Summary of Gas Accord V Settlement

September 13, 2010

Pacific Gas and Electric Company

Settlement Is Reasonable

- Reasonable in light of the record
  - Built on the foundation of previous Gas Accords
  - Every aspect of the case was thoroughly reviewed and vetted by the Settling Parties
  - Approximately 25 Settling Parties engaged in discovery and negotiation over nine months

- Consistent with the law

- In the public interest
  - Reasonable compromise and disposition of issues
  - Avoiding litigation brings rate certainty earlier
  - Four year term will contribute to a stable business environment

Background

- Application filed September, 2009
- Initial protests and responses were filed and settlement negotiations begun October, 2009
  - Broad spectrum of parties (core, wholesale and industrial gas customers, electric generators, producers, marketers, storage providers and Core Transport Agents)
  - 13 all party meetings over 11 months
  - Over 1000 data requests made and answered
- Settlement is the result of complex negotiations with difficult compromises made to achieve a balanced outcome

Key Features of Gas Accord V

- Expected uncontested settlement except for Sempra
- 4-year term (2011-14)

- New revenue requirements, throughputs, and rates

- Rates
  – Backbone rates relatively flat
  – LT rates up

- Several new cost tracking mechanisms

- Sharing mechanism for revenue over-/under-collections

Revenue Requirement

- **Drivers of Increase**
  - Backbone flat; local transmission and storage increases
  - Capital expenditures – particularly local transmission and storage
  - O&M expense – particularly local transmission

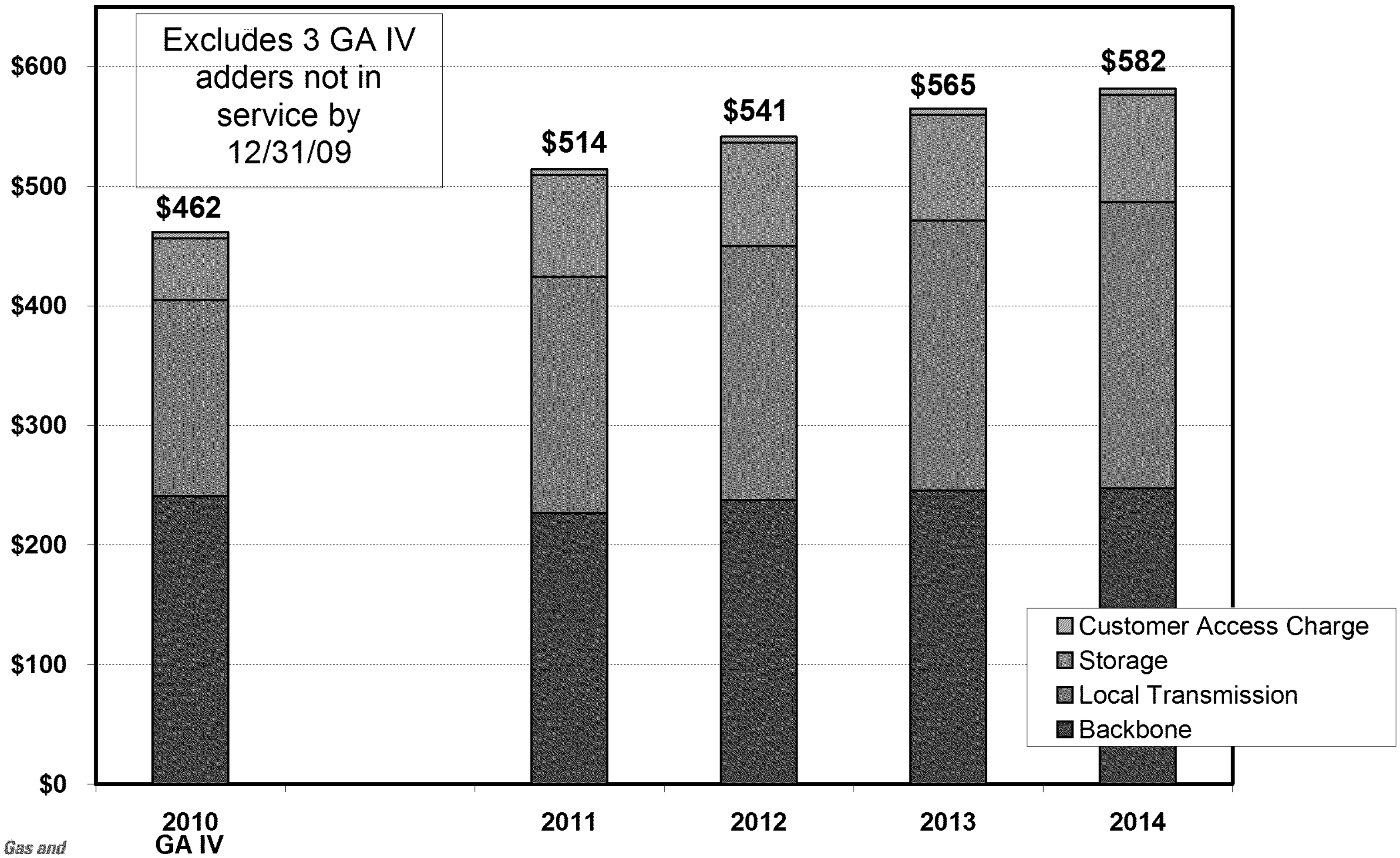
- **Cost Trackers**
  - Electricity cost balancing account *(new)*
  - Integrity management expense balancing account *(new)*
  - Costs determined in other cases: A&G, pension, cost of capital
  - Z-Factor Mechanism

