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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 COMMENTS ON PROPOSED DECISION OF
ADMINISTRATIVE LAW JUDGES RAFAEL LIRAG AND ELAINE LAU**

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A4NR recommends the Commission apply the “fair compromise” metric stated in the PD and modify Article 2.4.2.2 of the Settlement Agreement to reduce the capital cost forecast for the Diablo Canyon Unit 2 Main Generator Stator Replacement Project by \$12.5 million to \$77.9 million.

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I. INTRODUCTION.

Pursuant to Rule 14.3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, the Alliance for Nuclear Responsibility (“A4NR”) respectfully submits its Opening Comments on the Proposed Decision (“PD”) of Administrative Law Judges Rafael Lirag and Elaine Lau in the Test Year 2020 General Rate Case of Pacific Gas and Electric Company (“PG&E”). As required by Rule 14.3(c), these comments focus on what A4NR considers to be factual, legal, or technical error in the PD. A4NR urges the Commission to adjust the Proposed Settlement’s acceptance of PG&E’s \$90.4 million capital cost forecast for the Diablo Canyon Unit 2 Main Generator Stator Replacement Project¹ by reducing the approved amount by \$12.5 million due to PG&E’s failure to adequately evaluate the cost-effectiveness of the project.

The new stator was installed during a scheduled Unit 2 refueling outage in the fall of 2019 that was extended to 80 days (from the typical 33 days) to accommodate the work. Unit 2 subsequently was removed from service for 17 days in July 2020 due to a hydrogen leak in the new stator. As of the filing date of these Opening Comments, Unit 2 has been offline for 28 days after a second hydrogen leak was discovered in the new stator on October 15, 2020.

II. A \$90.4 MILLION STATOR FAILS THE STANDARD ARTICULATED BY THE PD.

The PD recites the Settlement Agreement’s self-characterization -- “a compromise among the settling parties’ respective litigation positions to resolve all disputed issues the

¹ The Unit 2 stator replacement is discussed at pp. 150 – 153 of the PD.

settling parties raised in this proceeding”² – and describes the estimable review process the Commission aspires to achieve:

- examining each major topic, analyzing the settlement terms and revenue amounts that the settling parties agree on, and **making an analysis regarding reasonableness of each term** and the settlement as a whole in light of the evidence presented and comments from parties;³ (emphasis added)
- in order to consider the proposed Settlement Agreement in this proceeding as being in the public interest, we must be convinced that the parties have **a sound and thorough understanding** of the application and all of the underlying assumptions and data included in the record;⁴ (emphasis added)
- This level of understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement.⁵

In conducting its analysis of the reasonableness of each term of the Settlement Agreement, the PD narrative arrives at a determination of “fair compromise” 14 times.⁶ This litmus is specifically invoked in nine of the PD’s Conclusions of Law.⁷ Yet, despite stating that TURN had “originally proposed a reduction of \$25.000 million or a reduction of at least 25 percent in costs for the Stator Replacement project,”⁸ the PD offers unquestioned acceptance to the Settlement Agreement’s rubberstamp of PG&E’s original \$90.4 million stator capital cost forecast. That the PD’s acceptance is granted without discussion of unrebutted, material facts in the evidentiary record (i.e., that PG&E’s cost-effectiveness evaluation of stator replacement

² PD, p. 16.

³ *Id.*, p. 4.

⁴ *Id.*, p. 19.

⁵ *Id.*

⁶ See PD at pp. 49, 61, 89, 167 (twice), 177, 248, 261 (twice), 278, 279, 280, 357, and 407.

⁷ See Conclusions of Law 4, 6, 12, 46, 77, 78, 82, 84, and 129.

⁸ PD, p. 151. PG&E’s rebuttal testimony had a different characterization of TURN’s position: “TURN proposes both a \$25 million disallowance and to disallow ‘at least’ 25% of the stator project. It is not clear which proposal reflects TURN’s final recommendation.” Exhibit 71, p. 3-1, footnote 6.

failed to include the alternative scenario of accelerated Unit 2 retirement, and consequently was insufficient) indicates an unjustified lapse in applying the “fair compromise” standard.

As the settling parties acknowledged in reply to A4NR’s opposition to the stator provisions in the Settlement Agreement, TURN’s original proposal (which PG&E’s rebuttal testimony dismissed as “arbitrary” and containing “no accompanying analysis”⁹) was based “on similar grounds to those asserted by A4NR.”¹⁰ While A4NR’s opposition advocated a disallowance of the full \$90.4 million stator capital cost forecast, a disallowance of \$0 cannot be considered a “fair compromise” of TURN’s position (as a proxy for ratepayer interests) without “a sound and thorough understanding” of the unrebutted evidence of PG&E’s failure to perform a cost-effectiveness assessment of stator replacement that included Unit 2 retirement as an analyzed alternative. At a minimum, considering this evidentiary record, “fair compromise” of the TURN position should arguably fall within a 40 – 60% range of TURN’s \$25 million proposed reduction.¹¹ A4NR recommends \$12.5 million as the midpoint of this range.

