Pacific Gas and Electric Company

Sidney Bob Dietz II
Director
Regulatory Relations

Pacific Gas and Electric Company
300 Lakeside Drive
Oakland, CA 94612

April 23, 2026

Advice 7897-E
(Pacific Gas and Electric Company ID U 39 E)

Public Utilities Commission of the State of California

Subject: **Information Only – Notification of Diablo Canyon Extended Operations Internal Revenue Service Private Letter Ruling Conclusions for Volumetric Performance Fees Taxability Issues in Compliance with Decision 24-12-033, Ordering Paragraph 12**

Purpose

Pacific Gas and Electric Company (PG&E) hereby submits this information-only advice letter to comply with Decision (D.) 24-12-033, Ordering Paragraph 12, issued by the California Public Utilities Commission (CPUC or Commission) in resolving PG&E's Diablo Canyon Power Plant (DCPP) Extended Operations 2025 Forecast Application (A.24-03-018), which requires PG&E to submit a copy of the Internal Revenue Service (IRS) conclusions from PG&E's private ruling requests with the Commission.

Background

On March 29, 2024, PG&E filed its first Diablo Canyon Extended Operations rate case for forecast year 2025.[1] Senate Bill (SB) 846, which enabled the extension of Diablo Canyon, authorized the collection of volumetric performance fees (VPF). The VPFs are required to be spent on extended operations and/or specific public purpose priorities, as outlined in Public Utilities Code Section 712.8(s). The proper tax treatment of the VPF revenues was an issue during the pendency of the 2025 forecast case.

In D.24-12-033, the Commission directed PG&E to file a request for an IRS ruling[2] to gain clarity on the proper tax treatment of these unique revenues. The Commission stated that the "potential ratepayer benefits and savings described by TURN [are] substantial enough to warrant seeking clarification on the tax question to inform future Diablo Canyon forecast proceedings and VPF spending plans."[3] Moreover, Finding of Fact 28 stated that, "[s]ubmitting a request for a Private Letter Ruling provides an opportunity to assess whether VPFs qualify for nontaxable treatment."

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[1] A. 24-03-018.
[2] D.24-12-033, p. 77.
[3] Id.

D. 24-12-033, Ordering Paragraph (OP) 12 states:

> "Pacific Gas and Electric Company must file [] the Internal Revenue Service (IRS) private letter ruling requests and IRS' conclusions via information-only advice letters."[4]

On May 21, 2025, PG&E filed a draft of its IRS private letter ruling request on the VPF taxability issues with the Commission in an information-only advice letter filing in compliance with D. 24-12-033, OP 12.[5]

On March 25, 2026, PG&E received the IRS PLR conclusions, whereby the IRS ruled that (1) the receipt of VPFs constitutes taxable income to PG&E, regardless of whether the amounts are used for capital or for other purposes (e.g. expense) and (2) that VPFs are not excludible from taxable income under Section 118.

The submission of the IRS PLR conclusions on the VPF taxability issues, provided as Attachment 1, is made in compliance with the above-referenced D. 24-12-033, OP 12.[6]

This submittal would not increase any current rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

Protests

This is an information-only advice letter submittal. Pursuant to General Order 96-B Section 6.2, PG&E is not seeking relief through this advice letter, and it is not subject to protest.

Effective Date

PG&E requests that this information-only advice letter become effective upon date of submittal, which is April 23, 2026.

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[4] D. 24-12-033 also refers to a second IRS PLR regarding whether the tax normalization rules apply to the assets used for DCPP extended operations. PG&E submitted a separate advice letter, Advice 7835-E, with respect to the IRS tax normalization conclusions on February 12, 2026.

[5] See PG&E Advice 7603-E (May 21, 2025). PG&E did not receive any comments, and therefore, the draft was submitted as final to the IRS with no changes.

