

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



October 26, 2017

Advice Letter 3887-G/5148-E

Erik Jacobson
Director, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Subject: 2018 Cost of Capital, D.17-07-005 Long-Term Debt and Preferred Stock Cost Reset

Dear Mr. Jacobson:

Advice Letter 3887-G/5148-E is effective as of January 1, 2018.

Sincerely,

A handwritten signature in cursive script that reads "Edward Randolph".

Edward Randolph
Director, Energy Division

September 29, 2017

Advice 3887-G/5148-E
(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: 2018 Cost of Capital, Decision 17-07-005 Long-term Debt and Preferred Stock Cost Reset

Purpose

Pacific Gas and Electric Company (PG&E) submits the following changes to its authorized cost of long-term debt and preferred stock in accordance with California Public Utilities Commission (Commission or CPUC) Decision (D.) 17-07-005. The details supporting the changes are presented in Attachment A to this advice letter.

Background

On July 17, 2017, the Commission issued D.17-07-005 granting the Joint Petition for Modification by PG&E, San Diego Gas & Electric Company, Southern California Edison Company, Southern California Gas Company, the Office of Ratepayer Advocates, and The Utility Reform Network. Specifically, the Commission in D.17-07-005:

- Extended the date for each utilities' next cost of capital application filing from April 22, 2017 to April 22, 2019;
- Reduced the authorized return on equity for each utility as specified in the decision (PG&E's 2018 return on equity is set at 10.25%);
- Reset the authorized costs of long-term debt and, if applicable, preferred stock beginning in 2018 for each utility; and
- Required testimony on specified factual questions to be provided in the utilities' next round of cost of capital filings.

As part of the decision, the Commission also ordered the utilities to submit a Tier 2 advice letter by September 29, 2017 to: (1) reset their authorized cost of long-term debt and, if applicable, cost of preferred stock for 2018; and (2) to consolidate the respective revenue requirement changes authorized in D.17-07-005 with revenue

changes from any other relevant applications which will be effective on January 1, 2018.¹

As established in D.17-07-005, the revised long-term embedded cost of debt is to reflect actual August 2017 month-end embedded costs and forecasted interest rates for variable long-term debt and new long-term debt expected to be issued in the remainder of 2017 and all of 2018. The revised embedded cost of preferred stock, if applicable, is to reflect new preferred stock issuances since January 1, 2013 or new preferred stock forecast to be issued in the remainder of 2017 and all of 2018.

PG&E 2018 Cost of Long-term Debt

The cost of long-term debt for 2018 is forecasted to be 4.89%. Please refer to Attachment A for additional details.

As of August 31, 2017, PG&E's actual embedded cost of long-term debt is 5.01%, which is calculated by dividing the sum of annual interest expense and annual amortization expenses by total net proceeds. Amortization expenses include debt discounts, debt issuance costs, and loss on reacquired debt. Net proceeds is equal to the total face value of all outstanding debt, less the unamortized balance of debt discounts, the unamortized balance of debt issuance costs, and the unamortized balance of reacquired debt.

The 2018 forecasted cost of long-term debt takes the August 31, 2017 recorded balance, adds in new debt issuances, subtracts debt maturities for the remainder of 2017 and 2018, and adjusts for amortization expenses. Future interest rates for PG&E's A rated bonds (Moody's rating) are estimated based on forecasted AA public utility bond rates from IHS Global Insights plus historical spreads between AA and A rated bonds. Bond discount and issuance costs are based on PG&E historical issuance information. The forecasting methodology is consistent with what was presented in PG&E's 2013 Cost of Capital application and adopted in D.12-12-034.

PG&E 2018 Cost of Preferred Stock

D.17-07-005 requires a true-up for preferred stock issued after January 1, 2013. PG&E did not issue preferred stock in that time frame, and does not plan to issue preferred stock in the remainder of 2017 nor 2018. PG&E does not plan to redeem any preferred stock in the referenced period. Pursuant to the decision, there is no true-up of PG&E's cost of preferred stock, and it will remain at the current authorized level of 5.60%

¹ D.17-07-005, Appendix A, Section d and h.

