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BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for )  
Authority, Among Other Things, to Increase Rates and )  
Charges for Electric and Gas Service Effective on )  
January 1, 2020. )  
\_\_\_\_\_(U 39 M) )

Application 18-12-009  
(Filed December 13, 2018)

**ALLIANCE FOR NUCLEAR RESPONSIBILITY'S  
OPENING BRIEF**

JOHN L. GEESMAN

DICKSON GEESMAN LLP  
P.O. Box 177  
Bodega, CA 94922  
Telephone: (510) 919-4220  
E-Mail: john@dicksongeesman.com

Date: January 6, 2020

Attorney for  
ALLIANCE FOR NUCLEAR RESPONSIBILITY

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## I. INTRODUCTION.

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission” or “CPUC”); the revised briefing schedule established by the December 2, 2019 email ruling by Administrative Law Judges Rafael Lirag and Elaine Lau; and the common briefing outline developed by the parties (this entire brief falls under Section 7.2 Nuclear Operations Costs of the common briefing outline); the Alliance for Nuclear Responsibility (“A4NR”) files its Opening Brief in the 2020 General Rate Case (“GRC”) application filed by the Pacific Gas and Electric Company (“PG&E”). A4NR has previously intervened in numerous Commission proceedings involving the Diablo Canyon Nuclear Power Plant (“DCNPP”). A4NR filed a Protest of A.18-12-009 on January 11, 2019 and submitted prepared testimony that was admitted into evidence as Exhibit 256 at the October 16, 2019 evidentiary hearing.<sup>1</sup> A4NR’s cross-examination exhibits, Exhibits 253, 254, and 255 were received into evidence at the same hearing.<sup>2</sup>

PG&E brought an unsuccessful Motion to Strike A4NR’s prepared testimony, which was denied by an Administrative Law Judges’ Ruling dated September 6, 2019 (“ALJs’ September 6, 2019 Ruling”). The ALJs’ ruling also stated:

*The scope of this general rate case (GRC) includes determination of the reasonableness of PG&E’s proposed O&M and capital costs relating to the operation of DCNPP from 2020 to 2022. However, we find that issues relating to the proper shutdown or closure date of DCNPP are better raised in a Petition for Modification of D.18-01-022 and thus these issues shall not be considered and addressed in this GRC. Accordingly, this proceeding will assume that DNCPP will continue to operate within this GRC period. Any relevant decision pursuant to a petition to modify D.18-01-022, as described above, shall be incorporated in*

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<sup>1</sup> Transcript, p. 2654, line 11.

<sup>2</sup> Transcript, p. 2651, lines 7 – 10.

*the decision for this proceeding.*<sup>3</sup>

Based upon this guidance, A4NR filed a Petition for Modification of D.18-01-022 and D.19-04-040 on October 1, 2019 requesting that the Commission order PG&E to demonstrate in its integrated resource plan filed in the 2019 – 2020 cycle of R.16-02-007 that continued operation of DCNPP Unit 1 and Unit 2 in the 2020 – 2025 period is (a) cost-effective for PG&E's bundled load; (b) consistent with the principles articulated in the Commission's Procurement Policy Manual for least-cost/best-fit and utility-owned generation; and (c) wholly consistent with Cal. Pub. Util. Code §§ 451 and 454(a). A4NR's Petition for Modification further requests that PG&E be ordered to establish a memorandum account, effective January 1, 2020, to record the revenue requirement related to all DCNPP going-forward O&M and capital costs approved in A.18-12-009, such amounts to be subject to refund<sup>4</sup> until the Commission finds that PG&E has satisfactorily met its burden of proof in R.16-02-007.

A4NR focuses this brief on PG&E's deficient economic analysis of the DCNPP Unit 2 Main Generator Stator Replacement Project, as well as appropriate safeguards the Commission should adopt to assure that any revenue requirement authorized for going-forward DCNPP O&M and capital expenditures is actually spent at DCNPP.

## **II. MARKET DEVELOPMENTS HAVE STRANDED DCNPP.**

Data responses provided to A4NR by PG&E in this proceeding document the significant, transformative changes that have taken place in PG&E's service territory since PG&E's June

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<sup>3</sup> ALJs' September 6, 2019 Ruling, p. 2.

<sup>4</sup> The Commission has utilized the memorandum-account-subject-to-refund instrument when significant doubt arises about the future operation of major facilities and the reasonableness of the costs of such operations (e.g., Aliso Canyon, D 16-03-031; and SONGS 2&3, D.12-11-051).

