UC SANTA BARBARA
The 2035 Initiative

The Economics of Diablo Canyon: Maximizing Pollution Reduction While Protecting California Ratepayers and Taxpayers

Leah C. Stokes, Arjun Krishnaswami and Madeline Ranalli

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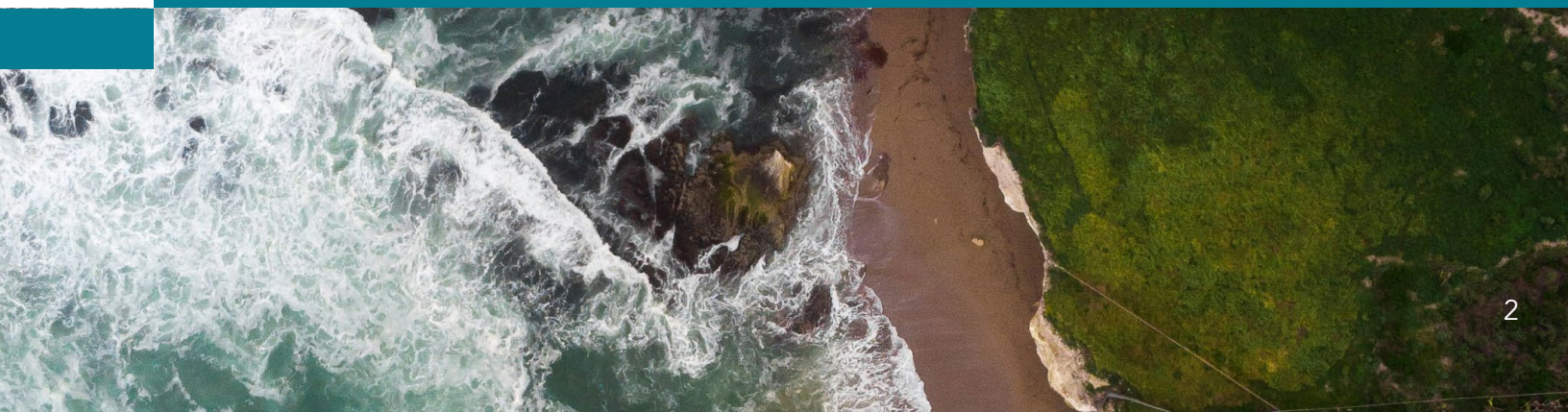
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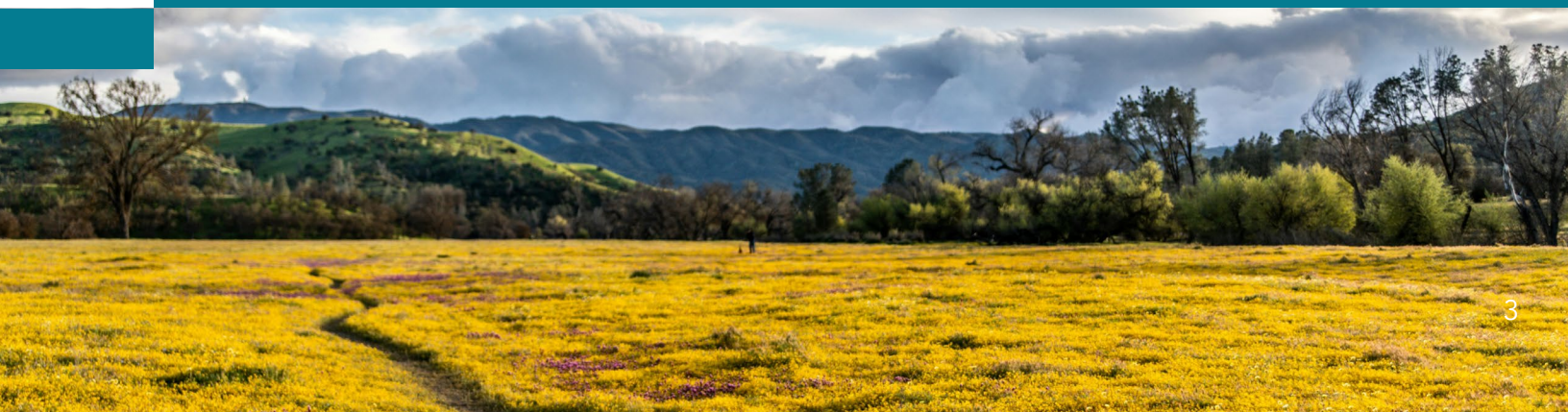
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EXECUTIVE SUMMARY

In 2022, the California legislature passed SB 846, authorizing a $1.4 billion loan to Pacific Gas and Electric Company (PG&E) to continue operating Diablo Canyon Power Plant past its scheduled 2025 decommissioning. While the loan was meant to be a "bridge" until PG&E received federal reimbursement, the utility now faces up to a $658.6 million shortfall in repaying it because the company only applied for $1.1 billion in federal awards and will likely only receive $741.4 million of that amount. **California taxpayers could end up covering this $658.6 million shortfall.**

