# ATTACHMENT A

# SETTLEMENT IN APPLICATION 09-03-003

## I. SETTLEMENT AGREEMENT

In accordance with Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), the parties to this Settlement (Settling Parties) agree on a mutually acceptable outcome to all issues in Application (A.) 09-03-003, Application Of Pacific Gas And Electric Company To Establish a Retirement Plan Funding Mechanism and to Increase Gas and Electric Revenue Requirements, Rates and Charges for a Retirement Plan Contribution, Effective January 1, 2011 (Application).

## II. SETTLEMENT PARTIES

The Settling Parties are as follows:

Coalition of California Utility Employees (CCUE)

Division of Ratepayer Advocates (DRA)

Pacific Gas and Electric Company (PG&E)

## III. SETTLEMENT CONDITIONS

The Settling Parties agree this Settlement resolves the specified issues raised in the Application by the Settling Parties, subject to the following reservations:

1. This Settlement embodies the entire understanding and agreement of the Settling Parties with respect to the matters described, and it supersedes prior oral or written agreements, principles, negotiations, statements, representations, or understandings among the Settling Parties with respect to those matters.

2. This Settlement represents agreement among the Settling Parties to the facts and law as specified. Following Rule 12.5, the Settling Parties agree that this Settlement should not constitute precedent regarding any principle or issue in this proceeding or in any future proceeding.

3. The Settling Parties agree that this Settlement is reasonable in light of the testimony submitted, consistent with law, and in the public interest, in accordance with Rule 12.1(d).

4. The Settling Parties agree that no provision of this Settlement shall be construed against any Settling Party because that Settling Party or its counsel or advocate drafted the provision.

5. This Settlement may be amended or changed only by a written agreement signed by the Settling Parties.

6. The Settling Parties shall jointly request Commission approval of this Settlement and shall actively support prompt approval of the Settlement.

7. The Settling Parties intend the Settlement to be interpreted and treated as a unified, integrated agreement. In the event the Commission rejects or modifies this Settlement, the Settling Parties reserve their rights under Rule 12.6.

## IV. BACKGROUND

### A. 1994 – 2010

From 1994 through 2005 PG&E made no pension contributions for regular Retirement Plan (Plan) benefits (other than for Voluntary Retirement Incentive).

### 1. 2003 General Rate Case

In PG&E's 2003 test year General Rate Case (GRC) (A. 02-11-017, *et al.*), PG&E requested Commission approval of a total GRC-associated (*i.e.*, gas and electric distribution and electric generation lines of business) revenue requirement of $74.8 million related to the Plan contribution. The Commission denied PG&E's request, explaining, "The need for ratepayer contributions to the Retirement Plan trust should be based on the **funding status** of the Retirement Plan trust."[1] Since the funded status at that time exceeded 100% (*i.e.*, the actuarial value of the Plan's assets exceeded the actuarial value of the liabilities – the present value of accrued amounts owed to current and future retirees), the Commission declined to include a Plan contribution in determining PG&E's authorized revenue requirement for 2003. [2]

In July 2005, PG&E filed the "Petition Of Pacific Gas And Electric Company To Modify Decision 04-05-055 Regarding Pension Contributions" (2005 Petition), requesting an opportunity to show that it was prudent for the Commission to approve a resumption of pension contributions in 2006, and to approve recovery of that contribution in rates beginning January 1, 2006, subject to being credited back to ratepayers if the Commission later ruled against PG&E on the merits.

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[1] Decision 04-05-055, Finding of Fact (FOF) 13 on p. 129 (emphasis added).

[2] *Id*., mimeo, pp. 5 and 77, FOF 13-15 on pp. 129-30.