2016 announcement that the two DCNPP units would be retired in 2024 and 2025, respectively. PG&E served 82% of the bundled load within its service territory in 2017,<sup>5</sup> but suffered a decline to 59% in 2018 and projects further erosion to 47% in 2019<sup>6</sup> and 43% in 2020.<sup>7</sup> In 2016, PG&E identified its anticipated loss of customers to Community Choice Aggregation and Direct Access as the primary reason to retire DCNPP in 2025, but the 2020 estimated market share represents a collapse already beneath what had been PG&E's worst case scenario for 2025. As PG&E acknowledged in May 2017, in this *"Low Load scenario the need for DCP (sic) drops to 26% of the plant's output ..."*<sup>8</sup>

In the meantime, DCNPP's above-market costs have soared. PG&E's application of the Commission's Power Charge Indifference Adjustment ("PCIA") methodology assigned above-market costs of \$410 million to DCNPP for 2018;<sup>9</sup> initially forecasted \$523 million for 2019,<sup>10</sup> an amount later projected to be \$1.168 billion;<sup>11</sup> and estimates \$1.258 billion in above-market costs for 2020.<sup>12</sup> As explained in A4NR's prepared testimony, DCNPP's above-market costs are determined by dividing the amount of PCIA that PG&E attributes to DCNPP for a particular year by the percentage of bundled load PG&E attributes to Community Choice Aggregation and Direct Access for that same year. For example, in 2020 PG&E's forecast of \$717 million in PCIA attributable to DCNPP is divided by .57 to identify \$1.258 billion in above-market costs.

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<sup>5</sup> Exhibit 256, p. 5, lines 18 – 19.

<sup>6</sup> *Id.*, p. 5, line 25.

<sup>7</sup> Exhibit 254, p. 1.

<sup>8</sup> Exhibit 256, p. 6., lines 12 – 13, citing A.16-08-006, PG&E Opening Brief, p. 15.

<sup>9</sup> *Id.*, p. 3, line 12.

<sup>10</sup> *Id.*, p. 3, line 13.

<sup>11</sup> Exhibit 253, p. 1.

<sup>12</sup> *Id.*

PG&E did not contest any of these elements of A4NR’s prepared testimony, nor even seek to cross-examine A4NR’s witness. PG&E’s Rebuttal testimony asserted that A4NR’s analysis is “without basis” in assuming “going forward [emphasis added] costs to operate Diablo Canyon are higher than the market revenues attributable to Diablo Canyon.”<sup>13</sup> This qualified, at best, as excessively clever word play—until, that is, the 2018 and 2019 data was supplemented by PG&E’s data response forecasting an even worsening trend for going-forward GRC test year 2020.<sup>14</sup> By the Commission’s traditional standard for ratesetting proceedings, discharge of the original and enduring burden of proof imposed on utility applicants requires more than merely hurling conclusory phrases like “without basis”.

### **III. PG&E’s DEFICIENT ECONOMIC ANALYSIS OF ITS STATOR PROJECT.**

#### **A. PG&E failed to assess DCNPP’s obvious decline in economic viability.**

A4NR recommends disallowance of PG&E’s request to recover \$90.4 million in rates for the DCNPP Unit 2 Main Generator Stator Replacement Project described in Exhibit 146 at p. 3-25, line 5 – p. 3-31, line 23. The 2017 GRC Settlement Agreement approved, with modifications, by D.17-05-013 provided:

*PG&E withdraws its request for pre-approval of the Unit 2 main generator stator project in this proceeding. Should PG&E proceed with the project, the project will be subject to review as part of PG&E’s next GRC application. In any Commission proceeding where PG&E submits the project for Commission approval and/or the rate recovery of project costs, A4NR, TURN and any other party may contest (a) PG&E’s judgment as to the Unit 2 operating conditions and/or PG&E’s economic and/or engineering analyses offered in support of the project and/or (b) the rate recovery of the project costs.*<sup>15</sup>

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<sup>13</sup> Exhibit 71, p. 3-8, lines 18 – 20.

<sup>14</sup> Exhibit 253, p. 1.

<sup>15</sup> A.15-09-001, 2017 GRC Settlement Agreement, Section 3.2.3.1.2, p. 1-21.

PG&E's testimony and supporting workpapers demonstrate no consideration of the precipitous decline in PG&E's bundled load or growth in DCNPP's above-market costs – both of which were known to PG&E in the 2015 – 2019 timeframe when the prudent manager standard compelled careful economic analysis before proceeding with such a major capital commitment.

