Description of the WDT3 Draft Annual Update for the Rate Year 2022

Pacific Gas and Electric Company (PG&E) hereby provides for informational purposes its Draft Annual Update to the Formula Rate Model of PG&E's Wholesale Distribution Tariff (WDT) made effective in a rate case proceeding in Federal Energy Regulatory Commission (FERC or Commission) Docket No. ER20-2878-000, *et al* (WDT3) [1], as amended by a partial settlement filing in Docket No. ER20-2878-010[2] ("Partial Settlement"), currently pending Commission approval. The Draft Annual Update is made pursuant to Section 4 of the Formula Rate Protocols and as shown in 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 2022 Rate Year (RY2022). 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 15, 2021 posting of this draft, the information request period begins. PG&E will inform the Interested Parties of the technical conference that will be scheduled between August 15 and September 1, 2021. After incorporating any necessary revisions to the draft made by November 1, 2021, PG&E will submit the RY2022 Annual Update informational filing by December 1, 2021 for the rates and charges that will become effective January 1, 2022.

I. BACKGROUND

On September 15, 2020, 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. Beginning in December 2020, PG&E, the parties to the WDT3 proceeding[3], and FERC Trial Staff have been engaged in on-going settlement discussions.

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[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] The Partial Settlement was filed April 6, 2021 and certified to the Commission on April 30, 2021. *See Pac. Gas & Elec. Co.*, 175 FERC ¶ 63,012 (2021).

[3] The parties to this proceeding are CCSF, Port, PWRPA, Shelter Cove, WAPA, California Public Utilities Commission ("CPUC"), California Municipal Utilities Association ("CMUA"), Calaveras Public Power Agency ("Calaveras"), Tuolumne Public Power Agency ("Tuolumne"), Westlands Water District ("Westlands"), San Diego Gas & Electric Company, City of Santa Clara, California, California Department of Water Resources State Water Project ("SWP" or "CDWR"), Northern California Power Agency ("NCPA"), Irrigation, Reclamation, Water, and Water Storage Districts ("Districts"), Leeward Renewable Energy Development, LLC, California Energy Storage Alliance ("Storage Alliance"), and James Irrigation District.

On April 6, 2020, PG&E submitted to FERC an Offer of Partial Settlement (Partial Settlement) resolving certain Model and Protocol issues and concurrently, a Motion for Interim Rates requesting interim rates to be effective June 1, 2021. On April 14, 2021, the Chief Administrative Law Judge granted the Motion for Interim Rates. After receiving revised Contract Demand values for some points of delivery from wholesale load customers, PG&E made an informational filing at the Commission on May 21, 2021 for revised settlement rates effective June 1, 2021.

Pursuant to the terms of the Partial Settlement, the RY2022 Annual Update uses the Formula Rate as revised by the Partial Settlement.

II. SUMMARY OF DRAFT ANNUAL UPDATE

PG&E's Model provides a DRR for RY2022, which is calculated as the sum of the Prior Year DRR and Customer-specific Annual True-up Adjustments (ATA). The Prior Year DRR represents the distribution costs that PG&E incurred in the previous calendar year, in this instance calendar year 2020 (PY2020). 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. Because the Formula Rate was not in effect in 2020, there are no Customer-specific ATAs in the RY2022 Draft Annual Update.

PG&E's draft proposed total DRR used to calculate Distribution Service Rates for RY2022 is $6,519 million, an increase of $2,077 million or 47% over the Partial Settlement DRR of $4,442 million. This draft proposed total DRR is the sum of the primary DRR, $4,060 million, and secondary DRR, $2,460 million. For RY2022, the proposed allocated DRR for primary service to be recovered from wholesale customers through Distribution Rates is $58.6 million and the proposed allocated DRR for secondary service to be recovered from wholesale customers through Distribution Rates is $8.6 million for a total allocation of $67.2 million.

As reflected in the draft Model, most of the increase in the Prior Year DRR for RY2022 in comparison to RY2021 DRR (based on a Prior Year of 2019) are: (1) $1,639 million increase to O&M expenses; (2) $277 million increase to A&G expenses; (3) $42.3 million increase to income taxes; and (4) $12 million increase to depreciation 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.

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 allocate 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 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 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.

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);

   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 provided notice to FERC (and the CPUC) on June 14, 2021 of these accounting method changes that PG&E filed with the IRS during the 2020 tax year.

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

3) There are no error corrections or prior period adjustments that impact an ATA. As explained above, the RY2022 Annual Update contains no Customer-specific ATAs.

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 2020.

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 ISSUES

Known errors at time of posting

PG&E is aware that WP_24-Allocators_Labor, the Workpaper that supports Schedule 24-Allocators: 1) contains an O&M cost adjustment amount that does not reconcile to the amount shown in WP_18-OandM, and 2) does not correctly reflect Non-tariffed Products and Services (NP&S) as agreed to and previously addressed when error corrections were incorporated into the Model. With respect to NP&S, the correction will impact other parts of the Model in addition to Schedule 24-Allocators.

These errors became known to PG&E too late to be corrected in time for the Draft Annual Update posting on July 15. PG&E commits to correcting these and any other errors of which it becomes aware.

Depreciation rates

Pursuant to Section 5.2 of the Partial Settlement, PG&E has used the depreciation rates authorized in CPUC Decision D.20-12-005 dated December 3, 2020 for the 2020 GRC in calculating RY2022 distribution rates. Schedule 12-DepRates has been revised to reflect these depreciation rates.

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 with Section 4.3 of the Protocols.