Description of the WDT3 Draft Annual Update for the Rate Year 2024

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 proposed update of the Wholesale Distribution Revenue Requirement (DRR), Distribution Rates, Cost of Ownership rates, and Customer Service Charges for the 2024 Rate Year (RY2024). The Excel versions of the draft populated Model and supporting Workpapers (WP) have been posted on PG&E's website and are available for review and comment.

Concurrent with the July 1, 2023 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 1. After incorporating any necessary revisions to the draft made by November 1, 2023, PG&E will submit the RY2024 Annual Update informational filing by December 1, 2023 for the rates and charges that will become effective January 1, 2024.

I. BACKGROUND

On September 15, 2020, in Docket No. ER20-2878-000, *et al* (WDT3)[1], 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 December 1, 2021 PG&E filed its first Annual Update for Rate Year 2022 using the Formula Rate as revised pursuant to the First Partial Settlement. 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.[2] The Second Partial Settlement filing included revised Protocols and a revised Model.

[1] 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).

[2] *Pac. Gas & Elec. Co.*, 179 FERC ¶ 61,167 (2022).

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 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-NPandS 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 and are included in the Model for the RY2024 Draft Annual Update.

II. SUMMARY OF DRAFT ANNUAL UPDATE

PG&E's Model provides a DRR for RY2024 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 2022 (PY2022). 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 proposed total DRR used to calculate Distribution Service Rates for RY2024 is $6,938 million, an increase of $99.9 million or 1.46% over the RY2023 DRR of $6,838 million. This draft proposed total DRR is the sum of the primary DRR, $4,194 million, and secondary DRR, $2,743 million. For RY2024, the proposed allocated DRR for primary service to be recovered from wholesale customers through Distribution Rates is $43.3 million and the proposed allocated DRR for secondary service to be recovered from wholesale customers through Distribution Rates is $30.9 million for a total allocation of $74.2 million.

As reflected in the draft Model, some of the largest increases in the Prior Year DRR for RY2024 in comparison to the RY2023 DRR (based on a Prior Year of 2021) are: (1) $186 million increase to return on capital; (2) $82 million increase to depreciation expense; and (3) $37 million increase to A&G expense. As reflected in the draft Model, the largest decrease in the Prior Year DRR is a $318 million decrease to O&M expense. The details of the calculations of all components of the DRR are included in the draft Model and supporting Workpapers.

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. PG&E uses methodologies included in the template Model submitted in Docket No. ER23-942-000 that were accepted and made effective March 28, 2023.

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.

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.

PG&E Corporation (Corporation) allocates its Administrative and General (A&G) expenses to Pacific Gas & Electric Company (Utility). PG&E Corporation Support Services, Inc. (PSUP) and PG&E Corporation Support Services II, Inc. (PSP2) supports Corporation and its affiliates, therefore, 100% of PSUP and PSP2 expenses are included in the A&G allocation from Corporation to Utility. Corporation continues to provide oversight over its largely inactive remaining unregulated subsidiaries. In the past, costs related to unregulated activities remained on Corporation's book at 100% as non-allocable costs (PCC20107 and PCC20059). Effective January 1, 2018, 80% of the costs related to unregulated activities will be allocated to Utility and 20% will remain as non-allocable costs in Corporation.

In general, Corporation Accounting evaluates A&G allocation in January each year to consider any changes in unregulated activities, cost centers and new entities. 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

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

1. **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

2. **Capitalization:**

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

3. **Headcount:**

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

Summary

The 2022 Corporation A&G Allocation Rate is calculated below and will be rounded up to 99% (Three-Factor Methodology and Headcount). The 99% A&G allocation rate is consistent with 2020 General Rate Case (GRC) filing.

1. Three-Factor Methodology – 99.99%

2. Capitalization – 100%

3. Headcount – 99.99%

All Corporation's cost centers allocate its charges 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 PG&E's 2020 GRC, A.18-12-009, Exh. PG&E-9, Ch. 9

b. Non-Utility Affiliates

PG&E Corporation sometimes performs services for its non-Utility affiliates. In most instances, the Corporate Services organizations directly charge for non-Utility affiliate work. The Company has removed the costs of those services from its GRC forecast.

In addition to removing the direct charges, the Company removes an additional 1 percent of Corporation expenses from the A&G forecast.[3] This additional allocation acts as an extra precaution, to ensure that PG&E accounts for any potential affiliate-related activities, which may not have been captured through direct charges.