PG&E 2018 Revenue Requirement Changes

Table 1 below shows PG&E's proposed authorized return on rate base, with costs and weights for each specific capital structure element.

Table 1. PG&E Proposed Authorized Return on Rate Base, 2018

Type of Capital	Capital Ratio	Cost Rate	Weighted Cost Rate
Common Equity	52.00%	10.25%	5.33%
Preferred Stock	1.00%	5.60%	0.06%
Long-term Debt	47.00%	4.89%	2.30%
Return on Rate Base			7.69%

On August 31, 2017, PG&E filed Advice 5135-E, the Company's preliminary 2018 Annual Electric True-Up (AET) advice letter containing projections of PG&E's January 1, 2018 electric rates and revenues. The AET included an estimate of the electric revenue requirement impact of the cost of capital decision. Similarly, on November 3, 2017, PG&E plans to file the preliminary Annual Gas True-up (AGT) advice letter, providing projections of PG&E's January 1, 2018 gas rates and revenues along with an estimate of the gas revenue requirement impact of the cost of capital decision.

The combined electric and gas revenue requirement impact of the decision is currently estimated to be a reduction of approximately \$120 million. The estimate represents an increased revenue requirement reduction relative to previous estimates, primarily due to decreases in interest rate forecasts, and is subject to change.

In D.17-07-005, Appendix A, Section h, the Commission directs the utilities to each consolidate their respective revenue requirement changes being authorized in this decision with revenue changes from any other relevant applications to become effective January 1, 2018. To comply with the cited directive, PG&E will confirm the estimated revenue requirement impacts noted above by submitting actual changes associated with D.17-07-005 as part of the final Tier 1 advice letter filings for the AET and AGT in December 2017.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, facsimile or E-mail, no later than October 19, 2017, which is 20 days after the date of this filing. 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:

Erik Jacobson
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 2 advice filing become effective in accordance with D.17-07-005 on January 1, 2018.

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 service list for A.12-04-018. 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 filings can also be accessed electronically at: <http://www.pge.com/tariffs/>.

/S/

Erik Jacobson
Director, Regulatory Relations

Attachment A – 2017 and 2018 Average Embedded Cost of Debt

cc: Service List A.12-04-018

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING 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:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Kingsley Cheng

Phone #: (415) 973-5265

E-mail: k2c0@pge.com and PGETariffs@pge.com

EXPLANATION OF UTILITY TYPE

(Date Filed/ Received Stamp by CPUC)

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

Advice Letter (AL) #: **3887-G/5148-E**

Tier: 2

Subject of AL: **2018 Cost of Capital, Decision 17-07-005 Long-term Debt and Preferred Stock Cost Reset**

Keywords (choose from CPUC listing): Compliance

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.17-07-005

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: _____

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: No

Confidential information will be made available to those who have executed a nondisclosure agreement: N/A

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: _____

Resolution Required? Yes No

Requested effective date: **January 1, 2018**

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: N/A

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

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

California Public Utilities Commission

Energy Division

EDTariffUnit

505 Van Ness Ave., 4th Flr.

San Francisco, CA 94102

E-mail: EDTariffUnit@cpuc.ca.gov

Pacific Gas and Electric Company

Attn: Erik Jacobson

Director, Regulatory Relations

c/o Megan Lawson

77 Beale Street, Mail Code B13U

P.O. Box 770000

San Francisco, CA 94177

E-mail: PGETariffs@pge.com

Advice 3887-G/5148-E
September 29, 2017

Attachment A

2017 and 2018 Average Embedded Cost of Debt

**ATTACHMENT A - ADVICE 3887-G/5148-E
PACIFIC GAS AND ELECTRIC COMPANY
2017 AND 2018 AVERAGE EMBEDDED COST OF DEBT
(\$ in thousands)**

