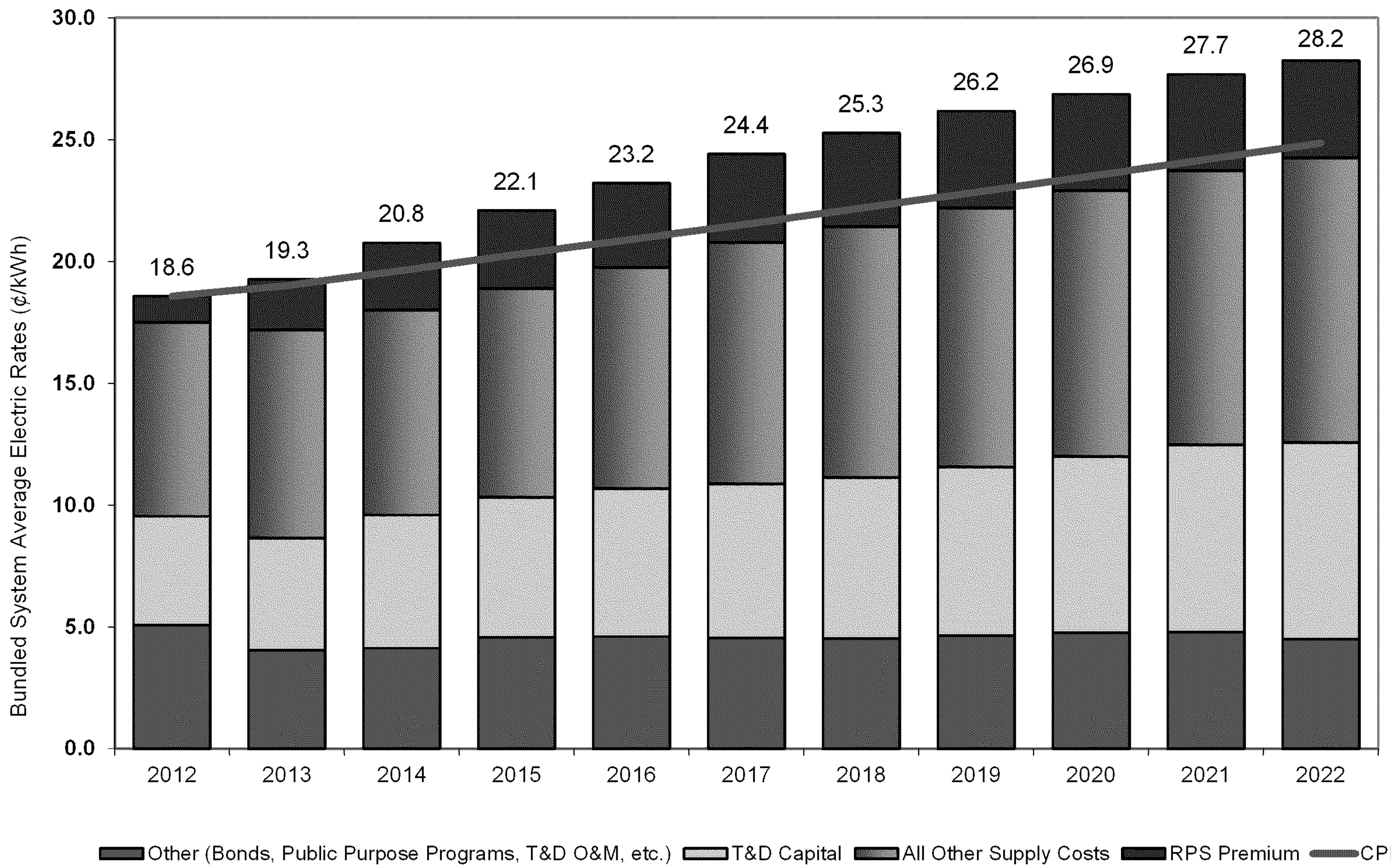
Pacific Gas and Electric Company™

Residential Rate Reform

New Democrats Annual Retreat

Projected Average Non-CARE (E1) Rate



2012-2022 CAGRs

+ RPS Premium 1.3%

+ All Other Supply Costs 1.7%

+ T&D Capital 1.6%

+ Other -0.3%

= Total CAGR 4.3%

CPI CAGR 3.0%

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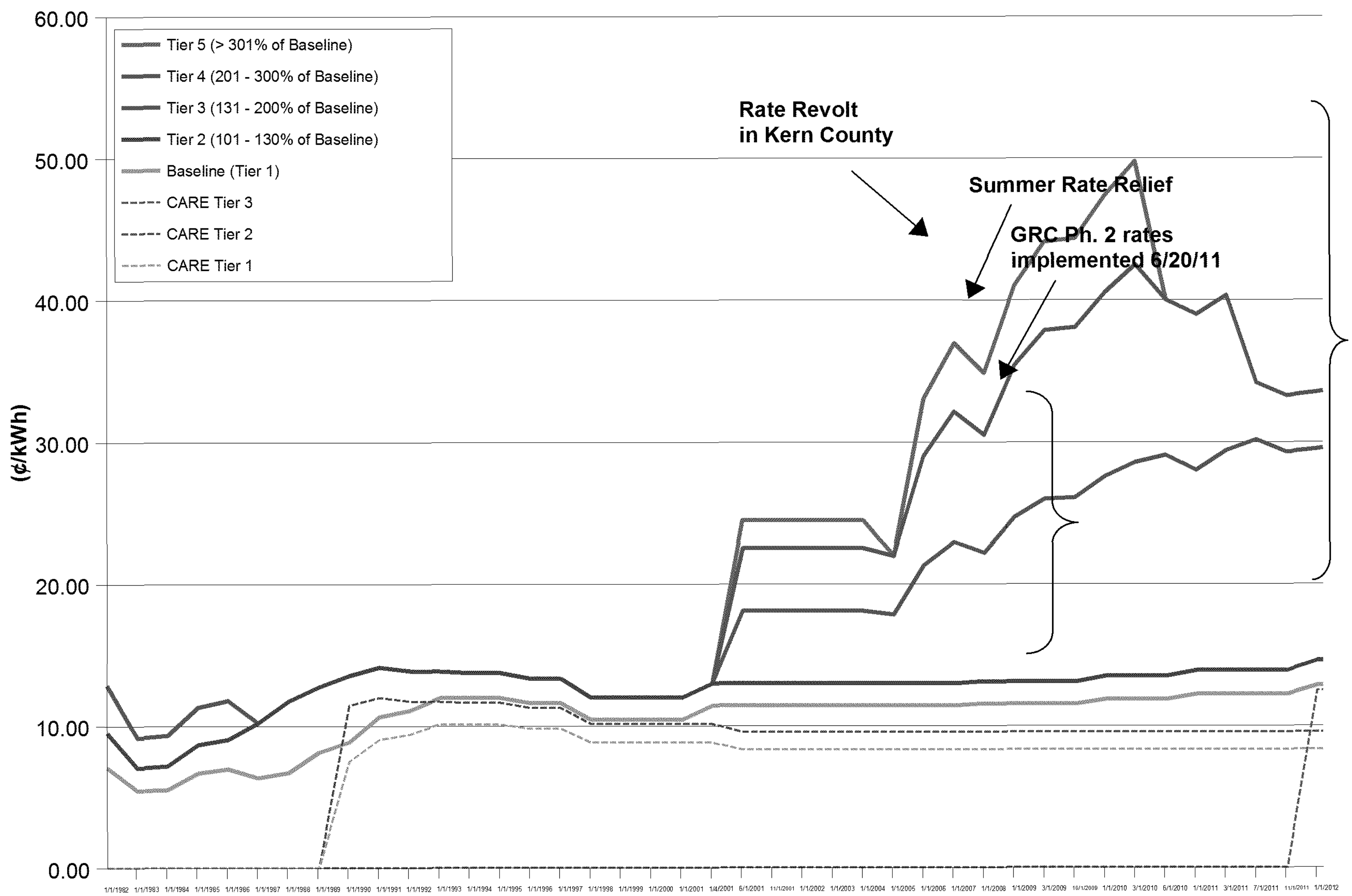
PG&E's Upper-Tier Rates Are Far Too High and Not Cost Based

- PG&E's average rate for non-CARE customers (Schedule E-1) is 18.6 cents per kWh
- Because of legislative restrictions on raising lower-tier rates, there is a huge gap between Tier 1 and 2 rates, on the one hand, and Tier 3 and 4 rates on the other hand
    - Tier 1: 12.8 cents
    - Tier 2: 14.6 cents
    - Tier 3: 29.6 cents
    - Tier 4: 33.6 cents
- PG&E's Tier 4 rate of 33.6 cents is the highest in the nation
    - The only ones close are SCE (31.2 cents) and SDG&E (21.9 cents), where legislative restrictions similarly force the majority of cost recovery into the upper tiers
- These high upper-tier rates have nothing to do with cost of service and are grossly inequitable for upper-tier users everywhere in PG&E's service area

How Did We Get to this Situation?

- Baseline Statute (1982) directed CPUC to “establish an appropriate gradual differential between the rates for the respective blocks of usage”
- Prior to the energy crisis, from 1982 to early 2001
  - Highest differential between Tier 1 and 2 rates was 5.1 cents in 1988, dropping to 1.9 cents in 1992, and further dropping to 1.6 cents in 1998