[6] IRS private letter rulings redact identifying taxpayer information before publishing the ruling publicly. PG&E attaches the redacted version of the IRS normalization ruling that will be made publicly available.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically to parties shown on the attached list and the parties on the service list for A. 24-03-018. 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 Bob Dietz II
Director, Regulatory Relations
CPUC Communications

Attachments

Attachment 1 – Internal Revenue Service Private Letter Ruling conclusions on the Volumetric Performance Fees Taxability Issues

cc: Service Lists for A. 24-03-018

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 (ID U39 E)

Utility type:
- [x] ELC
- [ ] GAS
- [ ] WATER
- [ ] PLC
- [ ] HEAT

Contact Person: Kimberly Loo
Phone #: (279)789-6209
E-mail: PGETariffs@pge.com
E-mail Disposition Notice to: Kimberly.Loo@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) #: 7897-E

Tier Designation: Information-Only

Subject of AL: Information Only – Notification of Diablo Canyon Extended Operations Internal Revenue Service Private Letter Ruling Conclusions for Volumetric Performance Fees Taxability Issues in Compliance with Decision 24-12-033, Ordering Paragraph 12

Keywords (choose from CPUC listing): Compliance

AL Type: [ ] Monthly [ ] Quarterly [ ] Annual [x] One-Time [ ] Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:
D.24-12-033

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:

Confidential treatment requested? [ ] Yes [x] 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 [x] No

Requested effective date: 4/23/26

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:

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

California Public Utilities Commission Energy Division Tariff Unit Email: EDTariffUnit@cpuc.ca.gov	Contact Name: Sidney Bob Dietz II, c/o Megan Lawson Title: Director, Regulatory Relations Utility/Entity Name: Pacific Gas and Electric Company Telephone (xxx) xxx-xxxx: Facsimile (xxx) xxx-xxxx: Email: PGETariffs@pge.com
	Contact Name: Title: Utility/Entity Name: Telephone (xxx) xxx-xxxx: Facsimile (xxx) xxx-xxxx: Email:

CPUC
Energy Division Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Clear Form

Attachment 1

Internal Revenue Service Private Letter Ruling conclusions on the Volumetric Performance Fees Taxability Issues

Internal Revenue Service

Index Number: 61.00-00, 118.03-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:ECE:B02
PLR-112713-25

Date:
March 25, 2026

In Re:

Legend

Taxpayer	=
Parent	=
State	=
Commission A	=
Commission B	=
Commission C	=
Plant	=
Date 1	=
Date 2	=
Date 3	=
Date 4	=
Date 5	=
Date 6	=
Date 7	=
Year A	=
Year B	=
Year C	=
Year D	=
$A	=

Dear :

This letter responds to a letter dated Date 1, and supplemented on Date 6 and Date 7, submitted on Taxpayer's behalf by its authorized representatives, requesting a ruling regarding the application of §§ 61 and 118[1] to the relevant facts that are represented in Taxpayer's submission and set forth below:

Background

Taxpayer is a State corporation and a regulated public utility that provides electricity generation, transmission, and distribution services throughout State. It is the primary operating subsidiary of Parent and joins Parent in the filing of a consolidated federal income tax return on a calendar year basis using the accrual method of accounting.

Commission A and Commission B regulate the rates Taxpayer may charge for the services it provides. Generally, both commissions set rates using the cost-of-service, rate-of-return method of ratemaking, which allows a utility to recover the costs of providing services and earn a reasonable return on invested capital (rate base). Commission A regulates Taxpayer's electricity transmission rates, which are reviewed and updated annually to reflect any changes in Taxpayer's costs of service. Commission B regulates the rates for Taxpayer's remaining utility services, determining rates in general rate case proceedings conducted every four years, with other proceedings conducted as necessary to address issues not addressed in those proceedings.

Taxpayer owns and operates Plant, a plant consisting of Unit 1 and Unit 2, which have been in operation since Year A and Year B, respectively. Unit 1 and Unit 2 are licensed by Commission C to operate until Date 2 and Date 3, respectively.

