Summary Description of the Draft Annual Update for the Rate Year 2022

Pacific Gas and Electric Company (PG&E) hereby provides for informational purposes its draft Annual Update (Draft Annual Update) pursuant to Section 4.1 of Attachment 1 (Protocols) in Appendix VIII of PG&E's Transmission Owner Tariff (TO Tariff). The Draft Annual Update revises PG&E's retail and wholesale Base Transmission Revenue Requirements (Base TRR) and associated retail and wholesale transmission rates. The draft Model and Workpapers have been posted on PG&E's website and are available for review and comments. PG&E will provide the live link to the draft Model and Workpapers in the email notifying the interested parties of this Draft Annual Update.

Pursuant to the Protocols, following the posting of this draft, the information request period will begin on June 15, 2021 and a technical conference will be scheduled between August 15 and September 1, 2021. PG&E will inform the interested parties of the date of the Technical Conference. PG&E will then submit the Rate Year 2022 (RY2022) Annual Update filing after incorporating revisions or updates, if any, to the draft by December 1, 2021 for the rates that will become effective January 1, 2022. Consistent with Section 4.1 of the Protocols, PG&E is providing this Draft Annual Update to the Notification List.

I. BACKGROUND AND KEY DEVELOPMENTS

On October 1, 2018, in Docket No. ER19-13-000, PG&E submitted its formula transmission rate to the Federal Energy Regulatory Commission (Commission or FERC). The Commission accepted the filing on November 30, 2018, subject to refund, set the proceeding for hearing and settlement judge procedures,[1] with an effective date of May 1, 2019.

On November 27, 2019, PG&E submitted its first Annual Update Filing for the Rate Year 2020. The RY2020 and RY2021 rates became effective on January 1, 2020 and January 1, 2021, respectively.

On March 31, 2020, PG&E submitted to FERC an Offer of Partial Settlement (Partial Settlement) resolving certain Model and Protocol issues. On August 17, 2020, FERC approved the Partial Settlement.

On October 15, 2020, PG&E filed with FERC an unopposed Settlement (Settlement) that resolved all issues not addressed in the Partial Settlement. On December 30, 2020, FERC approved the Settlement resolving all remaining issues not addressed in the Partial Settlement.

II. SUMMARY OF DRAFT ANNUAL UPDATE

PG&E's Model provides a Base TRR, which is calculated as the sum of the Prior Year TRR, the Incremental TRR (ITRR), and an Annual True-up Adjustment (ATA). The Prior Year TRR represents the transmission costs that PG&E incurred in the previous calendar year, in this instance calendar year 2020 (PY2020). The ITRR represents the incremental transmission costs that PG&E expects to incur

[1] *Pacific Gas and Electric Company*, 165 FERC ¶ 61,194 (2018).

during the Rate Effective Period as compared to the costs incurred in the Prior Year. The ATA is the difference between actual transmission costs incurred and actual transmission revenues collected during PY2020. The Draft Annual Update for RY2022 results in a Retail Base TRR of $2,857 million. This is an increase of $644 million or 29% compared to the currently effective RY2021 Base TRR of $2,213 million.

As reflected in the draft Model, most of this increase occurs in the Prior Year TRR, which reflects differences in recorded costs for 2020 compared to recorded costs for 2019 in RY2021. Some of the largest increases in the Prior Year TRR for RY2022 in comparison to RY2021 TRR are: (1) $176 million increase to A&G expenses; (2) $143 million increase to O&M expenses; (3) $43 million increase to depreciation expense to reflect the depreciation rate in the Settlement; (4) $31 million increase to abandoned plant amortization expense that reflects a one-year amortization, as provided in the Partial Settlement, of abandoned plant previously included in TO17 through TO20 with longer amortization periods; and (5) $30 million increase to income taxes. The details of the calculations of all components of the Base TRR are included in the draft Model and supporting Workpapers.

In addition, the ITRR has increased by $21 million due to a $493 million increase in the Capital Additions Forecast. The largest increases among programs in the Capital Additions Forecast is in the State Infrastructure and Work at the Request of Others ($26M increase) and the largest decrease among programs is in Transmission Line Poles and Structure Replacements ($40M decrease). The 2021 and 2022 capital expenditures forecast presented in this Draft Annual Update posting is based on a snapshot for the electric transmission portfolio from early April 2021.[2]

Finally, the ATA for 2020 included in RY2022 Base TRR is a charge to customers of $146 million. The true-up calculations can be found in Schedule 4-ATA and includes the 2020 True-up TRR of $2,339 million (as shown on Schedule 3-True-upTRR) and the total Retail Transmission Revenues for 2020 (as shown in Schedule 4-ATA) of $2,202 million (which includes a reduction of $26.8 million for refunds to Standby Customers described in Section III below).

