

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company for Authority, Among Other Things,
to Increase Rates and Charges for Electric and
Gas Service Effective on January 1, 2014.

(U 39 M)

Application 12-11-009
(Filed November 15, 2012)

And Related Matter

Investigation 13-03-007

**MOTION FOR APPROVAL OF PARTIAL SETTLEMENT AGREEMENT BETWEEN
AND AMONG PACIFIC GAS AND ELECTRIC COMPANY (U 39-M), THE UTILITY
REFORM NETWORK, AND THE MARIN ENERGY AUTHORITY**

HAYLEY GOODSON
115 Sansome Street, 9th Floor
San Francisco, CA 94104
Telephone: (415) 929-8876 ext. 360
Facsimile: (415) 929-1132
E-Mail: hayley@turn.org
Attorney for:
THE UTILITY REFORM NETWORK

MICHELLE WILSON
STEVEN W. FRANK
MARY A. GANDESBERY
P.O. Box 7442
San Francisco, CA 94120
Telephone: (415) 973-0675
Facsimile: (415) 973-5520
E-Mail: magq@pge.com
Attorneys for:
PACIFIC GAS AND ELECTRIC COMPANY

ELIZABETH KELLY
781 Lincoln Avenue, Suite 320
San Rafael, CA 94901
Telephone: (415) 464-6022
Facsimile: (415) 459-8095
E-Mail: ekelly@marinenergy.com
Attorney for:
MARIN ENERGY AUTHORITY

Date: September 6, 2013

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2014. <p style="text-align:right">(U 39 M)</p>	Application 12-11-009 (Filed November 15, 2012)
And Related Matter	Investigation 13-03-007

**MOTION FOR APPROVAL OF PARTIAL SETTLEMENT AGREEMENT BETWEEN
AND AMONG PACIFIC GAS AND ELECTRIC COMPANY (U 39-M), THE UTILITY
REFORM NETWORK, AND THE MARIN ENERGY AUTHORITY**

I. INTRODUCTION

In accordance with Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company ("PG&E"), The Utility Reform Network ("TURN"), and the Marin Energy Authority ("MEA") (collectively referred to as "the Parties" or individually as a "Party"), hereby jointly request that the Commission approve the Partial Settlement Agreement (the "Partial Settlement Agreement"), which is included as Exhibit 1 to this Motion, as a compromise to resolve issues raised in this proceeding regarding certain labor-related charges included in the General Rate Case ("GRC") revenue requirement for costs associated with Public Purpose Programs ("PPP") and other customer programs.

This Partial Settlement Agreement is related to certain Administrative and General ("A&G") expenses that are currently proposed to be included in the distribution function in the GRC for programs funded outside of the GRC; specifically Energy Efficiency, Demand Response, Energy Savings Assistance, California Alternate Rates for Energy, Family Electric Rate Assistance, the California Solar Initiative, the Self-Generation Incentive Program and Statewide Marketing, Education and Outreach. These costs include employee benefits (medical,

vision, dental, employee healthcare contributions, group life insurance, short-term incentive payments, 401 K expenses, relocation expenses, short-term disability, tuition reimbursement) and payroll taxes.

The Partial Settlement Agreement addresses only the allocation of these A&G items from distribution to PPP and other customer programs listed in Table 1 below (collectively “Customer Programs”). Pension costs, post-retirement benefits and long-term disability and the A&G expenses not related to the employee benefits and payroll taxes will remain allocated from the Customer Programs to distribution rates in this GRC. The Parties commit to discussing the allocation of A&G costs not collected through PPP prior to the submittal of PG&E's next GRC Phase 1 application. Nothing in this proposal precludes revisiting these allocations in future proceedings. This Partial Settlement Agreement does not resolve any other issues raised by the Parties in this proceeding.

The Parties believe that this Partial Settlement Agreement is in the public interest and represents a fair and equitable resolution of the issues raised by the Parties regarding the allocation of PPP charges in the distribution function rates and request that the Commission approve this Partial Settlement Agreement without modification as part of the final decision issued in this proceeding.

This Motion is organized as follows. Section II describes the interests represented by the Parties. Section III provides a Procedural History of this matter. Section IV provides background. Section V summarizes the Parties’ positions. Section VI summarizes the Partial Settlement Agreement. Section VII explains why the Agreement is reasonable, consistent with law, and in the public interest as required by CPUC Rule 12.1(d). Section VIII provides a brief conclusion.

