PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298

Pacific Gas & Electric Company
ELC (Corp ID 39)
Status of Advice Letter 4431G/6183E
As of June 3, 2021

Subject: Copy of Request to the Internal Revenue Service in Compliance with 2017 GRC Decision 19-08-023 Ordering Paragraph 6 and 2015 GT&S Decision 19-08-021 Ordering Paragraph 6

Division Assigned: Energy

Date Filed: 05-07-2021

Date to Calendar: 05-12-2021

Authorizing Documents: D1908023

Authorizing Documents: D1908021

Disposition:	**Accepted**
Effective Date:	**05-07-2021**

PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298

Resolution Required: No

Resolution Number: None

Commission Meeting Date: None

CPUC Contact Information:

edtariffunit@cpuc.ca.gov

AL Certificate Contact Information:

Stuart Rubio
415-973-4587
PGETariffs@pge.com

STATE OF CALIFORNIA **GAVIN NEWSOM,** *Governor*

PUBLIC UTILITIES COMMISSION
505 Van Ness Avenue
San Francisco CA 94102-3298

To: Energy Company Filing Advice Letter

From: Energy Division PAL Coordinator

Subject: Your Advice Letter Filing

The Energy Division of the California Public Utilities Commission has processed your recent Advice Letter (AL) filing and is returning an AL status certificate for your records.

The AL status certificate indicates:

Advice Letter Number
Name of Filer
CPUC Corporate ID number of Filer
Subject of Filing
Date Filed
Disposition of Filing (Accepted, Rejected, Withdrawn, etc.)
Effective Date of Filing
Other Miscellaneous Information (e.g., Resolution, if applicable, etc.)

The Energy Division has made no changes to your copy of the Advice Letter Filing; please review your Advice Letter Filing with the information contained in the AL status certificate, and update your Advice Letter and tariff records accordingly.

All inquiries to the California Public Utilities Commission on the status of your Advice Letter Filing will be answered by Energy Division staff based on the information contained in the Energy Division's PAL database from which the AL status certificate is generated. If you have any questions on this matter please contact the:

Energy Division's Tariff Unit by e-mail to
edtariffunit@cpuc.ca.gov

Pacific Gas and Electric Company

Sidney Dietz
Director
Regulatory Relations

Pacific Gas and Electric Company
77 Beale St., Mail Code B13U
P.O. Box 770000
San Francisco, CA 94177

Fax: 415-973-3582

May 7, 2021

Advice 4431-G/6183-E
(Pacific Gas and Electric Company U 39 M)

Public Utilities Commission of the State of California

Subject: **Copy of Request to the Internal Revenue Service in Compliance with 2017 GRC Decision 19-08-023 Ordering Paragraph 6 and 2015 GT&S Decision 19-08-021 Ordering Paragraph 6**

Purpose

Pacific Gas and Electric Company (PG&E) is submitting a private letter ruling (PLR) to the Internal Revenue Service (IRS) seeking guidance on the computation of the Average Rate Assumption Method permissible under the tax normalization rules. PG&E's 2017 General Rate Case (GRC) Petition for Modification (PFM) Decision (D.) 19-08-023 Ordering Paragraph (OP) 6 and 2015 Gas Transmission and Storage (GT&S) rate case PFM D. 19-08-021 OP 6 requires PG&E to file and serve a copy of such PLR at least 30 days before PG&E's submission to the IRS. This is an information only submittal.

Background

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law and introduced new federal tax laws that substantially impacted PG&E beginning in the 2018 tax year. In particular, the TCJA provided for a reduction in PG&E's corporate federal income tax rate from 35% to 21% and specified a methodology to return excess tax reserves to customers (Average Rate Assumption Method[1] (ARAM)).

PG&E filed a PFM with respect to its 2017 GRC and 2015 GT&S rate case filings on March 30, 2018 to update its revenue requirements due to the TCJA tax law changes. PG&E updated its post-test year revenue requirements related to tax expense to reflect the corporate tax rate change and ARAM for 2018 and 2019.

Generally, the Internal Revenue Code (IRC) allows accelerated tax depreciation for public utility property only if the normalization method of accounting is used in rate cases in

[1] TCJA, Public Law 115-95, Section 13001(d).

accordance with IRC Section 168(i)(9).[2] Accumulated Deferred Income Taxes (ADIT) that arose as a result of the accelerated tax depreciation are “protected” by these normalization rules. When the TCJA reduced the corporate tax rate from 35% to 21%, excess ADIT arose for the 14% rate reduction. The TCJA provided that taxpayers subject to the normalization method of accounting must normalize the return of the excess ADIT. Specifically, the TCJA provided that if an excess ADIT is reduced more rapidly or to a greater extent than such reserve would be reduced under the Average Rate Assumption Method (ARAM), then the taxpayer will not be treated as using a normalization method of accounting with respect to the corporate rate reduction.

In the 2017 GRC PFM decision and the 2015 GT&S PFM decision, the Commission disagreed with PG&E regarding the application of ARAM to excess ADIT, specifically with respect to the treatment of ADIT for Cost of Removal (COR). PG&E believed, and continues to believe, that the Commission order to include COR in the ARAM calculation results in a normalization violation because it reduces PG&E’s excess ADIT for protected public utility property more rapidly or to a greater extent than what the enacted normalization rules allow.

The Commission acknowledged in both PFM decisions that PG&E could request a PLR from the IRS regarding whether the normalization rules do not apply to COR in the ARAM calculation for the return of excess deferred taxes to ratepayers. PG&E intends to file a PLR on this issue.

The 2017 GRC PFM D.19-08-023 Ordering Paragraph 6 stated that:

> 6. If Pacific Gas and Electric Company requests a private letter ruling from the Internal Revenue Service (IRS) concerning application or interpretation of the Tax Cuts and Jobs Act, it shall file and serve a copy of its intended request as a Tier 1 advice Letter at least 30 days before sending the request to the IRS.

Consistently, the 2015 GT&S PFM D.19-08-021 Ordering Paragraph 6 stated that:

> 6. If Pacific Gas and Electric Company requests a private letter ruling from the Internal Revenue Service (IRS) concerning application or interpretation of the Tax Cuts and Jobs Act, it shall file and serve a copy of its intended request as a Tier 1 advice Letter at least 30 days before sending the request to the IRS.

This advice letter is submitted for compliance with the above referenced ordering paragraphs. A summary of PG&E’s draft PLR guidance request is included below.

No action is required from the Commission within the 30 days if you believe the ruling request is complete and accurate.

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[2] IRC Sections 168(f)(2).

PG&E's Private Letter Ruling Request Submission to the IRS

PG&E is requesting the following guidance from the IRS, as paraphrased from the attached draft PLR, which is attached as Appendix A:

1. Is including Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes attributable to depreciation to ratepayers inconsistent with normalization requirements? [Ruling Request Ordered by CPUC. Decision 19 08 021 (Aug. 15, 2019) at 30.]

2. Is the method proposed by Taxpayer consistent with the depreciation normalization rules of section168(i)(9) of the Internal Revenue Code of 1986, as amended ("Code"), Treas. Reg. §1.167(l)-1, former section 167(1) of the Code, and section 13001(d) of the Tax Cuts and Jobs Act, Pub. L. 115-97 ("Normalization Rules")?

3. If the Service rules that the method proposed by the Commission violates the Normalization Rules, Taxpayer's use of the method proposed by the Commission will not be a violation of the Normalization Rules, provided the Commission (i) approves the method proposed by Taxpayer (or otherwise required by the Service) and (ii) allows Taxpayer to recover any difference in the rates charged to customers under the Commission's proposed method and the Taxpayer's method over a period that does not extend beyond the first two calendar years following the issuance of the Service's ruling.

PG&E would not object if the Commission sought to participate in any Associate office conference concerning the IRS letter ruling request. PG&E respectfully requests that if the Commission does seek to participate, that it notify PG&E within 30 days of the submittal of this Information-only advice letter. Should the Commission wish to communicate with the IRS about PG&E's ruling request, any such communication should be sent to:

Internal Revenue Service, Associate Chief Counsel (Procedure and Administration)
Attn: CC:PA:LPD:TSS
P.O. Box 7604, Ben Franklin Station, Washington, DC 20044

Protests

*****Due to the COVID-19 pandemic, PG&E is currently unable to receive protests or comments to this advice letter via U.S. mail or fax. Please submit protests or comments to this advice letter to EDTariffUnit@cpuc.ca.gov and PGETariffs@pge.com*****

Anyone wishing to protest this submittal may do so by letter sent via U.S. mail, facsimile or E-mail, no later than **May 27**, **2021**, which is 20 days after the date of this submittal. Protests must be submitted to:

CPUC Energy Division
ED Tariff Unit
505 Van Ness Avenue, 4th Floor
San Francisco, California 94102

Facsimile: (415) 703-2200
E-mail: EDTariffUnit@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest shall also be sent to PG&E either via E-mail or U.S. mail (and by facsimile, if possible) at the address shown below on the same date it is mailed or delivered to the Commission:

Sidney Dietz
Director, Regulatory Relations
c/o Megan Lawson
Pacific Gas and Electric Company
77 Beale Street, Mail Code B13U
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-3582
E-mail: PGETariffs@pge.com

Any person (including individuals, groups, or organizations) may protest or respond to an advice letter (General Order 96-B, Section 7.4). The protest shall contain the following information: specification of the advice letter protested; grounds for the protest; supporting factual information or legal argument; name, telephone number, postal address, and (where appropriate) e-mail address of the protestant; and statement that the protest was sent to the utility no later than the day on which the protest was submitted to the reviewing Industry Division (General Order 96-B, Section 3.11).

Effective Date

PG&E requests that this **Tier 1** advice submittal become effective upon date of submittal, which is **May 7, 2021**.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for **A.15-09-001 and A.13-12-012**. Address changes to the General Order 96-B service list should be directed to PG&E at email address PGETariffs@pge.com. For changes to any other service list, please contact the Commission's Process Office at (415) 703-2021 or at Process_Office@cpuc.ca.gov. Send all electronic approvals to PGETariffs@pge.com. Advice letter submittals can also be accessed electronically at: http://www.pge.com/tariffs/.

/S/

Sidney Dietz
Director, Regulatory Relations

Attachments

cc: Service List A.15-09-001 and A.13-12-012

ADVICE LETTER SUMMARY

ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.: Pacific Gas and Electric Company (U 39 M)

Utility type:
- ☑ ELC
- ☑ GAS
- ☐ WATER
- ☐ PLC
- ☐ HEAT

Contact Person: Stuart Rubio
Phone #: (415) 973-4587
E-mail: PGETariffs@pge.com
E-mail Disposition Notice to: SHR8@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas WATER = Water
PLC = Pipeline HEAT = Heat

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #: 4431-G/6183-E

Tier Designation: 1

Subject of AL: Copy of Request to the Internal Revenue Service in Compliance with 2017 GRC Decision 19-08-023 Ordering Paragraph 6 and 2015 GT&S Decision 19-08-021 Ordering Paragraph 6

Keywords (choose from CPUC listing): Compliance

AL Type: ☐ Monthly ☐ Quarterly ☐ Annual ☑ One-Time ☐ Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:
D. 19-08-023, 19-08-021

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL: N/A

Confidential treatment requested? ☐ Yes ☑ No

If yes, specification of confidential information:
Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? ☐ Yes ☑ No

Requested effective date: 5/7/21

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: N/A

[1]Discuss in AL if more space is needed.

Clear Form

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

<table>
<tr>
<td rowspan="2">CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102
Email: EDTariffUnit@cpuc.ca.gov</td>
<td>Name: Sidney Dietz, c/o Megan Lawson
Title: Director, Regulatory Relations
Utility Name: Pacific Gas and Electric Company
Address: 77 Beale Street, Mail Code B13U
City: San Francisco, CA 94177
State: California Zip: 94177
Telephone (xxx) xxx-xxxx: (415)973-2093
Facsimile (xxx) xxx-xxxx: (415)973-3582
Email: PGETariffs@pge.com</td>
</tr>
<tr>
<td>Name:
Title:
Utility Name:
Address:
City:
State: District of Columbia Zip:
Telephone (xxx) xxx-xxxx:
Facsimile (xxx) xxx-xxxx:
Email:</td>
</tr>
</table>

Clear Form

APPENDIX A

DRAFT
5/6/21

[Date]

VIA HAND DELIVERY
Associate Chief Counsel
Passthroughs & Special Industries
Internal Revenue Service
Attn: CC:PA:LPD:DRU, Room 5336
1111 Constitution Avenue, NW
Washington, DC 20224

Re: Ruling Request for Pacific Gas and Electric Company (EIN94-0742640)

Dear Sir or Madam:

Your ruling is respectfully requested on behalf of Pacific Gas and Electric Company ("Taxpayer" or "PG&E") regarding the application of the depreciation normalization rules of section168(i)(9) of the Internal Revenue Code of 1986, as amended ("Code"), Treas. Reg. §1.167(l)-1, former section167(1) of the Code, and section 13001(d) of the Tax Cuts and Jobs Act, Pub. L. 115-97, (the "TCJA") (collectively, the "Normalization Rules") to the calculation of the method used by the California Public Utilities Commission (the "CPUC" or the "Commission") in a recent rate proceeding to reflect federal income tax expense reductions for PG&E for excess deferred income taxes ("EDIT") created by the corporate tax rate reduction included in the TCJA.

STATEMENT OF FACTS

Taxpayer Information

Taxpayer is a regulated public utility incorporated under the laws of the State of California. Its employer identification number is 94-0742640, and its principal address and telephone number are:

77 Beale Street
P.O. Box 770000
San Francisco, California 94177
(415) 973-7000

Taxpayer is included in a consolidated U.S. Corporation Income Tax Return filed by an affiliated group of corporations of which PG&E Corporation ("Corp") is the common parent. Corp is an investor-owned energy-based company incorporated under the laws of California and is the common parent of a consolidated group of corporations referred to as "PG&E Corporation and Subsidiaries." Corp's employer identification number is 94-3234914. PG&E Corporation and Subsidiaries file a federal consolidated tax return on a calendar year basis and use an accrual method of accounting.

Corp's principal address and telephone number are:

77 Beale Street
P.O. Box 770000
San Francisco, California 94177
(415) 973-1000

Corp files its tax returns with the Internal Revenue Service Center in Ogden, Utah and is under the audit jurisdiction of the Large Business and International Division of the Internal Revenue Service (the "IRS" or the "Service").

Taxpayer's Business

Taxpayer is a regulated public utility that generates electricity and provides electric transmission and distribution services throughout its service territory in northern and central California. Taxpayer also owns and operates a natural gas transmission, storage, and distribution system with a service territory that includes most of northern and central California. PG&E's electric system includes 106,681 circuit miles of electric distribution lines and 18,466 circuit miles of interconnected transmission lines. PG&E's gas system includes 43,300 miles of natural gas distribution pipelines and 6,438 miles of transmission pipelines.

Taxpayer's Rate Regulation

Taxpayer's rates for electricity and natural gas utility services are subject to the jurisdiction of the CPUC and the Federal Energy Regulatory Commission ("FERC"). Both regulators set rates at levels that are intended to allow Taxpayer an opportunity to recover its costs of providing service, including a return on invested capital ("cost-of service, rate of return ratemaking"). Before setting rates, the CPUC and FERC conduct proceedings to determine the amounts that Taxpayer will be authorized to collect from its customers ("revenue requirements"). Taxpayer's base revenue requirements are established mainly in three different proceedings. Taxpayer's electric transmission business is rate-regulated by the FERC through a transmission owner formula rate. Taxpayer's gas and electric distribution and electric generation businesses are rate-regulated by the CPUC, typically in general rate case ("GRC") proceedings conducted every three years. Taxpayer's gas transmission and storage ("GT&S") businesses are also rate regulated in CPUC proceedings conducted every three or four years. In 2023, Taxpayer expects that its GT&S rate proceedings will be merged into its GRC.

This ruling request involves the CPUC's recent decisions in Taxpayer's Petition for Modification of its 2017 GRC[1] and its 2015 GT&S[2] rate cases (each a "PFM" and collectively "PFMs") to reflect revenue requirement reductions resulting from the corporate income tax rate reduction and other changes provided in the TCJA.

<u>Taxpayer's PFMs</u>

Taxpayer filed its PFMs on March 30, 2018. The PFM's were filed to reflect revenue requirement reductions related to the tax changes included in the TCJA. Specifically, the PFM's covered the following four TCJA changes:

1. The federal corporate income tax rate reduction from 35 percent to 21 percent, effective January 1, 2018,[3]
2. Normalization of the return of EDIT to customers,[4]
3. The repealed section 199 of the Code, Manufacturing Tax Deduction, effective January 1, 2018,[5] and

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1 PETITION FOR MODIFICATION OF DECISION 17-05-013 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO REFLECT TAX CHANGES. Copy Attached as Exhibit 1.

2 PETITION FOR MODIFICATION OF DECISION 16-06-056 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) TO REFLECT TAX CHANGES. Copy attached as Exhibit 2.

3 Section 13001(a) of the TCJA.

4 Section 13001(d) of the TCJA.

5 Section 13305 of the TCJA.

4. Bonus depreciation changes.[6]

This request for your ruling is with respect to the methodology used to return EDIT to customers (item 2, above). Prior to 2018, Taxpayer computed timing differences between (i) book depreciation, including salvage value and cost of removal ("COR") expense, and (ii) tax deductions for tax depreciation and incurred COR. Taxpayer's tax depreciation exceeds its book depreciation in the early years of an asset's life and its book depreciation exceeds its tax depreciation in the later years of an asset's life. In contrast, Taxpayer's book COR expense precedes its tax deduction for COR because it books COR over the life of the asset and only receives a tax deduction when the COR is incurred at the end of the asset's life. These annual timing differences resulted in a net accumulated deferred income tax ("ADIT") liability at December 31, 2017, based on the 35 percent corporate tax rate, which was in effect prior to the TCJA.

As a result of the corporate tax rate reduction provided by the TCJA, Taxpayer no longer expects to pay deferred taxes attributable to depreciation to the government or obtain a tax benefit when it incurs COR at the 35 percent rate at which these deferred tax amounts were accumulated. Rather, Taxpayer expects to pay those future taxes and receive those future tax benefits at the reduced 21 percent rate.

Taxpayer proposed to the CPUC the normalization of these excess deferred taxes attributable to depreciation and COR over the remaining life of the underlying property. The excess tax reserve attributable to depreciation is reduced by multiplying—(i) the ratio of the aggregate deferred taxes for the assets to the aggregate timing differences for the assets as of the beginning of the period in which the depreciation timing differences begin to reverse, by (ii) the amount of the depreciation (not including COR) timing differences which reverse during the year. This computation reduces all deferred taxes, including excess deferred taxes, over the life of the property. The excess deferred tax asset attributable to COR is reduced ratably over the remaining life of the asset leaving a deferred tax debit at the end of asset's life equal to the product of the new tax rate and the COR. At the end of the asset's life, that balance (deferred tax

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6 Section 13201(d) of the TCJA.

asset) is removed from the deferred tax account to account for the realization of the tax benefit from the deduction of the COR at the end of the asset's life.

The CPUC rendered its final decisions on PG&E's PFMs in August 2019.[7] In its final decision, the CPUC included the following in its order:

> Pacific Gas and Electric Company (PG&E) shall ensure that its calculations of the revenue requirement reductions due to the Tax Cuts and Jobs Act (TCJA) of 2017 comply with the following instructions:
>
> i. PG&E's estimated revenue requirement reductions shall quantify the amount of unprotected excess Accumulated Deferred Income Taxes (ADIT), which can be returned to ratepayers without following the Average Rate Assumption Method (ARAM); and
>
> ii. PG&E's estimated revenue requirement reductions shall quantify the use of ARAM where it is required such that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

D. 19 08 021 at 29 (Aug 15, 2019).

The primary difference between CPUC and PG&E's positions is with respect to the treatment of COR in the ARAM calculation. FERC has, by regulation, established Uniform Systems of Accounts ("USOAs") for both jurisdictional electric and gas companies. These USOAs prescribe the accounting rules which are used by most large investor-owned electric and gas companies and are employed by Taxpayer. The applicable FERC regulations contain several definitions relevant to Taxpayer's inquiry. These definitions are the same in both the electric and gas USOAs. Specifically, the USOAs define:

> "cost of removal" as "the cost of demolishing, dismantling, tearing down or otherwise removing . . . plant, including the cost of transportation and handling incidental thereto." (definition 10 in both USOAs).
>
> "salvage value" as "the amount received for property retired, less any expenses incurred in connection with the sale or in preparing

7 DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 17-05-013 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY, D. 19 08 023 (AUG 15, 2019); DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 16-06-056 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY, D. 19 08 021 (AUG 15, 2019). Copies attached as Exhibits 3, and 4.

> the property for sale . . ." (definition 34 and 35 for electric and gas, respectively).
>
> "net salvage value" as "the salvage of property retired less the cost of removal." (definition 19 and 23 for electric and gas, respectively).
>
> "service value" as "the difference between original cost and net salvage value of . . . plant . . ." (definition 35 and 36 for electric and gas, respectively).
>
> "depreciation" as "the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance . . ." (definition 12 and 12.B. for electric and gas, respectively).

Thus, for purposes of regulatory (book) reporting, the net positive value or net cost of disposing of an asset at the end of its life is incorporated into the annual depreciation charge. Salvage value and COR are, therefore, components of establishing the applicable book depreciation rate. The combined rate (depreciation, salvage and COR) is considered the Composite Rate that is approved by the CPUC. Taxpayer did not account separately for COR and salvage value from depreciation prior to 2018; thereafter Taxpayer tracked and continues to track its salvage and COR reserves separately from its accumulated depreciation reserve in its property-related deferred tax records.

For example, if an asset having an original cost of $1,000 has a ten-year life, has a $100 salvage value and no COR, the applicable annual life depreciation rate would be 10 percent and the salvage rate would be -1 percent, thereby producing a Composite Rate of 9 percent. The utility would recover $900 as cost of service over the ten-year life of the asset. If that same asset (the $1,000 asset having a ten-year life and a $100 salvage value) also has a $200 COR, and thus a $100 net negative salvage value ($100 salvage value less $200 COR), the applicable annual depreciation rate would be 10 percent, the COR rate would be 2 percent and the salvage rate would be -1 percent, resulting in a Composite Rate of 11 percent. At the end of ten years, the utility would recover $1,100 as a cost of service over the ten-year life of the asset, which is $100 more than the cost of the original asset, which in addition to the salvage value of $100, offsets the $200 COR required at the end of the asset's life. In Taxpayer's case, due to the amount of

COR it anticipates, in almost all instances its assets have negative net salvage values so that its composite book depreciation rates are higher than they would be were net salvage value not considered.

The following series of examples illustrates Taxpayer's accounting for deferred taxes, its proposed ARAM computation, and the CPUC method computation.

Example 1. Accounting for Deferred Taxes. Assume the taxpayer acquires an asset in Year 1 at a tax and book (regulatory) cost of $1,000, a 10-year book life and a COR of $200.[8] Further assume the tax rate is 35 percent and is expected to remain 35 percent through the life of the asset, that the taxpayer will use straight-line depreciation for book (regulatory) purposes and the cost of the asset will be depreciated for tax purposes fully in the year of acquisition.

Table 1 - Example 1
Accounting for $1,000 Asset over 10-Year Life
35 Percent Tax Rate

	Book			Tax			Deferred Taxes			
		Cost of	Tax		Cost of	Tax				
Year	Depreciation	Removal	Benefit	Depreciation	Removal	Benefit	Asset	Liability	Net	Balance
1	100	20	42	1000		350	7	-315	-308	-308
2	100	20	42				7	35	42	-266
3	100	20	42				7	35	42	-224
4	100	20	42				7	35	42	-182
5	100	20	42				7	35	42	-140
6	100	20	42				7	35	42	-98
7	100	20	42				7	35	42	-56
8	100	20	42				7	35	42	-14
9	100	20	42				7	35	42	28
10	100	20	42		200	70	-63	35	-28	0
	1000	200	420	1000	200	420	0	0	0	

As reflected in Table 1, the book accounting for the asset spreads the depreciation expense, COR and the related tax benefits from the asset's depreciation and COR over the life of the asset, the taxpayer receives the depreciation tax benefit in year one and the cost of removal tax benefit at the end of the asset's life, but the taxpayer provides those benefits to its customers over the life of the asset consistent with a normalization method of accounting. In the first year, the tax depreciation tax benefit of $350 ($1,000 tax depreciation x 35% tax rate) is reflected in the taxpayer's books as a $350 current tax benefit. It is offset by the book depreciation tax cost

8. Salvage value is ignored in all examples because it is not implicated in the issue presented. Taxpayer normalizes salvage value as required by the Normalization Rules.

($100 book depreciation x 35% tax rate) resulting in $315 deferred tax that establishes the deferred tax liability which the taxpayer expects to pay to the government over the remaining life of the asset ($315 / 9 remaining life = $35 per year). In contrast, the taxpayer charges the customer for the COR over the life of the asset ($20 per year) and provides a $7 tax benefit ($20 COR x 35% tax rate) on that cost annually to the customer. This is so even though the taxpayer does not receive the current tax benefit for COR as a reduction of taxes paid until the COR is incurred in the last year of the asset's life. As the taxpayer provides the tax benefit of the COR over the life of the asset, it accumulates a deferred tax asset which it will recover when it receives the current tax benefit from the COR deduction in the final year of the asset's life.

Over the life of the asset the taxpayer receives recovery of its $1,000 investment in the asset and its $200 COR through book depreciation expense included in its cost of service. The annual deferred tax liability reflects the annual net cash benefit the taxpayer receives from the deferral of its tax liability for the accelerated tax depreciation deduction over the life of the asset. Taxpayer and the CPUC agree that the deferred tax liability balance attributable to the accelerated tax depreciation deduction is protected by the Normalization Rules because it is attributable to the differences between tax and book depreciation. The deferred tax asset attributable to COR is not protected under the Normalization Rules because COR is not a tax depreciation deduction under section 168(k) of the Code, but rather a deduction under section 162 of the Code. See PLR 202033002 (Aug. 13, 2020) (section 168(i)(9)(A) of the Code does not refer to COR and it is an acceleration of taxes, not a deferral; COR is a deduction under section 162 of the Code and not related to accelerated tax depreciation). Nonetheless, Taxpayer normalizes the COR by providing customers with the tax benefit of COR over the life of the asset, which tax benefit Taxpayer will receive when it incurs COR at the end of the asset's life.

<u>Difference of the Parties</u>. The Commission's position is that the COR component of book depreciation should be included in the annual timing difference used in the ARAM computation that PG&E uses to amortize EDIT, while PG&E contends that including the COR component of book depreciation in the annual timing difference used in the ARAM calculation accelerates the amortization of EDIT beyond that which is permissible under the Normalization Rules. The CPUC explained its position as follows:

> PG&E has consistently normalized the benefits of accelerated depreciation derived from its depreciable basis and it is our intention that PG&E continues to normalize the benefits of the TCJA. Historically, PG&E has included COR in its calculation of ADIT. To change now and exclude COR from the ARAM calculation would increase the tax expense for current customers in excess of the benefit they received from the asset. Therefore, we believe it is consistent with the IRC normalization rules for us to require PG&E to continue to include COR in its calculation of excess ADIT when calculating ARAM. [footnote omitted]

D. 19 08 021 (Aug. 15, 2019) at 18.

There is no dispute between the parties on the determination of the EDIT or ADIT amounts for both depreciation and COR. The dispute is with respect to the amount of book depreciation to which the average rate is applied under ARAM. The next two examples illustrate the difference between PG&E's proposal and the CPUC method.

Example 2. Accounting for Excess Deferred Taxes – PG&E Proposal.

Assume the same facts as in Example 1, but Year 1 is 2017, the year before the corporate tax rate is reduced from 35 percent to 21 percent in Year 2 (2018).

Table 2 - Example 2
Taxpayer Proposed ARAM Computation

		Book			Tax			Deferred Taxes					
	Tax		Cost of	Tax		Cost of	Tax	Cost of Removal		Depreciation		Excess Balance	
Year	Rate	Depreciation	Removal	Benefit	Depreciation	Removal	Benefit	Regular	Excess	Regular	Excess	Unprotected	Protected
												Cost of Removal	Depreciation
1	35%	100	20	42.0	1000		350	7.0		-315			
Beg. 2								4.2	2.8	-189	-126	2.8	-126
End 2	21%	100	20	25.2				4.2	-0.3	21	14	2.5	-112
3	21%	100	20	25.2				4.2	-0.3	21	14	2.2	-98
4	21%	100	20	25.2				4.2	-0.3	21	14	1.9	-84
5	21%	100	20	25.2				4.2	-0.3	21	14	1.6	-70
6	21%	100	20	25.2				4.2	-0.3	21	14	1.2	-56
7	21%	100	20	25.2				4.2	-0.3	21	14	0.9	-42
8	21%	100	20	25.2				4.2	-0.3	21	14	0.6	-28
9	21%	100	20	25.2				4.2	-0.3	21	14	0.3	-14
10	21%	100	20	25.2		200	42	-37.8	-0.3	21	14	0.0	0
		1000	200	268.8	1000	200	392	0.0	0.0	0	0		

As in Example 1, in Example 2, the asset is placed in service and its cost is fully deducted for tax purposes in Year 1 when the tax rate is 35 percent, but in Example 2, the tax rate is reduced to 21 percent beginning in Year 2. Also, as in Example 1, COR expense is recorded each year of the asset's life on the books and the COR incurred is deducted in the final year of the asset's life for tax purposes. Since the entire timing difference for the depreciation was recorded as a deferred tax based on a tax rate of 35 percent in Year 1, the average rate for the reversal of the timing difference is 35 percent. Each year Taxpayer proposes to record a debit (reduction in its total deferred tax liability) based on the application of the average rate to the annual depreciation timing difference, which is 35 percent x $100 in this example.

In Year 1, the COR timing difference resulted in $7 debit to the deferred tax account based on the 35 percent tax rate applied to the $20 timing difference derived from a book expense in excess of the tax deduction for COR in Year 1(35% x ($20 - $0)). Once the tax rate change is effective in Year 2, the depreciation timing difference begins to reverse at the average rate of 35 percent (21% at the new rate and 14% for the excess deferred tax liability created in Year 1) and the COR timing difference and deferred tax asset continue to grow, but now the deferred tax asset grows at a 21 percent rate. The excess deferred tax asset recorded for COR in Year 1 ($7 - $4.2 = $2.8), is recovered over the remaining life of the asset. The COR timing difference will reverse in Year 10 when the cost is incurred and deducted for tax purposes. The reversal of this COR timing difference in Year 10 will eliminate the deferred tax asset accumulated over the life of the asset.

The taxpayer's method is illustrated by the items that are reported in Year 10: First, the final year of the reversal of the deferred tax liability for the depreciation timing difference of $35 is recorded reducing the deferred tax liability to zero. This is the sum of the reversal at the current tax rate (21% x $100 = $21) and the final year for the recovery of the excess deferred tax liability (14% x $100 = $14). Second, (3) the final year's addition to the deferred tax asset for the COR timing difference is made at the current rate ($20 x 21% = $4.2) and the COR deferred tax asset is eliminated as a result of the taxpayer incurring the COR at the 21 percent rate ($200 x 21% = $42.0). These two items produce the net credit to the deferred tax account of $37.8 ($4.2 - $42 = $37.8). Finally, under the Taxpayer's proposed method to normalize the reversal of the excess deferred tax asset for the COR that arose in Year 1 (14% x 20 = 2.8), the excess deferred tax asset is amortized over the regulatory life of the property until the final year's recovery of the excess deferred tax asset is recorded (-$0.3 per year).

<u>Example 3. Accounting for Excess Deferred Taxes – CPUC Method</u>.

Example 3 uses the same facts as Example 2 but reduces the December 31, 2017, deferred tax balance by applying the average rate (35%) to the total of the depreciation and COR timing differences.

Table 3 - Example 3
CPUC Method

		Book			Tax			Deferred Taxes					
	Tax		Cost of	Tax		Cost of	Tax	Cost of Removal		Depreciation		Excess Balance	
Year	Rate	Depreciation	Removal	Benefit	Depreciation	Removal	Benefit	Regular	Excess	Regular	Excess	Unprotected	Protected
												Cost of Removal	Depreciation
1	35%	100	20	42.0	1000		350	7.0		-315			
Beg. 2								4.2	2.8	-189	-126	2.8	-126
End 2	21%	100	20	25.2				4.2	-0.3	21	16.8	2.5	-109
3	21%	100	20	25.2				4.2	-0.3	21	16.8	2.2	-92
4	21%	100	20	25.2				4.2	-0.3	21	16.8	1.9	-76
5	21%	100	20	25.2				4.2	-0.3	21	16.8	1.6	-59
6	21%	100	20	25.2				4.2	-0.3	21	16.8	1.2	-42
7	21%	100	20	25.2				4.2	-0.3	21	16.8	0.9	-25
8	21%	100	20	25.2				4.2	-0.3	21	16.8	0.6	-8
9	21%	100	20	25.2				4.2	-0.3	21	8.4	0.3	0
10	21%	100	20	25.2		200	42	-37.8	-0.3	21		0	0
		1000	200	268.8	1000	200	392	0.0	0.0	0	0.0		

As in Example 2, the initial deferred tax balance is a deferred tax asset of $7 for COR and a deferred tax liability of $315 for the depreciation or a net deferred tax liability of $308. Based on this composite account the average rate is 35 percent ($308 deferred tax balance / $880 aggregate timing difference at the end of Year 1 when the tax reduction occurs). The aggregate timing difference begins its reversal in Year 2 and under the CPUC method, 35 percent average rate is applied to the total timing difference attributable to both depreciation that is reversing and the new COR timing difference that is arising ($100 + $20 = $120). This is so even though the timing difference for COR continues to accumulate and does not reverse until Year 10. The reversing depreciation timing difference in Example 3 is augmented by the newly arising COR timing difference accelerates the annual recovery of the deferred tax liability attributable to depreciation from $35 to $42, in the example ($120 x 35%). The $7 increase is caused by the inclusion of the $20 COR in the reversal of the depreciation timing difference.

The comparison of Example 3 to Example 2 shows that, while the depreciation timing difference in both examples occurs over the remaining life of the asset (Years 2 – 10), the inclusion of the additional $20 as depreciation in Example 3, accelerates the period over which the original $126 excess deferred tax liability is recovered from nine years in Example 2 to seven and one-half years in Example 3. The additional $2.8 ($16.8 - $14) annual recovery in Example 3 is attributable to the $20 COR accrual treated as depreciation at the 14 percent excess tax rate.

While the Commission's method (Example 3) accelerates the recovery of the excess deferred tax attributable to depreciation over the taxpayer's method (Example 2), in both examples, the annual accrual of the deferred tax asset attributable to the COR is the same ($4.2 per year), the annual recovery of the excess accrual in Year 1 is the same ($0.3 per year), and the recovery of the COR deferred tax debit in Year 10 is the same ($42).

In the event that PG&E requests and receives a private letter ruling from the IRS or if the IRS issues specific guidance on this matter in any other form, the CPUC directed PG&E to comply with the IRS's interpretation of the applicable tax laws by filing with the CPUC to seek an appropriate adjustment to its revenue requirement and/or rate base. Decision 19 08 021 (Aug. 15, 2019) at 30; Decision D. 19 08 023 (Aug 15, 2019) at 33. PG&E is tracking the difference between its method and the CPUC method, and expects the CPUC will allow it recover the acceleration of the protected deferred taxes over a period of up to two years, if the IRS concludes that the CPUC method is not a normalization method of accounting as required by the Normalization Rules. The CPUC also ordered PG&E to request ruling number one, below, in the event PG&E requested a private letter ruling.

RULINGS REQUESTED

1. Is including Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes attributable to depreciation to ratepayers inconsistent with normalization requirements? [Ruling Request Ordered by CPUC. Decision 19 08 021 (Aug. 15, 2019) at 30.]
2. Is the method proposed by Taxpayer consistent with the depreciation normalization rules of section168(i)(9) of the Internal Revenue Code of 1986, as amended ("Code"), Treas. Reg. §1.167(l)-1, former section167(1) of the Code, and section 13001(d) of the Tax Cuts and Jobs Act, Pub. L. 115-97 ("Normalization Rules")?
3. If the Service rules that the method proposed by the Commission violates the Normalization Rules, Taxpayer's use of the method proposed by the Commission will not be a violation of the Normalization Rules, provided the Commission (i) approves the method proposed by Taxpayer (or otherwise required by the Service) and (ii) allows Taxpayer to recover any difference in the rates charged to customers under the Commission's proposed method and

the Taxpayer's method over a period that does not extend beyond the first two calendar years following the issuance of the Service's ruling.

STATEMENT OF LAW

Section 167 of the Code allows for a depreciation deduction for a reasonable allowance for exhaustion, wear and tear of property used in a trade or business.

Section 168 of the Code establishes the modified accelerated cost recovery system ("MACRS").

Section 168(f)(2) of the Code provides that MACRS depreciation does not apply to any public utility property if the taxpayer fails to use a normalization method of accounting.

Section 168(i)(9) of the Code describes the requirements necessary to conform to a normalization method of accounting. Section 168(i)(9)(A) of the Code provides that if a utility does not use its regulatory depreciation for tax purposes, it must make an adjustment to a reserve to reflect the deferral of taxes resulting from the difference between its regulatory depreciation and its tax depreciation. Similarly, Treas. Reg. § 1.167(l)-1(h)(1)(b) provides that any tax deferral attributable to accelerated depreciation must be reflected in a reserve account. Section 168(i)(9)(B) of the Code provides that one way the normalization rules are not satisfied is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which uses an estimate or projection of tax expense, depreciation expense, or a reserve for deferred taxes unless such estimate or projection is also used with respect to the other two items and with respect to rate base. This is generally referred to as "the Consistency Rule." Former section 168(e)(3)(C) of the Code, predecessor to section 168(i)(9)(B) of the Code, was enacted to strengthen the prohibition against flow-through accounting for accelerated depreciation. H.R. Rep. No. 827, 97th Cong., 2d Sess. 3 (1982). Section 168(i)(9)(B) of the Code provides that ratemaking procedures and adjustments must be consistent with the requirements of normalization accounting. Treas. Reg. § 1.167(l)-1(h)(6) sets forth additional normalization requirements with respect to public utility property.

The TCJA generally reduced the corporate tax rate under section 11 of the Code from 35 percent to 21 percent for taxable years beginning after December 31, 2017. Section 13001(a) of the TCJA. Section 13001(d) of the TCJA includes uncodified normalization requirements related to the reduction of the corporate tax rate. Section 13001(d)(1) of the TCJA provides:

> A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section167 or 168 [of the Code] if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve [EDIT] more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method [ARAM].

This provision extends the Normalization Rules to the EDIT created by the tax rate reduction and provides a limitation [ARAM] on the extent to which such protected reserve may permissibly be reduced.[9]

Section 13001(d)(3)(A) defines EDIT as:

> the excess of—(i) the reserve for deferred taxes (as described in section 168(i)(9)(A)(ii) of the Internal Revenue Code of 1986) as of the day before the corporate rate reductions . . . take effect, over (ii) the amount which would be the balance in such reserve if the amount of such reserve were determined by assuming that the corporate rate reductions provided in this Act were in effect for all prior periods.

