11</sup> A4NR sought to make the provision of information regarding Diablo Canyon operations more comprehensive and, importantly, mandatory rather than discretionary given the high stakes involved in the extension of the plant's operating life.

Second, PG&E indicated in its case-in-chief that it had not made any final decision as to whether to pursue the Diablo Canyon license extensions. An inescapable contradiction in PG&E's application reflected this indecision. On the one hand, PG&E proposed to base annual depreciation expense for its remaining investment in Diablo Canyon-related assets upon an assumption the plant would be fully retired by the end of 2025, but in several instances, PG&E proposed to make capital investments serving the purpose of extending the operating life of the units.<sup>12</sup> This duality allowed PG&E to recover its remaining

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<sup>9</sup> See *Exhibit A4NR-1 (Becker)*, at pp.9 to 10.

<sup>10</sup> See *Exhibit A4NR-1 (Becker)*, at pp.4 to 7.

<sup>11</sup> See *Exhibit A4NR-2 (Geesman)*, at p.26.

<sup>12</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.23 to 31 (effect of using PG&E's assumed 2024-2025 retirement dates on annual depreciation expense for remaining investment in Diablo Canyon assets) and pp.20-21 (extension of

capital investment in Diablo Canyon quickly, while keeping the plant's net weighted average rate base at more than \$2 billion across the 2017-2019 rate-case cycle. A4NR intended to end this ratemaking inconsistency by recommending the Commission set rates based upon the unitary assumption that PG&E would in fact proceed with the license-extension application pending before the NRC. This would have, among other things, lengthened the remaining lives across which remaining Diablo Canyon generation-related investment would be depreciated and would have, as a result, reduced Diablo Canyon annual depreciation expense by approximately \$214.8 million in 2017, \$227.6 million in 2018 and \$247.9 million in 2019.<sup>13</sup>

Third, and more profoundly, A4NR intended to propose a new ratemaking mechanism that would reallocate the financial risks associated with PG&E's nuclear operations so as to ensure sound decisionmaking by PG&E management. Under A4NR's recommendation, the recovery of Diablo Canyon's costs would have been tied to PG&E's forecasts of plant outputs: if PG&E's assumptions as to its ability to operate the plant safely and reliably proved correct, PG&E would have fully recovered its forecasted costs of operations (with the potential for some upside gains in the event of outperformance), but if the plant underperformed, PG&E would have borne a portion of the financial consequences for operating and/or safety failures.<sup>14</sup>

Fourth, A4NR intended to propose the omission of the costs of the replacement of the Diablo Canyon Unit 2 main generator stator from rates. The project's purposes were unclear to say the least, and the costs PG&E proposed to reflect in rates appeared to understate the project's likely costs by a significant margin. Under these circumstances, A4NR did not believe the Commission should approve the project or authorize rate increases to reflect the project costs submitted by PG&E.<sup>15</sup> A4NR's recommendations here would have resulted in the exclusion of PG&E's estimate of \$76.5 million from 2019 end-of-year net weighted average rate base. In the alternative, A4NR would have sought a limitation on rate recovery for the project using PG&E's cost estimate; this would have laid the foundation for excluding future cost overruns A4NR believes would very likely have been encountered in completing the project.<sup>16</sup> A4NR's

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operating life of Diablo Canyon Unit 2 resulting from main generator stator replacement); also, *Exhibit CUE-Rebuttal (Marcus)*, at p.17.

<sup>13</sup> See *Exhibit A4NR-3 (Volume 1 of Workpapers)*: compare Line M of each of the tables at pages 0224 and 0227.

<sup>14</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.5 to 18.

<sup>15</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.19 to 23.