On December 16, 2005, the Commission issued D.05-12-046, which modified FOF 13 in D.04-05-055 to read as follows:

> The need for ratepayer contributions to the Retirement Plan trust should be based on the **funding status** of the Retirement Plan trust. PG&E may continue to evaluate the need for a contribution to the Retirement Plan trust. In the event PG&E determines that it would be prudent to resume contributions in 2006, PG&E is authorized to file an application for a revenue requirement increase to fund the estimated contribution for 2006 only, and PG&E is further authorized to make that revenue requirement effective in rates on January 1, 2006, subject to refund to PG&E ratepayers upon Commission determination of the merits of the application.[3]

On December 20, 2005, PG&E filed A.05-12-021 requesting that the Commission approve a total GRC-associated revenue requirement of $155.0 million for 2006 related to the Plan contribution. PG&E's 2007 GRC, A.05-12-002, included a request for a total GRC-associated revenue requirement related to the Plan contribution of $157.8 million annually for 2007, 2008 and 2009.

### 2. 2006 Settlement and 2007 GRC

In D.06-06-014, the Commission adopted an uncontested settlement (2006 Settlement) among PG&E, DRA and CCUE to allow PG&E to include Plan contributions in its revenue requirements for 2006 through 2009, the end of the 2007 GRC cycle. In support of adopting the 2006 Settlement, the Commission found that the funded status of PG&E's Plan had dropped below 100% and would continue to decline if no contributions were made in subsequent years.[4] The 2006 Settlement provided for Plan contributions in 2006 through 2009 that

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3 D.05-12-046, Ordering Paragraph (OP) 1, pp. 11-12 (emphasis added).

4 D.06-06-014, FOF 1, mimeo, p. 20.

would result in the trust being fully funded on January 1, 2010, on a projected basis.

The 2006 Settlement adopted contribution amounts of $273.2 million in 2006 and $176 million each year 2007 through 2009 on a total company basis, which translated into GRC-associated revenue requirements of $155 million for 2006 and $98.2 million annually for 2007, 2008 and 2009. In D.07-03-044, the Commission adopted a settlement of PG&E's 2007 GRC (2007 GRC Settlement), including a one-year extension of the terms of the 2006 Settlement that carried forward the 2007-2009 contribution level into 2010.

In connection with the 2006 Settlement, the Commission established the two-way Pension Contribution Balancing Account (PCBA) for differences between authorized contributions to the trust and 1) lower contributions for any reason or 2) federally mandated higher contributions.

### 3. Current status of trust

Largely as a result of the dramatic collapse of financial markets in 2008, the contributions scheduled through 2010 are no longer projected to be sufficient to attain a 100% funded status for the trust by January 1, 2011, because the decline in financial markets has reduced the value of PG&E's Plan trust assets. Using January 1, 2009 asset values, the funded status of the trust, based on actuarial values, is projected to be 87.9% as of January 1, 2011, including the effect of contributions scheduled through 2010 pursuant to the 2006 Settlement/2007 GRC Settlement.

According to PG&E's calculations, were customers to fund the trust through the next GRC cycle so as to achieve a 100% projected funded status as of January 1, 2014, the required annual contribution would be approximately $634.0 million for 2011-2013, with an associated annual revenue requirement of approximately $392.1 million – almost four times the 2010 contribution agreed to in the 2006 Settlement/2007 GRC Settlement.

### B. Current Litigation Positions

#### 1. PG&E'S Application

Through this Application, PG&E requested that the Commission approve a mechanism for annually adjusting the Plan trust contribution outside of the GRC, in which it has historically been determined on a three- or four-year cycle. PG&E proposed that the goal of 100% funded status be targeted on a rolling seven-year basis and reviewed annually through an Advice Letter filed in October of each year. PG&E stated that an annual review would make the Plan better able to respond to the variability and volatility in financial markets that can result in large changes in values and funded status from one GRC cycle to the next. PG&E calculated that achieving the 100% funded status goal over seven years rather than three, so as to return the Plan to 100% funded status by January 1, 2017, would reduce the necessary annual contribution starting in 2011 from $634 million to $447.6 million on a total company basis. Under PG&E's proposal, the funded ratio of PG&E's Plan would gradually increase through 2016.