Based on DOE's evaluation of the plant and PG&E's public filings, we find that PG&E inflated the costs of Diablo Canyon's capital upgrades and operational costs and should only have requested a loan from the California legislature of $741.4 million. While PG&E has suggested California taxpayers cover the $300 million deficit between the $1.4 billion loan and its $1.1 billion DOE award,[1] this is against the intent of SB 846. Meanwhile, PG&E has generated three consecutive years of record profits. **State legislators can protect Californian taxpayers and preserve the state budget by having PG&E repay the full loan amount from excess shareholder profits.**

Under SB 846, **Diablo Canyon is also projected to receive approximately $2.65 billion in additional ratepayer fees from 2023 to 2030, many of which are covered by all California ratepayers, not just PG&E customers.** From 2027 onwards, these fees could be eliminated and the plant would remain profitable. This would save ratepayers an estimated $1.84 billion.

Diablo Canyon is a beneficial energy asset—supplying over 8% of California's electricity generation without carbon emissions. However, state oversight and independent financial reassessment will be critical in any discussion of further plant operation and to determine how the loan should be repaid, and whether excess ratepayer subsidies should be eliminated, including from customers outside of PG&E's service territory. **If those fees were eliminated from 2027 through 2030, it would save around $250 per PG&E ratepayer; $80 per SCE ratepayer; and $60 per SDG&E ratepayer.** These same bill reduction amounts would apply to Community Choice Aggregation (CCA) programs in the relevant Investor-Owned Utility's (IOU) territory.

1 Noah Baustin. Feds won't cover the full $1.4B California loaned PG&E for Diablo Canyon. Its CEO thinks taxpayers should pay the rest. February 2026.

Frequently Asked Questions:

- ***Are Diablo Canyon's revenues from the California Independent System Operator (CAISO) greater than its costs without additional ratepayer sweeteners?*** PG&E currently forecasts charging ratepayers $2.17–2.47 billion through 2030 for the costs of Diablo Canyon in excess of CAISO market revenues. Without these ratepayer sweeteners that are unrelated to the actual operating costs of the plant, forecasted CAISO revenues would exceed the costs of extended operations by $164 million through 2030. Ratepayers are currently subsidizing a plant whose revenues exceed its costs.

- ***Is Diablo Canyon a "unique asset" that all California ratepayers should pay for?*** Right now, all ratepayers across California pay for Diablo Canyon, based on PG&E's argument that it is a "unique asset." But this approach contravenes utility regulation principles, including the cost causation principle that costs should only be allocated to the customers who cause them to be incurred within a given IOU's service territory. There is no historical precedent for forcing ratepayers across the state to pay one utility for the costs of operating its power plant. Right now, customers outside of PG&E's service territory, including low-income customers, are arbitrarily subsidizing this one plant and being forced to subsidize PG&E shareholder profits.

- ***Does PG&E need the ratepayer fees to make a profit under its current business model?*** No, PG&E makes a profit from a return on equity on qualifying investments across a wide range of capital investments in the grid. The company is already making record profits from this model. PG&E does not need additional statutorily guaranteed profits for Diablo Canyon, especially considering that the state and federal government already reduced financial risk for the company through the state loan and DOE grant. In addition, PG&E faces very little risk of cost recovery due to a guarantee of annual recovery of all costs incurred to operate the plant even if actual costs exceed an approved forecast.



"Diablo Canyon NPP above" by Doc Searls from Santa Barbara, USA is licensed under CC BY-SA 2.0.

1. BACKGROUND: EXTENSION OF DIABLO CANYON

The Diablo Canyon Power Plant is California's last nuclear power plant. The plant's two light-water reactors, located near Avila Beach in San Luis Obispo County, produce approximately 18,000 gigawatt hours of electricity annually, or 8.2% of the state's total electricity generation and nearly a quarter of the state's zero-emission generation.[2] Diablo Canyon started producing power in 1985 and was scheduled to shut down in 2025.

On September 2, 2022, Governor Newsom signed SB 846 into law, extending the operations of Diablo Canyon through two major financial incentives: (1) a state-funded loan; and (2) a package of ratepayer-funded programs.[3] Extension of the plant was projected to avoid emissions increases and help maintain reliability in the state.

First, the law authorized a $1.4 billion taxpayer-funded zero interest state loan to Pacific Gas and Electric (PG&E), the plant's operator, to extend its operations five years past its scheduled decommissioning in 2025.[4] The loan included $1.1 billion to cover costs of extending operations of Diablo Canyon and $300 million in "performance-based disbursements," which PG&E could use to offset a wide array of existing electrical grid expenditures unrelated to Diablo Canyon before the extension period began.[5] SB 846 forbids any amount of the loan being directly transferred to PG&E shareholders.[6]

The legislative intent was for SB 846 to provide this $1.4 billion "bridge loan" to buy time before PG&E received federal funds. At the time of passage, the understanding of legislators and the public was as follows: the loan would start the process of extending the plant's license using taxpayer funds while PG&E applied for federal funding through the Department of Energy's (DOE) Civil Nuclear Credit (CNC) program, which would then be used to repay the state, thereby avoiding the permanent use of limited state budget resources.[7] The loan agreement specifies that PG&E can repay the loan using DOE funding or with excess plant revenues from its operation in 2030 (in the case that wholesale CAISO electricity market sales exceed Diablo-related costs).