State

provides a

framework

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[1] Unless otherwise specified, all "section" or "§" references are to sections of the Internal Revenue Code (Title 26 U.S.C.) or the Income Tax Regulations (26 C.F.R. part 1).

to establish a cost-recovery and public-purpose funding framework. Among other provisions, created a fee mechanism (Fee) and related balancing and subaccounts administered under the oversight of Commission B through which specified amounts are recovered from Commission B-jurisdictional retail customers. Amounts collected pursuant to Fee are required to be used only for certain energy infrastructure purposes enumerated and, in certain circumstances, expenditures relating to operations of Plant.

Pursuant to its authority under the law of State , Commission B authorizes the amounts to be recovered through Fee, approves the design and implementation of Fee rates and related tariffs used to bill retail customers in Commission B's jurisdiction, and establishes the accounting and reporting requirements applicable to Fee balancing and subaccounts. Commission B also reviews and approves Taxpayer's annual Fee spending plans and oversees Taxpayer's use of Fee proceeds .

Fee rates are established in advance through Commission B's annual rate-setting process based on forecasted demand and forecasted revenue needs. As recorded demand deviates from forecast demand during a year, over- or under-collections may occur. Taxpayer represents that such deviations are addressed in setting rates for the subsequent year through prospective rate adjustments, and that Fee rates are also subject to annual adjustments pursuant to Commission B-approved escalation methodologies and adjustment factors.

Fee is billed to applicable retail customers through Taxpayer's regular customer billing processes pursuant to rate schedules and tariffs approved by Commission B. In Year C, Commission B authorized \$A million of Fees to be recovered through Year D customer rates, and Taxpayer billed customers that amount during Year D. Commission B approved Taxpayer's Year D Fee spending plan in accordance with the enumerated purposes provided in State Law. During Year D, Taxpayer expended a majority of the Fees it collected that year, and all such expenditures were made pursuant to the plan.

For regulatory book purposes, when Fees are collected, Taxpayer characterizes the amounts as deferred revenue recorded in a liability account until Taxpayer incurs costs for authorized projects. When Taxpayer incurs costs for authorized projects, Taxpayer reduces its deferred revenue and recognizes revenue under applicable accounting guidance.

Taxpayer has treated Fee payments from customers as gross income under § 61 when billed to customers using its accrual method of accounting. Taxpayer has treated costs for projects and programs funded with Fee proceeds consistent with federal income tax rules applicable to an accrual-method taxpayer, including the rules governing the timing and characterization of such costs as capital or currently deductible. Taxpayer has not yet taken these positions on a filed U.S. federal income tax return.

Rulings Requested

1. Fee is gross income to the Taxpayer under section 61 without regard to whether Fee proceeds are used by the Taxpayer to acquire capital items or for other purposes.
2. Fee is not excludible from Taxpayer's gross income under section 118 of the Internal Revenue Code.

Law and Analysis

Section 61(a) and (b) of the Code provide that, except as otherwise provided, gross income means all income from whatever source derived, including compensation for services, including fees, and gross income derived from business.

Section 1.61-1(a) of the Income Tax Regulations provides that gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services.

In Commissioner v. Glenshaw Glass Co., 348 U.S. 426,431 (1955), the Supreme Court held that gross income includes "instances of undeniable accessions to wealth, clearly realized, and over which the taxpayers have complete dominion."

In Commissioner v. Indianapolis Power & Light Co., 493 U.S. 203, 210 (1990), the Court said that the key to determining whether a taxpayer enjoys "complete dominion" over a given sum is whether, at the time the payment is made, the taxpayer "has some guarantee that he will be allowed to keep the money." Because the utility's customers controlled the ultimate disposition of the deposit and had not committed to purchasing any electricity at the time the deposit was made, the Court found that the utility had no guarantee that it would be allowed to keep the money and held that the deposit amount was not income. See also *Mutual Telephone Co. v. United States*, 204 F.2d 160 (9th Cir. 1953); *Illinois Power Co. v. Commissioner*, 792 F.2d 683 (7th Cir. 1986).