<sup>16</sup> This belief is based on other PG&E internal engineering analyses and estimates indicating the stator replacement could reasonably cost as much as \$151 million. *Ibid.*

concern with cost overruns was sparked by issues related to other Diablo Canyon capital projects. As examples, while the Commission conditionally approved the expansion of the Diablo Canyon Independent Spent Fuel Storage Installation in PG&E's last general rate case, that project was recorded to plant-in-service at a capital cost of \$36.754 million, some forty percent (40%) above the amount estimated by PG&E and approved by the Commission.<sup>17</sup> The Commission also approved the replacement of the archaic Diablo Canyon telephone system in PG&E's last general rate, but the project was deferred by PG&E and appears again in this rate case for a second approval.<sup>18</sup> A4NR would have sought the Commission's attention on the rate base "creep" raised by these examples and their impacts on rates, and would have recommended that the stator replacement project not become another case of stealth rate increases.

Fifth, A4NR intended to seek the continuation of the Diablo Canyon Seismic Studies Balancing Account, a rate mechanism PG&E had proposed to eliminate. In A4NR's view, the annual review of the balancing account provides the Commission with considerable insight as to PG&E's investigation of Diablo Canyon's seismic setting and the potential costs of mitigating against future plausible, even if improbable, seismic events.<sup>19</sup> Thus, the importance of this ratemaking mechanism needs to be measured by more than the expenses debited to the account and is worth preserving.

Sixth, A4NR intended to propose that the Commission exclude from rates the costs of expanding the Diablo Canyon Independent Spent Fuel Storage Installation ("ISFSI") due to PG&E's failure to comply with the Commission's prior rate case order.<sup>20</sup> The ISFSI provides a storage facility for spent nuclear fuel initially cooled in the onsite wet-storage pools. The expansion of the ISFSI was approved by the Commission in PG&E's last general rate case in order to enhance PG&E's ability to accelerate the transfer of spent nuclear fuel from wet storage to dry casks which, in turn, could reduce the vulnerability of spent nuclear fuel to seismic events. In approving the project and costs in PG&E's last general rate case, the Commission conditioned rate recovery for the ISFSI expansion project on the development of a transfer plan satisfactory to the Energy Commission, which has addressed the topic of spent fuel storage in a series

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<sup>17</sup> See *Exhibit A4NR-2 (Geesman)*, at p.38; also, *Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2014-2016*, Decision 14-08-032 in Docket A.12-11-009, August 14, 2014, printed opinion at p.413.

<sup>18</sup> See *Exhibit PG&E-5 (Docherty)*, at pp.7-22 and 7-33; also, *Exhibit PG&E-5 (Workpapers)*, at pp.WP 7-78 and WP 7-84.

<sup>19</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.35 to 37.

<sup>20</sup> See *Exhibit A4NR-2 (Geesman)*, at pp.37 to 39.

of State Integrated Energy Policy Reports issued under the aegis of the state Public Resources Code.<sup>21</sup> As late as February of 2016, the Energy Commission continued to express its dissatisfaction with PG&E's spent fuel storage programs and A4NR believes the condition precedent to rate recovery adopted by this Commission for the ISFSI expansion project has yet to be met.<sup>22</sup> A4NR's recommendation would have resulted in reducing 2014 gross plant additions by \$36.754 million, with commensurate decreases in net weighted average rate base, annual depreciation expense and other costs during 2017, 2018 and 2019.

### **3. The Just and Reasonable Resolution of A4NR's Recommendations Posed in the Settlement Agreement**

The *Settlement Agreement* provides a reasonable resolution to each of the issues A4NR would have brought before the Commission in this proceeding. Significantly, in combination with other factors and events, A4NR's recommendations directly influenced PG&E's decision to end its efforts to extend the Diablo Canyon operating license.<sup>23</sup> That decision laid the foundation for resolving all of A4NR's recommendations pending in the instant proceeding. Importantly, in the event PG&E reverses its decision, PG&E and A4NR agreed that A4NR will be permitted to resurrect its recommendations in accordance with the Commission's rules.<sup>24</sup> Assuming PG&E does in fact withdraw with prejudice its NRC application to extend the Diablo Canyon operating licenses, the *Settlement Agreement* fully addresses the underlying customer interests raised by A4NR's six recommendations.