The second part of the law was a package of ratepayer-funded incentives for PG&E, totaling approximately $2.65 billion through 2030 that are charged to customers served by the three large IOUs serving most of the state, as well as CCA customers. These programs are largely unrelated to the costs of Diablo Canyon itself. Legislative authorization of these programs allowed PG&E to circumvent the usual California Public Utilities Commission (CPUC) process for adding new ratepayer fees. It also undermines bedrock principles in utility regulation, including the cost causation principle that costs should only be allocated to the customers who cause them to be incurred within a given IOU's service territory. Further, it creates cost-shifting between

2 California Energy Commission. Diablo Canyon Power Plant Operations Assessment Report – 2025 Update. July 2025.

3 California Legislative Information. SB-846 Diablo Canyon powerplant: extension of operations. September 2022.

4 SB 846 appropriated $600 million directly and required future legislative authorization for the remaining $800 million, which was released in installments through 2023 and 2024 via Department of Finance notifications to the Joint Legislative Budget Committee and via the 2024-25 Budget Act. The 2024 legislative session was contentious, with attempts by lawmakers to block the last payment going out, given the lack of basic loan repayment information.

5 California Legislative Information. SB-846 Diablo Canyon powerplant: extension of operations. September 2022.

6 Ibid.

7 PG&E Corporation. U.S. Department of Energy Confirms Diablo Canyon Power Plant's Eligibility for Civil Nuclear Credit Program Funding. November 2022.

customers in different service territories—something the CPUC has historically avoided. Notably, these fees that apply to all customers across California, including low-income customers, can be used to directly benefit PG&E's shareholders.

Additional relevant authorizations in 2022

With grid reliability and modernization central to SB 846's extension of Diablo Canyon, the California legislature also authorized several additional programs in parallel in 2022 through AB 205, an energy permitting reform bill. These include the Demand Side Grid Support (DSGS) program, which has been described as the world's largest virtual power plant program, and the Distributed Electricity Backup Assets (DEBA) program.[8] DSGS provides incentives for customers that reduce load or turn on back-up generation to support the grid during extreme events—helping maintain a reliable grid at lower cost than building additional peak capacity. DEBA was meant to incentivize the buildout of additional distributed energy resources that can produce power or reduce load at peak hours. Both programs aimed to reduce the cost of maintaining reliability by avoiding the costly additional large-scale power that can operate flexibly to meet peak demand.

When authorized in 2022, both programs received ample budget allocations and funding plans, with $295 million for DSGS and $700 million for DEBA.[9] In 2023, DSGS received additional funding, bringing its total to $314 million.[10] The legislature has passed a law that DSGS funding could be spent until June 30, 2028—and this date could be further extended.[11] However, the budgets for both DSGS and DEBA were reduced over the years. Neither program has kept its full funding, and both are currently at risk of being shuttered.[12] To date, DSGS has received just $109.5 million, a mere 35% of the total funding it was supposed to receive.[13]

Under AB 205's creation of the Electricity Supply Strategic Reliability Reserve Program (ESSRRP), PG&E and the California Department of Water Resources (DWR) authorized an agreement to allocate an additional $75 million in "reliability reserve" payments to PG&E for Diablo Canyon in 2022.[14]

8 California Energy Commission. California's Demand Side Grid Support Program Grows to 500 Megawatts of Capacity. October 2024; Paul Doherty. Power to the People: California's Biggest Battery Test Ever Just Changed the Game. August 2025.

9 California Department of Finance. California Budget 2021-22 Budget Addendum, page 6.

10 California Legislative Information. Assembly Bill 102. July 2023.

11 California Legislative Information. Senate Bill No. 108. June 2024.

12 Rachel Metea. California cuts funding for nation's largest virtual power plant. September 2025.

13 California Demand Side Grid Support. Frequently Asked Questions. 2025.

14 California Department of Water Resources. Electricity Supply Reliability Reserve Fund Progress Report. May 2025.

2. PROTECTING TAXPAYERS AND RATEPAYERS: HOW MUCH IS CALIFORNIA OVERPAYING FOR THE DIABLO CANYON EXTENSION?

2.1 PG&E's Federal Funding Application

The loan authorized by SB 846 overpaid PG&E for the extension of Diablo Canyon. The overpayment totals $658.6 million, based on two disparities:

1. The $300 million gap between the state loan and PG&E's DOE application.
2. The $358.6 million gap between PG&E's DOE application and the amount DOE experts determined was necessary to keep the plant open.