## **B. PG&E concocted a unique theory of entitlement.**

Instead, PG&E's rebuttal testimony propounds an unprecedented entitlement theory that conflates Commission-approved resource planning assumptions with anointing PG&E with exemption from any constraints on unreasonably or imprudently incurred costs:

*Q 34 Why didn't PG&E analyze Unit 2 shutdown as an alternative?*

*A 34 PG&E agreed in a Joint Proposal presented to the Commission in August 2016, to retire Diablo Canyon upon expiration of the existing operating license for Unit 1 in 2024 and Unit 2 in 2025. The Commission approved these retirement dates as prudent. At the time it approved these retirement dates, the Commission referred PG&E and parties to the IRP proceeding to consider scenarios assuming earlier retirement dates for Diablo Canyon. In that proceeding, the Commission directed PG&E to present scenarios assuming earlier shut down only if PG&E planned to retire Diablo Canyon earlier than 2024 and 2025. PG&E does not plan to retire Diablo Canyon earlier than 2024 and 2025. All scenarios adopted by the Commission in its last IRP decision assume the 2024 and 2025 retirement dates for Unit 1 and Unit 2 and direct all LSEs to assume those retirement dates and develop their energy supply portfolios using that assumption. (footnotes omitted)<sup>16</sup>*

## **C. PG&E ignored the durability of Commission review standards.**

PG&E appears to believe that D.18-01-022, which approved the “*proposal to retire Diablo Canyon Unit 1 by 2024 and Unit 2 by 2025*”<sup>17</sup> (emphasis added), also immunizes the utility's DCNPP-related decisions from ongoing application of the prudent manager standard

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<sup>16</sup> Exhibit 71, p. 3-12, lines 7 – 20.

<sup>17</sup> D.18-01-022, OP 1.



and predetermines compliance with Cal. Pub. Util. Code §§ 451 and 454(a) for the duration of the operating licenses. But neither PG&E's prepared testimony nor its rebuttal testimony, nor the answers of its DCNPP witness during cross-examination, provide any factual basis for this claimed entitlement. Nor does PG&E suggest any legal authority by which the Commission may or should suspend the applicability of the prudent manager standard for the duration of the DCNPP operating licenses, which would nullify the ratepayer protections of Cal. Pub. Util. Code §§ 451 and 454(a). PG&E's DCNPP expenditures must remain subject to the Commission's standards of reasonableness and prudence, as recently reaffirmed in D.18-07-025:

*We have summarized this concept of reasonableness in In the Matter of the Application of San Diego Gas & Electric Company and Southern California Gas Company for Authority to Revise Their Rates Effective January 1, 2013, in Their Triennial Cost Allocation Proceeding [D.14-06-007] (2014) at p. 31 (slip op.), stating:*

*California law, Commission practice and precedent, and common sense, all essentially require that before ratepayers bear any costs incurred by the utility, those costs must be just and reasonable....When that occurs, the Commission can find the costs incurred by the utility to be just and reasonable and therefore, they can be recovered from ratepayers. When this is not the case however, the Commission can and must disallow those costs: that is unjust or unreasonable costs must not be recovered in rates from ratepayers.*

*In implementing Section 451 for purposes of utility reasonableness reviews, the Commission utilizes an established Prudent Manager Standard as the test to evaluate whether requested costs are just and reasonable. We have summarized this test as follows:*

*The standard for reviewing utility actions has been established as one of reasonableness and prudence....The term "reasonable and prudent" means that at a particular time any of the practices, methods, and acts engaged in by a utility follows the exercise of reasonable judgment in light of facts known known [sic] or which should have been known at the time the decision was made. The act or decision is expected by the utility to accomplish the desired result at the lowest reasonable cost consistent with good utility practices. Good utility practices are based upon cost-effectiveness, reliability, safety, and expedition.*

*(See, e.g., Re SCE [D.87-06-021], supra, 24 Cal.P.U.C.2d at p.486.)*

*Further guidance is embodied in other decisions, such as D.02-08-064, which states:*

*A reasonable and prudent act is not limited to the optimum practice, method, or act to the exclusion of all others, but rather encompasses a spectrum of possible practices, methods, or acts consistent with the utility system needs, the interest of the ratepayers and the requirements of governmental agencies of competent jurisdiction....The greater the level of money, risk and uncertainty involved in a decision, the greater the care the utility must take in reaching that decision....The burden rests heavily upon a utility to prove... that it is entitled to the requested rate relief and not upon the Commission, its staff, or any interested party to prove the contrary.*

*(Investigation into the Natural Gas Procurement Practices of Southwest Gas Company [D.02-08-064] (2002) at pp. 5-8 (slip op.) (citations omitted).)<sup>18</sup>*

