Application: 15-09-001
(U 39 M)
Exhibit No.: (PG&E-19)
Date: February 22, 2016
Witness(es): Neil Jones
Elizabeth Min
John Lowe
Javid Khan

PACIFIC GAS AND ELECTRIC COMPANY

2017 GENERAL RATE CASE

UPDATE TESTIMONY

EXHIBIT (PG&E-19)

PACIFIC GAS AND ELECTRIC COMPANY

UPDATE TESTIMONY

PACIFIC GAS AND ELECTRIC COMPANY
UPDATE TESTIMONY

TABLE OF CONTENTS

PACIFIC GAS AND ELECTRIC COMPANY
UPDATE TESTIMONY

A. Introduction (Niel Jones)

This exhibit presents Pacific Gas and Electric Company's (PG&E or the Company) update testimony in its 2017 General Rate Case (GRC). This update decreases PG&E's forecasted revenue requirement.

The Commission has directed PG&E to file this supplemental testimony to provide certain updates on: (i) the tax forecast, (ii) labor escalation and (iii) the methodology for allocating shareholder remedy costs between gas transmission and distribution.[1] In addition to these three areas, this testimony also summarizes the effect on the revenue requirement of the errata identified in Exhibit (PG&E-18), which is being submitted concurrently with this update testimony.

This testimony is organized as follows:

- Section B – Tax Forecast Updates
- Section C – Labor Escalation Assumption Updates
- Section D – Enterprise Records and Information Management (ERIM) Forecast Reductions
- Section E – Errata Corrections

With the changes summarized in this update testimony, PG&E's forecasted revenue requirement increase is reduced by approximately $124 million in 2017.

TABLE 1
REVENUE REQUIREMENT EFFECT OF UPDATES
(MILLIONS OF DOLLARS)

Line No.	Area	2017
1	Tax Updates	$(123.0)
2	Labor Escalation	4.2
3	ERIM	(2.2)
4	Errata	(2.7)
5	Total	$(123.8)

[1] Assigned Commissioner's Ruling and Scoping Memo for Application (A.) 15-09-001, Appendix A (December 1, 2015).

Taking into account this reduction, PG&E's updated 2017 forecasted revenue requirement increase is $333 million. The attrition years 2018 and 2019 are reduced consistent with the $124 million reduction in the test year revenue requirement. Additionally, the incremental impact of 40 percent bonus depreciation in 2018 and 30 percent bonus depreciation in 2019, offset by the impact of slightly higher labor escalation rates, reduces attrition revenue increases in 2018 and 2019 by $20 million and $22 million, respectively. In comparison to the application, forecasted revenue requirements are now $144 million and $166 million lower in 2018 and 2019, respectively.

TABLE 2
REVISED REVENUE REQUIREMENT FORECAST
(MILLIONS OF DOLLARS)

Line No.	Forecast	2017	2018	2019
1	Original Increase (9/1/15)	$457	$489	$390
2	Update Increase (2/22/16)	$333	$469	$368
3	Update Total	$8,249	$8,718	$9,087

B. Tax Forecast Updates (Elizabeth Min)

The two types of tax items being updated in this testimony include: (1) Federal Tax Law Changes and (2) Federal Tax Audit Results. First, this testimony addresses the nature of these updates. Next, this testimony summarizes the effect of these updates on PG&E's forecast.

1. Nature of Changes

a. Federal Tax Law Changes

On December 18, 2015, President Obama signed into law the "Protecting Americans from Tax Hikes Act of 2015" (PATH Act).[2] The PATH Act is the source of the two federal tax law changes included in the update testimony: (i) extension of bonus depreciation from 2015 through 2019 and (ii) the permanent extension of the research tax credit.

2 Protecting Americans from Tax Hikes Act of 2015, Pub. L. No. 114-113 (codified as amended in scattered sections of 26 U.S.C.).

1) Bonus Depreciation

The PATH Act generally extended the existing 50 percent bonus depreciation to qualifying property placed in service in 2015, 2016 and 2017.[3] The PATH Act also provided for 40 percent and 30 percent bonus depreciation for qualifying assets placed in service in 2018 and 2019, respectively.[4] The incremental 2017 GRC revenue requirement reduction associated with the bonus deprecation extension is forecast to be $78.0 million in 2017.

