PACIFIC GAS AND ELECTRIC COMPANY
Manzana Wind Project
Application 09-12-002
Data Response

PG&E Data Request No.:	TURN_001-22		
PG&E File Name:	ManzanaWindProject_DR_TURN_001-Q22		
Request Date:	January 22, 2010	Requester DR No.:	001
Date Sent:	February 9, 2010	Requesting Party:	TURN
PG&E Witness:	Joseph F. O'Flanagan	Requester:	Matthew Freedman

QUESTION 22

Provide the following information regarding the following statement on Page 7-4, lines 27-29.

PG&E evaluated both the ITC and the PTC and concluded that the application of the ITC would result in the greatest benefits and lowest cost to customers. However, it is possible, based upon the best information available at the time the Project is placed in service that this conclusion may change.

a. Describe the PTC and ITC and explain how they provide benefits to PG&E customers in the case of the Manzana Project.

b. Provide the evaluations PG&E performed regarding whether the ITC or PTC would yield greater customer benefits. Provide such evaluations in electronic Excel-compatible format with data and formula intact and functioning.

c. Based on the above evaluations, identify what circumstances might cause PG&E's conclusion to change. Describe generally which specific circumstances, or combinations thereof, tend to make the PTC a better option for customers and which make the ITC a better option for customers.

ANSWER 22.

a. The federal renewable energy Production Tax Credit (PTC) provides an income tax credit of 2.1 cents per kilowatt-hour on the sale of electricity produced from qualified energy resources such as wind during the first 10 years of operations. The PTC was created under the Energy Policy Act of 1992, and has been renewed and expanded several times. In February 2009, the American Recovery and Reinvestment Act (ARRA) legislation extended the wind energy PTC for three years through December 31, 2012. The current PTC credit of 2.1 cents per kilowatt hour was approved for calendar year 2008, per IRS Notice 2008-48, dated May 22, 2008, and held constant for 2009, per IRS Notice 2009-40, dated May 8, 2009. For calendar year 2010, the 2.1 cents per kWh credit is subject to the inflation adjustment factors and reference prices in Sections 45(b)(2), 45(e)(2)(B) and 45(a) of the Internal Revenue Code (IRC). IRC Section 45(e)(2)(B) defines the inflation adjustment factor for a calendar year as the fraction the numerator of which is the GDP implicit price deflator for the preceding calendar year and the denominator of which is the GDP implicit price deflator for the calendar year 1992.

For ratemaking purposes, the PTC is treated as a credit to income tax expense. The PTC would provide benefits to customers during the first ten years of the Manzana Wind Project's life, subject to potential IRS phase out rules, through a lower income tax component in the revenue requirement.

A 30% Investment Tax Credit (ITC) for wind facilities placed in service before 2013 was also established by ARRA legislation in February 2009. The ITC is claimed in the year the property is placed in service. It is generally based on the qualifying costs of constructing the facility. While certain costs do not qualify for the credit (such as land), the great majority of a wind facility costs should qualify. The federal tax basis of the facility must be reduced by one-half of the ITC related to that facility.

For ratemaking purposes, PG&E is required to normalize ITC under the "f(1)" method, which was approved by the Commission in Decision 93848. This method is described in IRC Section 50(d)(2) and IRC Section 46(f)(1) as in effect in 1971. Under this method, rate base is reduced by the amount of the unamortized Investment Tax Credit. The credit is then amortized ratably over the life of the asset to PG&E's non-regulated earnings.

The ITC would provide benefits to customers over the thirty-year life of the facility through lower debt, equity and income tax components of the Manzana Wind Project revenue requirement.

b. See attached excel file ("ManzanaWindProject_DR_TURN_001-Q22-CONF-Attachment1.xls") for the revenue requirement computations under an ITC or PTC election. Based on the best information available at the time of the filing, PG&E's analysis concluded that the application of the ITC would result in the greatest benefits and lowest cost to customers.

c. PG&E will redo the analysis at the time it must make an election of either PTC or ITC on its tax return, after the project is placed in service. Generally, projects with higher initial capital costs will generate more tax benefits and value to customers under the ITC, and projects with higher output will generate more benefits using the PTC. PG&E will assess the benefits to customers of both the ITC and PTC at the time an election is required using the best information available at that time to select the method that results in the greatest expected value for customers.