First, PG&E and A4NR agreed to modify the nature of the annual informational filings A4NR proposed in order to conform the information to topics and events in which the Commission and the public will be most interested as Diablo Canyon proceeds to closure.<sup>25</sup> Under this provision of the *Settlement Agreement*, PG&E will provide the Commission with notice "of any material changes to the condition of the

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<sup>21</sup> See *Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2014-2016*, *supra*, printed opinion at pp.412 to 413, 701 (Finding of Fact 191), 728 to 729 (Conclusion of Law 31), and 737 (Ordering Paragraph 29.b). See also, Public Resources Code, Division 15, Chapter 4, Sections 25300, *et seq.*

<sup>22</sup> See *Exhibit A4NR-2 (Geesman)*, at p.38; also, *2015 Integrated Energy Policy Report*, California Energy Commission, Publication #CEC-100-2015-001-CMF, at p.186 (included in *Exhibit A4NR-3 (Volume 1 of Workpapers)*, at p.0242).

<sup>23</sup> PG&E's decision regarding the cessation of Diablo Canyon's operations upon the expiry of the current reactor licenses and the conditions under which PG&E would proceed to replace the plant with preferred resources are pending Commission action in the *Application of Pacific Gas and Electric Company (U 39 E) for Approval of the Retirement of Diablo Canyon Power Plant, Implementation of the Joint Proposal, and Recovery of Associated Costs through Proposed Ratemaking Mechanisms ("Joint Proposal Application")*, Application 16-08-006, filed August 11, 2016. Attachment A to that application, to which A4NR was a signatory party, is hereinafter referenced as the "*Joint Proposal*."

<sup>24</sup> See, e.g., Rules 2.4(b), 13.14(b).

<sup>25</sup> See *Settlement Agreement*, Section 3.2.3.1.4(B), at p.1-22.

plant as may affect the planned retirement date” of the plant by Tier 1 Advice Letter.<sup>26</sup> In addition, PG&E’s decision to retire Diablo Canyon upon the expiry of its current reactor operating licenses is expected to affect PG&E’s need, scale and schedule for future capital investments at the plant and PG&E has agreed to file changes to its “planned capital improvements, projects and additions for Diablo Canyon” in the *Joint Proposal Application* docket.<sup>27</sup> This review is more comprehensive than the review originally sought by A4NR and provides a sound basis upon which the Commission may set rates, both now and in the future, for Diablo Canyon operations.

Second, since Diablo Canyon will now close within the current reactor license periods, A4NR agrees PG&E’s annual depreciation expense forecast is consistent with the expected remaining life of the plant and therefore reasonable.<sup>28</sup> As noted above, if PG&E decides to extend the operating period for the Diablo Canyon units beyond the current license period, PG&E and A4NR have agreed that A4NR should be permitted to bring the issue of annual depreciation expense before the Commission so that the remaining life of Diablo Canyon assets used to determine annual depreciation expense coincides with the plant’s planned operating period.<sup>29</sup>

Third, although A4NR continues to be concerned that Diablo Canyon poses considerable and unique financial risks compared to other energy resources, the identification of a clear, relatively near-term end date for the plant’s operations places a concomitant limit on the time during which PG&E customers are exposed to financial risk from plant failures. Limiting these financial risks by ending Diablo Canyon’s operating life provides some measure of the ratepayer protections A4NR intended to introduce via A4NR’s performance-based ratemaking recommendation and, as a result, A4NR is willing to withdraw this recommendation at this time.<sup>30</sup> Again, in the event PG&E reverses its decision regarding the planned retirement of Diablo Canyon, PG&E and A4NR agree that A4NR may once again raise the proposal of a new ratemaking mechanism which reallocates financial risks between PG&E and electric customers.<sup>31</sup>

Fourth, ending the Diablo Canyon license-extension effort will result, among other things, in a reevaluation by PG&E management of the Unit 2 main generator stator replacement project. Pursuant to

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<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> See *Settlement Agreement*, Section 3.2.3.1.1, at p.1-21.

<sup>29</sup> *Ibid.*

<sup>30</sup> See *Settlement Agreement*, Section 3.2.3.1.5, at p.1-22.