PG&E requested an annual GRC-associated revenue requirement of an estimated $277.8 million, associated with an annual Plan contribution in 2011 through 2016 of an estimated $447.6 million on a total company basis. These estimated amounts would be updated in an October 2010 Advice Letter requesting Plan funding for 2011 and similarly for each year thereafter. PG&E requested that the revenue changes for 2011 be incorporated into the year-end 2010 Annual Electric True-up (AET) and Annual Gas True-up (AGT) advice filings, and thereafter that annual adjustments under the mechanism be incorporated into the AET and AGT filings to be effective January 1 of the subsequent year.

### 2. DRA's Report

DRA provided its report on PG&E's Application June 5, 2009. DRA proposed that PG&E's funding request be reduced by approximately 55% and that the Company utilize a portion of the Plan's $1.2 billion credit balance[5] to satisfy the remainder of the calculated contribution for the next three years. DRA's proposed annual revenue requirement for 2011 through 2013 was $143.2 million. (The equivalent GRC-associated revenue requirement was $126.9 million.) DRA further proposed using a nine-year rather than a seven-year rolling amortization period, with the horizon falling on January 1, 2019, rather than January 1, 2017. DRA supported the goal of 100% funded status, but did not specify post-2013 contribution amounts or assumed rates of return on assets necessary to achieve 100% funded status by the end of nine years. DRA rejected the idea of an annual update through an Advice Letter mechanism, but

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[5] Credit balance refers to the cumulative excess, since the adoption of the Employee Retirement Income Security Act (ERISA), of actual contributions made to the Plan trust over the minimum required contribution.

proposed adopting an Advice Letter mechanism as a safeguard to prevent for a period of three years the funded ratio from falling below 80%.

DRA proposed that at the end of three years the pension contribution would revert back to being part of the GRC review process. DRA recognized that its proposal could increase the likelihood that required contributions would be higher in future years, and expressed the hope that financial markets would improve so that such large contributions would not be needed in the future. Under DRA's proposal the funded ratio of PG&E's Plan would continue to decrease through 2013.

## V. SETTLEMENT TERMS

The Settling Parties agree that based on January 1, 2009 assets, the funded status of PG&E's Plan trust, based on actuarial values, was projected to be 95.4% as of January 1, 2010, and 87.9% as of January 1, 2011, including the effect of currently scheduled contributions through the end of 2010, pursuant to D.06-06-014 and D.07-03-044. The Settling Parties further agree that this Settlement is intended to provide for pension contributions in the years 2011-2013 that will move PG&E's trust toward fully funded status within a reasonable period of years. On a projected basis, this Settlement will result in a funded status of 89.7% on January 1, 2014.

The Settling Parties agree as follows:

1) The overall goal for Plan contributions is to attain a 100% funded status over a reasonable period of years.

2) PG&E will retain the assumed 7.0% discount rate for Plan liabilities and the assumed 7.5% annual return on Plan trust assets as a basis for computing the Plan contribution for ratemaking purposes.

3) The Settling Parties agree that PG&E should retain the PCBA for differences between authorized contributions to the trust and 1) lower contributions for any reason or 2) federally mandated higher contributions.

4) PG&E may, at its sole discretion, file a Tier 2 Advice Letter to recalculate the Plan contribution and revenue requirements if and when the actual funded status of the trust falls below 85% (*i.e.*, the actuarial value of assets falls below 85% of the actuarial accrued liability). PG&E will provide background information to allow DRA to review the Advice filing.

5) Other than Advice Letters associated with the trigger filing described in item 4) above or with the PCBA, there will be no separate Advice Letters unless there are changes in the applicable pension laws.

6) Except as may be required under items 3) and 4) above, PG&E will make the following contributions to the Retirement Plan trust:

   - PG&E will make a cash contribution in 2011 of $245.2 million. This is the remaining amount after approximately 40% of the annual contribution needed to fully fund the plan by January 1, 2019, is assigned to the plan's credit balance;

- PG&E will make a cash contribution in 2012 of $286.1 million. This is the remaining amount after approximately 30% of the annual contribution needed to fully fund the plan by January 1, 2019, is assigned to the plan's credit balance;
- PG&E will make a cash contribution in 2013 of $327 million. This is the remaining amount after approximately 20% of the annual contribution needed to fully fund the plan by January 1, 2019, is assigned to the plan's credit balance.