III. PG&E ADMITS DIABLO CANYON ECONOMICS HAVE RAPIDLY EVOLVED.

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 2016 announcement that the two Diablo Canyon units would be retired in 2024 and 2025, respectively. PG&E served 82% of the bundled load within its service territory in 2017,¹² but

⁹ Exhibit 71, p. 3-11, lines 26 – 27.

¹⁰ Joint Reply Comments, p. 18.

¹¹ Because of the inherent uncertainty associated with “at least” 25% of a “forecast” capital cost, A4NR has focused instead on the \$25 million amount attributed to TURN’s position by the Joint Reply Comments.

¹² Exhibit 256, p. 5, lines 18 – 19.

suffered a decline to 59% in 2018 and projected further erosion to 47% in 2019¹³ and 43% in 2020.¹⁴ In 2016, PG&E identified its anticipated loss of customers to Community Choice Aggregation and Direct Access as the primary reason to retire Diablo Canyon 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 A.16-08-006, this "Low Load" scenario where PG&E retained only 44% of its service territory load would reduce the need for Diablo Canyon to only 26% of the plant's output.¹⁵ In fact, PG&E's most recent Form 10-K reported that Diablo Canyon output supplied 45.0% of PG&E bundled retail sales in 2019, but that the utility also sold surplus electricity from its supply portfolio amounting to 44.6% of its bundled retail sales.¹⁶ Diablo Canyon may have system capacity value in certain months, but its contribution of energy needed by PG&E customers appears to have effectively vanished in 2019.

In recent years Diablo Canyon's above-market costs have soared. PG&E's application of the Commission's Power Charge Indifference Adjustment ("PCIA") methodology has assigned annual above-market costs of \$410 million to Diablo Canyon for 2018,¹⁷ \$1.168 billion for 2019,¹⁸ and \$1.258 billion for 2020.¹⁹ Nor do the 6 – 8 million metric tons of annual greenhouse gas emission savings PG&E claims for Diablo Canyon²⁰ come cheaply: characterizing the plant's

¹³ *Id.*, p. 5, line 25.

¹⁴ Exhibit 254, p. 1.

¹⁵ Exhibit 256, p. 6., lines 12 – 13.

¹⁶ February 18, 2020 PG&E Corporation Form 10-K, p. 21. The Form 10-K is not a part of this proceeding's evidentiary record, but the existence of the statement concerning surplus electricity sales can be officially noticed under Commission Rule 13.9 and Cal. Evid. Code § 452(h).

¹⁷ Exhibit 256, p. 3, line 12.

¹⁸ Exhibit 253, p. 1.

¹⁹ *Id.*

²⁰ Exhibit 256, p. 12, line 21 – p. 13, line 7.

above-market costs as a carbon surcharge would price those savings at a multiple of 9 – 11 times California’s cap-and-trade auction price. Market procurement of system capacity (during certain months) and emissions allowances to replace Unit 2 would appear, *prima facie*, a sufficiently reasonable alternative scenario to merit analysis before committing \$90.4 million to propping up the operation of a conspicuously uneconomic plant.

PG&E did not contest any of the evidentiary showings by A4NR, nor even seek to cross-examine A4NR’s witness. In examining whether PG&E’s omission of a thorough cost-effectiveness review from its stator replacement decision-making was consistent with the Commission’s prudent manager standard, PG&E’s awareness of the increasingly submarginal value of Diablo Canyon to PG&E customers – while not dispositive – should be afforded considerable weight.

PG&E has known about the economic hurdles facing stator replacement for a long time. The 2017 General Rate Case Settlement Agreement approved 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.²¹ (emphasis added)

But PG&E’s testimony and supporting workpapers in this proceeding show no consideration of the precipitous decline in PG&E’s bundled load or the growth in Diablo Canyon’s above-market costs – both of which were known to PG&E in the 2015 to 2019

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

timeframe – when the prudent manager standard compelled careful economic analyses prior to a major capital commitment.

IV. PG&E CONCOCTS A UNIQUE THEORY OF ENTITLEMENT.

Instead, PG&E's rebuttal testimony propounded an unprecedented entitlement theory that conflates Commission-approved resource planning assumptions with anointing PG&E with exemption from assessing alternatives to an increase in Diablo Canyon's already exorbitant above-market costs:

Q 34 Why didn't PG&E analyze Unit 2 shutdown as an alternative [to stator replacement]?

