APPENDIX B

AGRICULTURAL DEFINITION SETTLEMENT

IN APPLICATION 06-03-005

I. AGREEMENT

In accordance with Rule 51 et seq. of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the parties to this settlement (Settling Parties) agree on a mutually acceptable outcome to the issue of the definition of the Agricultural customer class in Application (A.) 06-03-005, Application Of Pacific Gas And Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, And Rate Design.

II. PARTIES

The Settling Parties to this agreement are the Agricultural Energy Consumers Association (AECA), California Farm Bureau Federation (CFBF), California Rice Millers (CRM), and Pacific Gas and Electric Company (PG&E).

III. CONDITIONS

The Settling Parties agree to the following conditions:

1. This Agricultural Definition 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 Agricultural Definition Settlement represents a compromise among the Settling Parties' respective litigation positions, not an agreement to or an endorsement of disputed facts and law presented by the Settling Parties in this proceeding.

3. The Settling Parties agree that this Agricultural Definition Settlement is reasonable in light of the testimony submitted, consistent with law, and in the public interest, in accordance with Rule 51.1(e).

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

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

6. The Settling Parties shall jointly request and actively support timely Commission approval of this Agricultural Definition Settlement. Active support shall include written and oral testimony if testimony is required, briefing if briefing is required, 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 Settling Parties intend the Agricultural Definition Settlement to be interpreted and treated as a unified, integrated agreement. In the event the Commission rejects or modifies this Agricultural Definition Settlement, the Settling Parties reserve their rights under Rule 51.7.

IV. HISTORY

On May 1, 2006, PG&E hosted an initial phone conference to establish preliminary scheduling for all issues in Phase 2 of PG&E's 2007 GRC. Following this phone conference, a pre-hearing conference was held before ALJ Fukutome on May 3, 2006 covering all issues in Phase 2 . At both of these conferences, all of the parties were provided an opportunity to ask questions concerning the Agricultural class definition issue and any other issues raised in this proceeding. Any interested party was welcome to participate in the separate expedited Agricultural class definition settlement negotiations. The following parties expressed an interest and have participated: AECA, CFBF, and CRM.[1] The Assigned Commissioner's Ruling and Scoping Memo dated May 25, 2006

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[1] CRM's representative in this proceeding is Utility Cost Management LLC, which also represented the party that successfully opposed the settlement of the Agricultural Definition issue in PG&E's 2003 General Rate Case, A.04-06-024.

originally scheduled hearings on the Agricultural class definition issue for August 21 – 23, 2006.

As a result of further Agricultural definition settlement discussions, on July 26, 2006, AECA, CFBF, CRM, and PG&E reached an agreement in principle on the Agricultural class definition issue. In anticipation of this agreement, the settling parties contacted ALJ Fukutome on Friday, July 7, 2006, and requested a postponement of all due dates. ALJ Fukutome subsequently agreed to essentially a thirty day postponement of all due dates. Accordingly, Intervenors' testimony was now due on August 25, 2006, PG&E's rebuttal testimony was now due on September 8, 2006, and the hearings were pushed back to September 20 – 22, 2006.

V. TERMS

1. The Settling Parties agree that the Commission should approve the new, March 2, 2006 Agricultural Applicability Statement, a portion of which is set forth below. The Statement in its entirety is attached as Exhibit A to this Settlement, and will be included in PG&E's Electric Tariff Rule 1, "Definitions." The following language will replace the existing portion of corresponding language in the section titled "1. APPLICABILITY" in each of PG&E's six Agricultural electric rate schedules, namely Schedule AG-1 – *Agricultural Power,* Schedule AG-ICE – *Agricultural Internal Combustion Engine Conversion Incentive Rate,* Schedule AG-R – *Split-Week Time-Of Use Agricultural Power,* Schedule AG-V – *Short-Peak Time-Of-Use Agricultural Power,* Schedule AG-4 – *Time-Of-Use Agricultural Power,* and Schedule AG-5 – *Large Time-Of Use Agricultural Power*:

> 1. A customer will be served under this schedule if 70% or more of the annual energy use on the meter is for agricultural end-uses. Agricultural end-uses consist of:
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> (a) growing crops,
> (b) raising livestock,
> (c) pumping water for irrigation of crops, or

(d) other uses which involve production for sale.

2. Only agricultural end-uses performed prior to the First Sale of the agricultural product are agricultural end-uses under this criteria, except for the following activities, which are also agricultural end-uses under this criteria: (a) packing and packaging of the agricultural products following the First Sale and before any subsequent sale, and (b) agricultural end-uses by nonprofit cooperatives.

