

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

Application of PACIFIC GAS AND
ELECTRIC COMPANY to Recover Costs
Related to the 2008 Wildland Fires Recorded
in the Catastrophic Event Memorandum
Account Pursuant to Public Utility Code
Section 454.9.

Application 09-02-020
(Filed February 27, 2009)

(U 39 E)

**SETTLEMENT AGREEMENT BETWEEN
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) AND THE
DIVISION OF RATEPAYER ADVOCATES
RESOLVING ISSUES IN THE
CATASTROPHIC EVENT MEMORANDUM ACCOUNT PROCEEDING
(APPLICATION NO. 09-02-020)**

In accordance with Rule 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 (Settlement) resolving issues raised by the Settling Parties in the Catastrophic Event Memorandum Account (CEMA) proceeding, Application 09-02-020 (Application). As a compromise among their respective litigation positions in the Application, PG&E and DRA agree to and support all of the terms of this Settlement.

I. THE CATASTROPHIC EVENT MEMORANDUM ACCOUNT PROCEEDING

According to PG&E's Application, a series of Wildland Fires from May 22 through October 2008 caused \$12.97 million in restoration and repair costs to PG&E's electric distribution system. Pursuant to Public Utilities Code (P.U.) sec. 454.9 and Decision (D.) 07-07-041, PG&E's Application asked for review of and authorization to recover the \$11.72 million of costs arising from the 2008 Wildland Fires in the counties that PG&E contended had obtained disaster declarations by competent state or federal authorities. PG&E's request for recovery of

costs included \$3.68 million in expense and \$8.04 million in capital costs arising from the restoration of service and repairs following the 2008 Wildland Fires. The \$11.72 million of costs included in the Application would have translated to a total revenue requirement of \$6.56 million to be recovered in 2010.

After conducting discovery and analysis on PG&E's showing, DRA served a Report on July 29, 2009, that recommended disallowances of \$599,090 in expense and \$60,000 in capital from the original costs requested by PG&E. Based on its investigation and audit of PG&E's showing, DRA argued that \$588,000 in straight-time labor and \$11,000 in employee appreciation gifts were not CEMA-eligible expenses. DRA also argued that \$60,000 in capital costs incurred in Solano County were not CEMA-eligible.

PG&E's August 13, 2009, rebuttal testimony argued that the costs in its Application were justified.

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 costs recoverable from this CEMA Application is \$11.09 million, consisting of \$8.01 million in capital costs and \$3.08 million in expenses. The revenue requirement resulting from these costs is \$5.92 million in electric revenue requirements, including interest through December 31, 2010, franchise fees, and uncollectibles, to be recovered in rates in 2010,^{1/} with any under- or over-collections of these amounts accruing to the associated balancing accounts. Upon approval of this settlement by the Commission, PG&E will record commensurate amounts for the CEMA revenue requirement into the Distribution Revenue

^{1/} The revenue requirement numbers include interest calculated at the actual 90-day commercial paper rate through August 2009, and at the August 2009 90-day commercial paper rate thereafter on the unamortized balance through 2010. The numbers will change slightly over time as the forecasted 90-day commercial paper rate is replaced by the actual 90-day commercial paper rate in each month following August 2009.

Adjustment Mechanism (DRAM) for rate recovery through its next available electric rate change in 2010 and through the Annual Electric True-up (AET) advice letter.

2. The Settling Parties agree that the Commission should find that it is reasonable for PG&E to recover \$5.92 million as PG&E's total authorized revenue requirement in this Application. The final settlement amount reflects litigation uncertainty assessed by one or both parties.

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, assumptions, or arguments 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 may include necessary reply comments, comments on a proposed decision, written and/or oral testimony. 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 may request that the unresolved issues in the instant Application be heard by the Commission.

6. This Settlement represents a compromise of the Settling Parties' respective litigation positions and should not be considered precedent with respect to other CEMA costs, not at issue in this proceeding, for PG&E or other utilities in any future proceeding. The Settling Parties have assented to the terms of this Settlement only for the purpose of arriving at the various compromises herein. Further, the Settlement should not be construed as an admission and/or adoption of either Settling Party regarding any material fact or question of law in relation to the subject fires.

7. 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 thereof, 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.

8. 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.

9. This Settlement shall become effective among the Settling Parties on the date the last Settling Party executes the Settlement as indicated below.

**CERTIFICATE OF SERVICE
BY ELECTRONIC MAIL OR U.S. MAIL**

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 28th day of August, 2009, I caused to be served a true copy of:

**JOINT MOTION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) AND THE
DIVISION OF RATEPAYER ADVOCATES FOR APPROVAL OF THE ATTACHED
SETTLEMENT AGREEMENT**

[XX] By Electronic Mail – serving the enclosed, via e-mail transmission, to each of the parties listed on the official service list for A.09-02-020 with an e-mail address.

[XX] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for A.09-02-020 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 28th day of August, 2009 at San Francisco, California.

/s/

MARTIE L. WAY