II. INTEREST OF THE PARTIES

PG&E is the Applicant in this proceeding. TURN represents the interests of consumer ratepayers. MEA is a Community Choice Aggregator (“CCA”) and is interested in the allocation of PG&E’s distribution costs to CCAs.

III. PROCEDURAL HISTORY

A. On November 15, 2012, PG&E filed its 2014 GRC Application. PG&E's Application requested, among other relief, certain labor-related costs for the Customer Programs. (Exhibit 4 (PG&E-2), Chapter 7, Section C.)

B. On January 11, 2013, the Commission convened a prehearing conference before Administrative Law Judge Pulsifer and Assigned Commissioner Florio.

C. On January 22, 2013, Commissioner Florio issued an "*Assigned Commissioner's Ruling and Scoping Memo*" setting the procedural schedule, as well as addressing the scope of the proceeding and other procedural matters.

D. On May 17, 2013, MEA served its intervenor testimony which addressed, among other issues, PPP-related labor costs in its A&G forecasts. MEA's testimony requests that these PPP-related labor costs be reallocated to the generation function. (Exhibit 157 (MEA Testimony), pp. 2-7.)

E. On June 28, 2013, TURN served its rebuttal testimony of William B. Marcus. In its rebuttal testimony, TURN disagreed with MEA's proposal to allocate the PPP-related labor costs to the generation function and, instead, requests that the incremental A&G costs of PPP programs be unbundled and charged to PPP programs. (Exhibit 138 (TURN Rebuttal Testimony), pp. 2-3.)

F. On June 28, 2013, PG&E served its rebuttal testimony and addressed MEA's cost reallocation proposal. PG&E's rebuttal testimony stated that the labor component of PPP costs are customer service related costs similar to the customer service and customer accounts costs included in the distribution Unbundled Cost Categories ("UCCs")¹ and should not be excluded from the Operations and Maintenance ("O&M") labor allocations or allocated to the transmission and generation function. (Exhibit 58 (PG&E-21), Chapter 6, pp. 6-30 to 6-34.)

¹ UCCs are used to assign costs to utility functional categories.

G. In August 2013, the Parties conducted settlement negotiations regarding the allocation of the labor-related costs for the Customer Programs.

H. On August 29, 2013, pursuant to Rule 12.1(b), PG&E notified all parties on the service list for this consolidated proceeding, and the services lists for the Customer Programs proceedings (A.11-03-001, A.11-05-019, A.12-07-001, A.12-08-007, and R.12-11-005) of the Partial Settlement Agreement and Settlement Conference and provided copies in advance of a draft of the Partial Settlement Agreement upon request.

I. On September 5, 2013, the Parties hosted the afore-mentioned settlement conference at PG&E's offices and this Partial Settlement Agreement was executed thereafter.

IV. BACKGROUND

For purposes of determining the GRC revenue requirements, there are certain residual costs such as A&G expenses that cannot be directly assigned to functional categories such as generation or distribution. Since PG&E's 2003 GRC, these residual costs have been allocated to UCCs based on direct labor factors. In determining these labor factors, direct labor for the Customer Programs is included with distribution labor. This method was agreed upon by parties in PG&E's 2003 GRC. One of the goals of allocating residual costs in this manner is to achieve consistent allocations among the various proceedings that are litigated outside of the GRC, including Gas Transmission, Nuclear Decommissioning Cost Triennial Proceeding, Gas PPP and Electric PPP.

V. SUMMARY OF PARTIES' POSITIONS

The following subsections summarize the various Parties' positions regarding the allocation of labor-related costs for the Customer Programs.

A. MEA's Position

MEA's testimony recommends removal of the PPP labor from PG&E's current A&G overhead allocation methodology.² The result of MEA's proposal would be to reallocate

² Exhibit 157 (MEA Testimony), pp. 2-7.

overhead costs from the distribution rate to other functions including the generation function. MEA views PPP programs as generation programs since energy efficiency is first in the loading order and directly impact the procurement function of load-serving entities. As such, subsidization from the distribution rate is inappropriate. Furthermore, PG&E's current proposal to collect A&G overhead through the distribution rate results in significant cross-subsidization by unbundled customers of bundled customers. PG&E does not collect all funds attributed to PPP programs through PPP funds,³ rather it collects A&G expenses attributable to PPP through the distribution rate. As a result, unbundled customers (such as CCA customers) are subsidizing PG&E A&G overhead costs attributable to PPP through the PG&E distribution rate.⁴

B. PG&E's Position

PG&E seeks an increase in its gas and electric distribution and generation base revenue requirements of \$1.282 billion, effective January 1, 2014, as compared to 2014 authorized and pending revenues. PG&E provided testimony regarding the allocation of the labor-related costs. PG&E opposed MEA's proposal to remove the PPP labor from PG&E's A&G overhead allocation methodology.⁵ PG&E's testimony states that MEA's proposal would result in increases to electric generation and gas distribution and other functions unrelated to the administration of PPP services. PG&E testified that MEA's proposal does not follow Commission policy on cost allocation.