3. None of the above activities may process the agricultural product. Residential dwelling, office, and retail usage are not agricultural end-uses.

4. Rule 1 specifies additional activities and meters that will also be served on agricultural rates, and guidelines through the following sections: (B) Other Activities and Meters Also Served on Agricultural Rates, (C) Specific Applications of the March 2, 2006 Applicability Criteria, and (D) Guidelines for Applying the Applicability Criteria.

2. The intervenor testimony of AECA, CFBF and CRM in this proceeding is due August 25, 2006, and PG&E's rebuttal testimony is due September 8, 2006. Because they have entered this Settlement, each Settling Party has refrained from filing such testimony. If the Commission does not adopt this Settlement, then each Settling Party will support a request to extend the above due dates so as to permit AECA, CFBF and CRM to file intervenor testimony and PG&E to file rebuttal testimony on the Agricultural Class Definition issue, and for the Commission to defer rendering a decision on the Agricultural Class definition issue until the Settling Parties have had an opportunity to file such testimony, cross examine witnesses, and otherwise participate in hearings on this issue.

3. PG&E and Intervenors may propose modifications to the Agricultural Applicability Statement by serving testimony in Phase 2 of subsequent General Rate Cases.

4. The Settling Parties agree that this outcome is reasonable, consistent with law, and in the public interest.

VI. EXECUTION

This Agricultural Definition Settlement shall become effective among the Settling Parties on the date the last Settling Party executes the Agricultural Definition Settlement as indicated below. In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed this Agricultural Definition Settlement on behalf of the Settling Parties they represent. This Agricultural Definition Settlement is executed in counterparts, each of which shall be deemed an original. Facsimile signature pages will be treated the same as originals for all purposes. The undersigned represent that they are authorized to sign on behalf of the Settling Parties represented.

AGRICULTURAL ENERGY CONSUMERS ASSOCIATION

By: /s/

Name: Dan Geis

Title: Assistant Executive Director

Date: August 8, 2006

CALIFORNIA FARM BUREAU FEDERATION

By: /s/

Name: Ronald Liebert

Title: Associate Counsel

Date: 8-7, 2006

CALIFORNIA RICE MILLERS

By: /s/

Name: Paul Kerkorian

Title: Representative

Date: August 7, 2006

PACIFIC GAS AND ELECTRIC COMPANY

By: /s/

Name: Daniel F. Cooley

Title: Staff Counsel

Date: August 8, 2006

MARCH 2, 2006 AGRICULTURAL APPLICABILITY STATEMENT

A. Applicability

1. A customer will be served under this schedule if 70% or more of the annual energy use on the meter is for agricultural end-uses. Agricultural end-uses consist of:

   (a) growing crops,
   (b) raising livestock,
   (c) pumping water for irrigation of crops, or
   (d) other uses which involve production for sale.

2. Only agricultural end-uses performed prior to the First Sale of the agricultural product are agricultural end-uses under this criteria, except for the following activities, which are also agricultural end-uses under this criteria: (a) packing and packaging of the agricultural products following the First Sale and before any subsequent sale, and (b) agricultural end-uses by nonprofit cooperatives.*

3. None of the above activities may process the agricultural product. Residential dwelling, office, and retail usage are not agricultural end-uses.

4. Rule 1 specifies additional activities and meters that will also be served on agricultural rates, and guidelines through the following sections: (B) Other Activities and Meters Also Served on Agricultural Rates, (C) Specific Applications of the March 2, 2006 Applicability Criteria, and (D) Guidelines for Applying the Applicability Criteria.

B. Other Activities and Meters Also Served on Agricultural Rates

The specific language in Section B controls over the language of Sections A, C, and D for only those activities and meters listed in Section B and has no precedential effect on other activities and meters not specifically listed in Section B.

1. Activity-Based Qualification:

   The following activities will be served on agricultural rates provided that 70% or more of the annual energy usage on the meter is for activities listed in Section B(1) below:

   (a) Activities specifically adjudicated by the CPUC in its decisions and orders to be agricultural end-uses prior to March 2, 2006 shall remain on PG&E's agricultural rates. These activities are: milk processing, cotton ginning, almond hulling and shelling, and a feed mill integral to the operation of an agricultural end-use.

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* Guidelines for interpreting this applicability statement are set forthwith in Section D.

