Diablo Canyon Power Plant

SUMMARY

Climate change is causing unprecedented stress on California's energy system, simultaneously driving higher demand as more frequent heat waves hit the state and constraining supply as drought conditions reduce hydropower and fires threaten electrical infrastructure. At the same time, supply chain disruptions and other factors are delaying the installation of new clean energy generation and storage systems, including solar and wind projects and battery storage. While the Administration and Legislature have taken critical actions to expedite new clean energy project permitting, there is a real risk that delays in the online dates of new clean energy generation over the coming years could result in challenges in keeping up with load growth and ensuring prudent power reserves to support reliability, especially in light of climate impacts and over 6,000 MWs of planned power plant retirements in 2024 and 2025.

The Diablo Canyon Power Plant (DCPP) currently supplies approximately 17 percent of California's greenhouse-gas-free electricity supply and 8.6 percent of California's total electricity supply. In light of the urgency of transitioning away from fossil fuel generation to greater amounts of clean energy, with the goal of achieving 100 percent clean electric retail sales by 2045, and the need to ensure reliability through this challenging period, a limited term extension of DCPP is warranted. Any extension of DCPP will require legislative action as well as approvals by federal, state and local regulatory entities. The legislative actions and decision points that would be needed to allow for an extension of DCPP are further described below.

Extending DCPP does not, in any way, reduce our sense of urgency in bringing clean replacement power online to support reliability and achieve California's landmark climate goals. Even if DCPP were to be extended, we would want the California Public Utilities Commission (CPUC) jurisdictional entities to procure as if DCPP was not in the system.

We are also accelerating our efforts to bring offshore wind and other clean energy resources online. In June, the State took action to streamline permitting for clean energy projects to bring more renewable energy generation and storage online. We also need to maintain sustained planning and procurement over time to ensure a steady pipeline of clean energy projects and transmission to meet our long term goals.

OVERVIEW OF PROPOSED DCPP EXTENSION

Key Milestones

I. U.S. Department of Energy Program (DOE) Funding Opportunity
   - The DOE Civil Nuclear Credit program is a $6 billion strategic investment through the Bipartisan Infrastructure Law to help preserve operations of existing nuclear power plant facilities.
   - Pacific Gas & Electric (PG&E), which owns and operates DCPP, must file an application by the September 6, 2022 deadline. Passage of legislation providing a pathway to relicensing is necessary before PG&E would be able to submit this DOE funding application.
   - DOE to notify applicants of Conditional Award decision as soon as thirty (30) days after the deadline for submission; Final Award Decision to come as soon as practicable after that.
     - Note: timing is uncertain, but likely final award decision by end of calendar year 2022
     - If awarded DCPP could receive reimbursements for some or all of the plant's "operating losses", which for DCPP would consist of the totality of the costs of relicensing costs and necessary capital and other costs required for relicensing.
   - If awarded credits, PG&E submits Payment Certificates to DOE for Payments of Annual Credits for Award Year 1 by December 29, 2023. If the DCPP did not generate enough revenue in electricity sales into the ISO market to cover the costs of extended operations plus the amortized costs of the state loan, the DOE program would pay some or all of the loan costs.

II. State Approvals Required
   - State Lands Commission issuance of an amended lease to PG&E supporting extended operations.
   - SWRCB extension of its mitigation fee imposed under its Once-Through-Cooling policy during extended operations of DCPP.
   - CPUC modification of 2018 DCPP Retirement Decision to authorize potential extended operation.
   - California Coastal Commission (CCC) finding that extended operations are consistent with California's coastal management program, as required before federal agencies can relicense

III. Nuclear Regulatory Commission (NRC) Relicensing Process
   - In order for DCPP to continue operations, PG&E would need to be relicensed by the NRC.
   - PG&E files request to reinstate DCPP License Renewal Application in Spring 2023.

- Deadline for NRC to authorize to operate beyond current license, pending completion of NRC review, is November 2024 for Unit 1 and August 2025 for Unit 2
- NRC conducts extensive safety and environmental reviews in evaluating the relicensing application.
- NRC issues renewed licenses for DCPP Units 1 and 2 – timing TBD.

<u>Duration of Potential Extension</u>

The current expiration date of the DCPP is November 2, 2024 for unit 1 and August 26, 2025 for unit 2. The proposed language directs the California Public Utilities Commission (CPUC) to set a new retirement date for unit 1 on October 31, 2029, and for unit 2 on October 31, 2030. The proposed language further directs the CPUC, by October 31, 2026, to determine, based on its assessment of costs, necessity, and the availability of alternative clean resources to meet the state's energy needs, whether to further extend the retirement dates to a date no later than October 31, 2035. New retirement dates shall be conditioned upon federal approval of the federal Nuclear Regulatory Commission.