PG&E and the Newsom Administration agreed that $1.4 billion was necessary to keep the plant open, based on utility analysis that was not shared with the Legislature or the public prior to the passage of SB 846. To address concerns about state budget shortfalls, the Newsom Administration testified to state lawmakers that federal funding would "offset the entirety of the loan."[15] However, the same day SB 846 was signed into law, PG&E submitted its DOE award application for only $1.1 billion in CNC funding, immediately eliminating the possibility of full repayment of the state loan with federal funds alone.[16] Given that the CNC program only funds direct costs related to nuclear plant operation, the loan's "performance-based disbursements" were not eligible for federal reimbursement. PG&E CEO Patricia Poppe has acknowledged the $300 million gap and claimed that the utility and its ratepayers should not have to cover this amount—and therefore the state budget should simply absorb this cost.[17] Given the timing, it is clear that PG&E knew at the time it was negotiating with the Newsom Administration and the legislature that it would never receive enough federal funding to fully cover the loan.

15 Malena Carrolo. California taxpayers gave PG&E a huge, supposedly safe loan. The losses are already mounting. August 2025.

16 Kevin Clark. DOE to award PG&E $1.1 billion for keeping Diablo Canyon open. November 2022.

17 Noah Baustin. Feds won't cover the full $1.4B California loaned PG&E for Diablo Canyon. Its CEO thinks taxpayers should pay the rest. February 2026.

After receiving PG&E's application, DOE—staffed by experts in nuclear technology, operations, and economics—evaluated the utility's proposal and conducted independent analysis on the amount necessary to extend operations of the plant. DOE determined that the plant required only $741.4 million of "above market" incentives to extend its operations to 2030, based on the information the utility provided and electricity market forecasts. DOE's analysis forecasted Diablo Canyon's market revenue and rate recovery, accounting for projected operating costs and capital investment costs needed to further upgrade the plant in its extended operation.

Based on this independent analysis, DOE decided to authorize $741.4 million in a base award to PG&E, and determined the remaining $358.6 million gap to $1.1 billion could be conditionally awarded in the future depending on "incremental transition costs."[18] These additional funds could be triggered pending certain plant circumstances that must occur by the end of 2026, including unscheduled outages or unforeseen compliance requirements that PG&E could not have reasonably anticipated.[19] Given that these conditions are extremely unlikely to be met, PG&E is not expected to receive the full $1.1 billion in DOE funding, making the funding gap between DOE's CNC grant and the legislature's loan much larger: likely **$658.6 million.**

2.2 PG&E's Ratepayer-Funded Sweeteners

SB 846 also authorized PG&E to collect a number of additional fees from its ratepayers for various uses, many of which were unrelated to Diablo Canyon costs. They are summarized in Table 1 below.

Table 1: Ratepayer-Funded Fees Authorized by SB 846

Funding Mechanism	Amount	One Time vs. Recurring	Covered Ratepayers	Notes
Fixed Management Fee (FMF)	$100 million / year (escalated annually by CPI and CPUC) Estimated 2023-2030 total: $586 million	Recurring annually	All California ratepayers pay this, including CCAs and low-income customers.	Direct shareholder benefit.
Volumetric Performance Fee (VPF)	$260-270 million / year (escalated annually by CPUC) Estimated 2023-2030 total: $1.4 billion	Recurring annually ($13/MWh of annual plant generation, though it has already escalated to $14.63/MWh)	All California ratepayers pay this, including CCAs and low-income customers.	Flexible pot of money for PG&E to spend on ***non-Diablo-Canyon expenses***. May indirectly benefit shareholders.

Table 1 continued on next page.

18 U.S. Department of Energy. Biden-Harris Administration Announces Major Investment to Preserve America's Clean Nuclear Energy Infrastructure. November 2022.

19 Malena Carrolo. California taxpayers gave PG&E a huge, supposedly safe loan. The losses are already mounting. August 2025.

Table 1 cont.

Liquidated Damages Fund (LDF)	$300 million total	Refilled if depleted; returned if not used	PG&E ratepayers	Relieves replacement power liability for PG&E if Diablo is out of service for any reason, including mismanagement or negligence.
Employee Retention Fund (ERF)	$56 million / year Estimated 2023-2030 total: $407 million	Recurring annually	PG&E ratepayers	Supplements employee pay at the plant.

Fixed Management Fee: SB.846 authorized PG&E to collect $50 million per plant unit ($100 million across the two units) as a "fixed payment" per year of extended plant operations, escalated annually by the CPUC. This fee is collected in the rates of all California ratepayers, including CCAs and low-income customers. It is not limited to PG&E customers. PG&E argues that this fee is collected in lieu of a rate-based return on their investment in Diablo Canyon,[20] compensating shareholders for the plant's risks—despite the fact that taxpayers are already shouldering the risk through the state loan, which minimizes the amount of private capital needed to extend operation of the plant.[21] Additionally, SB 846 provides extensive liability protections that insulate PG&E shareholders from a wide array of financial risks even if the plant is mismanaged or prematurely retired due to imprudence. The protections leave little financial exposure for PG&E shareholders, and go far beyond what the company would receive under traditional ratemaking.

