

**ATTACHMENT A  
Settlement Agreement**

**SETTLEMENT AGREEMENT BETWEEN  
PACIFIC GAS AND ELECTRIC COMPANY AND THE  
DIVISION OF RATEPAYER ADVOCATES  
RESOLVING ALL ISSUES IN THE  
UNREVIEWED COSTS IN THE GENERATION DIVESTITURE TRANSITION  
COST MEMORANDUM ACCOUNT PROCEEDING  
(APPLICATION NO. 06-08-004)**

In accordance with Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) and Pacific Gas and Electric Company (PG&E) (together the "Settling Parties"), by and through their undersigned representatives, enter into this Settlement Agreement resolving all issues in the Unreviewed Costs in the Generation Divestiture Transition Cost Memorandum Account (GDTCTMA) proceeding, A. 06-08-004. As a compromise among their respective litigation positions in Application No. 06-08-004, PG&E and DRA agree to and support all of the terms of this Settlement Agreement.

**I. THE GENERATION DIVESTITURE TRANSITION COST  
MEMORANDUM ACCOUNT PROCEEDING**

On August 1, 2006, PG&E filed an application requesting recovery of costs that were incurred during the period of electric restructuring, as part of the planning for divestiture and market valuation of PG&E's generation assets, in compliance with Public

Utilities Code Section 367(b), that had not been previously reviewed or authorized for recovery by the Commission. PG&E's showing included: (1) divestiture/market valuation costs similar to costs deemed reasonable in PG&E's 1999 and 2001 Annual Transition Cost Proceedings, approved in Decisions 01-01-020 and 03-02-028, but which were incurred after the record period for those proceedings; and (2) divestiture/market valuation costs associated with generation assets recorded in the unreviewed costs subaccount of the Generation Divestiture Transition Cost Memorandum Account that were held in abeyance by the enactment of Assembly Bill 1X-6.

As set forth in PG&E's testimony, PG&E's application requests recovery of revenue requirements of \$2.5 million through the Modified Transition Cost Balancing Account. The costs identified in PG&E's testimony were real costs that PG&E incurred in order to comply with the requirements of Public Utilities Code Section 367(b), enacted as part of Assembly Bill 1890, which restructured the electric industry. Section 367(b) required the Commission to market value utility generation assets.

Following the prehearing conference on September 8, 2006, DRA reviewed PG&E's application, met with PG&E representatives and conducted discovery. DRA identified a potential issue over whether some or all of the costs for which PG&E was seeking recovery were discharged as part of the settlement of PG&E's federal bankruptcy proceeding resulting from the 2000-2001 energy crisis. DRA was preparing testimony raising the issue when settlement discussions commenced.

## **II. THE SETTLEMENT**

The two active parties entered into settlement discussions to try to resolve their differences. This settlement is the result of those discussions. The settlement consists of the following agreements by the Settling Parties:

1. The reasonable total revenue requirement resulting from this GDTCA application is \$1.255 million in electric revenue requirements, including interest through June 30, 2006, to be collected in rates effective January 1, 2008, by including the \$1.255 million (plus interest at the 90-day commercial paper rate calculated from June 30, 2006 to the date of transfer) in the Modified Transition Cost Balancing Account for eventual recovery in rates as part of the Annual Electric True Up advice letter.
2. The Settling Parties agree that the Commission should find that it is reasonable for PG&E to recover \$1.255 million, which is one-half of PG&E's requested GDTCA revenue requirements in this application, plus interest from June 30, 2006. Although the final settlement amount cannot be tied to specific outcomes for individual issues, the fact that the final settlement amount is also equal to most of PG&E's hydroelectric generation valuation costs that were deferred to 2006 by Decision 03-02-028, at mimeo page 21, and costs paid to Commission consultants for the environmental reviews of the Humboldt Bay Power Plant and the McArthur Swamp/Burney Falls projects was a factor in both PG&E and DRA's compromises.

## **III. RESERVATIONS**

1. The Settling Parties agree that this Settlement represents a compromise of their respective litigation positions. It does not represent the Settling Parties'

endorsement of, or agreement with, any or all of the recommendations made by the other party.

2. The Settling Parties shall by joint motion request Commission approval of this Settlement. The Settling Parties additionally agree to actively support prompt approval of the Settlement. Active support shall include necessary reply comments, comments on a proposed decision, written and oral testimony, if required, appearances, and other means to obtain the approvals sought. The Settling Parties further agree to participate jointly in necessary briefings to Commissioners and their advisors regarding the Settlement and the issues compromised and resolved by it.

3. This Settlement embodies the entire understanding and agreement of the Settling Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Settling Parties.

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

5. The Settling Parties have bargained earnestly and in good faith to achieve this Settlement. The Settling Parties intend the Settlement to be interpreted and treated as a unified, interrelated agreement. The Settling Parties therefore agree that if the Commission fails to approve the Settlement as reasonable and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Settling Party may in its sole discretion elect to terminate the Settlement. The Settling Parties further agree that any material change to the Settlement shall give each Settling Party in its sole discretion the option to terminate the Settlement. In the event

the Settlement is terminated, the Settling Parties will request that the unresolved issues in Application 06-08-004 be heard at the earliest convenient time.

6. This Settlement represents a compromise of the Settling Parties' respective litigation positions and should not be considered precedent with respect to GDTCSMA costs for PG&E or other utilities in any future proceeding. The Settling Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the various compromises herein. Each Settling Party expressly reserves its right to advocate, in current and future proceedings, positions, principles, assumptions, arguments and methodologies that may be different from those underlying this Settlement.

7. Each of the Settling Parties hereto and their respective counsel have contributed to the preparation of this Settlement. Accordingly, the Settling Parties agree that no provision of this Settlement shall be construed against any Settling Party because that party or its counsel drafted the provision.

8. It is understood and agreed that no failure or delay by any Settling Party hereto in exercising any right, power or privilege hereunder shall operate as a waiver hereof, nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right, power or privilege.

9. 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.

10. 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 Agreement on behalf of the parties they represent.

DIVISION OF RATEPAYER  
ADVOCATES

/s/

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R. Mark Pocta  
Program Manager  
Division of Ratepayer Advocates

PACIFIC GAS AND ELECTRIC  
COMPANY

/s/

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Robert B. McLennan  
Attorney  
Pacific Gas and Electric Company

Dated: November 29, 2006