Section 13001(d)(3)(B) of the TCJA defines ARAM as follows:

> The average rate assumption method is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in its regulated books of account which gave rise to the reserve for deferred taxes. Under such method, during the time period in which the timing differences for the property reverse, the amount of the adjustment to the reserve for the deferred taxes is calculated by multiplying—(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by (ii) the amount of the timing differences which reverse during such period.

The Conference Report to the TCJA explains ARAM in the following manner:

> The average rate assumption method reduces the excess tax reserve over the remaining regulatory lives of the property that gave rise to the

9 The TCJA also provides an alternative method to ARAM for certain taxpayers, but Taxpayer neither uses that alternative method nor is the alternative method implicated in this request.

> reserve for deferred taxes during the years in which the deferred tax reserve related to such property is reversing. Under this method, the excess tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset. The reversal of timing differences generally occurs when the amount of the tax depreciation taken with respect to an asset is less than the amount of the regulatory depreciation taken with respect to the asset. To ensure that the deferred tax reserve, including the excess tax reserve, is reduced to zero at the end of the regulatory life of the asset that generated the reserve, the amount of the timing difference which reverses during a taxable year is multiplied by the ratio of (1) the aggregate deferred taxes as of the beginning of the period in question to (2) the aggregate timing differences for the property as of the beginning of the period in question.

H.R. Rep No. 115-466, at 343-4 (2017).

The TCJA Conference Report also provides the following illustration of ARAM.

> A calendar year regulated utility placed property costing $100 million in service in 2016. For regulatory (book) purposes, the property is depreciated over 10 years on a straight-line basis with a full year's allowance in the first year. For tax purposes, the property is depreciated over 5 years using the 200 percent declining balance method and a half-year placed in service convention.

NORMALIZATION CALCULATION FOR CORPORATE RATE REDUCTION
(Millions of dollars – Years)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Tax Expense	20	32	19.2	11.52	11.52	5.76	0	0	0	0	100
Book Depreciation	10	10	10	10	10	10	10	10	10	10	100
Timing Difference	10	22	9.2	1.52	1.52	-4.24	-10	-10	-10	-10	0
Tax Rate	35%	35%	21%	21%	21%	31.1%	31.1%	31.1%	31.1%	31.1%	
Annual Adjustment to Reserve	3.5	7.7	1.9	0.3	0.3	-1.3	-3.1	-3.1	-3.1	-3.1	0
Cumulative Deferred Tax Reserve	3.5	11.2	13.1	13.5	13.8	12.5	9.3	6.2	3.1	0.0	
Annual Adjustment at 21%						-0.9	-2.1	-2.1	-2.1	-2.1	-9.3
Annual Adjustment at Average Rate						-1.3	-3.1	-3.1	-3.1	-3.1	-13.8
Excess Tax Reserve						0.4	1.0	1.0	1.0	1.0	4.5

> The excess tax reserve as of December 31, 2017, the day before the corporate rate reduction takes effect, is $4.5 million. The taxpayer will begin taking the excess tax reserve into account in the 2021 taxable year, which is the first year in which the tax depreciation taken with respect to the property is less than the depreciation reflected in the regulated books of account. The annual adjustment to the deferred tax reserve for the 2021 through 2025 taxable years is multiplied by 31.1 percent which is the ratio of the aggregate deferred taxes as of the

> beginning of 2021 ($13.8 million) to the aggregate timing differences for the property as of the beginning of 2021 ($44.2 million).
>
> H.R. Rep No. 115-466, at 344-46 (2017).

In a footnote, the example explains that the excess tax reserve of $4.5 million is equal to the cumulative deferred tax reserve as of December 31, 2017 ($11.2 million) minus the cumulative timing difference as of December 31, 2017 ($32 million) multiplied by the 21 percent tax rate ($11.2 – ($32 x 21%) = $4.5). This footnote illustrates the computation of EDIT as defined in section 13001(d)(3)(A) of the TCJA.

For taxable years beginning on or after July 1, 1987, section 601 of Tax Reform Act of 1986, P.L. 99-514 (the "TRA of 1986"), reduced the maximum federal income tax rate applicable to corporations from 46 percent to 34 percent. Section 203(e) of the TRA of 1986 provided rules for reducing the excess tax reserve resulting from that reduction. Like section 13001(d) of the TCJA, section 203(e) of the TRA of 1986 provided that the normalization method of accounting would not be treated as being used with respect to any public utility property, for purposes of sections 167 or 168 of the Code, if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces its excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under ARAM.

In 1989, Congress considered and rejected legislation to repeal section 203(e) of TRA of 1986.[10] The Staff of the Joint Committee on Taxation explained the motivation of this proposed legislation as follows:

> It has been observed that excess deferred tax reserves have arisen because past ratepayers paid higher utility rates than would have been the case if the income tax rate reduction could have been foreseen and reflected in utility rates. From this standpoint, normalization of the excess deferred tax reserve will return the excess rate collections from past ratepayers gradually to future ratepayers. To the extent it is desirable to provide benefit primarily to ratepayers who paid higher utility rates in the past than would have been necessary if the tax rate cut had been foreseen, one may want to accelerate the pass-through of the reserve. The

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10 H.R. 1150 (introduced by Mr. Dorgan of Illinois) and H.R. 2493 (introduced by Mr. Matsui of California).

> longer the period over which the excess deferred tax reserve is passed through, the more likely that the group of consumers receiving the benefit will differ from those who paid the earlier, higher utility rates.

Staff of the Joint Committee on Taxation, Description of H.R. 1150 (Utility Ratepayer Refund Act of 1989) and H.R. 2493 (Utility Consumer Refund Act of 1989), JCX -55 -89 (Sept. 29, 1989) at 15.

This view of providing customers an accelerated return of the EDIT was not accepted by Congress. Rather the view that prevailed was that explained by the Staff of the Joint Committee on Taxation as follows:

> a purpose of normalization is to ensure that the capital subsidy of accelerated depreciation in the Federal tax code provides an investment incentive for regulated utilities. Present-law normalization requires that the excess deferred tax reserve may be passed through to consumers over the life of the asset rather than only to consumers in the initial years after the rate cut. This pattern is intended to be similar to the pattern of future tax payments to the Federal Government that would have occurred if the tax reduction had not happened and thus may preserve the original investment incentive.

Id. This purpose, to continue to amortize the EDIT as if a tax cut had not been enacted, was carried over to the TCJA in the enactment of section 13001(d) which protects EDIT under the Normalization Rules.

Taxpayer is not aware of any contrary authorities.

ANALYSIS

The Normalization Rules are intended to provide an allocation of the benefit from accelerated depreciation between a regulated public utility and its customers. This is accomplished by limiting the time and the manner in which a utility is permitted to provide that benefit to its customers. In the typical case of tax depreciation deductions that are more accelerated than book depreciation expense, the Normalization Rules allow the utility to postpone sharing the accelerated tax benefit in its cost of service over the period of time the utility includes the depreciation expense of the asset in its cost of service.

In the absence of a corporate rate reduction, Example 1 illustrates the manner in which the Normalization Rules require Taxpayer to account for deferred taxes that result from tax depreciation that is more accelerated than book depreciation by accumulating those deferred taxes during the period in which tax depreciation exceeds book (regulatory) depreciation and reversing those deferred taxes over the remaining book life of the asset once annual book depreciation begins to exceed tax depreciation. In this manner, as shown in Example 1, the excess tax benefit over the book expense from depreciation at the beginning of Year 2 of $315 is reversed over the remaining nine-year life of the asset. Under this normalization procedure, Taxpayer receives the cash flow benefit of the excess depreciation, which benefit is reduced over the life of the asset as the deferred taxes reverse and Taxpayer's customers receive the tax benefit from the depreciation deductions as they pay the depreciation expense over the life of the asset. Thus, the Normalization Rules provide the tax benefit of accelerated tax depreciation to Taxpayer as an interest free loan from the government, which is paid back to the government once the timing difference begins to reverse. Consistent with this characterization of the tax benefit of accelerated tax depreciation as an interest free loan, Taxpayer treats the amount as a reduction in rate base each year for the amount of the "loan" which remains outstanding. Thus, as long as the annual tax depreciation expense exceeds the annual book depreciation, the utility's customers pay an amount of tax expense that the utility does not need to pay to the government in the current year but will pay in future years. Once the annual book depreciation expense begins to exceed the annual tax depreciation deduction the customers receive the tax benefit of the depreciation expense even though the utility does not receive a current depreciation tax deduction. During the life of asset, as long as accumulated tax depreciation exceeds accumulated book deprecation Taxpayer has an interest free loan from the government, which is represented by ADIT. Taxpayer treats this ADIT as a reduction in rate base, which reduces Taxpayer's allowed return on rate base and provides a benefit to customers, which is permissible under the normalization rules.

Also, as shown in Example 1, when COR is normalized, which the Normalization Rules do not require, it results in a deferred tax asset, which is reversed when the COR is incurred at the end of the asset's life. The deferred tax asset attributable to COR represents an amount advanced by Taxpayer, which will not be recovered until the tax benefit from the COR is realized.

When the corporate tax rate is reduced, and part of the loan provided to the utility by the government through accelerated depreciation is forgiven, the general Normalization Rules of the

Code no longer protect the EDIT. However, both in 1986 and 2017, Congress provided the additional Normalization Rules to quantify and protect the EDIT. These special Normalization Rules define EDIT and ARAM. The amount of EDIT is the excess of (i) the ADIT as protected by the general Normalization Rules as of the day before the corporate rate reductions took effect, over (ii) the amount which would have been the ADIT had the newly enacted corporate rate been in effect for all prior periods. Section 13001(d)(3)(A) of the TCJA. As the TCJA Conference Report explained ARAM "reduces the excess tax reserve [EDIT] over the remaining regulatory lives of the property that gave rise to the reserve for deferred taxes during the years in which the deferred tax reserve related to such property is reversing. Under this method, the excess tax reserve is reduced as the timing differences (i.e., differences between tax depreciation and regulatory depreciation with respect to the property) reverse over the remaining life of the asset." As the statute provides, "the amount of the [ARAM] adjustment to the reserve for the deferred taxes is calculated by multiplying—(i) the ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property as of the beginning of the period in question, by (ii) the amount of the timing differences which reverse during such period. As the Staff of the Joint Committee on Taxation explained, "[t]his pattern is intended to be similar to the pattern of future tax payments to the Federal Government that would have occurred if the tax reduction had not happened and thus may preserve the original investment incentive." Staff of the Joint Committee on Taxation, Description of H.R. 1150 (Utility Ratepayer Refund Act of 1989) and H.R. 2493 (Utility Consumer Refund Act of 1989), JCX 55-89 (Sept. 29, 1989) at 15.

Both the TCJA Conference Report explanation of ARAM and the computation prescribed by the statute indicate that the EDIT is reduced over the remaining book life of the asset in the pattern of reversal of the timing differences. In other words, ARAM is intended to reduce the EDIT and regular deferred taxes over the same period and in the same pattern. This is done by applying the average rate by which ADIT was accumulated to the timing differences that occur once the reversal begins. For example, the 31.1 percent average rate used in the TCJA Conference Report example, discussed above, is the average rate at which the deferred taxes were accumulated from 2016 and 2020 (2016 and 2017 at 35% and 2018, 2019 and 2020 at 21%) and this rate is applied to the reversing timing difference, which includes both the EDIT and regular deferred taxes. The example demonstrates the recovery of the EDIT by subtracting the recovery of the regular deferred taxes from the total recovery of ADIT for the period, which is computed using the average rate. By using this average rate for the recovery of ADIT as the timing differences reverse, the method used to recover the EDIT and the regular deferred taxes are the same. It is the use of this average rate that gives ARAM (average rate assumption method) its name.

The difference between the reversal of EDIT and the regular deferred taxes is that the reduction of the regular deferred taxes offsets tax payable to the federal government while the reduction of EDIT is taken into account as a benefit in the computation of tax expense included in the cost of service for the year. In other words, the recapture of the prior excess tax benefit goes to customers instead of the federal government, but it does so over the same period of time and at the same rate as the regular deferred taxes recovered, and as all ADIT would be recovered in the absence of a corporate tax rate reduction. This tax policy provides the utility with the same benefit it anticipated at the time the asset was purchased and returns the excess of the benefit over the actual taxes paid to the government to the customers over the book life of the assets as part of the normal ratemaking process.

By comparing Example 1 (Table 1) to Example 2 (Table 2) Taxpayer's method illustrates this parity in the annual reduction of deferred taxes over the book life of the asset. In Example 1 (Table 1) the $350 Year 1 tax benefit is offset by $35 per year over the 10-year book life of the asset. This is the 35 percent average rate at which the deferred taxes were accumulated applied to the annual $100 timing difference reversal. The same is seen in Example 2 (Table 2), except in Example 2 (Table 2) the $35 annual offset is represented by $21 of regular deferred taxes used to pay the federal government and $14 of EDIT used to reduce tax expense in computing cost of service in the nine years following the rate reduction. Nonetheless the total ADIT reversal is the 35 percent average rate at which the deferred taxes were accumulated applied to the annual $100 depreciation timing difference reversal. As illustrated in the TCJA Conference Report, these reductions in regular deferred taxes and EDIT are based on a reduction in ADIT determined by multiplying—(i) the ratio of the aggregate deferred taxes for the property ($315) to the aggregate timing differences for the property ($900) as of the beginning of the period in question, by (ii) the amount of the timing differences which reverse during such period ($315/$900 x $100 = $35). The same average rate is determined by applying the ADIT net of COR ($308 / $880 x

100 = $35). This is so because the average rate based on the ratio of the aggregate deferred taxes to the aggregate timing differences is the same (35%) whether the computation is made on the basis of the depreciation timing differences or the total timing differences (depreciation plus COR).

In contrast to Taxpayer's method, the CPUC method illustrated by Example 3 (Table 3), applies the same ratio of the aggregate deferred taxes for the property to the aggregate timing differences for the property (35% in the example) to a depreciation timing difference that includes the COR. This increases the timing difference to which the average rate is applied from $100 to $120. Thus, the annual reduction in Example 3 (Table 3) is $42 ($308 / $880 x $120) which is $7 more than in Example 2 (Table 2). This $7 increase is attributable to the inclusion of the $20 COR in the reversing timing difference ($20 x 35% = $7).

PG&E is concerned that the CPUC method is not compliant with the Normalization Rules. The concern is based on the following reasons. The average rate assumption method is intended to reduce the excess in the reserve for deferred taxes over the remaining life of the property as used in a utility's regulated books of account which gave rise to the reserve for deferred taxes. Section 13001(d)(3)(B) of the TCJA. The CPUC method results in the recovery of EDIT over a shorter period than the remaining life of the property**.** As shown in Example 3 (Table 3) the recovery of the EDIT under the CPUC method occurs in seven and one-half years of the asset's remaining life. ARAM anticipates recovery over the 9-year remaining life. This accelerated recovery occurs because the CPUC method overstates the annual timing difference reversal in each year in relation to the aggregate timing differences for the property at the beginning. Simply stated, the annual timing difference reversal provided in the CPUC method is overstated by the COR which is not included in the aggregate timing differences for the property at the beginning of the year. Rather than only establishing a new deferred tax asset for a new COR accrued for books, the new COR also is used to accelerate the recovery of the EDIT. For example, the CPUC timing difference of $120 is the sum of (i) the book depreciation expense in excess of the tax depreciation deduction ($100 - $0 = $100), and (ii) the book COR expense of $20 is in excess of the tax COR deduction ($20 - $0 = $20). The $100 excess book depreciation deduction represents the reversal of a portion of the ADIT at the beginning of the reversal period ($900). The $20 excess book COR deduction is not included in the ADIT at the beginning of the period ($900). In stark contrast to the depreciation timing difference, which represents the reversal of the ADIT liability attributable to prior depreciation deductions, the COR timing difference results in the addition to a deferred tax asset until the last year of the asset's life; not the recovery of the deferred tax liability. While COR deferred taxes are not protected by the Normalization Rules, the Normalization Rules as provided by ARAM, do not allow the timing differences which result in deferred tax benefits to be realized in the future to be part of the timing difference taken into account in computing the current reductions in protected deferred taxes whether those protected deferred taxes are EDIT or regular ADIT.

In conclusion, while COR is taken into account as an element of book composite depreciation, COR does not produce a timing difference that represents the reversal of a timing difference. The COR portion in book composite depreciation represents a timing difference that will reverse when the tax benefit is realized at the time the COR is incurred. ARAM controls the return of tax expense collected from customers for which the utility already has received an accelerated tax benefit, which tax benefit will not be repaid to the government as a result of the corporate rate reduction. While Taxpayer included the tax benefit of COR in cost of service, Taxpayer receives no tax benefit from the government for COR until the asset is removed from service. Any accumulated excess deferred tax asset attributable to COR represents deferred tax benefits Taxpayer has provided to customers at the 35 percent corporate tax rate, which now are expected to produce only a 21 percent current tax benefit for Taxpayer when realized as a result of the corporate tax rate reduction. While the method by which Taxpayer is permitted to recover this excess deferred tax benefit that it already has provided to customers is not governed by the Normalization Rules, those Normalization Rules do not contemplate COR timing differences accelerating the return of EDIT to customers, which is protected under the Normalization Rules.

PROCEDURAL MATTERS

A. Statements required by Rev. Proc. 2021-1:

1. Section 7.01(4) – To the best of the knowledge of both Taxpayer and Taxpayer's representative, the issue that is the subject of this requested letter ruling is not addressed in any return of Taxpayer, a related taxpayer within the meaning of section 267 of the Code, or of a member of an affiliated group of which Taxpayer is also a member within the meaning of section1504 of the Code, or any predecessor that is currently or was previously under examination, before Appeals, or before a Federal court.

2. Section 7.01(5)(a) – Neither Taxpayer, a related party taxpayer within the meaning of section 267 of the Code, a member of an affiliated group of which Taxpayer is also a member within the meaning of section 1504 of the Code, nor a predecessor has, to the best of the knowledge of both Taxpayer and Taxpayer's representative, received a ruling on the same or a similar issue that is the subject of this requested letter ruling.

3. Section 7.01(5)(b) – To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer, a related taxpayer, a predecessor, nor any representatives previously submitted a request involving the same or a similar issue to the Service but with respect to which no letter ruling or determination letter was issued.

4. Section 7.01(5)(c) – To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer, a related taxpayer, nor a predecessor, previously submitted a request (including an application for change in method of accounting) involving the same or a similar issue that is currently pending with the Service.

5. Section 7.01(5)(d) – To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer nor a related taxpayer is presently submitting additional requests involving the same or a similar issue.

6. Section 7.01(5)(e) – To the best of the knowledge of Taxpayer and Taxpayer's representative, neither Taxpayer nor a related taxpayer had, or has, scheduled a pre-submission conference involving the same or a similar issue.

7. Section 7.01(9) – The law in connection with this request is uncertain and the issue is not adequately addressed by relevant authorities.

8. Section 7.01(10) – Taxpayer has included all supportive and contrary authorities of which it is aware.

9. Section 7.01(11) – Taxpayer is unaware of any pending legislation that may affect the proposed transaction.

10. Section 7.02(5) – Taxpayer hereby requests that a copy of any document related to the letter ruling request (including the ruling and any written requests for additional information) be sent by facsimile transmission (in addition to being mailed) and hereby waives any disclosure violation resulting from such facsimile transmission. Please fax the ruling and any written requests to Alexander Zakupowsky, Jr. at (202) 626-5801.

11. Section 7.02(6) – Taxpayer respectfully requests a conference on the issues involved in this ruling request in the event the Service reaches a tentatively adverse conclusion.

12. The Staff of the CPUC have reviewed this request and believe the request is adequate and complete. Taxpayer will permit the CPUC to participate in any Associate office conference concerning this ruling request.

B. Administrative

1. The deletion statement and checklist required by Rev. Proc. 2021-1 are enclosed.

2. The required user fee of $38,000 has been paid through www.pay.gov. A receipt for this electronic payment is enclosed along with the appropriate application form.

3. A Form 2848 Power of Attorney granting Taxpayer's representatives the right to represent Taxpayer is enclosed.

4. Taxpayer requests that you issue your ruling by facsimile to Elizabeth Min, Senior Director of Tax, Pacific Gas and Electric Company at (415) 973-9741.

If you have any questions or need additional information regarding this ruling request, pursuant to the enclosed Power of Attorney, please contact Alexander Zakupowsky, Jr. at 202-626-5950.

Respectfully submitted,

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Alexander Zakupowsky, Jr.
Miller & Chevalier Chartered
Attorney for Pacific Gas and Electric Company

DRAFT

TABLE OF EXHIBITS

Exhibit 1	2017 General Rate Case Petition to Modify, *Petition for Modification of Decision 17-05-013 of Pacific Gas and Electric Company (U 39 M) to reflect Tax Changes* (A. 15-09-001)
Exhibit 2	2015 Gas Transmission and Storage Rate Case Petition to Modify, *Petition for Modification of Decision 16-06-056 of Pacific Gas and Electric Company (U 39 G) to Reflect Tax Changes* (A. 13-12-012)
Exhibit 3	2017 General Rate Case Petition to Modify Final Decision*, Decision Granting Petition for Modification of Decision 17-05-013 to Reflect Tax Reductions for Pacific Gas and Electric Company* (D. 19-08-023)
Exhibit 4	2015 Gas Transmission and Storage Rate Case Petition to Modify Final Decision, *Decision Granting Petition for Modification of Decision 16-06-056 to Reflect Tax Reductions for Pacific Gas and Electric Company* (D. 19-08-021)

EXHIBIT 1

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2017 (U39M).	Application 15-09-001 (Filed September 1, 2015)

PETITION FOR MODIFICATION OF DECISION 17-05-013 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO REFLECT TAX CHANGES

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PACIFIC GAS AND ELECTRIC COMPANY

Dated: March 30, 2018

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BEFORE THE PUBLIC UTILITIES COMMISSION

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PETITION FOR MODIFICATION OF DECISION 17-05-013 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO REFLECT TAX CHANGES

Pursuant to Rule 16.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission) and the March 2, 2018 letter from Energy Division Director Edward Randolph,[1] Pacific Gas and Electric Company (PG&E) respectfully submits this Petition for Modification of Decision (D.) 17-05-013. Through this Petition, PG&E seeks to revise the 2018 and 2019 authorized revenue requirements to reflect, among other changes, the lower corporate tax rate set forth in the Tax Cuts and Jobs Act of 2017 (Tax Act).

I.

SUMMARY

PG&E's 2017 General Rate Case (GRC) was decided assuming corporate tax rates then in effect. Since the issuance of the GRC decision, the federal government adopted the Tax Act which, among other changes, reduced the corporate tax rate from 35 percent to 21 percent. Specifically, PG&E proposes to reduce the adopted revenue requirement by $267 million for 2018 and $296 million for 2019.

PG&E proposes that the revenue requirement revisions for 2018 be recorded effective January 1, 2018, and that PG&E be directed to work with Energy Division to develop a plan within 30 days of a decision on this Petition to translate these reductions into revised gas and

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1 Attachment A.

electric rates. PG&E proposes that the revenue requirement reduction for 2019 take effect at the beginning of 2019 through the Annual Electric True-Up and Annual Gas True-Up advice letter filings.

II.
BACKGROUND

On May 11, 2017, the Commission decided PG&E's 2017 GRC, effective on the same date.[2] The Commission adopted, with certain modifications, a settlement agreement that had been submitted by 15 parties (the Settling Parties) on August 3, 2016. The settlement agreement, like PG&E's original application, assumed corporate taxes in effect at that time. The Commission's decision adopted the following revenue requirements: $8,448 million effective January 1, 2018 and $8,809 million effective January 1, 2019.[3]

On December 22, 2017, the Tax Act was signed into law. The Tax Act changes a number of provisions affecting PG&E, most notably the corporate tax rate. That rate was reduced from 35 percent to 21 percent.

On January 5, 2018, PG&E sent a letter to then Executive Director Sullivan, in which PG&E proposed to make a filing by the end of March 2018 that sets forth revised, lower revenue requirements.

On March 2, 2018, Energy Division Director Edward Randolph directed PG&E to make this filing. Specifically, Mr. Randolph stated, "PG&E should file a Petition to Modify D.17-05-013 by March 31, 2018 in order to present testimony, a revised RO [results of operations] model, and new revenue requirements for attrition years 2018 and 2019 incorporating the effects of the [Tax Act]."[4]

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2 D.17-05-013, *mimeo*, p. 252.

3 D.17-05-013, Appendix A: Table 6.

4 Attachment A, page 2.

In accordance with Commission Rule 16.4(d), the Petition is filed within 12 months of the effective date of the GRC decision.

III.

JUSTIFICATION FOR THE PETITION FOR MODIFICATION

Commission Rule 16.4(b) provides:

> A petition for modification of a Commission decision must concisely state the justification for the requested relief and must propose specific wording to carry out all requested modifications to the decision. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that may be officially noticed. Allegations of new or changed facts must be supported by an appropriate declaration or affidavit.

The justification for the requested relief (i.e., the revised revenue requirement) is found in the Tax Act. The Tax Act changes, and the influence of these changes on PG&E's revenue requirement, are described in the attached report.[5]

The report is divided into four sections. Section I provides a brief introduction to the material. Section II describes the Tax Act changes. Section III presents the output of PG&E's RO Model and sets forth the revenue requirement revisions as a result of these Tax Act changes. Section IV describes PG&E's proposal for incorporating these changes into customer rates.

To assist interested persons in understanding the attached report, PG&E will participate in a workshop that will review the material and allow persons to ask questions of the authors of the report, or their representatives. Those authors are: Bruce T. Smith, Chief Regulatory Analyst, Regulatory Affairs (Section I); Elizabeth Min, Director, Tax Accounting (Section II); Neilson Jones, Manager, Regulatory Results of Operations, (Section III); and Margot Everett, Senior Director, Rates and Regulatory Analytics. The workshop will take place on April 11, 2018, at Commission Headquarters, 505 Van Ness Avenue, San Francisco, California, 94102 between 2-4 p.m.

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5 Attachment B.

In compliance with Commission Rule 16.4(b), PG&E proposes the following new ordering paragraph 23 to carry out the requested revenue requirement reduction:

> Ordering Paragraph 23.
> In order to reflect the changes set forth in the Tax Cuts and Jobs Act of 2017, the revenue requirement otherwise prescribed by this Decision is reduced by $267 million for 2018 and $296 million for 2019. PG&E shall work with the Commission's Energy Division to implement the requisite rate changes.

Also in compliance with Rule 16.4(b), this Petition is supported by the declaration of Mark T. Caron, PG&E's Vice President of Tax.[6]

As required by Rule 16.4(c), PG&E has served this Petition on all parties to Application 15-09-001, the proceeding that resulted in D.17-05-013.

Finally, PG&E has consulted with the Settling Parties to the 2017 GRC prior to the submission of this Petition to ensure that the Settling Parties have no objection to this Petition. The Settling Parties have confirmed they have no objection to the filing of this Petition, but each Party has reserved its rights to respond to its content.

Respectfully submitted,

/s/ Steven W. Frank

By: Steven W. Frank

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: March 30, 2018

6 Attachment C.

PACIFIC GAS AND ELECTRIC COMPANY

ATTACHMENT B

TO

PETITION FOR MODIFICATION OF DECISION 16-06-056 OF PACIFIC GAS AND ELECTRIC COMPANY TO REFLECT TAX CHANGES

Report of Pacific Gas and Electric Company on Revenue Requirement Revisions from the Tax Cut and Jobs Act of 2017 on the 2017 General Rate Case

March 30, 2018

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Section I

Introduction

The Tax Cuts and Jobs Act of 2017 (Tax Act) was signed into law on December 22, 2017. For the reasons described in this report, Pacific Gas and Electric Company (PG&E or the Company) requests that the California Public Utilities Commission (Commission or CPUC) revise its 2018 and 2019 Electric Distribution, Gas Distribution and Electric Generation revenue requirements previously approved in PG&E's 2017 General Rate Case (GRC)[1] to reflect the effects of the Tax Act on tax-related items included in the revenue requirement.[2] The revised revenue requirements would be effective January 1 of each year.

Section II describes the major items in the Tax Act which affect PG&E's revenue requirements.

As discussed in Section III, PG&E has constructed results of operations (RO) statements for the attrition (i.e., post-test) years 2018 and 2019. These statements present the approved revenue requirements for Electric Distribution, Gas Distribution and Electric Generation (2018 and 2019), in the same manner set forth in Exhibit PG&E-46 in PG&E's 2017 GRC Application (A.)15-09-001.

PG&E has adjusted its attrition RO model to determine the changes resulting from the Tax Act. The results of the RO model shows 2018 revenue requirement reductions of $186 million for Electric Distribution and $99 million for Electric Generation and an *increase* in revenue requirement of $18 million for Gas Distribution.[3]

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1 Decision (D.) 17-05-013.

2 PG&E is simultaneously filing a petition to modify the 2015 Gas Transmission and Storage rate case decision, D.16-06-056 (as modified by D.16-12-010), to lower the adopted revenue requirements for gas transmission and storage services.

3 These revenue requirement changes reflect the changes in revenue requirements effective January 1, 2018.

For 2019, PG&E's RO model shows revenue requirement reductions of $198 million for Electric Distribution and $101 million for Electric Generation and an *increase* in revenue requirement of $3 million for Gas Distribution.[4] The changes are shown in Table 1 below.

TABLE 1
REVENUE REQUIREMENT CHANGES BY FUNCTIONAL AREA
(MILLIONS OF DOLLARS)

Line No.	Functional Area	2018	2019
1	Electric Distribution	(186)	(198)
2	Electric Generation	(99)	(101)
3	Gas Distribution[5]	18	3
4	Total General Rate Case	(267)	(296)

Section IV presents PG&E's proposal for flowing through to customers the revenue requirement revisions while moderating the anticipated volatility in customers' rates due to already approved rate increases (e.g., the 2017 General Rate Case attrition increases) and pending rate filings (including the March 30, 2018 Catastrophic Event Memorandum Account filing).

[4] These changes reflect revenue requirements effective January 1, 2019.

[5] The increase in revenue requirement for gas distribution is explained in Section II.

Section II

Tax Changes

The Tax Act included four major tax law changes that are significant to PG&E:

1. Reduced the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018;[6]
2. Provided a mandatory methodology to return excess tax reserves to customers (Average Rate Assumption Method (ARAM));[7]
3. Required public utilities to use Modified Accelerated Cost Recovery System (MACRS) depreciation after September 27, 2017;[8] and
4. Repealed Internal Revenue Code (IRC) Section 199 Manufacturing Tax Deduction effective January 1, 2018.[9]

PG&E has included the effects of these changes in its updated post-test year federal tax expense and federal deferred tax liabilities in this report. As discussed in more detail below, these tax law changes have significant impacts on tax expense and rate base for 2018 and 2019.

The state of California has not conformed to the Tax Act legislation; and as a result, this update does not reflect any change for California franchise taxes, except for the indirect impact of a lower federal tax benefit. Members of the California Assembly have announced recently that they plan to introduce a constitutional amendment (Assembly Constitutional Amendment 22) that—if approved by at least two-thirds of the Legislature and by a majority of California voters—would impose a 10 percent surcharge on companies like PG&E that make over $1 million in net income. If enacted, this proposal would significantly reduce or eliminate the revenue requirement reduction described in this report.

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6 Section 13001 of Pub L. No. 115-97 amending IRC Section 11.

7 Section 13001 of Pub L. No. 115-97.

8 Section 13201(d)(9)(A) of Pub L. No. 115-97 amending IRC Section 168k.

9 Section 13305 of Pub L. No. 115-97 repealing IRC Section 199.

1. Nature of Changes

This section discusses the four main tax changes itemized above.

a. Tax Rate Reduction From 35 Percent to 21 Percent

The reduction of the federal corporate income tax rate has four primary revenue requirement impacts:

1. Reduction Relating to Return on Rate base (ROR): The Tax Act reduces the revenue requirement by the decreased federal income taxes computed on the equity ROR;

2. Increase Relating to Other Items: The Tax Act increases the revenue requirement for the decreased federal income tax benefit computed on net federal and state flow-through tax deductions, net permanent tax deductions, and tax credits;

3. Reduction Due to Excess Tax Reserves: The Tax Act requires re-measurement of the deferred tax balances at December 31, 2017, from 35 percent to 21 percent, resulting in excess tax reserves for the 14 percent difference that will be amortized; and

4. Increase Relating to New Deferred Taxes: The Tax Act reduces new deferred taxes forecasted to arise after 2017 at the lower federal tax rate of 21 percent, increasing rate base over time.

Each of these is discussed below.

1) Reduction Relating to Return on Rate base

ROR has two components: equity and debt. The equity ROR represents the Company's net earnings and is subject to income taxes. The Company recovers its federal and state income tax expenses through its authorized revenue requirement. In order to recover the correct amount of income taxes, a tax gross-up is required in the calculation of the revenue requirement to recover the calculated tax expense after tax. The reduction in the federal tax rate lowers both the tax expense and tax gross-up needed to be recovered in the revenue requirement. Table 2 shows the lower corporate income tax rate revenue requirement impact on equity ROR for 2018. Table 2 begins with total rate base as adopted in the 2017 GRC decision in both the new and old tax rate columns; any other changes in rate base caused by the Tax Act will be shown separately in

Table 8 below. Limiting Table 2 to just adopted rate base allows PG&E to show the impact of the new tax rates on equity ROR without mingling the impact of other Tax Act rate base effects. The two drivers for the revenue requirement decrease in Table 2 come from the lower income tax gross-up (Line 4) and lower combined tax rates (Line 6).

TABLE 2
2018 EQUITY ROR-RELATED REVENUE REQUIREMENT REDUCTION

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate	Old Tax Rate	Difference
1	Total Rate Base	$25,378,933	$25,378,933	
2	Equity Rate of Return	5.39%	5.39%	
3	Equity Return on Rate base	$1,367,924	$1,367,924	
4	Income Tax Gross-Up	1.425313	1.780627	
5	Revenue Requirement	$1,949,721	$2,435,762	
6	Combined Tax Rate	29.84%	43.84%	
7	Revenue Requirement Attributable to Income Taxes	$581,797	$1,067,838	
8	Revenue Requirement Reduction Resulting From Lower Tax Rate			$(486,041)

There is no revenue requirement impact for the debt ROR. The debt ROR is financed by interest expense which is tax deductible and therefore does not require a tax recovery or a gross-up for taxes.[10]

2) Increase Relating to Other Items

The Tax Act increases the revenue requirement as a result of the decreased federal income tax benefit computed on federal and state net flow-through tax deductions, net permanent tax deductions, and tax credits as explained below.

10 The tax deduction for interest expense for public utilities was not changed by the Tax Act (see Section 13301 of Pub L. No. 115-97 amending IRC Section 163).

a) Flow-Through/Flow-Back Tax Accounting (Including Permanent Tax Deductions)

As discussed in PG&E's testimony in its 2017 GRC, PG&E uses the flow-through method for certain tax deductions.[11] The flow-through method uses the amount of the tax deduction to determine the amount of the tax benefit reflected in the revenue requirement. The tax benefit reflected in the revenue requirement is equal to the forecasted cash savings. The lower income tax rate reduces the tax benefit (i.e., increase income tax expense) and results in an increased revenue requirement. The reason for the *increased* revenue requirement is that the value of the tax deduction is less due to the lower income tax rate. On the other hand, the tax expense for the reversal of the flow-through tax benefit (flow-back) will also be at the lower tax rate, which will reduce the revenue requirement, providing a long-term future benefit to customers.

PG&E has three types of net flow-through tax adjustments: (1) tax deductions where the federal and state amounts are the same, (2) federal only tax deductions, and (3) state only tax deductions. It is necessary to break out the net flow-through tax adjustments into these three types because the applicable income tax rates are different. Tables 3 and 4 below show the impact on the revenue requirement of tax deductions for 2018 for each of these flow-through types at both the old tax rates and the new rates. If the number on Line 1 "Tax Deduction" is a positive it means flow-through tax deductions exceed any related book flow-back depreciation, and if the number on Line 1 is negative the book flow-back depreciation number exceeds the tax flow-through tax deduction (e.g., California book depreciation exceeds California tax depreciation in the "State Only" column so the number in Line 1 is a negative).

The majority of PG&E's net flow-through tax deductions were not changed by the Tax Act. For example, Line 1 "Tax Deduction" for both the "Federal and State" and "State Only" columns have the same amount of net tax deductions in both Tables 3 and 4. For these two

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[11] A.15-09-001, Exhibit PG&E-10, Chapter 12.

columns, the only impact from the Tax Act will be the lower income tax rate (Line 2) and lower income tax gross-up (Line 4). However, the Tax Act causes one direct and two indirect changes to the "Federal Only" column (Line 1). The direct change occurs because of the repeal of the IRC Section 199 Manufacturers Tax Deduction (see discussion below). The two indirect changes are as follows. First, in years where the Tax Act causes the prior year's revenue requirement to change; there will be a corresponding change to the California Corporation Franchise Tax (CCFT) deduction for federal tax purposes. Second, in order to be consistent with the removal of cost of removal (COR) book depreciation in the ARAM calculation (see ARAM discussion below), PG&E also removed COR book depreciation in the federal book flow-back depreciation calculation. This reduces the cost to customers. These direct and indirect changes to federal only net tax deductions caused the Line 1 amount in Table 4 to decrease relative to the Table 3 amount.

TABLE 3
2018 REVENUE REQUIREMENTS RELATED TO FLOW-THROUGH UNDER OLD TAX RATE

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation (Old Tax Rate)	Federal and State	Federal Only	State Only	Total
1	Tax Deduction	$1,058,558	$(201,995)	$(496,582)	
2	Income Tax Rate	43.84%	35.00%	8.84%	
3	Reduction in Income Taxes	$464,072	$(70,698)	$(43,898)	
4	Income Tax Gross-Up	1.780627	1.780627	1.780627	
5	Revenue Requirement Reduction From Flow-Through Tax Deduction	$826,339	$(125,887)	$(78,166)	$622,286

TABLE 4
2018 REVENUE REQUIREMENTS RELATED TO FLOW-THROUGH UNDER NEW TAX RATE

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation (New Tax Rate)	Federal and State	Federal Only	State Only	Total
1	Tax Deduction	$1,058,558	$(153,549)	$(496,582)	
2	Income Tax Rate	29.84%	21.00%	8.84%	
3	Reduction in Income Taxes	$315,874	$(32,245)	$(43,898)	
4	Income Tax Gross-Up	1.425313	1.425313	1.425313	
5	Revenue Requirement Reduction From Flow-Through Tax Deduction	$450,219	$(45,960)	$(62,568)	$341,691

The tables show that prior to the reduction of the tax rate, the net flow-through federal and state tax deductions would have reduced the revenue requirement by approximately $622 million (ignoring franchise fees and uncollectibles). With the lower tax rate of 21 percent, the revenue requirement impact of the net flow-through federal and state tax deductions will be approximately $342 million.

For Gas Distribution, this reduction in tax benefit and corresponding increase in revenue requirement outweighed the benefit from reduced return on Gas Distribution rate base. This resulted in an *increase* in revenue requirement of $18 million and $3 million for 2018 and 2019, respectively, that was noted in Section I.

Table 5 compares the revenue requirement impacts under the old and new tax rates, showing a net $281 million reduction in tax benefit, increasing revenue requirement.