Volumetric Performance Fee: California ratepayers also pay an annual fee to PG&E based on its annual plant generation. Initially this was set at $13/MWh total in 2022 dollars, with $9.37/MWh paid for by PG&E ratepayers (72%), $2.98 paid for by SCE ratepayers (23%) and $0.65 paid for by SDG&E ratepayers (5%). The same fees apply for CCAs in each IOU's geographic territory. The costs have also escalated. In 2026, the VPF is $14.63/MWh, equivalent to a 1.46 ¢/kWh subsidy to PG&E for Diablo Canyon generation.

Both the Fixed Management Fee and Volumetric Performance Fees apply to all California ratepayers, not just PG&E customers. PG&E's rationale for this abnormal fee structure is that Diablo Canyon is an "asset [that] benefits the entire state" thus requiring contributions from customers outside of PG&E's service territory.[22] We disagree with this assessment. This approach contravenes the cost causation principle—a bedrock of utility regulation—which holds that costs should only be borne by customers within the service territory where they are incurred. There is no precedent for forcing ratepayers statewide to pay one utility for operating its plant. Yet today, even low-income customers outside PG&E's territory are subsidizing PG&E's shareholder profits.

This fund can be spent on a variety of uses, including expenses unrelated to Diablo Canyon,[23] indirectly benefitting shareholders by offsetting other expenses in their budget plans. Similar to the FMF, PG&E argues

20 California Public Utilities Commission. Decision on Pacific Gas and Electric Company's Revenue Requirement to Support Extended Operation of Diablo Canyon Power Plant and 2026 Volumetric Performance Fees Proposal. October 2025.

21 California Public Utilities Commission. Application of Pacific Gas and Electric Company to Recover in Customer Rates the Costs to Support Extended Operation of Diablo Canyon Power Plant from January 1 through December 31, 2026, and for Approval of Planned Expenditure of 2026 Volumetric Performance Fees. (U39E). October 2025.

22 Noah Baustin. Feds won't cover the full $1.4B California loaned PG&E for Diablo Canyon. Its CEO thinks taxpayers should pay the rest. February 2026.

23 Ibid.

that this fund is supposed to serve as a substitute for traditional rate-based returns from Diablo Canyon, even though PG&E's revenues from the plant already exceed its costs based on PG&E's own analysis. PG&E receives between $260 million and $270 million from the VPF each full year that both units are operational, increased annually by CPUC escalation factors. It is expected to yield PG&E approximately $1.4 billion between 2023 and 2030.

Liquidated Damages Fund: PG&E was authorized to collect a $300 million fund from its own ratepayers to use in case of an unplanned outage at Diablo Canyon, requiring a purchase of power from the grid. This applies even if the outage was a result of PG&E's negligence, which would normally result in liability being assigned to utility shareholders. This fund can be replenished when it dips below $300 million, and the remainder is supposed to be returned to ratepayers in 2030.

Employee Retention Fund: PG&E was authorized to collect approximately $56 million per year from its own ratepayers to fund its Employee Retention Program which originally provided a 25% bonus to encourage employees not to leave their jobs prior to the plant shutdown anticipated in 2025. This program is aimed at maintaining and adjusting Diablo Canyon's workforce to ensure continued and reliable plant operations through its extended operation period. PG&E is projected to yield $407 million from this fund through 2030.

Summary of Ratepayer Fees: The SB 846 fees increased the costs of Diablo Canyon for California ratepayers by 64 percent.[24] In fact, without the statutory fees, PG&E could meet its revenue requirement for Diablo Canyon using only CAISO electricity market revenues based on the utility's own forecasts—that means the plant's revenues are greater than its costs without these additional ratepayer sweeteners.

