

**SUPPLEMENTAL SETTLEMENT AGREEMENT ON
SCHEDULE ES AND NATURAL GAS BASELINE
QUANTITY RESIDENTIAL RATE DESIGN ISSUES
IN PG&E'S APPLICATION 10-03-014**

I. INTRODUCTION

In accordance with Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC), the parties to this Settlement Agreement agree on a mutually acceptable outcome regarding Schedule ES (ES) and Natural Gas Baseline Quantity (GBQ) rate design issues -- two out of three of the remaining rate design issues¹ for the residential class² -- in Application (A.) 10-03-014, Application of Pacific Gas and Electric Company to Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design.

This Schedule ES and Gas Baseline Quantity Settlement (ES/GBQ Settlement) is supplemental to the Settlement on Marginal Cost and Revenue Allocation issues in Application (A.) 10-03-014, filed with the CPUC on March 14, 2011 (March 14 MCRA Settlement), in that it addresses two out of the three remaining residential issues that were not resolved in the March 14 MCRA Settlement and have not already been litigated in this proceeding. The ES/GBQ Rate Design Settling Parties (Settling Parties) intend that the complementary outcomes of this ES/GBQ Settlement and the March 14 MCRA Settlement be consolidated in the Commission's final decision in this proceeding. The details of this ES/GBQ Settlement are set forth below.

¹ The bulk of PG&E's electric rate design proposals for the Residential class have already been litigated, briefed, and are the subject of Decision (D.) 11-05-047 issued on June 2, 2011. The remaining residential rate design issues in Phase 2 of PG&E's ongoing 2011 General Rate Case proceeding are: (1) natural gas baseline quantities, (2) the Schedule ES multifamily master meter discount, and (3) the Schedule ET mobile home master meter discount. Of these three issues, the first two, which were uncontested in testimony, are the subject of this Settlement Agreement. Only the third issue (Schedule ET mobile home master meter discount) is contested, and remains so despite the parties' efforts at settlement thus far. Accordingly, the single unresolved Schedule ET residential rate design issue will be the subject of rebuttal testimony due June 24, 2011 and surrebuttal testimony due July 8, 2011. The parties expect that such rebuttal and surrebuttal testimony will be followed by further settlement discussions on ET discount issues in early to mid-July, prior to hearings which, if necessary, are scheduled for July 25.

² PG&E's Residential customer class encompasses and is defined as: Schedules E-1, EL-1, EM, EML, ES, ESL, ESR, ET, ETL, E-6, EL-6, E-7, EL-7, E-8, EL-8, E-9A and E-9B. The Remaining Residential issues addressed herein, and the schedules to which they relate, are as described in PG&E's January 7, 2011 update Exhibit (PGE-14) Chapter 3. The remaining gas baseline issue would apply to all applicable residential gas rate schedules.

II. REMAINING RESIDENTIAL RATE DESIGN SETTling PARTIES

The ES/GBQ Settling Parties are as follows:³

- Pacific Gas and Electric Company (PG&E)
- The Utility Reform Network (TURN)

III. ES/GBQ SETTLEMENT CONDITIONS

This Settlement resolves the issues raised by the ES/GBQ Settling Parties in A.10-03-014 on these two residential rate design issues, subject to the conditions set forth below:

1. This ES/GBQ Settlement embodies the entire understanding and agreement of the ES/GBQ Settling Parties with respect to the matters described (natural gas baseline quantities and Schedule ES discount), and it supersedes prior oral or written agreements, principles, negotiations, statements, representations, or understandings among the ES/GBQ Settling Parties with respect to those matters. This ES/GBQ Settlement incorporates the March 14 Settlement by reference.
2. This ES/GBQ Settlement represents a negotiated compromise among the ES/GBQ Settling Parties' respective litigation positions on the matters described, and the ES/GBQ Settling Parties have assented to the terms of this Settlement only to arrive at the agreement embodied herein. Nothing contained in this ES/GBQ Settlement should be considered an admission of, acceptance of, agreement to, or endorsement of any disputed fact, principle, or position previously presented by any of the ES/GBQ Settling Parties on these matters in this proceeding. This ES/GBQ Settlement does not constitute and should not be used as a precedent regarding any principle or issue in this proceeding or in any future proceeding.

³ PG&E and TURN have been in communication with the Division of Ratepayer Advocates (DRA) and are informed and believe that the DRA does not oppose this ES/GBQ Settlement.

3. The ES/GBQ Settling Parties agree that this ES/GBQ Settlement is reasonable in light of the testimony submitted, consistent with law, and in the public interest.
4. The ES/GBQ Settling Parties agree that no provision of this ES/GBQ Settlement shall be construed against any Settling Party because that Settling Party or its counsel or advocate drafted the provision.
5. This ES/GBQ Settlement may be amended or changed only by a written agreement signed by the ES/GBQ Settling Parties.
6. The ES/GBQ Settling Parties shall jointly request Commission approval of this ES/GBQ Settlement and shall actively support its prompt approval. Active support shall include written and oral testimony if testimony is required,⁴ briefing if briefing is required, comments and reply comments on the proposed decision, advocacy to Commissioners and their advisors as needed, and other appropriate means as needed to obtain the requested approval.
7. The ES/GBQ Settling Parties intend the ES/GBQ Settlement to be interpreted and treated as a unified, integrated agreement incorporating the March 14 MCRA Settlement. In the event the Commission rejects or modifies this ES/GBQ Settlement, the ES/GBQ Settling Parties reserve their rights under CPUC Rule 12.4.