C. TURN's Position

TURN submitted rebuttal testimony of William B. Marcus on MEA's proposal to relocate the labor-related costs from distribution to generation. TURN shares MEA's concern with PG&E's assignment of PPP administrative overheads, particularly those costs that are clearly incremental costs of the PPP, though for different reasons. TURN is concerned that all program costs for Customer Programs are not included in the balancing accounts, and thus may

³ MEA serves all customers, not solely MCE customers, with energy efficiency services in MEA's service territory. These programs are funded through the PPP.

⁴ Exhibit 157 (MEA Testimony), p. 4.

⁵ Exhibit 58 (PG&E-21) p., 6-30, lines 16-21.

not be reflected in either the program cost-effectiveness analyses or the entire costs that are used to calculate PG&E's shareholder incentive. TURN noted the differences in revenue allocation between electric distribution and PPP, with approximately ten percentage points more of distribution costs being allocated in Phase 2 to residential customers than they would be charged for PPP costs on the electric side. On the gas side, the treatment of PPP costs as distribution-related has an even greater impact, as 80% of gas distribution costs are assigned to residential customers. TURN proposes that at least the incremental A&G costs of PPP programs be unbundled by PPP labor and charged to PPP themselves.⁶

VI. SUMMARY OF SETTLEMENT AGREEMENT

The Parties agree to a method to allocate a portion of A&G expenses from distribution to Customer Program revenues.⁷ This change would allow Customer Program revenues to more clearly reflect the full costs of providing the services included in this category. Costs associated with certain employee benefits and payroll taxes that are currently allocated to distribution and recovered in the GRC revenue requirement would be reallocated to Customer Programs and the balancing accounts attributable to the Customer Programs.⁸ The Parties request that any necessary modifications or changes to rates and revenue requirements for the Customer Programs and balancing accounts be approved by the Commission in conjunction with this Partial Settlement Agreement.⁹ The Partial Settlement Agreement would result in a reduction to the GRC revenue requirement of \$31,716,000, and an increase in the revenue requirements for the Customer Programs in an equal amount. The final amount will be determined by the final decision in this proceeding.¹⁰

The estimated increase in the annual revenue requirements for each Customer Program is set forth below in Table 1. The actual annual revenue requirement increase for each Customer Program would be effective January 1, 2014 and would be calculated based on the final

⁶ Exhibit 138 (TURN Rebuttal Testimony), pp. 2-3.

⁷ Partial Settlement Agreement, Section IV, A.

⁸ Partial Settlement Agreement, Section IV, B.

⁹ Partial Settlement Agreement, Section IV, B.

¹⁰ Partial Settlement Agreement, Section IV, C.

decision.¹¹ The amount of the revenue requirement increase for the CSI program is subject to further adjustment based on the spending cap for that program in Public Utilities Code Section 2851, as may be modified.¹²

**Table 1
Revenue Requirement Increases
Customer Programs (Thousands of
Dollars)**

Energy Efficiency	Electric	PEEBA	PEERAM and PPPRAM	5.64%	23,725
	Gas	PPPEBA	PPP-EE		
Energy Savings Assistance (ESA)	Electric	PPPLIBA	PPPRAM	0.59%	2,495
	Gas		PPP-LIEE		
California Alternate Rates for Energy (CARE)	Electric	NA	CAREA	0.24%	1,027
	Gas	NA	PPP-CARE		
California Solar Initiative (CSI)	Electric	CSIBA	DRAM	0.27%	1,156
Self-Generation Incentive Program (SGIP)	Electric	SGPMA	DRAM	0.04%	156
	Gas		CFCA/NCA		
Demand Response	Electric	DREBA	DRAM	0.69%	2,895
Statewide ME&O	Electric	SWMEO-E	PEERAM and DRAM	0.05%	224
	Gas	SWMEO-G	PPP-EE and PPP-LIEE		
Family Electric Rate Assistance (FERA)	Electric	FERABA	DRAM and UGBA	0.01%	38
TOTAL				7.54%	\$31,716

¹¹ Partial Settlement Agreement, Section IV, C.

