Summary of Draft Rate Year 2026 Annual Update
(June 16, 2025)

Introduction

On June 16, 2025, Pacific Gas and Electric Company (PG&E) posted on its website the Rate Year 2026 (RY2026 or Rate Year 2026) draft Annual Update (Draft Annual Update) under its twenty-first Transmission Owner (TO21) Formula Rate pursuant to Appendix VIII (Formula Rate), Attachment 1 (Protocols), Sections 4.2 and 4.3 of PG&E's TO21 Tariff.[1] The Model and supporting Workpapers with all formulas and inputs intact have been posted on PG&E's website (www.pge.com). On the same day, PG&E sent an e-mail notifying the Notification List of this Draft Annual Update including links to the Model and Workpapers with all formulas and links intact.

The Draft Annual Update revises PG&E's retail and wholesale Base Transmission Revenue Requirement (Base TRR) and associated retail and wholesale transmission rates that will go in effect on January 1, 2026.

Pursuant to Section 4.2 of the Protocols, on April 21, 2025, PG&E provided to the Interested Parties a copy of the 2024 Federal Energy Regulatory Commission (FERC) FERC Form 1 (FF1).

This Summary of Draft RY2026 Annual Update is organized as follows:

Section I – Background

Section II – Summary of the draft Rate Year 2026 Annual Update

Section III – Protocols Requirements

Section IV – Additional Issues

I. Background

On March 21, 2025, PG&E filed with FERC an uncontested offer of settlement resolving all issues in the TO21 rate case, which included the settlement version of the Formula

[1] On March 21, 2025, PG&E submitted an uncontested settlement by all active parties in the TO21 Proceeding (Docket No. ER24-96-000) (Settlement). PG&E agreed with the parties that, for purposes of this Annual Update, PG&E would use the settlement Model and Protocols based on the expectation that the Federal Energy Regulatory Commission (FERC) would approve the settlement before December 1, 2025.

Rate Model and Protocols reflecting the Settlement terms. On April 25, 2025, Judge deJesus certified the Settlement for the Commission.[2]

PG&E is providing this Draft Annual Update for Rate Year 2026 using the Formula Rate Model and Protocols filed with the Settlement. The only provisions from the TO21 Settlement that PG&E is not including in this Draft Annual Update are the provisions on depreciation.[3] *See* Section IV, Part D below for a description of how the provisions of the TO21 Settlement have been implemented in this Draft Annual Update.

II. Summary of the Draft Annual Update

The Rate Year 2026 Wholesale Base TRR is $2,589 million.[4] This is a decrease of $290 million or more than 10% compared to Rate Year 2025. The Wholesale Base TRR consists of the following four elements:

A. Prior Year TRR: The Prior Year TRR represents actual costs of service that PG&E incurred in the year prior to the filing year using the recorded end of year cost of service from the most recent FF1, supplemented by PG&E records as needed. In this Draft Annual Update, the Prior Year TRR 2024 is $2,543 million, which is $206 million[5] lower than the Prior Year TRR 2023 in the currently effective RY2025 Annual Update.

B. Incremental Transmission Revenue Requirement (ITRR): The ITRR represents the additional costs over and above the amount included in the Prior Year TRR for the forecast net incremental network transmission plant to be operative by the end of the Rate Year 2026. In this Draft Annual Update, the ITRR is $326 million, which is $42 million lower compared to the ITRR in the RY2025 Annual Update. The ITRR is a result of $1,053 million in gross plant additions, which is $382 million lower compared to the Rate Year 2025 ITRR.[6]

- Drivers of Capital Additions: The primary drivers of the RY2026 Capital Additions Forecast include the following: (1) $222 million of

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2 PG&E's TO21 Settlement can be found in FERC's eLibrary: https://elibrary.ferc.gov/eLibrary/filelist?accession_number=20250321-5150&optimized=false

3 Specifically, this Draft Annual Update does not include TO21 Settlement Sections 4.10 and 5.1

4 The Rate Year 2026 Retail TRR is $2,718 million, a decrease of $181 million or 6.2% compared to Rate Year 2025.

5 This reflects the decrease from the as-filed RY2025, which is currently in effect.

6 The 2025 and 2026 capital expenditures forecast provided in this Draft Annual Update is based on a snapshot of the Electric Transmission portfolio from March 2025 for projects with operative dates in or prior to 2026.

forecast Capital Additions in MWC 70 – Replace Line Poles and Structures; (2) $200 million of forecast Capital Additions in MWC 82 – Work at the Request of Others and New Customer Interconnections; (3) $167 million of forecast Capital Additions in MWC 61 – Substation Capacity; and (4) $102 million of forecast Capital Additions in MWC 65 – Replace Substation Equipment – Emergency.

