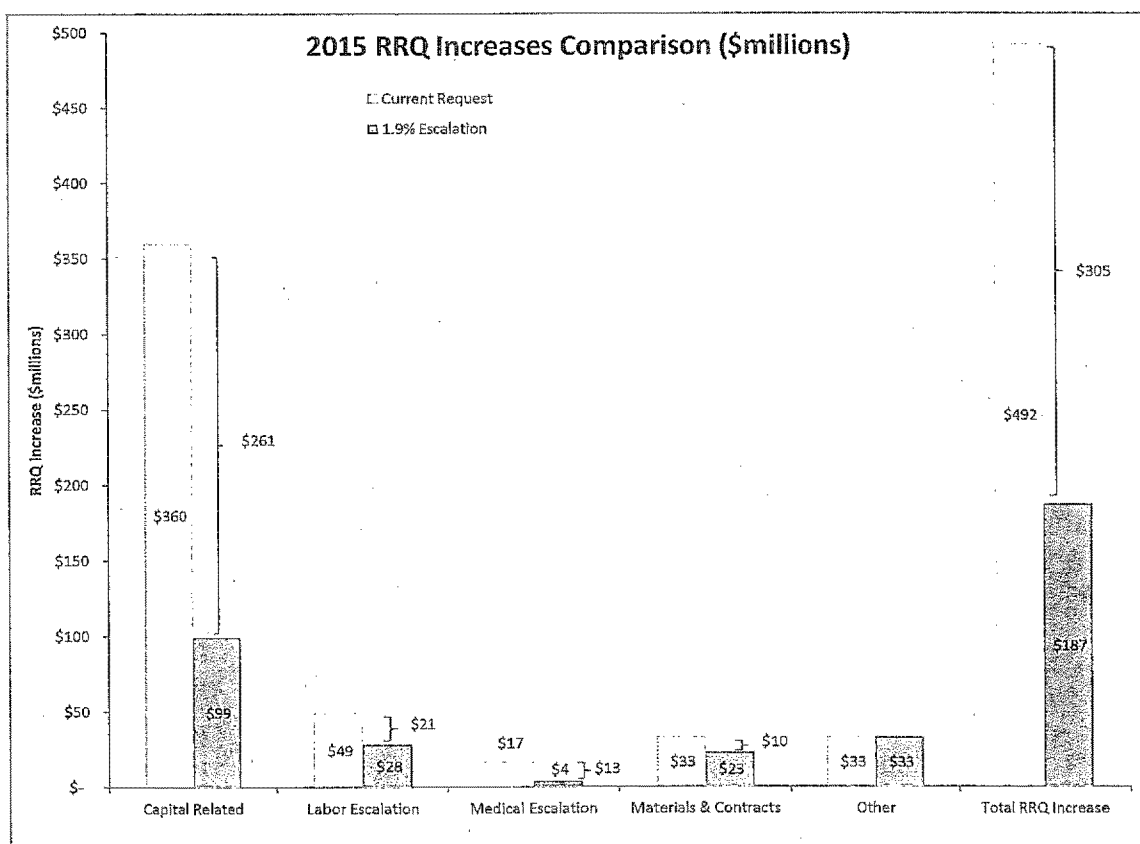


1           Figure 1-1 shows differences by revenue requirement component  
2           between expected 2015 cost growth and CPI. As is graphically evident, the  
3           largest difference by far is in the area of capital costs. This extraordinary  
4           shortfall would severely restrict PG&E's capital programs and impair PG&E's  
5           ability to provide safe and reliable service.

**FIGURE 1-1**  
**PACIFIC GAS AND ELECTRIC COMPANY**  
**2015 REVENUE REQUIREMENT INCREASES COMPARISON**  
**(IN MILLIONS OF DOLLARS)**



6           To respond to intervenor concerns that a PTYR mechanism should be  
7           simple and that they do not have the capacity to review a multi-year capital  
8           forecast, we have based our PTY capital additions forecast for attrition  
9           purposes on the TY amount, adjusted only to reflect appropriate escalation.  
10          This allows us to base this component of our cost increases on a capital  
11          additions forecast which intervenors have the full opportunity to assess and  
12          evaluate. We are taking this voluntary step for simplicity purposes, even  
13          though capital additions used in the formula will be materially less than



## Example (Capital)

|  |           | 2014  | 2015         | 2016         |
|--|-----------|-------|--------------|--------------|
| Beginning recorded balance (\$)  |           | 1000  | 1,120        | 1,240        |
| Additions (\$)   | January   | 10    | 10           | 10           |
|  | February  | 10    | 10           | 10           |
|  | March     | 10    | 10           | 10           |
|  | April     | 10    | 10           | 10           |
|  | May       | 10    | 10           | 10           |
|  | June      | 10    | 10           | 10           |
|  | July      | 10    | 10           | 10           |
|  | August    | 10    | 10           | 10           |
|  | September | 10    | 10           | 10           |
|  | October   | 10    | 10           | 10           |
|  | November  | 10    | 10           | 10           |
|  | December  | 10    | 10           | 10           |
| End of year recorded plant base (beginning + total additions made in the year) |           | 1,120 | 1,240        | 1,360        |
| Recorded rate base (weighted average)  |           | 1,060 | 1,180        | 1,300        |
| Revenue Requirement Factor   |           | 17%   | 17%          | 17%          |
| RRQ (\$)   |           | 180.2 | <b>200.6</b> | <b>221</b>   |
| CPI  |           |       | 3%           | 3%           |
| CPI escalation RRQ (\$)  |           | 180.2 | <b>185.6</b> | <b>191.2</b> |