<sup>31</sup> *Ibid.*

the *Joint Proposal*, PG&E may choose to proceed with the project or some alternative project despite Unit 2's impending 2025 retirement, but the issue of whether PG&E's reevaluation justifies the project or another option may be contested by A4NR and other parties and adjudicated by the Commission in PG&E's next-filed general rate case.<sup>32</sup> PG&E's agreement to reevaluate the project in light of Diablo Canyon's now-limited remaining operating life and its further agreement, if it proceeds to implement the project or some alternative project, to justify the project and cost recovery preserves any issues as to the reasonableness of PG&E's rates that might arise from the project. With these ratepayer rights in place, the *Settlement Agreement's* resolution of A4NR's recommendation is reasonable and presents no prejudice to the interests and rights of PG&E electric customers.

Fifth, the *Settlement Agreement* provides that A4NR's recommendation to maintain the Diablo Canyon Seismic Studies Balancing Account and its annual reasonableness review should be adopted and PG&E has agreed to withdraw its proposal to retire this ratemaking mechanism.<sup>33</sup> Thus, the *Settlement Agreement* preserves the ratemaking and regulatory oversight benefits provided by the mechanism and is in the public interest.

Finally, the *Settlement Agreement* provides that PG&E will conduct a study of strategies for removing spent nuclear fuel from the wet storage pools to the Diablo Canyon ISFSI.<sup>34</sup> That study will be presented as part of a site-specific decommissioning cost study PG&E will present to the Commission in the next triennial nuclear decommissioning cost proceeding. Importantly, the study of spent fuel strategies will be coordinated with the Energy Commission whose "satisfaction" with PG&E's spent-fuel transfer strategy was made a condition precedent to the rate recovery of the costs of the ISFSI expansion project under the Commission's decision in PG&E's last general rate case.<sup>35</sup> With PG&E's agreement to address in good faith the Energy Commission's concerns and recommendations regarding the storage of spent nuclear fuels at Diablo Canyon, the foundation has been laid for assuring consistency between state policy

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<sup>32</sup> See *Settlement Agreement*, Section 3.2.3.1.2, at p.1-21. The potential that a review of the project, an alternative project and/or PG&E's justification for proceeding to implement the project or an alternative project may be invoked under this provision of the settlement affects A4NR's position regarding the adoption of a third attrition year as part of the settlement. The proposal for a third attrition year would delay PG&E's next general rate case for a year, placing the timing of that review beyond the time PG&E might complete the implementation of any project. See discussion in Part B of these *Opening Comments*, *infra*.

<sup>33</sup> See *Settlement Agreement*, Section 3.1.10.1, at p.1-15.

<sup>34</sup> See *Settlement Agreement*, Section 3.2.3.1.3, at pp.1-21 to 1-22.

<sup>35</sup> *Ibid.* See also, *Decision Authorizing Pacific Gas and Electric Company's General Rate Case Revenue Requirement for 2014-2016*, *supra*, printed opinion at pp.412-413, 701, 728 to 729, and 737.



and PG&E's operations as required by the Commission's decision in PG&E's last general rate case. Thus, the *Settlement Agreement* is consistent with the Commission's prior orders and the public interest.

## **B. The Third Attrition Year (Post-Test-Year 2020)**

ORA and PG&E propose to set PG&E's 2020 base rates using the ORA-proposed attrition formula. This proposal would result in a 2020 revenue requirement increase of \$361 million above 2019 base rates.<sup>36</sup> The following table shows the annual and cumulative effect the settlement, and in particular the adoption of a third year of attrition allowances, would have on PG&E's annual revenue requirements:

**Annual and Cumulative Revenue Requirement Increases**  
(\$ in millions)

	Test Year 2017	Attrition Year 2018	Attrition Year 2019	Attrition Year 2020
<b>2017 Increase</b>	88	88	88	88
<b>2018 Increase</b>	NA	444	444	444
<b>2019 Increase</b>	NA	NA	361	361
<b>2020 Increase</b>	NA	NA	NA	361
<b>Cumulative Increase</b>	<b>88</b>	<b>532</b>	<b>893</b>	<b>1,254</b>

Source: Revenue requirement increase for 2017 resulting from *Settlement Agreement* shown in Section 3.1.1, p.1-3, for 2018 and 2019 shown in Section 3.1.1.2, p.1-4, and for 2020 shown in Section 4.1, p.1-34.