- Drivers of Lower Plant Additions Compared to Rate Year 2025 Annual Update: The primary drivers of the $382 million lower ITRR from the Rate Year 2025 Annual Update include the following: (1) forecast Capital Additions in MWC 94 – ET Reliability ($133 million decrease); (2) MWC 93 – Line Preventative Work ($131 million decrease); (3) MWC 61 – Substation Capacity ($65 million decrease); and (4) MWC 3F – System Protection ($54 million decrease).

C. Annual True-Up Adjustment (ATA): The ATA is the difference between actual transmission costs and actual transmission revenues received in the Prior Year. Because the ATA includes any unrecovered and over-recovered revenues from the prior period, plus interest, it ensures that the Formula Rate calculates the actual cost of providing service. In this Draft Annual Update, the ATA for Prior Year 2024 is a refund of $281 million compared to refund of $341 million in Rate Year 2025 for the Prior Year 2023.

In addition to the normal operation of the ATA to true up Prior Year billed revenue to Prior Year actual costs incurred, the Draft Annual Update reflects other adjustments resulting from FERC directives or other commitments by PG&E. These adjustments are summarized in Section III, Part F below, per the requirements of Section 4.3.1(6) in the Protocols.

D. Rate Year Wildfire Self-Insurance: The Rate Year 2026 Wildfire Self-Insurance represents the funding for the Wildfire Self-Insurance Program during the Rate Year and the associated taxes and fees. In this Draft Annual Update, Wildfire Self-Insurance for RY2026 represents a decrease of $102 million[7] compared to the RY2025 Annual Update.

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[7] The Rate Year Wildfire Self-Insurance comprises of the funding to the Wildfire Self-Insurance captive and the associated estimated San Francisco gross receipt tax and franchise fees.

III. Protocols Requirements

PG&E provides the following to describe how it completed this Draft Annual Update pursuant to the Protocols. Note that text in bold font in this section represents language from the Protocols.

A. Protocols Section 4.3.1(1): Identify all methodological changes to inputs

There are no methodological changes to inputs in the Formula Rate Model. As detailed in Section IV, Part E below, the Formula Rate Model is aligned with the TO21 Settlement.

B. Protocols Section 4.3.1(2): Identify any changes to the sources of information from FERC Form 1 or where/how information was obtained from PG&E's records from the description in the Model

<u>Schedule 19-AandG, Line 121, Column 2 of the Formula Rate Model</u>: PG&E noted the total Administrative and General Expenses was shown on FF1 on Page 320-323, Line 197 instead of Line 201 as stated in the Model, Schedule 19-AandG, Line 121, Column 2.

<u>WP10-AccDep 2, Line 102</u>: PG&E corrected the FERC page reference on WP10-AccDep 2, Line 102 from "FF2 219, L. 29, col c" to "FF2 219, L. 28, col c".

C. Protocols Section 4.3.1(3): Include all workpapers from which a Formula Rate input is taken, in native format, and with all data used

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

D. Protocols Section 4.3.1(4): Include a workable, data-populated Model in native format with all formulas and links intact

PG&E is providing a workable, and data-populated Model in native format with all formulas and links intact.

E. Protocols Section 4.3.1(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**

PG&E Corporation (Corporation) allocates its Administrative and General (A&G) expenses to PG&E. PG&E Corporation Support Services II, Inc. (PSP2) supports the

Corporation and its affiliates. Therefore, 100% of PSP2 expenses are included in the A&G allocation from the Corporation to PG&E. The Corporation continues to provide oversight over its largely inactive remaining unregulated subsidiaries. There have been no significant changes to the cost allocation methodology from the Prior Year.

In general, PG&E's Corporate Accounting team evaluates the A&G allocation in January each year to consider any changes in unregulated activities, cost centers and new entities. The Corporation will charge its allocable A&G expenses to its specified affiliates based on the methodology and summary below. This allocation will be modified in the future if unregulated activities increase.

Methodology

The Corporation performs services for its affiliates and allocates its charges based on the allocation rates below:

- Three-Factor Methodology:

  It is the simple average of the following three ratios:

  a. Affiliate Assets/Total Consolidated Assets

  b. Affiliate Operating Expenses less Fuel purchase costs/Total Consolidated Operating Expenses less Fuel purchase costs

  c. Affiliate Headcount/Total Consolidate Headcount

- Capitalization:

  It is the ratio of affiliate's capitalization over total consolidated capitalization. Capitalization includes long term debt, owner's equity and retained earnings.

- Headcount**:**

  It is the ratio of affiliate's headcount over total headcount for all entities.

Summary

The 2024 Corporation A&G Allocation Rate is calculated below and will be rounded to 99% (Three-Factor Methodology and Headcount). The 99% A&G allocation rate is consistent with 2027 General Rate Case (GRC) filing.