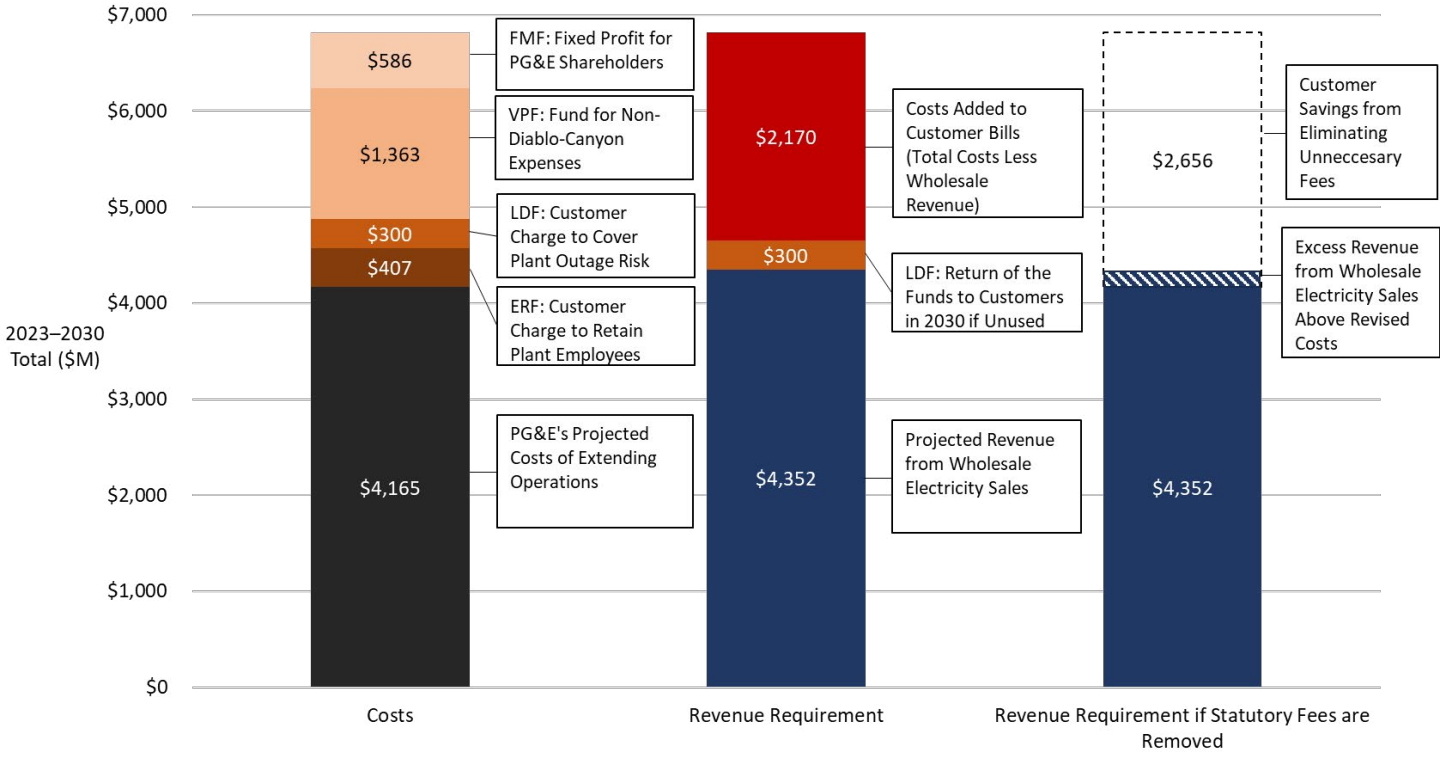
Figure 1 demonstrates the extent to which Californian ratepayers across the state are overpaying. All data in this figure comes from PG&E's own analysis.[25] With the ratepayer fees, PG&E is recovering an additional $2.17 to $2.47 billion from customers beyond CAISO revenues (the red and orange sections in the middle bar), depending on if the Liquidated Damages Fund is used or not. If the ratepayer fees are removed, forecasted CAISO revenues already exceed PG&E's own estimated costs by $164 million (righthand bar).

24 Based on PG&E's filings, the statutory fees are estimated to cost $2.7B from 2023 to 2030. Meanwhile, PG&E's forecasted costs are $4.2B over the same period.

25 Figures for the FMF, VPF, LDF,, and market revenue projections were taken directly from Table 1-1 of PG&E's October 8, 2025 filing. The cost of the ERF was taken directly from PG&E's April 12, 2024 filing. The cost of extended operations was derived from the costs in the October 8, 2025 filing less the cost of the ERF in the April 12, 2024 filing.



Figure 1: California Ratepayers are Overpaying for Diablo Canyon



2.3 PG&E's Record Profits

PG&E generated a record $2.59 billion in profits in 2025,[26] outpacing consecutive record years in 2023 and 2024. Their 2025 profit margin was 10.4%, up from 10.1% in 2024. Meanwhile, costs for California ratepayers have only risen, increasing around 65% for PG&E customers since 2020. PG&E CEO Patricia Poppe earns a $15.8 million annual salary, the sixth highest salary among American utility CEOs.[27] In 2023, Poppe earned a $17 million salary,[28] higher than the combined salaries of all California state legislators.[29]

26 George Avalos. Pace of PG&E profit and revenue increases start to slow as bills ease. February 2026.
27 Sue Sturgis. Utility CEOs get raises as companies roll back diversity, environmental pay incentives and rates increase. April 2025.
28 Emma Stiefel. PG&E's CEO gets paid $17 million. Here's how that compares to other utility leaders. April 2024.
29 California Department of Human Resources. California Citizens Compensation Commission Salaries. December 2025.