TABLE 5
2018 REVENUE REQUIREMENT CHANGE TO FLOW-THROUGH UNDER NEW TAX RATE

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	Federal and State	Federal Only	State Only	Total
1	Revenue Requirement Reduction From Flow-Through Tax Deduction using Old Tax Rate	$826,339	$(125,887)	$(78,166)	$662,286
2	Revenue Requirement Reduction From Flow-Through Tax Deduction using New Tax Rate	$450,219	$(45,960)	$(62,568)	$341,691
3	Change in Revenue Requirements – Increase	$376,120	$(79,928)	$(15,598)	$280,595

b) Tax Credits

The revenue requirement related to federal and state tax credits is also impacted by the reduction in the federal corporate income tax rate. The reduction in the federal corporate income tax rate does not decrease the tax benefit from the tax credits. The lower tax rate reduces the tax gross-up (Line 2) on the tax benefit, increasing the revenue requirement for tax credits. Table 6 shows the impact of the lower corporate tax rate on the revenue requirement for tax credits.

TABLE 6
2018 REVENUE REQUIREMENTS RELATED TO TAX CREDITS UNDER NEW AND OLD TAX RATE

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate	Old Tax Rate	Difference
1	Federal/State Tax Credit	$(8,125)	$(8,125)	
2	Income Tax Gross-Up	1.425313	1.780627	
3	Revenue Requirement Impact of Tax Credit	$(11,581)	$(14,468)	
4	Revenue Requirement Increase Resulting from Lower Tax Rate			$2,887

3) Reduction Relating to Excess Tax Reserves

The reduction in the federal income tax rate requires re-measurement of deferred taxes at December 31, 2017, from 35 percent to 21 percent. This gave rise to two types of excess tax reserves for the 14 percent difference as follows:

a) Excess tax reserves from accumulated deferred income taxes (ADIT or deferred taxes) for timing differences included in rate base or considered in rate cases have been treated as attributable to customers. These include timing differences related to plant assets, vacation accrual, and Contributions in Aid of Construction (CIAC). Plant related excess tax reserves can be further categorized into protected and unprotected excess tax reserves. Protected excess tax reserves include ADIT from depreciation timing differences net of any net operating losses (NOLs) and are statutorily required to be amortized using the ARAM, as discussed below, to meet the normalization requirement. Unprotected excess tax reserves (otherwise referred to as “excess deferred taxes”) include any other plant related ADIT arising from timing differences such as COR, Allowance for Funds Used During Construction – Debt and capitalized interest. PG&E proposes to apply ARAM to amortize both protected excess tax reserves and unprotected excess deferred taxes. The excess deferred tax asset for vacation accrual will be turned around in one year according to its expected reversal period. The excess deferred tax asset for CIAC will be reversed over the tax life of the underlying tax plant as required under the normalization rules.

b) Excess deferred taxes from ADIT for timing differences not included in rate base or considered in rate cases resulted in a detriment. Shareholders bear the burden of risk related to these items and were charged the detriment arising from the tax rate reduction. These are timing differences that are not part of the RO model. This treatment as belonging to shareholders is consistent with the treatment given to these excess deferred taxes in the Tax Reform Act of 1986 and the CPUC’s related Decision.[12]

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[12] D.88-01-061.

4) New Deferred Taxes

New tax timing differences arising after 2017 are tax effected at the lower 21 percent rate. This results in lower deferred taxes than what was previously forecasted at 35 percent. This has the impact of increasing rate base and the revenue requirement. This is discussed further in the rate base section below.

b. ARAM

PG&E applied the ARAM to amortize the amounts refundable to customers for protected and unprotected plant-related excess tax reserves. The Tax Act stipulates that the refunding of protected plant-related excess tax reserves more rapidly, or to a greater extent than such reserve would be reduced under the ARAM results in a normalization violation.[13] The ARAM requires excess tax reserves be refunded to customers over the regulated book life of the underlying plant that generated the original tax reserves. PG&E proposes to use the ARAM to amortize unprotected plant related excess tax reserves.

PG&E included in the ARAM calculation in the GRC excess tax reserves for all plant-related items including COR accrued through December 31, 2017, using data from PG&E's fixed asset system and supporting workpapers.

PG&E recalculated the ADIT in the 2017 GRC for depreciation changes discussed below. PG&E then re-measured the related net ADIT at December 31, 2017, to obtain the net excess tax reserve amount (14 percent). PG&E then used the fixed asset system's book and tax depreciation and book life to determine the ARAM adjustment. The ARAM amortization does not include new COR accrued for book purposes after December 31, 2017, since this is a new timing difference arising after 2017 and does not reverse excess tax reserves from timing differences re-measured from 35 percent to 21 percent as of December 31, 2017.

Table 7 shows the 2018 revenue requirement reduction due to the ARAM amortization.

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[13] *2017 Tax Cuts and Jobs Act §13001(d).* The consequences of a normalization violation are quite severe, resulting in the loss of tax benefits that would otherwise have been refunded to customers.

TABLE 7
2018 REVENUE REQUIREMENTS RELATED TO ARAM

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate
1	Federal ARAM Adjustment	$(57,244)
2	Income Tax Gross-Up	1.425314
3	Revenue Requirement Impact of ARAM	$(81,591)

c. MACRS Depreciation for Public Utilities After September 27, 2017

The Tax Act requires public utilities use MACRS depreciation for most asset additions after September 27, 2017. MACRS depreciation (in place of bonus depreciation) reduced deferred tax liabilities, which increased rate base.

The Tax Act was unclear on transition rules for repeal of bonus depreciation. PG&E's historical practice, as agreed to by the Internal Revenue Service (IRS) in a prior audit, would have PG&E apply MACRS for assets placed in service after September 27, 2017. PG&E has followed its historic practice.

d. Repeal of IRC Section 199, Manufacturing Tax Deduction

The Tax Act repealed the IRC Section 199 manufacturing tax deduction effective January 1, 2018. This deduction was a permanent tax deduction that the Company could claim on taxable income derived from generating electricity. As a result, the revenue requirement increased by $15 million for 2018 and $15 million for 2019.

2. Rate Base Changes Caused by the Tax Act

The Tax Act has four direct impacts to rate base: (1) lower deferred federal income taxes from applying MACRS, (2) new deferred taxes accruing at the lower tax rate, (3) the ARAM amortization of protected and unprotected excess tax reserves, and (4) working cash. Impacts (1) through (3) are shown on Line 1 "Deferred Income Taxes" and impact (4) is shown on Line 2 "Working Cash" in Table 8 below. As a consequence of applying MACRS instead of bonus depreciation for most of the asset additions after September 27, 2017, deferred taxes related to

2017, 2018 and 2019 were reduced, thereby increasing rate base. The new tax timing differences arising after 2017 are tax effected at the lower 21 percent tax rate, which result in lower new deferred taxes which have the impact of increasing rate base. The ARAM amortization of excess tax reserves also increases rate base. The Working Cash calculation within the RO Model is dynamically linked to adjust for changes in Income Taxes, Deferred Taxes and Other Expense Items. Working Cash adjusted for the Tax Act decreases rate base.

Table 8 below shows rate base impact to the revenue requirement for 2018.

TABLE 8
2018 REVENUE REQUIREMENT RELATED TO CHANGES IN 2018 RATE BASE

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	Debt Return on Rate Base	Equity Return on Rate Base	Total
1	Deferred Income Taxes	$222,000		
2	Working Cash	$(22,551)		
3	Total Rate Base Changes	$199,449	$199,449	$199,449
4	Rate of Return	2.30%	5.39%	7.69%
5	Return on Rate Base	$4,587	$10,750	$15,338
6	Income Tax Gross-Up	1.0000	1.425313	–
7	Revenue Requirement	$4,587	$15,323	$19,910
8	Income Tax Rate	–	29.84%	–
9	Revenue Requirement Attributable to Income Taxes	–	$4,572	$4,572

3. Summary of Effects of the Tax Act on Revenue Requirements

Table 9 provides the summary of the effects of the Tax Act to 2018 and 2019 revenue requirements.

TABLE 9
SUMMARY OF REVENUE REQUIREMENT CHANGES IN 2018 & 2019 DUE TO THE TAX ACT

TOTAL GENERAL RATE CASE
(THOUSANDS OF DOLLARS)

Line No.	Reference	Description of Change in Revenue Requirement	Change in Revenue Requirement for 2018	Change in Revenue Requirement for 2019
1	Table 2	Decrease in Revenue Requirement due to Lower Taxes on Equity Return on Rate base	$(486,041)	$(504,221)
2	Table 5	Increase in Revenue Requirement due to Lower Taxes on Flow-Through Tax Deductions	$280,595	$273,216
3	Table 6	Increase in Revenue Requirement due to Lower Taxes on Tax Credits	$2,887	$2,887
4	Table 7	Decrease in Revenue Requirement due to Amortization of Excess Deferred Taxes (ARAM)	$(81,591)	$(106,937)
5	Table 8	Increase in Revenue Requirement due to Increase in Rate base	$19,910	$42,398
6		Franchise and Uncollectibles and Misc. Difference	($2,934)	($3,324)
7	Total Revenue Requirement Changes due to the Tax Act		$(267,174)	$(295,981)

Section III

Results of Operations

PG&E has constructed attrition year RO statements that match the approved revenue requirements[14] for Electric Distribution, Gas Distribution and Electric Generation (2018 and 2019), in the same manner as described in Exhibit PG&E-46 in PG&E's 2017 GRC[15] as updated for cost of capital.[16] Results presented are the output of a standard PG&E attrition year RO model. The attrition model is a more simplified model as compared to the RO model used to develop test year revenue requirements.[17]

In accordance with previously adopted GRC decisions, the rate base growth component of the attrition mechanism adjusts for changes in plant, depreciation reserve, and depreciation expense caused by capital additions and changes in deferred taxes associated with plant. Consistent with this practice, the rate base elements of materials and supplies, customer advances and working cash are held constant.

The attrition year forecast plant additions have been developed in accordance with the method described in Exhibit PG&E-46 in PG&E's 2017 GRC. Consistent with prior adopted attrition models, depreciation expense (and other changes to depreciation reserve such as net

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14 D.17-05-013, Appendix A Table 6.

15 A.15-09-001.

16 D.17-07-005.

17 The final decision in PG&E's 2017 GRC described PG&E's attrition mechanism as follows: "The attrition mechanism proposed by PG&E in testimony would have allowed for pre-determined increases in the various components of PG&E's adopted cost-of-service revenue requirement based on a forecasting methodology appropriate for each component. For expenses, PG&E proposed that an appropriate escalation rate be applied to 2017 test year adopted amounts, using the best source available to project cost escalation in each expense category. For capital, PG&E proposed that capital revenue requirement growth in the attrition years be determined by the adopted 2017 test year plant additions plus escalation, forecasted depreciation, and the estimated change in deferred tax liabilities. This follows the approach adopted by the Commission in Southern California Edison's 2012 GRC (A.13-11-003). The 2018 and 2019 escalation of the adopted Test Year capital additions would be based on Global Insight Utility Capital Cost escalation factors as described in Exhibit PG&E-10 and would be 'locked in' upon a final Commission decision in this proceeding." (D.17-05-013, *mimeo*, p. 50.)

salvage, retirements, and accruals on motor vehicles) is modeled using the ratio of the weighted average (WAVG) plant balance for the attrition year to the WAVG plant balance for the previous year multiplied by the previous year's depreciation expense.

The attrition RO model is based on final adopted capital-related parameters for 2017. This includes amounts for depreciation reserve and expense adopted in the 2017 GRC decision.

Attrition income taxes are computed on changes in rate base and tax deductions using the Tax Act adjusted net to gross multiplier ("Income Tax Gross-Up"). The primary tax change occurs due to the reduction in the taxes associated with the equity return on rate base. In addition, several other tax adjustments were made to incorporate the effects of the Tax Act.

First, PG&E changes the level of deferred taxes to reflect the lower tax rate and the elimination of bonus depreciation after September 27, 2017.

Second, PG&E adjusts the tax depreciation to reflect the elimination of bonus depreciation after September 27, 2017. Therefore, PG&E has applied a composite tax depreciation rate to new capital additions based on MACRS.

Third, the IRC Section 199 Manufacturing Tax Deduction has been removed from the generation line of business attrition model.

Finally, the attrition model includes adjustments for excess tax reserves that are calculated by ARAM for plant-related reserves. Vacation accrual reserves are also adjusted as a 1986 Tax Reform Act adjustment associated with rate base. The ARAM calculation is not embedded within the attrition model due to its complexity.

In conclusion, PG&E has appropriately adjusted the standard attrition RO model to reflect the changes resulting from the Tax Act. The results of the RO model are shown in the comparison tables provided in the Appendix for total GRC and at the functional area level.

Section IV

Ratemaking Proposal

PG&E fully supports reducing the 2017 GRC adopted revenue requirements for 2018 and 2019 to pass along the benefits of the Tax Act to our customers. PG&E proposes that such reductions take into account the goal of rate and bill stability for our customers.

1. 2019 Tax Act Revenue Requirement Revisions

If the Commission issues a decision on this matter prior to January 1, 2019, PG&E proposes that the 2019 GRC revenue requirement revisions be provided to customers through the 2019 Annual Electric True-up and 2019 Annual Gas True-up. As shown in Section I, the 2019 revenue requirement revisions are reductions of $198 million for electric distribution and $101 million for electric generation, and an increase in revenue requirement of $3 million for gas distribution. These reductions in the electric revenue requirements would largely offset the previously adopted 2019 attrition revenue requirement increases of $195 million for electric distribution and $70 million for electric generation. The increased gas distribution revenue requirement would add slightly to the anticipated $96 million adopted increase for gas distribution.[18]

In the event that this matter is not resolved by January 1, 2019, PG&E proposes to work with the Energy Division on the best timing to pass along the 2019 Tax Act revenue requirement revisions to customers. This collaborative approach is consistent with our historic practice as directed by Ordering Paragraph 4 of PG&E's 2017 GRC decision.[19]

2. 2018 Tax Act Revenue Requirement Reduction

PG&E proposes that the already-accruing benefit of the reduction to the 2018 GRC revenue requirement be provided to customers in a manner that further supports rate and bill

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18 Decision (D.) 17-05-013, Appendix A: Table 6.

19 D.17-05-013, *mimeo*, p. 247.

stability. In addition to the 2019 GRC attrition increases described above, there are other factors that are expected to cause rates to increase on January 1, 2019, and beyond. For example, PG&E is anticipating additional upward pressure on bundled customers' electric rates if the current Power Charge Indifference Adjustment mechanism, which due to the rapid growth in Community Choice Aggregation (CCA), shifts historic generation costs from CCA customers to bundled service customers. Additionally, today PG&E filed its 2018 Catastrophic Event Memorandum Account (CEMA) application, which includes costs related to wildfire and storm events, as well as the recorded and forecast costs of tree mortality and fire reduction work.

PG&E proposes to work collaboratively with the Energy Division to determine the appropriate timing for providing the 2018 GRC revenue requirement revisions to our customers that considers the impact on customer rates from other factors such as those identified above.

PACIFIC GAS AND ELECTRIC COMPANY

APPENDIX

REPORT ON REVENUE REQUIREMENT REVISIONS FROM THE TAX CUT AND JOBS ACT OF 2017 ON THE 2017 GENERAL RATE CASE

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Results of Operations at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	8,004,440	332,976	8,337,416	358,879	8,696,295
2	Plus Other Operating Revenue	152,094	-	152,094	-	152,094
3	Total Operating Revenue	8,156,534	332,976	8,489,510	358,879	8,848,389
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	647,426	49,684	697,111	35,549	732,659
6	Storage	-	-	-	-	-
7	Transmission	7,116	497	7,613	347	7,960
8	Distribution	1,139,910	7,377	1,147,287	16,695	1,163,982
9	Customer Accounts	292,872	856	293,728	3,678	297,406
10	Uncollectibles	27,232	1,395	28,627	1,207	29,834
11	Customer Services	41,321	(733)	40,588	(28)	40,560
12	Administrative and General	912,183	20,539	932,721	20,535	953,256
13	Franchise & SFGR Tax Requirement	66,204	2,718	68,922	2,936	71,858
14	Amortization	176	-	176	-	176
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(29,915)	-	(29,915)	-	(29,915)
18	Subtotal Expenses:	3,104,524	82,334	3,186,857	80,919	3,267,776
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	277,715	13,289	291,004	12,983	303,986
21	Payroll	102,518	2,460	104,978	2,519	107,498
22	Business	1,058	-	1,058	-	1,058
23	Other	2,516	-	2,516	-	2,516
24	State Corporation Franchise	82,152	23,183	105,336	15,740	121,075
25	Federal Income	226,995	98,572	325,567	57,370	382,937
26	Total Taxes	692,954	137,504	830,458	88,612	919,071
27	Depreciation	2,394,911	122,721	2,517,631	116,360	2,633,991
28	Fossil/Hydro Decommissioning	3,094	-	3,094	-	3,094
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	6,195,483	342,559	6,538,042	285,890	6,823,932
31	Net for Return	1,961,051	(9,583)	1,951,468	72,988	2,024,457
32	Rate Base	24,330,655	1,048,278	25,378,933	949,257	26,328,190

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Results of Operations at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	8,004,291	65,952	8,070,242	330,072	8,400,314
2	Plus Other Operating Revenue	152,099	-	152,099	-	152,099
3	Total Operating Revenue	8,156,390	65,952	8,222,342	330,072	8,552,413
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	647,426	49,684	697,111	35,549	732,659
6	Storage	-	-	-	-	-
7	Transmission	7,116	497	7,613	347	7,960
8	Distribution	1,139,910	7,377	1,147,287	16,695	1,163,982
9	Customer Accounts	292,872	856	293,728	3,678	297,406
10	Uncollectibles	27,231	480	27,711	1,112	28,823
11	Customer Services	41,321	(733)	40,588	(28)	40,560
12	Administrative and General	912,183	20,539	932,721	20,535	953,256
13	Franchise & SFGR Tax Requirement	66,203	657	66,860	2,689	69,550
14	Amortization	176	-	176	-	176
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(29,915)	-	(29,915)	-	(29,915)
18	Subtotal Expenses:	3,104,523	79,357	3,183,880	80,577	3,264,457
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	277,715	13,289	291,004	12,983	303,986
21	Payroll	102,518	2,460	104,978	2,519	107,498
22	Business	1,058	-	1,058	-	1,058
23	Other	2,516	-	2,516	-	2,516
24	State Corporation Franchise	82,099	(524)	81,576	12,765	94,341
25	Federal Income	225,472	(155,631)	69,841	14,552	84,393
26	Total Taxes	691,378	(140,405)	550,972	42,820	593,792
27	Depreciation	2,394,911	122,721	2,517,631	116,360	2,633,991
28	Fossil/Hydro Decommissioning	3,094	-	3,094	-	3,094
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	6,193,906	61,673	6,255,579	239,756	6,495,334
31	Net for Return	1,962,484	4,279	1,966,763	90,316	2,057,079
32	Rate Base	24,348,436	1,229,946	25,578,382	1,174,532	26,752,914

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Results of Operations at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
	REVENUE:						
1	Revenue Collected in Rates	(150)	(267,024)	(267,174)	(28,807)	(295,981)	1
2	Plus Other Operating Revenue	6	-	6	-	6	2
3	Total Operating Revenue	(144)	(267,024)	(267,168)	(28,807)	(295,975)	3
	OPERATING EXPENSES:						
4	Energy Costs	-	-	-	-	-	4
5	Production / Procurement	-	-	-	-	-	5
6	Storage	-	-	-	-	-	6
7	Transmission	-	-	-	-	-	7
8	Distribution	-	-	-	-	-	8
9	Customer Accounts	-	-	-	-	-	9
10	Uncollectibles	(1)	(915)	(916)	(95)	(1,011)	10
11	Customer Services	-	-	-	-	-	11
12	Administrative and General	-	-	-	-	-	12
13	Franchise & SFGR Tax Requirement	(0)	(2,061)	(2,061)	(246)	(2,308)	13
14	Amortization	-	-	-	-	-	14
15	Wage Change Impacts	-	-	-	-	-	15
16	Other Price Change Impacts	-	-	-	-	-	16
17	Other Adjustments	-	-	-	-	-	17
18	Subtotal Expenses:	(1)	(2,976)	(2,977)	(342)	(3,319)	18
	TAXES:						
19	Superfund	-	-	-	-	-	19
20	Property	-	-	-	-	-	20
21	Payroll	-	-	-	-	-	21
22	Business	-	-	-	-	-	22
23	Other	-	-	-	-	-	23
24	State Corporation Franchise	(53)	(23,707)	(23,760)	(2,974)	(26,734)	24
25	Federal Income	(1,523)	(254,203)	(255,726)	(42,818)	(298,544)	25
26	Total Taxes	(1,576)	(277,910)	(279,486)	(45,793)	(325,279)	26
27	Depreciation	-	-	-	-	-	27
28	Fossil/Hydro Decommissioning	-	-	-	-	-	28
29	Nuclear Decommissioning	-	-	-	-	-	29
30	Total Operating Expenses	(1,577)	(280,886)	(282,463)	(46,135)	(328,598)	30
31	Net for Return	1,433	13,862	15,295	17,327	32,622	31
32	Rate Base	17,781	181,667	199,449	225,275	424,723	32

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Income Taxes at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	8,156,534	332,976	8,489,510	358,879	8,848,389
2	O&M Expenses	3,104,524	82,334	3,186,857	80,919	3,267,776
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	383,807	15,749	399,556	15,502	415,058
6	Subotal	4,668,203	234,893	4,903,096	262,458	5,165,555
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	630,164	(46,448)	583,715	21,833	605,548
8	Fiscal/Calendar Property Tax Adjustment	7,159	-	7,159	-	7,159
9	Operating Expense Adjustments	43,455	-	43,455	-	43,455
10	Repair Deduction	884,334	(64,011)	820,324	(18,647)	801,677
11	Removal Cost Adjustment	169,250	-	169,250	-	169,250
12	Vacation Pay Adjustment	(2,944)	-	(2,944)	-	(2,944)
13	Capitalized Software Adjustment	114,924	-	114,924	-	114,924
14	Subtotal Deductions	1,846,343	(110,459)	1,735,884	3,186	1,739,070
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	6,631	-	6,631	-	6,631
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	1,738,663	83,100	1,821,762	81,220	1,902,982
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	3,591,636	(27,359)	3,564,277	84,406	3,648,683
22	Taxable Income for CCFT	1,076,567	262,253	1,338,819	178,052	1,516,872
23	CCFT	95,168	23,183	118,352	15,740	134,091
24	State Tax Credit	(3,987)	-	(3,987)	-	(3,987)
25	Current CCFT	91,182	23,183	114,365	15,740	130,105
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	586	-	586	-	586
28	Deferred Taxes - Vacation	(260)	-	(260)	-	(260)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(9,355)	-	(9,355)	-	(9,355)
31	Total CCFT	82,152	23,183	105,336	15,740	121,075
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	101,317	(10,135)	91,182	23,183	114,365
33	FIT Capitalized Interest Adjustment	(773)	-	(773)	-	(773)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	2,110,996	(156,434)	1,954,562	(152,209)	1,802,354
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	2,712	-	2,712	-	2,712
41	Subtotal Deductions	4,060,595	(277,028)	3,783,567	(125,839)	3,657,728
42	Taxable Income for FIT	607,608	511,922	1,119,529	388,297	1,507,827
43	Federal Income Tax	212,663	179,173	391,835	135,904	527,739
44	Federal Tax Credit	(4,138)	-	(4,138)	-	(4,138)
45	Tax Effect of MTD & Prod Tax Credits	(10,287)	-	(10,287)	0	(10,287)
46	Deferred Taxes - Interest	(270)	-	(270)	-	(270)
47	Deferred Taxes - Vacation	(1,030)	-	(1,030)	-	(1,030)
48	ARAM	-	-	-	-	-
49	Deferred Taxes - Fixed Assets	30,058	(80,601)	(50,543)	(78,534)	(129,077)
50	Total Federal Income Tax	226,995	98,572	325,567	57,370	382,937

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Income Taxes at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	8,156,390	65,952	8,222,342	330,072	8,552,413
2	O&M Expenses	3,104,523	79,357	3,183,880	80,577	3,264,457
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	383,807	15,749	399,556	15,502	415,058
6	Subotal	4,668,060	(29,155)	4,638,905	233,993	4,872,898
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	630,624	(42,322)	588,303	27,014	615,317
8	Fiscal/Calendar Property Tax Adjustment	7,159	-	7,159	-	7,159
9	Operating Expense Adjustments	43,455	-	43,455	-	43,455
10	Repair Deduction	884,334	(64,011)	820,324	(18,647)	801,677
11	Removal Cost Adjustment	169,250	-	169,250	-	169,250
12	Vacation Pay Adjustment	(2,944)	-	(2,944)	-	(2,944)
13	Capitalized Software Adjustment	114,924	-	114,924	-	114,924
14	Subtotal Deductions	1,846,803	(106,332)	1,740,471	8,368	1,748,839
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	6,631	-	6,631	-	6,631
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	1,738,663	83,100	1,821,762	81,220	1,902,982
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	3,592,097	(23,232)	3,568,864	89,587	3,658,452
22	Taxable Income for CCFT	1,075,963	(5,922)	1,070,041	144,405	1,214,446
23	CCFT	95,115	(524)	94,592	12,765	107,357
24	State Tax Credit	(3,987)	-	(3,987)	-	(3,987)
25	Current CCFT	91,128	(524)	90,605	12,765	103,370
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	586	-	586	-	586
28	Deferred Taxes - Vacation	(260)	-	(260)	-	(260)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(9,355)	-	(9,355)	-	(9,355)
31	Total CCFT	82,099	(524)	81,576	12,765	94,341
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	101,317	(10,189)	91,128	(524)	90,605
33	FIT Capitalized Interest Adjustment	(773)	-	(773)	-	(773)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	1,839,825	(718,758)	1,121,068	50,768	1,171,835
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	2,712	-	2,712	-	2,712
41	Subtotal Deductions	3,789,885	(835,278)	2,954,606	58,612	3,013,218
42	Taxable Income for FIT	878,175	806,124	1,684,299	175,381	1,859,680
43	Federal Income Tax	307,361	169,286	353,703	36,830	390,533
44	Federal Tax Credit	(4,138)	-	(4,138)	-	(4,138)
45	Tax Effect of MTD & Prod Tax Credits	(11,599)	11,599	(0)	(0)	(0)
46	Deferred Taxes - Interest	(270)	108	(162)	-	(162)
47	Deferred Taxes - Vacation	(1,030)	412	(618)	-	(618)
48	ARAM	-	(57,244)	(57,244)	(17,783)	(75,027)
49	Deferred Taxes - Fixed Assets	(64,852)	(156,847)	(221,700)	(4,495)	(226,195)
50	Total Federal Income Tax	225,472	(32,686)	69,841	14,552	84,393

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Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Income Taxes at Proposed Rates
Electric And Gas Departments
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
1	Revenues	(144)	(267,024)	(267,168)	(28,807)	(295,975)	1
2	O&M Expenses	(1)	(2,976)	(2,977)	(342)	(3,319)	2
3	Nuclear Decommissioning Expense	-	-	-	-	-	3
4	Superfund Tax	-	-	-	-	-	4
5	Taxes Other Than Income	-	-	-	-	-	5
6	Subotal	(143)	(264,048)	(264,191)	(28,465)	(292,656)	6
	DEDUCTIONS FROM TAXABLE INCOME:						
7	Interest Charge Adjustment	461	4,127	4,587	5,181	9,769	7
8	Fiscal/Calendar Property Tax Adjustment	-	-	-	-	-	8
9	Operating Expense Adjustments	-	-	-	-	-	9
10	Repair Deduction	-	-	-	-	-	10
11	Removal Cost Adjustment	-	-	-	-	-	11
12	Vacation Pay Adjustment	-	-	-	-	-	12
13	Capitalized Software Adjustment	-	-	-	-	-	13
14	Subtotal Deductions	461	4,127	4,587	5,181	9,769	14
	CCFT TAXES:						
15	CCFT Capitalized Interest Adjustment	-	-	-	-	-	15
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-	16
17	CCFT Tax Depreciation - Fixed Assets	-	-	-	-	-	17
18	CCFT Tax Depreciation - Other	-	-	-	-	-	18
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	19
20	Other Adjustment	-	-	-	-	-	20
21	Subtotal Deductions	461	4,127	4,587	5,181	9,769	21
22	Taxable Income for CCFT	(604)	(268,175)	(268,778)	(33,647)	(302,425)	22
23	CCFT	(53)	(23,707)	(23,760)	(2,974)	(26,734)	23
24	State Tax Credit	-	-	-	-	-	24
25	Current CCFT	(53)	(23,707)	(23,760)	(2,974)	(26,734)	25
26	Deferred Taxes - Reg Asset	-	-	-	-	-	26
27	Deferred Taxes - Interest	-	-	-	-	-	27
28	Deferred Taxes - Vacation	-	-	-	-	-	28
29	Deferred Taxes - Other	-	-	-	-	-	29
30	Deferred Taxes - Fixed Assets	-	-	-	-	-	30
31	Total CCFT	(53)	(23,707)	(23,760)	(2,974)	(26,734)	31
	FEDERAL TAXES:						
32	CCFT - Prior Year Adjustment	-	(53)	(53)	(23,707)	(23,760)	32
33	FIT Capitalized Interest Adjustment	-	-	-	-	-	33
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-	34
35	FIT Tax Depreciation - SLRL	-	-	-	-	-	35
36	FIT Tax Depreciation - Fixed Assets	(271,171)	(562,324)	(833,495)	202,976	(630,519)	36
37	FIT Tax Depreciation - Other	-	-	-	-	-	37
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	38
39	Other Adjustment	-	-	-	-	-	39
40	FIT Preferred Dividend Adjustment	-	-	-	-	-	40
41	Subtotal Deductions	(270,711)	(558,250)	(828,961)	184,451	(644,510)	41
42	Taxable Income for FIT	270,568	294,202	564,770	(212,916)	351,853	42
43	Federal Income Tax	94,699	(9,887)	(38,132)	(99,074)	(137,207)	43
44	Federal Tax Credit	-	-	-	-	-	44
45	Tax Effect of MTD & Prod Tax Credits	(1,312)	11,599	10,287	(0)	10,287	45
46	Deferred Taxes - Interest	-	108	108	-	108	46
47	Deferred Taxes - Vacation	-	412	412	-	412	47
48	ARAM	-	(57,244)	(57,244)	(17,783)	(75,027)	48
49	Deferred Taxes - Fixed Assets	(94,910)	(76,247)	(171,157)	74,039	(97,118)	49
50	Total Federal Income Tax	(1,523)	(131,259)	(255,726)	(42,818)	(298,544)	50

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

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Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Electric And Gas Departments
Rate Base - Attrition
(Thousands of Dollars)

Line No.		2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	56,138,232	56,138,232	59,131,798	59,131,798	2,993,565	61,907,296	61,907,296	2,775,498
2	Net Additions	2,993,565	1,331,729	2,775,498	1,234,852	(96,877)	2,712,400	1,206,786	(28,066)
3	Total	59,131,798	57,469,961	61,907,296	60,366,649	2,896,688	64,619,696	63,114,082	2,747,433
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	225,722	225,722	225,722	225,722	-	225,722	225,722	-
6	Working Cash	532,727	532,727	532,727	532,727	0	532,727	532,727	-
7	Total	758,449	758,449	758,449	758,449	0	758,449	758,449	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	25,423	25,265	25,423	25,423	158	25,423	25,423	-
9	Deferred Vacation	39,518	38,918	39,518	39,518	600	39,518	39,518	-
10	CIAC Deferral	467,959	464,182	467,959	467,959	3,777	467,959	467,959	-
11	Total	532,900	528,366	532,900	532,900	4,535	532,900	532,900	-
12	CUSTOMER ADVANCES	96,421	96,421	96,421	96,421	-	96,421	96,421	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	(14,906)	(15,478)	(14,906)	(14,906)	572	(14,906)	(14,906)	-
14	Accum Def Taxes - Fixed Assets	5,598,736	5,506,003	5,548,193	5,573,465	67,462	5,419,116	5,483,655	(89,810)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	235,166	240,214	235,166	235,166	(5,048)	235,166	235,166	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	5,818,997	5,730,739	5,768,454	5,793,725	62,986	5,639,377	5,703,916	(89,810)
	DEPRECIATION RESERVE								
19	Beginning of Year	27,708,139	27,708,139	29,465,867	29,465,867	1,757,728	31,311,972	31,311,972	1,846,105
20	Depreciation Expense	2,398,005	1,199,002	2,520,726	1,260,363	61,360	2,637,085	1,318,543	58,180
21	Net Salvage/Retirements	(640,277)	(308,180)	(674,621)	(337,311)	(29,130)	(707,219)	(353,610)	(16,299)
22	Total	29,465,867	28,598,961	31,311,972	30,388,919	1,789,958	33,241,838	32,276,905	1,887,985
23	RATE BASE	25,041,862	24,330,655	26,021,799	25,378,933	1,048,278	26,933,410	26,328,190	949,257

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Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Electric And Gas Departments
Rate Base - Attrition
(Thousands of Dollars)

Line No.		2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	56,138,232	56,138,232	59,131,798	59,131,798	2,993,565	61,907,296	61,907,296	2,775,498
2	Net Additions	2,993,565	1,331,729	2,775,498	1,234,852	(96,877)	2,712,400	1,206,786	(28,066)
3	Total	59,131,798	57,469,961	61,907,296	60,366,649	2,896,688	64,619,696	63,114,082	2,747,433
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	225,722	225,722	225,722	225,722	-	225,722	225,722	-
6	Working Cash	510,175	510,175	510,175	510,175	0	510,175	510,175	-
7	Total	735,898	735,898	735,898	735,898	0	735,898	735,898	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	25,423	25,265	25,423	25,423	158	25,423	25,423	-
9	Deferred Vacation	39,518	38,918	26,180	32,849	(6,069)	26,180	26,180	(6,669)
10	CIAC Deferral	467,959	464,182	467,959	467,959	3,777	467,959	467,959	-
11	Total	532,900	528,366	519,562	526,231	(2,134)	519,562	519,562	(6,669)
12	CUSTOMER ADVANCES	96,421	96,421	96,421	96,421	-	96,421	96,421	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	(14,906)	(15,478)	(14,906)	(14,906)	572	(14,906)	(14,906)	-
14	Accum Def Taxes - Fixed Assets	5,503,826	5,465,670	5,185,766	5,344,796	(120,874)	4,860,319	5,023,042	(321,754)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	235,166	240,214	235,166	235,166	(5,048)	235,166	235,166	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	5,724,087	5,690,406	5,406,026	5,565,057	(125,350)	5,080,580	5,243,303	(321,754)
	DEPRECIATION RESERVE								
19	Beginning of Year	27,708,139	27,708,139	29,465,867	29,465,867	1,757,728	31,311,972	31,311,972	1,846,105
20	Depreciation Expense	2,398,005	1,199,002	2,520,726	1,260,363	61,360	2,637,085	1,318,543	58,180
21	Net Salvage/Retirements	(640,277)	(308,180)	(674,621)	(337,311)	(29,130)	(707,219)	(353,610)	(16,299)
22	Total	29,465,867	28,598,961	31,311,972	30,388,919	1,789,958	33,241,838	32,276,905	1,887,985
23	RATE BASE	25,114,221	24,348,436	26,348,337	25,578,382	1,229,946	27,456,318	26,752,914	1,174,532

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Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Electric And Gas Departments
Rate Base - Attrition
(Thousands of Dollars)

	2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
PLANT IN SERVICE									
Beginning of Year	-	-	-	-	-	-	-	-	1
Net Additions	-	-	-	-	-	-	-	-	2
Total	-	-	-	-	-	-	-	-	3
WORKING CAPITAL									
Material & Supplies - Fuel	-	-	-	-	-	-	-	-	4
Material & Supplies	-	-	-	-	-	-	-	-	5
Working Cash	(22,551)	(22,551)	(22,551)	(22,551)	(0)	(22,551)	(22,551)	-	6
Total	(22,551)	(22,551)	(22,551)	(22,551)	(0)	(22,551)	(22,551)	-	7
TRA ADJUSTMENTS									
Capitalized Interest	-	-	-	-	-	-	-	-	8
Deferred Vacation	-	-	(13,338)	(6,669)	(6,669)	(13,338)	(13,338)	(6,669)	9
CIAC Deferral	-	-	-	-	-	-	-	-	10
Total	-	-	(13,338)	(6,669)	(6,669)	(13,338)	(13,338)	(6,669)	11
CUSTOMER ADVANCES	-	-	-	-	-	-	-	-	12
DEFERRED TAXES									
Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-	13
Accum Def Taxes - Fixed Assets	(94,910)	(40,333)	(362,428)	(228,669)	(188,336)	(558,797)	(460,612)	(231,944)	14
Accum Def Taxes - Other	-	-	-	-	-	-	-	-	15
Accum Def ITC	-	-	-	-	-	-	-	-	16
Deferred Taxes-Other	-	-	-	-	-	-	-	-	17
Total Deferred Taxes	(94,910)	(40,333)	(362,428)	(228,669)	(188,336)	(558,797)	(460,612)	(231,944)	18
DEPRECIATION RESERVE									
Beginning of Year	-	-	-	-	-	-	-	-	19
Depreciation Expense	-	-	-	-	-	-	-	-	20
Net Salvage/Retirements	-	-	-	-	-	-	-	-	21
Total	-	-	-	-	-	-	-	-	22
RATE BASE	72,359	17,781	326,538	199,449	181,667	522,908	424,723	225,275	23

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Results of Operations at Proposed Rates
Electric Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	4,151,023	187,432	4,338,455	194,472	4,532,927
2	Plus Other Operating Revenue	117,977	-	117,977	-	117,977
3	Total Operating Revenue	4,269,001	187,432	4,456,432	194,472	4,650,905
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	-	-	-	-	-
6	Storage	-	-	-	-	-
7	Transmission	1,066	58	1,124	46	1,170
8	Distribution	710,221	43,693	753,914	35,079	788,993
9	Customer Accounts	173,659	10,639	184,298	8,612	192,910
10	Uncollectibles	14,430	785	15,216	664	15,880
11	Customer Services	19,048	1,167	20,215	942	21,158
12	Administrative and General	381,817	8,518	390,334	8,513	398,847
13	Franchise & SFGR Tax Requirement	33,346	1,463	34,809	1,519	36,328
14	Amortization	-	-	-	-	-
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(6,420)	-	(6,420)	-	(6,420)
18	Subtotal Expenses:	1,327,166	66,324	1,393,490	55,375	1,448,865
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	167,698	7,743	175,441	7,553	182,994
21	Payroll	39,116	939	40,055	961	41,016
22	Business	453	-	453	-	453
23	Other	1,076	-	1,076	-	1,076
24	State Corporation Franchise	72,073	11,970	84,043	8,168	92,211
25	Federal Income	181,580	47,762	229,341	28,872	258,213
26	Total Taxes	461,996	68,413	530,409	45,554	575,963
27	Depreciation	1,364,495	67,957	1,432,452	64,132	1,496,584
28	Fossil/Hydro Decommissioning	-	-	-	-	-
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	3,153,657	202,693	3,356,350	165,061	3,521,411
31	Net for Return	1,115,344	(15,261)	1,100,082	29,411	1,129,494
32	Rate Base	13,838,010	468,601	14,306,611	382,530	14,689,141