1. Three-Factor Methodology – 99.99%

2. Capitalization – 100%

3. Headcount – 99.99%

All of the Corporation's cost centers allocate charges are based on Three Factor Methodology, except for the following cost centers:

COST CENTER	Description	Allocation Approach
PCC 20036	HOLD- Banking & Money Management	Capitalization
PCC 20039	HOLD- Investments & Benefits	Headcount
PCC 20041	HOLD- Investor Relations	Capitalization
PCC 20050	HOLD-Senior VP Human Resource	Headcount

The non-utility affiliates methodology is used in the GRC. Below is the language used in the 2027 GRC.[8]

[8] *See* 2027 GRC, Exhibit (PG&E-10), Chapter 5 at 5-89.

PACIFIC GAS AND ELECTRIC COMPANY
2027 General Rate Case
Exhibit (PG&E-10), Results of Operations
Administrative and General Expenses
CHAPTER 5, Administrative and General Expenses

Calculation of 1 Percent Non-Utility Affiliate Reduction

The Corporation and its support organization allocate A&G charges to the Utility and other non-utility affiliates based on a rate derived from the "Three-Factor" methodology, which consists of a simple average of the following ratios:

- Affiliate Assets/Total Consolidated Assets
- Affiliate Operating Expenses less fuel purchase costs /Total Consolidated Operating Expenses less fuel purchase costs
- Affiliate Headcount/Total Consolidated Headcount

Based on 2024 data, the table below summarizes the 2024 allocation factors for the Corporation and its support organization.

		Total (a)	Utility (b)
1	2024 Data:		
2	Assets ($ millions)	133,420	133,420
3	Operating Expenses ($millions)	16,997	16,996
4	Employee Headcount *	28,418	28,417
5	Three-Factor Percentages (a/b):		
6	Assets		100.000%
7	Operating Expenses		99.998%
8	Employee Headcount		99.996%

* Headcount data as of 12/31/2024.

Allocation Percentage for the Utility (simple average of Lines 6-8):	99.998%
Actual Allocation for Non-Utility Affiliates:	0.002%

Note 1: While the actual Non-Utility Affiliate allocation calculation shown above is 0.002%, PG&E has conservatively utilized a 1-percent Non-Utility Affiliate reduction percentage in the 2027 GRC for the forecast period 2027-2030. No significant increase in non-utility affiliate activities is expected in the forecast period that would result in the factor exceeding 1 percent.

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 is no change in the allocation methodology as described above.

F. Protocols Section 4.3.1(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

i. In Prior Year 2024, the following changes were made: (1) reclassify Unamortized Short-Term Debt Expenses from FERC Account 181 to Account 186; (2) reclassify amortization of Short-Term Debt Expenses from FERC Account 428 to

Account 431; and (3) reclassify amortization of Deferred Assembly Bill (AB) 1054 and Rate Neutral Securitization Interest Expense from FERC Account 427 to Account 431.

ii. In Prior Year 2024, consistent with the Rate Year 2022 Annual Update Order,[9] PG&E reclassified Right-of-Way (ROW) Expansion Program from capital to expense. PG&E removed capitalized costs from plant in service, accumulated depreciation, and construction work in progress (CWIP) and instead recorded these costs in expense accounts excluding the Allowance for Funds Used During Construction. Any accrued depreciation expense was also reversed. In addition, the tax method related to ROW Expansion Program Adjustment will be changed and is described in further detail below in Section III, Part F.3.i.

2. the initial implementation date of new or revised accounting practices for unusual or unconventional items where FERC has not provided specific accounting direction

See Section III, Part F.1.i above.

3. correction of Errors and prior period adjustments, including prior period accounting adjustments to correct Errors that impact the inputs to the Formula Rate in the Rate Year

Please refer to Attachment H for the summary of the incremental annual true-up adjustment as a result of Section III, Part F. i-v described below with interest calculated through December 2026.

i. <u>ROW Expansion Program Adjustment</u>: Consistent with implementation of FERC's Rate Year 2022 Annual Update Order , PG&E identified ROW Expansion Program projects, removed the capitalized costs of these projects, and is instead recovering these costs as expense in 2024. PG&E included an initial refund and recovery of expense in Rate Year 2025. In Rate Year 2026, PG&E identified additional ROW Expansion Program projects. The adjustments for the additional projects identified were reflected beginning with the 2019 true up models. The gross plant removal and the electric transmission expense are $19 million and $18.6 million respectively. Please refer to Attachments C to G for the 2019 to 2023 true up models.

