

PACIFIC GAS AND ELECTRIC COMPANY
Wildfire Mitigations Plans Discovery 2026-2028
Data Response

PG&E Data Request No.:	SPD_004-Q042
PG&E File Name:	WMP-Discovery2026-2028_DR_SPD_004-Q042
Request Date:	May 1, 2025
Requester DR No.:	CONF-SPD-PGE-WMP2026-004
Requesting Party:	Safety Policy Division
Requester:	Edwin Schmitt
Date Sent:	May 13, 2025

SUBJECT: MITIGATION COST EFFICIENCY ASSESSMENT (SPD-PGE-WMP2026-004)

QUESTION 042

Related to the explanation of the Cost Benefit Ratios described on pages 154-155 in the 2026-2028 Base WMP, provide an explanation of how PG&E addressed “discounting of inflation”.

- a. Did PG&E use a discount rate scenario specified in D.24-05-064?
 - i. If so, explain which scenario and why that was chosen.
 - ii. If not, explain why not. Also explain how PG&E addressed discounting and why it chose that method.

ANSWER 042

PG&E addressed “discounting of inflation” by discounting values by a real discount rate in its present value evaluations. In these evaluations, the effects of inflation are incorporated by multiplying values by the inflation rate to obtain nominal future values before discounting by the nominal discount rate over the applicable timeframe to obtain the present value. The effective multiplier resulting from these operations is equivalent to discounting by a real discount rate evaluated as

$$r_{real} = \frac{1 + r_{nom}}{1 + r_{inf}} - 1$$

Where r_{real} is the real discount rate, r_{nom} is the nominal discount rate, and r_{inf} is the inflation rate.

PG&E utilized its After-Tax Weighted Average Cost of Capital (ATWACC) as the nominal discount rate for discounting in present value evaluations which corresponds to the “WACC Discount Rate Scenario” in D.24-05-064. The ATWACC was selected as the nominal discount rate in alignment with PG&E’s current Enterprise Risk Model evaluations, which similarly use the ATWACC rounded to the nearest 50 basis points (or 0.5 percent) as the nominal discount rate. PG&E chose to use ATWACC because it reflects PG&E’s financing costs, and also believes that it is also a proper discount rate for the benefits in the numerator as well as costs in the denominator because benefits

are monetized based on willingness to pay (safety), market/replacement costs (financial, gas reliability), or both (electric reliability).