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

PG&E is using the methodologies included in the template Models submitted with the Partial Settlement and Settlement.

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[2] PG&E notes that it believes that it has removed all non-California Independent System Operator (CAISO) controlled facilities from the capital expenditures forecast. However, we will continue to review the facilities included in the capital expenditures forecast if that forecast is revised for the December 1, 2021 Annual Update submission to FERC and will remove any additional non-CAISO controlled facilities from that forecast.

4.2.2 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

PG&E is using the sources of information pursuant to the terms of the Partial Settlement and the Settlement and as provided in the Model submitted with these Settlements.

<u>Tab 4-ATA</u>

Consistent with Section 7.3 of the Partial Settlement, the refund to the Standby Customers will be included in the Annual True-Up Adjustment in the RY2022 Annual update filing as a reduction in Actual Revenues.

The Actual Revenues are shown in Tab 4-ATA, Line 110-111, which lists the monthly billed revenue by lines of business and the Total Revenue, Line 112, column 8 shall match with FF1 Page 300, line 10, col b (Line 113, column 8). In April 2021, PG&E refunded $26,850,581 to standby customers and included this amount in column 1, line 100-111 by allocating the total refund amount ratably throughout the year. As a result of adjusting the 2020 Actual Revenues with the amount refunded to Standby Customers in 2021, the Total Revenue, Line 112, column 8 does not match with 2020 FF1.

Description	Reference in Tab 4-ATA	Amount
Total Billed Revenue per 2020 FF1, page 300, L.10, col b	Line 113, column 8	$13,366,378,507
Refund to Standby Customers	The total amount is allocated ratably in Line 100 – 111, column 1	$26,850,581
Total Billed Revenue	Line 112, column 8	$13,339,527,926

<u>Tab 16-Unfunded Reserves</u>

Unfunded Reserves for transition cost, severance and injuries and damages were included in the RY2022 for the first time. Consistent with Section 4.8.4 of the Settlement, the unfunded reserves for transition cost in RY2022 will have a beginning balance of $0 and ending balance of $7,366,110. The unfunded reserves for severance and injuries and damages in RY2022 will have a beginning balance of $0 with the ending balance based on all the additional severance and injuries and damages accruals from 2020 that are still outstanding as of December 31, 2020. The ending balances of unfunded reserves for severance and injuries and damages were derived from the detail tracking list of the relevant expenses. The unfunded reserves for injuries and damages include the outstanding claims of the Kincade and Zogg Fires net of insurance recoveries. The unfunded reserves for both severances and injuries and damages are net of deferred tax adjustment.

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 accordance to the Protocols.

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

PG&E is providing the draft 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 allocate to Utility and 20% will remain as non-allocable costs in Corporation.

In general, Corporate Accounting (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.

<u>Methodology</u>

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 2020 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 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 General Rate Case (GRC). Below is the language used in the 2020 GRC: Source https://pgera.azurewebsites.net/Regulation/-> GRC 2020 Ph I:

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.

The non-utility affiliates methodology is used in the GRC. Below is the language used in the 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 2020, PG&E made two accounting method changes:

   i. Accounting Method Change pursuant to Rev. Proc. 2020-25 (filed October 2020) as a result of the Coronavirus Aid, Relief, Economic and Security Act (CARES)3

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ii. Accounting Method Change pursuant to Rev. Proc. 2019-33 (filed October 2020): With the issuance of Rev. Proc. 2019-33, the IRS provided certain procedural guidance regarding bonus depreciation elections.

PG&E is in the process of preparing notifications to FERC and the CPUC regarding these changes and will make available, upon request and to the extent applicable, additional supporting information of these changes during the information request period.

2) No Prior Year related new or revised accounting practices for unusual or unconventional items. Also, see Section V (Other Issues) below for additional issues that may impact the revenue requirement in future annual update filings.

3) At the time of preparing this Draft Annual Update, PG&E is unaware of significant correction of error and prior period adjustments which require reissuance of the FERC Form 1 impacting the Annual True-Up Adjustment calculation. Adjustments identified during the preparation of the filing were excluded from the revenue requirement calculation as reflected in the draft Model and WPs.

4) See item 1 above.

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

There is no reorganization, merger, or sale of transmission asset transactions during 2020.

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

<u>Schedule 15-NUC</u>:

Line 103 includes an accounting adjustment due to the reconciliation between the 2020 Network Upgrade subledger and amount reported in FERC 1. In 2019, there were $3.7M of withdrawn projects not included in the subledger. The details of this adjustment are provided in WP_15-NUC_EOYandBOY.