7) Based on allocation factors included in the NOI for PG&E's 2011 GRC, the GRC-related revenue requirements associated with these cash contribution amounts are $140.514 million, $177.230 million and $215.673 million in 2011, 2012 and 2013, respectively. The table below shows the allocation of these annual revenue requirements to the GRC-related functions.

GRC Functions Revenue Requirements
(Millions of Dollars)

| Line | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| 1 | Electric Distribution | 70.751 | 89.238 | 108.595 |
| 2 | Gas Distribution | 35.009 | 44.157 | 53.735 |
| 3 | Electric Generation | 34.754 | 43.835 | 53.344 |
| 4 | Total GRC | 140.514 | 177.230 | 215.673 |

The annual revenue requirements and the allocation to GRC-related functions will be updated, if necessary, to conform to the allocation factors adopted in PG&E's 2011 GRC using the calculation method in Appendix 1.

8) The Settling Parties agree that Commission approval of this Settlement will impose no restrictions on PG&E making a Plan contribution request in its 2014 GRC Application or in a separate application, or on positions taken by any other party in that proceeding.

9) The 2013 annual Plan cash contribution level will apply in subsequent years until a new GRC or application is resolved.

10) The Settling Parties agree that non-GRC rate impacts (*i.e.*, Plan-related revenue requirements for gas transmission, electric transmission, and nuclear decommissioning) are being addressed in other proceedings. For gas transmission and storage, the relevant proceeding is the Gas Transmission and Storage application. For electric transmission, the relevant proceeding is PG&E's Transmission Owner Tariff rate filing at the Federal Energy Regulatory Commission. For nuclear decommissioning, the relevant proceeding is the Nuclear Decommissioning Triennial Cost Proceeding.

11) Unless superseded by items 3) or 4), above, after the Commission issues a final decision approving this Settlement, PG&E agrees to make total company Plan contributions as set forth in item 6). PG&E will make quarterly contributions to its Retirement Plan trust fund during these years consistent with federal requirements for retirement plans that are less than 100% funded. These quarterly payment dates are

April 15, July 15, October 15 and January 15 for each annual payment cycle.

12) PG&E will file an annual report with the Commission, with service to DRA and CCUE, verifying the amount and dates of pension contributions. The report shall also include the calendar year-end market value of Plan assets.

13) The Settling Parties agree that if this Settlement is not adopted, the Settling Parties reserve their cross-examination rights.

14) The Settling Parties agree that the chart at part VI, below, of this Settlement constitutes the comparison exhibit showing the impact of the Settlement in relation to the litigation positions of PG&E and DRA, as required by Rule 12.1(a).

## VI. COMPARISON EXHIBIT

**Annual Retirement Plan Contributions and Related Revenue Requirements**
*(in millions)*

| | | PG&E | | DRA (1) | | Settlement | |
|---|---|---|---|---|---|---|---|
| Line | Year | Total Company Contribution | GRC-related Revenue Requirement | Total Company Contribution | GRC-related Revenue Requirement | Total Company Contribution | GRC-related Revenue Requirement |
| 1 | 2011 | 447.6 | 277.8 | 204.4 | 126.9 | 245.2 | 140.5 |
| 2 | 2012 | (2) | (2) | 204.4 | (3) | 286.1 | 177.2 |
| 3 | 2013 | (2) | (2) | 204.4 | (3) | 327.0 | 215.7 |

Notes:
(1) For comparison purposes, DRA's position is stated as the total company contribution and GRC-related revenue requirement.
(2) PG&E proposed to update the Plan contribution and revenue requirement annually.
(3) DRA presented first year revenue requirement only.

