Summary of Gas Accord V Settlement

October xx, 2010

Pacific Gas and Electric Company

Settlement Is Reasonable

- Reasonable in light of the record
  - Built on the foundation of previous Gas Accords
  - 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 for all parties

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 processed and answered
- Settlement is the result of complex negotiations with difficult compromises made to achieve a balanced outcome

Key Features of Gas Accord V

- Uncontested settlement except for Sempra
- 4-year term (2011-14)
- New revenue requirements, throughputs, and rates
- Rates
  - Backbone rates relatively flat
  - Local Transmission rates up
- Some new cost tracking mechanisms
- Sharing mechanism for revenue over-/under-collections

Revenue Requirement

- **Drivers of Rate 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.

(1) No, Parties did not settle for revenues higher than those filed by PG&E.
(2) Good idea to show a table for Core. Pls coordinate with Pearlie Sabino.

	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**

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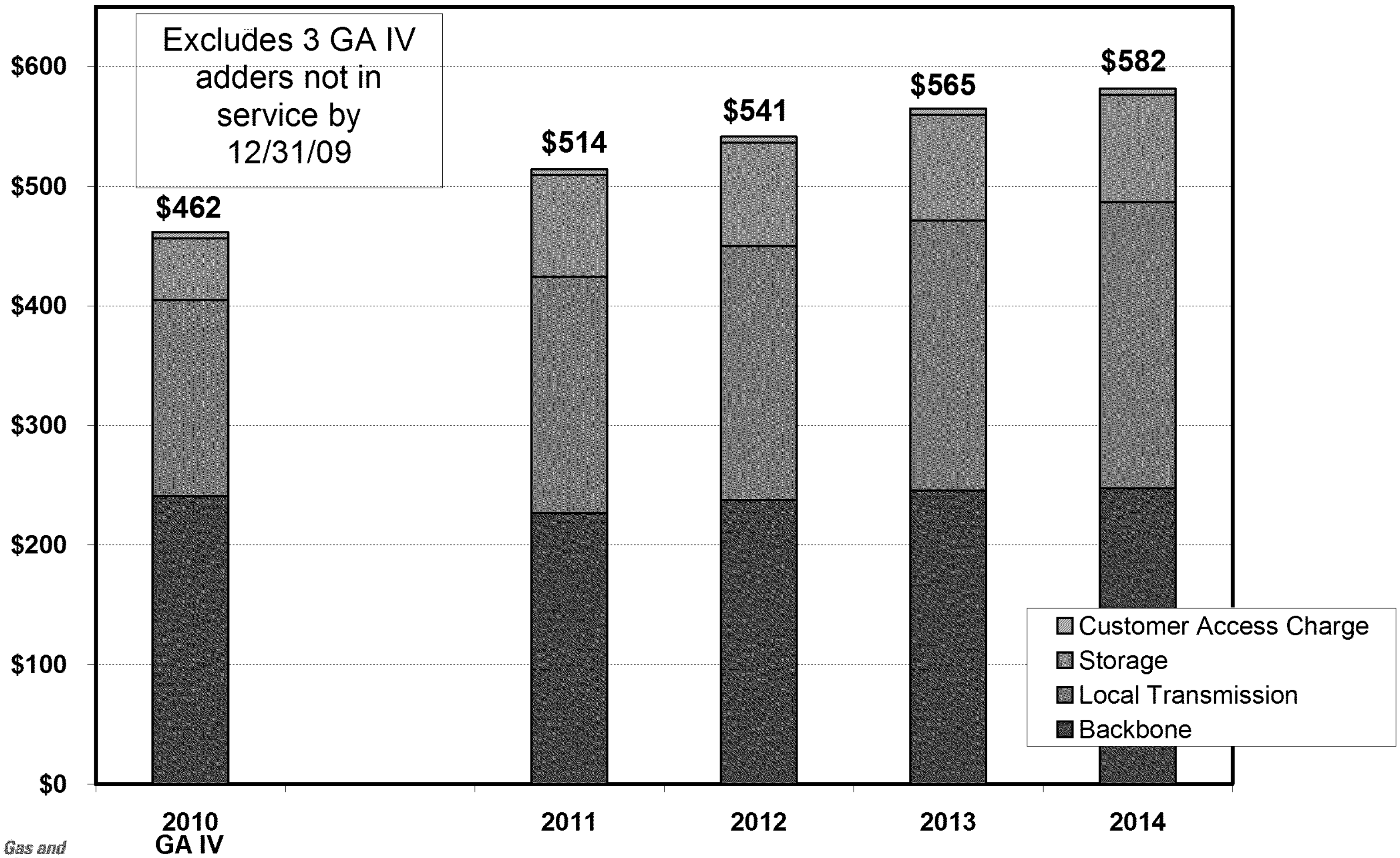
Revenue Requirement ($ million)