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Results of Operations at Proposed Rates
Electric Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	4,152,187	530	4,152,717	182,608	4,335,325
2	Plus Other Operating Revenue	117,983	-	117,983	-	117,983
3	Total Operating Revenue	4,270,171	530	4,270,700	182,608	4,453,308
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	-	-	-	-	-
6	Storage	-	-	-	-	-
7	Transmission	1,066	58	1,124	46	1,170
8	Distribution	710,221	43,693	753,914	35,079	788,993
9	Customer Accounts	173,659	10,639	184,298	8,612	192,910
10	Uncollectibles	14,434	147	14,582	623	15,205
11	Customer Services	19,048	1,167	20,215	942	21,158
12	Administrative and General	381,817	8,518	390,334	8,513	398,847
13	Franchise & SFGR Tax Requirement	33,355	3	33,358	1,426	34,784
14	Amortization	-	-	-	-	-
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(6,420)	-	(6,420)	-	(6,420)
18	Subtotal Expenses:	1,327,179	64,226	1,391,405	55,242	1,446,647
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	167,698	7,743	175,441	7,553	182,994
21	Payroll	39,116	939	40,055	961	41,016
22	Business	453	-	453	-	453
23	Other	1,076	-	1,076	-	1,076
24	State Corporation Franchise	72,154	(4,554)	67,600	6,907	74,507
25	Federal Income	181,899	(127,632)	54,268	9,925	64,193
26	Total Taxes	462,396	(123,504)	338,892	25,346	364,238
27	Depreciation	1,364,495	67,957	1,432,452	64,132	1,496,584
28	Fossil/Hydro Decommissioning	-	-	-	-	-
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	3,154,071	8,678	3,162,749	144,720	3,307,469
31	Net for Return	1,116,100	(8,148)	1,107,952	37,888	1,145,839
32	Rate Base	13,847,392	561,864	14,409,257	492,728	14,901,984

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Results of Operations at Proposed Rates
Electric Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
	REVENUE:						
1	Revenue Collected in Rates	1,164	(186,902)	(185,738)	(11,865)	(197,602)	1
2	Plus Other Operating Revenue	6	-	6	-	6	2
3	Total Operating Revenue	1,170	(186,902)	(185,732)	(11,865)	(197,596)	3
	OPERATING EXPENSES:						
4	Energy Costs	-	-	-	-	-	4
5	Production / Procurement	-	-	-	-	-	5
6	Storage	-	-	-	-	-	6
7	Transmission	-	-	-	-	-	7
8	Distribution	-	-	-	-	-	8
9	Customer Accounts	-	-	-	-	-	9
10	Uncollectibles	4	(638)	(634)	(41)	(675)	10
11	Customer Services	-	-	-	-	-	11
12	Administrative and General	-	-	-	-	-	12
13	Franchise & SFGR Tax Requirement	9	(1,460)	(1,451)	(93)	(1,543)	13
14	Amortization	-	-	-	-	-	14
15	Wage Change Impacts	-	-	-	-	-	15
16	Other Price Change Impacts	-	-	-	-	-	16
17	Other Adjustments	-	-	-	-	-	17
18	Subtotal Expenses:	13	(2,098)	(2,085)	(133)	(2,218)	18
	TAXES:						
19	Superfund	-	-	-	-	-	19
20	Property	-	-	-	-	-	20
21	Payroll	-	-	-	-	-	21
22	Business	-	-	-	-	-	22
23	Other	-	-	-	-	-	23
24	State Corporation Franchise	81	(16,524)	(16,443)	(1,261)	(17,704)	24
25	Federal Income	320	(175,393)	(175,073)	(18,947)	(194,020)	25
26	Total Taxes	401	(191,917)	(191,517)	(20,208)	(211,724)	26
27	Depreciation	-	-	-	-	-	27
28	Fossil/Hydro Decommissioning	-	-	-	-	-	28
29	Nuclear Decommissioning	-	-	-	-	-	29
30	Total Operating Expenses	414	(194,015)	(193,601)	(20,341)	(213,942)	30
31	Net for Return	756	7,113	7,869	8,476	16,346	31
32	Rate Base	9,382	93,264	102,645	110,198	212,843	32

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 (Note 1)

Income Taxes at Proposed Rates

Electric Distribution

(Thousands of Dollars)

Line		Test	Attrition Year		Attrition Year	
		Year	2018		2019	
No.	Description	2017	Increase	Total	Increase	Total
		(A)	(B)	(C)	(D)	(E)
1	Revenues	4,269,001	187,432	4,456,432	194,472	4,650,905
2	O&M Expenses	1,327,166	66,324	1,393,490	55,375	1,448,865
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	208,343	8,682	217,025	8,514	225,539
6	Subotal	2,733,491	112,427	2,845,918	130,583	2,976,501
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	358,404	(29,352)	329,052	8,798	337,850
8	Fiscal/Calendar Property Tax Adjustment	3,401	-	3,401	-	3,401
9	Operating Expense Adjustments	52,797	-	52,797	-	52,797
10	Repair Deduction	425,076	(33,594)	391,482	(9,602)	381,879
11	Removal Cost Adjustment	126,751	-	126,751	-	126,751
12	Vacation Pay Adjustment	(1,259)	-	(1,259)	-	(1,259)
13	Capitalized Software Adjustment	49,019	-	49,019	-	49,019
14	Subtotal Deductions	1,014,189	(62,946)	951,242	(804)	950,438
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	1,772	-	1,772	-	1,772
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	865,653	39,968	905,621	38,988	944,609
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	1,881,614	(22,978)	1,858,636	38,184	1,896,820
22	Taxable Income for CCFT	851,877	135,405	987,282	92,399	1,079,681
23	CCFT	75,306	11,970	87,276	8,168	95,444
24	State Tax Credit	(867)	-	(867)	-	(867)
25	Current CCFT	74,439	11,970	86,408	8,168	94,577
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	157	-	157	-	157
28	Deferred Taxes - Vacation	(111)	-	(111)	-	(111)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(2,411)	-	(2,411)	-	(2,411)
31	Total CCFT	72,073	11,970	84,043	8,168	92,211
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	73,383	1,055	74,439	11,970	86,408
33	FIT Capitalized Interest Adjustment	935	-	935	-	935
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	1,070,510	(86,876)	983,634	(95,340)	888,295
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	301	-	301	-	301
41	Subtotal Deductions	2,159,318	(148,767)	2,010,551	(84,174)	1,926,377
42	Taxable Income for FIT	574,173	261,194	835,367	214,757	1,050,124
43	Federal Income Tax	200,961	91,418	292,378	75,165	367,543
44	Federal Tax Credit	(900)	-	(900)	-	(900)
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-
46	Deferred Taxes - Interest	327	-	327	-	327
47	Deferred Taxes - Vacation	(441)	-	(441)	-	(441)
48	ARAM	-	-	-	-	-
49	Deferred Taxes - Fixed Assets	(18,367)	(43,656)	(62,024)	(46,293)	(108,317)
50	Total Federal Income Tax	181,580	47,762	229,341	28,872	258,213

B

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)

Income Taxes at Proposed Rates

Electric Distribution

(Thousands of Dollars)

Line		Test	Attrition Year		Attrition Year	
		Year	2018		2019	
No.	Description	2017	Increase	Total	Increase	Total
		(A)	(B)	(C)	(D)	(E)
1	Revenues	4,270,171	530	4,270,700	182,608	4,453,308
2	O&M Expenses	1,327,179	64,226	1,391,405	55,242	1,446,647
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	208,343	8,682	217,025	8,514	225,539
6	Subotal	2,734,648	(72,377)	2,662,271	118,852	2,781,123
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	358,647	(27,235)	331,413	11,333	342,746
8	Fiscal/Calendar Property Tax Adjustment	3,401	-	3,401	-	3,401
9	Operating Expense Adjustments	52,797	-	52,797	-	52,797
10	Repair Deduction	425,076	(33,594)	391,482	(9,602)	381,879
11	Removal Cost Adjustment	126,751	-	126,751	-	126,751
12	Vacation Pay Adjustment	(1,259)	-	(1,259)	-	(1,259)
13	Capitalized Software Adjustment	49,019	-	49,019	-	49,019
14	Subtotal Deductions	1,014,432	(60,829)	953,603	1,730	955,334
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	1,772	-	1,772	-	1,772
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	865,653	39,968	905,621	38,988	944,609
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	1,881,857	(20,860)	1,860,997	40,718	1,901,715
22	Taxable Income for CCFT	852,791	(51,517)	801,274	78,133	879,408
23	CCFT	75,387	(4,554)	70,833	6,907	77,740
24	State Tax Credit	(867)	-	(867)	-	(867)
25	Current CCFT	74,519	(4,554)	69,965	6,907	76,872
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	157	-	157	-	157
28	Deferred Taxes - Vacation	(111)	-	(111)	-	(111)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(2,411)	-	(2,411)	-	(2,411)
31	Total CCFT	72,154	(4,554)	67,600	6,907	74,507
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	73,383	1,136	74,519	(4,554)	69,965
33	FIT Capitalized Interest Adjustment	935	-	935	-	935
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	926,399	(385,718)	540,681	23,277	563,958
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	301	-	301	-	301
41	Subtotal Deductions	2,015,450	(445,410)	1,570,040	20,453	1,590,493
42	Taxable Income for FIT	719,198	373,033	1,092,231	98,399	1,190,629
43	Federal Income Tax	251,719	78,337	229,368	20,664	250,032
44	Federal Tax Credit	(900)	-	(900)	-	(900)
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-
46	Deferred Taxes - Interest	327	(131)	196	-	196
47	Deferred Taxes - Vacation	(441)	176	(264)	-	(264)
48	ARAM	-	(22,228)	(22,228)	(8,123)	(30,351)
49	Deferred Taxes - Fixed Assets	(68,806)	(83,098)	(151,905)	(2,616)	(154,520)
50	Total Federal Income Tax	181,899	(26,944)	54,268	9,925	64,193

B-A

Pacific Gas and Electric Company

2017 PG&E GRC (Difference)

Income Taxes at Proposed Rates

Electric Distribution

(Thousands of Dollars)

Line		Test	Attrition Year		Attrition Year		Line
		Year	2018		2019		
No.	Description	2017	Increase	Total	Increase	Total	No.
		(A)	(B)	(C)	(D)	(E)	
1	Revenues	1,170	(186,902)	(185,732)	(11,865)	(197,596)	1
2	O&M Expenses	13	(2,098)	(2,085)	(133)	(2,218)	2
3	Nuclear Decommissioning Expense	-	-	-	-	-	3
4	Superfund Tax	-	-	-	-	-	4
5	Taxes Other Than Income	-	-	-	-	-	5
6	Subotal	1,157	(184,804)	(183,647)	(11,731)	(195,378)	6
	DEDUCTIONS FROM TAXABLE INCOME:						
7	Interest Charge Adjustment	243	2,118	2,361	2,535	4,895	7
8	Fiscal/Calendar Property Tax Adjustment	-	-	-	-	-	8
9	Operating Expense Adjustments	-	-	-	-	-	9
10	Repair Deduction	-	-	-	-	-	10
11	Removal Cost Adjustment	-	-	-	-	-	11
12	Vacation Pay Adjustment	-	-	-	-	-	12
13	Capitalized Software Adjustment	-	-	-	-	-	13
14	Subtotal Deductions	243	2,118	2,361	2,535	4,895	14
	CCFT TAXES:						
15	CCFT Capitalized Interest Adjustment	-	-	-	-	-	15
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-	16
17	CCFT Tax Depreciation - Fixed Assets	-	-	-	-	-	17
18	CCFT Tax Depreciation - Other	-	-	-	-	-	18
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	19
20	Other Adjustment	-	-	-	-	-	20
21	Subtotal Deductions	243	2,118	2,361	2,535	4,895	21
22	Taxable Income for CCFT	914	(186,922)	(186,008)	(14,266)	(200,274)	22
23	CCFT	81	(16,524)	(16,443)	(1,261)	(17,704)	23
24	State Tax Credit	-	-	-	-	-	24
25	Current CCFT	81	(16,524)	(16,443)	(1,261)	(17,704)	25
26	Deferred Taxes - Reg Asset	-	-	-	-	-	26
27	Deferred Taxes - Interest	-	-	-	-	-	27
28	Deferred Taxes - Vacation	-	-	-	-	-	28
29	Deferred Taxes - Other	-	-	-	-	-	29
30	Deferred Taxes - Fixed Assets	-	-	-	-	-	30
31	Total CCFT	81	(16,524)	(16,443)	(1,261)	(17,704)	31
	FEDERAL TAXES:						
32	CCFT - Prior Year Adjustment	-	81	81	(16,524)	(16,443)	32
33	FIT Capitalized Interest Adjustment	-	-	-	-	-	33
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-	34
35	FIT Tax Depreciation - SLRL	-	-	-	-	-	35
36	FIT Tax Depreciation - Fixed Assets	(144,111)	(298,841)	(442,953)	118,616	(324,336)	36
37	FIT Tax Depreciation - Other	-	-	-	-	-	37
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	38
39	Other Adjustment	-	-	-	-	-	39
40	FIT Preferred Dividend Adjustment	-	-	-	-	-	40
41	Subtotal Deductions	(143,868)	(296,643)	(440,511)	104,627	(335,884)	41
42	Taxable Income for FIT	145,025	111,839	256,864	(116,358)	140,506	42
43	Federal Income Tax	50,759	(13,081)	(63,010)	(54,501)	(117,511)	43
44	Federal Tax Credit	-	-	-	-	-	44
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-	45
46	Deferred Taxes - Interest	-	(131)	(131)	-	(131)	46
47	Deferred Taxes - Vacation	-	176	176	-	176	47
48	ARAM	-	(22,228)	(22,228)	(8,123)	(30,351)	48
49	Deferred Taxes - Fixed Assets	(50,439)	(39,442)	(89,881)	43,678	(46,203)	49
50	Total Federal Income Tax	320	(74,706)	(175,073)	(18,947)	(194,020)	50

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 (Note 1)

Electric Distribution

Rate Base - Attrition

(Thousands of Dollars)

Line No.		2017		2018			2019		
		End Of Year	WAVG Year	End Of Year	WAVG Year	WAVG Increase	End Of Year	WAVG Year	WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	29,526,820	29,526,820	31,085,224	31,085,224	1,558,403	32,520,465	32,520,465	1,435,241
2	Net Additions	1,558,403	682,014	1,435,241	628,114	(53,900)	1,400,037	612,707	(15,407)
3	Total	31,085,224	30,208,834	32,520,465	31,713,337	1,504,503	33,920,503	33,133,172	1,419,835
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	75,586	75,586	75,586	75,586	-	75,586	75,586	-
6	Working Cash	206,765	206,765	206,765	206,765	0	206,765	206,765	-
7	Total	282,350	282,350	282,350	282,350	0	282,350	282,350	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	(2,405)	(2,647)	(2,405)	(2,405)	242	(2,405)	(2,405)	-
9	Deferred Vacation	16,909	16,652	16,909	16,909	257	16,909	16,909	-
10	CIAC Deferral	372,600	368,418	372,600	372,600	4,182	372,600	372,600	-
11	Total	387,104	382,424	387,104	387,104	4,681	387,104	387,104	-
12	CUSTOMER ADVANCES	70,007	70,007	70,007	70,007	-	70,007	70,007	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-
14	Accum Def Taxes - Fixed Assets	3,421,379	3,414,433	3,359,356	3,390,367	(24,065)	3,251,039	3,305,197	(85,170)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	30,229	31,125	30,229	30,229	(896)	30,229	30,229	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	3,451,608	3,445,558	3,389,584	3,420,596	(24,962)	3,281,267	3,335,426	(85,170)
	DEPRECIATION RESERVE								
19	Beginning of Year	12,990,817	12,990,817	14,036,630	14,036,630	1,045,813	15,134,528	15,134,528	1,097,898
20	Depreciation Expense	1,364,495	682,248	1,432,452	716,226	33,978	1,496,584	748,292	32,066
21	Net Salvage/Retirements	(318,682)	(153,030)	(334,554)	(167,277)	(14,247)	(349,532)	(174,766)	(7,489)
22	Total	14,036,630	13,520,034	15,134,528	14,585,579	1,065,545	16,281,579	15,708,053	1,122,475
23	RATE BASE	14,196,435	13,838,010	14,595,802	14,306,611	468,601	14,957,104	14,689,141	382,530

B

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)

Electric Distribution

Rate Base - Attrition

(Thousands of Dollars)

Line No.		2017		2018			2019		
		End Of Year	WAVG Year	End Of Year	WAVG Year	WAVG Increase	End Of Year	WAVG Year	WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	29,526,820	29,526,820	31,085,224	31,085,224	1,558,403	32,520,465	32,520,465	1,435,241
2	Net Additions	1,558,403	682,014	1,435,241	628,114	(53,900)	1,400,037	612,707	(15,407)
3	Total	31,085,224	30,208,834	32,520,465	31,713,337	1,504,503	33,920,503	33,133,172	1,419,835
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	75,586	75,586	75,586	75,586	-	75,586	75,586	-
6	Working Cash	194,712	194,712	194,712	194,712	0	194,712	194,712	-
7	Total	270,298	270,298	270,298	270,298	0	270,298	270,298	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	(2,405)	(2,647)	(2,405)	(2,405)	242	(2,405)	(2,405)	-
9	Deferred Vacation	16,909	16,652	11,203	14,056	(2,597)	11,203	11,203	(2,853)
10	CIAC Deferral	372,600	368,418	372,600	372,600	4,182	372,600	372,600	-
11	Total	387,104	382,424	381,398	384,251	1,828	381,398	381,398	(2,853)
12	CUSTOMER ADVANCES	70,007	70,007	70,007	70,007	-	70,007	70,007	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-
14	Accum Def Taxes - Fixed Assets	3,370,940	3,392,999	3,174,692	3,272,816	(120,182)	2,974,498	3,074,595	(198,221)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	30,229	31,125	30,229	30,229	(896)	30,229	30,229	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	3,401,169	3,424,123	3,204,921	3,303,045	(121,078)	3,004,727	3,104,824	(198,221)
	DEPRECIATION RESERVE								
19	Beginning of Year	12,990,817	12,990,817	14,036,630	14,036,630	1,045,813	15,134,528	15,134,528	1,097,898
20	Depreciation Expense	1,364,495	682,248	1,432,452	716,226	33,978	1,496,584	748,292	32,066
21	Net Salvage/Retirements	(318,682)	(153,030)	(334,554)	(167,277)	(14,247)	(349,532)	(174,766)	(7,489)
22	Total	14,036,630	13,520,034	15,134,528	14,585,579	1,065,545	16,281,579	15,708,053	1,122,475
23	RATE BASE	14,234,821	13,847,392	14,762,706	14,409,257	561,864	15,215,886	14,901,984	492,728

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Pacific Gas and Electric Company

2017 PG&E GRC (Difference)

Electric Distribution

Rate Base - Attrition

(Thousands of Dollars)

	2017		2018			2019			Line No.
	End Of Year	WAVG Year	End Of Year	WAVG Year	WAVG Increase	End Of Year	WAVG Year	WAVG Increase	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
PLANT IN SERVICE									
Beginning of Year	-	-	-	-	-	-	-	-	1
Net Additions	-	-	-	-	-	-	-	-	2
Total	-	-	-	-	-	-	-	-	3
WORKING CAPITAL									
Material & Supplies - Fuel	-	-	-	-	-	-	-	-	4
Material & Supplies	-	-	-	-	-	-	-	-	5
Working Cash	(12,053)	(12,053)	(12,053)	(12,053)	(0)	(12,053)	(12,053)	-	6
Total	(12,053)	(12,053)	(12,053)	(12,053)	(0)	(12,053)	(12,053)	-	7
TRA ADJUSTMENTS									
Capitalized Interest	-	-	-	-	-	-	-	-	8
Deferred Vacation	-	-	(5,706)	(2,853)	(2,853)	(5,706)	(5,706)	(2,853)	9
CIAC Deferral	-	-	-	-	-	-	-	-	10
Total	-	-	(5,706)	(2,853)	(2,853)	(5,706)	(5,706)	(2,853)	11
CUSTOMER ADVANCES	-	-	-	-	-	-	-	-	12
DEFERRED TAXES									
Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-	13
Accum Def Taxes - Fixed Assets	(50,439)	(21,434)	(184,663)	(117,551)	(96,117)	(276,540)	(230,602)	(113,051)	14
Accum Def Taxes - Other	-	-	-	-	-	-	-	-	15
Accum Def ITC	-	-	-	-	-	-	-	-	16
Deferred Taxes-Other	-	-	-	-	-	-	-	-	17
Total Deferred Taxes	(50,439)	(21,434)	(184,663)	(117,551)	(96,117)	(276,540)	(230,602)	(113,051)	18
DEPRECIATION RESERVE									
Beginning of Year	-	-	-	-	-	-	-	-	19
Depreciation Expense	-	-	-	-	-	-	-	-	20
Net Salvage/Retirements	-	-	-	-	-	-	-	-	21
Total	-	-	-	-	-	-	-	-	22
RATE BASE	38,386	9,382	166,904	102,645	93,264	258,782	212,843	110,198	23

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

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Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Results of Operations at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	1,738,483	84,903	1,823,386	94,169	1,917,555
2	Plus Other Operating Revenue	28,091	-	28,091	-	28,091
3	Total Operating Revenue	1,766,574	84,903	1,851,477	94,169	1,945,646
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	3,286	(280)	3,006	(141)	2,864
6	Storage	-	-	-	-	-
7	Transmission	-	-	-	-	-
8	Distribution	429,689	(36,316)	393,373	(18,384)	374,989
9	Customer Accounts	116,810	(9,970)	106,840	(5,065)	101,775
10	Uncollectibles	5,632	330	5,962	303	6,266
11	Customer Services	22,273	(1,900)	20,373	(971)	19,402
12	Administrative and General	258,547	5,844	264,391	5,844	270,235
13	Franchise & SFGR Tax Requirement	16,291	782	17,073	868	17,941
14	Amortization	-	-	-	-	-
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(3,495)	-	(3,495)	-	(3,495)
18	Subtotal Expenses:	849,033	(41,510)	807,523	(17,546)	789,977
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	53,820	3,991	57,811	3,905	61,716
21	Payroll	30,790	739	31,529	757	32,285
22	Business	297	-	297	-	297
23	Other	707	-	707	-	707
24	State Corporation Franchise	(14,482)	10,565	(3,917)	6,471	2,555
25	Federal Income	(50,406)	48,633	(1,773)	23,619	21,845
26	Total Taxes	20,726	63,927	84,653	34,752	119,405
27	Depreciation	480,014	38,521	518,535	36,761	555,296
28	Fossil/Hydro Decommissioning	-	-	-	-	-
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	1,349,773	60,938	1,410,711	53,967	1,464,678
31	Net for Return	416,801	23,965	440,766	40,201	480,968
32	Rate Base	5,171,234	560,734	5,731,968	522,792	6,254,759

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Results of Operations at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	1,739,149	102,223	1,841,372	78,936	1,920,308
2	Plus Other Operating Revenue	28,091	-	28,091	-	28,091
3	Total Operating Revenue	1,767,240	102,223	1,869,463	78,936	1,948,399
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	3,286	(280)	3,006	(141)	2,864
6	Storage	-	-	-	-	-
7	Transmission	-	-	-	-	-
8	Distribution	429,689	(36,316)	393,373	(18,384)	374,989
9	Customer Accounts	116,810	(9,970)	106,840	(5,065)	101,775
10	Uncollectibles	5,634	386	6,020	254	6,274
11	Customer Services	22,273	(1,900)	20,373	(971)	19,402
12	Administrative and General	258,547	5,844	264,391	5,844	270,235
13	Franchise & SFGR Tax Requirement	16,297	942	17,239	728	17,967
14	Amortization	-	-	-	-	-
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(3,495)	-	(3,495)	-	(3,495)
18	Subtotal Expenses:	849,041	(41,294)	807,747	(17,735)	790,012
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	53,820	3,991	57,811	3,905	61,716
21	Payroll	30,790	739	31,529	757	32,285
22	Business	297	-	297	-	297
23	Other	707	-	707	-	707
24	State Corporation Franchise	(14,436)	11,978	(2,458)	5,023	2,566
25	Federal Income	(50,224)	60,556	10,332	5,548	15,880
26	Total Taxes	20,953	77,264	98,217	15,233	113,451
27	Depreciation	480,014	38,521	518,535	36,761	555,296
28	Fossil/Hydro Decommissioning	-	-	-	-	-
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	1,350,009	74,490	1,424,499	34,259	1,458,758
31	Net for Return	417,231	27,733	444,964	44,677	489,641
32	Rate Base	5,176,567	610,066	5,786,633	580,981	6,367,613

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Results of Operations at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
REVENUE:						
Revenue Collected in Rates	666	17,321	17,986	(15,233)	2,753	1
Plus Other Operating Revenue	-	-	-	-	-	2
Total Operating Revenue	666	17,321	17,986	(15,233)	2,753	3
OPERATING EXPENSES:						
Energy Costs	-	-	-	-	-	4
Production / Procurement	-	-	-	-	-	5
Storage	-	-	-	-	-	6
Transmission	-	-	-	-	-	7
Distribution	-	-	-	-	-	8
Customer Accounts	-	-	-	-	-	9
Uncollectibles	2	56	58	(49)	9	10
Customer Services	-	-	-	-	-	11
Administrative and General	-	-	-	-	-	12
Franchise & SFGR Tax Requirement	6	160	166	(140)	25	13
Amortization	-	-	-	-	-	14
Wage Change Impacts	-	-	-	-	-	15
Other Price Change Impacts	-	-	-	-	-	16
Other Adjustments	-	-	-	-	-	17
Subtotal Expenses:	8	216	224	(190)	34	18
TAXES:						
Superfund	-	-	-	-	-	19
Property	-	-	-	-	-	20
Payroll	-	-	-	-	-	21
Business	-	-	-	-	-	22
Other	-	-	-	-	-	23
State Corporation Franchise	46	1,413	1,459	(1,448)	11	24
Federal Income	182	11,924	12,105	(18,071)	(5,965)	25
Total Taxes	228	13,337	13,564	(19,519)	(5,954)	26
Depreciation	-	-	-	-	-	27
Fossil/Hydro Decommissioning	-	-	-	-	-	28
Nuclear Decommissioning	-	-	-	-	-	29
Total Operating Expenses	236	13,552	13,788	(19,708)	(5,920)	30
Net for Return	430	3,768	4,198	4,475	8,673	31
Rate Base	5,333	49,332	54,665	58,189	112,854	32

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Income Taxes at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	1,766,574	84,903	1,851,477	94,169	1,945,646
2	O&M Expenses	849,033	(41,510)	807,523	(17,546)	789,977
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	85,613	4,729	90,343	4,662	95,005
6	Subotal	831,928	121,683	953,611	107,053	1,060,663
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	133,935	(2,100)	131,835	12,024	143,859
8	Fiscal/Calendar Property Tax Adjustment	2,645	-	2,645	-	2,645
9	Operating Expense Adjustments	(22,142)	-	(22,142)	-	(22,142)
10	Repair Deduction	392,114	(26,001)	366,113	(7,803)	358,310
11	Removal Cost Adjustment	24,588	-	24,588	-	24,588
12	Vacation Pay Adjustment	(826)	-	(826)	-	(826)
13	Capitalized Software Adjustment	33,701	-	33,701	-	33,701
14	Subtotal Deductions	564,014	(28,101)	535,913	4,221	540,135
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	(525)	-	(525)	-	(525)
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	408,252	30,270	438,522	29,625	468,147
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	971,741	2,169	973,910	33,846	1,007,757
22	Taxable Income for CCFT	(139,814)	119,514	(20,300)	73,206	52,907
23	CCFT	(12,360)	10,565	(1,795)	6,471	4,677
24	State Tax Credit	(569)	-	(569)	-	(569)
25	Current CCFT	(12,929)	10,565	(2,364)	6,471	4,108
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	(46)	-	(46)	-	(46)
28	Deferred Taxes - Vacation	(73)	-	(73)	-	(73)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(1,433)	-	(1,433)	-	(1,433)
31	Total CCFT	(14,482)	10,565	(3,917)	6,471	2,555
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	1,562	(14,491)	(12,929)	10,565	(2,364)
33	FIT Capitalized Interest Adjustment	(543)	-	(543)	-	(543)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	590,063	(42,544)	547,519	(34,071)	513,449
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	39	-	39	-	39
41	Subtotal Deductions	1,155,136	(85,135)	1,070,000	(19,284)	1,050,716
42	Taxable Income for FIT	(323,208)	206,818	(116,390)	126,337	9,947
43	Federal Income Tax	(113,123)	72,386	(40,736)	44,218	3,481
44	Federal Tax Credit	(591)	-	(591)	-	(591)
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-
46	Deferred Taxes - Interest	(190)	-	(190)	-	(190)
47	Deferred Taxes - Vacation	(289)	-	(289)	-	(289)
48	ARAM	-	-	-	-	-
49	Deferred Taxes - Fixed Assets	63,787	(23,754)	40,033	(20,599)	19,434
50	Total Federal Income Tax	(50,406)	48,633	(1,773)	23,619	21,845

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Income Taxes at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	1,767,240	102,223	1,869,463	78,936	1,948,399
2	O&M Expenses	849,041	(41,294)	807,747	(17,735)	790,012
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	85,613	4,729	90,343	4,662	95,005
6	Subotal	832,585	138,788	971,373	92,009	1,063,382
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	134,073	(981)	133,093	13,363	146,455
8	Fiscal/Calendar Property Tax Adjustment	2,645	-	2,645	-	2,645
9	Operating Expense Adjustments	(22,142)	-	(22,142)	-	(22,142)
10	Repair Deduction	392,114	(26,001)	366,113	(7,803)	358,310
11	Removal Cost Adjustment	24,588	-	24,588	-	24,588
12	Vacation Pay Adjustment	(826)	-	(826)	-	(826)
13	Capitalized Software Adjustment	33,701	-	33,701	-	33,701
14	Subtotal Deductions	564,153	(26,982)	537,171	5,560	542,730
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	(525)	-	(525)	-	(525)
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	408,252	30,270	438,522	29,625	468,147
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	971,880	3,288	975,168	35,185	1,010,352
22	Taxable Income for CCFT	(139,295)	135,500	(3,794)	56,824	53,030
23	CCFT	(12,314)	11,978	(335)	5,023	4,688
24	State Tax Credit	(569)	-	(569)	-	(569)
25	Current CCFT	(12,883)	11,978	(905)	5,023	4,118
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	(46)	-	(46)	-	(46)
28	Deferred Taxes - Vacation	(73)	-	(73)	-	(73)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(1,433)	-	(1,433)	-	(1,433)
31	Total CCFT	(14,436)	11,978	(2,458)	5,023	2,566
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	1,562	(14,445)	(12,883)	11,978	(905)
33	FIT Capitalized Interest Adjustment	(543)	-	(543)	-	(543)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	508,135	(212,436)	295,700	19,976	315,676
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	39	-	39	-	39
41	Subtotal Deductions	1,073,346	(253,862)	819,484	37,514	856,998
42	Taxable Income for FIT	(240,761)	392,650	151,889	54,495	206,384
43	Federal Income Tax	(84,266)	82,457	31,897	11,444	43,341
44	Federal Tax Credit	(591)	-	(591)	-	(591)
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-
46	Deferred Taxes - Interest	(190)	76	(114)	-	(114)
47	Deferred Taxes - Vacation	(289)	116	(174)	-	(174)
48	ARAM	-	(8,400)	(8,400)	(4,546)	(12,945)
49	Deferred Taxes - Fixed Assets	35,112	(47,399)	(12,286)	(1,350)	(13,637)
50	Total Federal Income Tax	(50,224)	26,850	10,332	5,548	15,880

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Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Income Taxes at Proposed Rates
Gas Distribution
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
1	Revenues	666	17,321	17,986	(15,233)	2,753	1
2	O&M Expenses	8	216	224	(190)	34	2
3	Nuclear Decommissioning Expense	-	-	-	-	-	3
4	Superfund Tax	-	-	-	-	-	4
5	Taxes Other Than Income	-	-	-	-	-	5
6	Subotal	658	17,105	17,763	(15,044)	2,719	6
	DEDUCTIONS FROM TAXABLE INCOME:						
7	Interest Charge Adjustment	138	1,119	1,257	1,338	2,596	7
8	Fiscal/Calendar Property Tax Adjustment	-	-	-	-	-	8
9	Operating Expense Adjustments	-	-	-	-	-	9
10	Repair Deduction	-	-	-	-	-	10
11	Removal Cost Adjustment	-	-	-	-	-	11
12	Vacation Pay Adjustment	-	-	-	-	-	12
13	Capitalized Software Adjustment	-	-	-	-	-	13
14	Subtotal Deductions	138	1,119	1,257	1,338	2,596	14
	CCFT TAXES:						
15	CCFT Capitalized Interest Adjustment	-	-	-	-	-	15
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-	16
17	CCFT Tax Depreciation - Fixed Assets	-	-	-	-	-	17
18	CCFT Tax Depreciation - Other	-	-	-	-	-	18
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	19
20	Other Adjustment	-	-	-	-	-	20
21	Subtotal Deductions	138	1,119	1,257	1,338	2,596	21
22	Taxable Income for CCFT	519	15,986	16,505	(16,382)	123	22
23	CCFT	46	1,413	1,459	(1,448)	11	23
24	State Tax Credit	-	-	-	-	-	24
25	Current CCFT	46	1,413	1,459	(1,448)	11	25
26	Deferred Taxes - Reg Asset	-	-	-	-	-	26
27	Deferred Taxes - Interest	-	-	-	-	-	27
28	Deferred Taxes - Vacation	-	-	-	-	-	28
29	Deferred Taxes - Other	-	-	-	-	-	29
30	Deferred Taxes - Fixed Assets	-	-	-	-	-	30
31	Total CCFT	46	1,413	1,459	(1,448)	11	31
	FEDERAL TAXES:						
32	CCFT - Prior Year Adjustment	-	46	46	1,413	1,459	32
33	FIT Capitalized Interest Adjustment	-	-	-	-	-	33
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-	34
35	FIT Tax Depreciation - SLRL	-	-	-	-	-	35
36	FIT Tax Depreciation - Fixed Assets	(81,928)	(169,892)	(251,820)	54,047	(197,773)	36
37	FIT Tax Depreciation - Other	-	-	-	-	-	37
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	38
39	Other Adjustment	-	-	-	-	-	39
40	FIT Preferred Dividend Adjustment	-	-	-	-	-	40
41	Subtotal Deductions	(81,790)	(168,727)	(250,517)	56,798	(193,718)	41
42	Taxable Income for FIT	82,447	185,832	268,279	(71,842)	196,437	42
43	Federal Income Tax	28,856	10,070	72,633	(32,774)	39,859	43
44	Federal Tax Credit	-	-	-	-	-	44
45	Tax Effect of MTD & Prod Tax Credits	-	-	-	-	-	45
46	Deferred Taxes - Interest	-	76	76	-	76	46
47	Deferred Taxes - Vacation	-	116	116	-	116	47
48	ARAM	-	(8,400)	(8,400)	(4,546)	(12,945)	48
49	Deferred Taxes - Fixed Assets	(28,675)	(23,645)	(52,320)	19,249	(33,071)	49
50	Total Federal Income Tax	182	(21,783)	12,105	(18,071)	(5,965)	50

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 (Note 1)

Gas Distribution

Rate Base - Attrition

(Thousands of Dollars)

Line No.		2017 End Of Year (A)	2017 WAVG Year (B)	2018 End Of Year (C)	2018 WAVG Year (D)	2018 WAVG Increase (E)	2019 End Of Year (F)	2019 WAVG Year (G)	2019 WAVG Increase (H)
	PLANT IN SERVICE								
1	Beginning of Year	11,174,699	11,174,699	12,138,645	12,138,645	963,946	13,038,670	13,038,670	900,026
2	Net Additions	963,946	458,401	900,026	428,004	(30,397)	880,843	418,882	(9,122)
3	Total	12,138,645	11,633,100	13,038,670	12,566,648	933,549	13,919,514	13,457,552	890,904
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	19,803	19,803	19,803	19,803	-	19,803	19,803	-
6	Working Cash	129,976	129,976	129,976	129,976	0	129,976	129,976	-
7	Total	149,779	149,779	149,779	149,779	0	149,779	149,779	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	(560)	(442)	(560)	(560)	(118)	(560)	(560)	-
9	Deferred Vacation	11,093	10,925	11,093	11,093	168	11,093	11,093	-
10	CIAC Deferral	94,959	95,369	94,959	94,959	(410)	94,959	94,959	-
11	Total	105,492	105,851	105,492	105,492	(359)	105,492	105,492	-
12	CUSTOMER ADVANCES	26,414	26,414	26,414	26,414	-	26,414	26,414	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-
14	Accum Def Taxes - Fixed Assets	1,001,889	960,816	1,041,922	1,021,906	61,090	1,061,356	1,051,639	29,734
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	15,510	15,881	15,510	15,510	(371)	15,510	15,510	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	1,017,399	976,697	1,057,432	1,037,416	60,718	1,076,866	1,067,149	29,734
	DEPRECIATION RESERVE								
19	Beginning of Year	5,560,207	5,560,207	5,862,724	5,862,724	302,518	6,189,519	6,189,519	326,794
20	Depreciation Expense	480,014	240,007	518,535	259,267	19,260	555,296	277,648	18,381
21	Net Salvage/Retirements	(177,496)	(85,829)	(191,740)	(95,870)	(10,041)	(205,333)	(102,667)	(6,797)
22	Total	5,862,724	5,714,384	6,189,519	6,026,121	311,737	6,539,481	6,364,500	338,378
23	RATE BASE	5,487,378	5,171,234	6,020,576	5,731,968	560,734	6,532,023	6,254,759	522,792

B

Pacific Gas and Electric Company

2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)

Gas Distribution

Rate Base - Attrition

(Thousands of Dollars)

Line No.		2017 End Of Year (A)	2017 WAVG Year (B)	2018 End Of Year (C)	2018 WAVG Year (D)	2018 WAVG Increase (E)	2019 End Of Year (F)	2019 WAVG Year (G)	2019 WAVG Increase (H)
	PLANT IN SERVICE								
1	Beginning of Year	11,174,699	11,174,699	12,138,645	12,138,645	963,946	13,038,670	13,038,670	900,026
2	Net Additions	963,946	458,401	900,026	428,004	(30,397)	880,843	418,882	(9,122)
3	Total	12,138,645	11,633,100	13,038,670	12,566,648	933,549	13,919,514	13,457,552	890,904
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	19,803	19,803	19,803	19,803	-	19,803	19,803	-
6	Working Cash	123,123	123,123	123,123	123,123	0	123,123	123,123	-
7	Total	142,926	142,926	142,926	142,926	0	142,926	142,926	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	(560)	(442)	(560)	(560)	(118)	(560)	(560)	-
9	Deferred Vacation	11,093	10,925	7,350	9,222	(1,703)	7,350	7,350	(1,871)
10	CIAC Deferral	94,959	95,369	94,959	94,959	(410)	94,959	94,959	-
11	Total	105,492	105,851	101,749	103,620	(2,231)	101,749	101,749	(1,871)
12	CUSTOMER ADVANCES	26,414	26,414	26,414	26,414	-	26,414	26,414	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-
14	Accum Def Taxes - Fixed Assets	973,214	948,631	943,819	958,517	9,886	912,561	928,190	(30,327)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	15,510	15,881	15,510	15,510	(371)	15,510	15,510	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	988,724	964,512	959,329	974,027	9,515	928,071	943,700	(30,327)
	DEPRECIATION RESERVE								
19	Beginning of Year	5,560,207	5,560,207	5,862,724	5,862,724	302,518	6,189,519	6,189,519	326,794
20	Depreciation Expense	480,014	240,007	518,535	259,267	19,260	555,296	277,648	18,381
21	Net Salvage/Retirements	(177,496)	(85,829)	(191,740)	(95,870)	(10,041)	(205,333)	(102,667)	(6,797)
22	Total	5,862,724	5,714,384	6,189,519	6,026,121	311,737	6,539,481	6,364,500	338,378
23	RATE BASE	5,509,200	5,176,567	6,108,083	5,786,633	610,066	6,670,223	6,367,613	580,981