3. WHERE DO WE GO FROM HERE?

California faces two challenges regarding Diablo Canyon: (1) addressing PG&E's proposal to fail to pay off the loan under existing law and (2) addressing sky-high electricity bills while maintaining reliability and a clean electricity grid.

3.1 Paying Off the Loan

Under the limitations in SB 846, PG&E is not obligated to fully repay the loan. The only sources of repayment eligible under SB 846 and the loan agreement are federal awards from DOE and any net revenues generated by Diablo Canyon in its 2030 operation year. PG&E currently forecasts no net revenues in 2030, instead projecting a $104 million deficit that will require ratepayer contributions in that year. To pay back some of the loan, PG&E is also proposing using proceeds associated with its ongoing spent fuel storage litigation with DOE.[30] Given that PG&E expects to receive $63.2 million in proceeds through 2030,[31] this will not be enough to pay back the full amount.

Without legislative change, California taxpayers will end up covering the $658.6 million gap between the loan and PG&E's eligible revenues, contrary to the legislative intent of SB 846.[32] State legislators are concerned about this potential taxpayer burden, as California already faces a $12 billion shortfall in this year's state budget cycle.[33] PG&E has proposed taxpayers cover at least the $300 million gap between the state loan and full DOE award[34] despite the fact that PG&E knew when they applied for the DOE award that they would create that $300 million gap. PG&E has not yet commented on the likely additional shortfall between DOE's approved funding amount and PG&E's application.

Instead, given that DOE's independent analysis determined that Diablo Canyon did not need the full $1.4 billion loan for the plant to be profitable, PG&E's excess shareholder profits could be used to cover this $658.6 million gap. This would represent approximately 25% of PG&E's 2025 profits. Practically, the full amount could be paid off over the rest of the extension period through 2030, making it just 6.25% of PG&E's annual profits, assuming they stay the same—and notably, they are currently growing annually.

Under no circumstances should ratepayers be required to cover the unpaid loan balance. This outcome would further raise rates and insulate PG&E from any responsibility to make taxpayers whole with shareholder funds.

30 Noah Baustin. Feds won't cover the full $1.4B California loaned PG&E for Diablo Canyon. Its CEO thinks taxpayers should pay the rest. February 2026.

31 Pacific Gas and Electric Company. Diablo Canyon Power Plant 2026 Cost Recovery Forecast to Support Operations as Directed by the State to Ensure Electric Reliability and to Reduce Greenhouse Gas Emissions for All Californians. March 2025.

32 Malena Carrolo. California taxpayers gave PG&E a huge, supposedly safe loan. The losses are already mounting. August 2025.

33 Alexei Koseff. California budget is $12 billion in the red amid Trump tariffs and rising costs. May 2025.

34 Noah Baustin. Feds won't cover the full $1.4B California loaned PG&E for Diablo Canyon. Its CEO thinks taxpayers should pay the rest. February 2026.

3.2 Eliminating Excess Ratepayer Fees and Supporting Grid Reliability

PG&E will collect $2.65 billion in excess ratepayer fees from 2023 to 2030, many of which are not used for Diablo Canyon purposes. The legislature could end these excess fees from 2027 to 2030 and recover PG&E's Liquidated Damages Fund to save ratepayers an estimated $1.6 billion.[35] If the legislature also recovered PG&E's Employee Retention Fund, it would save an estimated $1.84 billion.[36] It would reduce electricity bills by around $250 per PG&E ratepayer; $80 per SCE ratepayer; and $60 per SDG&E ratepayer. These same amounts would apply to CCAs in the relevant IOU's territory. By contrast, the Governor's proposed liquidation of unspent CalSHAPE funds is projected to save SDG&E ratepayers only $2 per customer bill perhaps for 1 year,[37] and even less for PG&E and SCE customers.

The legislature has an important decision to make about the best use of ratepayer resources. Instead of California ratepayers footing the bill for excess fees benefitting PG&E shareholders, state dollars would be better served funding critical grid reliability programs like DSGS and DEBA. Established after the state's blackout grid emergencies in 2020 and 2022, these programs can provide critical backstops, relieving pressure on the grid and preventing further emergencies. For example, DSGS grew to provide over 1 GW of capacity from 2022 to 2025, the size of a nuclear plant. Critically, DSGS activates when electricity prices surge above $200 per megawatt hour, helping to prevent grid emergencies before they happen and protecting ratepayers from price spikes.[38]

These programs currently lack the proper funding to continue operating past 2026. Despite their potential to reduce burden on California ratepayers—DSGS has been projected to save ratepayers almost $200 million if funded through 2028[39]—they were not included in the 2025-2026 state budget. Without further support, DSGS is expected to run out of money by the end of 2026.[40]

35 PG&E projects that for 2027 to 2030 the FMF will collect $398 million and the VPF will collect $929 million, which when summed with the $300 million LDF, yields $1.6 billion.

36 PG&E projects that for 2027 to 2030 the ERF will cost $221 million, which when summed with $1.6 billion yields $1.84 billion.