  - Differential stayed at 1.9 cents from 1998 until the energy crisis
- When energy crisis hit, Legislature created five tiers and capped Tier 1 and 2 rates
  - While never intended to be permanent, this capped on Tier 1 and 2 rates remained in place from 2001 through 2009
  - Result: Upper-tier rates skyrocketed since, while Tier 1 and Tier 2 rates stayed at their 2001 levels
  - SB 695, enacted in 2009, allowed for limited increases in Tier 1and 2 rates, once per year, beginning in 2010
  - But the huge gap between lower and upper-tier rates continues to be enormous
  - Current rates clearly do not show “gradual differentiation”
- The CPUC has limited ability to fix this situation unless legislative restrictions are removed

Without Reform – Residential Rates Are Unsustainable



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Tiered Rates Are a Poor Means to Redistribute Income

- CARE rates already assist low income households below 200% of federal poverty guideline
- For non-CARE households, tiered rates a poor mechanism for income redistribution
- Many households with lower incomes consume in the upper tiers and pay bills well above the cost to serve them
    - Out of 865,000 non-CARE households earning between $30K and $60K per year, 297,000 of them (34%) consume in the upper tiers
- Conversely, many higher-income non-CARE households consume in the lower tiers and pay bills well below the cost to serve them
    - Out of 1,063,000 non-CARE households earning $100K or more per year, 435,000 of them (41%) consume in the lower tiers