In addition, the PG&E Tax Department expects to file a protective method change with respect to this population of ROW costs with its 2024 federal income tax return (due October 2025). After the tax method change, both financial accounting (*i.e.*, book) and tax will expense these ROW costs, thereby

[9] *See* Docket No. ER19-13-011

extinguishing deferred taxes with respect to these costs. The adjustments are reflected beginning with the 2019 true-up models. Please refer to Attachments C to G for the 2019 to 2023 true up models.

ii. Network Transmission Plant Transfers and Reclassifications: As part of an agreement in TO21 Settlement, PG&E reviewed a list of electric transmission lines that were identified in a data request with a status of "Proposed" for operational transfer to electric distribution. The results, as provided and presented in March and April 2025 technical conferences, were for a total of $4.78 million of Plant as of December 31, 2022. This $4.78 million has been removed from TO rate base effective December 31, 2022 and the associated revenue requirements are being refunded within the Rate Year 2026 Annual Update. PG&E also identified an inadvertent classification error for the SAP high-level adjustment recorded in March 2022. The journal entry was for $47.8 million credit (reduction) in Plant and had been incorrectly classified as 100% for network transmission. Upon review, PG&E identified it should have been split between network transmission for $3.1 million and non-network transmission for $44.7 million. PG&E has corrected this starting in March 2022.

iii. Operating and Maintenance (O&M): Two adjustments were identified through the data responses to Wholesale Distribution Tariff (WDT) Rate Year 2025 Annual Update: (1) the electric transmission amount of $49,500 for the data analysis for the Enhanced Powerline Safety Setting Program (Planning Order No. 5275772) was recorded as electric distribution O&M resulting in understatement of electric transmission O&M in 2023; and (2) the electric transmission amount of $1.17 million of strategy and analytics competitive analysis (Planning Order No. 5062569) was recorded as electric distribution O&M resulting in understatement of electric transmission O&M in 2023.

iv. Overstatement of Administrative and General Expenses (A&G): Two adjustments were identified through the data response to WDT Rate Year 2025 Annual Update: (1) the 2023 total company A&G was understated by $1.287 million[10] for the Federal and State Grant Applications (Planning Order No. 5283414) and was recorded to electric distribution which should be recorded as A&G; and (2) the 2023 FERC Account 926 Electric portion was overstated by $13.75 million due to incorrect allocation of benefit costs.

v. Caltrain Capital Additions Write-Off: As a result of the Phase II of Caltrain Audit which covered costs incurred from 2022 to 2024, PG&E wrote off unreconciled capitalized costs of $225,880. The adjustment was reflected beginning with the

[10] The electric portion is $897,620.

2022 true up models. Please refer to Attachments C and D. Additional details are included in Section IV, Part C below.

4. the implementation of new estimation methods or policies that change prior estimates

See Section III, Part F.1 and Section III, Part F.3.

5. changes to income tax elections and accounting entries as a result of an amended income tax return

Not applicable. There were no changes to income tax elections and accounting entries that arose from an amended income tax return.

6. changes to FERC Form 1 reporting practices for financial or operational data that impact the inputs to the Formula Rate.

There are no changes to FF1 reporting practices.

- **To the extent these accounting changes [items (1) to (6) listed in the Protocols Section 4.3.1(6)] affect PG&E's inputs to its Formula Rate, PG&E shall provide a narrative explanation for the individual impact of those items on charges billed under the Formula Rate.**

See explanations provided for each item in Section III, Part F, 1-6 above. The impact of the individual items described above were provided in their respective sections and are reflected in the corresponding Schedules of the Model.

G. Protocols Section 4.3.1(7): Identify all reorganization, merger, or sale of transmission asset transactions during the previous year

No items applicable.

H. Protocols Section 4.3.1(8): Identify any known Errors or adjustments in FERC Form 1 data used in the Model

- FERC Account 108 Accumulated Provision For Depreciation for Electric Utility Plant on FERC Form 1 Page 219 has a mismatch between the description and the dollar amount. Specifically, the transmission accumulated depreciation used as input for WP 10-AccDep 1, Line 100 was incorrectly shown on FERC Form 1 Page 219, Line 24 with the label Other Production. The electric general plant accumulated depreciation used as input for WP 10-AccDep 2, Line 100 was incorrectly shown on FERC Form 1 Page 219, Line 26 with the label Distribution. PG&E does not intend to refile FERC Form 1 but will file a letter with FERC describing the issue and remediation plan going forward.

- FERC Account 930.2 Miscellaneous General Expenses and Total Administrative & General Expenses (A&G) on FERC Form 1, Page 320-323, Line 192 and Line 197 respectively, were understated by approximately $1 million. The correct balance for Account 930.2 and total A&G are reflected on Schedule 19-AandG, Line 115 and 121, Column 1.

- FERC Account 181 on FERC Form 1, Page 110-111, Line 69 differs from Account 181 on Schedule 5-CostofCap-4, Line 601, Column 2. This is because PG&E adjusted the December 2023 recorded unamortized debt expenses to exclude the unamortized debt expenses related to short term debt for Rate Year 2026.

