



2012 Short-Term Incentive Plan Measures

Why It Matters To You

As part of our process to assess and refine our Short-term Incentive Plan (STIP) goals each year, we have made significant changes to align our 2012 STIP measures with our business priorities. As a reminder:

- STIP is an at-risk component of pay that rewards employees annually for meeting or exceeding performance expectations on established goals each year.
- STIP is tied to company and individual performance. Thus, award payments are never guaranteed.

For more details on STIP and the specific performance targets associated with these measures for 2012, please refer to the STIP intranet site. You can also contact your HR Delivery Partner or the HR Service Center at 415-973-4357 with questions.

Key Discussion Points

Our 2012 STIP will be based on three overall measures:

- Safety (40 percent weighting)
- Customer (30 percent weighting)
- Financial (30 percent weighting)

These three measures are directly aligned to support the safe, reliable and affordable delivery of services to our customers.

While we set metrics to track our performance for the STIP award and to ensure we are accountable for the work we do, ultimately the Compensation Committee of the PG&E Corporation Board of Directors retains complete discretion to determine and pay all STIP awards to officers and non-officer employees.

What is Different in 2012?

- We have increased the weightings on Safety- and Customer-related metrics (from 40 percent to 70 percent) and decreased the emphasis on Financial (from 50 percent to 30 percent).
- We have added new metrics and revised others around public and employee safety, reliable energy delivery and customer satisfaction.
- To place a greater emphasis on the Safety and Customer measures, two of the overall 2011 STIP measures will not be included in 2012 STIP: Employee Engagement and Environmental Leadership. Both measures remain important and will continue to be tracked. The Premier Survey will still be conducted annually, and we will continue to focus on reducing our environmental footprint and improving our compliance with environmental laws and regulations.

Safety – 40 percent of total STIP score

Definitions: Measures both the public and employee safety of our operations. PG&E's overall safety performance will be measured primarily by our achievement of the metrics defined below. The Compensation Committee will also take into consideration the overall impact our business operations have on public and employee safety.

What is Different in 2012?

- Public safety is a new focus area within our STIP.
- Gas Emergency Response (which was under the Operational Excellence Index in 2011 STIP) previously measured 60-minute response times but will now also measure 30-minute response times.
- We replaced the 2011 employee safety metric, Occupational Safety & Health Act (OSHA) Recordable Rate, with Lost Workday Case Rate as it is focused on more serious employee safety incidents. Please note: while OSHA Recordables will not factor into 2012 STIP, they will still be recorded and reported.

Metrics:

Public Safety

Nuclear Operations - (8 percent weighting). As measured by:

- *Institute of Nuclear Power Operations (INPO) Performance Indicators:* The year-end score reported to INPO for PG&E's Diablo Canyon Power Plant for Units 1 and 2 (equally weighted). Scoring is based on 12 performance indicators for nuclear power generation.

Performance: Target (1.0) performance maintains top quartile in industry. Stretch (2.0) performance is top decile or 99th percentile performance, whichever is less. Note that although PG&E's 2012 score will be known in January 2013, the industry's year-end performance data will not be known until February 2013. Therefore, the industry's end-of-third-quarter information will be used to determine PG&E's performance relative to the industry.

Gas Operations - (8 percent weighting). As measured by two equally-weighted metrics:

- *Leak Repair Performance:* The percentage of all grade 2 leaks found prior to January 1, 2012 repaired by December 31, 2012.

Performance: 2012 target (1.0) performance will mean that all grade 2 leaks found prior to January 1, 2012 will be repaired by December 31, 2012. Stretch (2.0) performance is 100 percent repaired by October 31, 2012.

- *Gas Emergency Response:* The percentage of time that a Gas Service Representative (GSR) is on site within one hour and within 30 minutes of receiving an immediate response gas emergency order (equally weighted). Excludes area odor complaints, duplicate and cancelled orders, and multiple calls on a multi-meter manifold.

Performance: 2012 target (1.0) performance—to respond to gas emergency calls within 60 minutes 99 percent of the time, and within 30 minutes 75 percent of the time—would place PG&E in the first quartile of an industry peer group. Target performance will be measured on the average of fourth quarter 2012 performance. Stretch (2.0) performance is achieving the same levels, but on the average of both third and fourth quarter performance.

Electric Operations - (8 percent weighting). As measured by two equally-weighted metrics:

- *Transmission and Distribution (T&D) Wires Down:* The number of unplanned sustained outage events (lasting five minutes or more) that involve at least one overhead electric transmission or primary distribution conductor down, excluding downed secondary distribution wires and "major event days" (typically due to severe storm events), as defined by the Institute of Electrical and Electronics Engineers (IEEE).

Performance: 4-year trend is 2.6 percent improvement per year. 2012 Target (1.0) performance is above 4-year trend, and Stretch (2.0) performance more than doubles 4-year trend.

- *911 Emergency Response:* The percentage of time that PG&E personnel relieve 911 personnel at the site of a potential PG&E electric hazard within 60 minutes. Excludes a CPUC-defined "measured event," which is a major event resulting from non-earthquake, weather-related causes. There have been four measured events since 1983.

