

## **DESCRIPTION OF THE WDT3 DRAFT ANNUAL UPDATE FOR THE RATE YEAR 2025**

Pacific Gas and Electric Company (PG&E) provides for informational purposes its Draft Annual Update to the Formula Rate Model of PG&E's Wholesale Distribution Tariff (WDT) pursuant to Section 4 of the Formula Rate Protocols (Attachment 1). The Formula Rate Model contains the update of the Wholesale Distribution Revenue Requirement (DRR), Distribution Rates, Cost of Ownership rates, and Customer Service Charges for the 2025 Rate Year (RY2025). The Excel versions of the draft populated Model and supporting Workpapers (WP) have been posted on PG&E's website ([Regulation \(pge.com\)](https://www.pge.com)) and are available for review and comment.

Concurrent with the June 28, 2024 posting of this draft, the information request period begins. PG&E has informed Interested Parties of the technical conference that will be scheduled on August 8. After incorporating any necessary revisions to the draft made by November 1, 2024, PG&E will submit the RY2025 Annual Update informational filing by December 1, 2024 for the rates and charges that will become effective January 1, 2025.

### **I. BACKGROUND**

On September 15, 2020, in Docket No. ER20-2878-000, *et al* (WDT3)<sup>1</sup>, PG&E filed proposed revisions to certain non-rate terms and conditions and revisions to rate terms including moving to a Formula Rate in WDT3 and those revisions became effective on April 15, 2021.

On April 6, 2020, in Docket No. ER20-2878-010, PG&E submitted an Offer of Partial Settlement (First Partial Settlement) resolving certain Model and Protocol issues that was approved by the Commission on July 15, 2021. On March 31, 2022, in Docket No. ER20-2878-013, PG&E submitted to FERC another Offer of Partial Settlement (Second Partial Settlement) resolving all rate related issues in the WDT3 proceeding, as well as some non-rate related issues. The Second Partial Settlement was approved by the Commission on June 2, 2022.<sup>2</sup> The Second Partial Settlement filing included revised Protocols and a revised Model.

In accordance with the Second Partial Settlement, PG&E sought to include a revenue sharing mechanism for non-tariffed New Products & Services (NP&S) using PG&E's

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<sup>1</sup> On November 13, 2020, the Commission issued its order accepting PG&E's proposed WDT3, suspending the rates and other revisions for five months, to become effective on April 15, 2021, subject to refund, and established hearing and settlement judge procedures. *See Pac. Gas & Elec. Co.*, 173 FERC ¶ 61,140 (2020).

<sup>2</sup> *Pac. Gas & Elec. Co.*, 179 FERC ¶ 61,167 (2022).

electric distribution facilities. The proposal that net after tax revenues will be shared in each NP&S category but that NP&S expenses that exceed revenues in each category will not be flowed through was approved by the Commission on December 15, 2022 in Docket No. EL23-2-000. In Docket No. ER23-942-000, PG&E added Schedule 26-NP&S to the Model and revised Schedules 20, 1, and 2 in the Model to reflect the addition of the NP&S revenue sharing mechanism. These revisions were accepted and made effective March 28, 2023.

On February 27, 2024, in Docket No. ER24-1342-000, PG&E submitted a revised model to reflect the depreciation rates for Common, General and Intangible Plant in Schedule 12-DepRates of its formula rate model per WDT section 8.4 of the WDT formula rate protocols. The revisions were accepted and effective April 29, 2024.

PG&E filed its 2023 FERC Form 1 (FF1) on April 17, 2024 and resubmitted a revised FF1 on May 22, 2024.

## **II. SUMMARY OF DRAFT ANNUAL UPDATE**

PG&E's Model provides a DRR for RY2025 which is allocated to each affected WDT Customer based on each Customer's Load Ratio Share. A Customer-specific Annual True-up Adjustment (ATA) is added to each Customer's allocated DRR. The Prior Year DRR represents the distribution costs that PG&E incurred in the previous calendar year, in this instance calendar year 2023 (PY2023). The ATA compares PG&E's costs in the Prior Year that were allocated to each WDT customer with wholesale distribution revenues collected from each WDT customer in the Prior Year.