Revenue Requirement: Filed vs. Settlement

- The Settlement Revenue Requirement, as compared to PG&E's filed revenue requirement, is summarized in the table below.
- The Settlement achieves significant revenue requirement concessions—an average of $23.8 million per year—that will benefit ratepayers during the next four years.

	2011	2012	2013	2014
PG&E Application				
Total	**1,978**	**2,011**	**2,007**	**2,026**
Gas Accord V				
Total	**1,996**	**2,085**	**2,106**	**2,115**
Increase	**18**	**74**	**99**	**89**

Revenue Requirement ($ million)



Backbone Rates

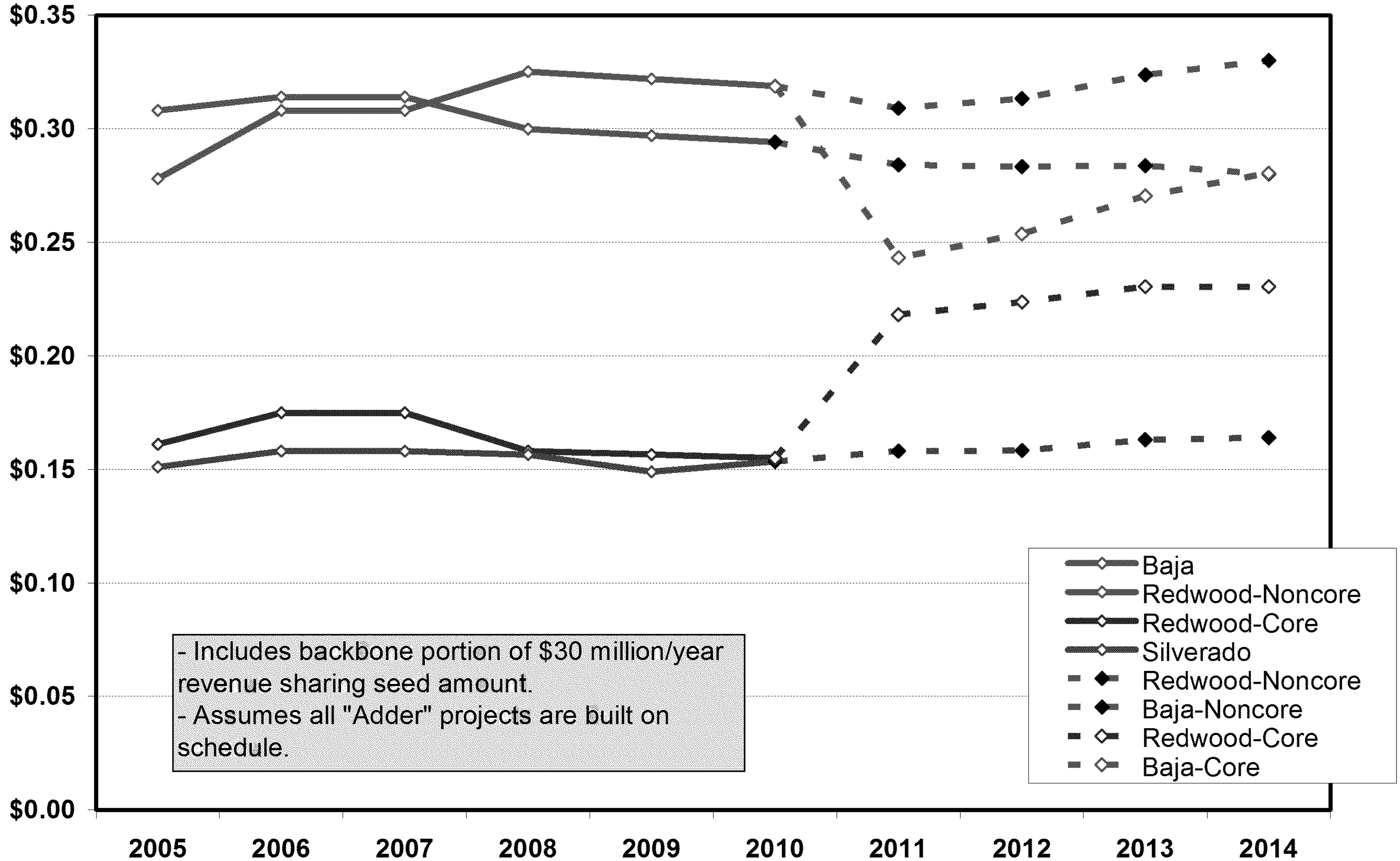
- Change from 4 to 5 primary rates:

OLD	NEW
Core Redwood	Core Redwood
Noncore Redwood	Noncore Redwood
Baja	*Core Baja*
	Noncore Baja
Silverado	Silverado

- 4 backbone "Adder" projects
  - Delevan K-3 or Gerber K-1 SCR (~$8 Mil capital) , Topock K-Units Phase 1, Topock K-Units Phase 2, Topock P-Units (3 Topock projects capped at total of $100 Mil capital)

- Negotiated Baja-Redwood rate differentials:
  - $0.025, $0.030, $0.040, $0.050/Dth in 2011, 12, 13 and 14 (if Topock built on schedule)
  - Apply to Core and Noncore

Backbone Rates ($/Dth, G-AFT)



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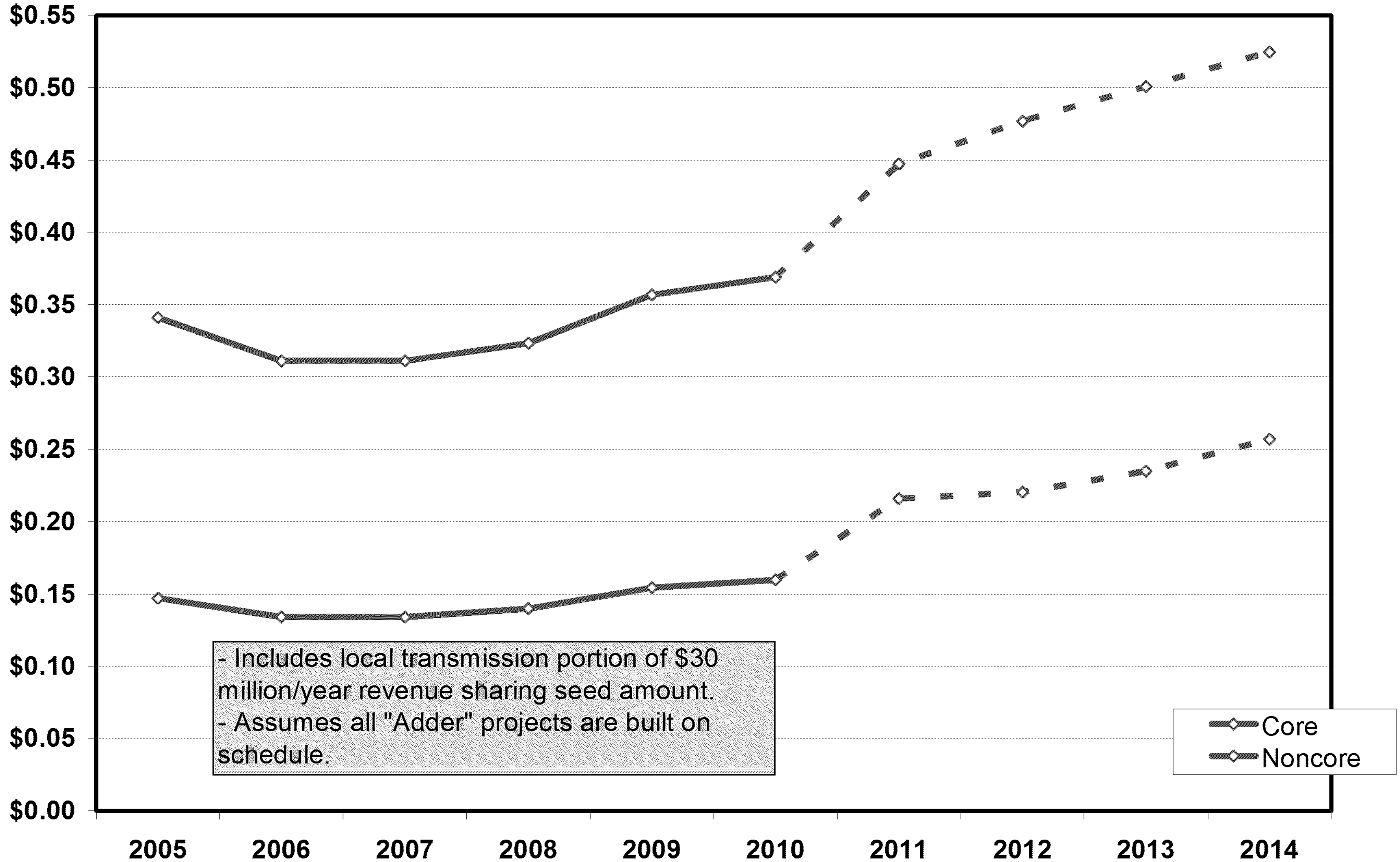
Local Transmission Rates