B-A

Pacific Gas and Electric Company

2017 PG&E GRC (Difference)

Gas Distribution

Rate Base - Attrition

(Thousands of Dollars)

	2017 End Of Year (A)	2017 WAVG Year (B)	2018 End Of Year (C)	2018 WAVG Year (D)	2018 WAVG Increase (E)	2019 End Of Year (F)	2019 WAVG Year (G)	2019 WAVG Increase (H)	Line No.
PLANT IN SERVICE									
Beginning of Year	-	-	-	-	-	-	-	-	1
Net Additions	-	-	-	-	-	-	-	-	2
Total	-	-	-	-	-	-	-	-	3
WORKING CAPITAL									
Material & Supplies - Fuel	-	-	-	-	-	-	-	-	4
Material & Supplies	-	-	-	-	-	-	-	-	5
Working Cash	(6,852)	(6,852)	(6,852)	(6,852)	(0)	(6,852)	(6,852)	-	6
Total	(6,852)	(6,852)	(6,852)	(6,852)	(0)	(6,852)	(6,852)	-	7
TRA ADJUSTMENTS									
Capitalized Interest	-	-	-	-	-	-	-	-	8
Deferred Vacation	-	-	(3,743)	(1,871)	(1,871)	(3,743)	(3,743)	(1,871)	9
CIAC Deferral	-	-	-	-	-	-	-	-	10
Total	-	-	(3,743)	(1,871)	(1,871)	(3,743)	(3,743)	(1,871)	11
CUSTOMER ADVANCES	-	-	-	-	-	-	-	-	12
DEFERRED TAXES									
Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-	13
Accum Def Taxes - Fixed Assets	(28,675)	(12,185)	(98,103)	(63,389)	(51,203)	(148,796)	(123,449)	(60,060)	14
Accum Def Taxes - Other	-	-	-	-	-	-	-	-	15
Accum Def ITC	-	-	-	-	-	-	-	-	16
Deferred Taxes-Other	-	-	-	-	-	-	-	-	17
Total Deferred Taxes	(28,675)	(12,185)	(98,103)	(63,389)	(51,203)	(148,796)	(123,449)	(60,060)	18
DEPRECIATION RESERVE									
Beginning of Year	-	-	-	-	-	-	-	-	19
Depreciation Expense	-	-	-	-	-	-	-	-	20
Net Salvage/Retirements	-	-	-	-	-	-	-	-	21
Total	-	-	-	-	-	-	-	-	22
RATE BASE	21,822	5,333	87,508	54,665	49,332	138,200	112,854	58,189	23

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Results of Operations at Proposed Rates
Electric Generation
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	2,114,934	60,642	2,175,575	70,238	2,245,813
2	Plus Other Operating Revenue	6,025	-	6,025	-	6,025
3	Total Operating Revenue	2,120,959	60,642	2,181,601	70,238	2,251,839
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	644,140	49,965	694,105	35,690	729,795
6	Storage	-	-	-	-	-
7	Transmission	6,050	438	6,489	301	6,790
8	Distribution	-	-	-	-	-
9	Customer Accounts	2,403	187	2,590	131	2,721
10	Uncollectibles	7,169	279	7,449	240	7,688
11	Customer Services	-	-	-	-	-
12	Administrative and General	271,819	6,177	277,996	6,179	284,175
13	Franchise & SFGR Tax Requirement	16,567	473	17,040	549	17,589
14	Amortization	176	-	176	-	176
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(20,000)	-	(20,000)	-	(20,000)
18	Subtotal Expenses:	928,324	57,520	985,844	43,090	1,028,934
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	56,197	1,555	57,752	1,524	59,276
21	Payroll	32,612	783	33,395	801	34,197
22	Business	308	-	308	-	308
23	Other	733	-	733	-	733
24	State Corporation Franchise	24,561	648	25,210	1,100	26,310
25	Federal Income	95,821	2,178	97,999	4,880	102,879
26	Total Taxes	210,233	5,164	215,397	8,306	223,703
27	Depreciation	550,402	16,243	566,645	15,466	582,112
28	Fossil/Hydro Decommissioning	3,094	-	3,094	-	3,094
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	1,692,053	78,928	1,770,981	66,862	1,837,843
31	Net for Return	428,906	(18,286)	410,620	3,376	413,995
32	Rate Base	5,321,410	18,944	5,340,354	43,935	5,384,290

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Results of Operations at Proposed Rates
Electric Generation
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
	REVENUE:					
1	Revenue Collected in Rates	2,112,954	(36,802)	2,076,153	68,528	2,144,681
2	Plus Other Operating Revenue	6,025	-	6,025	-	6,025
3	Total Operating Revenue	2,118,979	(36,802)	2,082,178	68,528	2,150,706
	OPERATING EXPENSES:					
4	Energy Costs	-	-	-	-	-
5	Production / Procurement	644,140	49,965	694,105	35,690	729,795
6	Storage	-	-	-	-	-
7	Transmission	6,050	438	6,489	301	6,790
8	Distribution	-	-	-	-	-
9	Customer Accounts	2,403	187	2,590	131	2,721
10	Uncollectibles	7,163	(53)	7,109	234	7,343
11	Customer Services	-	-	-	-	-
12	Administrative and General	271,819	6,177	277,996	6,179	284,175
13	Franchise & SFGR Tax Requirement	16,552	(288)	16,264	535	16,799
14	Amortization	176	-	176	-	176
15	Wage Change Impacts	-	-	-	-	-
16	Other Price Change Impacts	-	-	-	-	-
17	Other Adjustments	(20,000)	-	(20,000)	-	(20,000)
18	Subtotal Expenses:	928,302	56,426	984,728	43,070	1,027,799
	TAXES:					
19	Superfund	-	-	-	-	-
20	Property	56,197	1,555	57,752	1,524	59,276
21	Payroll	32,612	783	33,395	801	34,197
22	Business	308	-	308	-	308
23	Other	733	-	733	-	733
24	State Corporation Franchise	24,381	(7,948)	16,434	835	17,269
25	Federal Income	93,796	(88,555)	5,241	(921)	4,320
26	Total Taxes	208,028	(94,165)	113,863	2,240	116,103
27	Depreciation	550,402	16,243	566,645	15,466	582,112
28	Fossil/Hydro Decommissioning	3,094	-	3,094	-	3,094
29	Nuclear Decommissioning	-	-	-	-	-
30	Total Operating Expenses	1,689,827	(21,496)	1,668,331	60,777	1,729,108
31	Net for Return	429,153	(15,306)	413,847	7,752	421,598
32	Rate Base	5,324,477	58,016	5,382,492	100,824	5,483,316

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Results of Operations at Proposed Rates
Electric Generation
(Thousands of Dollars)

Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
REVENUE:						
Revenue Collected in Rates	(1,979)	(97,443)	(99,423)	(1,710)	(101,132)	1
Plus Other Operating Revenue	(0)	-	(0)	-	(0)	2
Total Operating Revenue	(1,980)	(97,443)	(99,423)	(1,710)	(101,132)	3
OPERATING EXPENSES:						
Energy Costs	-	-	-	-	-	4
Production / Procurement	-	-	-	-	-	5
Storage	-	-	-	-	-	6
Transmission	-	-	-	-	-	7
Distribution	-	-	-	-	-	8
Customer Accounts	-	-	-	-	-	9
Uncollectibles	(7)	(333)	(339)	(6)	(345)	10
Customer Services	-	-	-	-	-	11
Administrative and General	-	-	-	-	-	12
Franchise & SFGR Tax Requirement	(15)	(761)	(777)	(13)	(790)	13
Amortization	-	-	-	-	-	14
Wage Change Impacts	-	-	-	-	-	15
Other Price Change Impacts	-	-	-	-	-	16
Other Adjustments	-	-	-	-	-	17
Subtotal Expenses:	(22)	(1,094)	(1,116)	(19)	(1,135)	18
TAXES:						
Superfund	-	-	-	-	-	19
Property	-	-	-	-	-	20
Payroll	-	-	-	-	-	21
Business	-	-	-	-	-	22
Other	-	-	-	-	-	23
State Corporation Franchise	(180)	(8,596)	(8,776)	(265)	(9,041)	24
Federal Income	(2,025)	(90,733)	(92,758)	(5,801)	(98,559)	25
Total Taxes	(2,205)	(99,329)	(101,534)	(6,066)	(107,600)	26
Depreciation	-	-	-	-	-	27
Fossil/Hydro Decommissioning	-	-	-	-	-	28
Nuclear Decommissioning	-	-	-	-	-	29
Total Operating Expenses	(2,227)	(100,423)	(102,650)	(6,085)	(108,735)	30
Net for Return	247	2,980	3,227	4,376	7,603	31
Rate Base	3,066	39,072	42,138	56,888	99,026	32

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Income Taxes at Proposed Rates
Electric Generation
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	2,120,959	60,642	2,181,601	70,238	2,251,839
2	O&M Expenses	928,324	57,520	985,844	43,090	1,028,934
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	89,850	2,338	92,188	2,326	94,514
6	Subotal	1,102,784	784	1,103,568	24,823	1,128,390
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	137,825	(14,996)	122,828	1,011	123,839
8	Fiscal/Calendar Property Tax Adjustment	1,113	-	1,113	-	1,113
9	Operating Expense Adjustments	12,800	-	12,800	-	12,800
10	Repair Deduction	67,144	(4,415)	62,729	(1,241)	61,488
11	Removal Cost Adjustment	17,911	-	17,911	-	17,911
12	Vacation Pay Adjustment	(858)	-	(858)	-	(858)
13	Capitalized Software Adjustment	32,205	-	32,205	-	32,205
14	Subtotal Deductions	268,140	(19,412)	248,728	(231)	248,497
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	5,384	-	5,384	-	5,384
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	464,757	12,862	477,619	12,607	490,226
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	738,281	(6,550)	731,731	12,376	744,107
22	Taxable Income for CCFT	364,503	7,334	371,837	12,446	384,284
23	CCFT	32,222	648	32,870	1,100	33,971
24	State Tax Credit	(2,550)	-	(2,550)	-	(2,550)
25	Current CCFT	29,672	648	30,320	1,100	31,421
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	476	-	476	-	476
28	Deferred Taxes - Vacation	(76)	-	(76)	-	(76)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(5,511)	-	(5,511)	-	(5,511)
31	Total CCFT	24,561	648	25,210	1,100	26,310
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	26,372	3,300	29,672	648	30,320
33	FIT Capitalized Interest Adjustment	(1,166)	-	(1,166)	-	(1,166)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	450,423	(27,014)	423,409	(22,798)	400,610
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	2,372	-	2,372	-	2,372
41	Subtotal Deductions	746,142	(43,126)	703,015	(22,381)	680,634
42	Taxable Income for FIT	356,643	43,910	400,552	47,203	447,756
43	Federal Income Tax	124,825	15,368	140,193	16,521	156,715
44	Federal Tax Credit	(2,647)	-	(2,647)	-	(2,647)
45	Tax Effect of MTD & Prod Tax Credits	(10,287)	-	(10,287)	0	(10,287)
46	Deferred Taxes - Interest	(408)	-	(408)	-	(408)
47	Deferred Taxes - Vacation	(300)	-	(300)	-	(300)
48	ARAM	-	-	-	-	-
49	Deferred Taxes - Fixed Assets	(15,362)	(13,191)	(28,553)	(11,641)	(40,194)
50	Total Federal Income Tax	95,821	2,178	97,999	4,880	102,879

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Income Taxes at Proposed Rates
Electric Generation
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)
1	Revenues	2,118,979	(36,802)	2,082,178	68,528	2,150,706
2	O&M Expenses	928,302	56,426	984,728	43,070	1,027,799
3	Nuclear Decommissioning Expense	-	-	-	-	-
4	Superfund Tax	-	-	-	-	-
5	Taxes Other Than Income	89,850	2,338	92,188	2,326	94,514
6	Subotal	1,100,827	(95,566)	1,005,261	23,132	1,028,393
	DEDUCTIONS FROM TAXABLE INCOME:					
7	Interest Charge Adjustment	137,904	(14,107)	123,797	2,319	126,116
8	Fiscal/Calendar Property Tax Adjustment	1,113	-	1,113	-	1,113
9	Operating Expense Adjustments	12,800	-	12,800	-	12,800
10	Repair Deduction	67,144	(4,415)	62,729	(1,241)	61,488
11	Removal Cost Adjustment	17,911	-	17,911	-	17,911
12	Vacation Pay Adjustment	(858)	-	(858)	-	(858)
13	Capitalized Software Adjustment	32,205	-	32,205	-	32,205
14	Subtotal Deductions	268,219	(18,522)	249,697	1,078	250,775
	CCFT TAXES:					
15	CCFT Capitalized Interest Adjustment	5,384	-	5,384	-	5,384
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-
17	CCFT Tax Depreciation - Fixed Assets	464,757	12,862	477,619	12,607	490,226
18	CCFT Tax Depreciation - Other	-	-	-	-	-
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
20	Other Adjustment	-	-	-	-	-
21	Subtotal Deductions	738,360	(5,660)	732,700	13,685	746,384
22	Taxable Income for CCFT	362,467	(89,905)	272,561	9,448	282,009
23	CCFT	32,042	(7,948)	24,094	835	24,930
24	State Tax Credit	(2,550)	-	(2,550)	-	(2,550)
25	Current CCFT	29,492	(7,948)	21,544	835	22,380
26	Deferred Taxes - Reg Asset	-	-	-	-	-
27	Deferred Taxes - Interest	476	-	476	-	476
28	Deferred Taxes - Vacation	(76)	-	(76)	-	(76)
29	Deferred Taxes - Other	-	-	-	-	-
30	Deferred Taxes - Fixed Assets	(5,511)	-	(5,511)	-	(5,511)
31	Total CCFT	24,381	(7,948)	16,434	835	17,269
	FEDERAL TAXES:					
32	CCFT - Prior Year Adjustment	26,372	3,120	29,492	(7,948)	21,544
33	FIT Capitalized Interest Adjustment	(1,166)	-	(1,166)	-	(1,166)
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-
35	FIT Tax Depreciation - SLRL	-	-	-	-	-
36	FIT Tax Depreciation - Fixed Assets	405,291	(120,604)	284,687	7,514	292,201
37	FIT Tax Depreciation - Other	-	-	-	-	-
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-
39	Other Adjustment	-	-	-	-	-
40	FIT Preferred Dividend Adjustment	2,372	-	2,372	-	2,372
41	Subtotal Deductions	701,089	(136,006)	565,082	644	565,727
42	Taxable Income for FIT	399,738	40,441	440,179	22,488	462,667
43	Federal Income Tax	139,908	8,493	92,438	4,722	97,160
44	Federal Tax Credit	(2,647)	-	(2,647)	-	(2,647)
45	Tax Effect of MTD & Prod Tax Credits	(11,599)	11,599	(0)	(0)	(0)
46	Deferred Taxes - Interest	(408)	163	(245)	-	(245)
47	Deferred Taxes - Vacation	(300)	120	(180)	-	(180)
48	ARAM	-	(26,616)	(26,616)	(5,114)	(31,731)
49	Deferred Taxes - Fixed Assets	(31,159)	(26,350)	(57,509)	(529)	(58,038)
50	Total Federal Income Tax	93,796	(32,592)	5,241	(921)	4,320

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Income Taxes at Proposed Rates
Electric Generation
(Thousands of Dollars)

Line No.	Description	Test Year 2017 (A)	Attrition Year 2018 Increase (B)	Attrition Year 2018 Total (C)	Attrition Year 2019 Increase (D)	Attrition Year 2019 Total (E)	Line No.
1	Revenues	(1,980)	(97,443)	(99,423)	(1,710)	(101,132)	1
2	O&M Expenses	(22)	(1,094)	(1,116)	(19)	(1,135)	2
3	Nuclear Decommissioning Expense	-	-	-	-	-	3
4	Superfund Tax	-	-	-	-	-	4
5	Taxes Other Than Income	-	-	-	-	-	5
6	Subotal	(1,957)	(96,349)	(98,307)	(1,690)	(99,997)	6
	DEDUCTIONS FROM TAXABLE INCOME:						
7	Interest Charge Adjustment	79	890	969	1,308	2,278	7
8	Fiscal/Calendar Property Tax Adjustment	-	-	-	-	-	8
9	Operating Expense Adjustments	-	-	-	-	-	9
10	Repair Deduction	-	-	-	-	-	10
11	Removal Cost Adjustment	-	-	-	-	-	11
12	Vacation Pay Adjustment	-	-	-	-	-	12
13	Capitalized Software Adjustment	-	-	-	-	-	13
14	Subtotal Deductions	79	890	969	1,308	2,278	14
	CCFT TAXES:						
15	CCFT Capitalized Interest Adjustment	-	-	-	-	-	15
16	CCFT Tax Depreciation - Declining Balance	-	-	-	-	-	16
17	CCFT Tax Depreciation - Fixed Assets	-	-	-	-	-	17
18	CCFT Tax Depreciation - Other	-	-	-	-	-	18
19	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	19
20	Other Adjustment	-	-	-	-	-	20
21	Subtotal Deductions	79	890	969	1,308	2,278	21
22	Taxable Income for CCFT	(2,037)	(97,239)	(99,276)	(2,999)	(102,275)	22
23	CCFT	(180)	(8,596)	(8,776)	(265)	(9,041)	23
24	State Tax Credit	-	-	-	-	-	24
25	Current CCFT	(180)	(8,596)	(8,776)	(265)	(9,041)	25
26	Deferred Taxes - Reg Asset	-	-	-	-	-	26
27	Deferred Taxes - Interest	-	-	-	-	-	27
28	Deferred Taxes - Vacation	-	-	-	-	-	28
29	Deferred Taxes - Other	-	-	-	-	-	29
30	Deferred Taxes - Fixed Assets	-	-	-	-	-	30
31	Total CCFT	(180)	(8,596)	(8,776)	(265)	(9,041)	31
	FEDERAL TAXES:						
32	CCFT - Prior Year Adjustment	-	(180)	(180)	(8,596)	(8,776)	32
33	FIT Capitalized Interest Adjustment	-	-	-	-	-	33
34	FIT Tax Depreciation - Declining Balance	-	-	-	-	-	34
35	FIT Tax Depreciation - SLRL	-	-	-	-	-	35
36	FIT Tax Depreciation - Fixed Assets	(45,132)	(93,590)	(138,722)	30,313	(108,409)	36
37	FIT Tax Depreciation - Other	-	-	-	-	-	37
38	Capitalized Overhead - Cost For Gas Inventory	-	-	-	-	-	38
39	Other Adjustment	-	-	-	-	-	39
40	FIT Preferred Dividend Adjustment	-	-	-	-	-	40
41	Subtotal Deductions	(45,053)	(92,880)	(137,933)	23,025	(114,908)	41
42	Taxable Income for FIT	43,095	(3,469)	39,626	(24,716)	14,911	42
43	Federal Income Tax	15,083	(6,876)	(47,756)	(11,799)	(59,555)	43
44	Federal Tax Credit	-	-	-	-	-	44
45	Tax Effect of MTD & Prod Tax Credits	(1,312)	11,599	10,287	(0)	10,287	45
46	Deferred Taxes - Interest	-	163	163	-	163	46
47	Deferred Taxes - Vacation	-	120	120	-	120	47
48	ARAM	-	(26,616)	(26,616)	(5,114)	(31,731)	48
49	Deferred Taxes - Fixed Assets	(15,796)	(13,160)	(28,956)	11,112	(17,844)	49
50	Total Federal Income Tax	(2,025)	(34,770)	(92,758)	(5,801)	(98,559)	50

Note 1: Decision 17-05-013 amounts include updates reflecting 2017 and 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

A

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 (Note 1)
Electric Generation
Rate Base - Attrition
(Thousands of Dollars)

Line No.		2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	15,436,713	15,436,713	15,907,929	15,907,929	471,217	16,348,161	16,348,161	440,231
2	Net Additions	471,217	191,315	440,231	178,734	(12,580)	431,519	175,197	(3,537)
3	Total	15,907,929	15,628,027	16,348,161	16,086,664	458,637	16,779,680	16,523,358	436,694
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	130,334	130,334	130,334	130,334	-	130,334	130,334	-
6	Working Cash	195,986	195,986	195,986	195,986	-	195,986	195,986	-
7	Total	326,320	326,320	326,320	326,320	-	326,320	326,320	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	28,388	28,354	28,388	28,388	34	28,388	28,388	-
9	Deferred Vacation	11,516	11,341	11,516	11,516	175	11,516	11,516	-
10	CIAC Deferral	400	395	400	400	4	400	400	-
11	Total	40,304	40,091	40,304	40,304	213	40,304	40,304	-
12	CUSTOMER ADVANCES	-	-	-	-	-	-	-	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	(14,906)	(15,478)	(14,906)	(14,906)	572	(14,906)	(14,906)	-
14	Accum Def Taxes - Fixed Assets	1,175,468	1,130,754	1,146,915	1,161,192	30,438	1,106,721	1,126,818	(34,373)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	189,428	193,208	189,428	189,428	(3,781)	189,428	189,428	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	1,349,990	1,308,484	1,321,437	1,335,714	27,230	1,281,244	1,301,341	(34,373)
	DEPRECIATION RESERVE								
19	Beginning of Year	9,157,116	9,157,116	9,566,513	9,566,513	409,398	9,987,926	9,987,926	421,412
20	Depreciation Expense	553,496	276,748	569,740	284,870	8,122	585,206	292,603	7,733
21	Net Salvage/Retirements	(144,099)	(69,321)	(148,328)	(74,164)	(4,843)	(152,354)	(76,177)	(2,013)
22	Total	9,566,513	9,364,543	9,987,926	9,777,220	412,676	10,420,778	10,204,352	427,132
23	RATE BASE	5,358,049	5,321,410	5,405,421	5,340,354	18,944	5,444,282	5,384,290	43,935

B

Pacific Gas and Electric Company
2017 PG&E GRC Decision 17-05-013 revised for the Tax Act (Note 1)
Electric Generation
Rate Base - Attrition
(Thousands of Dollars)

Line No.		2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	PLANT IN SERVICE								
1	Beginning of Year	15,436,713	15,436,713	15,907,929	15,907,929	471,217	16,348,161	16,348,161	440,231
2	Net Additions	471,217	191,315	440,231	178,734	(12,580)	431,519	175,197	(3,537)
3	Total	15,907,929	15,628,027	16,348,161	16,086,664	458,637	16,779,680	16,523,358	436,694
	WORKING CAPITAL								
4	Material & Supplies - Fuel	-	-	-	-	-	-	-	-
5	Material & Supplies	130,334	130,334	130,334	130,334	-	130,334	130,334	-
6	Working Cash	192,340	192,340	192,340	192,340	-	192,340	192,340	-
7	Total	322,673	322,673	322,673	322,673	-	322,673	322,673	-
	TRA ADJUSTMENTS								
8	Capitalized Interest	28,388	28,354	28,388	28,388	34	28,388	28,388	-
9	Deferred Vacation	11,516	11,341	7,627	9,571	(1,770)	7,627	7,627	(1,944)
10	CIAC Deferral	400	395	400	400	4	400	400	-
11	Total	40,304	40,091	36,415	38,360	(1,731)	36,415	36,415	(1,944)
12	CUSTOMER ADVANCES	-	-	-	-	-	-	-	-
	DEFERRED TAXES								
13	Accum Def Taxes - Reg Asset	(14,906)	(15,478)	(14,906)	(14,906)	572	(14,906)	(14,906)	-
14	Accum Def Taxes - Fixed Assets	1,159,672	1,124,041	1,067,254	1,113,463	(10,578)	973,260	1,020,257	(93,206)
15	Accum Def Taxes - Other	-	-	-	-	-	-	-	-
16	Accum Def ITC	189,428	193,208	189,428	189,428	(3,781)	189,428	189,428	-
17	Deferred Taxes-Other	-	-	-	-	-	-	-	-
18	Total Deferred Taxes	1,334,194	1,301,771	1,241,776	1,287,985	(13,786)	1,147,782	1,194,779	(93,206)
	DEPRECIATION RESERVE								
19	Beginning of Year	9,157,116	9,157,116	9,566,513	9,566,513	409,398	9,987,926	9,987,926	421,412
20	Depreciation Expense	553,496	276,748	569,740	284,870	8,122	585,206	292,603	7,733
21	Net Salvage/Retirements	(144,099)	(69,321)	(148,328)	(74,164)	(4,843)	(152,354)	(76,177)	(2,013)
22	Total	9,566,513	9,364,543	9,987,926	9,777,220	412,676	10,420,778	10,204,352	427,132
23	RATE BASE	5,370,199	5,324,477	5,477,548	5,382,492	58,016	5,570,209	5,483,316	100,824

B-A

Pacific Gas and Electric Company
2017 PG&E GRC (Difference)
Electric Generation
Rate Base - Attrition
(Thousands of Dollars)

	2017 End Of Year	2017 WAVG Year	2018 End Of Year	2018 WAVG Year	2018 WAVG Increase	2019 End Of Year	2019 WAVG Year	2019 WAVG Increase	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
PLANT IN SERVICE									
Beginning of Year	-	-	-	-	-	-	-	-	1
Net Additions	-	-	-	-	-	-	-	-	2
Total	-	-	-	-	-	-	-	-	3
WORKING CAPITAL									
Material & Supplies - Fuel	-	-	-	-	-	-	-	-	4
Material & Supplies	-	-	-	-	-	-	-	-	5
Working Cash	(3,646)	(3,646)	(3,646)	(3,646)	-	(3,646)	(3,646)	-	6
Total	(3,646)	(3,646)	(3,646)	(3,646)	-	(3,646)	(3,646)	-	7
TRA ADJUSTMENTS									
Capitalized Interest	-	-	-	-	-	-	-	-	8
Deferred Vacation	-	-	(3,889)	(1,944)	(1,944)	(3,889)	(3,889)	(1,944)	9
CIAC Deferral	-	-	-	-	-	-	-	-	10
Total	-	-	(3,889)	(1,944)	(1,944)	(3,889)	(3,889)	(1,944)	11
CUSTOMER ADVANCES	-	-	-	-	-	-	-	-	12
DEFERRED TAXES									
Accum Def Taxes - Reg Asset	-	-	-	-	-	-	-	-	13
Accum Def Taxes - Fixed Assets	(15,796)	(6,713)	(79,661)	(47,729)	(41,016)	(133,461)	(106,561)	(58,833)	14
Accum Def Taxes - Other	-	-	-	-	-	-	-	-	15
Accum Def ITC	-	-	-	-	-	-	-	-	16
Deferred Taxes-Other	-	-	-	-	-	-	-	-	17
Total Deferred Taxes	(15,796)	(6,713)	(79,661)	(47,729)	(41,016)	(133,461)	(106,561)	(58,833)	18
DEPRECIATION RESERVE									
Beginning of Year	-	-	-	-	-	-	-	-	19
Depreciation Expense	-	-	-	-	-	-	-	-	20
Net Salvage/Retirements	-	-	-	-	-	-	-	-	21
Total	-	-	-	-	-	-	-	-	22
RATE BASE	12,150	3,066	72,126	42,138	39,072	125,926	99,026	56,888	23

EXHIBIT 2

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015-2017 (U39G).	Application 13-12-012 (Filed December 19, 2013)
And Related Matter.	Investigation 14-06-016

PETITION FOR MODIFICATION OF DECISION 16-06-056 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) TO REFLECT TAX CHANGES

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Dated: March 30, 2018

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015-2017 (U39G).	Application 13-12-012 (Filed December 19, 2013)
And Related Matter.	Investigation 14-06-016

PETITION FOR MODIFICATION OF DECISION 16-06-056 OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 G) TO REFLECT TAX CHANGES

Pursuant to Rule 16.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission) and the March 2, 2018 letter from Energy Division Director Edward Randolph,[1] Pacific Gas and Electric Company (PG&E) respectfully submits this Petition for Modification of Decision (D.) 16-06-056, as later modified by D.16-12-010. Through this Petition, PG&E seeks to reduce the authorized revenue requirement to reflect, among other changes, the lower corporate tax rate set forth in the Tax Cuts and Jobs Act of 2017 (Tax Act).

I.

SUMMARY

PG&E's 2015 Gas Transmission and Storage (GT&S) rate case was decided assuming corporate tax rates then in effect. Since the issuance of the GT&S rate case decision, the federal government adopted the Tax Act which, among other changes, reduced the corporate tax rate from 35 percent to 21

1 Attachment A.

percent. Specifically, PG&E proposes to reduce the adopted revenue requirement by $58 million for 2018.

PG&E proposes that the revenue requirement reduction for 2018 be recorded effective January 1, 2018, and that PG&E be directed to work with Energy Division to develop a plan within 30 days of a decision on this Petition to translate the reduction into revised gas rates.

II.

BACKGROUND

On June 23, 2016, the Commission decided PG&E's 2015 GT&S, effective on the same date.[2] The Commission adopted a third attrition year for the 2015 GT&S rate case cycle, applying an escalation factor to the 2017 revenue requirement in order to adopt a revenue requirement for the 2018 calendar year.[3]

On December 1, 2016, the Commission decided D.16-12-010, allocating the $850 million penalty assessed in D.15-04-024 between capital and expense, adjusting the revenue requirement adopted in D.16-06-056 accordingly. The revenue requirement effects of this allocation were shown in Appendix G.

On December 22, 2017, the Tax Act was signed into law. The Tax Act changes a number of provisions affecting PG&E, most notably the corporate tax rate. That rate was reduced from 35 percent to 21 percent.

On January 5, 2018, PG&E sent a letter to then Executive Director Sullivan, in which PG&E proposed to make a filing by the end of March 2018 that sets forth revised, lower revenue requirements.

On March 2, Energy Division Director Edward Randolph directed PG&E to make this filing. Specifically, Mr. Randolph stated, "PG&E should file a Petition to Modify D.16-06-056 no later than March 31, 2018, to propose adjustments to its GT&S revenue requirement that implement the [Tax Act] for attrition year 2018."[4]

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[2] D.16-06-056, *mimeo*, p. 494.

[3] D.16-06-056, *mimeo*, p. 475 (Ordering Paragraph 2).

[4] Attachment A, page 2.

III.

JUSTIFICATION FOR THE PETITION FOR MODIFICATION

Commission Rule 16.4(b) provides:

> A petition for modification of a Commission decision must concisely state the justification for the requested relief and must propose specific wording to carry out all requested modifications to the decision. Any factual allegations must be supported with specific citations to the record in the proceeding or to matters that may be officially noticed. Allegations of new or changed facts must be supported by an appropriate declaration or affidavit.

The justification for the requested relief (i.e., the reduced revenue requirement) is found in the Tax Act. The Tax Act changes, and the influence of these changes on PG&E's revenue requirement, are described in the attached report.[5]

The report is divided into four sections. Section I provides a brief introduction to the material. Section II describes the Tax Act changes. Section III presents the output of PG&E's RO Model and sets forth the revenue requirement reduction as a result of these Tax Act changes. Section IV describes PG&E's proposal for incorporating these changes into customer rates.

To assist interested persons in understanding the attached report, PG&E will participate in a workshop that will review the material and allow persons to ask questions of the authors of the report, or their representatives. Those authors are: Bruce T. Smith, Chief Regulatory Analyst, Regulatory Affairs (Section I); Elizabeth Min, Director, Tax Accounting (Section II); Neilson Jones, Manager, Regulatory Results of Operations, (Section III); and Margot Everett, Senior Director, Rates and Regulatory Analytics. The workshop will take place on April 11, 2018, at Commission Headquarters, 505 Van Ness Avenue, San Francisco, California 94102 between 2-4 p.m.

In compliance with Commission Rule 16.4(b), PG&E proposes the following new ordering paragraph 74 to carry out the requested revenue requirement reduction:

> Ordering Paragraph 74.
>
> In order to reflect the changes set forth in the Tax Cuts and Jobs Act of 2017, the 2018 revenue requirement otherwise prescribed by this Decision is reduced by $58 million. PG&E shall work with the Commission's Energy Division to implement the requisite rate changes.

---

[5] Attachment B.

Also in compliance with Rule 16.4(b), this Petition is supported by the declaration of Mark T. Caron, PG&E's Vice President of Tax.[6]

As required by Rule 16.4(c), PG&E has served this Petition on all parties to Application 13-12-012, the proceeding that resulted in D.16-06-056.

Finally, Rule 16.4(d) prescribes that if more than one year has elapsed since the effective date of the decision proposed to be modified, the petition must explain why it could not have been presented within one year of the effective date of the decision (i.e., by June 23, 2017). This petition could not have been presented within one year because the Tax Act was not passed until approximately 18 months after the effective date of the decision.

Respectfully submitted,

/s/ Steven W. Frank

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: March 30, 2018

[6] Attachment C.

PACIFIC GAS AND ELECTRIC COMPANY

ATTACHMENT B

TO

PETITION FOR MODIFICATION OF DECISION 16-06-056 OF PACIFIC GAS AND ELECTRIC COMPANY TO REFLECT TAX CHANGES

Report of Pacific Gas and Electric Company on Revenue Requirement Revisions from the Tax Cut and Jobs Act of 2017 on the 2015 Gas Transmission and Storage Rate Case

March 30, 2018

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Section I

Introduction

The federal Tax Cuts and Jobs Act of 2017 (Tax Act) was signed into law on December 22, 2017. Pacific Gas and Electric Company (PG&E or the Company) requests that the California Public Utilities Commission (CPUC or Commission) revise the 2018 Gas Transmission and Storage (GT&S) revenue requirement previously approved in Decision (D.) 16-06-056, as modified in D. 16-12-010 (Appendix G), to reflect the effects of the Tax Act on tax-related items included in the revenue requirement.[1] The revised revenue requirement would be effective January 1, 2018.

Section II describes the various items in the Tax Act which affect PG&E's revenue requirements.

As discussed in Section III, PG&E has constructed attrition year results of operations (RO) statements in the same manner as described in Appendix E of D. 16-06-056. PG&E has adjusted its attrition year RO model for the GT&S functions to determine the changes resulting from the Tax Act. The results of the RO model show a 2018 revenue requirement reduction of $58 million for the GT&S functions.

Section IV presents PG&E's proposal for flowing through to customers the reduction in revenue requirements resulting from the provisions of the Tax Act through the revenue balancing accounts while moderating the anticipated volatility in customers' rates due to already approved rate increases and pending rate filings.

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1 PG&E is simultaneously filing a petition to modify the 2017 General Rate Case (GRC) decision, D. 17-05-013, to revise the adopted revenue requirements for electric distribution, electric generation, and gas distribution services.

Section II

Tax Changes

A. Tax Forecast Updates

The Tax Act included four major tax law changes that are significant to PG&E:

1. Reduced the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018; [2]
2. Provided a mandatory methodology to return excess tax reserves to customers (Average Rate Assumption Method (ARAM) Adjustment);[3]
3. Required public utilities to use Modified Accelerated Cost Recovery System (MACRS) depreciation after September 27, 2017;[4] and
4. Repealed Internal Revenue Code (IRC) Section 199 Manufacturing Tax Deduction effective January 1, 2018.[5]

PG&E has included the effects of these changes in its updated post test year (PTY) federal tax expense and federal deferred tax liabilities in this report. As discussed in more detail below, these legislative changes have significant impacts on tax expense and rate base for the 2018 PTY included in this case.

The state of California has not conformed to the Tax Act legislation; and as a result, this update does not reflect any change for California franchise taxes, except for the indirect impact of a lower federal tax benefit. Members of the California Assembly have announced recently that they plan to introduce a constitutional amendment (Assembly Constitutional Amendment 22) that—if approved by at least two-thirds of the Legislature and by a majority of California voters—would impose a 10 percent surcharge on companies, like PG&E, that make

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[2] Section 13001 of Pub L. No. 115-97 amending IRC Section 11.

[3] Section 13001 of Pub L. No. 115-97.

[4] Section 13201(d)(9)(A) of Pub L. No. 115-97 amending IRC Section 168k.

[5] Section 13305 of Pub L. No. 115-97 repealing IRC Section 199.

over $1 million in net income. If enacted, this proposal would significantly reduce or eliminate the revenue requirement reduction described in this update.

1. Nature of Changes

This section discusses the four main tax changes itemized above.

a. Federal Corporate Income Tax Rate Reduction From 35 Percent to 21 Percent

The reduction of the federal corporate income tax rate has four primary revenue requirement impacts:

1. Reduction Relating to Return on Rate base (ROR): The Tax Act reduces the revenue requirement by the decreased federal income taxes computed on the equity ROR;
2. Increase Relating to Other Items: The Tax Act increases the revenue requirement for the decreased federal income tax benefit computed on net federal and state flow-through tax deductions, net permanent tax deductions, and tax credits;
3. Reduction Due to Excess Tax Reserves: The Tax Act requires re-measurement of the deferred tax balances at December 31, 2017 from 35 percent to 21 percent, resulting in excess tax reserves for the 14 percent difference; and
4. Increase Relating to New Deferred Taxes: The Tax Act reduces new deferred taxes forecasted to arise after 2017 at the lower federal tax rate of 21%.

Each of these is discussed below.

1) Reduction Relating to Return on Rate base

ROR has two components: equity and debt. The equity ROR represents the Company's net earnings and is subject to income taxes. The Company recovers its federal and state income tax expenses through its authorized revenue requirement. In order to recover the correct amount of income taxes, a tax gross-up is required in the calculation of the revenue requirement to recover the calculated tax expense after tax. The reduction in the federal tax rate lowers both the tax expense and tax gross-up of the amount needed to be recovered in the revenue requirement.

Table 1 shows the lower corporate income tax rate revenue requirement impact on equity ROR for 2018. Table 1 begins with total rate base as adopted in the 2015 GT&S decision in both the new and old tax rate columns; any other changes in rate base caused by the Tax Act will be shown separately in Table 7 below. Limiting Table 1 to just adopted rate base allows PG&E to show the impact of the new tax rates on equity ROR without mingling the impact of other Tax Act rate base effects. The two drivers for the revenue requirement decrease in Table 1 come from the lower income tax gross-up (Line 4) and lower combined tax rates (Line 6).

TABLE 1
2018 EQUITY ROR-RELATED REVENUE REQUIREMENT REDUCTION
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate	Old Tax Rate	Difference
1	Total Rate Base	$4,241,964	$4,241,964	
2	Equity Rate of Return	5.39%	5.39%	
3	Equity Return on Rate base	$228,642	$228,642	
4	Income Tax Gross-Up	1.425313	1.780627	
5	Revenue Requirement	$325,886	$407,126	
6	Combined Tax Rate	29.84%	43.84%	
7	Revenue Requirement Attributable to Income Taxes	$97,244	$178,484	
8	Revenue Requirement Reduction Resulting From Lower Tax Rate			$(81,239)

There is no revenue requirement impact for the debt ROR. The debt ROR is financed by interest expense which is tax deductible and therefore does not require a tax recovery or a gross-up for taxes.[6]

2) Increase Relating to Other Items

The Tax Act increases the revenue requirement as a result of the decreased federal income tax benefit computed on federal and state net flow-through tax deductions, net permanent tax deductions, and tax credits as explained below.