37 Rob Nikolewski. Prepare for a bump in your SDG&E bill in 2026. December 2025.

38 Jeff St. John. Did California just screw up the largest virtual power plant in the US? September 2025.

39 Robert Walton. California's virtual power plant could save $206M by 2028: Brattle. August 2025.

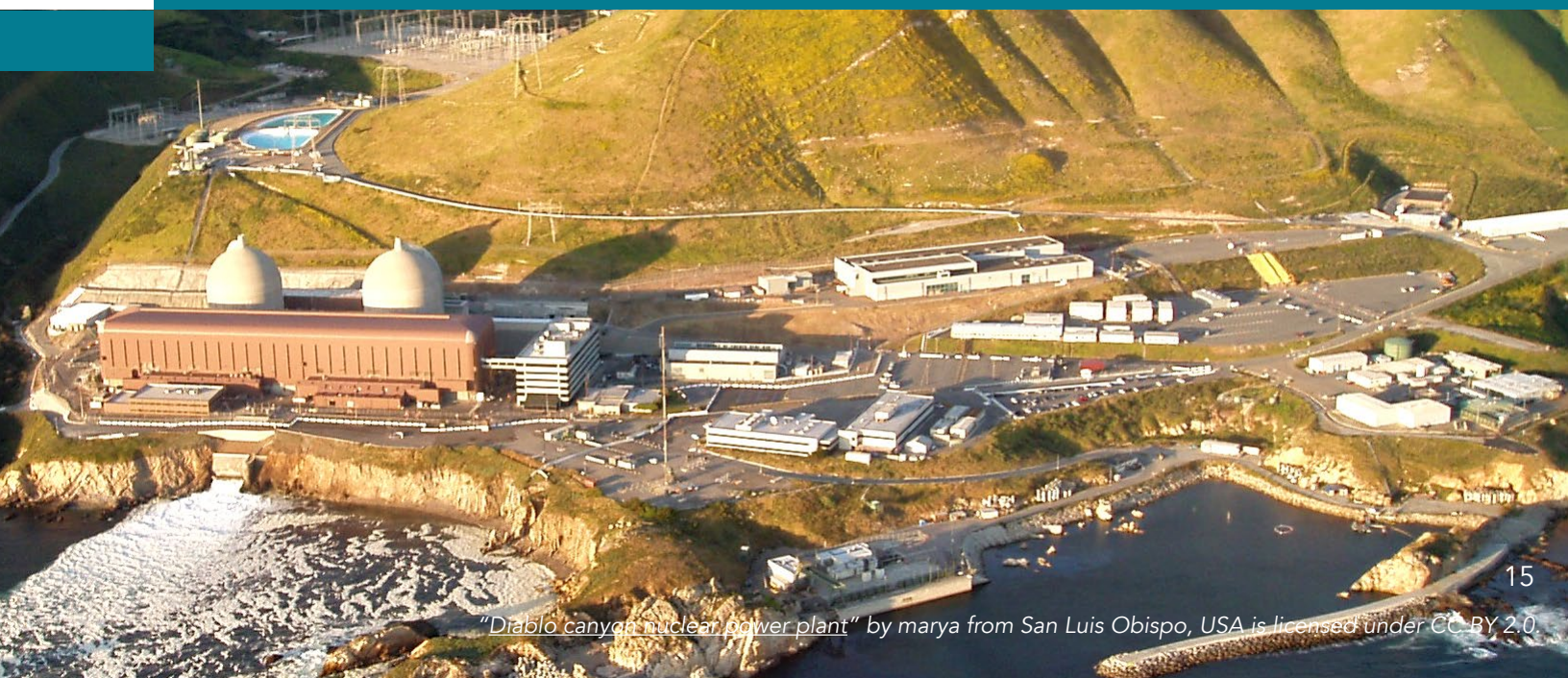
40 Rachel Metea. California cuts funding for nation's largest virtual power plant. September 2025.

CONCLUSION

Diablo Canyon is a useful clean energy asset, helping California reach its climate goals and enhancing grid reliability. However, despite inflated plant projections, PG&E can more than recover Diablo Canyon's full costs with CAISO market revenue alone. If generation market revenue were to drop lower than forecasted, PG&E would also be able to utilize the Zero-Emission Nuclear Power Production Credit (45U), which, given Diablo Canyon's profitability, they currently do not qualify for.[41] After securing a Clean Water Act certification in February 2026, Diablo Canyon is now eligible for a license renewal from the Nuclear Regulatory Commission to continue operating through 2045.[42] Regarding a potential extension, state oversight and financial re-evaluation—including independent assessments of plant costs—are needed to protect ratepayers, taxpayers, and grid reliability.

41 Facilities with revenue over $25/MWh are not eligible for the 45U credit. PG&E forecasts CAISO market revenue will be above $50/MWh.

42 Blanca Begert. Diablo Canyon clears last California permit hurdle to keep running. February 2026.



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