## VII. SETTLEMENT EXECUTION

This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Settlement shall become effective among the Settling Parties on the date the last Settling Party executes the Settlement as indicated below. In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed this Settlement on behalf of the Settling Parties they represent. This Settlement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

**Coalition of California Utility Employees**

Signature: /s/

Name: Tanya A. Gulesserian

Title: Attorney

Date: July 31, 2009

**Division of Ratepayer Advocates**

Signature: /s/

Name: R. Mark Pocta

Title: Program Manager

Date: July 31, 2009

**Pacific Gas and Electric Company**

Signature: /s/

Name:  Jane Yura

Title:  Vice President

Date:  July 31, 2009

(END OF ATTACHMENT A)

# APPENDIX 1

Appendix 1

PACIFIC GAS AND ELECTRIC COMPANY

Retirement Plan Contribution
Revenue Requirement

| Line No | Year of Plan Contribution | Contribution Amount | Year of Revenue Requirement Calculation 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| | | Revenue Requirement Factors | | | |
| 1 | 2011 | | 0.64958 | 0.06138 | 0.05913 |
| 2 | 2012 | | | 0.64958 | 0.06138 |
| 3 | 2013 | | | | 0.64958 |
| | | Total Revenue Requirements (Millions of Dollars) | | | |
| 4 | 2011 | 245.200 | 159.277 | 15.050 | 14.499 |
| 5 | 2012 | 286.100 | | 185.845 | 17.561 |
| 6 | 2013 | 327.000 | | | 212.413 |
| 7 | Total | 858.300 | 159.277 | 200.895 | 244.472 |
| | | GRC Functions Revenue Requirements (Millions of Dollars) | | | |
| 8 | Elec Dist | 44.42% | 70.751 | 89.238 | 108.595 |
| 9 | Gas Dist | 21.98% | 35.009 | 44.157 | 53.735 |
| 10 | Gen | 21.82% | 34.754 | 43.835 | 53.344 |
| 11 | Total GRC | 88.22% | 140.514 | 177.230 | 215.673 |

Notes:

1 These factors are based on data from the 2011 GRC NOI and will be revised, if necessary, based on data from the 2011 GRC decision.

2 For example, the total company Retirement Plan revenue requirement for 2013 will be 0.64958 times the 2013 Retirement Plan contribution plus 0.06138 times the 2012 Retirement Plan contribution plus 0.05913 times the 2011Retirement Plan contribution.

# Revenue Requirements Estimation Model
## Analysis of Pension Estimate
## Results of Operations Calculations ($000)

Note: In order to derive pension contribution revenue requirement factors, PG&E ran the Results of Operations (RO) model below with a single $1 million investment. The resulting revenue requirement factor, in each year, is indicative of the percentage of the actual pension contribution that must be recovered through rates. The RO model below was run based on the assumptions and factors (e.g., cost allocations, tax and depreciation rates) proposed to be used in PG&E's 20011 General Rate Case NOI.

| Ln.No. | | | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| 1 | **Operating Revenue:** | | 649.58 | 61.38 | 59.13 |
| | **Operating Expenses:** | | | | |
| 2 | Energy | | 0.00 | 0.00 | 0.00 |
| 3 | Production | | 0.00 | 0.00 | 0.00 |
| 4 | Storage | | 0.00 | 0.00 | 0.00 |
| 5 | Transmission | | 0.00 | 0.00 | 0.00 |
| 6 | Distribution | | 0.00 | 0.00 | 0.00 |
| 7 | Customer Accounts | | 0.00 | 0.00 | 0.00 |
| 8 | Customer Services | | 0.00 | 0.00 | 0.00 |
| 9 | Administrative and General | | 612.40 | 0.00 | 0.00 |
| 10 | Uncollectibles | | 1.67 | 0.16 | 0.15 |
| 11 | Franchise Requirements | | 5.23 | 0.49 | 0.48 |
| 12 | Subtotal Expenses | | 619.30 | 0.65 | 0.63 |
| | **Taxes:** | | | | |
| 13 | Property | | 0.00 | 2.01 | 3.92 |
| 14 | Payroll | | 0.00 | 0.00 | 0.00 |
| 15 | Other Taxes | | 0.00 | 0.00 | 0.00 |
| 16 | State Corporation Franchise | | -0.59 | -0.82 | -0.40 |
| 17 | Federal Income | | 5.49 | 10.75 | 9.78 |
| 18 | Subtotal Taxes | | 4.89 | 11.95 | 13.30 |
| 19 | **Depreciation** | | 9.62 | 19.23 | 19.23 |
| 20 | **Total Operating Expenses** | | 633.81 | 31.83 | 33.16 |
| 21 | **Net for Return** | | 15.77 | 29.55 | 25.96 |
| 22 | **Weighted Average Rate Base** | | 179.23 | 335.75 | 295.04 |
| 23 | **Rate of Return:** | On Rate Base | 8.80% | 8.80% | 8.80% |
| 24 | | On Equity | 11.35% | 11.35% | 11.35% |
| 25 | **Total Company Factor** | | **0.64958** | **0.06138** | **0.05913** |