#### **D. PG&E was repeatedly imprudent in its decision-making.**

Under cross-examination, PG&E's witness described a multi-year decision-making process for the DCNPP Unit 2 Main Generator Replacement Project which bore no resemblance to these standards:

- In June 2015, when spending only totaled \$.6 million, PG&E's "*Major Project Business Case*" Gate 1 assessment described a "*project off-ramp*" scheduled for September 2016 "*to allow the project team to terminate further cost and project execution*" in the event that DCNPP licensing extension was not pursued.<sup>19</sup>
- Despite PG&E's June 2016 announcement that it would not pursue DCNPP licensing extension, this "*project off-ramp*" was not taken.<sup>20</sup>
- The June 2015 "*Major Project Business Case*" assessment had promised a "*bridging strategy*" would be developed in the event that DCNPP licensing extension was not

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<sup>18</sup> D.18-07-025, pp. 5 – 6.

<sup>19</sup> Exhibit 255, WP 3-220.

<sup>20</sup> Transcript, p. 2630, line 24 (PG&E—Harbor).

pursued,<sup>21</sup> but—once developed—such “bridging strategy” consisted “solely of routine monitoring of generator health during online operations.”<sup>22</sup>

- PG&E acknowledged that its Unit 2 Main Generator Stator Replacement Project bridged the approximately six-year period of remaining “license life”<sup>23</sup> with a “25 years or so” asset<sup>24</sup> that it intends to fully amortize over the compressed remaining “operational life of Diablo Canyon and not beyond.”<sup>25</sup> PG&E did not address the reasonableness of filling an at-most six-year need with a “25 years or so” solution.
- The aforementioned 2017 GRC Settlement Agreement, filed August 3, 2016 in the aftermath of PG&E’s June 2016 DCNPP retirement announcement and immediately prior to the envisioned “project off-ramp,” withdrew PG&E’s request for Commission pre-approval but does not appear to have lessened PG&E’s ardor for the project. Obliquely noting the changed circumstances created by the DCNPP retirement announcement, but with no assessment of Unit 2 operating economics in light of accelerating erosion of bundled load, the January 2017 Gate 2 recommendation to the Executive Project Committee warned,

*With both Alliance For Nuclear Responsibility (A4NR) and The Utility Reform Network (TURN) having objections to the reasonableness of this project in light of the decision not to re-license DCP, it is reasonable to expect significant review of the costs versus benefits of this project in the 2020 GRC.*<sup>26</sup>

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<sup>21</sup> Exhibit 255, WP 3-220.

<sup>22</sup> Transcript, p. 2639, line 27 – p. 2640, line 1 (PG&E—Harbor).

<sup>23</sup> Transcript, p. 2637, line 25 – p. 2638, line 2 (PG&E—Harbor).

<sup>24</sup> Transcript, p. 2637, lines 14 – 17 (PG&E—Harbor).

<sup>25</sup> Transcript, p. 2649, lines 21 – 23 (PG&E—Harbor).

<sup>26</sup> Exhibit 147, p. 3-243.

- PG&E never compared the economics of stator replacement against simply retiring Unit 2<sup>27</sup> (or both Units 1 and 2<sup>28</sup>) notwithstanding the assertion of PG&E’s DCNPP witness that *“none of us really wanted to do a full project. Only if it’s absolutely necessary.”*<sup>29</sup>

#### **E. PG&E failed to meet its burden of proof that it acted reasonably.**

The record is devoid of any evidence that PG&E considered its dramatic loss of bundled customers or DCNPP’s escalating above-market costs in weighing the economic reasonableness of proceeding with the Unit 2 Main Generator Stator Replacement Project. This was information readily available to PG&E management during the relevant timeframe – indeed, it prompted the June 2016 DCNPP retirement announcement – and a prudent utility manager would have meticulously weighed it. As the Commission has previously emphasized, *“The greater the level of money, risk and uncertainty involved in a decision, the greater the care the utility must take in reaching that decision....”*<sup>30</sup> PG&E did not even attempt to satisfy this standard, an omission made more glaring by market developments even harsher than those PG&E had envisioned in 2016.

#### **IV. GUARDING AGAINST A REVENUE REQUIREMENT DIVERSION.**

The widely recognized operational and financial challenges confronting PG&E suggest that self-correction of the DCNPP anomaly – i.e., continued operation of a plant generating annual above-market costs well in excess of a billion dollars while bundled load plunges beneath prior trigger points for plant retirement – is perhaps not among PG&E management’s

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<sup>27</sup> Transcript, p. 2642, lines 7 – 8 (PG&E—Harbor).

<sup>28</sup> Transcript, p. 2642, lines 1 – 3 (PG&E—Harbor).