- FERC Account 566 and 454 on FERC Form 1, Page 320-323, Line 97 and Page 300-301, Line 19 are understated by $82,434. The rental revenue (i.e. credit) from Non-Tariffed Products and Services was recorded as a negative expense. The correct revenue and expense amount are reflected on Schedule 21-NPandS for the calculation of revenue credits.

I. Protocols Section 4.3.1(9): Identify items included in the Formula Rate at an amount other than on a historical cost basis (e.g., fair value adjustments)

No fair value adjustments.

J. Protocols Section 17: Excluded Costs

Consistent with Section 17 of the Protocols, the following costs have been excluded:

	Description	Amount
a	General Advertising expenses except for safety, education and outreach related; Lobbying and public relations expenses; Dues or other payments made to Electric Power Research Institute; Donations and charitable contributions.	General Advertising in A&G - N/A because costs are recorded BTL to FERC account 426. O&M - see Line 104, WP_18 (2).
b	Asset Retirement Obligation related rate base items	N/A
c	Abandoned or Cancelled Project costs unless recovery has been approved by FERC	$5.7M avg rate base (Docket No. ER24-1513-000)

	Description	Amount
d	ROE incentive adders related to Abandoned or Cancelled Project cost recovery	N/A
e	Merger Goodwill in capital structure, unless approved by FERC.	N/A
f	Penalties, fines, or disallowances, imposed by a regulatory body or court in a final decision or order	A&G - N/A because costs are recorded BTL to FERC account 426. O&M and Capital -
g	All officer compensation and benefits from Accounts 920, 923, and 926 for Securities and Exchange Commission Section 3b-7 officers of PG&E and PG&E Corporation. PROVIDE supporting workpaper for the removal of officer compensation and benefits.	$12.7M (Schedule 19-AandG, Lines 300-320, Column 2 and 3)
h	Short-Term Incentive Program costs associated with the Non-GAAP Core Earnings per Share or similar metric from its Operating and Administrative and General expenses included in the Formula Rate	$1.5M (Schedule 19-AandG, Line 218b)

IV. ADDITIONAL ISSUES

A. Citizens Energy Corporation

In March 2024, PG&E filed an application at the California Public Utilities Commission (CPUC) under California Public Utilities Code Section 851 for authorization to lease entitlements to Citizens under a Development, Coordination, and Option Agreement (DCOA).[11] The Application is pending before the CPUC. The DCOA provides that the Citizens transaction could involve up to five separate lease options (Option Periods). Under the DCOA, project eligibility criteria are: (1) the expected Citizens leasehold percentage interest of the capital costs of the proposed project must not already be included in PG&E's existing FERC transmission rates for purposes of cost recovery; (2) the proposed project must be expected to be eligible for cost recovery through the CAISO High-Voltage Transmission Access Charge (TAC), which is a FERC-regulated transmission rate; (3) the proposed project must be expected to operate at 200 kV or above; and (4) the proposed project must have received all regulatory approvals and

[11] *Application of Pacific Gas and Electric Company for Approval under Public Utilities Code Section 851 to Lease Entitlements to Transmission Projects to Citizens Energy Corporation* filed March 12, 2024in proceeding Application 24-03-009. The Application was amended on January 31, 2025. The Amended Application is available on the CPUC's website at [Proceeding - Documents (ca.gov)]

permits necessary at that time, including, to the extent applicable, having undergone review under the California Environmental Quality Act (CEQA).

Consistent with the DCOA, in its Draft Annual Update PG&E has removed a percentage of project costs for projects that may potentially be leased to Citizens in Option Periods 1-5. The affected projects and percentage removed from the Draft Annual Update are listed in Attachment I.

B. Issues raised in RY2025 Protests

The following Planning Orders were removed from the forecast in Schedule 9-PlantAdditions:

Planning Order	Description
5767217	Reroute Jefferson Martin 230 KV
5792439	Ravenswood-Bair #2 115 KV PH2
5792441	San Mateo – Belmont 115 KV PH2
5792443	Ravenswood-Bair #1 115 KV PH2
5784989	Belden Powerhouse

PG&E also removed $(9.8) million of costs of the Gates Trench project from Schedules 7, 10, and 11 for 2021 to 2023 in RY2025. Similar manual adjustments have been made through the period in the Model prior to when the accounting transaction was recorded (June 2024). Also, this Draft reflects Transfer plant / rate base items for (Edes Substation; San Fran A - Potrero PP; San Mateo Sub; Moraga) from asset class ETP35302 to ETP35301 in Schedule 7-PlantInService. These asset costs will remain in TO rate base.

