Gas Accord V (GA V) Settlement Commissioner Briefing

February 2011

Gas Accord V Settlement –Key Features

- **Reasonable revenue requirements and identified rate structure for 4-year term (2011-2014)**
  - $95 MM in cumulative benefits to core and non-core customers
  - Maintains 53% core / 47% non-core cost responsibility breakdown
  - Specific large capital projects ($201MM / 29% of capital request) put into rates only after in-service
- **New revenue sharing mechanism to align interests of customers and shareholders**
- **Mechanisms and funding to ensure safety and reliability**
  - Supports planned pipeline integrity and safety and reliability work as requested in PG&E filing
  - One-way balancing account for pipeline Integrity Management expense
- **Resolves issues of concern to core transport agents**
- **Uncontested except for SoCalGas/SDG&E issues**
- **New work that may be required as a result of the San Bruno investigation is not included in the Settlement**

Gas Accord V Settlement – Safety Implications

- **Sept. 15 CPUC Ruling sought clarification in light of the San Bruno tragedy**
- **Gas Accord V Settlement provides:**
  - 100% and 98% of original requested capital dollars for pipeline Integrity Management, and Safety and Reliability respectively
  - One-way balancing account for Integrity Management O&M expense funds not spent (returned to customers)
  - Sufficient funding to conduct baseline integrity management and pipeline safety 2011-2014 as requested in PG&E's application, but does not reflect the cost of complying with new CPUC directives following San Bruno incident

Request vs. Settlement Expenditures

Capital (in $ MM)	PG&E Request	GA V Settlement	Difference	% Settled
Integrity Management	$71.0M	$71.0M	-	100%
Safety and Reliability	$129.2M	$127.2M	-$2.0M	98%
Other Operations*	$653.1M	$499.6M	-$153.5M	76%
Total	**$853.3**	**$697.8M**	**-155.5M**	**82%**

O&M Expense (in $ MM)	PG&E Request	GA V Settlement	Difference	% Settled
Integrity Management	$24.0M	$22.0M	-$2.0M	92%
Other Operations*	$96.3M	$82.8M	-$13.5M	86%
Total	**$120.3M**	**$104.8M**	**-$15.5M**	**87%**

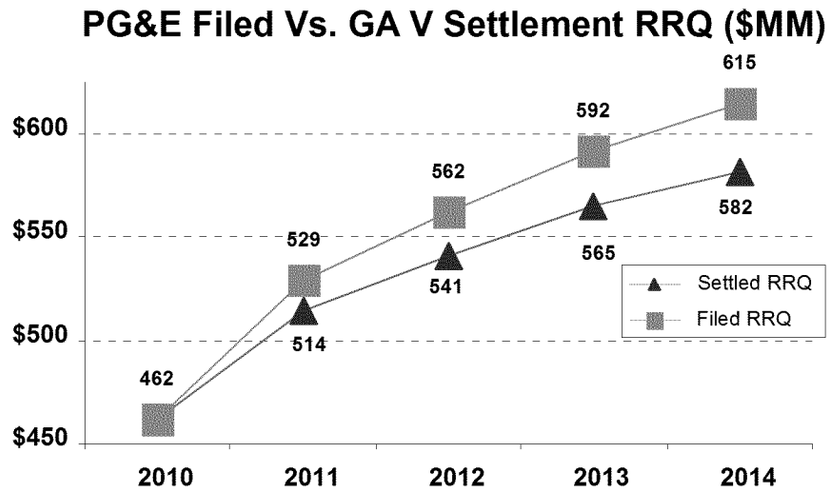
* incl. workforce diversity funding as directed by Comm. Simon