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)²²

PG&E appears to believe that D.18-01-022's approval (and subsequent Commission affirmations) of the planned 2024 and 2025 retirement dates for Unit 1 and Unit 2, respectively, also immunizes the utility's Diablo Canyon-related decisions from ongoing application of the prudent manager standard 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

²² Exhibit 71, p. 3-12, lines 7 – 20.

rebuttal testimony, nor the answers of its Diablo Canyon witness during cross-examination, provide any factual basis for this claimed entitlement. Nor does PG&E suggest any legal authority by which the Commission can or should suspend the applicability of the prudent manager standard for the duration of the Unit 1 and Unit 2 operating licenses, which would nullify the ratepayer protections of Cal. Pub. Util. Code §§ 451 and 454(a). PG&E's stator replacement expenditures cannot escape the Commission's standards of reasonableness and prudence, recently elaborated 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).)²³

V. PG&E's STATOR DECISION PROCESS WAS REPEATEDLY IMPRUDENT.

Under cross-examination, PG&E's witness described a multi-year decision-making process for the Unit 2 Main Generator Stator Replacement Project which bears 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 Diablo Canyon licensing extension was not pursued.²⁴ This internal management assessment identified Ed Halpin, at the time PG&E Senior Vice President and Chief Nuclear Officer, as the stator project's Executive Sponsor.

²³ D.18-07-025, pp. 5 – 6.

²⁴ Exhibit 255, WP 3-220.

- Despite PG&E’s announcement one year later that it would not pursue Diablo Canyon’s licensing extension, this “project off-ramp” was not taken.²⁵
- The June 2015 “Major Project Business Case” assessment had promised a “bridging strategy” would be developed in the event that Diablo Canyon’s licensing extension was not pursued,²⁶ but—once developed—such “bridging strategy” consisted “solely of routine monitoring of generator health during online operations.”²⁷
- PG&E acknowledged that its Unit 2 Main Generator Stator Replacement Project bridged the approximately six-year period of remaining “license life”²⁸ with a “25 years or so” asset²⁹ that it intends to fully amortize over the compressed remaining “operational life of Diablo Canyon and not beyond.”³⁰ 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 Diablo Canyon retirement announcement and immediately prior to the envisioned “project off-ramp,” withdrew PG&E’s request for Commission pre-approval.
- Five months later, obliquely noting the changed circumstances created by the Diablo Canyon retirement announcement but with no assessment of the impact on Unit 2 operating economics from the accelerating erosion of bundled load, the internal

²⁵ Transcript, p. 2630, line 24 (PG&E—Harbor).

²⁶ Exhibit 255, WP 3-220.

²⁷ Transcript, p. 2639, line 27 – p. 2640, line 1 (PG&E—Harbor).

²⁸ Transcript, p. 2637, line 25 – p. 2638, line 2 (PG&E—Harbor).

²⁹ Transcript, p. 2637, lines 14 – 17 (PG&E—Harbor).

³⁰ Transcript, p. 2649, lines 21 – 23 (PG&E—Harbor).

January 2017 Gate 2 recommendation to PG&E's 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.³¹

- PG&E never compared the economics of stator replacement against simply retiring Unit 2³² (or both Unit 1 and Unit 2³³), notwithstanding the assertion of PG&E's Diablo Canyon witness that "none of us really wanted to do a full project. Only if it's absolutely necessary."³⁴

VI. SETTLEMENTS SHOULD BE CONSISTENT WITH PRIOR DECISIONS.

Overlooking PG&E's deficient cost-effectiveness evaluation of the Unit 2 Main Generator Stator Replacement Project, the PD mistakenly finds the proposed Settlement Agreement "does not contravene any ... prior Commission decisions."³⁵ But Commission decisions twice this year have emphasized that D.18-01-022 did not shield Diablo Canyon costs from reasonableness review and that the general rate case is an appropriate forum³⁶ for such review:

- "we do agree with A4NR that PG&E still has the burden to justify why its costs for operating Diablo Canyon during the next few years prior to retirement are just and

³¹ Exhibit 147, p. 3-243.

³² Transcript, p. 2642, lines 7 – 8 (PG&E—Harbor).

³³ Transcript, p. 2642, lines 1 – 3 (PG&E—Harbor).

³⁴ Transcript, p. 2632, lines 16 – 18 (PG&E—Harbor).

³⁵ PD, p. 342.