¹² Partial Settlement Agreement, Section IV, C.

Following the issuance of the final decision in this proceeding, PG&E shall increase its annual revenue requirement for the Customer Programs set forth in Table 1 above effective January 1, 2014 with the advice letters implementing the final decision.¹³

PG&E shall request its labor-related expenses (excluding pension costs, post-retirement benefits and long-term disability) in subsequent applications for approval of revenue requirements for the Customer Programs at the end of each currently authorized portfolio period, or as otherwise directed by the Commission.¹⁴ If and when the Commission issues a subsequent decision approving PG&E's annual revenue requirements for a Customer Program listed in Table 1 above, such funding decision shall supersede the approved annual revenue requirement in this Partial Settlement Agreement for that program on a prospective basis, effective as of the date the new revenue requirement becomes effective.¹⁵

The Partial Settlement Agreement addresses only the allocation of certain A&G items from distribution to PPP and the Customer Programs listed in Table A below. Pension costs, post-retirement benefits, and long-term disability, and other A&G expenses not related to the employee benefits and payroll taxes, will remain allocated from the Customer Programs to distribution rates in this GRC. The Parties are not precluded from revisiting these allocations in future proceedings. This Partial Settlement Agreement does not resolve any other issues raised by the Parties.¹⁶ This Partial Settlement Agreement does not address the factors used to allocate Customer Program revenue requirements to customer classes.¹⁷

The Partial Settlement Agreement becomes binding on the Parties on the date a final Commission decision approving the terms of this Partial Settlement Agreement without modifications unacceptable to any Party is issued by the Commission. The Partial Settlement Agreement, if approved, is effective January 1, 2014.¹⁸

¹³ Partial Settlement Agreement, Section IV, D.

¹⁴ Partial Settlement Agreement, Section IV, D.

¹⁵ Partial Settlement Agreement, Section IV, D.

¹⁶ Partial Settlement Agreement, Section I, pp. 1-2.

¹⁷ Partial Settlement Agreement, Section IV, E.

¹⁸ Partial Settlement Agreement, Sections V, VI.

VII. THE COMMISSION SHOULD APPROVE THE AGREEMENT AS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW AND IN THE PUBLIC INTEREST

A. Legal Standard for Settlements

Commission Rule 12.1(d) sets for the standard for approval of settlements:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

The Commission approves settlement agreements based on whether the settlement agreement is just and reasonable as a whole, not based on its individual terms:

In assessing settlements we consider individual settlement provisions but, in light of strong public policy favoring settlements, we do not base our conclusion on whether any single provision is the optimal result. Rather, we determine whether the settlement as a whole produces a just and reasonable outcome.¹⁹

As noted above, the Commission strongly favors settlement:

The Commission also takes into consideration a long-standing policy favoring settlements. This policy reduces litigation expenses, conserves scarce Commission resources and allows parties to craft their own solutions reducing the risk of unacceptable outcomes if litigated.²⁰

The Commission's general policy supporting settlements was reiterated in the context of the current proceeding. At the January 11, 2013 Prehearing Conference, ALJ Pulsifer stated:

I just wanted to emphasize the Commission's support for alternative dispute resolution and collaboration amongst the parties in that regard. And I would also encourage parties to think about using, possibly using, alternative dispute resolution earlier in the proceeding [prior to the mandatory settlement conference], if possible, potentially on a more limited based. There might be opportunities to narrow differences, reduce the need for cross-examination, or reach limited stipulation on facts such as we can minimize the need for cross-examination or make more efficient use of hearing time.²¹

¹⁹ See e.g., D.11-05-018, *mimeo*, p. 16; D.10-04-033, *mimeo*, p. 9.

²⁰ D.10-06-038, *mimeo*, p. 36; see also, D.11-05-018, *mimeo*, p. 16.

²¹ Tr. Vol. 1, p. 38: 5-22.

CPUC Rule 12.1(a) directs that settlement in a proceeding under a Rate Case Plan should be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application. Attached as Exhibit 2 is a comparison exhibit showing the impact of the settlement on PG&E's Application.

B. The Settlement Agreement Meets The Legal Standard For Settlements

As previously described, the legal standard for Commission approval of settlements is that the settlement must be “reasonable in light of the whole record, consistent with law, and in the public interest.”²² The Parties are aware of no statutory provision or controlling law that would be contravened or compromised by the Partial Settlement Agreement. In the following discussion, the Parties demonstrate that the Partial Settlement Agreement is reasonable in light of the whole record and in the public interest.