- Same cost allocation and rate design methodology

- 4 local transmission "Adder" projects ($166 million capital)
  - Line 304 DG Power Stockton Extension, Line 406, Line 407 Phase 1, Line 407, Phase 2

- Bill credits to 5 customers
  - Redacted and 4 Nor Cal Gen Coalition members
  - $2.8 million/year
  - Funded primarily by other customers, partially by PG&E shareholders

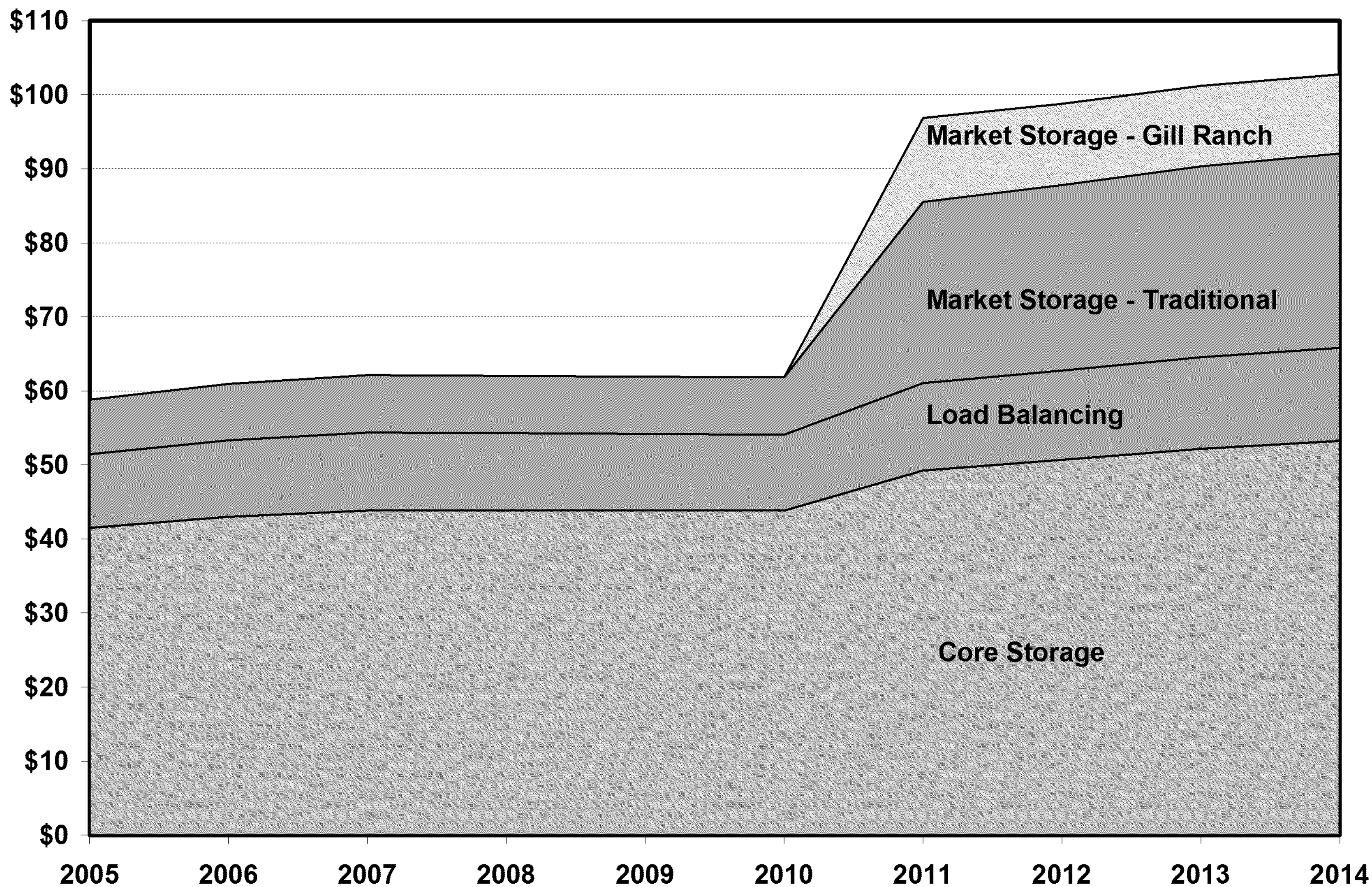
Local Transmission Rates ($/Dth)