## Revenue Requirements Estimation Model
### Analysis of Pension Estimate
### Results of Operations Calculations ($000)

Note: In order to derive pension contribution revenue requirement factors, PG&E ran the Results of Operations (RO) model below with a single $1 million investment. The resulting revenue requirement factor, in each year, is indicative of the percentage of the actual pension contribution that must be recovered through rates. The RO model below was run based on the assumptions and factors (e.g., cost allocations, tax and depreciation rates) proposed to be used in PG&E's 20011 General Rate Case NOI.

| Ln.No. | | | | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| 1 | **Operating Revenue:** | | | 650 | 61 | 59 |
| | **Operating Expenses:** | | | | | |
| 2 | Energy | | | - | - | - |
| 3 | Production | | | - | - | - |
| 4 | Storage | | | - | - | - |
| 5 | Transmission | | | - | - | - |
| 6 | Distribution | | | - | - | - |
| 7 | Customer Accounts | | | - | - | - |
| 8 | Customer Services | | | - | - | - |
| 9 | Administrative and General | | | 612 | - | - |
| 10 | Uncollectibles | | | 2 | 0 | 0 |
| 11 | Franchise Requirements | | | 5 | 0 | 0 |
| 12 | Subtotal Expenses | | | 619 | 1 | 1 |
| | **Taxes:** | | | | | |
| 13 | Property | | | - | 2 | 4 |
| 14 | Payroll | | | - | - | - |
| 15 | Other Taxes | | | - | - | - |
| 16 | State Corporation Franchise | | | (1) | (1) | (0) |
| 17 | Federal Income | | | 5 | 11 | 10 |
| 18 | Subtotal Taxes | | | 5 | 12 | 13 |
| 19 | **Depreciation** | | | 10 | 19 | 19 |
| 20 | **Total Operating Expenses** | | | 634 | 32 | 33 |
| 21 | **Net for Return** | | | 16 | 30 | 26 |
| 22 | **Weighted Average Rate Base** | | | 179 | 336 | 295 |
| 23 | **Rate of Return:** | On Rate Base | | 8.80% | 8.80% | 8.80% |
| 24 | | On Equity | | 11.35% | 11.35% | 11.35% |
| | **Unbundled Cost Category Allocations** | | | | | |
| | | | Proposed UCC Factors for 2011-2013 | | | |
| 25 | Electric Generation | | 21.82% | 142 | 13 | 13 |
| 26 | Electric Distribution and PPP Admin | | 44.42% | 289 | 27 | 26 |
| 27 | Gas Distribution and PPP Admin | | 21.98% | 143 | 13 | 13 |
| 28 | Subtotal | | 88.22% | 573 | 54 | 52 |
| 29 | Nuclear Decom | | 0.48% | 3 | 0 | 0 |
| 30 | Electric AMI | | 0.36% | 2 | 0 | 0 |
| 31 | Gas AMI | | 0.14% | 1 | 0 | 0 |
| 32 | Electric Trans | | 6.55% | 43 | 4 | 4 |
| 33 | Gas Trans | | 4.25% | 28 | 3 | 3 |
| 34 | Subtotal | | 11.78% | 77 | 7 | 7 |
| 35 | Total Company Factor<br>(Line 28 + Line 34)/1000 | 0.00% | 100.00% | **0.64958** | **0.06138** | **0.05913** |
| | | Electric Labor Percent | 73.63% | | | |
| | | Gas Labor Percent | 26.37% | | | |