2) Federal Research Tax Credit

The PATH Act also permanently extended the research tax credit.[5] PG&E will incur additional consulting expense necessary to claim such credits, which will partially offset the benefits of the tax credit. In order to implement the tax credit, PG&E forecasts costs of approximately $450,000 for 2017.[6]

The 2017 GRC revenue requirement reduction associated with the federal research tax credit is forecast to be $7.2 million in 2017. After taking into consideration the offsetting consulting costs, the net revenue requirement reduction associated with the federal research tax credit is $6.8 million in 2017.

b. Federal Tax Audit Results

PG&E is also updating its tax forecast as a result of PG&E's 2011 federal tax audit, which was completed in late 2015.[7] In December 2015, the Internal Revenue Service (IRS) and PG&E agreed to the results of the *electric transmission and distribution* repairs tax audit. (PG&E remains under IRS examination for its repairs tax

---

[3] I.R.C. Sec. 168(k), as amended by PATH Act Sec. 143.

[4] Id.

[5] I.R.C. Sec. 45(h), as amended by PATH Act Sec. 121.

[6] The consulting costs associated with the federal research tax credit will be recorded to Federal Energy Regulatory Commission Account 923 for the Tax Department, as presented in Exhibit (PG&E-9), Chapter 2. The forecast of $450,000 (total company amount, the GRC portion is $381,000) for 2017 is expected to increase with standard escalation in 2018 and 2019.

[7] PG&E described the expected timing of the results of this audit in Exhibit (PG&E-10), Chapter 12, page 12-6, lines 11 through 20.

deduction for subsequent tax years and any remaining tax uncertainty is being reflected based on the standards of Accounting Standards Codification 740-10.)

With the completion of the 2011 audit, PG&E is able to reduce the uncertainty regarding the scope of the repairs deduction and to thus increase the size of the repair deduction forecast for 2017. PG&E forecasts the incremental 2017 GRC revenue requirement reduction associated the tax repair deduction to be $38.2 million in 2017.

2. Effect of Updates

The direct impacts of these tax adjustments have been described above and are summarized in the table below

TABLE 3
DIRECT REVENUE REQUIREMENT EFFECT OF TAX CHANGES
(MILLIONS OF DOLLARS)

Line No.	Development	2017
1	Bonus Depreciation	$(78.0)
2	Research Tax Credit	(6.8)
3	2011 Tax Audit	(38.2)
4	Total Tax Updates	$(123.0)

In addition to the direct impacts of the Federal tax adjustments that have been described above, these adjustments have a number of ancillary effects that flow through the results of operations model, including impacts to other tax attributes (e.g., the manufacturers tax deduction), working cash, and deferred taxes (rate base). These effects also result in revenue requirement reductions in 2017-2019. All of these effects, both direct and indirect, are incorporated in the overall impact on the revenue requirements described in the introduction.

C. Labor Escalation Updates (John Lowe)

PG&E's initial labor escalation forecast was based on the agreements in effect at the time A.15-09-001 was filed.[8] Those agreements included General Wage Increases (GWI) through 2015 with a forecast that labor escalation for

[8] Exhibit (PG&E-8), Chapter 3, pages 3-19 to 3-22.

represented employees would remain constant. At the time the 2017 GRC application was filed, PG&E was in the process of negotiating agreements with the International Brotherhood of Electrical Workers (IBEW) and Engineers and Scientists of California (ESC). At that time, PG&E expected that it would have ratified labor agreements covering 2016-2019 in time to include with this update testimony. Regrettably, PG&E does not yet have new ratified agreements with the IBEW or the ESC.

The testimony below provides an update on the status of negotiations. PG&E also presents an updated labor escalation rate forecast to reflect current information. The updated labor escalation forecast shown below reflects current negotiations with the unions and the increasingly competitive job market in California, particularly the greater San Francisco Bay Area where most of PG&E's employees work.