IV. OTHER ISSUES

A. Allocation of General, Common and Intangible Plant Costs

On December 30, 2020, FERC issued Opinion No. 572 in Docket No. ER16-2320 (TO18) directing PG&E, among other things, to allocate Common, General and Intangible (CGI) Plant using labor ratio in lieu of PG&E's proposed direct assignment method. On April 15, 2021, FERC issued its *Order Addressing Arguments Raised on Rehearing, And Setting Aside Prior Order, In Part* (Rehearing Order) denying PG&E's rehearing request on the issue. PG&E has filed timely appeals with the District of Columbia Court of Appeals regarding both Opinion No. 572 and the Rehearing Order. Pursuant to Section 5.9.2 of the Partial Settlement, PG&E agreed to reflect the final non-appealable decision on the issue of CGI Plant allocation. Because FERC's decision is not yet final and non-appealable, PG&E is reflecting the originally proposed direct assignment method in the Draft Annual Update.

B. Standby Customer Cost Allocation

On October 16, 2020, PG&E filed Docket No. ER21-148-000 with FERC proposing to update to the allocation factor used to determine the portion of TRR to be allocated to the Standby Customer class. FERC accepted PG&E's filing subject to refund, and established hearing and settlement procedures while holding hearings in abeyance in order to provide an opportunity to resolve this matter through settlement negotiations. In the event a decision is issued with respect to the allocation factor for RY2022, PG&E will reflect that allocation factor with the resulting TRR and rates in the Annual Update submitted on December 1, 2021.

C. Tower Coating Program

In the RY2021 Annual Update, we included our Tower Coating Program as a forecasted capital expenditure. PG&E is currently evaluating the appropriate accounting treatment for Tower Coating Program costs (*i.e.*, whether these costs should be expensed or capitalized). In the draft Annual Update, the Tower Coating Program is not included as a forecasted capital expenditure. However, based on the results of our evaluation and potentially direction from the Commission, it may be included in the RY2022 Annual Update filing that we submit to the Commission on December 1, 2021.

D. 2019 Franchise Fees True-up Correction

In the process of producing the draft annual update for RY2022, PG&E has discovered that the 2019 Franchise Fees Factor included in the True-up of 2019 recorded costs was incorrect. PG&E will include the correction in its December 1 filing in accordance to Section 4.6.5 of the Protocols.

E. Gross Load for Wholesale Rates

The gross load displayed in Schedule 28-GrossLoad, Line 100 is the current gross load forecast for RY2021 because the forecast of gross load for RY2022 was not approved for publication in time for the draft update. PG&E will update the draft model and gross load workpaper on PG&E's website once the gross load forecast for RY2022 has been approved for publication.

F. Caltrain Costs

On May 14, 2020, the California Public Utilities Commission (CPUC) approved in Decision (D.) 20-05-008 a settlement agreement between PG&E and the Peninsula Corridor Joint Powers Board (Caltrain) (Caltrain Settlement) regarding allocation of the capital costs required for PG&E to convert and upgrade two PG&E substations (East Grand and FMC) associated with the Caltrain electrification project. The Caltrain Settlement provides that Caltrain shall retain the financial responsibility for 40 percent of the capital costs of PG&E's substation-related construction activities and that the remaining 60 percent of costs shall be allocated to and recovered from PG&E's other customers.

As of May 31, 2021, Caltrain will have paid PG&E just under $95 million in construction costs and associated Income Tax Component of Contribution. PG&E estimates that the total cost of the Caltrain electrification project will be approximately $139 million. More than 90 percent of project costs are attributable to PG&E's network transmission assets. PG&E's allocation between the FERC- and CPUC-jurisdictional costs of the project is based on actual costs incurred to date and cost estimates for the remaining work.

PG&E currently estimates that construction at the East Grand substation will be completed in January 2022 and construction at the FMC substation will be completed in by May 2022. PG&E expects the Caltrain electrification costs in its RY2022 Annual Update submitted on December 1, 2021 will reflect a refined allocation of the forecasted capital costs due to updated actual costs incurred. Furthermore, there may be future adjustments to the Caltrain electrification costs as a result of an independent third-party auditor's assessment of PG&E's construction costs directed by the CPUC as a condition of approval of the Caltrain Settlement.

PG&E will seek approval, from FERC through a Petition for Declaratory Order, of its reimbursement obligation to Caltrain as outlined in the Caltrain Settlement. Until the Petition for Declaratory Order is approved, PG&E is presenting 100 percent of costs associated with the construction of the facilities. PG&E will reduce the Caltrain electrification costs to 60 percent to be recovered from PG&E customers and upon completion of the audit PG&E will further refine the distribution and transmission costs.

V. NEXT STEPS

Pursuant to Section 4 of the Protocols, PG&E will host a one-day video Technical Conference between August 15 and September 1, 2021. Additional information regarding the Technical Conference will be provided in accordance to Section 4.3 of the Protocols.

In support of the Draft Annual Update, PG&E is posting the Excel live draft Model and supporting workpapers on its website.