C. Caltrain Audit

In Decision 20-05-008, the CPUC approved a settlement agreement between PG&E and the Peninsula Corridor Joint Powers Board (Caltrain) that, among other requirements, directed PG&E to retain a third party to conduct an audit of the Substation Upgrades costs. A Phase 1 Audit report and Phase 2 Audit report have been completed and are provided as Attachments A and B.

During the Phase 2 Audit, the Schedule of Costs was found to be marginally higher than the total Caltrain invoice amounts for the Substation Upgrades. The variance can be attributed to adjustments between the Schedule of Costs and Caltrain invoices. PG&E has concluded that the variance amount will be written off and will not be passed on to customers.

In the Rate Year 2026 Annual Update Draft, PG&E removed $225,880 gross plant additions and associated accumulated depreciation from TO rate base. The removed costs were reflected in a column for "Functional Area Reclasses and Corrections" in workpapers 7-PlantInService 3 and 10-AccDep 3, which feed and reconcile against the TO21 Formula Model. In addition, PG&E removed the relevant costs from recovery beginning 2022. The incremental changes to the revenue requirement from 2022 to 2023 was included in Annual True-up Adjustment of Rate Year 2026.

D. Implementation of the TO21 Settlement

PG&E provides the following to describe how it completed this Draft Annual Update pursuant to the TO21 Settlement. Note that text in bold font in this section represents sections from the TO21 Settlement.

1. TO21 Settlement Section 4.1: Model Revisions

The Formula Rate Model in this Draft Annual Update incorporates the changes the Parties agreed upon in the TO21 Settlement.

2. TO21 Settlement Section 4.2: Return on Equity ("ROE")

The Formula Rate Model filed in this Draft Annual Update incorporates the 10.38 percent Base ROE (see Schedule 1-BaseTRR, Line 214 and Schedule 3-True-upTRR, Line 200) and the zero percent for the "FERC ISO Participation Incentive Adder" (see Schedule 1-BaseTRR, Line 215 and Schedule 3-True-upTRR, Line 206).

3. TO21 Settlement Section 4.3: Capital Structure

The Formula Rate Model filed in this Draft Annual Update incorporates the fixed capital structure with common equity being fixed at 50.0%, preferred equity being fixed at 0.3%, and long-term debt being fixed at 49.7% (see Schedule 1-BaseTRR, Lines 208-210).

4. TO21 Settlement Section 4.4: Unfunded Reserves

PG&E provided an analysis of unfunded reserves treatment of FERC Accounts 228, 242 and 253 with the 12-month average balance for Prior Year greater than $4.5 million in WP_16-UnfundedReserves 2. As a result of the analysis, PG&E identified the franchise fees accrual as a new unfunded reserve and included on Schedule 16-UnfundedReserves, Lines 500-516. PG&E will investigate further whether performance incentive plan accruals is an unfunded reserve. This item is listed on WP_16-UnfundedReserves 2, Line 120.

The adjustment for accrued vacation is zero as shown on Schedule 16-

UnfundedReserves, Line 213.

The Formula Rate Model filed in this Draft Annual Update revised the As-Filed Model, Schedule 16-UnfundedReserves, to remove the original note 3 and added additional placeholder lines for new unfunded reserves that may be identified.

5. TO21 Settlement Section 4.5: Annual Fixed Charge

The Formula Rate Model filed in this Draft Annual Update revises the As-Filed Model, Schedule 2-ITRR, Line 104, Column E (Source) to state: "1-BaseTRR, L. 512 - [70%*(1-BaseTRR, L. 500 + L. 501)]" and the formula on Column D accordingly.

6. TO21 Settlement Section 4.6: Revenue Credits

The Formula Rate Model filed in this Draft Annual Update reflects the revisions to Notes 2-4 of Schedule 20-RevenueCredits.

7. TO21 Settlement Section 4.7: Short-Term Incentive Plan ("STIP")

The Formula Rate Model filed in this Draft Annual Update excludes the Non-GAAP Core Earnings per Share or similar metric (see Schedule 19-AandG, Line 218b of the Model and in WP_19-AandG).

8. TO21 Settlement Section 4.8: Wildfire Self-Insurance

The Formula Rate Model filed in this Draft Annual Update includes the following provisions:

- <u>TO21 Settlement Section 4.8.1</u>: PG&E will return to Transmission Owner ("TO") customers through the Annual Update process the TO customers' allocated portion of the amount in excess of the maximum available responsibility of $1 billion if the Wildfire Self-Insurance Fund available accrual balance exceeds the maximum available responsibility of $1 billion (see Schedule 30-WFSelfInsurance of the Revised Model and in WP_30-WFSelfInsurance). Note that there was no excess to return in this Draft Annual Update.