Storage Cost Allocation

- Same cost allocation methodology
  - Updated for new storage costs and capacities (last update was GA III)
  - Gill Ranch included
- Increase in costs
  - Core storage, 12%
  - Load balancing, 12%
  - Market storage (including Gill Ranch), 359%

Storage Cost Allocation ($ million)



REVENUE SHARING MECHANISM

- PG&E proposed to establish for the first time a formal GT&S revenue sharing mechanism. The general features of PG&E's proposal were:
  - (1) establish revenue requirements and rates that fully recover the GT&S cost of service;
  - (2) identify the actual annual GT&S revenue over- or under-collection relative to the authorized GT&S revenue requirement; and
  - (3) return to or recover from customers 50 percent of this over- or under-collection in the next calendar year by means of a credit or surcharge to backbone rates.
- Impetus: Market Storage revenues have typically exceeded allocated costs, and gas transmission rates have typically been set at levels that did not allow PG&E to recover its full cost of service
- The Settling Parties raised a range of issues including competitive concerns, the percentage of sharing, where under- or over- collections should be allocated, etc.

REVENUE SHARING MECHANISM

- Backbone over- and under-collections are shared 50 percent with customers.
- Local transmission over- and under-collections are shared 75 percent with customers.
- Storage *over*-collections are shared 75 percent with customers, while storage *under*-collections are absorbed entirely by PG&E
- The mechanism provides for a “seed value” of $30.0 million per year that is credited to the GT&S revenue requirement and rates immediately.
  - This seed value can be viewed as a negotiated forecast of the shared revenues that customers will receive.
  - A true-up mechanism is provided to correct any mismatch between the forecast and recorded revenues

CORE TRANSPORT AGENT ISSUES

- CTA transmission and storage capacity elections
- Consumer protection rules to be developed
- System enhancements to improve the tools (such as forecasting, balancing, billing and payment reconciliation reports) currently provided to CTAs

Gas Accord V Conclusions

- Provides for a continuation for 4 yrs of a predictable market structure supported by PG&E and its customers.

- Rates:
  - Backbone rates relatively flat
  - LT rates up
  - Market Storage cost allocation up

- Major change: introduction of revenue sharing providing potential benefits for shippers.

- Somewhat less rate certainty due to importing results of other proceedings (e.g., cost of capital) as well as more adders addressing uncertain projects.