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Backbone Rates

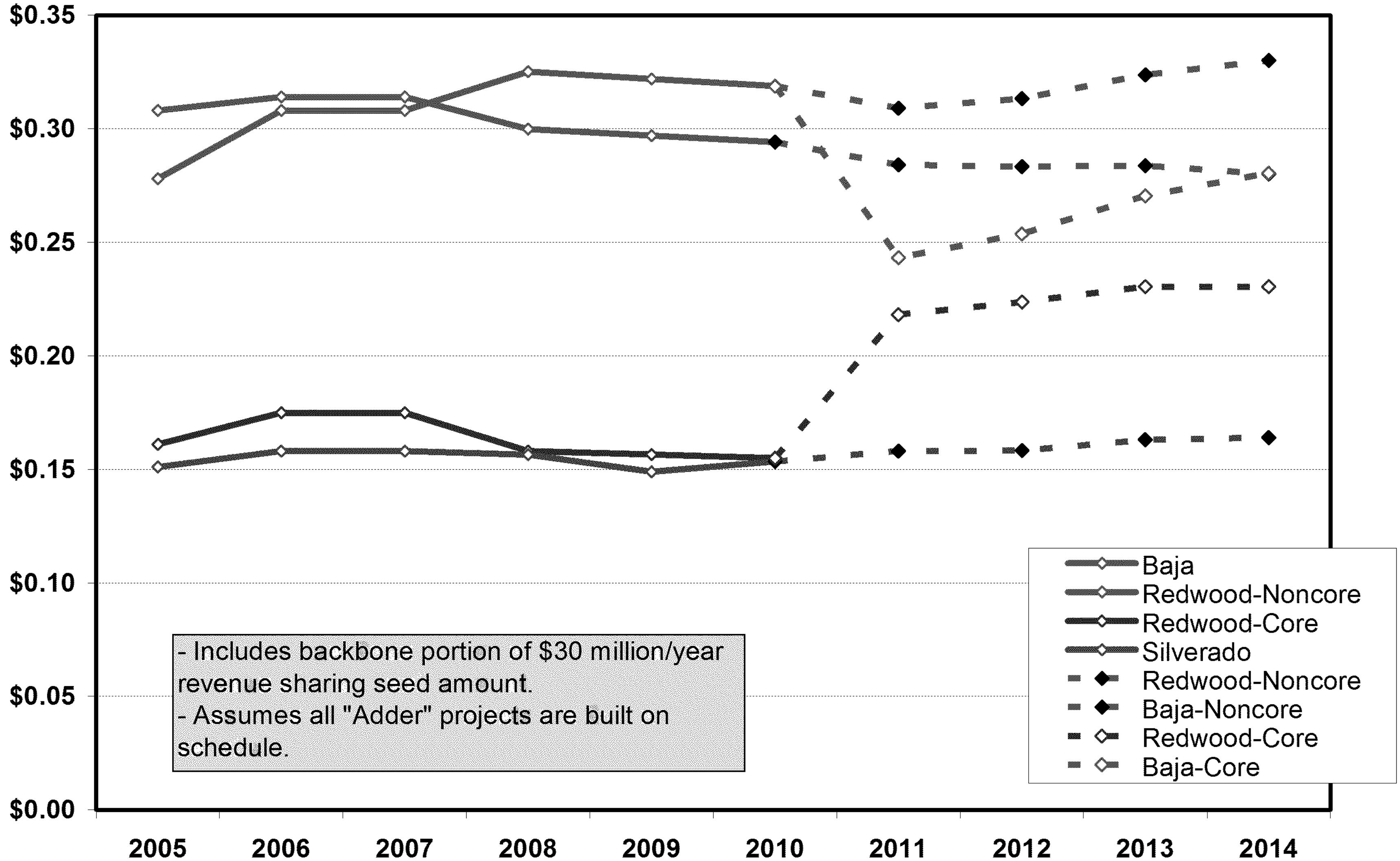
- Change from 4 to 5 primary rates:

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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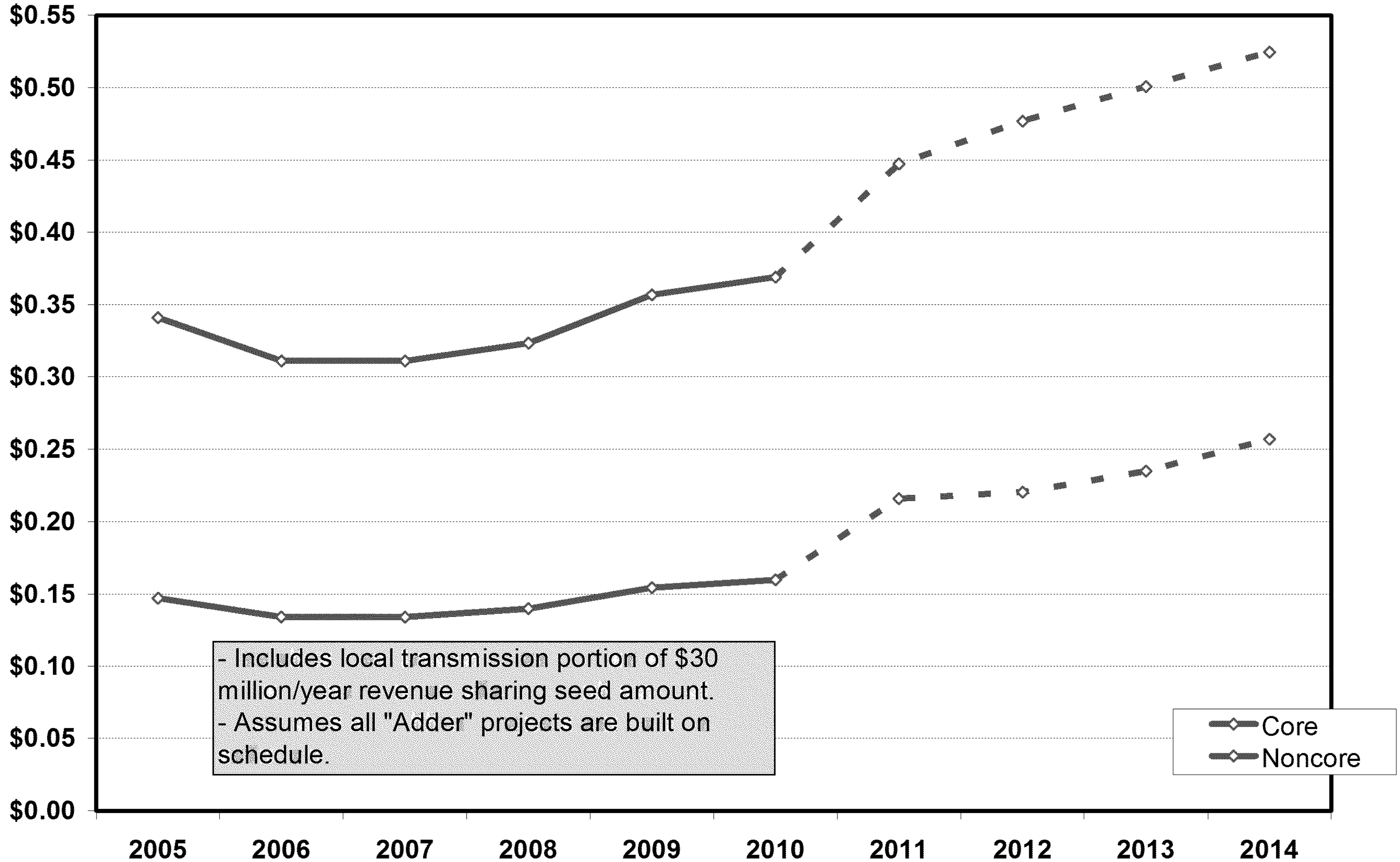
Local Transmission Rates

- 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
  - Dynegy (Moss Landing) 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)