## Revenue Requirements Estimation Model
**Analysis of Pension Estimate**
**Results of Operations Calculations ($000)**

Note: In order to derive pension contribution revenue requirement factors, PG&E ran the Results of Operations (RO) model below with a single $1 million investment. The resulting revenue requirement factor, in each year, is indicative of the percentage of the actual pension contribution that must be recovered through rates. The RO model below was run based on the assumptions and factors (e.g., cost allocations, tax and depreciation rates) proposed to be used in PG&E's 20011 General Rate Case NOI.

| Ln.No. | | | | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | **Taxable Income:** | | | | | |
| 1 | Operating Revenue | | | 650 | 61 | 59 |
| 2 | Less: | O&M Expenses | | 619 | 1 | 1 |
| 4 | | Taxes Other Than Income | | - | 2 | 4 |
| 5 | | Interest Charges | | 5 | 9 | 8 |
| 6 | | Fiscal/Calendar Adjustment | | | | |
| 7 | | Operating Expense Adjustment | | - | - | - |
| 8 | | Capitalized Interest Adjustment | | | | |
| 9 | | Capitalized Inventory Adjustment | | | | |
| 10 | | Vacation Accrual Reduction | | | | |
| 11 | | Subtotal Deductions | | 624 | 12 | 13 |
| 12 | Taxable Income before Depreciation | | | 25 | 49 | 46 |
| | **California Corporation Franchise Tax (CCFT)** | | | | | |
| 13 | State Depreciation | | | 32 | 59 | 51 |
| 14 | Removal Costs | | | - | - | - |
| 15 | Repair Allowance | | | - | - | - |
| 16 | State Taxable Income | | | (7) | (9) | (5) |
| 17 | CCFT | | | (1) | (1) | (0) |
| 18 | Deferred Taxes - Depreciation | | | - | - | - |
| 19 | Deferred Taxes - Interest | | | | | |
| 20 | Deferred Taxes - Vacation | | | | | |
| 21 | Deferred Taxes- Other | | | | | |
| 22 | Total CCFT | | | (1) | (1) | (0) |
| | **Federal Income Tax** | | | | | |
| 23 | Prior Year CCFT | | | - | (1) | (1) |
| 24 | Federal Depreciation | | | 55 | 94 | 67 |
| 25 | Removal Costs | | | - | - | - |
| 26 | Repair Allowance | | | - | - | - |
| 27 | Preferred Dividend Credit | | | | | |
| 28 | Federal Taxable Income | | | (30) | (44) | (20) |
| 29 | Federal Income Tax | | | (10) | (15) | (7) |
| 30 | Deferred Taxes - Depreciation | | | 16 | 26 | 17 |
| 31 | Deferred Taxes - Interest | | | | | |
| 32 | Deferred Taxes - Vacation | | | | | |
| 33 | Deferred Taxes - Other | | | | | |
| 34 | Total Federal Income Tax | | - | 5 | 11 | 10 |

## Revenue Requirements Estimation Model

### Analysis of Pension Estimate

### Results of Operations Calculations ($000)

Note: In order to derive pension contribution revenue requirement factors, PG&E ran the Results of Operations (RO) model below with a single $1 million investment. The resulting revenue requirement factor, in each year, is indicative of the percentage of the actual pension contribution that must be recovered through rates. The RO model below was run based on the assumptions and factors (e.g., cost allocations, tax and depreciation rates) proposed to be used in PG&E's 20011 General Rate Case NOI.