The Partial Settlement Agreement is reasonable and in the public interest. The labor-related costs would continue to be recovered from distribution customers, consistent with the rules for recovery of the program costs. The inclusion of these costs in the balancing accounts, rather than the GRC, would provide greater clarity into PG&E's reporting of the total program costs, as TURN requests, and would continue to be reflected in the calculation of program cost effectiveness for programs with cost-effectiveness tests. The Partial Settlement Agreement resolves MEA's proposal to re-allocate these costs to generation and transmission customers.²³ The Partial Settlement Agreement does not prejudice or otherwise impact the amount of the labor-related costs that shall be determined by the Commission in this proceeding. Thus the actual amount in the decision will be used to determine the increase in the Customer Programs' revenue requirements.

The Partial Settlement Agreement resolves a complicated cost allocation question in a reasonable way for all parties and should be approved without modification.

²² CPUC Rule 12.1(d).

²³ Exhibit 157 (MEA Testimony), pp. 2-7.

VIII. CONCLUSION

For the foregoing reasons, the Parties hereby request that the Commission approve the Partial Settlement Agreement. Counsel for the Parties have authorized PG&E to submit this Motion on their behalf.

Respectfully submitted,

THE UTILITY REFORM NETWORK

PACIFIC GAS AND ELECTRIC COMPANY

By: _____ /s/

By: _____ /s/

HAYLEY GOODSON
115 Sansome Street, 9th Floor
San Francisco, CA 94104
Telephone: (415) 929-8876 ext. 360
Facsimile: (415) 929-1132
E-Mail: hayley@turn.org
Attorney for:
THE UTILITY REFORM NETWORK

MARY A GANDESBERY
Pacific Gas and Electric Company
77 Beale Street, B30A
San Francisco, CA 94105
Telephone: (415) 973-0675
Facsimile: (415) 973-5520
E-Mail: mary.gandesbery@pge.com
Attorney for
PACIFIC GAS AND ELECTRIC COMPANY

THE MARIN ENERGY AUTHORITY

By: _____ /s/

ELIZABETH KELLY
781 Lincoln Avenue, Suite 320
San Rafael, CA 94901
Telephone: (415) 464-6022
Facsimile: (415) 459-8095
E-Mail: ekelly@marinenergy.com
Attorney for:
MARIN ENERGY AUTHORITY

Date: September 6, 2013

EXHIBIT 1
PARTIAL SETTLEMENT AGREEMENT

**PARTIAL SETTLEMENT AGREEMENT BETWEEN AND AMONG
PACIFIC GAS AND ELECTRIC COMPANY (U 39-M), THE UTILITY REFORM
NETWORK, AND THE MARIN ENERGY AUTHORITY**

I. INTRODUCTION

In accordance with Rule 12.1 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, Pacific Gas and Electric Company (“PG&E”), The Utility Reform Network (“TURN”), and the Marin Energy Authority (“MEA”) (collectively referred to as “the Parties” or individually as a “Party”), hereby enter into this Partial Settlement Agreement to resolve ratemaking issues raised in PG&E’s *Application for Authority, Among Other Things, to Increase Rates and Charges for Electric and Gas Service Effective on January 1, 2014* (“Application”). This Partial Settlement Agreement is related to certain Administrative and General (“A&G”) expenses that are currently proposed to be included in the distribution function in the General Rate Case (“GRC”) for certain programs funded outside of the GRC; specifically Energy Efficiency, Demand Response, Energy Savings Assistance, California Alternate Rates for Energy, Family Electric Rate Assistance, the Self-Generation Incentive Program, California Solar Initiative (“CSI”), and Statewide Marketing, Education and Outreach (collectively “Customer Programs”).

The Parties believe that this Partial Settlement Agreement is in the public interest and represents a fair and equitable resolution of the issue raised by TURN and MEA in this proceeding regarding the allocation of Public Purpose Programs (“PPP”) charges in the distribution function rates and request that the Commission approve it without modification.

The Partial Settlement Agreement addresses only the allocation of certain A&G items from distribution to PPP and the Customer Programs listed in Table A below. Pension costs, post-retirement benefits and long-term disability, and other A&G expenses not related to the employee benefits and payroll taxes will remain allocated from the Customer Programs to distribution rates in this GRC. Nothing in this proposal precludes revisiting these allocations in

future proceedings. This Partial Settlement Agreement does not resolve any other issues raised by the Parties in this proceeding.