PG&E's draft total DRR used to calculate Distribution Service Rates for RY2025 is \$7,834 million, an increase of \$940 million or 13.6% over the RY2024 DRR of \$6,894 million. This draft total DRR is the sum of the primary DRR, \$4,651 million, and secondary DRR, \$3,183 million. For RY2025, the allocated DRR for primary service to be recovered from wholesale customers through Distribution Rates is \$43.7 million and the allocated DRR for secondary service to be recovered from wholesale customers through Distribution Rates is \$25.5 million for a total allocation of \$69.2 million.

As reflected in the draft Model, some of the largest increases in the Prior Year DRR for RY2025 in comparison to the RY2024 DRR are: (1) \$316 million increase to return on capital resulting from a \$3.5 billion increase in net plant; and (2) \$472 million increase to O&M expense.

### **III. INFORMATION IN COMPLIANCE WITH SECTION 4.2 OF THE PROTOCOLS**

In accordance with Section 4.2 of the Protocols, PG&E is providing the following information:

#### **4.2.1 Identify all methodological changes to inputs**

There are no methodological changes to inputs in the Model. The draft Annual Update was prepared using the template model made effective on April 29, 2024 in Docket No. ER24-1342-000.

#### **4.2.2 Identify any changes to the references in the Model of (1) the sources of information from FERC Form 1 and (2) the sources and/or methods of obtaining information from PG&E's records**

There are no changes to the references in the Model of (1) the sources of information from FERC Form 1 and (2) the sources and/or methods of obtaining information from PG&E's records.

PG&E identified an incorrect citation for a source of Workpaper on Schedule 14-ADIT, Line 500 and 501. The source citation for Line 500 should be WP\_14-ADIT 5, L. 100, Col 4 and for Line 501 should be WP\_14-ADIT 5, L. 101, Col 4.

#### **4.2.3 Include all workpapers from which a Formula Rate input is taken, in native format, and with all data used**

PG&E is providing the workpapers from which a Formula Rate input is taken, in native format, and with all data used.

#### **4.2.4 Include a workable, data-populated Model in native format with all formulas and links intact**

PG&E is providing the draft populated Model in native format with all formulas and links intact.

#### **4.2.5 Provide for the applicable Rate Year the following information related to affiliate cost allocations: (1) a detailed description of the methodologies used to allocate and directly assign costs between PG&E and its affiliates by service category or function, including any changes to such cost allocation methodologies from the Prior Year and the reasons for those changes; and (2) the magnitude of such costs that have been allocated or directly assigned between PG&E and each affiliate by service category or function.**

There are no changes to the methodologies used to allocate and directly assigned costs between PG&E and its affiliates.

To the extent any portion of such costs is recovered through the Formula Rate, the magnitude is reflected in the Model and Workpapers.

**4.2.6 Identify any change in accounting relative to the Prior Year that affects inputs to the Formula Rate or the resulting charges billed under the Formula Rate including: (1) the initial implementation date of a new or revised accounting standard or policy and a quantification of the impact of the change(s); (2) the initial implementation date of new or revised accounting practices for unusual or unconventional items where FERC has not provided specific accounting direction and a quantification of the impact of the change(s); (3) correction of errors and prior period adjustments that impact the Annual True-Up Adjustment calculation; and (4) changes to income tax elections**

- 1) See 2 below.
- 2) In Prior Year 2023, the change identified was the reclassification of Rent Expense from FERC Account 923, Outside Services to Account 931, Rents in 2023; Wholesale distribution customer rates are unaffected because labor factor allocators are used to allocate costs to both FERC Accounts 923 and 931.
- 3) At the time of preparing this Draft Annual Update, PG&E is unaware of any error corrections or prior period adjustments that impact an ATA.
- 4) There are no changes to income tax elections.

