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PERSPECTIVE

What will replace nuclear, and who will pay?

By Patrick Ferguson

Pacific Gas and Electric Company (PG&E) recently announced its plan to close down the state's last remaining nuclear power plant, the 2.3 gigawatt Diablo Canyon plant near San Luis Obispo, in 2026. The only other nuclear power plant recently operated in the state, the San Onofre Nuclear Generating Station, was closed in 2013 after its replacement steam generators failed.

Diablo Canyon currently produces about 9 percent of the electricity California uses and serves the electric needs of more than 3 million people. PG&E intends to replace the lost Diablo Canyon generation through a combination of energy efficiency measures and greenhouse gas (GHG)-free energy resources. If successful, it would be the first time that a large commercial nuclear power plant was replaced by entirely clean energy resources rather than coal or natural gas.

Labor and Environmental Groups at the Table

PG&E's plan to close down Diablo Canyon is detailed in a joint proposal agreed to by PG&E, several of the environmental groups that have long called for Diablo Canyon's closure (Friends of the Earth, Natural Resources Defense Council, Environment California and Alliance for Nuclear Responsibility) and two of the major labor unions that represent Diablo Canyon's large workforce (the International Brotherhood of Electrical Workers Local 1245 and the Coalition of California Utility Employees). PG&E originally planned to submit the joint proposal to the California Public Utilities Commission (CPUC) for approval by the end of July. But PG&E delayed the filing for several weeks to allow time for additional public meetings, particularly in the local communities that will be most affected by the closure. PG&E currently plans to submit the joint proposal to the CPUC in mid-August.

The closure of Diablo Canyon is not a major surprise. The Nuclear Regulatory Commission licenses allowing PG&E to operate the plant expire in 2024 and 2025. While PG&E had applied for 20-year license renewals for the plant, the re-licensing was fervently opposed by environmental groups, local residents and others. Diablo Canyon is also facing billions of dollars of upcoming maintenance at the plant to comply with California's once-though-cooling regulations, which require the adoption of technologies at certain power plants to reduce the effects of their water use on marine life and habitats.

In the joint proposal (available on PG&E's website), PG&E explains how it plans to offset the capacity lost when Diablo Canyon is shut down. PG&E proposes three "tranches." In "Tranche 1," PG&E will obtain 2,000 gigawatt hours (GWhs) of energy efficiency by 2025 through a solicitation process starting in June 2018. PG&E retains flexibility to propose its own utility-owned energy efficiency programs to meet this goal. In "Tranche 2," PG&E will seek an additional 2,000 GWhs of GHG-free resources and/or additional energy efficiency measures through a second solicitation process starting in 2019. In "Tranche 3," PG&E will procure whatever additional GHG-free energy resources are needed for it to provide 55 percent of its total retail sales from eligible renewable resources between 2031 and 2045. This 55 percent target is over and above California's current mandate that utilities procure 50 percent of their electricity from eligible renewable energy resources by 2030.

Who will Pay?

PG&E held a series of meetings throughout July to discuss the joint proposal with interested parties. The most vocal parties at initial meetings held in the Bay Area were consumer protection groups, environmental groups, community choice aggregators and electric service providers that offer competing electric service in PG&E's service territory. The biggest concern of most of these parties was the cost recovery mechanisms set forth in the joint proposal.

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In particular, parties were concerned that PG&E has conditioned the effectiveness of the entire joint proposal on the CPUC approving a "non-bypassable" cost allocation mechanism through which PG&E would recover the costs of the Tranche 2 and 3 procurements. The CPUC permits all of the state's investor-owned utilities, including PG&E, to pass along certain costs via non-bypassable charges to customers that have chosen to switch from PG&E to alternative energy providers (i.e., community choice aggregation or direct access).

One of the non-bypassable charges that PG&E is already authorized to pass on to community choice aggregation and direct access customers in its service territory is a nuclear decommissioning charge to be used in part to shut-down and decommission the Diablo Canyon plant. Given that community choice aggregation and direct access customers already pay nuclear decommissioning and other non-bypassable charges, many parties question why PG&E insists that the costs of its procurement to make up for Diablo Canyon be spread among customers that no longer receive electric service from PG&E.

Next Steps

After PG&E submits the joint proposal, the CPUC will open a new proceeding and allow any interested parties (of which there will be many) the opportunity to participate. Whether or not the CPUC will ultimately authorize PG&E to pass along the costs of Diablo Canyon procurement through non-bypassable charges will likely be a hotly contested issue in the upcoming proceeding. Given that PG&E has expressly conditioned its commitments in the joint proposal to replace Diablo Canyon with GHGfree resources on the CPUC's pre-approval of non-bypassable cost allocation, the CPUC's resolution of this issue could make or break the entire settlement regarding the closure of the Diablo Canyon plant.

The CPUC's decision on cost allocation could also have statewide implications. Estimates are that 17 million California customers could be served by community choice aggregators within the next few years (representing 60 percent of the residents historically served by the investor-owned utilities). How the CPUC determines to allocate the costs of Diablo Canyon closure could signal the regulator's willingness (or not) to spread other future costs to customers that switch to community choice aggregation.

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