

**PG&E HEARING EXHIBIT PGE-77**

**A.20-04-023**

**PG&E'S SECURITIZATION 2020**

The Utility Reform Network's Response to  
PG&E Data Request 4, Question 1

**PACIFIC GAS AND ELECTRIC COMPANY  
Application 20-04-023  
(Securitization)**

**TURN Response to PG&E Data Requests Set 4**

PG&E Data Request No.:	PGE_TURN004
PG&E File Name:	Securitization2020_DR_PGE_TURN004
Date Requested:	November 16, 2020
Date of Response	November 23, 2020, Revised (Q11) November 25

**Q 1: With respect to Table 3 of the revised Ellis Testimony dated November 10, 2020, and associated workpaper(s), describe, and provide an excel file with the calculation of, the methodology used to calculate the “Customer Credit shortfall tax gross-up” as used in the revised Ellis Testimony at page 21, line 2 on any “Shortfall” as defined in the revised Ellis Testimony at page 20, n. 25.**

To calculate the tax gross-up, Mr. Ellis applied the array formula found in the Callan model, “2020Securitization\_DR\_Misc\_Chapter 6\_PGE SEC ModelCONF,” tab Output, cell c6, labeled “103 - Nominal Surplus/Deficit with GU”:

{=Liability!P135+SUM(Liability!O16:O135)+SUM(Liability!O16:O135\*(Liability!K16:K135/Liability!J16:J135)\*Trust!S21/(1-Trust!T21))}.

The cells in this formula correspond to the following:

Liability!P135: Ending liquidation basis (final Trust value before deducting ratepayer supplement)  
 Liability!O16:O135: Ratepayer supplement  
 Liability!K16:K135: Debt principal  
 Liability!J16:J135: Debt service  
 Trust!S21: Tax rate (28%)  
 Trust!S21/(1-Trust!T21): Grossed-up tax rate (39%)

This formula performs the following calculation:

Trust ending balance +  $\sum \text{ratepayer supplement}_t + \sum (\text{ratepayer supplement}_t \times \text{debt principal}_t / \text{debt service}_t \times \text{Trust tax rate} / (1 - \text{Trust tax rate}))$

Mr. Ellis added several columns and cells to his model, “MEllis workpapers 111020,” tab Liab, to perform this calculation and add a time-value-of-money charge in each time period:

Cell X5: Tax rate (39%)  
 Cell X6: Grossed-up tax rate (39%)  
 Cell X7: Time-value-of-money charge (TVM) on ratepayer supplement + tax gross-up balance

Column V: Ratepayer supplement (RPS)  
 Column W: Tax gross-up (GU) = RPS x debt principal (column L) / debt service (column K) x grossed-up tax rate  
 Column X: RPS + GU  
 Column Z: Cumulative value of RPS + GU + TVM = previous cumulative value x (1 + TVM) + current period (RPS + GU)

At this point, the only difference between Callan’s and Mr. Ellis’s approaches is the latter’s addition of the TVM charge.

Mr. Ellis's Trust valuation methodology calculates the *net present value* of the Trust to customers by discounting each cash flow stream of the Trust at its corresponding risk-adjusted discount rate. The Additional Shareholder Contributions are discounted at PG&E's cost of equity, as described in his testimony. The Trust's investments in market securities have zero net present value because they are discounted at their expected return. By definition, the NPV of any cash flow stream discounted at its expected return is zero.

But customers do not receive the full value of the returns on the Trust's investments under PG&E's proposal. Instead, customers would be required to give a share of that value to PG&E shareholders through both the Surplus Sharing mechanism and the ratepayer supplement (RPS) tax gross-up. If customers just held the investments in the Trust, there would be no tax gross-up for Customer Credit (CC) shortfalls.

The present value of ratepayer supplements is already accounted for in the valuation of the Trust's assets: the present value of the Shareholder Contributions + NPV(Trust investments). Only the present value of the tax gross-up needs to be calculated. To do so, an additional column (Y) was added to the spreadsheet to calculate the cumulative, TVM-adjusted ratepayer supplement *without* the tax gross-up. The cumulative value of the tax gross-up is the difference between the cumulative, TVM-adjusted values of the RPS + GU (cell Z14) and RPS (cell Y14) and is contained in cell Z13.

The future expected value of the CC shortfall tax gross-up is \$0.207 billion. Mr. Ellis chose PG&E's cost of equity as the discount rate because, in his judgment, shortfalls were more likely to arise from the delay in Additional Shareholder Contributions, and therefore PG&E's cost of equity is the more appropriate discount rate. It would also be reasonable to use the expected after-tax investment return on the Trust's investments, ~5.0%, which would increase the present value of this cost to customers from ~\$0.01 billion to ~\$0.05 billion.