II. RECITALS

A. On November 15, 2012, PG&E filed its 2014 GRC Application. PG&E's Application requested, among other relief, certain labor-related costs for the Customer Programs. (Exhibit 4 (PG&E-2), Chapter 7, Section C.)

B. On January 11, 2013, the Commission convened a prehearing conference before Administrative Law Judge Pulsifer and Assigned Commissioner Florio.

C. On January 22, 2013, Commissioner Florio issued an "*Assigned Commissioner's Ruling and Scoping Memo*" setting the procedural schedule, as well as addressing the scope of the proceeding and other procedural matters.

D. On May 17, 2013, MEA served its intervenor testimony which addressed, among other issues, PPP-related labor costs in its "A&G" forecasts. MEA's testimony requests that these PPP-related labor costs be reallocated to the generation function. (Exhibit 157 (MEA Testimony), pp. 2-7.)

E. On June 28, 2013, TURN served its rebuttal testimony of William B. Marcus. In its rebuttal testimony, TURN disagreed with MEA's proposal to allocate the PPP-related labor costs to the generation function and, instead, requests that the incremental A&G costs of PPP programs be unbundled and charged to PPP programs. (Exhibit 138 (TURN Rebuttal Testimony), pp. 2-3.)

F. On June 28, 2013, PG&E served its rebuttal testimony and addressed MEA's cost reallocation proposal. PG&E's rebuttal testimony stated that the labor component of PPP costs are customer service related costs similar to the customer service and customer accounts costs included in the distribution Unbundled Cost Categories ("UCCs") and should not be excluded from the Operations and Maintenance ("O&M") labor allocations or allocated to the transmission and generation function. (Exhibit 58 (PG&E-21), Chapter 6, pp. 6-30 to 6-34.)

G. In August 2013, the Parties conducted settlement negotiations regarding the allocation of the labor-related costs for the Customer Programs.

H. On August 29, 2013, pursuant to Rule 12.1(b), PG&E notified all parties on the service list for this consolidated proceeding, and the services lists for the Customer Program proceedings (A.11-03-001, A.11-05-019, A.12-07-001, R.12-08-007, and A.12-11-005), of the Partial Settlement Agreement and Settlement Conference.

I. On September 5, 2013, the Parties hosted the Settlement Conference at PG&E's offices and this Partial Settlement Agreement was executed thereafter.

III. BACKGROUND

For purposes of determining the GRC revenue requirements, there are certain residual costs such as A&G expenses that cannot be directly assigned to functional categories such as generation or distribution. Since PG&E's 2003 GRC, these residual costs have been allocated to UCCs¹ based on direct labor factors. In determining these labor factors, direct labor for the Customer Programs is included with distribution labor. This method was agreed upon by parties in PG&E's 2003 GRC. One of the goals of allocating residual costs in this manner is to achieve consistent allocations among the various proceedings that are litigated outside of the GRC, including Gas Transmission, Nuclear Decommissioning Cost Triennial Proceeding, Gas PPP and Electric PPP.

IV. ALLOCATION METHOD

A. The Parties agree to a method allocating a portion of A&G expenses from distribution to Customer Program revenues. This will allow Customer Program revenues to more clearly reflect the full costs of providing the services included in this category.

B. The Parties agree that costs associated with certain employee benefits and payroll taxes that are currently allocated to distribution and recovered in the GRC revenue requirement be reallocated to Customer Programs and the balancing accounts attributable to the Customer Programs, and that any necessary modifications or changes to rates and revenue requirements for these programs and balancing accounts be approved by the Commission as part of this Partial Settlement Agreement. These costs include employee benefits (medical, vision, dental,

¹ UCCs are used to assign costs to utility functional categories.

employee healthcare contributions, group life insurance, short-term incentive payments, 401 K expenses, relocation expenses, short-term disability, tuition reimbursement) and payroll taxes.

C. Except as otherwise set forth in this paragraph below, the Parties agree to a reduction to PG&E's requested GRC revenue requirement of \$31,716,000 effective January 1, 2014, and an increase in the revenue requirements for the Customer Programs effective January 1, 2014, in an equal amount. The estimated increase in the annual revenue requirements for each Customer Program is set forth in Table 1 below. The actual annual revenue requirement adjustments for the GRC and the balancing accounts will be based on the final decision in this proceeding, which shall authorize the necessary increase in revenue requirements and changes in rates and related Commission decisions necessary for each of the referenced Customer Programs. The amount of the revenue requirement increase for the CSI program is subject to further adjustment based on the spending cap in Public Utilities Code Section 2851, as may be modified.