<sup>29</sup> Transcript, p. 2632, lines 16 – 18 (PG&E—Harbor).

<sup>30</sup> See footnote 18 above.

current top priorities. But it is unlikely this situation (and PG&E’s flouting of the Commission’s prudent manager standard) will persist indefinitely. Given the obvious motivation PG&E might have to reallocate any approved DCNPP revenue requirement to other purposes, including *“solely to augment its authorized rate of return”*<sup>31</sup> as feared in the 2017 GRC regarding other reallocations, the Commission must be wary of bait-and-switch in the 2020 test year as well as the 2021 and 2022 attrition years.

It is reasonable to expect, especially if an exit from bankruptcy proves feasible at some point in this GRC cycle, that PG&E will face pressure to reduce or redirect certain expenditures to reflect changed priorities after the 2020 GRC is decided. A4NR believes this potential to be particularly high for the avoidable portions of PG&E’s requested DCNPP-related revenue requirement, i.e., going-forward O&M and capital expenditures of \$1.124 billion during the 2020 – 2022 GRC cycle:<sup>32</sup>

Year	Projected O&M	Projected Capital	Total
2020	357,731,000	42,881,000	400,612,000
2021	341,595,000	25,173,000	366,768,000
2022	340,548,000	16,348,000	356,896,000
TOTAL	1,039,874,000	84,402,000	1,124,276,000

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<sup>31</sup> D.17-05-013, p. 129.

<sup>32</sup> Exhibit 256, p. 15, lines 19 – 23.

An exchange between ALJ Elaine C. Lau and PG&E's DCNPP witness captured the peril presented when such a large amount of revenue requirement carries clear potential to abruptly transform into a reallocation:

*Q So if there is an early retirement that PG&E decides to pursue in the attrition years, or maybe throughout GRC cycle, 2020 to 2022, and the Commission did approve the costs of the operation of Diablo Canyon, what would PG&E propose to do with the costs that the Commission approved?*

*A I wouldn't be able to speculate on what that would look like. But I think there would be a number of issues beyond just this. There would also be the stranded cost set of the asset, which San Onofre had to work through.*

*So there's a lot of costs that would be tied up into that that would, you know, I would imagine be -- you know, it would -- it would be complicated. Because we would have the stranded costs of the asset, we would have these additional costs, all of those things would roll back at the same time, we would not be generating power moving forward. And we would have to get other alternate sources of power. So it would -- yeah. It could be a challenge.<sup>33</sup>*

In order to retain the integrity of the GRC process, which is premised on cost forecasts that are both reasonable and as accurate as possible, the Commission should formally restrict the post-approval reallocation of any portion of the DCNPP-related revenue requirement to the reasonable costs of DCNPP shutdown and decommissioning. Accordingly, the Commission should place the authorized DCNPP revenue requirement into a Memorandum Account, and PG&E should be required to provide a reconciliation of its actual costs of operating DCNPP with the forecasts adopted in this GRC. This would assure PG&E does not divert the authorized base revenues for DCNPP to other operations (or worse, to satisfy unrelated costs of its bankruptcy

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<sup>33</sup> Transcript, p. 2648, line 16 – p. 2649, line 11 (PG&E—Harbor).

exit strategy). As PG&E's witness attested, the effects of an early retirement and the relationship of authorized DCNPP-related revenue requirement to necessary and reasonable operating costs are complicated. The Memorandum Account would provide an effective regulatory mechanism and context by and in which any such complexities could be sorted and resolved.

## **V. CONCLUSION.**

The September 6, 2019 ALJs' Ruling that *"this proceeding will assume that DNCPP will continue to operate within this GRC period"*<sup>34</sup> did not exempt PG&E from the Commission's prudent manager standard in evaluating the economic reasonableness of the Unit 2 Main Generator Stator Replacement Project. Nor should the Commission underestimate the likelihood that any approved DCNPP-related revenue requirement may become a prime candidate for redirection during the test year or either attrition year. For the reasons stated herein, A4NR recommends that the \$90.4 million cost recovery in rates sought by PG&E for the stator project be disallowed, that a Memorandum Account be established for the entire DCNPP-related portion of the revenue requirement approved in this GRC, and that any post-approval reallocation of the DCNPP-related revenue requirement be restricted to the reasonable costs of DCNPP shutdown and decommissioning.

Respectfully submitted,

By: /s/ John L. Geesman

JOHN L. GEESMAN

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<sup>34</sup> ALJs' September 6, 2019 Ruling, p. 2.

DICKSON GEESMAN LLP

Date: January 6, 2020

Attorney for  
ALLIANCE FOR NUCLEAR RESPONSIBILITY