APPENDIX A

Settlement Agreement
(Public Version)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Address the Gas Utilities' Incentive Mechanisms and the Treatment of Hedging Under Those Incentive Mechanisms. (U 39 G)	Rulemaking 08-06-025 (June 26, 2008)

SETTLEMENT AGREEMENT
(PUBLIC VERSION)

In accordance with Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA), the Utility Reform Network (TURN), 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 as they pertain to PG&E in the above-referenced Rulemaking 08-06-025.

A. Integration of Hedging Into CPIM

1. The Settling Parties agree to modify the current Core Procurement Incentive Mechanism (CPIM) starting in CPIM Year 18 (November 1, 2010 – October 31, 2011) as follows:

    a. All winter [redacted] hedging transactions executed by PG&E on or after November 1, 2009 for CPIM years beginning on or after November 1, 2010 on behalf of its bundled core gas customers will be included in the CPIM as follows:

        i. Beginning November 1, 2010, the net hedging gains and losses from that CPIM Year's winter hedges will be included in PG&E's CPIM as follows:

            1. 80% of net realized gains or losses and associated transaction costs will be included in the CPIM Commodity Benchmark.
                a. Net hedging losses (inclusive of net option premium outlays) are added to the Commodity Benchmark.
                b. Net hedging gains (inclusive of net option premium outlays) are subtracted from the Commodity Benchmark.

2. 100% of the net hedging realized gains or losses and associated transaction costs will be included in the Cost side of CPIM.
    a. Net hedging losses (inclusive of net option premium outlays) are added to the Costs.
    b. Net hedging gains (inclusive of net option premium outlays) are subtracted from the Costs.

3. Costs of the hedging program will be recovered through PG&E's monthly core procurement advice filings.
    a. The cost of option premiums and any transactional fees will be amortized in customer rates over a multi-month period.
    b. PG&E will recover the net hedging gains or losses in the month in which they settle.

4. Definitions of net realized hedging gains and losses and associated transaction costs are in Appendix A.

ii. With the integration of winter hedging into the CPIM, the winter hedge portfolio design and implementation is left to the discretion of the utility.

iii. All future winter hedging transactions executed by PG&E on or after November 1, 2009, shall be subject to DRA monitoring and review within the CPIM mechanism through the same process applied to the physical gas transactions under CPIM, consistent with existing DRA audit and report procedures intended to replace retrospective reasonableness reviews. PG&E will cooperate fully with DRA's review process. With the integration of hedging into the CPIM, hedging activities will not be subject to reasonableness review or compliance review and approval outside the normal CPIM review and approval process.

b. Shareholder cap on gains under CPIM

i. The CPIM sharing mechanism will be modified such that total shareholder earnings will be capped solely at 1.5 percent of annual gas commodity costs. The hard dollar cap of $25 million on shareholder gains is removed effective November 1, 2009.

ii. All other aspects of customer / shareholder sharing above and below the CPIM dead-band under the current CPIM mechanism remain the same.

B. Impact on 2006 Settlement Approved in D. 07-06-013

1. Hedges transacted under the terms of the Long Term Core Hedge Program Settlement Agreement dated December 15, 2006 (2006 Settlement).

    a. All winter hedging costs transacted prior to November 1, 2009 and pursuant to the 2006 Settlement will continue to be accounted for outside of PG&E's CPIM and governed under the terms of the 2006 Settlement. Specifically, hedging costs incurred prior to Commission adoption of this Settlement under the following approved Annual Implementation Plans (Annual Plan) will remain outside of CPIM:
        i. The 2007 Annual Plan for hedges covering the 3 forward winter periods defined within the Annual Plan
        ii. The 2008 Annual Plan for hedges covering the 3 forward winter periods defined within the Annual Plan
        iii. The 2009 Annual Plan for hedges covering the 3 forward winter periods defined within the Annual Plan

    b. Except as noted in Paragraph 1 (a) above, the terms set forth in Paragraphs 1 through 5 of the Settlement dated December 15, 2006, shall no longer apply to any future winter hedging transactions executed on behalf of PG&E's bundled core gas customers.

C. Term and Notice Provisions

1. This Settlement Agreement will remain in place for a period of seven (7) years ("Initial Period"), from November 2010 though October 2017, and includes hedges executed on or after November 1, 2009.

2. This Settlement Agreement will extend for two (2) consecutive years ("Extension Period") thereafter until and unless any one party to this Settlement provides written notice to the others of its desire to modify or terminate. Written notice must be provided no later than February 1 prior to the end of the Initial Period, or any Extension Period, and will apply to the upcoming Extension Period. Upon such notice, PG&E will file a proposal with the Commission to continue, modify, or terminate the Settlement Agreement. Any hedging transactions entered into by PG&E prior to the February 1 notification deadline shall continue to be covered under the corresponding CPIM.

3. [redacted] PG&E will report to DRA and TURN the total amount of hedge coverage [redacted]. PG&E will have a combination of storage, physical fixed-price contracts and financial instruments to cover [redacted] of the core portfolio customer average forecast demand [redacted]. PG&E will provide an average core forecast demand no later than

January 1st of each year [redacted] by written notice to DRA and TURN.

4. Hedges [redacted] may be entered into [redacted]. If this Agreement is modified or terminated, these existing forward hedges are to be grandfathered under the terms of this Settlement.

If parties give notice for modification or termination of this Settlement, such notice applies only to the hedging component of CPIM as set forth in this Settlement and will not apply to the physical CPIM benchmark components.

D. 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 parties.

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.

6. This Settlement represents a compromise of the Settling Parties' respective litigation positions and should not be considered precedent 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.

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. 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 upon approval by the Commission.

In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed triplicate originals of this Settlement Agreement on the date set forth hereinabove.

Agreed to by:

Date: 6/25/09

Roy M. Kuga
Vice President, Energy Supply
Pacific Gas and Electric Company

Date: 6/25/09

Dana S. Appling
Director
Division of Ratepayer Advocates

Date: 6/25/09

Marcel Hawiger
Attorney
The Utility Reform Network

(END OF APPENDIX A)