In Iowa Southern Utilities Co. v. United States, 841 F.2d 1108 (Fed. Cir. 1988), cert. denied, 488 U.S. 952 (1988), the court held that a utility's customer surcharges collected to finance construction were includible in gross income, notwithstanding a commission policy that the amounts would later be "refunded" through future rate decrements over an extended period. These amounts were income to the utility because (1) the court identified no "unequivocal contractual, statutory, or regulatory duty to repay;" (2) the taxpayer had no duty to pay interest on the amounts collected; (3) the taxpayer was using the amounts to fund plant construction (and so was more than a mere custodian); and (4) the taxpayer benefitted from the transaction. Id. at 1112.

Section 118(a) provides a limited exclusion from gross income of a corporation for "any contribution to the capital of the taxpayer." Section 118(b)(1) narrows that exclusion by providing that the term "contribution to the capital of the taxpayer" does not include (i) any "contribution in aid of construction" or (ii) "any other contribution as a customer or potential customer."

In the cases cited above that relate to section 61, courts have held that when a utility receives funds with a clear statutory or regulatory duty to repay the funds, the funds are not includible in the utility's gross income at the time of receipt because it has no dominion and control over the funds at the time of receipt. Conversely, in Iowa Southern Utilities Co., amounts collected through a utility commission-approved surcharge from retail electricity customers to fund construction were includible in income when collected; the stipulation that rates would later be reduced through a 'negative surcharge' did not negate the utility's dominion over the collections.

In this case, the taxpayer has dominion and control over Fee collections when the taxpayer receives them because the taxpayer has entire discretion over whether to spend the funds at all and in what amounts on each of the specifically identified purposes , subject to approval by Commission B. The taxpayer has no obligation to return the funds unless they are not used for the specified costs. Therefore, the Fee is income under section 61.

No portion of the Fee is excludible from gross income as a contribution to capital under section 118(a) because section 118(b)(1) applies.

Accordingly, we rule that:

1. The Fee is gross income to the Taxpayer under section 61 without regard to whether Fee proceeds are used by the Taxpayer to acquire capital items or for other purposes.
2. Fee proceeds are not excludible from Taxpayer's gross income under section 118.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, we have no opinion, either express or implied, regarding the timing of the Fee in gross income under section 451 or whether the taxpayer has adopted a method of accounting with regard to such Fee.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent. In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

Maggie Stehn
Senior Counsel, Branch 2
Office of the Associate Chief Counsel
(Energy, Credits, and Excise Tax)

Enclosure:
Copy for § 6110 purposes

cc:

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
BART

Ava Community Energy

BART
Buchalter
Barkovich & Yap, Inc.
Biering & Brown LLP
Braun Blaising Smith Wynne, P.C.

California Community Choice Association
California Cotton Ginners & Growers Association
California Energy Commission
California Hub for Energy Efficiency
California Alternative Energy and Advanced Transportation Financing Authority
California Public Utilities Commission
Calpine
Cameron-Daniel, P.C.
Casner, Steve
Center for Biological Diversity
Chevron Pipeline and Power

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
Diablo Canyon Independent Safety Committee
Douglass & Liddell
Downey Brand LLP

Ellison Schneider & Harris LLP

Electrical Power Systems, Inc.
Fresno
Engie North America
Engineers and Scientists of California

GenOn Energy, Inc.
Green Power Institute

Hanna & Morton LLP

ICF consulting

iCommLaw

International Power Technology
Intertie

Intestate Gas Services, Inc.

Kaplan Kirsch LLP
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
McClintock IP
McKenzie & Associates
Modesto Irrigation District
NLine Energy Inc.
NOSSAMAN LLP
NRG Energy Inc.

Pacific Gas and Electric Company
Peninsula Clean Energy
Pioneer Community Energy

Public Advocates Office
Redwood Coast Energy Authority

Regulatory & Cogeneration Service, Inc.
Resource Innovations
Rockpoint Gas Storage

San Diego Gas & Electric Company
San Jose Clean Energy
SPURR

Sempra Utilities

Sierra Telephone Company, Inc.
Southern California Edison Company
Southern California Gas Company

Spark Energy

Sun Light & Power
Sunshine Design
Stoel Rives LLP

Tecogen, Inc.
TerraVerde Renewable Partners
Tiger Natural Gas, Inc.

Utility Cost Management

Water and Energy Consulting

Yep Energy