

SUMMARY OF DRAFT RATE YEAR 2026 ANNUAL UPDATE

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 to the WDT). 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 2026 Rate Year (RY2026). The Excel version of the draft populated Model has been posted on PG&E's website ([Regulation \(pge.com\)](https://www.pge.com)) and are available for review and comment.

Concurrent with the July 1, 2025 posting of this draft, the information request period begins. PG&E has informed Interested Parties that the technical conference on this Draft Annual Update required by the Formula Rate Protocols will be scheduled on August 5. After incorporating any necessary revisions to the draft made by November 1, 2025, PG&E will submit the RY2026 Annual Update informational filing by December 1, 2025 for the rates and charges that will become effective 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 document is organized as follows:

Section I – Background

Section II – Summary of the Draft Annual Update

Section III – Protocols Requirements

I BACKGROUND

On October 25, 2024 in Docket No. ER25-209-000, PG&E filed its fourth WDT rate case (“WDT4”) with the FERC seeking a January 1, 2025 effective date for its proposed revisions to the WDT, including revisions to the Formula Rate. On December 23, 2024, the Commission issued an Order accepting PG&E's proposed revisions to the formula rate, proposed 2025 wholesale Distribution Revenue Requirement (DRR), and other proposed revisions to the WDT, suspending them for five months, to become effective May 25, 2025, subject to refund, and establishing hearing and settlement judge procedures.¹ PG&E uses the filed WDT4 Model to calculate the 2026 rates with the true up for Prior Year 2024 calculated using the WDT3 Model.

¹ Pacific Gas and Electric Company, 189 FERC ¶ 61,229 (2024).

II SUMMARY OF THE DRAFT ANNUAL UPDATE

PG&E's Model provides a DRR for RY2026 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 2024 (PY2024). The ATA compares PG&E's actual allocated costs in the Prior Year with wholesale distribution revenues collected from each WDT customer in the Prior Year.

PG&E's draft total wholesale DRR used to calculate Distribution Service Rates for RY2026 is \$8,118 million, an increase of \$161 million or 2% over the RY2025 DRR of \$7,957 million. This draft total DRR is the sum of the primary DRR, \$4,671 million, and secondary DRR, \$3,447 million. For RY2026, the allocated DRR for primary service to be recovered from wholesale customers through Distribution Rates is \$56.8 million and the allocated DRR for secondary service to be recovered from wholesale customers through Distribution Rates is \$36.7 million for a total allocation of \$93 million.

As reflected in the draft Model, some of the largest increases in the Prior Year DRR for RY2026 in comparison to the RY2025 DRR are: (1) \$216 million increase to return on capital, (2) \$85 million increase to depreciation, (3) \$66 million increase to income tax and (4) \$65 million increase to other taxes. These increases are mainly driven by the \$2.3 billion increase in net plant. Lastly, the increases are offset by \$297 million decrease to O&M expense.

III PROTOCOL 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. Section 4.3.1(1): Identify all methodological changes to inputs

PG&E response: There are no methodological changes to inputs in the Formula Rate Model.

B. Section 4.3.1(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.

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

Workpapers, in native format, with data used are being provided with the Draft Annual Update.

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

A populated version of the Model with all formulas and links intact is being provided with the Draft Annual Update.

E. Section 4.3.1 (5): Provide 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**

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

- 2. the magnitude of such costs that have been allocated or directly assigned between PG&E and each affiliate by service category or function**

Not applicable since there were no changes in the methodologies used for allocation or direct assignment.

F. 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 the following....To the extent these accounting changes affect PG&E's inputs to its Formula Rate, PG&E shall provide a narrative explanation of the individual impact of those items on charges billed under the Formula Rate:

- 1. the initial implementation date of a new or revised accounting standard or policy**

In response to the protest on WDT3 Rate Year 2025 Annual Update, PG&E agreed to make the following changes in Prior Year 2024: (1) reclassify Unamortized Short-Term Debt Expenses from FERC Account 181 to Account 186 of \$21.6 million; (2) reclassify amortization of Short-Term Debt Expenses from FERC Account 428 to Account 431 of \$11.8 million; and (3) reclassify amortization of Deferred Assembly Bill (AB) 1054 and Rate Neutral Securitization Interest Expense from FERC Account 427 to Account 431 of \$25.5 million.

- 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)**

See Section III, Part F.1 above.

- 3. correction of errors and prior period adjustments that impact the Annual True-Up Adjustment calculation**

The following prior period adjustments and errors have been identified:

- i. Overstatement of Operating and Maintenance (O&M): Three adjustments were made for 2023 true up to correct the overstatement of recovery based on the O&M recorded in 2023. They were identified through the data responses to Wholesale Distribution Tariff (WDT) Rate Year 2025 Annual Update and included: (1) overstatement 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; (2) overstatement of \$3.512 million of strategy and analytics competitive analysis (Planning Order No. 5062569); and (3) overstatement of \$1.287 million of federal and state grant application.
- ii. 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 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 total company A&G was overstated by \$13.915 million (electric amount is \$13.75 million) due to incorrect allocation of benefit costs.

The above adjustments are reflected in WDT3 2023 true up model. In addition, while this is not an error, we reflected in WDT3 2023 true up the difference of 2023 Annual True-up (ATA) amount between preliminary ATA used in the WDT4 filing and the final ATA calculated using the WDT3 model. The WDT4 filing was filed in October 2024 while the WDT3 Rate Year 2025 Annual Update was filed in December 2024. The 2023 final ATA amount was not available at the time of the WDT4 filing. The total incremental difference of the 2023 ATA including interest was carried to WDT4 RY2026 model.

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

There was no change to income tax elections that impact WDT revenue requirements.

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.

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

There were no reorganizations, mergers, or sales of distribution asset transactions during the previous year that impact WDT rate base.

H. 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 distribution accumulated depreciation used as input for WP 10-AccDep 1, Line 100 was incorrectly shown on FERC Form 1 Page 219, Line 25 with the label Transmission. 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 118, Column 1.

I. 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)

There are no fair value adjustments to any components in the Formula Rate.