The 1 percent reduction is derived from a 3-factor methodology employed by PG&E's Affiliate Accounting Department. The 3-factor methodology consists of taking an average of the following three ratios:

1) Affiliate Assets/Total Consolidated Assets;
2) Affiliate Operating Expenses less Fuel purchase costs/Total Consolidated Operating Expenses less Fuel purchase costs; and
3) Affiliate Headcount/Total Consolidated Headcount.

PG&E updates this calculation annually to account for new non-Utility affiliates and affiliates which are no longer active. The actual percentage resulting from the above calculation is less than 1 percent for 2017 and has historically remained at that level.[4] To be conservative, PG&E has rounded the calculated percentage to 1 percent for the GRC forecast.

3 Current non-Utility affiliates include PG&E Corporation Support Services, Inc., PG&E Corporation Support Services II, Inc., and PCG Capital, Inc.

4 See the workpapers supporting Exhibit (PG&E-10), Chapter 7 for calculation supporting the 1 percent non-Utility affiliate reduction.

Below is the language used in PG&E's 2023 GRC:

a. **Non-Utility Affiliates**

PG&E Corporation sometimes performs services for its non-Utility affiliates. In most instances, the Corporate Services organizations directly charge for non-Utility affiliate work. The Company has removed the costs of those services from its GRC forecast.

In addition to removing the direct charges, the Company removes an additional 1 percent of Corporation expenses from the A&G forecast.[1] This additional allocation acts as an extra precaution, to ensure that PG&E accounts for any potential affiliate-related activities, which may not have been captured through direct charges.

The 1 percent reduction is based on the allocation rate derived from the 3-factor methodology employed by PG&E's Affiliate Accounting Department. The 3-factor methodology consists of taking a simple average of the following three 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.

PG&E updates this calculation annually to account for new non-Utility affiliates and affiliates which are no longer active. The actual percentage resulting from the above calculation is less than 1 percent for 2014 and has historically remained at that level.[2] To be conservative, PG&E has rounded the calculated percentage to 1 percent for the GRC forecast.

[1] Current non-Utility affiliates include PG&E Corporation Support Services, Inc., PG&E Corporation Support Services II, Inc., and PCG Capital, Inc.

[2] See the workpapers supporting Exhibit (PG&E-10), Chapter 7, for calculation supporting the 1 percent non-Utility affiliate reduction.

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) During 2022, PG&E did not make any accounting method changes which impacted the electric lines of business.

2) There are no new or revised accounting practices for unusual or unconventional items.

3) At the time of preparing this Draft Annual Update, PG&E is unaware of no 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 are no reorganization, merger, or sale of distribution asset transactions during 2022. See the Background section for information on the sharing mechanism for non-tariffed New Products & Services.

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

At the time of preparing this Draft Annual Update, PG&E is unaware of any known errors or adjustments in FERC Form 1 data used in the Model.

IV. OTHER

Known errors at time of posting

The Cost Adjustment in Schedule 24-Allocators, Line 103 is missing the distribution NP&S labor amount. Correcting the cost adjustment will change the labor factor which is also used in other various schedules.

The CCSF demand data used to calculate the Non-coincident Peaks and Diversified Peaks from PG&E's databases contained some demand spikes that greatly increased the NCPs and DPs for CCSF. This was isolated to specific meters in specific months. PG&E commits to working with CCSF to correct these suspected errors and revise the RY2024 Model accordingly. Any changes as a result of data correction may have the potential to change the allocation of the DRR among all customers.

Corrections to Prior Year 2021

This Draft Annual Update contains adjustments to each Wholesale Customer's True-up Adjustment due to corrections from Prior Year 2021. The correction are: (i) corrections to CCSF's Non-coincident Peaks and Diversified Peaks, (ii) corrections to Plant, Depreciation Reserve, and Depreciation Expense due to removal of some transmission plant that was included, and (iii) corrections to WAPA's Non-coincident Peaks and Diversified Peaks due to corrections for meters incorrectly assigned to secondary when they should have been assigned as primary.

V. NEXT STEPS

Pursuant to Section 4 of the Protocols, PG&E will host a one-day video technical conference on August 1, 2023. Additional information regarding the technical conference will be provided in accordance with Section 4.3 of the Protocols.