**4.2.7 Identify all reorganization, merger, or sale of distribution asset transactions during the previous year; and,**

There were no reorganizations, mergers, or sales of distribution asset transactions during the previous year.

**4.2.8 Identify any known errors or adjustments in FERC Form 1 data used in the Model.**

#### **FERC ACCOUNT 930.2**

FERC Account 930.2 records miscellaneous general expenses not specifically provided for elsewhere. Activity recorded to FERC Account 930.2 includes, but is not limited to, bank fees, certain rewards and recognition (R&R) awards and clearing items, which consists of (1) capital and other balance sheet items that clear monthly to the appropriate balance sheet accounts, and (2) other activity that clears to appropriate expense accounts. PG&E only includes in the WDT Formula Rate for Account 930.2 certain bank fees not already recovered through PG&E's procurement accounts and the R&R awards.

In 2023, PG&E determined that certain activity recorded to FERC account 930.2 should have settled to other FERC accounts. This error occurred because incorrect cost elements were inadvertently used to record these costs. The costs should have been charged to trace cost elements so that costs settle in accordance with the regulatory category of the order. This incorrect charging resulted in postings to FERC account 930.2 of (\$1M) on a total Company basis. Please see the Table below for the amounts that should have cleared to different FERC accounts:

<b>FERC Account</b>	<b>Total Company</b>
588	\$ 473,865
923	1,237,971
426.5	6,297,546
566	(77,198)
571	(8,907,722)
Total	\$ (975,538)

PG&E made regulatory adjustments in the WDT Formula Rate to correct the balances on its FERC Form 1 for accounts 588, 923, and 930.2.

#### **FERC ACCOUNTS 571 AND 920**

The City of Santa Clara d/b/a Silicon Valley Power (SVP) owns the Grizzly Tap Line which was damaged in the Dixie Fire. To resolve a dispute of claims between PG&E and SVP regarding the damages, a Settlement Agreement was executed and approved by the Bankruptcy Court on January 4, 2023. Pursuant to the Settlement Agreement, PG&E is responsible for a portion of the Grizzly Tap Line Repair costs up to \$7.5M. This expense work is recorded to FERC account 925 as a Third Party Claims cost. In 2023 some of the Grizzly Tap Line Repair costs were incorrectly recorded to the following FERC accounts:

<b>FERC Account</b>	<b>Total Company</b>
571	\$ 279,179
920	106,276
Total	\$ 385,454

PG&E made regulatory adjustments in the WDT Formula Rate to correct the balances on its FERC Form 1 for Accounts 920, and 925.

#### **IV. OTHER**

PG&E determined that it had erroneously included shareholder related amounts in its ratemaking tax net operating losses (NOL) in the Account 190 section of Model Schedule 14-ADIT for 2021 through 2022. The inclusion of cumulative tax NOLs arising from federal tax depreciation in rate base is required by the Internal Revenue Code (IRC) Normalization rules. However, shareholder related activities should not be factored into the WDT Formula Rate. PG&E has included a cumulative correction for the prior year erroneous inclusions in the Draft Annual Update for Rate Year 2025, which is reflected in the cumulative total 2023 tax NOL amount on Model Schedule 14-ADIT. The supporting documents for the Schedule 14-ADIT input are provided with the tax workpapers (*e.g.*, WP\_14-ADIT\_WDT3-RY2025).

#### **V. NEXT STEPS**

The Information Request period lasts from July 1 to October 15. Pursuant to Section 4 of the Protocols, PG&E will host a one-day video technical conference on August 8, 2024. Additional information regarding the technical conference will be provided in accordance with Section 4.3 of the Protocols. Interested parties may provide a list of topics they would like to address at the technical conference at least 7 business days prior to the technical conference. PG&E will make best efforts to address these topics at the technical conference.