- <u>TO21 Settlement Section 4.8.2</u>: When PG&E's Wildfire Self-Insurance requires replenishment funding from TO customers in excess of $100 million in a single year, the replenishment amount shall be recovered from TO customers over a two-year period (see Schedule 30-WFSelfInsurance). Note that this threshold was not reached in this Draft Annual Update.

- <u>TO21 Settlement Section 4.8.3</u>: The use of the Network Transmission

Blended Factor for the maximum available responsibility and the allocation of Replenishment Costs for Wildfire Self-Insurance (see Schedule 30-WFSelfInsurance).

- TO21 Settlement Section 4.8.4: The description of Note 2 in Schedule 30-WFSelfInsurance is revised as "Other applicable self-insurance costs refer to costs that are reimbursable under regular commercial policies but not (1) costs recorded in Account 923 and 925 and (2) below-the-line costs booked to Accounts 426.1 through 426.5."

9. TO21 Settlement Section 4.9: Cash Working Capital

The Formula Rate Model filed in this Draft Annual Update excludes non-cash accruals from cash working capital calculation in Schedule 1-BaseTRR, Line 106. PG&E followed a process to exclude non-cash accruals in: (1) Accounts 182.3 and 186; (2) funding of wildfire self-insurance; (3) depreciation expense including fleet depreciation expense charged to FERC accounts other than Account 403; and (4) any other non-cash accruals included in Lines 500 and 501." Identified non-cash accruals have been listed in WP_1-BaseTRR_Cash_Working_Cap and removed from the cash working capital calculation (refer to Schedule 1-BaseTRR and Line 106).

10. TO21 Settlement Section 4.10: Depreciation

The Formula Rate Model filed in this Draft Annual Update does not incorporate the depreciation rates determined based on a composite rate of 2.870% and includes Subaccount 354.02 (see Schedule 12-DepRates). The Prior Year 2024 depreciation was based on the TO20 approved composite rate. The TO21 Settlement depreciation rates will be implemented in PG&E's system upon FERC's approval of the TO21 Settlement, which PG&E anticipates will take place prior to the filing of PG&E's RY2026 Annual Update. The Accounting adjustment will be made to adjust the recorded depreciation based on Settlement depreciation rates from 2024.

11. TO21 Settlement Section 4.11: Cost of Ownership

The Formula Rate Model filed in this Draft Annual Update includes a Note in Schedule 31-COO indicating that the rates calculated on Lines 100 and 101 may only be applied on a going forward basis to agreements executed after January 1, 2024.

12. TO21 Settlement Section 4.12: Adjustments to Functionalization

The Formula Rate Model filed in this Draft Annual Update includes the modified WP_7-PlantInService to identify reclassified electrical facilities, and the values showing in this workpaper flow through into the TRR.

Consistent with the TO21 Technical Conference on May 5, 2025, and provisions detailed in Section 4.12.2 of the TO21 Settlement, PG&E has reflected adjustments to functionalization in this Draft Annual Update by excluding facilities that are transferred or corrected to no longer be part of Network Transmission. *See* Section III, Part F.3.ii above. The amount of these adjustments is $(4.8) million and reflected in WP_7 – PlantInService, tab 1 on line 106. The $(5.0) million shown on line 106 is inclusive of the $(4.8) million, as stated in Note 7 on the same tab.

13. TO21 Settlement Section 4.13: FERC Order No. 898 Implementation

As described in the TO21 Settlement, FERC Order No. 898 implementation will be reflected in PG&E's RY2027 Annual Update using Prior Year 2025 balances. However, the Formula Rate Model included in this Draft Annual Update reflects changes made to the Formula Rate Model compliant with the relevant aspects of FERC Order No. 898 which was submitted in the TO21 Settlement.

14. TO21 Settlement Section 5.1: Depreciation [for Tower Coating Program and Tower Cathodic Protection Program]

As described in the TO21 Settlement, PG&E has not yet adjusted Tower Coating Program and Tower Cathodic Protection Program capital costs in Account 354 because the TO21 Settlement is not yet effective. Once the TO21 Settlement is effective, this adjustment will be reflected in a future Annual Update.

15. TO21 Settlement Section 5.5.1: Accounting Treatment for Tower Coating Program

PG&E has been applying the accounting treatment for the Tower Coating Program as approved by the FERC in 189 FERC ¶ 61,021 (2024) ("RY2022 Order").

16. TO21 Settlement Section 5.5.2: Accounting Treatment for ROW Expansion Program

PG&E applied the accounting treatment for the ROW Program approved by FERC in the RY2022 Order by removing ROW projects from rate base and recovering such costs as utility O&M expenses in 2024. See section F.3.i above.

17. TO21 Settlement Section 5.6: Corporate Alternative Minimum Tax ("CAMT")

As agreed to in the TO21 Settlement, the earliest Rate Year PG&E could recover CAMT is RY2026. In this Annual Update Draft, PG&E is not seeking to recover CAMT.