³⁶ Both D.18-10-019 (at pp. 112 and 135) and D.19-02-023 (at pp. 16 – 17) also identify the general rate case as an appropriate forum for this type of cost review.

reasonable.”³⁷

- “The venues for arguments about the reasonableness of these costs are either the general rate case and/or the PCIA proceedings, and parties may continue to make cost-effectiveness arguments in those venues.”³⁸
- “D.18-01-022 does not prevent the Commission from reviewing the reasonableness of Diablo Canyon costs in a GRC or other proceeding.”³⁹
- “PG&E cannot in good faith assert that the costs of operating Diablo Canyon are not subject to review while simultaneously asserting that Diablo Canyon must keep operating.”⁴⁰
- “Diablo Canyon continues to be a PG&E asset that is being paid for by ratepayers, and the rates paid by ratepayers for Diablo Canyon must continue to be reasonable. D.18-01-022 did not change that.”⁴¹
- “The Commission does not agree with the argument in the Joint Response that it cannot order Diablo Canyon to be retired before 2024/2025.”⁴²

Imprecise wording in the PD about the safety motivation for stator replacement may create an inaccurate impression that such investments are unconstrained by concepts of reasonable cost:

... whatever is needed to safely and reliably operate the plant will be of primary concern. The plant’s expected shutdown in 2024 and 2025 will

³⁷ D.20-03-028, p. 78.

³⁸ *Id.*

³⁹ D.20-03-006, p. 5.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

be considered as an important factor but does not overcome the need to consider safety as the primary issue when looking at the necessity of projects and their costs.⁴³

A4NR has no quarrel with prioritizing safety as “the primary issue,” but there is no exemption for safety-related expenditures in the statutory requirements that rates be just and reasonable. Major capital expenditures require complete analysis of reasonable alternatives. Excusing safety-related investments from rigorous financial review would undermine the integrity of PG&E’s risk-informed decision-making by precluding an objective, empirical prioritization among company-wide potential safety-related investments. Management of aging equipment is a familiar challenge in the electric utility industry, and arbitrarily excluding asset retirement from cost-effectiveness analyses of repair/replace scenarios should qualify as a textbook example of management imprudence.

VII. CONCLUSION.

As A4NR explained (and as was noted in D.20-03-028⁴⁴ and D.20-03-006⁴⁵) in its successful opposition to PG&E’s motion to strike its testimony in this proceeding,

A4NR’s testimony does not contest PG&E’s authorization under D.18-01-022 to operate DCNPP until the expiration of its operating licenses, only PG&E’s legal ability after December 31, 2019 to recover in rates certain avoidable costs identified in A4NR’s testimony without first proving by a preponderance of the evidence that the associated revenue requirements and resultant rates are just and reasonable.⁴⁶

⁴³ PD, p. 152.

⁴⁴ “A4NR did not actually request that the Commission reevaluate the retirement dates.” D.20-03-028, p. 77.

⁴⁵ “A4NR does not ask for an earlier retirement date ...” D.20-03-006, p. 2.

⁴⁶ A4NR Response to PG&E Motion to Strike Testimony, p. 6.

The Commission's prudent manager standard, and Cal. Pub. Util. Code §§ 451 and 454(a), require nothing less. Accordingly, for the reasons stated herein, A4NR recommends the Commission apply the "fair compromise" metric stated in the PD and modify Article 2.4.2.2 of the Settlement Agreement to reduce the capital cost forecast for the Diablo Canyon Unit 2 Main Generator Stator Replacement Project by \$12.5 million to \$77.9 million. Pursuant to Rule 14.3(b), an Appendix is attached setting forth corresponding changes to the PD's findings of fact and conclusions of law.

Respectfully submitted,

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Date: November 12, 2020

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APPENDIX

Proposed Changes to PD's Findings of Fact and Conclusions of Law

Findings of Fact

XXX. PG&E's evaluation of the cost-effectiveness of the Stator Replacement Project did not include an assessment of accelerating Unit 2's planned retirement as an economic alternative.

Conclusions of Law

41. The Stator Replacement Project is necessary in order to continue operating DCCP safely and reliably for this GRC cycle-, but prudent utility management subjects all major capital expenditures to thorough cost-effectiveness review before making financial commitments.

42. The economic value of DCCP's electricity output prior to its expected shutdown in 2024 and 2025 ~~will~~ should be considered ~~as~~ an important factor in PG&E's capital commitments, ~~but does not overcome~~ along with the need to consider safety as the primary issue when looking at the necessity of projects and their costs.

XX. Reducing the capital cost forecast for the Stator Replacement Project by \$12.5 million to \$77.9 million represents a fair compromise between the parties' initial positions, and addresses concerns that PG&E may have inadequately analyzed the project's cost-effectiveness.