IV. PROCEDURAL AND SETTLEMENT HISTORY

The overall procedural and settlement history of A.10-03-14 is set forth in Section IV of the March 14 MCRA Settlement, to which this settlement is supplemental, and which is incorporated herein by reference.

VI. REMAINING RESIDENTIAL RATE DESIGN SETTLEMENT TERMS

A. General Terms

The ES/GBQ Settling Parties agree that the primary purpose of rate design for the residential customer class is to take the revenue allocations reached in the March 14

⁴ Any oral and written testimony that the CPUC might require may be prepared jointly among parties with similar interests.

Settlement and ensure that they are fully recovered through residential rates in a manner that is just and reasonable, is in the public interest, is reasonably based on the marginal costs from the March 14 MCRA Settlement, and reflects a reasonable compromise of parties' proposals on these subjects.

The ES/GBQ Settling Parties agree that it is reasonable for the CPUC to adopt the natural gas baseline quantities and the electric master meter discount for Schedule ES set forth below. The ES/GBQ Settling Parties agree that the actual total rates derived at the time of implementation of this ES/GBQ Settlement, once adopted by the CPUC, shall be designed on an overall revenue-neutral basis to collect the then-current revenue assigned to the Residential class.

The ES/GBQ Settling Parties agree that all testimony served prior to the date of this ES/GBQ Settlement that addresses the issues resolved by this ES/GBQ Settlement should be admitted into evidence without cross-examination by the ES/GBQ Settling Parties.

The ES/GBQ Settling Parties further agree that this ES/GBQ Settlement resolves all Remaining Residential rate design issues in A.10-03-014, other than Schedule ET mobile home park master meter discount rate design which is still contested.

B. Remaining Residential Settlement Terms

1. Natural Gas Baseline Quantities

The ES/GBQ Settling Parties agree that it is reasonable for the CPUC to adopt PG&E's uncontested proposals for natural gas baseline quantities as set forth in Attachment 1, and as described in Exhibit 14, Chapter 3, page 3-4 line 9 through Table 3-6 on page 3-8 (see excerpted table set forth in Attachment 1 to this ES/GBQ Settlement Agreement). These gas baseline quantities are based on four years of recorded data, from November 2005 through October 2009, and are set at the upper end of the legislated ranges set forth in Public Utilities Code Section 739. These natural gas baseline quantities, together with any revenue neutral rate adjustments, will be implemented in one step on the first day of the next available season after the effective date of the final decision adopting this Settlement – either April 1 or November 1.

2. Electric Master Meter Discount for Schedule ES

The ES/GBQ Settling Parties agree that it is reasonable for the CPUC to adopt a revised version of PG&E's proposals for the Schedule ES discount -- which relates to

electric multifamily service master metered customers (set forth in Exhibit 14, Chapter 3, Table 3-11 on page. 3-14, and explained at page 3-9 line 14 through page 3-13 line 18). TURN's testimony identified several modifications to the master meter discount calculation for Schedule ET that also apply to Schedule ES. No other party took a position on the Schedule ES discount. This settlement therefore is a compromise of TURN's and PG&E's positions relating to Schedule ES in this proceeding.

Specifically, the ES/GBQ Settling Parties agree it is reasonable for the CPUC to adopt the revised Schedule ES Master Meter Discount discussed below, for a base discount of **\$2.32** per space per month. The Settling Parties have agreed to revise and update PG&E's originally proposed ES Base Discount calculation (from line 32 of Table 3-13 in the above-cited testimony) as follows:

1. The revised base ES discount recognizes that the equipment costs for a master meter are greater than for a residential meter, and thus the settlement calculation uses a medium light and power (ML&P) meter at secondary voltage as a proxy for the master meter.
2. Primary and secondary distribution costs have been removed from the connection costs used in developing the revised base ES discount, to be consistent with PG&E's marginal customer access cost methodology.
3. Transformer and service equipment costs and related ongoing costs for both the tenant meter and master meter have been removed from the revised base ES discount, because tenant service and transformer costs are not avoided and no offset for these costs is needed for the master meter. Whether master metered or individually metered, the service extension termination point is typically the same. What differs is whether the connection termination point is at a single master meter or multiple residential meters in a grouped configuration.
4. For ongoing costs used in developing the revised base ES discount, adjust "Other Account 903" expenses that are included in the billing and collection cost category for the tenant meters to reflect as avoided costs only the costs for Account Services, Local Office Transactions and Neighborhood Payment Centers.