6 The tax deduction for interest expense for public utilities was not changed by the Tax Act (see Section 13301 of Pub L. No. 115-97 amending IRC Section 163).

a) Flow-Through/Flow-Back Tax Accounting (Including Permanent Tax Deductions)

As discussed in PG&E's testimony in the 2015 GT&S rate case, PG&E uses the flow-through method for certain tax deductions. The flow-through method uses the amount of the tax deduction to determine the amount of the tax benefit reflected in the revenue requirement. The tax benefit reflected in the revenue requirement is equal to the forecasted cash savings. The lower income tax rate reduces the tax benefit (i.e., increase income tax expense) and results in an increased revenue requirement. The reason for the *increased* revenue requirement is that the value of the tax deduction is less due to the lower income tax rate. On the other hand, the tax expense for the reversal of the flow-through tax benefit (flow-back) will also be at the lower tax rate, which will reduce revenue requirement, providing a long-term future benefit to customers. PG&E has three types of net flow-through tax adjustments: (1) tax deductions where the federal and state amounts are the same; (2) federal only tax deductions; and (3) state only tax deductions. Tables 2 and 3 below show the impact on the revenue requirement of tax deductions for 2018 for each of these flow-through types at both the old tax rates and the new rates. If the number on Line 1 "Tax Deduction" is a positive it means flow-through tax deductions exceed any related book flow-back depreciation, and if the number on Line 1 is negative the book flow-back depreciation number exceeds the tax flow-through tax deduction (e.g. federal book depreciation exceeds federal tax depreciation in the "Federal Only" column so the number in Line 1 is a negative).

TABLE 2
2018 REVENUE REQUIREMENTS RELATED TO FLOW THROUGH UNDER OLD TAX RATE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation (Old Tax Rate)	Federal and State	Federal Only	State Only	Total
1	Tax Deduction	$47,358	$(10,834)	$165,070	
2	Income Tax Rate	43.84%	35.00%	8.84%	
3	Reduction in Income Taxes	$20,762	$(3,792)	$14,592	
4	Income Tax Gross-Up	1.780627	1.780627	1.780627	
5	Revenue Requirement Reduction From Flow-Through Tax Deduction	$36,969	$(6,752)	$25,983	$56,200

TABLE 3
2018 REVENUE REQUIREMENTS RELATED TO FLOW THROUGH UNDER NEW TAX RATE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation (New Tax Rate)	Federal and State	Federal Only	State Only	Total
1	Tax Deduction	$47,358	$(10,833)	$165,070	
2	Income Tax Rate	29.84%	21.00%	8.84%	
3	Reduction in Income Taxes	$14,132	$(2,275)	$14,592	
4	Income Tax Gross-Up	1.425313	1.425313	1. 425313	
5	Revenue Requirement Reduction From Flow-Through Tax Deduction	$20,142	$(3,242)	$20,798	$37,698

The tables show that prior to the reduction of the tax rate, the net flow-through federal and state tax deductions would have reduced the revenue requirement by approximately $56 million (ignoring franchise fees and uncollectibles). With the lower tax rate of 21 percent, the revenue requirement impact of the net flow-through federal and state tax deductions will be approximately $38 million.

Table 4 compares the revenue requirement impacts under the old and new tax rates, showing a net $19 million reduction in tax benefit, increasing revenue requirement.

TABLE 4
2018 REVENUE REQUIREMENT CHANGE TO FLOW THROUGH UNDER NEW TAX RATE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	Federal and State	Federal Only	State Only	Total
1	Revenue Requirement Reduction From Flow-Through Tax Deduction using Old Tax Rate	$36,969	$(6,752)	$25,983	$56,200
2	Revenue Requirement Reduction From Flow-Through Tax Deduction using New Tax Rate	$20,142	$(3,242)	$20,798	$37,698
3	Change in Revenue Requirements – Increase	$16,827	$(3,509)	$5,185	$18,502

b) Tax Credits

The revenue requirement related to federal and state tax credits is also impacted by the reduction in the federal corporate income tax rate. The reduction in the federal corporate income tax rate does not decrease the tax benefit from the tax credits. The lower tax rate reduces the tax gross-up (Line 2) on the tax benefit, increasing the revenue requirement for tax credits. Table 5 shows the impact of the lower corporate tax rate on the revenue requirement for tax credits.

TABLE 5
2018 REVENUE REQUIREMENTS RELATED TO TAX CREDITS UNDER NEW AND OLD TAX RATE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate	Old Tax Rate	Difference
1	Federal/State Tax Credit	$0	$0	
2	Income Tax Gross-Up	1.425313	1.780627	
3	Revenue Requirement Impact of Tax Credit	$0	$0	
4	Revenue Requirement Increase Resulting from Lower Tax Rate			$0

3) Reduction Relating to Excess Tax Reserves

The reduction in the federal income tax rate requires re-measurement of deferred taxes at December 31, 2017 from 35% to 21%. This gave rise to two types of excess tax reserves for the 14% difference as follows:

a) Excess tax reserves from accumulated deferred income taxes (ADIT or deferred taxes) for timing differences included in rate base or considered in rate cases have been treated as attributable to customers. These include timing differences related to plant assets, vacation accrual, and Contributions in Aid of Construction (CIAC). Plant related excess tax reserves can be further categorized into protected and unprotected excess tax reserves. Protected excess tax reserves include ADIT from depreciation timing differences net of any net operating losses (NOLs) and are statutorily required to be amortized using the ARAM, as discussed below, to meet the normalization requirement. Unprotected excess tax reserves (otherwise referred to as "excess deferred taxes") include any other plant related ADIT arising from timing differences such as COR, Allowance for Funds Used During Construction – Debt and capitalized interest. PG&E proposes to apply ARAM to amortize both protected excess tax reserves and unprotected excess deferred taxes. The excess deferred tax asset for vacation accrual will be turned around in one year according to its expected reversal period. The excess deferred tax asset for CIAC will be reversed over the tax life of the underlying tax plant as required under the normalization rules.

b) Excess deferred taxes from ADIT for timing differences not included in rate base or considered in rate cases resulted in a detriment. Shareholders bear the burden of risk related to these items and were charged the detriment arising from the tax rate reduction. These are timing differences that are not part of the RO model. This treatment as belonging to shareholders is consistent with the treatment given to these excess deferred taxes in the Tax Reform Act of 1986 and the CPUC's related Decision.[7]

4) New Deferred Taxes

New tax timing differences arising after 2017 are tax effected at the lower 21percent rate. This results in lower deferred taxes than what was previously forecasted at 35 percent. This has the impact of increasing rate base and the revenue requirement. This is further in the rate base section below.

b. ARAM

PG&E applied the ARAM to amortize the amounts refundable to customers for protected and unprotected plant-related excess tax reserves. The Tax Act stipulates that the refunding of protected plant-related excess tax reserves more rapidly or to a greater extent than such reserve would be reduced under the ARAM results in a normalization violation.[8] The ARAM requires excess tax reserves be refunded to customers over the regulated book life of the underlying plant

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7 D.88-01-061.

8 *Ibid.*

that generated the original tax reserves. PG&E proposes to use the ARAM to amortize unprotected plant related excess tax reserves.

PG&E included in the ARAM calculation in the GT&S rate case excess tax reserves for all plant-related items including COR accrued through December 31, 2017 using data from PG&E's fixed asset system and supporting workpapers.

PG&E recalculated the ADIT in the 2015 GT&S rate case for depreciation changes discussed below. PG&E then re-measured the related net ADIT at December 31, 2017, to obtain the net excess tax reserve amount (14 percent). PG&E then used the fixed asset system's book and tax depreciation and book life to determine the ARAM adjustment. The ARAM amortization does not include new COR accrued for book purposes after December 31, 2017 since this is a new timing difference arising after 2017 and does not reverse excess tax reserves from timing differences re-measured from 35 percent to 21percent as of December 31, 2017.

Table 6 shows the 2018 revenue requirement reduction due to the ARAM amortization.

TABLE 6
2018 REVENUE REQUIREMENTS RELATED TO ARAM
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	New Tax Rate
1	Federal ARAM Adjustment	$(3,274)
2	Income Tax Gross-Up	1.425313
3	Revenue Requirement Impact of ARAM	$(4,666)

c. MACRS Depreciation for Public Utilities After September 27, 2017

The Tax Act requires public utilities use MACRS depreciation for most asset additions after September 27, 2017. MACRS depreciation (in place of bonus depreciation) reduced deferred tax liabilities, which increased rate base. MACRS depreciation also decreased the NOL deferred tax asset, which decreased rate base. The NOL partially offsets the reduction in deferred tax liabilities.

The Tax Act was unclear on transition rules for repeal of bonus depreciation. PG&E's historical practice, as agreed to by the Internal Revenue Service (IRS) in a prior audit, would have PG&E apply MACRS for assets placed in service after September 27, 2017. PG&E has followed its historic practice.

d. Repeal of IRC Section 199, Manufacturing Tax Deduction

The Tax Act repealed the IRC Section 199 manufacturing tax deduction effective January 1, 2018. This deduction was a permanent tax deduction that the Company could claim on taxable income derived from generating electricity. Since the GT&S rate case does not include any net income derived from generating electricity, PG&E did not claim this tax deduction in this rate case, therefore there is no revenue requirement impact due to this provision.

2. Rate Base Changes Caused by the Tax Act

The Tax Act has four direct impacts to rate base; (1) lower deferred federal income taxes from applying MACRS, (2) new deferred taxes accruing at the lower tax rate, (3) the ARAM amortization of protected and unprotected excess tax reserves, and (4) working cash. Impacts (1) through (3) are shown on Line 1 "Deferred Income Taxes" and impact (4) is shown on Line 2 "Working Cash" in Table 7 below. As a consequence of applying MACRS instead of bonus depreciation for most of the asset additions after September 27, 2017, deferred taxes related to 2017, 2018 and 2019 were reduced, thereby increasing rate base. The new tax timing differences arising after 2017 are tax effected at the lower 21percent tax rate, which results in lower deferred taxes, which have the impact of increasing rate base. The ARAM amortization of excess tax reserves also increases rate base. The Working Cash calculation within the RO Model is dynamically linked to adjust for changes in Income Taxes, Deferred Taxes and Other Expense Items. Working Cash adjusted for the Tax Act decreases rate base.

Table 7 below shows rate base impact to the revenue requirement for 2018.

TABLE 7
2018 REVENUE REQUIREMENT RELATED TO CHANGES IN 2018 RATE BASE
(THOUSANDS OF DOLLARS)

Line No.	Revenue Requirement Calculation	Debt Return on Rate Base	Equity Return on Rate Base	Total
1	Deferred Income Taxes	$11,858		
2	Working Cash	$0		
3	Total Rate Base Changes	$11,858	$11,858	$11,858
4	Rate of Return	2.30%	5.39%	7.69%
5	Return on Rate Base	$273	$639	$912
6	Income Tax Gross-Up	1.0000	1.425313	_–
7	Revenue Requirement	$273	$911	$1,184
8	Income Tax Rate	–	29.84%	–
9	Revenue Requirement Attributable to Income Taxes	–	$272	$272

3. Summary of the Effects of the Tax Act to Revenue Requirements

Table 8 provides the summary of the effects of the Tax Act to 2018 revenue requirement. Table 8 also includes the effects relating to Appendix G of D.16-12-010. Decision 16-12-010 implemented a prior Commission decision requiring shareholder funding of $688.5 million of pipeline safety-related capital expenditures to be permanently excluded from PG&E's GT&S rate base. The resulting revenue requirement reduction was shown in Appendix G of that decision. Therefore, PG&E has included and attached the updated Appendix G from the 2015 GT&S decision in Appendix of this filing to reflect the applicable tax reform effects described above.

TABLE 8
REVENUE REQUIREMENT CHANGES IN 2018 DUE TO TAX ACT
(THOUSANDS OF DOLLARS)

Line No.	Reference	Description of Change in Revenue Requirement		Change in Revenue Requirement
1	Table 1	Decrease in Revenue Requirement due to Lower Taxes on Equity Return on Rate base		$(81,239)
2	Table 4	Increase in Revenue Requirement due to Lower Taxes on Flow-Through Tax Deductions		$18,502
3	Table 5	Increase in Revenue Requirement due to Lower Taxes on Tax Credits		$0
4	Table 6	Decrease in Revenue Requirement due to Amortization of Excess Deferred Taxes (ARAM)		$(4,666)
5	Table 7	Increase in Revenue Requirement due to Increase in Rate base		$1,184
6	D.16-12-010, Appx. G	Increase in Revenue Requirement due to due to Lower Taxes on Equity Return on Rate base Effects on Shareholder Funded Safety Investments		$8,640
7	Franchise and Uncollectibles and Other Misc. Differences			$(138)
8	Total Revenue Requirement Changes			$(57,717)

Section III

Results of Operations

PG&E has utilized the attrition 2015 GT&S Decision RO model as updated by the Other Proceedings Balancing Account[9] to construct results of operations (RO) statements that show the effect of the Tax Act. Results presented are the output of a standard attrition year RO model as provided in the workpapers of the 2015 GT&S Decision, D.16-12-010. The attrition model is a more simplified model as compared to the RO model used to develop test year revenue requirements.

Historically PG&E has used a simplified methodology to calculate the attrition years' revenue requirements to avoid the necessity of evaluating detailed forecasts for multiple years in a GT&S rate case. Generally, this simplified methodology involves developing the attrition years' expense forecast based on escalation of the adopted test year expenses. The capital related items are forecast based on the addition of the attrition years' capital additions to the adopted test year plant balance. Table 7 of Appendix E of the 2015 GT&S Decision lists how various the elements of the revenue requirement were addressed in developing the 2018 attrition year revenue requirement.

Under PG&E's simplified attrition methodology, PG&E's attrition model includes the convention of holding the working capital (including working cash) and customer advances constant regardless of potential increases or decreases in the attritions years' revenue requirements.

The GT&S Decision RO attrition model also includes special adjustments for shareholder funded pipeline safety-related capital and the recorded capital associated with the Pipeline Safety Enhancement Program. These adjustments have been updated for the Tax Act.

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9 Adjustment Mechanism for Costs Determined in Other Proceedings (AMCDOP), D.16-06-056, *mimeo*, p. 460 (Conclusion of Law 199).

In the GT&S decision model, the rate base growth component of the attrition mechanism adjusts for changes in plant, depreciation reserve, and depreciation expense caused by capital additions and changes in deferred taxes associated with plant. Consistent with this practice, the rate base elements of materials and supplies, customer advances and working cash are held constant.

The attrition year forecast plant additions are adopted decision amounts. In the GT&S decision model, depreciation expense (and other changes to depreciation reserve such as net salvage, retirements, and accruals on motor vehicles) is modeled using the ratio of the weighted average (WAVG) plant balance for the attrition year to the WAVG plant balance for the previous year multiplied by the previous year's depreciation expense.

The attrition Decision RO model is based on final adopted capital-related parameters for 2015. This includes amounts for depreciation reserve and expense adopted in the 2015 GT&S decision.

Attrition income taxes are computed on changes in rate base and tax deductions using the Tax Act adjusted net to gross multiplier ("Income Tax Gross-Up"). The primary tax change occurs due to the reduction in the taxes associated with the equity return on rate base. In addition, several other tax adjustments were made to incorporate the effects of the Tax Act.

First, PG&E changes the level of deferred taxes to reflect the lower tax rate.

Second, PG&E has applied a composite tax depreciation rate to new capital additions based on MACRS.

Finally, the attrition model includes adjustments for excess tax reserves that are calculated by ARAM for plant-related reserves. Vacation accrual reserves are also adjusted as a 1986 Tax Reform Act adjustment associated with rate base. The ARAM calculation is not embedded within the attrition model due to its complexity.

In conclusion, PG&E has appropriately adjusted the standard attrition RO model to model the changes resulting from the Tax Act. The results of the RO model are shown in the comparison tables provided in Appendix.

Section IV

PFM Ratemaking Proposal

PG&E fully supports reducing the 2015 GT&S adopted revenue requirement for 2018 to pass along to our customers the approximately $58 million in benefits of the Tax Act attributable to our GT&S line of business.[10] PG&E proposes that the reduction take into account the goal of rate and bill stability for our customers.

There are several factors that are expected to cause gas rates to fluctuate over the next year. For example, PG&E's pending 2019 GT&S application, as well as proposals set forth in the 2018 Gas Cost Allocation Proceeding, including a recommendation to update the gas sales forecast to do away with the systematic under-collection that has resulted from the use of a stale sales forecast that was approved in 2008.

PG&E proposes that we work with the Energy Division on the best timing to pass along the 2018 Tax Act revenue requirement reduction to customers. This collaborative approach is consistent with our historic practice.[11]

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10 PG&E is also filing today for a reduction in the 2019 GT&S forecast to reflect the benefits of the Tax Act in 2019 and beyond.

11 *See*, for example, the 2017 GRC Decision, D.17-05-013, *mimeo*, p. 247 (Ordering Paragraph 4).

PACIFIC GAS AND ELECTRIC COMPANY

APPENDIX

REPORT ON REVENUE REQUIREMENT REVISIONS FROM THE TAX CUT AND JOBS ACT OF 2017 ON THE 2015 GAS TRANSMISSION AND STORAGE RATE CASE

APPENDIX 1: TABLE 1

Pacific Gas and Electric Company

2015 Gas Transmission and Storage Rate Case (2015 GT&S)

Results of Operations Summary at Proposed Rates - Attrition Year 2018

Total Gas Transmission Base Revenue Requirement Request - incl. PSEP Recorded

(Thousands of Dollars)

Line No.	Description	D.16-12-010 (Note 1)	D.16-12-010 (Note 1) revised for The Tax Act	Difference	Line No.
		(A)	(B)	(C)=(B)-(A)	
	REVENUE:				
1	Base Revenue Requirements	1,269,313	1,211,596	(57,717)	1
2	Plus Other Operating Revenue	2,871	2,871	0	2
3	Total Operating Revenue	1,272,185	1,214,468	(57,717)	3
	OPERATING EXPENSES:				
4	Energy Costs	0	0	0	4
5	Production / Procurement	2,027	2,027	0	5
6	Storage	17,880	17,880	0	6
7	Transmission	518,544	518,544	0	7
8	Distribution	372	372	0	8
9	Customer Accounts	3,775	3,775	0	9
10	Uncollectibles	4,245	4,068	(177)	10
11	Customer Services	6,455	6,455	0	11
12	Administrative and General	101,188	101,188	0	12
13	Franchise Requirements	12,232	11,645	(587)	13
14	Amortization	0	0	0	14
15	Wage Change Impacts	0	0	0	15
16	Other Price Change Impacts	0	0	0	16
17	Other Adjustments	(89,969)	(81,329)	8,640	17
18	Subtotal Expenses:	576,749	584,625	7,876	18
	TAXES:				
19	Superfund	0	0	0	19
20	Property	42,647	42,647	0	20
21	Payroll	12,389	12,389	0	21
22	Business	67	67	0	22
23	Other	162	162	0	23
24	State Corporation Franchise	12,190	6,366	(5,824)	24
25	Federal Income	109,832	48,789	(61,042)	25
26	Total Taxes	177,287	110,421	(66,866)	26
27	Depreciation	192,303	192,303	0	27
28	Fossil Decommissioning	0	0	0	28
29	Nuclear Decommissioning	0	0	0	29
30	Total Operating Expenses	946,339	887,349	(58,990)	30
31	Net for Return	325,845	327,119	1,274	31
32	Rate Base (Note 2)	4,241,964	4,253,822	11,858	32

(1) Decision 16-12-010 amounts include updates reflecting the 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

(2) The rate base amount does not reflect the penalty adjustment. See Appendix 1: Table 3 for penalty adjusted rate base

APPENDIX 1: TABLE 2

Pacific Gas and Electric Company

2015 Gas Transmission and Storage Rate Case (2015 GT&S)

Income Taxes at Proposed Rates - Attrition Year 2018

Total Gas Transmission Base Revenue Requirement Request - incl. PSEP Recorded

(Thousands of Dollars)

Line No.	Description	D.16-12-010 (Note 1)	D.16-12-010 (Note 1) revised for The Tax Act	Difference	Line No.
		(B)	(C)	(D)=(C)-(B)	
1	Revenues	1,272,185	1,214,468	(57,717)	1
2	O&M Expenses	576,749	584,625	7,876	2
3	Nuclear Decommissioning Expense	0	0	0	3
4	Superfund Tax	0	0	0	4
5	Taxes Other Than Income	55,265	55,265	0	5
6	Subtotal	640,171	574,578	(65,593)	6
	DEDUCTIONS FROM TAXABLE INCOME:				
7	Interest Charges	100,294	97,828	(2,466)	7
8	Fiscal/Calendar Adjustment	170	170	0	8
9	Operating Expense Adjustments	(5,205)	(5,205)	0	9
10	Capitalized Interest Adjustment	0	0	0	10
11	Removal Costs	35,232	35,232	0	11
12	Vacation Accrual Reduction	(773)	(773)	0	12
13	Capitalized Other	9,426	9,426	0	13
14	Subtotal Deductions	139,144	136,679	(2,466)	14
	CCFT TAXES:				
15	State Operating Expense Adjustment	1,094	1,094	0	15
16	State Tax Depreciation - Declining Balance	0	0	0	16
17	State Tax Depreciation - Fixed Assets	309,626	308,141	(1,485)	17
18	State Tax Depreciation - Other	0	0	0	18
19	Capitalized Other	398	398	0	19
20	Repair Allowance	38,222	38,222	0	20
21	Subtotal Deductions	488,484	484,533	(3,951)	21
22	Taxable Income for CCFT	151,686	90,045	(61,642)	22
23	CCFT	13,409	7,960	(5,449)	23
24	State Tax Adjustment	0	0	0	24
25	Current CCFT	13,409	7,960	(5,449)	25
26	Deferred Taxes - Reg Asset	0	0	0	26
27	Deferred Taxes - Interest	97	97	0	27
28	Deferred Taxes - Vacation	(68)	(68)	0	28
29	Deferred Taxes - Other	0	0	0	29
30	Deferred Taxes - Fixed Assets	(1,622)	(1,622)	0	30
31	Total CCFT	11,815	6,366	(5,449)	31
	FEDERAL TAXES:				
32	CCFT - Prior Year	9,594	9,594	0	32
33	Federal Operating Expense Adjustment	346	346	0	33
34	Fed. Tax Depreciation - Declining Balance	0	0	0	34
35	Federal Tax Depreciation - SLRL	0	0	0	35
36	Federal Tax Depreciation - Fixed Assets	300,131	279,813	(20,318)	36
37	Federal Tax Depreciation - Other	0	0	0	37
38	Capitalized Other	398	398	0	38
39	Repair Allowance	38,222	38,222	0	39
40	Preferred Dividend Credit	50	50	0	40
41	Subtotal Deductions	487,886	465,102	(22,784)	41
42	Taxable Income for FIT	152,285	109,476	(42,809)	42
43	Federal Income Tax	53,300	22,990	(30,310)	43
44	Deferred Taxes - Reg Asset	0	0	0	44
45	ARAM	0	(3,274)	(3,274)	45
46	Deferred Taxes - Interest	121	73	(49)	46
47	Deferred Taxes - Vacation	(271)	(162)	108	47
48	Deferred Taxes - Other	0	0	0	48
49	Deferred Taxes - Fixed Assets	57,185	29,181	(28,004)	49
50	Total Federal Income Tax	110,335	48,807	(61,528)	50

(1) Decision 16-12-010 amounts include updates reflecting the 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

APPENDIX 1: TABLE 3

Pacific Gas and Electric Company

2015 Gas Transmission and Storage Rate Case (2015 GT&S)

Ratebase - Attrition Year 2018

Total Gas Transmission Base Revenue Requirement Request - incl. PSEP Recorded

(Thousands of Dollars)

Line No.	Description	D.16-12-010 (Note 1) Full Year	D.16-12-010 (Note 1) WAVG Year	D.16-12-010 (Note 1) revised for The Tax Act Full Year	D.16-12-010 (Note 1) revised for The Tax Act WAVG Year	Difference Full Year	Difference WAVG Year	Line No.
		(A)	(B)	(C)	(D)	(E)=(C)-(A)	(F)=(D)-(B)	
	PLANT IN SERVICE							
1	Beginning of Year	6,940,667	6,940,667	6,940,667	6,940,667	-	-	1
2	Net Additions	670,160	209,353	670,160	209,353	-	-	2
3	Total Plant	7,610,827	7,150,020	7,610,827	7,150,020	-	-	3
	WORKING CAPITAL							
4	Material & Supplies - Fuel	-	-	-	-	-	-	4
5	Material & Supplies	29,846	29,846	29,846	29,846	-	-	5
6	Working Cash	36,265	36,265	36,265	36,265	-	-	6
7	Total Working Capital	66,110	66,110	66,110	66,110	-	-	7
	TRA ADJUSTMENTS							
8	Capitalized Interest	4,694	4,694	4,694	4,694	-	-	8
9	Deferred Vacation	11,770	11,770	10,267	11,019	(1,502)	(751)	9
10	CIAC Deferral	216	216	216	216	-	-	10
11	Total Adjustments	16,679	16,679	15,177	15,928	(1,502)	(751)	11
12	CUSTOMER ADVANCES	18,770	18,770	18,770	18,770	-	-	12
	DEFERRED TAXES							
13	Accum Def Taxes - Reg Asset	-	-	-	-	-	-	13
14	Accum Def Taxes - Fixed Assets	946,568	923,201	921,729	910,592	(24,838)	(12,609)	14
15	Accum Def Taxes - Other	-	-	-	-	-	-	15
16	Accum Def ITC	5,902	5,902	5,902	5,902	-	-	16
17	Deferred Taxes-Other	-	-	-	-	-	-	17
18	Total Deferred Taxes	952,469	929,103	927,631	916,494	(24,838)	(12,609)	18
	DEPRECIATION RESERVE					-	-	
19	Beginning of Year	1,952,489	1,952,489	1,952,489	1,952,489	-	-	19
20	Depreciation Expense	174,947	87,473	174,947	87,473	-	-	20
21	Net Salvage/Retirements	(76,221)	3,010	(76,221)	3,010	-	-	21
22	Total Depreciation Reserve	2,051,215	2,042,972	2,051,215	2,042,972	-	-	22
23	RATE BASE	4,671,163	4,241,964	4,694,498	4,253,822	23,336	11,858	23
24	D. 16-12-010 Penalty Adjustment		(658,220)		(658,220)		-	24
25	Penalty Adjusted Rate Base		3,583,744		3,595,602		11,858	25

(1) Decision 16-12-010 amounts include updates reflecting the 2018 Uncollectible factor and the 2018 Cost of Capital as approved by Decision 17-07-005.

APPENDIX 1: TABLE 4
2015 GT&S - PG&E
Revenue Requirement Impact of Rate Base Adjustment in 2015 and 2016
Appendix G revised to include the Tax Act
(Thousands of Dollars)

	Total	2015	2016
2016 Total Company Rate Base Adj - EOY	688,502	379,325	309,177

Line No.			2015	2016	2017	2018
	Revenue Requirement Calculations:					
1	Revenue Requirement	*[L9 + L10]*	5,298	(47,906)	(94,657)	(82,238)
2	Uncollectibles	*[L1 x Uncollectible Rate]*	17	(156)	(307)	(282)
3	Franchise Fees	*[L1 x Franchise Fee Rate]*	50	(450)	(889)	(807)
4	Subtotal	*[L2 + L3]*	67	(605)	(1,196)	(1,088)
5	Property Tax	*[(Prior Yr Net Plant x Property Tax % / 2) + (Current Yr Net Plant x L23 / 2)]*	0	(2,079)	(5,826)	(7,436)
6	Income Taxes	*[L21]*	14,914	(742)	(21,754)	(11,226)
7	Depreciation	*[Depreciable Plant x 1/58 (WAVG Life)]*	(1,706)	(7,931)	(11,871)	(11,871)
8	Subtotal	*[L5 + L6 + L7]*	13,208	(10,752)	(39,451)	(30,533)
9	Operating Expenses	*[L4 + L8]*	13,275	(11,358)	(40,647)	(31,621)
10	Net for Return	*[L11 x L12]*	(7,977)	(36,548)	(54,009)	(50,617)
11	Wt Avg (WAVG) Rate Base	*[2015 & 2016 Rate Base Adjustment amortized down over 58 years]*	(98,970)	(453,452)	(670,091)	(658,220)
12	Rate of Return %	*[PG&E's Authorized Cost of Capital]*	8.06%	8.06%	8.06%	7.69%
	Income Tax Calculations:					
13	WAVG Rate Base	*[2015 & 2016 Rate Base Adjustment amortized down over 58 years]*	(98,970)	(453,452)	(670,091)	(658,220)
14	WAVG Preferred & Equity	*[PG&E's Authorized Cost of Capital - equity portion]*	5.46%	5.46%	5.46%	5.39%
15	Equity Earnings	*[L13 x L14]*	(5,408)	(24,777)	(36,614)	(35,478)
16	Property Tax Deduction	*[L5]*	0	(2,079)	(5,826)	(7,436)
17	Tax Repair Deduction	*[Years 2015 & 2016 Rate Base Adjustment x Auth.Tax Repair Deduction %]*	(27,096)	(21,618)	848	848
18	Subtotal Deductions	*[L16 + L17]*	(27,096)	(23,697)	(4,978)	(6,588)
19	Taxable Income	*[L15 - L18]*	21,688	(1,080)	(31,636)	(28,890)
20	Combined Tax Rate (Incl. NTG)	*[Tab FactorsAndRates: L9]*	68.765%	68.765%	68.765%	38.857%
21	Income Tax	*[L19 x L20]*	14,914	(742)	(21,754)	(11,226)

EXHIBIT 3

Decision 19-08-023 August 15, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2017 (U39M).	Application 15-09-001

DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 17-05-013 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY

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DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 17-05-013 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY

Summary

This decision grants the Petition for Modification of Decision 17-05-013 filed by Pacific Gas and Electric Company (PG&E), to the extent adopted herein, for revision of its 2018 and 2019 attrition-year revenue requirements to reflect the effects of the Tax Cuts and Jobs Act of 2017.

PG&E requested Commission approval of reductions of the attrition-year revenue requirements authorized in Decision 17-05-013, by $267 million for 2018 and by $296 million for 2019, to reflect the effects of the new legislation. Although we find PG&E's methods of calculating these reductions appropriate for the most part, we direct PG&E to modify its calculations in several instances. PG&E is ordered to revise its calculations accordingly so that the finalized reductions may be passed on to customers later this year.

1. Procedural Background

On May 11, 2017, the Commission issued Decision (D.) 17-05-013, adopting General Rate Case (GRC) revenue requirements for Pacific Gas and Electric Company's (PG&E) electric generation, electric distribution system and gas distribution system for Test Year 2017 and attrition years 2018 and 2019. The authorized revenue requirements include PG&E's estimated federal income tax obligations, which PG&E calculated using the corporate income tax rates in effect at that time. On December 22, 2017 the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. The TCJA introduced new federal tax laws and made changes to the Internal Revenue Code (IRC) that substantially impacted PG&E beginning in the 2018 tax year. In particular, the TCJA provided for a reduction in PG&E's corporate federal income tax rate from 35% to 21%.

PG&E sent a letter to the Commission's Executive Director on January 5, 2018 proposing to submit a filing by March 31, 2018 to request a reduction in its authorized revenue requirements, as well as an implementation plan to reflect the TCJA reductions in retail customers' rates. The Director of the Commission's Energy Division sent a letter to PG&E on March 2, 2018, stating instead that "PG&E should file a Petition to Modify D.17-05-013 [PFM] by March 31, 2018 in order to present testimony, a revised RO [results of operations] model, and new revenue requirements for attrition years 2018 and 2019 incorporating the effects of the TCJA."

2. PG&E's Petition for Modification

PG&E filed its PFM on April 2, 2018. PG&E requested authority to revise its 2018 and 2019 authorized GRC revenue requirements to incorporate the effects of the lower corporate tax rate and other changes required by the TCJA. Attachment B to the PFM provides PG&E's "Report of Pacific Gas and Electric Company on Revenue Requirement Revisions from the Tax Cut and Jobs Act of 2017 on the 2017 General Rate Case" (PG&E Report). PG&E also provided, as Attachment C to the PFM, the sworn declaration of Mark T. Caron, Vice President of Tax for PG&E Corporation and PG&E.

PG&E's Report and Mr. Caron's declaration state that D.17-05-013 requires modification due to four major tax law changes that have significant impacts on PG&E's estimated tax expense and rate base for 2018 and 2019:

1. The TCJA reduced the corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018;[1]
2. The TCJA adopted what PG&E considers to be a mandatory methodology to return excess tax reserves to customers (Average Rate Assumption Method (ARAM));[2]
3. The TCJA required public utilities to use Modified Accelerated Cost Recovery System (MACRS) depreciation after September 27, 2017;[3] and
4. The TCJA repealed the IRC Section 199 Manufacturing Tax Deduction, effective January 1, 2018.[4]

Based on these changes, PG&E updated its post-test year revenue requirements relating to federal tax expense in two ways. First, PG&E re-calculated its federal tax expense and deferred federal tax liabilities to directly incorporate the four changes listed above. Second, PG&E re-calculated its total rate base to reflect the indirect effect of the same changes on rate base. PG&E's approach to these calculations results in reductions to the revenue requirements authorized in D.17-05-013 totaling $267 million for 2018 and $296 million for 2019. The table below summarizes the distribution of those changes across each of PG&E's GRC-funded lines of business (we note here that the TCJA has the effect of increasing PG&E's gas distribution revenue requirements for 2018 and 2019).[5]

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[1] Section 13001 of Pub L. No. 115-97 amending IRC Section 11.

[2] *Ibid.*

[3] Section 13201(d)(9)(A) of Pub L. No. 115-97 amending IRC Section 168 (k).

[4] Section 13305 of Pub L. No. 115-97 repealing IRC Section 199.

[5] PG&E Report at 2, Table 1, "Revenue Requirement Changes by Functional Area."

PG&E Estimates of Changes in Revenue Requirements Due to the Tax Cuts and Jobs Act of 2017 **Increase/(Decrease) $ in Millions**		
Line of Business	**2018**	**2019**
Electric Distribution	(186)	(198)
Electric Generation	(99)	(101)
Gas Distribution	18	3
Total	(267)	(296)

The bulk of PG&E's report presents a second set of calculations that itemize the total reductions shown above according to their source in the TCJA. PG&E's summary of the results of those calculations is presented in Table 1 below.[6] For ease of presentation, we will use this table as the outline for our review of each of PG&E's proposed changes in the remainder of this decision.

[6] *Id.*, at 14, Table 9, "Summary of Revenue Requirement Changes in 2018 & 2019 Due to the Tax Act, Total General Rate Case."

Table 1
PG&E's Proposed
Revenue Requirement Changes
Due to The Tax Cuts and Jobs Act of 2017
($000)

Line No.	Change in Revenue Requirement	Increase/(Decrease) 2018	Increase/(Decrease) 2019
1	Decrease due to lower taxes on equity return on rate base [7]	(486,041)	(504,221)
2	Increase due to lower taxes on flow-through tax deductions [8]	280,595	273,216
3	Increase due to lower taxes on tax credits [9]	2,887	2,887
4	Decrease due to amortization of excess deferred taxes (ARAM)[10]	(81,591)	(106,937)
5	Increase due to higher rate base [11]	19,910	42,398
6	Franchise and Uncollectibles and miscellaneous differences	(2,934)	(3,324)
7	Total Changes due to the Tax Act	(267,174)	(295,981)

3. Positions of Parties

On April 30, 2018 one party in this proceeding, The Utility Reform Network (TURN), filed a response to PG&E's PFM. TURN disputes PG&E's assertion that the TCJA mandates the use of the Average Rate Assumption Method to return excess tax reserves to customers (*see* line 4 in Table 1 above,

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[7] PG&E Report at 5, Table 2, "2018 Equity ROR-Related Revenue Requirement Reduction, Total General Rate Case."

[8] PG&E Report at 9, Table 5, "2018 Revenue Requirement Change To Flow-Through Under New Tax Rate, Total General Rate Case."

[9] PG&E Report at 9, Table 6, "2018 Revenue Requirements Related To Tax Credits Under New And Old Tax Rate, Total General Rate Case."

[10] PG&E Report at 12, Table 7, "2018 Revenue Requirements Related To ARAM, Total General Rate Case."

[11] PG&E Report at 13, Table 8, "2018 Revenue Requirement Related To Changes in 2018 Rate Base, Total General Rate Case."

"Decrease due to amortization of excess deferred taxes"). Apart from this dispute, TURN also contends that PG&E has not provided sufficient information to allow the Commission to render a fully informed decision on PG&E's proposals. TURN recommends that the Commission take the following actions in response to PG&E's PFM:

1. Adopt the revenue requirement changes as set forth in PG&E's petition on an interim basis (as modified based on TURN's other arguments), subject to further reduction after the IRS clarifies the proper use of ARAM to return excess tax reserves to customers.
2. Direct PG&E to obtain an IRS Letter Ruling regarding the proper use of ARAM.
3. Require PG&E to provide additional information that TURN believes is necessary to fully analyze the various categories of PG&E's Accumulated Deferred Income Taxes (ADIT), and provide parties a further opportunity to address whether the proposed treatment of each category is appropriate.

Today's decision is based on consideration of the written pleadings of PG&E and TURN.

4. Discussion

In the sections that follow, we address PG&E's estimated TCJA-related revenue requirement changes, as presented in Table 1 above.

4.1. Decrease in Revenue Requirements Due to Lower Taxes on Equity Return on Rate Base

The first item listed in Table 1 above is a significant reduction of the revenue requirement necessary to fund PG&E's authorized return on common equity. Although offset by other increases, as shown on Line 1 of Table 1 this reduction accounts for a $486 million ratepayer benefit in 2018 and a $504 million benefit in 2019.

PG&E's Commission-authorized rate of return (ROR) on its rate base is 7.69%, which is the sum of the weighted cost of its authorized return on long-term debt, preferred stock, and common equity. The calculation shown below reflects the method adopted by the Commission in D.12-12-034; since that time, PG&E made Commission-authorized filings that reduced the weighted cost of its authorized return on common equity from the 5.39% used in PG&E's PFM calculations, to the current value of 5.33%.

PG&E's Authorized Cost of Capital
and Authorized Return on Rate Base
for its Electric and Gas Operations[12]

		Cost Factor	Capital Ratio	Weighted Cost
Line No.		**(a)**	**(b)**	**= (a) x (b)**
1	Long-term Debt	4.89%	47.0%	2.30%
2	Preferred Stock	5.60%	1.0%	.06%
3	Common Equity	10.25%	52.0%	5.33%
4	Authorized Return on Rate Base			7.69%

PG&E explains in its PFM that its return on common equity represents the Company's net earnings and as such is subject to income taxes.[13] This estimated tax expense, in turn, is a standard item included in every GRC revenue requirement, to be collected from ratepayers as part of the rates they pay for electricity and natural gas.