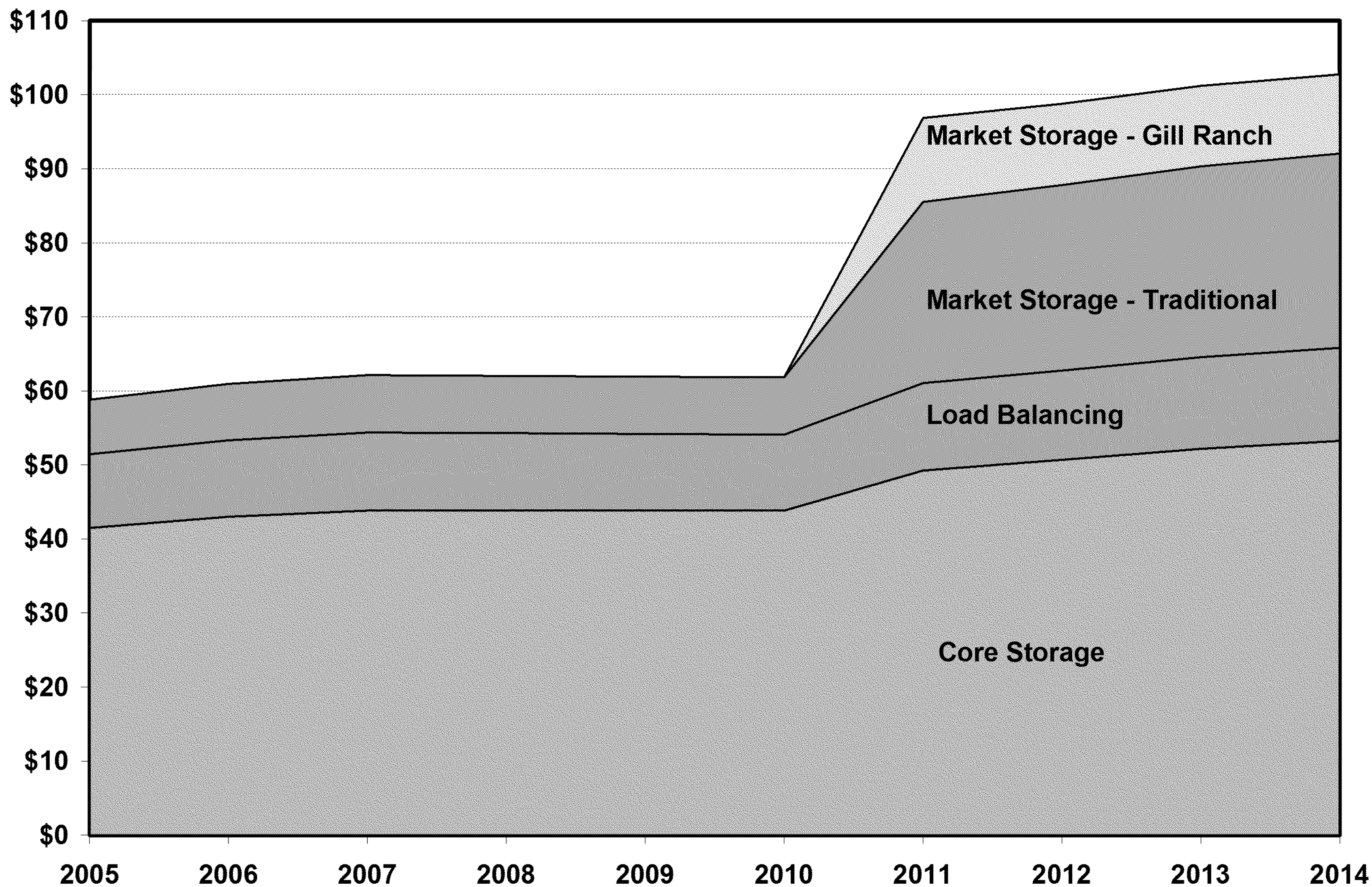


Storage Cost Allocation

- 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

- In its filing, 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, on the other hand, 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, the allocation of under- or over-collections, if any, etc.

REVENUE SHARING MECHANISM

Under the Settlement:

- 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 effective January 1, 2011.
  - This seed value can be viewed as an advance payment of the shared revenues that customers can expect to receive.
  - A true-up mechanism is provided to correct any mismatch between the forecasted seed value and recorded revenues

CORE TRANSPORT AGENT ISSUES

(((Need to insert a couple of bullets referring to (a) anticipated termination of the existing tariff because of CTAs hitting the 10%, (b) goal is to provide a smooth transition for the CTA group to a new business model wherein CTAs take on greater responsibility for their share of costs. Check with Ron Perry and Ken Bohn for inputs.)))

- 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.