Adding the cumulative revenue requirement increases shown for each year, the foregoing figures indicate the total four-year increase in PG&E's base rate revenue requirement, compared to authorized 2016 base rate revenue requirement, resulting from the adoption of the ORA-PG&E proposal of a third year of attrition would be \$2.767 billion, almost half of which would be received in 2020, the proposed third year of attrition. This is a staggering figure on its own, but equally important, the Commission should consider that (1) the attrition-enhanced 2020 revenue requirement fully demonstrates the "compounding" effect of layering attrition allowances year upon year, (2) the 2019 revenue requirement adopted in this 2017 general rate case would be used as the base year revenue requirement for the proposed 2021 test year general rate case, and (3) the 2020 revenue requirement would be presented as indicative of the reasonableness of any future rate increases PG&E might seek for 2021 (PG&E's next-proposed general rate case test year) and beyond. Based on the demonstrated effects of this rate escalation where automatic rate increases are

<sup>36</sup> See *Settlement Agreement*, Section 4.1, at p.1-34.

pancaked year upon year, A4NR opposes the extension of formulaic ratemaking in lieu of test-year ratemaking on general principle and urges the Commission to reject the ORA-PG&E proposal to adopt a third year of attrition allowances in lieu of a 2020 general rate case. The minimalist revenue requirement increase for the 2017 Test Year proposed by the *Settlement Agreement* clearly indicates that rejecting the proposal for a third year of attrition allowances is a sure-fire method for arresting the otherwise steep rate curve PG&E's customers would otherwise face beyond 2019.

The *Settlement Agreement* reflects PG&E's agreement that 2017 revenue requirement for both gas and electric distribution operations should be *decreased* below 2016 levels.<sup>37</sup> These decreases are significantly below trend, a fact that should not be overlooked for its importance as well as novelty. These decreases radically affect the rate trajectory implicit in the historical rate increases granted to PG&E in its last general rate case. While the *Settlement Agreement* provides for an increase to 2017 revenue requirement for electric generation compared to 2016 authorized revenue requirement,<sup>38</sup> Diablo Canyon operations account for well over half of annual energy supply expenses and one-third of annual energy supply capital expenditures.<sup>39</sup> With Diablo Canyon now expected to cease operations by the end of 2025, these proportions, as well as the level of expense and capital committed to the plant, can reasonably be expected to begin declining by 2020 as projects and programs are reevaluated by PG&E or reassigned to decommissioning accounts under the paradigm of imminent retirement. The compelling inference from the end result of the *Settlement Agreement* is that administrative scrutiny and regulatory oversight are critical to enforcing this Commission's mandate and duty to set just and reasonable rates.<sup>40</sup> Delaying PG&E's next

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<sup>37</sup> See *Settlement Agreement*, Section 3.1.1.1, at pp.1-3 to 1-4, indicating the settlement presented to the Commission reflects a decrease in 2017 revenue requirement of \$62 million for electric distribution operations compared to 2016 authorized revenue requirement and \$3 million for gas distribution operations compared to 2016 authorized revenue requirement.

<sup>38</sup> See *Settlement Agreement*, Section 3.1.1.1, at p.1-4, indicating the settlement presented to the Commission reflects an increase in 2017 revenue requirement of \$153 million for electric distribution operations compared to 2016 authorized revenue requirement.

<sup>39</sup> See *Exhibit PG&E-5 [Energy Supply]*, Table 1-1, at p.1-6, which indicates 2017 Diablo Canyon expense is forecasted to be \$425,650,000 out of total 2017 energy supply expense of \$746,808,000, and Table 1-2, at p.1-10, where 2017 (base rate) Diablo Canyon capital expenditures are forecasted to be \$159,700,000 out of total 2017 energy supply capital expenditures of \$480,160,000.