**TABLE 1
REVENUE REQUIREMENT INCREASES CUSTOMER
PROGRAMS (THOUSANDS OF DOLLARS)**

Energy Efficiency	Electric	PEEBA	PEERAM and PPPRAM	5.64%	23,725
	Gas	PPPEBA	PPP-EE		
Energy Savings Assistance (ESA)	Electric	PPPLIBA	PPPRAM	0.59%	2,495
	Gas		PPP-LIEE		
California Alternate Rates for Energy (CARE)	Electric	NA	CAREA	0.24%	1,027
	Gas	NA	PPP-CARE		
California Solar Initiative (CSI)	Electric	CSIBA	DRAM	0.27%	1,156
Self-Generation Incentive Program (SGIP)	Electric	SGPMA	DRAM	0.04%	156
	Gas		CFCA/NCA		
Demand Response	Electric	DREBA	DRAM	0.69%	2,895
Statewide ME&O	Electric	SWMEO-E	PEERAM and DRAM	0.05%	224
	Gas	SWMEO-G	PPP-EE and PPP-LIEE		
Family Electric Rate Assistance (FERA)	Electric	FERABA	DRAM and UGBA	0.01%	38
TOTAL				7.54%	\$31,716

D. Following the issuance of the final decision in this proceeding, PG&E shall increase, effective January 1, 2014, its annual revenue requirement for the Customer Programs set forth in Table 1 above along with the advice letters implementing the final decision in this proceeding. Also, PG&E will include the costs of the employees' benefits and payroll taxes in the balancing and memorandum accounts for each Customer Program effective January 1, 2014.

PG&E shall request its full labor-related expenses, other than pension costs, post-retirement benefits and long-term disability and other A&G expenses not related to the employee benefits and payroll taxes, in subsequent applications for approval of revenue requirements for the Customer Programs at the end of each currently authorized portfolio period, or as otherwise directed by the Commission. A summary of the approved portfolio cycles and associated funding decisions for the Customer Programs is attached hereto as Attachment A. If and when

the Commission issues a subsequent decision approving PG&E's annual revenue requirements for a Customer Program listed in Table 1, above, such funding decision shall supersede the approved revenue requirement in this Partial Settlement Agreement on a prospective basis for such program, effective as of the date the new revenue requirement for the Customer Program becomes effective. The Parties commit to discussing the allocation of A&G costs not collected through PPP prior to the submittal of PG&E's next GRC Phase 1 application.

E. Currently distribution revenues are allocated to customer classes using different factors than used for the Customer Program revenues. This Partial Settlement Agreement does not address the factors used to allocate Customer Program revenue requirements to customer classes.

V. COMMISSION APPROVAL.

Commission Approval is a condition precedent to the effectiveness of this Partial Settlement Agreement. This Partial Settlement Agreement is binding on the Parties only if the Commission issues a decision approving it in its entirety and without modification unacceptable to any Party.

VI. EFFECTIVE DATE.

This Partial Settlement Agreement shall become binding on the Parties on the date a final Commission decision approving the terms of this Partial Settlement Agreement without modification unacceptable to any Party is issued by the Commission. Provided Commission Approval is obtained, the Effective Date of this Partial Settlement Agreement is January 1, 2014.

VII. GENERAL TERMS AND CONDITIONS.

1. The Partial Settlement Agreement is intended to be a resolution among the Parties of the allocation of the labor-related costs for the Customer Programs listed in Table 1.

2. The Parties agree to support the Partial Settlement Agreement and perform diligently, and in good faith, all actions required or implied hereunder to obtain Commission approval of the Partial Settlement Agreement, including without limitation, the preparation of written pleadings.

3. The Parties agree by executing and submitting this Partial Settlement Agreement

that the relief requested herein is just, fair and reasonable, and in the public interest.

4. The Partial Settlement Agreement is not intended by the Parties to be precedent regarding any principle or issue. The Parties have assented to the terms of this Partial Settlement Agreement only for the purpose of arriving at the compromise embodied in this Partial Settlement Agreement. Each Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, and arguments which may be different than those underlying this Partial Settlement Agreement and each Party declares that this Partial Settlement Agreement should not be considered as precedent for or against it.