Pursuant to standard cost-of-service ratemaking practices, federal and state income tax expenses are incorporated into the GRC revenue requirement by

12 D.12-12-034, Ordering Paragraph 4, updated by PG&E in Advice Letter 3887-G/5148-E.

13 PG&E PFM, Attachment B at 4. PG&E further explains that the debt-related ROR is financed by interest expense, which is tax deductible and therefore does not require a tax recovery or a gross-up. The TCJA did not change the tax deduction for interest expense for public utilities. (*Id.* at 5.)

means of a factor based on expected income tax rates (the "Income Tax Gross-Up"). PG&E's calculations show that the TCJA's reduction in the federal income tax rate results in a corresponding reduction in the income tax gross-up from roughly 1.78 to roughly 1.42. The use of the lower factor directly reduces the amount by which PG&E's revenue requirement must be increased to account for taxes.

Table 2 below reproduces PG&E's calculation of the isolated impact of the TCJA on PG&E's ROR in 2018 due to the lower corporate income tax rate (*i.e.,* this calculation intentionally ignores the additional effects on rate base due to the TCJA, which we discuss in a later section of this decision).[14] The $486 million decrease in revenue requirement shown in Table 2 results from both the lower income tax gross-up (Line 4) and lower combined tax rates (Line 6).

The methodology used by PG&E in its calculation is undisputed. Based on our own review, we find it to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

[14] PG&E calculated the 2019 tax year impacts in the same manner; those results are summarized in Table 1 above and Table 9 of PG&E's Report.

Table 2
2018 Equity ROR-Related Revenue Requirement Reduction
($000)

Line No.	Revenue Requirement Calculation	New Tax Rate	Old Tax Rate	(Decrease)
1	Total rate base adopted in D.17-05-013	25,378,933	25,378,933	
2	Rate of return on common equity	5.39%	5.39%	
3	Equity-related return on rate base	1,367,924	1,367,924	
4	Income tax gross-up	1.425313	1.780627	
5	Grossed-up revenue requirement	1,949,721	2,435,762	
6	Combined tax rate	29.84%	43.84%	
7	Revenue requirement attributable to income taxes	581,797	1,067,838	
8	Revenue requirement reduction resulting from lower tax rate			(486,041)

4.2. Increase in Revenue Requirements Due to Lower Taxes on Flow-Through Tax Deductions

The second item listed in Table 1 above is an increase to PG&E's tax-related revenue requirement due to the effect of the lower tax rate on flow-through tax deductions. As shown in Line 2 of Table 1 the result is a $280 million increase in 2018 and a $273 million increase in 2019.

PG&E uses the flow-through accounting method to reflect certain tax deductions in its GRC revenue requirement. Under this approach, PG&E simply estimates its expected test year tax return deductions and includes those benefits in its final calculation of the revenue requirement. The tax benefit reflected in the revenue requirement is equal to the forecasted cash savings.[15] When tax rates are reduced, this reduces the forecasted tax benefit and increases the forecasted income tax expense, resulting in a higher revenue requirement. However, the future tax expense when a flowed-through tax benefit is reversed (flowed-back)

15 Exhibit PG&E-10, Chapter 12 at 12-3.

will also be at the lower tax rate. This will reduce the future revenue requirement, which PG&E considers a long-term future benefit to customers.

PG&E has three types of net flow-through tax adjustments, which must be calculated separately because the applicable income tax rates are different: (1) tax deductions where the federal and state amounts are the same, (2) federal-only tax deductions, and (3) state-only tax deductions. We present Tables 3, 4 and 5 together on the following page to show how PG&E developed the estimated change in its 2018 revenue requirement. First, Table 3 calculates PG&E's revenue requirement under the old tax rate. Second, Table 4 calculates PG&E's revenue requirement under the new tax rate. Lastly, Table 5 compares the old and new revenue requirements, which shows a net $280 million reduction in the tax benefit from the amount included in the 2018 revenue requirement authorized in D.17-05-013. PG&E's 2018 revenue requirement must now be increased by that amount.

The methodology used by PG&E in its calculations is undisputed. Based on our own review, we find this approach to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

Table 3
2018 Revenue Requirements Related To
Flow-Through Under Old Tax Rate
Total General Rate Case
($000)

Line No.	Item	Federal and State	Federal Only	State Only	Total
1	Tax deductions	1,058,558	(201,995)	(496,582)	
2	Income tax rate	43.84%	35.00%	8.84%	
3	Income tax change	464,072	(70,698)	(43,898)	
4	Income tax gross-up	1.780627	1.780627	1.780627	
5	Revenue requirement change from flow-through tax deductions	826,339	(125,887)	(78,166)	622,286

Table 4
2018 Revenue Requirements Related to
Flow-Through Under New Tax Rate
($000)

Line No.	Item	Federal and State	Federal Only	State Only	Total
1	Tax deductions	1,058,558	(153,549)	(496,582)	
2	Income tax rate	29.84%	21.00%	8.84%	
3	Income tax change	315,874	(32,245)	(43,898)	
4	Income tax gross-up	1.425313	1.425313	1.425313	
5	Revenue requirement change from flow-through tax deductions	450,219	(45,960)	(62,568)	341,691

Table 5
2018 Revenue Requirement Change To
Flow-Through Under New Tax Rate
($000)

Source	Revenue Requirement	Federal and State	Federal Only	State Only	Total
Table 3, line 5	Revenue requirement reduction from flow-through tax deductions using **old** tax rate	826,339	(125,887)	(78,166)	662,286
Table 4, line 5	Revenue requirement reduction from flow-through tax deductions using **new** tax rate	450,219	(45,960)	(62,568)	341,691
Total change in revenue requirements ("old" minus "new")		376,120	(79,928)	(15,598)	280,595

4.3. Increases in Revenue Requirements Due to Lower Taxes on Tax Credits

The third line in Table 1 above shows an increase in PG&E's post-TCJA revenue requirement that is related to federal and state tax credits, equal to $2.887 million annually in 2018 and 2019 (Table 1, Line 3). PG&E explains that although the reduction in the federal corporate income tax rate does not decrease the tax benefit from such tax credits, the lower tax rate does reduce the tax gross-up factor. This has the indirect effect of increasing the revenue requirement related to tax credits because the lower factor reduces the size of the grossed-up credit that offsets the GRC revenue requirement. This calculation is shown in Table 6 below.

The methodology used by PG&E in its calculation is undisputed. Based on our own review, we find this approach to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

Table 6
2018 Revenue Requirements Related to Tax Credits Under New and Old Tax Rate
($000)

Line No.	Item	New Tax Rate	Old Tax Rate	Difference
1	Federal/State Tax Credits	(8,125)	(8,125)	0
2	Income Tax Gross-Up	1.425313	1.780627	
3	Revenue Requirement Impact of Tax Credit	(11,581)	(14,468)	2,887

4.4. Decreases in Revenue Requirements Due to Amortization of Excess Accumulated Deferred Income Taxes

The fourth line in Table 1 above shows PG&E's estimates of the decrease in its revenue requirements due to the method PG&E proposes to apply to amortize the excess of deferred taxes that have been created by the lower tax rate. PG&E proposes reductions equal to $81.591 million in 2018 and $106.937 million in 2019 (*see* Line 4 of Table 1). PG&E's calculation of the 2018 value is shown in Table 7 below.

Table 7
2018 Revenue Requirements Related to ARAM
($000)

Line No.	Item	New Tax Rate
1	Federal ARAM Adjustment	(57,244)
2	Income Tax Gross-Up	1.425314
3	Revenue Requirement Impact of ARAM	(81,591)

TURN challenges PG&E's choice of methodology for these calculations, and the resulting proposed reductions, contending that "the utility has not provided a complete or appropriate method for identifying and returning Excess ADIT."[16] We turn to that discussion now.

4.4.1. Background

TURN's disagreement with PG&E has to do with the interaction between the utility's depreciation practices and the tax benefits associated with those practices. Like all utilities regulated by this Commission, PG&E accounts for depreciation expenses using one method for ratemaking purposes (straight-line depreciation) and a different method for tax purposes (accelerated depreciation). While straight-line depreciation reduces the value of an asset by the same annual amount over the life of the asset, accelerated depreciation allows a utility to reduce that value by larger amounts early in the life of the asset, and lower amounts in later years. Because depreciation is an expense, using the accelerated method will reduce a utility's net income more in those earlier years than would be the case if straight-line depreciation were used. The lower net income, in turn, reduces the utility's income tax obligation. However, this benefit "reverses" in later years of the life of an asset, when the asset is fully depreciated for tax purposes, leaving no depreciation expenses to offset net income.

Under normal cost-of-service ratemaking principles, regulatory commissions would pass the tax savings that result from accelerated depreciation straight through to ratepayers in the form of a reduced revenue requirement and lower rates. However, Congress adopted accelerated depreciation in order to stimulate investment, and discouraged regulatory

[16] TURN Comments at 2.

commissions from passing along the savings by requiring that utilities using accelerated depreciation for an asset for tax purposes must also comply with "normalization" rules that require that, for ratemaking purposes, the same asset be depreciated over the entire useful life of the asset, via straight-line depreciation.

As a result of the normalization requirement, customer rates collect more taxes than the utility actually pays the IRS in the early years of the underlying asset, but less taxes than are necessary in later years. The utility establishes a "deferred tax reserve account" to record the difference between the straight-line depreciation expense and the accelerated depreciation expense. These funds are labeled Accumulated Deferred Income Taxes (ADIT). The utility then draws down that reserve as the accelerated depreciation benefits for a particular asset reverse.

4.4.2. The Impact of the TCJA on Excess ADIT

The use of normalized accounting is viewed as a means of "protecting" the funds made available by accelerated depreciation--which Congress intended to stimulate additional investment spending--from the reach of regulatory commissions intent on flowing these excess funds back to ratepayers. Instead, the ADIT associated with these "protected" assets must be returned to ratepayers according to an amortization schedule determined by the IRC. This methodology is known as the Average Rate Assumption Method (ARAM). Congress also directed that failure to use the ARAM where it is required is considered a "normalization violation" that the IRS penalizes by withdrawing the option for the utility to take advantage of accelerated depreciation in the future.[17]

Turning now to the impact of the TCJA on these accounting practices, TURN succinctly explains in its comments that "with the reduction in federal taxes from 35% to 21%, approximately 40% of federal ADIT on [PG&E's] books at the end of 2017 immediately became excess ADIT (money that PG&E had collected but will not need to pay for future federal taxes)."[18] TURN and PG&E do not disagree that excess ADIT should be returned to ratepayers, but they do disagree over how the excess amount should be calculated, and how quickly that amount should be repaid. These disagreements are based on each party's interpretation of the IRC regarding these questions.

PG&E calculated the value to be returned to ratepayers in 2018 (the $81.591 million shown in Table 7 above, and on line 4 of Table 1 above) based on its assumption that the TCJA now requires all excess ADIT to be returned according to the ARAM. TURN agrees with PG&E that excess ADIT that is subject to ARAM requirements must be amortized on a schedule that avoids a normalization violation, but TURN disagrees with PG&E regarding whether all excess ADIT is really subject to those requirements. TURN contends that the Commission has discretion regarding how it may direct PG&E to return certain categories of excess ADIT to ratepayers. TURN identifies three categories for the Commission's consideration.

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17 The ARAM requires that excess ADIT be reversed as the book/tax difference reverses, meaning that a normalization violation occurs if the excess ADIT is used to reduce rates more rapidly than the corresponding reversal of the book/tax difference turnaround takes place.

18 TURN Comments at 1-2, emphasis added.

4.4.3. The Three Categories of Excess ADIT

The first category of excess ADIT has its source in protected assets, as we described above. TURN acknowledges that most of the excess ADIT that PG&E identifies in its PFM is the result of accelerated depreciation, and is thus a "protected" asset; TURN agrees with PG&E that this category of excess ADIT must be returned to ratepayers using the ARAM. However, TURN also notes that where excess ADIT arose for reasons unrelated to accelerated depreciation, it is considered "unprotected" by the IRC and is therefore not subject to ARAM. Thus, a second category of ADIT may also be plant-related, but is considered "unprotected" by the IRC because it is categorized by provisions of the IRC unrelated to accelerated depreciation. Finally, a third category of excess ADIT derives from assets that are not related to utility plant at all (*e.g.,* vacation pay).[19]

In past GRCs this Commission approved the application of normalization rules to unprotected assets, even though that was not required by the IRC, to ensure that all ratepayers served by the asset over its useful life are treated equally. This is consistent with Public Utilities Code § 454.8, which provides guidance to this Commission regarding proper recovery from ratepayers of the costs of new utility construction:

> In any decision establishing rates for an electrical or gas corporation reflecting the reasonable and prudent costs of the new construction of any addition to or extension of the corporation's plant, when the commission has found and determined that the addition or extension is used and useful, the commission shall consider a method for the recovery of these costs which would be constant in real economic terms

[19] TURN Comments at 2.

> over the useful life of the facilities, so that ratepayers in a given year will not pay for the benefits received in other years.

That said, although we agree that the benefit of deferred taxes should be normalized so that ratepayers are treated equally over time, we do not agree with deferring the return of excess funds if this is not required by statute or regulation. We prefer that such funds be returned to ratepayers now. Unlike requiring all ratepayers to share equally in the expense of an asset over its useful life, returning excess funds to current ratepayers does not impose a greater burden on future ratepayers. Rather, repayment now returns the excess funds to ratepayers who are the closest in time to the recent ratepayers who contributed those funds to these accounts.

The problem before us with respect to our review of PG&E's estimated reduction of $81.591 million is that PG&E calculated this value based on its assumption that all excess ADIT is protected, and therefore subject to the ARAM. As TURN points out in its comments, PG&E's PFM does not distinguish between protected excess ADIT and unprotected excess ADIT and provides no analysis of where the use of ARAM is required and where it is not. TURN therefore contends that the Commission does not have enough information to make a final decision on how to identify unprotected ADIT, and how to return those amounts to ratepayers quickly.[20] We address TURN's contention at the end of this section of this decision.

[20] TURN Comments at 5.

4.4.3.1. Excess ADIT Related to Cost of Removal

TURN's comments also highlight a separate issue within the debate over excess ADIT, a matter this Commission recently addressed in its decision on Southern California Edison's GRC application (D.19-05-020 in A.16-09-001).[21] This issue is the proper treatment of "cost of removal" in these calculations. Textbooks define depreciation expense as equal to the initial cost of an asset, minus whatever value can be recovered at the end of the asset's useful life after it is fully depreciated (its salvage or "scrap" value). For example, if the cost of the asset is $10,000 and the firm expects its salvage value to be $1,000 then the depreciation expense is $9,000. However, utility assets are typically considered to have negative salvage value because the "cost of removal" (or COR) is expected to exceed any scrap value that may exist. In the example just given, if the cost of the asset is $10,000 but the expected salvage value is $0 and the expected COR is $1,000 then the depreciation expense is $11,000.

PG&E has historically included COR when it calculates its total book depreciation expense, which means that part of the excess ADIT resulting from the TCJA is the COR that ratepayers have been funding over the years. However, PG&E changed its historical practice in its PFM, and excludes COR from book depreciation when it applies the ARAM to calculate the amount of excess ADIT that it recommends be returned to ratepayers. As TURN explains,

> When comparing book depreciation and tax depreciation for purposes of ARAM, the inclusion of the entire amount of depreciation (including both recovery of the original cost of capital investments and the future cost of removal) has a

[21] D.19-05-020 in A.16-09-001.

> material effect on the outcome. By including only the amount of depreciation associated with recovery of the original cost of capital investments, PG&E's calculations result in a smaller near-term adjustment.[22]

TURN states that it has not estimated the impact of the two possible treatments of COR, but expects that it is a material difference because that was the case in SCE's GRC proceeding.[23]

TURN cites the importance of avoiding normalization violations, and recommends that the Commission approve PG&E's estimated revenue requirement reductions (as modified based on TURN's other arguments), but also order PG&E to (1) request a private letter ruling (PLR) from the IRS as to whether the use of the entirety of book depreciation is appropriate for computing ARAM, or only the portion excluding net salvage; and (2) track the difference between the use of (i) ARAM as set forth in its PFM calculations and (ii) ARAM as defined using the entirety of depreciation, including net salvage.[24]

TURN made its recommendations before we addressed the same issue in our decision on SCE's GRC application. There, we took TURN's recommendations a step further and directed SCE to reduce its revenue requirements immediately in its post-decision rate change, rather than waiting until receiving a PLR from the IRS on the COR question. Our directives were supported by the following Conclusions of Law in D.19-05-020, which state in relevant part:

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22 TURN Comments at 3.

23 *Ibid.*

24 TURN Comments at 4-5.

- The benefits of the TCJA should flow to the ratepayers (*see*, COL 194).
- Ratepayers should begin receiving the benefit of the TCJA now and continuing through the remainder of SCE's 2018-2020 GRC cycle (*see*, COL 195).
- SCE should normalize the benefits of the TCJA including deferred taxes reflected on SCE's regulatory books of account based on the differences between SCE's regulatory tax liability, including Cost of Removal, and its actual tax liability, as calculated on its actual depreciable basis (*see*, COL 189).[25]
- The net excess deferred taxes relating to unprotected assets should be returned to ratepayers. Consistent with the return of other funds due to implementation of the TCJA, these funds should be returned on an amortized basis over the remainder of SCE's 2018-2020 GRC cycle (*see*, COL 190).

We intend to apply the same policies to PG&E's PFM proposals as we did in D.19-05-020. PG&E has consistently normalized the benefits of accelerated depreciation derived from its depreciable basis and it is our intention that PG&E continues to normalize the benefits of the TCJA.[26] Historically, PG&E has included COR in its calculation of ADIT. To change now and exclude COR from the ARAM calculation would increase the tax expense for current customers in excess of the benefit they received from the asset. Therefore, we believe it is

[25] In D.19-05-020 the Commission notes that this is consistent with IRC Section 168(i)(9)(A)(i) and Treasury Regulation § 1.167(l) 1(h)(1)(iii). *See*, COL 189 in full and discussion at 294-297.

[26] We repeat our reference from D.19-05-020 at page 296, footnote 680: Taxpayers have a duty to treat items consistently. See *Unvert v. Commissioner*, 72 T.C. 807, 814 (T.C. 1979) ("'there is a duty of consistency as to [tax] treatment, and one should be held to the consequences of the initial treatment.'").

consistent with the IRC normalization rules for us to require PG&E to continue to include COR in its calculation of excess ADIT when calculating ARAM.

In reaching this determination, we fully intend that PG&E continue to comply with applicable normalization rules. We believe we have reached the correct result, and (as TURN observes at page 4 of its Comments) PG&E has not cited to any written determination, case, regulation, or statute to support its position. Nevertheless, just as we did in D.19-05-020 for SCE, we acknowledge that PG&E may request a PLR from the IRS on this question. In the event that PG&E requests a PLR and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to COR in the ARAM calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of the applicable tax laws by filing a Tier 2 advice letter with this Commission to seek an appropriate adjustment to its revenue requirement and/or rate base. In the meantime, we agree with TURN that PG&E should use the tax memorandum account established pursuant to D.17-05-013 to track the difference that results from (i) the use of ARAM as set forth in its Attachment B report and (ii) ARAM as defined using the entirety of depreciation including net salvage.

4.4.2. Next Steps Regarding Excess ADIT

We concluded our discussion above regarding the three categories of excess ADIT by echoing TURN's observation that PG&E's PFM does not distinguish between protected excess ADIT and unprotected excess ADIT and provides no analysis of where the use of ARAM is required and where it is not.[27]

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[27] In comments on the PD, PG&E contends that "[i]n fact, PG&E provided an analysis of protected vs. unprotected assets, by category, in the April 11, 2018 workshop hosted by the

Footnote continued on next page

We face the same problem with respect to PG&E's treatment of COR in its calculations. At the same time, we intend that the benefits of the TCJA be returned quickly to PG&E's ratepayers where it is allowed by the IRC. TURN recommends that the Commission require PG&E to essentially go back to the drawing board and provide a list of all individual components of accumulated deferred tax assets and liabilities, along with extensive additional information for each component. At that point, TURN suggests "[o]nce this information is made available to the parties, the Commission can determine the appropriate method for returning to customers the Tax Act reductions associated with specific assets and accounts."[28] TURN's analysis of the problem facing us is excellent, but we do not believe the solution necessitates that we order PG&E to produce additional data. We did not require this of SCE, and we are also intent on closing out PG&E's PFM now, so that PG&E's customers can begin receiving the benefits of the TCJA to which they are entitled. We discuss our preferred solution below in the "ratemaking implementation" section of this decision.

4.5. Increases in Revenue Requirements Due to Higher Rate Base

The fifth and final material item listed in Table 1 above is PG&E's estimate of the increase in its post-TCJA revenue requirement due to higher rate base. As shown on line 5 of Table 1, PG&E estimates its revenue requirement will increase

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Commission to discuss the PFM." PG&E Comments at 9-10, citing page 11 of its PowerPoint presentation at that workshop. We note in response that (1) the list of figures presented by PG&E at the workshop is not an "analysis" as contended by PG&E and, (2) in any case, TURN (and the PD) accurately stated that **the PFM we are addressing in this decision** does not distinguish between protected excess ADIT and unprotected excess ADIT and provides no analysis of where the use of ARAM is required and where it is not.

[28] TURN Comments at 5.

by $19.91 million in 2018 and $42.398 million in 2019. This is due to four direct impacts of the TCJA on PG&E's rate base:

1) lower deferred federal income taxes from applying MACRS instead of bonus depreciation (the TCJA ended the option to use bonus depreciation);
2) new deferred taxes accruing at the lower tax rate;
3) the ARAM amortization of protected and unprotected excess tax reserves; and
4) working cash.

The details of PG&E's estimates are shown in Table 8 below.

First, the combined impacts of PG&E's items (1) through (3) are shown on Line 1, "Deferred Income Taxes." Since deferred taxes are an offset credit against rate base, reductions in deferred tax amounts will increase rate base in the three ways listed by PG&E: applying MACRS instead of bonus depreciation for most of the asset additions after September 27, 2017 reduces deferred taxes. In addition, new tax timing differences arising after 2017 are tax-affected at the lower 21% tax rate, which results in lower new deferred taxes. Finally, ARAM amortization of excess tax reserves also acts to increase rate base when the amortized amounts reduce revenue requirements.

Second, the impact of PG&E's item (4) is shown on Line 2 of Table 8, "Working Cash." Although the ARAM amortization of excess tax reserves acts to increase rate base, this also affects the Working Cash calculation within the RO model; Working Cash is adjusted for changes in Income Taxes, Deferred Taxes and Other Expense Items, and these adjustments made to Working Cash to conform with the Tax Act result in decreases to rate base.

Table 8
2018 Revenue Requirement Related to 2018 Rate Base Changes
($000)

Line No.	Item	Debt Return	Equity Return	Total
1	Deferred Income Taxes	222,000		
2	Working Cash	(22,551)		
3	Total Rate Base Changes	199,449	199,449	199,449
4	Rate of Return	2.30%	5.39%	7.69%
5	Return on Rate Base	4,587	10,750	15,338
6	Income Tax Gross-Up	1.0000	1.425313	
7	Revenue Requirement	4,587	15,323	19,910
8	Income Tax Rate		29.84%	
9	Revenue Requirement Attributable to Income Taxes		4,572	4,572

The methodology used by PG&E in its calculations is undisputed. Based on our own review, we find this approach to be reasonable and PG&E should use the same method in any revisions made to this line item in compliance with this decision.

5. Ratemaking Implementation

As we discussed above, consistent with our approach in D.19-05-020 for SCE, we intend that where the TCJA created benefits that can be passed on immediately to its customers, PG&E provide this rate relief as soon as possible. However, in the SCE proceeding we were able to implement our modifications to SCE's proposal immediately, as part of the overall RO modeling as we prepared D.19-05-020, which incorporated all of our determinations regarding SCE's GRC application, including our decisions regarding the TCJA. The situation is somewhat different for PG&E.

Although PG&E's PFM provided precise estimates of the effects of the TCJA on its 2018 and 2019 post-test year revenue requirements, in this decision we determine that PG&E should revise those estimates in two ways:

i. PG&E should revise its estimated revenue requirement reductions to quantify the amount of unprotected excess ADIT, which can be returned to ratepayers without following ARAM.

ii. PG&E should revise its calculation of the revenue requirement impact of the use of ARAM where it is required (line 4 in Table 1 of this decision) so that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

TURN has demonstrated that PG&E's calculations—though quite detailed—were not prepared in a way that would allow this Commission, or TURN and other parties, to revise PG&E's estimates in the two ways listed above without PG&E's assistance. Therefore, we will take the approach to implementing the post-TCJA reductions described below.

In its PFM, PG&E proposes to work collaboratively with the Commission's Energy Division to determine the appropriate timing for providing the revenue requirement revisions authorized in this decision to its customers, with consideration of possible impacts on customer rates due to other factors. We find this approach appropriate, with some additional guidance regarding the Energy Division's role.

First, PG&E should revise its calculations of the post-TCJA revenue requirement reductions in 2018 and 2019 according to our instructions listed above. Staff from the Commission's Energy Division should be consulted by PG&E as these revisions are prepared, and PG&E should provide workpapers with its revised calculations for review by parties in this proceeding, as part of the Advice Letter filing described below.

Second, PG&E should work collaboratively with the Energy Division to determine a recommended length of time over which the revised reductions should be amortized in rates. We note that in the SCE proceeding, we set this period equal to the remainder of the SCE GRC cycle then in progress, approximately 18 months. For PG&E, its current GRC cycle ends at the end of 2019 and we recognize that the optimal period for returning excess funds to PG&E's customers may be longer. That said, we expect these funds to be returned to ratepayers over as short a period of time as possible. The proposal PG&E develops in collaboration with the Energy Division should fully explain how the return of these funds interacts with other upcoming rate changes contemplated by PG&E. As with its revised revenue requirement reductions, this proposal should also be supported by detailed workpapers that will enable other parties in this proceeding to review and comment on PG&E's proposed amortization period.

PG&E should file the revised revenue requirement reductions and the associated amortization proposal in a Tier 2 Advice Letter, as instructed in the Ordering Paragraphs of this decision.

6. Comments on Proposed Decision

The proposed decision (PD) of ALJ Roscow in this matter was mailed to parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. PG&E filed and served comments on August 1, 2019. TURN filed and served reply comments on August 6, 2019.

PG&E reports in its comments that the IRS issued Notice 2019-33 on May 13, 2019, seeking comments from industry and interested parties with respect to the interpretation and application of normalization for public utilities by July 29, 2019. PG&E contends this indicates that the IRS is unlikely to entertain utility-specific PLRs on these topics, but will instead address the open issues in its upcoming guidance. On this basis, PG&E concludes that the PD should be modified to restore PG&E's version of the funds to be returned to ratepayers because the pending guidance "is likely to supersede and render obsolete some of the Proposed Decision's discussion on disputed items."[29]

TURN notes the flaw in PG&E's argument in its reply comments:

> PG&E has not cited any legal or factual error in the Proposed Decision as written. Rather, it merely notes that the Proposed Decision adopted a treatment of cost of removal that is contrary to the arguments in its petition, and states its confidence that the IRS will ultimately support the utility's position.[30]

Furthermore, based on its close reading of IRS Notice 2019-33, TURN suggests "it is not at all clear that, through the process initiated by this notice, the IRS is likely to address the key issue" at dispute here, i.e., whether book depreciation includes or excludes net salvage when calculating ARAM for protected excess ADIT.[31]

Pursuant to Rule 14.3 (c), comments shall focus on factual, legal or technical errors in the proposed decision and in citing such errors shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight. The PD noted the possibility of future IRS clarifications that could affect PG&E's calculations, and adopted a procedure to account for that possibility. PG&E prefers a different approach, but its explanations are unconvincing and demonstrate no factual, legal or technical errors in the PD. The PD has been modified to reference the possibility that the

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[29] PG&E Comments on the PD at 1.

[30] TURN Reply Comments on PD at 2, citing PG&E Comments at 6.

[31] *Id.*, at 3-4.

IRS may address these issues via industry-wide guidance rather than through PLRs, but no other changes are necessary.

7. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Stephen C. Roscow is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On May 11, 2017, the Commission issued D.17-05-013, adopting GRC revenue requirements for PG&E for Test Year 2017 and attrition years 2018 and 2019.

2. The revenue requirements authorized in D.17-05-013 were based upon corporate income tax rates in effect at the time the Commission adopted that decision in May 2017.

3. On December 22, 2017, Public Law 115-97, the Tax Cuts and Jobs Act (TCJA) was signed into law, enacting new federal tax laws and making changes to the Internal Revenue Code (IRC) that substantially impact PG&E beginning in the tax year 2018. These impacts were not incorporated into the 2018 and 2019 GRC attrition year revenue requirements authorized in D.17-05-013.

4. Pursuant to its Petition for Modification (PFM) of D.17-05-013, PG&E calculated the changes resulting from the Tax Act, yielding (a) 2018 GRC attrition year revenue requirement reductions of $186 million for Electric Distribution and $99 million for Electric Generation and an increase in revenue requirement of $18 million for Gas Distribution; and (b) 2019 GRC attrition year revenue requirement reductions of $198 million for Electric Distribution and $101 million for Electric Generation and an increase of $3 million for Gas Distribution.

5. The deferred income taxes reflected on PG&E's regulatory books of account are based on the differences between PG&E's regulatory income tax

liability and its actual income tax liability, calculated on its actual depreciable basis and consistent with IRC requirements.

6. The Average Rate Assumption Method (ARAM) requires that excess income tax reserves be refunded to customers based on a normalization method, so that they are returned over the regulated book life of the underlying plant that generated the original reserves.

7. In its GRC application, PG&E included Cost of Removal (COR) in book depreciation when calculating the deferred income tax reserve accrued <u>through</u> December 31, 2017. Conversely, in this PFM PG&E's ARAM amortization calculation does not include new COR accrued for book purposes <u>after</u> December 31, 2017. The difference created by removing COR when calculating the ARAM is likely to have a material impact on the amount of funds that are returned to PG&E's customers.

8. Certain utility assets are not subject to normalization rules. These assets are typically referred to as "unprotected" assets.

Conclusions of Law

1. The Petition for Modification of Decision 17-05-013 should be granted in accordance with the ordering paragraphs below.

2. The reductions to PG&E's 2018 and 2019 GRC revenue requirements due to the TCJA should be passed on immediately to PG&E's customers, to the extent allowed by law.

3. PG&E's proposal to apply ARAM to amortize unprotected excess deferred taxes is not required by law.

4. It is reasonable to require that the net excess deferred taxes relating to unprotected assets be returned to current ratepayers.

5. PG&E should revise its estimated 2018 and 2019 revenue requirement reductions to quantify the amount of unprotected excess Accumulated Deferred Income Taxes (ADIT) which can be returned to ratepayers without following ARAM.

6. PG&E should revise its calculation of the revenue requirement impact of the use of ARAM where its use is required so that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

7. Returning excess deferred income taxes to current ratepayers does not impose a greater burden on future ratepayers. Rather, repayment now returns excess deferred taxes to ratepayers who are the closest in time to the ratepayers who contributed the funds to these accounts.

8. Any changes to PG&E's post-TCJA revenue requirements should be implemented in a manner that will not be found to be a normalization violation by the Internal Revenue Service (IRS).

9. In the event that PG&E requests a private letter ruling from the IRS and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to COR in the ARAM calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of the applicable tax laws as described in the Ordering Paragraphs of this decision.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Decision 17-05-013, filed by Pacific Gas and Electric Company, is hereby granted in accordance with the ordering paragraphs of this decision.

2. Ordering Paragraph 7 of Decision 17-05-013 is modified to add the following language as additional text at the end of the paragraph:

> In order to reflect the changes in the Tax Cuts and Jobs Act (TCJA) of 2017, the 2018 and 2019 attrition amounts authorized herein shall be reduced in a manner consistent with the new requirements of the TCJA, as calculated by PG&E and submitted in a Tier 2 Advice Letter that shall take effect after approval by the Commission's Energy Division.

3. Pacific Gas and Electric Company (PG&E) shall ensure that its calculations of the revenue requirement reductions due to the Tax Cuts and Jobs Act (TCJA) of 2017 comply with the following instructions:

    i. PG&E's estimated revenue requirement reductions shall quantify the amount of unprotected excess Accumulated Deferred Income Taxes (ADIT), which can be returned to ratepayers without following the Average Rate Assumption Method (ARAM); and

    ii. PG&E's estimated revenue requirement reductions shall quantify the use of ARAM where it is required such that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

4. Pacific Gas and Electric Company shall consult with the Commission's Energy Division as part of its compliance with Ordering Paragraph 3 of this decision and shall also work collaboratively with the Energy Division to determine a recommended length of time over which the estimated revenue requirement reductions should be amortized in rates.

5. Within 30 days of the effective date of this decision, Pacific Gas and Electric Company shall file the results of its compliance with Ordering Paragraphs 3 and 4 of this decision as a Tier 2 advice letter.

6. If Pacific Gas and Electric Company requests a private letter ruling from the Internal Revenue Service (IRS) concerning application or interpretation of the Tax Cut and Jobs Act, it shall file and serve a copy of its intended request as a Tier 1 Advice Letter at least 30 days before sending the request to the IRS.

7. Any request by Pacific Gas and Electric Company for a private letter ruling concerning application or interpretation of the Tax Cut and Jobs Act shall seek a response to the question, "Is including Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes to ratepayers inconsistent with normalization requirements?"

8. If Pacific Gas and Electric Company (PG&E) requests a private letter ruling from the Internal Revenue Service (IRS) and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of the applicable tax laws by filing a Tier 2 advice letter with this Commission to seek an appropriate adjustment to its revenue requirement and/or rate base.

9. Application 15-09-001 remains open.

This order is effective today.

Dated August 15, 2019, at San Francisco, California.

MICHAEL PICKER
President
LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners

EXHIBIT 4

 Date of Issuance 8/21/2019

Decision 19-08-021 August 15, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015 - 2017 (U39G).	Application 13-12-012
And Related Matter.	Investigation 14-06-016

DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 16-06-056 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY

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DECISION GRANTING PETITION FOR MODIFICATION OF DECISION 16-06-056 TO REFLECT TAX REDUCTIONS FOR PACIFIC GAS AND ELECTRIC COMPANY

Summary

This decision grants the Petition for Modification of Decision (D.) 16-06-056 filed by Pacific Gas and Electric Company (PG&E), to the extent adopted herein, for revision of its 2018 attrition-year revenue requirement for its gas transmission and storage system, in order to reflect the effects of the Tax Cuts and Jobs Act of 2017.

PG&E requested Commission approval of a $57.717 million reduction in the 2018 revenue requirement authorized by the Commission in D.16-06-056, to reflect the effects of the new legislation. Although we find PG&E's methods of calculating these reductions appropriate for the most part, we direct PG&E to modify its calculations in several instances. PG&E is ordered to revise its calculations accordingly so that the finalized reductions may be passed on to customers later this year.

1. Procedural Background

In Decision (D.) 16-06-056, the Commission adopted revenue requirements for Pacific Gas and Electric Company's (PG&E's) Gas Transmission and Storage (GT&S) system for 2015-2017. The Commission also adopted a third attrition year for the that GT&S rate case cycle, applying an escalation factor to calculate and authorize PG&E's revenue requirement for 2018.

Also in this proceeding, the Commission subsequently issued D.16-12-010 to allocate the disallowance imposed on PG&E for violations relating to the September 9, 2010 gas transmission pipeline explosion and subsequent fire in San Bruno, California. The total $850 million disallowance was allocated between capital and expense and PG&E adjusted its authorized GT&S revenue requirement accordingly.

On December 22, 2017 the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. The TCJA introduced new federal tax laws and made changes to the Internal Revenue Code (IRC) that substantially impacted PG&E beginning in the 2018 tax year. In particular, the TCJA provided for a reduction in PG&E's corporate federal income tax rate from 35% to 21%.

PG&E sent a letter to the Commission's Executive Director on January 5, 2018 proposing to submit a filing by March 31, 2018 to request a reduction in its authorized revenue requirements, as well as an implementation plan to reflect the TCJA reductions in retail customers' rates. The Director of the Commission's Energy Division sent a letter to PG&E on March 2, 2018, stating instead that PG&E should file a Petition for Modification (PFM) of D.16-06-056 no later than March 31, 2018, to propose adjustments to its GT&S revenue requirement in order to reflect TCJA-related changes for attrition year 2018.

PG&E filed its PFM on March 30, 2018. PG&E requested authority to revise its authorized 2018 GT&S revenue requirement to incorporate the effects of the lower corporate tax rate and other changes required by the TCJA. Attachment B to the PFM provides PG&E's "Report of Pacific Gas and Electric Company on Revenue Requirement Revisions from the Tax Cut and Jobs Act of 2017 on the 2015 Gas Transmission and Storage Rate Case" (PG&E Report). PG&E also provided, as Attachment C to the PFM, the sworn declaration of Mark T. Caron, Vice President of Tax for PG&E Corporation and PG&E.

PG&E's Report and Mr. Caron's declaration state that D.16-06-056 requires modification due to three major tax law changes that have significant impacts on PG&E's estimated tax expense and rate base for 2018: [1]

1. Reduction of the corporate income tax rate from 35% to 21% effective January 1, 2018;[2]
2. Adoption of what PG&E considers to be a "mandatory" methodology to return excess tax reserves to customers (Average Rate Assumption Method (ARAM) Adjustment);[3] and
3. Requirement that public utilities use Modified Accelerated Cost Recovery System (MACRS) depreciation after September 27, 2017.[4]

Based on these changes, PG&E updated its 2018 GT&S attrition year revenue requirement relating to federal tax expense in two ways. First, PG&E re-calculated its federal tax expense and deferred federal tax liabilities to directly incorporate the three changes listed above. Second, PG&E re-calculated its total rate base to reflect the indirect effect of the same changes on rate base. PG&E's approach to these calculations results in a $57.717 million reduction to the 2018 revenue requirement authorized in D.16-06-056. The Report provided in Appendix B of PG&E's PFM presents a series of calculations that itemize the changes that net out to PG&E's proposed reduction, based on their source in the

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[1] PG&E also listed a fourth major change, albeit one that does not affect PG&E's GT&S revenue requirement: the repeal of IRC Section 199 Manufacturing Tax Deduction, which was a permanent tax deduction that the Company could claim on taxable income derived from generating electricity. As PG&E explains in its Report, the GT&S rate case does not include any net income derived from generating electricity, so PG&E did not claim this tax deduction in this rate case, and therefore there is no revenue requirement impact due to this provision.

[2] Section 13001 of Public Law (Pub L.) No. 115-97 amending IRC Section 11.

[3] Section 13001 of Pub L. No. 115-97.

[4] Section 13201(d)(9)(A) of Pub L. No. 115-97 amending IRC Section 168k.

TCJA. PG&E's summary of the results of those calculations is presented in Table 1 below.[5] For ease of presentation, we will use this table as the outline for our review of each of PG&E's proposed changes in the remainder of this decision.

