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Sent: Monday, March 19, 2012 4:09 PM
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Subject: SVTC A.10-11-002: Hypothetical Examples of Cash and Tax Impacts

Sara, Matthew,

Attached are the hypothetical examples that illustrate the cash and tax impacts on a transaction basis.

Thanks,
Meredith



Example.pdf (78
KB)

Hypothetical Example Demonstrating Cash and Tax Impacts of PG&E Investment in SVTC

(\$10 initial investment in SVTC and ultimate sale at \$20)

	Transaction	PG&E Cash Impact of Transaction Increase/(Decrease)	PG&E Cumulative Cash Balance After Transaction
1	PG&E collects \$10 plus tax gross up (@1.7 factor) from customers.	17	17
2	PG&E pays \$7 in taxes to government based on \$17 of taxable receipts.	-7	10
3	PG&E invests \$10 in SVTC. The investment may not be deducted for income tax purposes, but rather creates tax basis in the investment.	-10	0
4	PG&E sells SVTC investment for \$20 (taxable gain is only \$10 due to tax basis in the investment).	20	20
5	PG&E pays \$4.1 in taxes to government based on taxable gain of \$10.	-4.1	15.9
6	PG&E returns \$20 sales price to customers.	-20	-4.1
7	PG&E's tax benefit from the return of the sales proceeds is \$8.2.	8.2	4.1
8	PG&E returns the \$7 tax gross up to customers.	-7	-2.9
9	PG&E's tax benefit from the returns of the tax gross-up is \$2.9.	2.9	0

Hypothetical Example Demonstrating Cash and Tax Impacts of PG&E Investment in SVTC

(\$10 initial investment in SVTC and ultimate sale at \$6)

	Transaction	PG&E Cash Impact of Transaction Increase/(Decrease)	PG&E Cumulative Cash Balance After Transaction
1	PG&E collects \$10 plus tax gross up (@1.7 factor) from customers.	17	17
2	PG&E pays \$7 in taxes to government based on \$17 of taxable receipts.	-7	10
3	PG&E invests \$10 in SVTC. The investment may not be deducted for income tax purposes, but rather creates tax basis in the investment.	-10	0
4	PG&E sells SVTC investment for \$6 (tax loss is \$4 due to tax basis in the investment).	6	6
5	PG&E's tax benefit from the \$4 loss is \$1.7.	1.7	7.7
6	PG&E returns \$6 sales price to customers.	-6	1.7
7	PG&E's tax benefit from the return of the sales proceeds is \$2.4.	2.4	4.1
8	PG&E returns the \$7 tax gross up to customers.	-7	-2.9
9	PG&E's tax benefit from the return of the tax gross-up is \$2.9.	2.9	0