<u>Expedited State Regulatory Review</u>

Timely state regulatory reviews are essential to any possible DCPP extension. The attached language would require that all relevant agencies (including the CPUC, the State Lands Commission, the Coastal Commission, the State Water Resources Control Boards and the State Historic Preservation Office) take actions within 180 days. The draft proposes legislative findings and declarations that speak, as a matter of state policy, to factors that these agencies may have to consider. The proposed language also exempts agency actions on the extension request from CEQA in order to enable agency decisions to be made within the 180 day time frame, clarifies that a Coastal Development Permit and additional coastal studies will not be required, and makes extended operations at the Diablo Canyon site an express priority under the Coastal Act, for a limited time, in order to protect the State more broadly by maintaining our clean energy supply.

<u>Financing of Relicensing Costs for Potential DCPP Extension</u>

If the DCPP is extended, PG&E would incur new costs to relicense the facility, including capital expenditures and funding for other costs that PG&E would incur during the relicensing process. The proposed language would authorize a General Fund loan of up to $1.4 billion to PG&E to cover these costs associated with relicensing. The language would also specify terms that a loan agreement must address, such as the circumstances under which repayment of the loan would occur, and the language outlines mechanisms for repayment, such as if federal funds become available to PG&E

for extending Diablo Canyon operations. PG&E would be allowed to collect a $7/MWh fee during the permit extension period on top of the other relicensing expenses described above. This fee would be incorporated into the loan.

Framework for Post-Extension Operations of DCPP

For any DCPP operations extended beyond the current 2024 and 2025 retirement dates, a new framework of rate recovery and use of revenues from purchased power is needed. The following structures for fees would support ongoing operations of DCPP.

- A fixed fee charged to all CPUC jurisdictional ratepayers of $50 MM/year per unit ($100MM/year for both units).
- A volumetric fee of $20/MWh during the period of extended DCPP operation (this would total - $360 MM/year if DCPP were operating at recent production levels of approximately 9MM MWh / year for each unit).

If the DCPP earned sufficient revenue in the CAISO market to cover these fees, customers would receive a bill credit up to the amount that they had paid in fees.

To mitigate the potential costs of purchasing replacement power in the event of an extended outage, a "Liquidated Damages Balancing Account" (LDBA) of $12.5 MM/month per unit ($25/month for both units, totaling $300MM/year) would be collected. This balancing account would be a self-insurance fund. Each year in the Energy Resource Recovery Account (ERRA) compliance proceeding, the CPUC would "close out" the LDBA by completing litigation of PG&E responsibility for the prior year. Remaining funds would be allocated to offset ratepayer cost for *wildfire safety in proportion to the Wildfire Fund allocation metric.* Utilities would provide a plan for prioritized uses of the funding.

If a DCPP unit was down for an extended period, the fixed management fee would be decreased according to a formula that varies by the length of the outage and the number of years that the plant had been operating under the extended operations rules

Preservation Prior Settlement Agreements and Potential Conservation Opportunities

In 2016, PG&E and several labor and environmental groups reached a joint proposal to retire DCPP. In 2018, the CPUC authorized PG&E to recover in rates $241.2 million in costs associated with retiring the plant: $211.3 million to retain PG&E employees until the power plant is scheduled to close; $11.3 million for retraining of workers; and $18.6 million for Diablo Canyon license renewal expenses incurred by PG&E. The CPUC denied $85 million for a Community Impact Mitigation Program (CIMP) due to lack of express legislative authorization. SB 1090 (Monning, Statues of 2018) provided clear legislative direction and the CPUC subsequently issued a final decision requiring "full funding" for the CIMP ($85 million) and the employee retention program (an additional $225.8 million). The final decision also authorized these amounts to be collected in PG&E rates. The CIMP funding has been completely transferred from PG&E to the impacted local governments and funding for the employee retention program is in the last stages of being fully liquidated. The proposed language would not amend SB 1090 or seek to "claw-back" the funding approved for the CIMP and employee retention program.

There is interest in the future use of the current DCPP property and surrounding land, including opportunities for conservation, greater access and tribal engagement. A possible pathway could include directing the CPUC to open a public process (i.e. proceeding) to evaluate and determine how best to ensure these interests are identified, discussed and meaningfully considered.