Line No.	Description	Outstanding (a)	Net Premium (Discount) or (Expense) (b)	Net Proceeds (c)	Annual Charges (d)	Embedded Cost (e = d / c)	Average Embedded Cost (f)
1	August 31, 2017	\$17,132,100	(\$248,761)	\$16,883,339	\$845,107	5.01%	
2017							
2	New Issuances 2017	650,000	(6,279)	643,721	30,992	4.81%	
3	Maturing Bonds	(700,000)	162	(699,838)	(39,867)		
4	Amortization and adjustments		14,081	14,081	(1,870)		
5	December 31, 2017 (Forecast)	\$17,082,100	(\$240,797)	\$16,841,303	\$834,363	4.95%	
2018							
6	New Issuances 2018	2,650,000	(25,600)	2,624,400	131,779	5.02%	
7	Maturing Bonds	(845,000)	793	(844,207)	(67,681)		
8	Amortization and adjustments		17,145	17,145	2,813		
9	December 31, 2018 (Forecast)	\$18,887,100	(\$248,459)	\$18,638,641	\$901,274	4.84%	
10	Average						4.89%

Prepared for regulatory purposes

Forecasted bond issuance rates based on IHS Global Insights forecast data, 8/24/2017

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

AT&T	Don Pickett & Associates, Inc.	Office of Ratepayer Advocates
Albion Power Company	Douglass & Liddell	OnGrid Solar
Alcantar & Kahl LLP	Downey & Brand	Pacific Gas and Electric Company
Anderson & Poole	Ellison Schneider & Harris LLP	Praxair
Atlas ReFuel	Energy Management Service	Regulatory & Cogeneration Service, Inc.
BART	Evaluation + Strategy for Social Innovation	SCD Energy Solutions
Barkovich & Yap, Inc.	G. A. Krause & Assoc.	SCE
Braun Blaising Smith Wynne P.C.	GenOn Energy, Inc.	SDG&E and SoCalGas
CalCom Solar	Goodin, MacBride, Squeri, Schlotz & Ritchie	SPURR
California Cotton Ginners & Growers Assn	Green Charge Networks	San Francisco Water Power and Sewer
California Energy Commission	Green Power Institute	Seattle City Light
California Public Utilities Commission	Hanna & Morton	Sempra Utilities
California State Association of Counties	ICF	Southern California Edison Company
Calpine	International Power Technology	Southern California Gas Company
Casner, Steve	Intestate Gas Services, Inc.	Spark Energy
Cenergy Power	Kelly Group	Sun Light & Power
Center for Biological Diversity	Ken Bohn Consulting	Sunshine Design
City of Palo Alto	Leviton Manufacturing Co., Inc.	Tecogen, Inc.
City of San Jose	Linde	TerraVerde Renewable Partners
Clean Power Research	Los Angeles County Integrated Waste Management Task Force	Tiger Natural Gas, Inc.
Coast Economic Consulting	Los Angeles Dept of Water & Power	TransCanada
Commercial Energy	MRW & Associates	Troutman Sanders LLP
Cool Earth Solar, Inc.	Manatt Phelps Phillips	Utility Cost Management
County of Tehama - Department of Public Works	Marin Energy Authority	Utility Power Solutions
Crossborder Energy	McKenna Long & Aldridge LLP	Utility Specialists
Crown Road Energy, LLC	McKenzie & Associates	Verizon
Davis Wright Tremaine LLP	Modesto Irrigation District	Water and Energy Consulting
Day Carter Murphy	Morgan Stanley	Wellhead Electric Company
Defense Energy Support Center	NLine Energy, Inc.	Western Manufactured Housing Communities Association (WMA)
Dept of General Services	NRG Solar	Yep Energy
Division of Ratepayer Advocates	Nexant, Inc.	