1. Status of Negotiations

In July 2015, PG&E and IBEW Local 1245 reached a tentative (or "table") agreement, although the agreement was not ratified by the IBEW membership. PG&E and the IBEW have continued to meet and work toward a new agreement; however, as of this date, no new agreement has been reached.

PG&E and the ESC Local 20 reached a tentative agreement in January 2016 that is pending ratification by the ESC members and approval by the PG&E Corporation Compensation Committee and the Employee Benefits committee.

The current Service Employees International Union (SEIU) agreement expires July 31, 2016, with negotiations scheduled to begin later in the year.

2. Updated Labor Escalation Rates

The January 2016 tentative agreement with the ESC and the July 2015 tentative agreement with the IBEW both included the wage escalation rates for 2016-2019 shown in Table 4 below. While not yet ratified, these labor escalation rates more appropriately reflect the market conditions than those included in the original application. PG&E expects that—when ratified—the IBEW and ESC labor agreements for the 2017-2019 period will include a GWI at least equal to the amounts shown below.

TABLE 4
2014-2019 WAGE INCREASES

Line No.	Employee Category	2014	2015	2016	2017	2018	2019
1	IBEW Represented Clerical	2.75%	2.75%	3.00%	3.25%	3.50%	3.25%
2	IBEW Represented Physical	2.75%	2.75%	3.00%	3.25%	3.50%	3.25%
3	ESC Represented	2.75%	2.75%	3.00%	3.25%	3.50%	3.25%
4	SEIU Represented	2.75%	2.75%	3.00%	3.25%	3.50%	3.25%
5	Non-Represented Employees[(a)]	3.00%	3.00%	3.14%	3.14%	3.14%	3.14%
6	Average Labor Escalation – All Employees	2.79%	2.79%	3.06%	3.20%	3.34%	3.20%
7	Average Labor Escalation – Operating Units	2.79%	2.79%	3.06%	3.21%	3.36%	3.21%
8	Average Labor Escalation – Administrative and General	2.97%	2.97%	3.14%	3.14%	3.14%	3.14%

(a) The labor escalation rate forecast for non-represented employees remains the same as included in PG&E's original application. The labor escalation rates for 2014 and 2015 are also the same for all employees as included in PG&E's original application. PG&E has included all labor escalation rates in Table 4 for completeness.

The 2017 GRC revenue requirement increase associated with the updated labor escalation rates is forecast to be $4.2 million in 2017.

D. ERIM Updates (Javid Khan)

PG&E filed supplemental testimony on October 27, 2015, to provide an analysis of the impact of gas transmission remedies on the GRC forecast.[9] As explained in that testimony, PG&E proposed to rely on the California Public Utilities Commission's (CPUC or Commission) decision in the 2015 Gas Transmission and Storage (GT&S) rate case to determine how to allocate remedy-related costs to gas distribution. PG&E also proposed to use this update testimony to effect that allocation. Because a final decision has not yet issued for the GT&S rate case, PG&E is not yet in a position to revise the allocation to distribution of these remedy-related costs. Once this issue is resolved in the GT&S rate case, PG&E will make any necessary updates to its 2017 GRC forecast.

Nonetheless, as explained in the October 2015 testimony, PG&E's ERIM team has identified a number of efficiencies regarding how the ERIM program is to be implemented.[10] These planned efficiencies are unrelated to the pending

[9] Exhibit (PG&E-14).

[10] Exhibit (PG&E-14), Chapter 3, pages 3-2 to 3-3.

allocation issue before the Commission in the GT&S rate case. Thus, PG&E is able to effect now reductions to the forecast associated with the planned efficiencies. The overall revenue requirement reduction described in the introduction thus includes the effect of a total Company forecast reduction associated with these efficiency gains of $2.9 million in expense and $26 thousand in capital expenditures for 2017.[11] After allocation to GRC and removal of burdens the net revenue requirement reduction is $2.2 million.

E. Errata (Niel Jones)

PG&E has identified errors in the GRC testimony and workpapers that have been summarized and set forth in Exhibit (PG&E-18). The estimated 2017 revenue requirement reduction associated with correcting these errors is approximately $3 million.

---

11 Exhibit (PG&E-14), Chapter 3, Table 3-1, Line 18, and Table 3-2, Line 14.