

From: Malkin, Joseph M.
Sent: 12/17/2012 4:41:15 PM
To: Bottorff, Thomas E (/O=PG&E/OU=CORPORATE/CN=RECIPIENTS/CN=TEB3);
'Cooke, Michelle' (michelle.cooke@cpuc.ca.gov)
Cc: 'Bone, Traci' (traci.bone@cpuc.ca.gov); 'Como, Joe' (joe.como@cpuc.ca.gov);
'Austin Yang' (Austin.Yang@sfgov.org); 'Britt Strottman'
(bstrottman@meyersnave.com); 'marcel@turn.org' (marcel@turn.org); 'Paull, Karen
P.' (karen.paull@cpuc.ca.gov); 'Pocta, Robert M.' (robert.pocta@cpuc.ca.gov);
'Serizawa, Linda' (linda.serizawa@cpuc.ca.gov); 'SBNeg' (SBNeg@cpuc.ca.gov);
'Craig Bettencourt' (cbettencourt@prager.com); 'Connie Jackson'
(CJackson@sanbruno.ca.gov); 'Steven Meyers' (smeyers@meyersnave.com);
'Theresa Mueller' (Theresa.Mueller@sfgov.org); 'Tom Long' (tlong@turn.org)
Bcc:
Subject: Re: Concept Response

Michelle,

Following up on Tom's conversations with you, I am writing to clarify how we will be proceeding. First, we will provide the non-PG&E parties with our response to Proposed Factual Stipulations within the next week or so. Then, in early January, we will send you our response to the Proposed PG&E Commitments.

Please let us know if you have any questions.

Joe

From: Malkin, Joseph M.
Sent: Friday, December 14, 2012 3:50 PM
To: 'Cooke, Michelle'; Tom Bottorff (TEB3@pge.com)
Cc: Austin Yang; Bone, Traci; Britt Strottman; Como, Joe; Connie Jackson; Craig Bettencourt; marcel@turn.org; Paull, Karen P.; Pocta, Robert M.; SBNeg; Serizawa, Linda; Steven Meyers; Theresa Mueller; Tom Long
Subject: RE: Concept Response

Michelle,

Thank you for your note. We appreciate the parties' willingness to pursue a settlement approach that leaves the decision on violations of law to the Commission. We still have three elements on which to reach agreement: (1) the monetary component; (2) going-forward commitments by PG&E; and (3) stipulations of fact. In response to your email, we want to review the status of each of these elements.

(1) Monetary Component: Tom and I presented PG&E's best and final offer on the monetary component on November 1. That offer is \$500 million, \$200 million of which is earmarked for a fine payable to the State General Fund, and \$300 million subject to further agreement among the parties, including tax-deductible costs for which PG&E would gross up the dollars. The monetary component includes the cost of any PG&E going-forward commitments that the Company is not already pursuing, and resolves the three OIIs and all Res. ALJ-274 self-reports through signing.

At our meeting this past Monday, you stated that the non-PG&E parties need to understand the other costs PG&E shareholders have paid and are paying before agreeing to the monetary component. I attach a spreadsheet that details those costs (except for those associated with the encroachment issue), both on an historic basis and estimated through 2014.

With this information, our expectation is that we will receive a definitive "yes" or "no" from the other parties. To us, agreement on the monetary component to which we all dedicated our efforts since May 18 is a threshold issue. We made the November 1 offer in the belief that it would lead to a prompt agreement in principle. Thus, it reflected the significant value PG&E places on timely resolution of these matters, a value that diminishes with the passage of time.

(2) Going-forward Commitments: As we told you on Monday, your proposal is not acceptable. It goes too far and would micromanage PG&E's gas operations in a way that the Company cannot live with. We have had the gas organization spend a good deal of time analyzing your proposals. Whatever PG&E agrees to will be binding commitments, so they must work from a safety, engineering and cost-effectiveness perspective. We are open to considering commitments that go beyond PG&E's current activities provided they meet these and other criteria and are funded from the money we have offered or in future rates. The end

of the year is, however, an extremely busy time and we are not able to prepare our proposed commitments in the time you have requested. With the impending holidays, we will not be able to provide a proposal before the New Year. In the meantime, you still have our May 18, 2012 proposal, which will give you a good understanding of the gas organization's thoughts as of that time.

(3) Factual Stipulations: We are working our way through the proposed factual stipulations as quickly as we can. Because any facts PG&E stipulates to will bind it in every forum, we have to review them from several perspectives. Based on our review to date, there are some fair number we can accept as written, but there are others that we do not believe are true (i.e., they are disputed in the pending OIIs) and still others that are not facts, but the other parties' witnesses' opinions or conclusions, with which we do not agree. We will respond to each of the 656 proposed facts separately and anticipate being able to do so by the end of next week.

We have some ideas about how to justify presenting a settlement that doesn't resolve the violations, and will be happy to discuss them at an appropriate time.

Meanwhile, we look forward to hearing back from you on the monetary component so that we can continue to move forward on the other elements.

Joe

From: Cooke, Michelle [<mailto:michelle.cooke@cpuc.ca.gov>]
Sent: Thursday, December 13, 2012 8:14 AM
To: Tom Bottorff (TEB3@pge.com); Malkin, Joseph M.
Cc: Austin Yang; Bone, Traci; Britt Strottman; Como, Joe; Connie Jackson; Craig Bettencourt; marcel@turn.org; Paull, Karen P.; Pocta, Robert M.; SBNeg; Serizawa, Linda; Steven Meyers; Theresa Mueller; Tom Long
Subject: Concept Response

Tom and Joe- the parties met yesterday to discuss the concept of working towards an agreement that encompasses remedies,

financials, and facts, but leaves the findings on violations of law and other conclusions to the Commission through the briefing process. All of the parties have expressed willingness to work towards this type of agreement, with the following assumptions:

- 1) PG&E will respond to the remedy package by Friday, and ideally earlier.
- 2) PG&E will not wordsmith large numbers of the proposed facts but will instead focus only on counter proposals to those that PG&E believes are: a) wrong, b) conclusions rather than facts, or c) combined facts and conclusions where PG&E believes a conclusion should be dropped. This response would also come on Friday.

The parties believe that working towards an agreement will be productive if PG&E is able to identify a fairly narrow set of disputed facts to work through, but if PG&E believes that we will need to discuss all 656 facts presented (or substantially all of them), then we aren't likely to be able to reach a mutually agreeable outcome. The smaller the number, the higher the likelihood of success.

We would also like to tee up an issue that we believe is potentially problematic- how we would justify presenting (in the agreement or any motion to adopt an agreement) an agreement that resolves fines and related monetary issues without admissions of violations to the Commission. This doesn't need to be resolved now, but it is an issue that we are concerned about.

We look forward to seeing your responses on both the remedies and facts on Friday, if not before.

Michelle Cooke

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