From: Smith, Bruce T
Sent: 5/2/2014 1:51:48 PM
To: 'Myers, Richard A. ' (richard.myers@cpuc.ca.gov); 'Cheng, Franz' (franz.cheng@cpuc.ca.gov)
Cc: Doll, Laura (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=LRDD); Gas Ops Support (/O=PG&E/OU=Corporate/cn=Recipients/cn=SBResponderGroup); 'bprusnek@semprautilities.com' (bprusnek@semprautilities.com)
Bcc:
Subject: PG&E's response to questions regarding main and service extension ratemaking

Richard et al:

At Laura Doll's request, I am sending you PG&E's response to your questions of April 21 regarding the accounting and ratemaking for main and service extensions. Laura forwarded your additional question regarding our experience with exceptional cases. I expect we'll be able to provide a response next week.

If you have any questions on this material, please call Laura at 415-973-8663 or me at 415-973-2616.

Bruce Smith

1) Please provide an overall explanation of the ratemaking and accounting treatment related to the costs of gas main and service line extensions, and the Contributions and Advances made by applicants for those facilities. In your explanation, please include answers to at least the following questions.

> Response: PG&E's accounting and ratemaking for contributions and advances for line extensions are consistent with the requirements of CPUC Decision (D.) 87-09-026. Note that contributions and advances are taxable income to utilities. Under the provisions of D.87-09-026, the developer/applicant pays the present worth of the initial tax payment and the subsequent tax savings resulting from tax depreciation. Since the tax payment is greater than the amount the developer/applicant pays, there is a deferred tax asset that increases rate base in each instance. The responses below address the various elements of the accounting and ratemaking for contributions and advances.

2) When facilities become operational, what amounts are recorded in rate base as plant costs – the utility's estimated costs, the actual costs, actual costs less advances/contributions from applicants, etc?

> Response: When facilities become operational, the recorded cost to install the facilities less any non-refundable advances and contributions in aid of

construction (CIAC) are recorded in plant and are included in rate base. If the applicant chooses to provide a refundable advance as opposed to a non-refundable advance or contribution, plant costs are not reduced by the refundable advance. However, rate base is reduced by the refundable advance which is recorded as a liability (credit balance) in FERC account 252, *Customer Advances for Construction*.

3) Under the refundable option for gas main extensions, please explain how the advances/contributions from applicants are recorded and treated for ratemaking. Are the advances/cost of contributions simply recorded and held in some account for future refunds? Are advances considered miscellaneous revenues? Do advances and contributions serve to reduce the amount of cost that is booked to rate base?

Response: Under the refundable option for gas main line extensions, refundable advances are recorded as a liability (credit balance) in FERC account 252, *Customer Advances for Construction.* The advances are held in this account until they are either: (a) refunded to the applicant; or (b) transferred to plant, reducing the book cost of installed plant (this only occurs if the applicant does not meet the criteria for receiving a complete refund during the 10-year contract period). Rate base is reduced by the balance of refundable advances which are recorded as credits in FERC account 252. Although considered to be taxable income, none of the payments from developers/applicants, whether a refundable advance, a non-refundable advance or a contribution, is recorded as miscellaneous revenues for accounting or ratemaking purposes.

4) How are the non-refundable advances recorded and treated? Are they considered miscellaneous revenues? Do they reduce the cost of the line extension that is booked to rate base?

Response: Non-refundable advances are not considered as miscellaneous or other operating revenue. Non-refundable advances are treated the same as contributions and recorded as credits to the line extension construction projects and result in reductions to plant costs and rate base and ongoing depreciation expense.

5) How are "contributions" recorded and treated for ratemaking? Is there any difference between how contributions and advances are treated?

Response: Although the refundable advances, non-refundable advances and contributions are recorded in different FERC accounts, all are applied as reductions to rate base: non-refundable advances and contributions reduce the recorded cost of plant and ongoing depreciation expense while the balance of refundable advances is deducted from rate base.

6) When refunds are made, from what type of account are the refunds made? When refunds are made, does this in effect increase the rate base that is recoverable from ratepayers?

Response: Refunds of refundable advances are recorded as debits to FERC account 252, reducing the credit balance in the account. The refunding of refundable advances results in an increase to rate base.

7) If there are differences in the ratemaking or accounting for the "refundable option" vs the "nonrefundable option" please explain the difference.

Response: For accounting purposes, refundable advances are recorded in FERC account 252, while non-refundable advances are treated the same as contributions and are credited to plant. For ratemaking purposes, both result in reductions to rate base. Since non-refundable advances reduce recorded plant, ongoing depreciation expense is reduced. The balance of refundable advances reduces rate base but does not have any effect on depreciation expense.

8) If, under the refundable option, all of the advance has not been refunded to an applicant after the 10-year period, what becomes of that remaining amount? Or, does anything need to be accounted for at that point?

Response: If the applicant does not meet the criteria for receiving a complete refund by the end of the 10-year contract period, the balance of the refundable advance is transferred from account 252 to plant and remains a reduction to rate base.

9) Do the utilities include a forecast of the net costs of main and service line extensions in their General Rate Cases? Do utilities include a forecast of allowances and advances/contributions?

Response: For purposes of the GRC plant forecasts, PG&E used a "net" unit cost that includes all contributions to forecast the plant additions for line extensions. In addition, PG&E includes a rate base deduction of the forecast balance of refundable advances and also forecasts the transfer of refundable advances to contributions at the end of the 10-year contract period.

10) If after a 3-year period, full refunds have not been made, I see that under PG&E Gas Rule 15 and SoCalGas Rule 20, applicants must pay "cost-of-ownership" amounts. How are the cost-of-ownership charges calculated? How are those payments recorded and treated for ratemaking purposes?

Response: Cost-of-ownership rates are stated in Rule 2 and are based on adopted functional expense and capital related revenue requirement – adjusted for the present worth of tax benefits – divided by the adopted functional total plant balance. Cost-of-ownership charges for any specific transaction are computed by multiplying the cost-of-ownership rate times the plant balance at issue. Revenue from cost-of-ownership charges are included as Other Operating Revenue and reduce the revenue requirement used to compute rates.