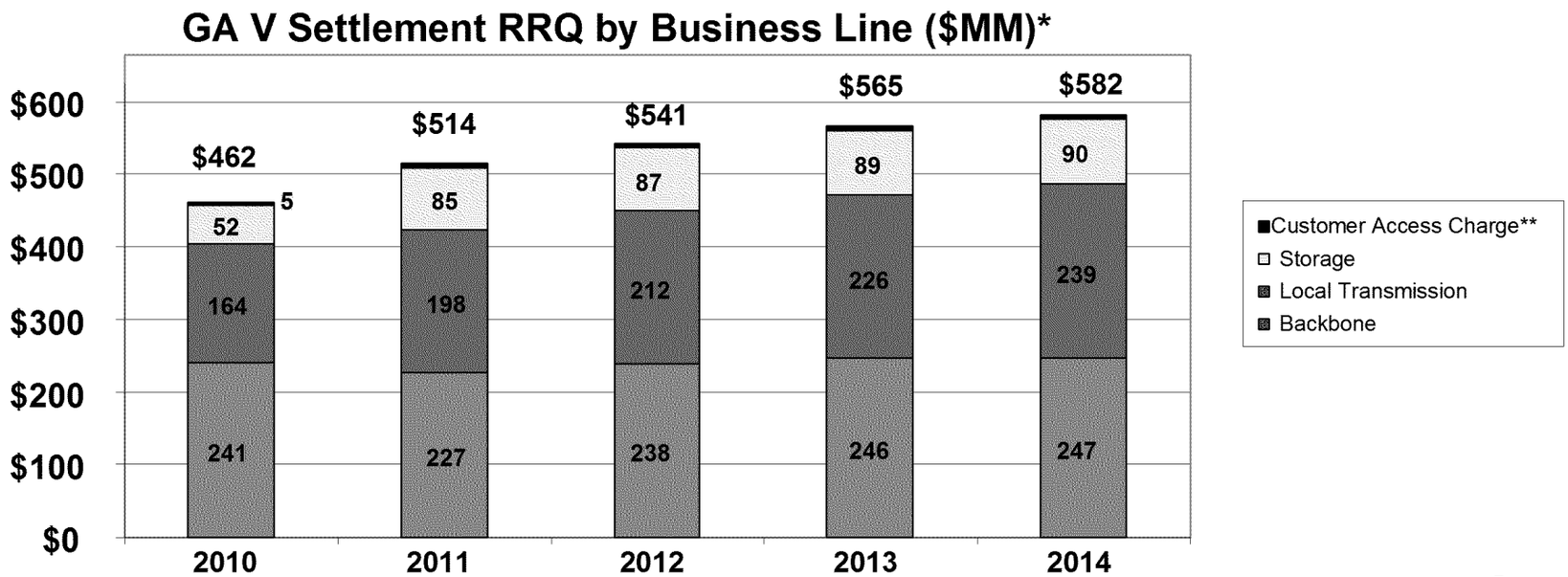
Settlement Fully Meets Requirements for Approval

- **Serves the public interest**
  - 4-year Settlement resolves revenue requirement and rates
  - Achieves a balanced outcome
  - Avoids litigation
- **Is Reasonable**
  - Built on 13 years of successful Gas Accord experience
  - Culmination of an 11-month process of aggressive discovery and negotiation
  - Reflects the diverse interests of 25 settling parties representing various aspects of the market.
- **Is Consistent with the Law**

Reasonable RRQs and Identified 4-year Rate Structure

- $95 MM cumulative 4-year revenue requirement benefit for core and non-core customers vs. filed request
- RRQ reduced if backbone and local transmission adder projects not in-service w/in Settlement period
- Identified rate structure
- Rates depend on timing of approval





* Excludes GA IV adder projects not in-service by 12/31/2009

** Customer Access Charge is $5 MM 2010-2014

Gas Accord V Settlement Revenue Sharing Mechanism

Gas Accord V Revenue Sharing Mechanism Summary*

	Customer Share	Shareholder Share	Up-side and Downside Sharing?
Backbone	50%	50%	Yes
Local Transmission	75%	25%	Yes
Storage	75%	25%	Customers share upside only

*Note:
- Seeded annually with an "up-front" $30 MM rate credit
- Annual true-up

Core Gas Transport Agent (CTA) Issues Resolved

- **Settlement reflects separate negotiations to address CTA issues**
  - Avoids litigation
  - Garners CTA support for broader Settlement Agreement
- **New pipeline and storage capacity allocation process**
  - New rules effective April 1, 2012
  - Annual election for long-term storage capacity
  - Pipeline allocation elections 3 times per year vs. monthly
  - Increases CTA cost responsibility for rejected capacity over 3-year transition period (April 2012 to March 2015)
  - Rejected CTA capacity released to the marketplace through auction, bulletin board listing, or similar process; CTAs responsible for net costs or benefits
- **Improved consumer protection/CPUC oversight**
  - New rules will be effective by April 1, 2011
  - Consumer protection rules and CPUC oversight of CTAs strengthened with regard to numerous customer complaints to CPUC and PG&E regarding slamming and marketing fraud
  - New rules will be developed in collaboration with CTAs and CPUC, and based upon set of agreed-upon guiding principles outlined in CTA Settlement Agreement
- **Process improvements and system enhancements by PG&E**
  - Re-tune the Core Gas Load Forecast Model by October 1, 2011
  - Add new data fields to billing and payment reconciliation reports
  - Provide electronic versions of monthly balancing statements/supporting reports

Remaining Contested Items

- **Minimal remaining issues raised by SoCal Gas/SDG&E only:**
  - On-system delivery right for G-XF contract
  - Revenue sharing with G-XF customers
  - G-XF rate reduction between filed and settled rates
  - Storage reporting
- **Issues of shareholder vs. customer revenue responsibility raised by TURN, DRA and other indicated settling parties, if CPUC rules in favor of SoCalGas/SDG&E**