PACIFIC GAS AND ELECTRIC COMPANY
Wildfire Mitigation Plans Discovery 2023
Data Response

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DRU Index #:		Requester:	Holly Wehrman

The following questions relate to your 2023-2025 WMP submission.

QUESTION 005

a) If PG&E retires from service an asset that has not been fully depreciated, does it remove the remaining undepreciated value of the asset from its rate base?

b) How does PG&E determine the remaining undepreciated value of an asset at the time the asset is retired from service?

c) Please describe any scenario in which PG&E would retire from service an asset that has not been fully depreciated, but would keep the remaining undepreciated value of the asset in its rate base.

ANSWER 005

a) The premise of this question is incorrect. PG&E follows group depreciation and retirement accounting, as established by the CPUC, FERC, and the National Association of Regulatory Utility Commissioners (NARUC). Group depreciation accounting refers to the well-established regulatory accounting method for large groups of homogenous assets. The premise of group depreciation accounting principles (which may be referred to as “mass asset accounting” or “group depreciation”) is that assets retired are deemed fully depreciated at the time of their retirement, and hence their value in rate base going forward is zero. As such, there is no undepreciated value of WMP assets retired. PG&E follows group depreciation practices, which are based on the average service life of elements of plant and equipment. The average age takes into account the ages of assets whenever they retire (are removed from service) and computes the average. The average itself is a recognition that some retirements occur before the average service life and others after.

   PG&E complies with the requirements of the FERC Code of Federal Regulations (CFR) Uniform System of Accounts when retiring assets. Title18, Part 101 of the CFR states in its Electric Plant Instruction, section 10(B)(2), that when depreciable plant is retired, the book cost of the unit retired is credited to the plant account and debited to the accumulated provision for depreciation. Thus there is no change in rate base when plant is retired.

The Commission's Standard Practice U-4, Determination of Straight-Line Remaining Life Depreciation Accruals (SP U-4), dated January 3, 1961, provides the same accounting treatment for retirements. (SP U-4, p. 5, Ch.1, § 4.)

Authorized depreciation expense is calculated with the understanding that unrecovered depreciation expense due to earlier retirements is made up by depreciation expense on other units which outlive the average service life of an account. As later explained in the Commission's SP U-4:

> In group accounting all units having like mortality characteristics or all units of an account are considered together. Accruals for the group are based on composite or weighted average values of salvage and service life expectancy. The resulting values are applied to the surviving plant balances each year or each accounting period. A deficiency due to early retirement of a particular unit is made up through greater accruals on a unit which outlives the average. (SP U-4, p. 10, Ch. 3, § 6(b).)

As described by NARUC in their Public Utility Depreciation Practices, dated August 1996:

> The group plan of depreciation accounting is particularly adaptable to utility property. Rather than depreciating each item by itself (unit depreciation) or depreciating one single group containing all utility plant, a group contains homogenous units of plant which are alike in character, used in the same manner throughout the utility's service territory, and operated under the same general conditions. (NARUC, p. 19.)
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> Of course, there will be different lives for individual units within groups…Some poles will be retired [due to] storms or automobile accidents. Some will decay, [and] some will be displaced due to road relocations and some will be retired because of underground replacements. However, they are combined in the same group because they are homogenous units. (NARUC, p. 19.)

NARUC explains that upon retirement of an asset from the group, the cost of the asset is debited to the accumulated depreciation account and credited to the asset account. Under group depreciation, since the accumulated depreciation relates to the entire group rather than to specific assets within the group, no gain on loss is recognized. (NARUC, p. 49.)

b) Please see the response to Question 005, Subpart (a). When an asset is retired from service, it is deemed fully depreciated.

c) Please see the response to Question 005, Subpart (a). When an asset is retired from service, it is deemed fully depreciated.