Performance: 3-year trend is flat. The 2012 Target and Stretch performances are 7 percent and 22 percent improvement over 2011 result, respectively.

Employee Safety

- *Lost Workday Case Rate - (8 percent weighting):* The number of lost workday cases incurred per 200,000 hours worked, or for approximately every 100 employees. A lost workday case is a current-year OSHA recordable incident that has resulted in at least one lost workday. An OSHA recordable incident is an occupational (job-related) injury or illness that requires medical treatment beyond first aid, or results in work restrictions, death or loss of consciousness.

Performance: 2012 Target (1.0) and Stretch (2.0) performances are 8 percent and 19 percent improvement over 2011 result and would put us in second and first quartile, respectively. Currently in third quartile.

- *Preventable Motor Vehicle Incident (MVI) Rate - (8 percent weighting):* The total number of MVIs that the driver could have reasonably avoided, per 1 million miles driven.

Performance: 2012 Target (1.0) and Stretch (2.0) performances are 5 percent and 10 percent improvement over 2011 result, respectively. Currently in first quartile.

What you can do:

- Make public and employee safety our highest priority
 - Ensure that every team member is following established safety rules and work procedures
 - Continue to drive safely and prevent motor vehicle incidents
 - Identify the work you do that supports our safety measures and discuss how to optimize the role of team
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Customer – 30 percent of total STIP score

Definitions: Measures our customers' satisfaction with our services and the reliability of our gas and electric operations.

What is different in 2012?

- We modified the 2011 customer metric (Customer Satisfaction and Brand Health Index) to focus on just the customer satisfaction aspect of the survey. Brand favorability will continue to be measured, just not as a part of STIP.
- System Average Interruption Duration Index (SAIDI) is essentially a combination of, and replaces, the two 2011 electric reliability metrics.

Metrics:

- *Customer Satisfaction Score (CSS) - (10 percent weighting):* The overall satisfaction of customers with the products and services offered by PG&E, as measured through an ongoing quarterly survey. The CSS metric is weighted 60 percent for residential customers and 40 percent for small and medium business customers. A quarterly score is then derived by compiling all customer responses during the quarter and indexing the mean score to 100. The year-end STIP score is calculated using all responses gathered over the entire year.

Performance: In 2011, PG&E customer satisfaction decreased 1.2 points. The 2012 Target (1.0) performance makes up half of this ground and would match the largest annual increase since PG&E began this survey in 2007. Stretch (2.0) performance would restore PG&E to a level of customer satisfaction that last existed before both Proposition 16 and the San Bruno accident.

- *Gas Asset Mapping - (10 percent weighting):* The longest duration (in days) of open jobs at year-end pending update in the mapping systems for a respective gas project (installation or modification) that has been received and identified as a complete job package by mapping. Excludes distribution fast flow work and expense projects associated with annual project orders.

Performance: Achieving Target (1.0) performance means that no completed job package received by mapping will be pending entry into the gas mapping systems for longer than 30 days by December 31, 2012, with Stretch (2.0) performance being no longer than 20 days pending. Currently, there are jobs pending updates to the mapping system that exceed 30 days.

- *System Average Interruption Duration Index (SAIDI) - (10 percent weighting):* The average outage duration experienced by all customers served; the SAIDI value represents the total time the average customer is without electric power during a given time period (measured in number of minutes). Includes all planned and unplanned sustained outages (lasting five minutes or more), excluding "major event days" as defined by IEEE and California Independent System Operator rotating outages.

Performance: 2012 Target (1.0) and Stretch (2.0) performances are 6.1 percent and 10.8 percent improvement over 2011 result, respectively. PG&E is currently in third quartile compared to industry peers, achieving the stretch goal would move us into second quartile.

What you can do:

- View actions through the eyes of our customers—minimize customer impacts and think of customer perceptions
 - Keep our word and our commitments to our customers in order to build and maintain their trust
 - Resolve problems quickly and fully to the customer's expectations
 - Share with neighbors, family and friends what PG&E is doing to provide safe, reliable, customer-focused gas and electric service
 - Identify the work you do that supports the electric restoration process, and discuss how to optimize the role of your team
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Financial – 30 percent of total STIP score

Definition: Measures the financial performance of our ongoing core operations.

What is different in 2012?

- There are no changes to this metric from 2011.

Metric:

- *Earnings from Operations (EFO) - (30 percent weighting):* Excludes items impacting comparability, which represent income or expenses associated with events or circumstances considered unusual and not part of ongoing core operations. The measurement is non-GAAP.

Performance: 2012 targets represent a year-over-year decline from 2011 results. The planned earnings decrease results from PG&E's decision to significantly increase investment in operations to improve both safety and reliability.

What you can do:

- Ensure that you have up-to-date plans to meet your 2012 operational and financial goals
 - Identify and implement productivity and efficiency opportunities
 - Use our financial resources as carefully as you would your own personal funds
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