Table 1
PG&E's Proposed Revenue Requirement Changes
Due to The Tax Cuts and Jobs Act of 2017 ($000)

Line No.	Change in Revenue Requirement	Increase/ (Decrease)
1	Decrease due to lower taxes on equity return on rate base [6]	(81,239)
2	Increase due to lower taxes on flow-through tax deductions [7]	18,502
3	Decrease due to amortization of excess deferred taxes (ARAM)[8]	(4,666)
4	Increase due to higher rate base [9]	1,184
5	Increase in revenue requirement due to lower taxes on equity return on rate base effects on shareholder-funded safety investments	8,640
6	Franchise and Uncollectibles and Other Misc. Differences	(138)
7	Total Changes due to the Tax Act	(57,717)

2. Position of the Parties

On April 30, 2018 one party in this proceeding, The Utility Reform Network (TURN), filed a response to PG&E's PFM. TURN disputes PG&E's assertion that the TCJA mandates the use of the Average Rate Assumption Method to return excess tax reserves to customers (*see* line 3 in Table 1 above,

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[5] PG&E Report at 12, Table 8, "Summary of Revenue Requirement Changes in 2018 Due to Tax Act."

[6] PG&E Report at 4, Table 1, "2018 Equity ROR-Related Revenue Requirement Reduction."

[7] PG&E Report at 6, Table 4, "2018 Revenue Requirement Change To Flow-Through Under New Tax Rate."

[8] PG&E Report at 9, Table 6, "2018 Revenue Requirements Related To ARAM."

[9] PG&E Report at 11, Table 7, "2018 Revenue Requirement Related To Changes in 2018 Rate Base."

"Decrease due to amortization of excess deferred taxes (ARAM)"). Apart from this dispute, TURN also contends that PG&E has not provided sufficient information to allow the Commission to render a fully informed decision on PG&E's proposals. TURN recommends that the Commission take the following actions in response to PG&E's PFM:

1. Adopt the revenue requirement changes as set forth in PG&E's petition on an interim basis (as modified based on TURN's other arguments), subject to further reduction after the IRS clarifies the proper use of ARAM to return excess tax reserves to customers.
2. Direct PG&E to obtain an IRS Letter Ruling regarding the proper use of ARAM.
3. Require PG&E to provide additional information that TURN believes is necessary to fully analyze the various categories of PG&E's Accumulated Deferred Income Taxes (ADIT), and provide parties a further opportunity to address whether the proposed treatment of each category is appropriate.

Today's decision is based on consideration of the written pleadings of PG&E and TURN.

3. Discussion

In the sections that follow, we address PG&E's estimated TCJA-related revenue requirement changes, as presented in Table 1 above.

3.1. Decrease in Revenue Requirements Due to Lower Taxes on Equity Return on Rate Base

The first item listed in Table 1 above is a significant reduction of the revenue requirement necessary to fund PG&E's authorized return on common equity. Although offset by other increases, as shown above on Line 1 of Table 1 this reduction accounts for a $81.239 million ratepayer benefit in 2018.

PG&E's Commission-authorized rate of return (ROR) on its rate base is 7.69%, which is the sum of the weighted cost of its authorized return on long-term debt, preferred stock, and common equity. The calculation shown below reflects the method adopted by the Commission in D.12-12-034; since that time, PG&E made Commission-authorized filings that reduced the weighted cost of its authorized return on common equity from the 5.39% used in PG&E's PFM calculations, to the current value of 5.33%.

PG&E's Authorized Cost of Capital and Authorized Return on Rate Base for its Electric and Gas Operations[10]

		Cost Factor	Capital Ratio	Weighted Cost
Line No.		**(a)**	**(b)**	**= (a) x (b)**
1	Long-term Debt	4.89%	47.0%	2.30%
2	Preferred Stock	5.60%	1.0%	.06%
3	Common Equity	10.25%	52.0%	5.33%
4	Authorized Return on Rate Base			7.69%

PG&E explains in its PFM that its return on common equity represents the Company's net earnings and as such is subject to income taxes.[11] This estimated tax expense, in turn, is a standard item included in every rate case-related revenue requirement, to be collected from ratepayers as part of the rates they pay for electricity and natural gas.

Pursuant to standard cost-of-service ratemaking practices, federal and state income tax expenses are incorporated into the rate case-related revenue requirement by means of a factor based on expected income tax rates (the "Income Tax Gross-Up"). PG&E's calculations show that the TCJA's reduction in the federal income tax rate results in a corresponding reduction in the income tax gross-up from roughly 1.78 to roughly 1.42. The use of the lower factor directly

[10] D.12-12-034, Ordering Paragraph 4, updated by PG&E in Advice Letter 3887-G/5148-E.

[11] PFM, Attachment B at 3. PG&E further explains that the debt-related ROR is financed by interest expense, which is tax deductible and therefore does not require a tax recovery or a gross-up. The TCJA did not change the tax deduction for interest expense for public utilities. *Id.* at 4.

reduces the amount by which PG&E's GT&S revenue requirement must be increased to account for taxes.

Table 2 below reproduces PG&E's calculation of the isolated impact of the TCJA on PG&E's ROR in 2018 due to the lower corporate income tax rate (*i.e.*, this calculation intentionally ignores the additional effects on rate base due to the TCJA, which we discuss in a later section of this decision). The $81.239 million decrease in revenue requirement shown in Table 2 results from both the lower income tax gross-up (Line 4) and lower combined tax rates (Line 6).

The methodology used by PG&E in its calculation is undisputed. Based on our own review, we find it to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

Table 2
2018 Equity ROR-Related Revenue Requirement Reduction ($000)

Line No.	Item	New Tax Rate	Old Tax Rate	Difference
1	Total rate base adopted in D.16-05-056	4,241,964	4,241,964	
2	Equity rate of return	5.39%	5.39%	
3	Equity return on rate base	228,642	228,642	
4	Income tax gross-up	1.425313	1.780627	
5	Revenue requirement	325,886	407,126	
6	Combined tax rate	29.84%	43.83%	
7	Revenue requirement attributable to income taxes	97,244	178,484	
8	Revenue requirement reduction resulting from lower tax rate			(81,239)

3.2. Increase in Revenue Requirements Due to Lower Taxes on Flow-Through Tax Deductions

The second item listed in Table 1 above is an increase to PG&E's tax-related revenue requirement due to the effect of the lower tax rate on flow-through tax deductions. As shown in Line 2 of Table 1 the result is a $18.502 million increase in 2018.

PG&E uses the flow-through accounting method to reflect certain tax deductions in its GRC revenue requirement. Under this approach, PG&E simply estimates its expected test year tax return deductions and includes those benefits in its final calculation of the revenue requirement. The tax benefit reflected in the revenue requirement is equal to the forecasted cash savings. When tax rates are reduced, this reduces the forecasted tax benefit and increases the forecasted income tax expense, resulting in a higher revenue requirement. However, the future tax expense when a flowed-through tax benefit is reversed (flowed-back) will also be at the lower tax rate. This will reduce the future revenue requirement, which PG&E considers a long-term future benefit to customers.

PG&E has three types of net flow-through tax adjustments, which must be calculated separately because the applicable income tax rates are different: (1) tax deductions where the federal and state amounts are the same, (2) federal-only tax deductions, and (3) state-only tax deductions. We present Tables 3, 4 and 5 together on the following page to show how PG&E developed the estimated change in its 2018 revenue requirement. First, Table 3 calculates PG&E's revenue requirement under the old tax rate. Second, Table 4 calculates PG&E's revenue requirement under the new tax rate. Lastly, Table 5 compares the old and new revenue requirements, which shows a net $18.502 million reduction in the tax benefit from the amount included in the 2018 revenue requirement authorized in D.16-06-056. PG&E's 2018 GT&S revenue requirement must now be increased by that amount.

The methodology used by PG&E in its calculations is undisputed. Based on our own review, we find this approach to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

Table 3
2018 Revenue Requirements Related To Flow-Through Under Old Tax Rate ($000)

Line No.	Item	Federal and State	Federal Only	State Only	Total
1	Tax deductions	47,358	(10,834)	165,070	
2	Income tax rate	43.83%	35.00%	8.84%	
3	Income tax change	20,762	(3,792)	14,592	
4	Income tax gross-up	1.780627	1.780627	1.780627	
5	Revenue requirement change from flow-through tax deductions	36,969	(6,752)	25,983	56,200

Table 4
2018 Revenue Requirements Related to Flow-Through Under New Tax Rate ($000)

Line No.	Item	Federal and State	Federal Only	State Only	Total
1	Tax deductions	47,358	(10,833)	165,070	
2	Income tax rate	29.84%	21.00%	8.84%	
3	Income tax change	14,132	(2,275)	14,592	
4	Income tax gross-up	1.425313	1.425313	1.425313	
5	Revenue requirement change from flow-through tax deductions	20,142	(3,242)	20,798	37,698

Table 5
2018 Revenue Requirement Change To Flow-Through Under New Tax Rate ($000)

Source	Revenue Requirement	Federal and State	Federal Only	State Only	Total
Table 3, line 5	Revenue requirement reduction from flow-through tax deductions using **old** tax rate	36,969	(6,752)	25,983	56,200
Table 4, line 5	Revenue requirement reduction from flow-through tax deductions using **new** tax rate	20,142	(3,242)	20,798	37,698
Total change in revenue requirement ("old" minus "new")					28,502

3.3. Decreases in Revenue Requirements Due to Amortization of Excess Accumulated Deferred Income Taxes

The third line in Table 1 above shows PG&E's estimates of the decrease in its revenue requirements due to the method PG&E proposes to apply to amortize the excess of deferred taxes that have been created by the lower tax rate. PG&E proposes reductions equal to $4.666 million in 2018 (*see* Line 3 of Table 1). PG&E's calculation of the 2018 value is shown in Table 6 below.

Table 6
2018 Revenue Requirements Related to ARAM ($000)

Line No.	Item	New Tax Rate
1	Federal ARAM adjustment	(3,274)
2	Income tax gross-up	1.425313
3	Revenue requirement impact of ARAM	(4,666)

TURN challenges PG&E's choice of methodology for these calculations, and the proposed reductions that result, contending that "the utility has not provided a complete or appropriate method for identifying and returning Excess ADIT." [12] We turn to that discussion now.

3.3.1. Background

TURN's disagreement with PG&E has to do with the interaction between the utility's depreciation practices and the tax benefits associated with those practices. Like all utilities regulated by this Commission, PG&E accounts for depreciation expenses using one method for ratemaking purposes (straight-line depreciation) and a different method for tax purposes (accelerated depreciation). While straight-line depreciation reduces the value of an asset by the same annual amount over the life of the asset, accelerated depreciation allows a utility to reduce that value by larger amounts early in the life of the asset, and lower

[12] TURN Comments at 2.

amounts in later years. Because depreciation is an expense, using the accelerated method will reduce a utility's net income more in those earlier years than would be the case if straight-line depreciation were used. The lower net income, in turn, reduces the utility's income tax obligation. However, this benefit "reverses" in later years of the life of an asset, when the asset is fully depreciated for tax purposes, leaving no depreciation expenses to offset net income.

Under normal cost-of-service ratemaking principles, regulatory commissions would pass the tax savings that result from accelerated depreciation straight through to ratepayers in the form of a reduced revenue requirement and lower rates. However, Congress adopted accelerated depreciation in order to stimulate investment, and discouraged regulatory commissions from passing along the savings by requiring that utilities using accelerated depreciation for an asset for tax purposes must also comply with "normalization" rules that require that, for ratemaking purposes, the same asset be depreciated over the entire useful life of the asset, via straight-line depreciation.

As a result of the normalization requirement, customer rates collect more taxes than the utility actually pays the IRS in the early years of the underlying asset, but less taxes than are necessary in later years. The utility establishes a "deferred tax reserve account" to record the difference between the straight-line depreciation expense and the accelerated depreciation expense. These funds are labeled Accumulated Deferred Income Taxes (ADIT). The utility then draws down that reserve as the accelerated depreciation benefits for a particular asset reverse.

3.3.2. The Impact of the TCJA on Excess ADIT

The use of normalized accounting is viewed as a means of "protecting" the funds made available by accelerated depreciation, which Congress intended be used for investment, from the reach of regulatory commissions intent on flowing these excess funds back to ratepayers. Instead, the ADIT associated with these "protected" assets must be returned to ratepayers according to an amortization schedule determined by the IRC. This methodology is known as the Average Rate Assumption Method (ARAM). Congress also directed that failure to use the ARAM where it is required is considered a "normalization violation" that the IRS penalizes by withdrawing the option for the utility to take advantage of accelerated depreciation in the future [13]

Turning now to the impact of the TCJA on these accounting practices, TURN succinctly explains in its comments that "with the reduction in federal taxes from 35% to 21%, approximately 40% of federal ADIT on [PG&E's] books at the end of 2017 immediately became excess ADIT (money that PG&E had collected but will not need to pay for future federal taxes)."[14] TURN and PG&E do not disagree that excess ADIT should be returned to ratepayers, but they do disagree over how the excess amount should be calculated, and how quickly that amount should be repaid. These disagreements are based on each party's interpretation of the IRC regarding these questions.

PG&E calculated the value to be returned to ratepayers in 2018 (the $4.666 million shown in Table 6 above, and on line 3 of Table 1 above) based on its assumption that the TCJA now requires all excess ADIT to be returned

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[13] The ARAM requires that excess ADIT be reversed as the book/tax difference reverses, meaning that a normalization violation occurs if the excess ADIT is used to reduce rates more rapidly than the reversal of the book/tax difference turnaround takes place.

[14] TURN Comments at 2, emphasis added.

according to the ARAM.[15] TURN agrees with PG&E that excess ADIT that is subject to ARAM requirements must be amortized on a schedule that avoids a normalization violation, but TURN disagrees with PG&E regarding whether all excess ADIT is really subject to those requirements. TURN contends that the Commission has discretion regarding how it may direct PG&E to return certain categories of excess ADIT to ratepayers. TURN separates excess ADIT into three categories for the Commission's consideration.

3.3.3. The Three Categories of Excess ADIT

The first category of excess ADIT has its source in protected assets, as we described above. TURN acknowledges that most of the excess ADIT that PG&E identifies in its PFM is the result of accelerated depreciation, and is thus a "protected" asset; TURN agrees with PG&E that this category of excess ADIT must be returned to ratepayers using the ARAM. However, TURN also notes that where excess ADIT arose for reasons unrelated to accelerated depreciation, it is considered "unprotected" by the IRC and is therefore not subject to ARAM. Thus, a second category of ADIT may also be plant-related, but is considered "unprotected" by the IRC because it is categorized by provisions of the IRC unrelated to accelerated depreciation. Finally, a third category of excess ADIT derives from assets that are not related to utility plant at all (*e.g.*, vacation pay).[16]

In past GRCs this Commission approved the application of normalization rules to unprotected assets, even though that was not required by the IRC, to ensure that all ratepayers served by the asset over its useful life are treated equally. This is consistent with Pub. Util. Code § 454.8, which provides guidance

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[15] PG&E Report at 2 and 8.

[16] TURN Comments at 2.

to this Commission regarding proper recovery from ratepayers of the costs of new utility construction:

> In any decision establishing rates for an electrical or gas corporation reflecting the reasonable and prudent costs of the new construction of any addition to or extension of the corporation's plant, when the commission has found and determined that the addition or extension is used and useful, the commission shall consider a method for the recovery of these costs which would be constant in real economic terms over the useful life of the facilities, so that ratepayers in a given year will not pay for the benefits received in other years.

That said, although we agree that the benefit of deferred taxes should be normalized so that ratepayers are treated equally over time, we do not agree with deferring the return of excess funds if this is not required by statute or regulation. We prefer that such funds be returned to ratepayers now. Unlike requiring all ratepayers to share equally in the expense of an asset over its useful life, returning excess funds to current ratepayers does not impose a greater burden on future ratepayers. Rather, repayment now returns the excess funds to ratepayers who are the closest in time to the recent ratepayers who contributed those funds to these accounts.

The problem before us with respect to our review of PG&E's estimated reduction of $4.666 million is that PG&E calculated this value based on its assumption that all excess ADIT is protected, and therefore subject to the ARAM. As TURN points out in its comments, PG&E's PFM does not distinguish between protected excess ADIT and unprotected excess ADIT and provides no analysis of where the use of ARAM is required and where it is not. TURN therefore contends that the Commission does not have enough information to make a final decision on how to identify unprotected ADIT, and how to return those amounts to ratepayers quickly.[17] We address TURN's contention at the end of this section of this decision.

3.3.1.1 Excess ADIT Related to Cost of Removal

TURN's comments also highlight a separate issue within the debate over excess ADIT, a matter this Commission recently addressed in its decision on Southern California Edison's General Rate Case (GRC) application (D.19-05-020 in Application (A.) 16-09-001).[18]

This issue is the proper treatment of "cost of removal" in these calculations. Textbooks define depreciation expense as equal to the initial cost of an asset, minus whatever value can be recovered at the end of the asset's useful life after it is fully depreciated (its salvage or "scrap" value). For example, if the cost of the asset is $10,000 and the firm expects its salvage value to be $1,000 then the depreciation expense is $9,000. However, utility assets are typically considered to have negative salvage value because the "cost of removal" (or COR) is expected to exceed any scrap value that may exist. In the example just given, if the cost of the asset is $10,000 but the expected salvage value is $0 and the expected COR is $1,000 then the depreciation expense is $11,000.

PG&E has historically included COR when it calculates its total book depreciation expense, which means that part of the excess ADIT resulting from the TCJA is the COR that ratepayers have been funding over the years. However, PG&E changed its historical practice in its PFM, and excludes COR from book depreciation when it applies the ARAM to calculate the amount of excess ADIT that it recommends be returned to ratepayers. As TURN explains,

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[17] TURN Comments at 5.

[18] D.19-05-020 in A.16-09-001.

> When comparing book depreciation and tax depreciation for purposes of ARAM, the inclusion of the entire amount of depreciation (including both recovery of the original cost of capital investments and the future cost of removal) has a material effect on the outcome. By including only the amount of depreciation associated with recovery of the original cost of capital investments, PG&E's calculations result in a smaller near-term adjustment.[19]

TURN states that it has not estimated the impact of the two possible treatments of COR, but expects that it is a material difference because that was the case for the same issue in Southern California Edison Company's (SCE) test year 2018 General Rate Case proceeding (A.16-09-001).[20]

TURN cites the importance of avoiding normalization violations, and recommends that the Commission approve PG&E's estimated revenue requirement reductions (as modified based on TURN's other arguments), but also order PG&E to (1) request a private letter ruling (PLR) from the IRS as to whether the use of the entirety of book depreciation is appropriate for computing ARAM, or only the portion excluding net salvage; and (2) track the difference between the use of (i) ARAM as set forth in its PFM calculations and (ii) ARAM as defined using the entirety of depreciation, including net salvage.[21]

TURN made its recommendations before we addressed the same issue in our decision on SCE's GRC application. There, we took TURN's recommendations a step further and directed SCE to reduce its revenue requirements immediately in its post-decision rate change, rather than waiting until receiving a PLR from the IRS on the COR question. Our directives were

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[19] TURN Comments at 3-4.

[20] *Id.* at 4.

[21] TURN Comments at 4-5.

supported by the following Conclusions of Law in D.19-05-020, which state in relevant part:

- The benefits of the TCJA should flow to the ratepayers (*see*, Conclusion of Law (COL) 194).
- Ratepayers should begin receiving the benefit of the TCJA now and continuing through the remainder of SCE's 2018-2020 GRC cycle (*see*, COL 195).
- SCE should normalize the benefits of the TCJA including deferred taxes reflected on SCE's regulatory books of account based on the differences between SCE's regulatory tax liability, including Cost of Removal, and its actual tax liability, as calculated on its actual depreciable basis (*see*, COL 189).[22]
- The net excess deferred taxes relating to unprotected assets should be returned to ratepayers. Consistent with the return of other funds due to implementation of the TCJA, these funds should be returned on an amortized basis over the remainder of SCE's 2018-2020 GRC cycle (*see*, COL 190).

We intend to apply the same policies to PG&E's PFM proposals as we did in D.19-05-020. PG&E has consistently normalized the benefits of accelerated depreciation derived from its depreciable basis and it is our intention that PG&E continues to normalize the benefits of the TCJA.[23] Historically, PG&E has included COR in its calculation of ADIT. To change now and exclude COR from the ARAM calculation would increase the tax expense for current customers in excess of the benefit they received from the asset. Therefore, we believe it is

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[22] In D.19-05-020 the Commission notes that this is consistent with IRC Section 168(i)(9)(A)(i) and Treasury Regulation § 1.167(l) 1(h)(1)(iii). *See*, COL 189 in full and discussion at 294-297.

[23] We repeat our reference from D.19-05-020 at 296, footnote 680: Taxpayers have a duty to treat items consistently. *See Unvert v. Commissioner*, 72 T.C. 807, 814 (T.C. 1979) ("'there is a duty of consistency as to [tax] treatment, and one should be held to the consequences of the initial treatment.'")

consistent with the IRC normalization rules for us to require PG&E to continue to include COR in its calculation of excess ADIT when calculating ARAM.

In reaching this determination, we fully intend that PG&E continue to comply with applicable normalization rules. We believe we have reached the correct result, and, as TURN observes on page 4 of its Comments, PG&E has not cited to any written determination, case, regulation, or statute to support its position. Nevertheless, just as we did in D.19-05-020 for SCE, we acknowledge that PG&E may request a PLR from the IRS on this question. In the event that PG&E requests a PLR and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to COR in the ARAM calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of the applicable tax laws by filing a Tier 2 advice letter with this Commission to seek an appropriate adjustment to its revenue requirement and/or rate base. In the meantime, we agree with TURN that PG&E should track the difference that results from (i) the use of ARAM as set forth in PG&E's Attachment B report and (ii) ARAM as defined using the entirety of depreciation including net salvage.

3.3.4. Next Steps Regarding Excess ADIT

We concluded our discussion above regarding the three categories of excess ADIT by echoing TURN's observation that PG&E's PFM does not distinguish between protected excess ADIT and unprotected excess ADIT and provides no analysis of where the use of ARAM is required and where it is not. We face the same problem with respect to PG&E's treatment of COR in its calculations. At the same time, we intend that the benefits of the TCJA be returned quickly to PG&E's ratepayers where it is allowed by the IRC. TURN recommends that the Commission require PG&E to essentially go back to the drawing board and provide a list of all individual components of accumulated deferred tax assets and liabilities, along with extensive additional information for each component. At that point, TURN suggests "[o]nce this information is made available to the parties, the Commission can determine the appropriate method for returning to customers the Tax Act reductions associated with specific assets and accounts."[24] TURN's analysis of the problem facing us is excellent, but we do not believe the solution necessitates that we order PG&E to produce additional data. We did not require this of SCE, and we are also intent on closing out PG&E's PFM now, so that PG&E's customers can begin receiving the benefits of the TCJA to which they are entitled. We discuss our preferred solution below in the "ratemaking implementation" section of this decision.

3.4. Increases in Revenue Requirements Due to Higher Rate Bases

The fourth material item listed in Table 1 above is PG&E's estimate of the increase in its post-TCJA revenue requirement due to higher rate base. As shown on line 4 of Table 1, PG&E estimates its revenue requirement will increase by $1.184 million in 2018. This is due to four direct impacts of the TCJA on PG&E's rate base:

1. lower deferred federal income taxes from applying MACRS instead of bonus depreciation (as PG&E noted in its PFM Report, the TCJA ended the option to use bonus depreciation);
2. new deferred taxes accruing at the lower tax rate;
3. the ARAM amortization of protected and unprotected excess tax reserves; and
4. working cash.

The details of PG&E's estimates are shown in Table 7 below.

[24] TURN Comments at 6.

First, the combined impacts of PG&E's items (1) through (3) are shown on Line 1, "Deferred Income Taxes." Since deferred taxes are an offset credit against rate base, reductions in deferred tax amounts will increase rate base in the three ways listed by PG&E: applying MACRS instead of bonus depreciation for most of the asset additions after September 27, 2017 reduces deferred taxes. In addition, new tax timing differences arising after 2017 are tax-affected at the lower 21% tax rate, which results in lower new deferred taxes. Finally, ARAM amortization of excess tax reserves also acts to increase rate base when the amortized amounts reduce revenue requirements.

Second, the impact of PG&E's item (4) is shown on Line 2 of Table 7, "Working Cash." Although the ARAM amortization of excess tax reserves acts to increase rate base, this also affects the Working Cash calculation within the RO model; Working Cash is adjusted for changes in Income Taxes, Deferred Taxes and Other Expense Items, and these adjustments made to Working Cash to conform with the Tax Act typically result in decreases to rate base. However, in this instance PG&E estimated no impact so the entry on Line 2 of Table 7 is $0.

Table 7
2018 Revenue Requirement Related to 2018 Rate Base Changes ($000)

Line No.	Item	Debt Return on Rate Base	Equity Return on Rate Base	Total
	Deferred income taxes	11,858		
2	Working cash	0		
3	Total rate base changes	11,858	11,858	1,858
4	Rate of Return	2.30%	5.39%	7.69%
5	Return on Rate Base	273	639	912
6	Income tax gross-up	1.0000	1.425313	--
7	Revenue requirement	273	911	1,184
8	Income tax rate		29.84%	
9	Revenue requirement attributable to income taxes		272	272

The methodology used by PG&E in its calculations is undisputed. Based on our own review, we find this approach to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

4. PG&E's Update of Appendix G of D.16-12-010

As PG&E explains in its Report, the TCJA also impacts the values previously adopted by the Commission in D.16-12-010, its decision that allocated the $850 million San Bruno disallowance between the overall GRC categories of current expenses and long-term capital investments. The RO modeling that supported D.16-12-010 included estimates of its effects on PG&E's annual income tax expense, so those must be revised now in order to be consistent with the provisions of the TCJA. The Commission's adopted revenue requirement reduction was shown in Appendix G of D.16-12-010. PG&E's PFM Report includes an updated Appendix G that reflects the applicable effects of the TCJA.[25] Although PG&E does not show all the calculations, we note that line 6 of Table 1 of this decision shows a $8.64 million "increase in revenue requirement due to lower taxes on equity return on rate base effects on shareholder funded safety investments." PG&E calculates a reduction in 2018 taxable income equal to $28.890 million in Appendix 1, Table 4 of its PFM Report, and the difference between subjecting that income to the pre-TCJA "combined tax rate" (68.765%) and the post-TCJA "combined tax rate" (38.857%) is equal to an increase of $8.64 million.

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[25] PG&E Report, Appendix 1, Table 4, "2015 GT&S - PG&E Revenue Requirement Impact of Rate Base Adjustment in 2015 and 2016, Appendix G revised to include the Tax Act." PG&E explains elsewhere in Appendix 1 that it has also revised the tables from D.16-12-010 to include updates reflecting the 2018 Uncollectible factor and the 2018 Cost of Capital as approved by D.17-07-005. These updates are reasonable.

The methodology used by PG&E in its calculations is undisputed. Based on our own review, we find this approach to be reasonable. PG&E should use the same method in any revisions made to this line item in compliance with this decision.

5. Ratemaking Implementation

As we discussed above, consistent with our approach in D.19-05-020 for SCE, we intend that where the TCJA created benefits that can be passed on immediately to its customers, PG&E provide this rate relief as soon as possible. However, in the SCE proceeding we were able to implement our modifications to SCE's proposal immediately, as part of the overall RO modeling as we prepared D.19-05-020, which incorporated all of our determinations regarding SCE's GRC application, including our decisions regarding the TCJA. The situation is somewhat different for PG&E.

Although PG&E's PFM provided precise estimates of the effects of the TCJA on its 2018 GT&S revenue requirement, in this decision we determine that PG&E should revise those estimates in two ways:

i. PG&E should revise its estimated revenue requirement reductions to quantify the amount of unprotected excess ADIT, which can be returned to ratepayers without following ARAM.

ii. PG&E should revise its calculation of the revenue requirement impact of the use of ARAM where it is required (line 3 in Table 1 of this decision) so that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

TURN has demonstrated that PG&E's calculations—though quite detailed—were not prepared in a way that would allow this Commission, or TURN and other parties, to revise PG&E's estimates in the two ways listed above without PG&E's

assistance. Therefore, we will direct PG&E to implement the post-TCJA reductions in the manner described below.

In its PFM, PG&E proposes to work collaboratively with the Commission's Energy Division to determine the appropriate timing for providing the revenue requirement revisions adopted in this decision to its customers, with consideration of possible impacts on customer rates due to other factors. We find this approach appropriate, with some additional guidance regarding the Energy Division's role.

First, PG&E should revise its calculations of the post-TCJA revenue requirement reductions in 2018 according to our instructions listed above. Staff from the Commission's Energy Division should be consulted by PG&E as these revisions are prepared, and PG&E should provide workpapers with its revised calculations for review by parties in this proceeding, as part of the Advice Letter filing described below.

Second, PG&E should work collaboratively with the Energy Division to determine the proper length of time over which the revised reductions should be amortized in rates. We emphasize that we expect these funds to be returned to ratepayers over as short a period of time as possible. The proposal PG&E develops in collaboration with the Energy Division should fully explain how the return of these funds interacts with other upcoming rate changes contemplated by PG&E. As with its revised revenue requirement reductions, this proposal should also be supported by detailed workpapers that will enable other parties in this proceeding to review and comment on PG&E's proposed amortization period.

PG&E should file the revised revenue requirement reductions and the associated amortization proposal in a Tier 2 Advice Letter, as instructed in the Ordering Paragraphs of this decision.

6. Comments on Proposed Decision

The proposed decision (PD) of Administrative Law Judge (ALJ) Allen in this matter was mailed to parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. PG&E filed and served comments on August 5, 2019. TURN filed and served reply comments on August 12, 2019.

PG&E reports in its comments that the IRS issued Notice 2019-33 on May 13, 2019, seeking comments from industry and interested parties with respect to the interpretation and application of normalization for public utilities by July 29, 2019. PG&E contends this indicates that the IRS is unlikely to entertain utility-specific PLRs on these topics, but will instead address the open issues in its upcoming guidance. On this basis, PG&E concludes that the PD should be modified to restore PG&E's version of the funds to be returned to ratepayers because the pending guidance "is likely to supersede and render obsolete some of the Proposed Decision's discussion on disputed items."[26]

TURN notes the flaw in PG&E's argument in its reply comments:

> PG&E has not cited any legal or factual error in the Proposed Decision as written. Rather, it merely notes that the Proposed Decision adopted a treatment of cost of removal that is contrary to the arguments in its petition, and states its confidence that the IRS will ultimately support the utility's position.[27]

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[26] PG&E Comments on the PD at 1.

[27] TURN Reply Comments on PD at 2, citing PG&E Comments at 7.

Furthermore, based on its close reading of IRS Notice 2019-33, TURN suggests "it is not at all clear that, through the process initiated by this notice, the IRS is likely to address the key issue" at dispute here, i.e., whether book depreciation includes or excludes net salvage when calculating ARAM for protected excess ADIT.[28]

Pursuant to Rule 14.3 (c), comments shall focus on factual, legal or technical errors in the proposed decision and in citing such errors shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight. The PD noted the possibility of future IRS clarifications that could affect PG&E's calculations, and adopted a procedure to account for that possibility. PG&E prefers a different approach, but its explanations are unconvincing and demonstrate no factual, legal or technical errors in the PD. The PD has been modified to reference the possibility that the IRS may address these issues via industry-wide guidance rather than through PLRs, but no other changes are necessary.

7. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Peter V. Allen is the assigned ALJ in this proceeding.

Findings of Fact

1. On June 23, 2016 the Commission adopted D.16-06-056, authorizing 2015-2018 revenue requirements on an interim basis for PG&E's GT&S.
2. On December 1, 2016 the Commission adopted D.16-12-010, which finalized the interim revenue requirements adopted in D.16-06-056 and corrected a minor technical error included in D.16-06-056.

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[28] *Id.*, at 3-4

3. The revenue requirements adopted in D.16-06-056 and D.16-12-010 were based upon corporate income tax rates in effect at the time the Commission adopted those decisions.

4. On December 22, 2017, Pub L. 115-97, the TCJA was signed into law, enacting new federal tax laws and making changes to the IRC that substantially impact PG&E beginning in the tax year 2018. These impacts were not incorporated into the 2018 GT&S attrition year revenue requirements adopted in D.16-06-056 and D.16-12-010.

5. Pursuant to its PFM of D.16-06-056 as later modified by D.16-12-010, PG&E calculated the changes resulting from the TCJA, yielding a 2018 GT&S attrition year revenue requirement reduction of $57.717 million.

6. The deferred income taxes reflected on PG&E's regulatory books of account are based on the differences between PG&E's regulatory income tax liability and its actual income tax liability, calculated on its actual depreciable basis and consistent with IRC requirements.

7. ARAM requires that excess income tax reserves be refunded to customers based on a normalization method, so that they are returned over the regulated book life of the underlying plant that generated the original reserves.

8. In its 2015 GT&S application, PG&E included COR in book depreciation when calculating the deferred income tax reserve accrued through December 31, 2017. Conversely, in this PFM PG&E's ARAM amortization calculation does not include new COR accrued for book purposes after December 31, 2017. The difference caused by removing COR when calculating the ARAM is likely to have a material impact on the amount of funds that are returned to PG&E's customers.

9. Certain utility assets are not subject to normalization rules. These assets are typically referred to as "unprotected" assets.

Conclusions of Law

1. The PFM of D.16-06-056 should be granted in accordance with the ordering paragraphs below.

2. The reductions to PG&E's 2018 GT&S revenue requirement due to the TCJA should be passed on immediately to PG&E's customers, to the extent allowed by law.

3. PG&E's proposal to apply ARAM to amortize unprotected excess deferred taxes is not required by law.

4. It is reasonable to require that the net excess deferred taxes relating to unprotected assets be returned to current ratepayers.

5. PG&E should revise its estimated 2018 revenue requirement reductions to quantify the amount of unprotected excess ADIT which can be returned to ratepayers without following ARAM.

6. PG&E should revise its calculation of the revenue requirement impact of the use of ARAM where its use is required so that the COR is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

7. Returning excess deferred income taxes to current ratepayers does not impose a greater burden on future ratepayers. Rather, repayment now returns excess deferred taxes to ratepayers who are the closest in time to the ratepayers who contributed the funds to these accounts.

8. Any changes to PG&E's post-TCJA revenue requirements should be implemented in a manner that will not be found to be a normalization violation by the IRS.

9. In the event that PG&E requests a private letter ruling from the IRS and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to COR in the ARAM calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of the applicable tax laws as described in the Ordering Paragraphs of this decision.

O R D E R

IT IS ORDERED that:

1. The Petition for Modification of Decision 16-06-056, filed by Pacific Gas and Electric Company, is hereby granted in accordance with the ordering paragraphs of this decision.

2. Decision (D.) 16-06-056 (as later modified by D.16-12-010) is modified to add the following new ordering paragraph 74:

> In order to reflect the changes in the Tax Cuts and Jobs Act (TCJA) of 2017, the 2018 attrition amount adopted herein shall be reduced in a manner consistent with the new requirements of the TCJA, as calculated by Pacific Gas and Electric Company and submitted in a Tier 2 Advice Letter that shall take effect after approval by the Commission's Energy Division.

3. Pacific Gas and Electric Company (PG&E) shall ensure that its calculations of the revenue requirement reductions due to the Tax Cuts and Jobs Act (TCJA) of 2017 comply with the following instructions:

   i. PG&E's estimated revenue requirement reductions shall quantify the amount of unprotected excess Accumulated Deferred Income Taxes (ADIT), which can be returned to ratepayers without following the Average Rate Assumption Method (ARAM); and

   ii. PG&E's estimated revenue requirement reductions shall quantify the use of ARAM where it is required such that the Cost of Removal is included in book depreciation when calculating the amount of protected excess ADIT which can be returned to ratepayers.

4. Pacific Gas and Electric Company shall consult with the Commission's Energy Division as part of its compliance with Ordering Paragraph 3 of this decision and shall also work collaboratively with the Energy Division to determine the proper length of time over which the estimated revenue requirement reductions should be amortized in rates.

5. Within 30 days of the effective date of this decision, Pacific Gas and Electric Company shall file the results of its compliance with Ordering Paragraphs 3 and 4 of this decision as a Tier 2 advice letter.

6. If Pacific Gas and Electric Company requests a private letter ruling from the Internal Revenue Service (IRS) concerning application or interpretation of the Tax Cut and Jobs Act, it shall file and serve a copy of its intended request as a Tier 1 Advice Letter at least 30 days before sending the request to the IRS.

7. Any request by Pacific Gas and Electric Company for a private letter ruling concerning application or interpretation of the Tax Cut and Jobs Act shall seek a response to the question, "Is including Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes to ratepayers inconsistent with normalization requirements?"

8. If Pacific Gas and Electric Company (PG&E) requests a private letter ruling from the Internal Revenue Service (IRS) and subsequently receives an IRS ruling (or if the IRS issues specific guidance on this matter in any other form) stating normalization rules do not apply to Cost of Removal/Negative Net Salvage in the Average Rate Assumption Method calculation for the return of excess deferred taxes to ratepayers, PG&E shall comply with the IRS's interpretation of

the applicable tax laws by filing a Tier 2 advice letter with this Commission to seek an appropriate adjustment to its revenue requirement and/or rate base.

9. Application 13-12-012 is closed.

This order is effective today.

Dated August 15, 2019, at San Francisco, California.

MICHAEL PICKER
President
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
Commissioners

PG&E Gas and Electric
Advice Submittal List
General Order 96-B, Section IV

AT&T
Albion Power Company

Alta Power Group, LLC
Anderson & Poole

Atlas ReFuel
BART

Barkovich & Yap, Inc.
California Cotton Ginners & Growers Assn
California Energy Commission

California Hub for Energy Efficiency Financing

California Alternative Energy and Advanced Transportation Financing Authority
California Public Utilities Commission
Calpine

Cameron-Daniel, P.C.
Casner, Steve
Cenergy Power
Center for Biological Diversity

Chevron Pipeline and Power
City of Palo Alto

City of San Jose
Clean Power Research
Coast Economic Consulting
Commercial Energy
Crossborder Energy
Crown Road Energy, LLC
Davis Wright Tremaine LLP
Day Carter Murphy

Dept of General Services
Don Pickett & Associates, Inc.
Douglass & Liddell

East Bay Community Energy Ellison Schneider & Harris LLP Energy Management Service
Engineers and Scientists of California

GenOn Energy, Inc.
Goodin, MacBride, Squeri, Schlotz & Ritchie
Green Power Institute
Hanna & Morton
ICF
IGS Energy
International Power Technology
Intestate Gas Services, Inc.
Kelly Group
Ken Bohn Consulting
Keyes & Fox LLP
Leviton Manufacturing Co., Inc.

Los Angeles County Integrated Waste Management Task Force
MRW & Associates
Manatt Phelps Phillips
Marin Energy Authority
McKenzie & Associates

Modesto Irrigation District
NLine Energy, Inc.
NRG Solar

Office of Ratepayer Advocates
OnGrid Solar
Pacific Gas and Electric Company
Peninsula Clean Energy

Pioneer Community Energy

Redwood Coast Energy Authority
Regulatory & Cogeneration Service, Inc.
SCD Energy Solutions
San Diego Gas & Electric Company

SPURR
San Francisco Water Power and Sewer
Sempra Utilities

Sierra Telephone Company, Inc.
Southern California Edison Company
Southern California Gas Company
Spark Energy
Sun Light & Power
Sunshine Design
Tecogen, Inc.
TerraVerde Renewable Partners
Tiger Natural Gas, Inc.

TransCanada
Utility Cost Management
Utility Power Solutions
Water and Energy Consulting Wellhead Electric Company
Western Manufactured Housing Communities Association (WMA)
Yep Energy