5. For ongoing costs for the master meter, applied meter services costs and meter reading costs consistent with the ML&P proxy for the master meter; apply the billing and collections costs consistent with a small light and power (SL&P) meter to reflect the billing process for a master metered multi-family development as compared to the billing of ML&P customers.

Attachment 2 provides conforming calculations to update the Table 3-13 derivation of the Schedule ES submetering discount.

To determine a Net ES Discount, the revised Base ES Discount agreed to in the Settlement, once adopted, must be adjusted to reflect the Diversity Benefit Adjustment. The Diversity Benefit Adjustment will need to be recalculated using rates in effect at the time the ES submeter discount is implemented, and should be set to the Diversity Benefit Adjustment calculated for PG&E Schedule ET multiplied by a factor of 58 percent. Thus, although the Base Discount proposal the CPUC adopts here will go into effect for this rate case cycle as proposed, without further modification, the *Net* ES Discount figures set forth here are merely illustrative:

Base Monthly ES Discount:	\$ 2.32
Less Diversity Benefit Adjustment:	<u>\$ 2.86⁵</u>
Net ES Discount:	\$ (0.54)

The effective date for the finally calculated new Net ES Master Meter Discount shall generally be the same as the effective date for the non-residential rate design changes to be implemented as a result of the 2011 GRC Phase 2 proceeding.

VII. TIMING OF RATE CHANGES

The provisions regarding the timing of this GRC rate change and rate changes between General Rate Cases agreed to in the March 14 MCRA Settlement, Term VIII. Subsections 2 and 3, shall apply to this ES/GBQ Settlement, unless specifically noted above.

VIII. 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 ES/GBQ Settlement shall become effective among the ES/GBQ Settling Parties on the

⁵ This \$2.86 figure is merely illustrative. The final figure will be 58% of the Diversity Benefit Adjustment adopted by CPUC for Schedule ET as implemented in rates pursuant to this proceeding.

ATTACHMENT 1
Natural Gas Baseline Quantities

	SUMMER Proposed	WINTER Proposed	SUMMER Proposed	WINTER Proposed
	G-1, G-S, G-T (and CARE)		GM (and CARE)	
TERRITORY	Therms per Day		Therms per Day	
P	0.46	2.18	0.33	1.06
Q	0.65	2.02	0.59	0.79
R	0.43	1.82	0.36	1.26
S	0.46	1.92	0.33	0.66
T	0.65	1.79	0.59	1.12
V	0.69	1.79	0.56	1.22
W	0.46	1.69	0.29	0.89
X	0.59	2.02	0.36	0.79
Y	0.82	2.64	0.49	1.06

ATTACHMENT 2

PACIFIC GAS AND ELECTRIC COMPANY
SCHEDULE ES SUBMETER DISCOUNT

Line No.	Submeter Discount - ES	<i>Avoided Costs per Tenant Meter</i>	<i>Costs for Master Meter</i>
1	Connection Costs (2003 \$)		
2	Eng. & Mapping	\$ -	\$ -
3	Transformer	-	-
4	Service	-	-
5	Meter	82.45	426.98
6	Transformer/Service/Meter (TSM) Equip. Cost	\$ 82.45	\$ 426.98
7	Escalation to Test Year (2011)	1.6602	1.6602
8	Escalated TSM Equipment Cost	\$ 136.88	\$ 708.87
9	RECC	9.94%	9.94%
10	Annualized Connection Equipment Cost — Annual Finance, Tax, Insurance & Depreciation	\$ 13.61	\$ 70.47
11	Test Year Secondary Dist. (\$/kW-Yr)	\$ -	
12	Test Year Ongoing Costs Per Meter		
13	Meter Services	\$ 3.29	\$ 152.47
14	Transformer Maintenance	-	-
15	Service Maintenance	-	-
16	Meter Reading	(4.21)	43.19
17	Billing & Collections	24.87	94.90
18	Total Ongoing Costs Per Meter	\$ 23.95	\$ 290.57
19	Total Connection Cost	\$ 37.56	\$ 361.04
20	Average Number Dwelling Units		37.00
21	Master Meter Connection Cost Dwelling Units		\$ 9.76
22	Net Marginal Connection Cost Per Dwelling Unit	\$ 27.80	
23	Uncollectibles Factor	0.2853%	
24	Uncollectibles	0.08	
25	Net Base Discount Per Dwelling Unit — Annual	27.88	
26	Base Submeter Discount Per Dwelling Unit — Monthly	\$ 2.32	
27	Diversity Benefit Adjustment (<i>Illustrative</i>)	2.86	<i>58% of ET Diversity</i>
28	Secondary Line Loss Adjustment	-	
29	<i>Illustrative</i> Net Discount (Monthly)	\$ (0.54)	
30	<i>Illustrative</i> Net Discount (Daily)	\$ (0.01760)	
31	Base Submeter Discount — Daily Equivalent	\$ 0.07634	

(END OF APPENDIX E)