18. TO21 Settlement Section 5.7: TO20 Resolution

There are no substantive determinations made by the Commission with respect to protests or challenges of PG&E's Rate Year 2023, and Rate Year 2024 Annual Updates that require PG&E to incorporate into this Draft Annual Update.

19. TO21 Settlement Section 6.3: Settled Wildfires[12] Costs Recorded Through December 31, 2023

This Draft Annual Update includes the following provisions:

- TO21 Settlement Section 6.3.1: A refund of seventy-five ($75) million dollars for costs recorded through December 31, 2023, for the Settled Wildfires. This refund is reflected on Schedule 19-AandG, Line 218a.

- TO21 Settlement Section 6.3.2: PG&E has provided to TO Customers their allocated portion of funds that PG&E receives from the California Wildfire Fund in 2024 as reimbursement for costs from any of the Settled Wildfires recorded through December 31, 2023. This is reflected in Total Electric Amount Excluded in Schedule 19-AandG, Line 121, Column 3. The breakdown of the adjustment can be found on Lines 300-320 with the credit for Wildfire Fund receipts on column N. Details can be found on WP19-AandG, Tab 6.

20. TO21 Settlement Section 6.4: Settled Wildfires Costs Recorded After December 31, 2023

This Draft Annual Update includes the following provisions:

- TO21 Settlement Section 6.4.1: This Draft Annual Update reflects collecting 77% of the portion of the Settled Wildfire costs recorded after December 31, 2023 that would have otherwise been collected from TO customers, and in turn TO customers are only receiving 77% of their allocated portion of the California Wildfire Fund reimbursement.

- TO21 Settlement Section 6.4.2: The 23% reduction of 2024 Settled Wildfire costs is reflected in Total Electric Amount Excluded on Schedule 19 , Line 121, Column 3. The breakdown of the adjustments can be found on Lines 300-320 with this reduction on column M. Details can be found on WP19-AandG, Tab 8. There is no Wildfire Fund Receipts for Settled Wildfire Costs recorded after December 31, 2023.

21. TO21 Settlement Section 6.5: California Wildfire Fund

[12] The Settled Wildfires are defined in Section 6.1 of the TO21 Settlement. The Settled Wildfires are the Kincaid Fire, the Drum Fire, the Zogg Fire, the Dixie Fire, the Fly Fire, and the Mosquito Fire.

Application for Settled Wildfires

PG&E will provide Parties publicly available information related to PG&E's application to the California Wildfire Fund for the Settled Wildfires (Kincade, Drum, Zogg, Dixie, Fly, Mosquito).

The 2019 California Wildfire Legislation created the California Catastrophe Response Council (Council) and the Wildfire Fund Administrator. The Council meeting notes from May 1, 2025[13] describe PG&E's efforts to apply for California Wildfire Funds for the Dixie wildfire for eligible claims paid in June through December 2024.

22. TO21 Settlement Section 6.8: Application to the California Wildfire Fund

If PG&E does not apply to the California Wildfire Fund for recovery of eligible claims related to Settled Wildfires (Kincade, Drum, Zogg, Dixie, Fly, Mosquito) and/or Non-Settled Wildfires, PG&E will state that fact in its Annual Update and explain the basis for not applying.

In PG&E's 10Q filed on April 24, 2025, PG&E indicated that it had recorded aggregate liabilities of $1.275 billion for the 2019 Kincade fire.[14] The Wildfire Fund Administrator is in the process of verifying and reviewing the recoverability of claims paid by PG&E up to the $1.0 billion threshold for eligible claims. Once verification is made that we have paid more than $1 billion in third party claims, we can submit eligible claims to the Fund for reimbursement. Note that for the Kincade Fire, PG&E is only entitled to receive 40% of eligible claims from the Wildfire Fund[15] with the remaining 60% subject to a future cost recovery application at the CPUC.[16]

23. TO21 Settlement Section 6.9: Funds Received from the California Wildfire Fund

Annual Updates will reflect 100% of any funds PG&E receives from the California Wildfire Fund for Settled Wildfires and Non-Settled Wildfires, as properly allocated to TO customers, subject to the exceptions in Section 6.4.2 of the TO21 Settlement. PG&E will add a workpaper that specifically addresses amounts received from the California Wildfire Fund and how these amounts are allocated to TO customers.

As part of this Draft Annual Update, PG&E has included Workpaper 19-AandG, Tab 6 to

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13 California Catastrophe Response Council Meeting Materials - May 1, 2025, PP. 47-48

14 PG&E 10Q, P. 13.

15 California Public Utilities Code (PUC) § 3292(e).

16 PUC § 1701.8

address amounts received from the California Wildfire Fund and how these amounts are allocated to TO customers.