<sup>40</sup> See Public Utilities Code Sections 451, 454, 728, and 747. A4NR further asserts PG&E's decision to retire Diablo Canyon, a matter PG&E initially considered beyond the scope of this proceeding and had heretofore been reluctant to address within earshot of the Commission, can be attributed to the possibility that this Commission might have taken some action in the context of this general rate case which would have compelled the making of that decision under circumstances not of PG&E's choosing. Under these circumstances, A4NR is compelled to say the threat of regulatory action and regulatory risk clearly have their own apparent weight and merits.

general rate case for one year by adopting the proposal for a third attrition year would substitute a formulaic rate increase in place of the scrutiny and oversight which here has so obviously well-served the interests of PG&E customers in paying the lowest reasonable rates.

A4NR recognizes that the concept of attrition allowances is part and parcel of the Commission's Regulatory Lag Plan. Prescheduling and coordinating general rate cases among the state's major utilities was born of necessity in the 1970s when rampant inflation drove utilities to file rate case after rate case to keep pace with unprecedented, relentless and unavoidable cost increases, even while previously filed rate cases were pending Commission decision. Resource constraints imposed on the Commission through the state budgeting process have kept the practice in place as a practical necessity in support of the orderly administration of rate cases. The spacing of any particular utility's rate cases over multiple years led to the adoption of attrition allowances for those years during which the utility was instructed to forego rate filings. But while attrition mechanisms address the resource constraints placed on the Commission by the State of California, the test year 2017 revenue requirement adopted in the *Settlement Agreement* brings into question whether the resort to an attrition allowance for 2020 fully reflects PG&E's apparent ability to manage its costs and arrest rate escalation.

Finally, A4NR has a discrete and unique interest in the timing of PG&E's next general rate case. As the *Settlement Agreement* notes, A4NR has reserved its rights to contest the reasonableness of that portion of PG&E's 2017 revenue requirement related to PG&E's nuclear operations in the event the planned retirement dates for Diablo Canyon Units 1 and 2 are extended beyond 2024 and 2025, respectively. Delaying PG&E's next general rate case could result in a commensurate delay in the timing of when those rights might be invoked.<sup>41</sup> Such a delay would result in delaying the rate relief and financial protections to which PG&E customers would be entitled under the pre-settlement recommendations proposed by A4NR in this proceeding and increase the number of years and amount of materials A4NR

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<sup>41</sup> In the event PG&E reverses its decision to abandon license extensions for one or both of the Diablo Canyon reactors, A4NR would seek to invoke its rights to contest the reasonableness of Diablo Canyon revenue requirement at the first available opportunity. Depending on the timing of such an event, A4NR would either seek to reopen this proceeding based on the material change in circumstances the event would represent or intervene in PG&E's next general rate case – under either procedural path, A4NR would reassert its claims that (1) reductions to the annual depreciation expense for then-remaining Diablo Canyon investment and (2) the imposition of a new performance-based ratemaking mechanism reallocating financial risks between shareholders and customers would be necessary to result in just and reasonable rates. If the event occurred relatively early in the instant rate case cycle (whether 2017-2019 or 2017-2020), A4NR would likely opt for reopening the instant proceeding and therefore concedes that the adoption of a third attrition year would have little, if any, foreseeable prejudice to A4NR's rights to contest the terms of the *Settlement Agreement*.

would be obliged to review in PG&E's next general rate case. This will place significant burdens on A4NR's resources and ability to participate effectively in that matter. A4NR believes all parties, including the ORA, would likely suffer from this disadvantage as well and the Commission should not embed this disadvantage into the prosecution of PG&E's next general rate case by delaying its filing in favor of a third attrition year.

### **C. Summary of Recommendations**

For the foregoing reasons, A4NR recommends the Commission adopt Sections 3.1.10.1 (Diablo Canyon Seismic Safety Balancing Account) and 3.2.3.1.1 to 3.2.3.1.5 (regulatory oversight of and ratemaking for Diablo Canyon) of the proposed *Settlement Agreement*, but reject Section 4.1 (the third attrition year).

Respectfully submitted,

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Encinitas, California  
August 18, 2016