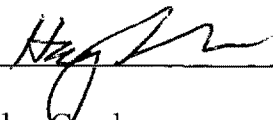
5. This Partial Settlement Agreement embodies compromises of the Parties' positions. No individual term of this Partial Settlement Agreement is assented to by any Party, except in consideration of the other Parties' assent to all other terms. Thus the Partial Settlement Agreement is indivisible and each part is interdependent on each and all other parts. Any Party may withdraw from this Partial Settlement Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

6. The terms and conditions of the Partial Settlement Agreement may only be modified in writing subscribed to by the Parties and approved by a Commission order.

The Parties have caused this Partial Settlement Agreement to be executed by their authorized representatives. By signing this Partial Settlement Agreement, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

THE UTILITY REFORM NETWORK

PACIFIC GAS AND ELECTRIC
COMPANY

By:  _____
Hayley Goodson
Staff Attorney

By: _____
Steven E. Malnight
Vice President, Customer Energy Solutions

Date: September 6, 2013

Date: September 5, 2013

THE MARIN ENERGY AUTHORITY

By: _____
Elizabeth Kelly
Legal Director

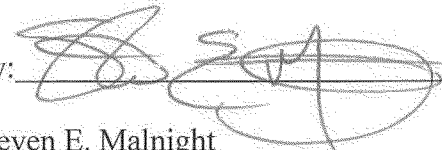
Date: September ____, 2013

The Parties have caused this Partial Settlement Agreement to be executed by their authorized representatives. By signing this Partial Settlement Agreement, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

THE UTILITY REFORM NETWORK

PACIFIC GAS AND ELECTRIC
COMPANY

By: _____

By:  _____

Hayley Goodson
Staff Attorney

Steven E. Malnight
Vice President, Customer Energy Solutions

Date: September ____, 2013

Date: September 5, 2013

THE MARIN ENERGY AUTHORITY

By: _____

Elizabeth Kelly
Legal Director

Date: September ____, 2013

The Parties have caused this Partial Settlement Agreement to be executed by their authorized representatives. By signing this Partial Settlement Agreement, the representatives of the Parties warrant that they have the requisite authority to bind their respective principals.

THE UTILITY REFORM NETWORK

PACIFIC GAS AND ELECTRIC
COMPANY

By: _____

By: _____

Hayley Goodson
Staff Attorney

Steven E. Malnight
Vice President, Customer Energy Solutions

Date: September ____, 2013

Date: September 5, 2013

THE MARIN ENERGY AUTHORITY

By:  _____

Elizabeth Kelly
Legal Director

Date: September 6, 2013

Attachment A to Partial Settlement Agreement

Programs	Type	Expense Accounts	Recovery Accounts	Current Proceeding	Funding Decision	Current Cycle
Energy Efficiency	Electric	PEEBA	PEERAM and PPPRAM	A.12-07-001	D.12-11-015	2013-2014
	Gas	PPPEBA	PPP-EE			
Energy Savings Assistance (ESA)	Electric	PPPLIBA	PPPRAM	A.11-05-019	D.12-08-044	2012-2014
	Gas		PPP-LIEE			
California Alternate Rates for Energy (CARE)	Electric	NA	CAREA	A.11-05-019	D.12-08-044	2012-2014
	Gas	NA	PPP-CARE			
California Solar Initiative (CSI)	Electric	CSIBA	DRAM	R.12-11-005	D.06-12-033	2007-2016
Self Generation Incentive Program (SGIP)	Electric	SGPMA	DRAM	R.12-11-005	D.11-12-030	2001-2016
	Gas		CFCA/NCA			
Demand Response	Electric	DREBA	DRAM	A.11-03-001	D.12-04-045	2012-2014
Statewide ME&O	Electric	SWMEO-E	PEERAM and DRAM	A.12-08-007	D.13-04-021	2013-2014
	Gas	SWMEO-G	PPP-EE and PPP-LIEE			
Family Electric Rate Assistance (FERA)	Electric	FERABA	DRAM and UGBA	A.11-05-019	D.12-08-044	2012-2014

**EXHIBIT 2
COMPARISON BETWEEN RATE CASE REQUEST
AND SETTLEMENT AGREEMENT
(CPUC RULE 12.1(A))**

	GRC Application	Settlement Agreement	Reduction in GRC Request*
Customer Program A&G	31,716,000	0	31,716,000

*The reduction in the GRC revenue request would be wholly or partially offset by increases in the approved revenue requirements for Customer Programs, depending on the outcome of the decision.