| Ln.No. | | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | **Weighted Cost of Capital** | | | |
| 1 | Debt | 2.78% | 2.78% | 2.78% |
| 2 | Preferred Stock | 0.11% | 0.11% | 0.11% |
| 3 | Common Equity | 5.90% | 5.90% | 5.90% |
| 4 | Total % | 8.80% | 8.80% | 8.80% |
| 5 | Debt | 5 | 9 | 8 |
| 6 | Preferred Stock | 0 | 0 | 0 |
| 7 | Common Equity | 11 | 20 | 17 |
| 8 | Total $ | 16 | 30 | 26 |
| | **Weighted Average Rate Base** | | | |
| 9 | Plant | 192 | 384 | 384 |
| | Working Capital | | | |
| 10 | Fuel | - | - | - |
| 11 | Materials and Supplies | - | - | - |
| 12 | Working Cash | - | - | - |
| 13 | Subtotal | - | - | - |
| 14 | Total Plant | 192 | 384 | 384 |
| | Less: | | | |
| 15 | Accumulated Deferred Taxes | 8 | 29 | 50 |
| 16 | Deferred Investment Tax Credit | - | - | - |
| 17 | Customer Advances | - | - | - |
| 18 | Deferred CIAC Tax | - | - | - |
| 19 | Vacation Pay Deferral | - | - | - |
| 20 | Capitalized Interest | - | - | - |
| 21 | Subtotal | 8 | 29 | 50 |
| 22 | Accumulated Depreciation | 5 | 19 | 38 |
| 23 | Weighted Average Rate Base | 179 | 336 | 295 |
| | | 0 | 0 | 0 |

**CPUC Account 926**
**Pensions and Benefits**
(Thousands of 2008 Dollars)

| Line | Description | Pension Contribution 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | **Recorded A&G Costs** | | | |
| 1 | Labor | - | - | - |
| 2 | M&S | - | - | - |
| 3 | Other | - | - | - |
| 4 | Medical | - | - | - |
| 5 | Wage Related | - | - | - |
| 6 | Total | - | - | - |
| | **Recorded Adjustments** | | | |
| 7 | Labor | - | - | - |
| 8 | M&S | - | - | - |
| 9 | Other | - | - | - |
| 10 | Medical | - | - | - |
| 11 | Wage Related | - | - | - |
| 12 | Total | - | - | - |
| | **Changes in Activity Levels** | | | |
| 13 | Labor | | | |
| 14 | M&S | | | |
| 15 | Other | 1,000 | - | - |
| 16 | Medical | | | |
| 17 | Wage Related | | | |
| 18 | Total | 1,000 | - | - |
| | **Gross Total** | | | |
| 19 | Labor | - | | |
| 20 | M&S | - | | |
| 21 | Other | 1,000 | - | - |
| 22 | Medical | - | | |
| 23 | Wage Related | - | - | - |
| 24 | Total | 1,000 | - | - |
| | **Capitalized amount** | | | |
| 25 | Labor | | | |
| 26 | M&S | - | - | - |
| 27 | Other | 384 | - | - |
| 28 | Medical | - | - | - |
| 29 | Wage Related | - | - | - |
| 30 | Total | 384 | - | - |
| | **Holding Company Allocation** | | | |
| 31 | Labor | - | - | - |
| 32 | M&S | - | - | - |
| 33 | Other | 0.6 | - | - |
| 34 | Medical | - | - | - |
| 35 | Wage Related | - | - | - |
| 36 | Total | 0.6 | - | - |
| | **Affiliate Allocation** | | | |
| 37 | Labor | - | - | - |
| 38 | M&S | - | - | - |
| 39 | Other | - | - | - |
| 40 | Medical | - | - | - |
| 41 | Wage Related | - | - | - |
| 42 | Total | - | - | - |
| | **Below The Line** | | | |
| 43 | Labor | - | - | - |
| 44 | M&S | - | - | - |
| 45 | Other | 3.1 | - | - |
| 46 | Medical | - | - | - |
| 47 | Wage Related | - | - | - |
| 48 | Total | 3.1 | - | - |
| | **De-escalate to 2004 Dollars (Reserved for 2005 Update) *** | | | |
| 49 | Labor | | | |
| 50 | M&S | | | |
| 51 | Other | | | |
| 52 | Medical | | | |
| 53 | Wage Related | | | |
| 54 | Total | | | |
| | **Grand Total (Above the Line Expense)** | | | |
| 55 | Labor | - | - | - |
| 56 | M&S | - | - | - |
| 57 | Other | 612.4 | - | - |
| 58 | Medical | - | - | - |
| 59 | Wage Related | - | - | - |
| 60 | Total | 612.4 | - | - |

(END OF APPENDIX 1)