(b) The following activities determined by PG&E to be agricultural end-uses shall be served on agricultural rates: sun-dried raisin packing, pistachio hulling and shelling, rice drying, hulling (provided that the Commission approves this settlement agreement, the following language will be added) and milling necessary to produce white rice, and packing of brown and white rice, but no grinding, crushing, parboiling, cooking, or gelatinizing of rice.[†]

2. Meter-Based Qualification:

Any meter (other than meters qualifying in Section B(1) above) on agricultural rates prior to March 2, 2006 shall remain on agricultural rates provided that (1) energy usage on the meter continues to meet the Applicability Statement in effect at that time; and (2) metered usage remains, without interruption, in the name of the present account holder or to anyone who states by declaration that:

(a) they have had a legal or financial interest in the agricultural endeavor for at least two (2) years prior to the change in ownership and have not compensated others or been compensated as a result of the transfer of ownership; or

(b) they have been a bona fide employee, working at least 25 hours per week during the active operating season of the agricultural endeavor, for the last two (2) calendar years prior to the transfer of ownership; or

(c) they are the lineal descendants of one of the owners of the agricultural endeavor; or

(d) they are the spouse or former spouse of an owner of the agricultural endeavor.

3. All activities or meters qualifying for an agricultural rate under Sections B(1) or B(2) above shall not serve as precedent or be considered in any other way in determining eligibility under the Agricultural Applicability Statement except as provided in Section B.

C. Specific Applications of the March 2, 2006 Applicability Criteria

Activities identified as agricultural end-uses in this section must also meet the criteria set forth in Section A, with the exception of the processing limitation in Section A(3). Where an actual or perceived conflict exists between Section A and an activity expressly identified as an agricultural end-use in Section C, the specific language of

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[†] The parties to this agreement acknowledge that reasonable arguments can be made for inclusion or exclusion of rice milling within PG&E's existing and proposed agricultural applicability statements, and that if this settlement is not adopted, the parties preserve all of their rights to litigate the issue of including rice milling within the definition of agricultural end-uses.

Section C will control over the processing limitation in Section A(3). Any activity not expressly identified as an agricultural end-use in Section C must meet the criteria in Section A in order to be served on agricultural rates.

1. Activities involved in growing crops up to the conclusion of the harvest operation on the premises where the crop was grown are agricultural end-uses.

2. Raising livestock, poultry and fish up to, but not including, the point that the animal is slaughtered or its life terminated in any other operation is an agricultural end-use.

3. Pumping water for irrigation or frost protection of crops, or for reclamation of agricultural land is an agricultural end-use.

4. Drying, hulling, and shelling of grains, legumes, and nuts are agricultural end-uses but not the following:

   (a) Other processing or ensiling grain, grain corn, hay, or any other agricultural product;

   (b) Activities whose purpose is to change or enhance the flavor of the agricultural product including, but not limited to, roasting, cooking, blanching, salting, curing, and brining;

   (c) Oil pressing, processing, and manufacturing to produce oil from corn, safflower, cottonseed, sunflower, and peanut;

   (d) Separation or processing of seed from agricultural, vegetable, or flower seed crops, including alfalfa, Bermuda grass, and clover;

5. Waxing, fumigation, irradiation, cleaning, sorting, grading, packing and storage of whole fresh grapes, berries, and other fruits and vegetables are agricultural end-uses, but not the following:

   (a) Activities which separate the harvested product into more than one constituent agricultural product, as listed by California Agricultural Statistics Service in their most recent California Statistics Report.

   (b) Activities which are part of processes whose purpose is to change or enhance the flavor of the agricultural product, including roasting, cooking, blanching, salting, curing, brining, and any other flavor altering processes.

   (c) Pitting or dehydrating of fruits including, but not limited to, plums, grapes, and apricots;

   (d) Post-harvest husking or removal of fresh sweet corn kernels from the cob;

(e) Crushing or juicing of fruits and vegetables, including but not limited to grapes, apples, and carrots;

(f) Peeling of garlic and onions and post-harvest processing of multiple baby carrots from individual, harvested, mature carrots;

(g) Olive oil pressing, processing, or manufacturing;

(h) Post-harvest chopping or leafing of lettuce heads or other vegetables and fruits; and

(i) The processing of milk into cheese, yogurt, lactose-free milk, chocolate milk or any other products which do not have the appearance and physical characteristics of fluid milk.

6. Manufacturing of ice used by the manufacturer for the immediate cooling of whole fresh fruits and vegetables is an agricultural end-use, but not manufacturing of ice for sale.

7. Cleaning, packing, grading, sorting, and storage of fresh eggs are agricultural end-uses.

8. Raising crops or live plants in a greenhouse is an agricultural end-use.

9. Raising plants or fish through aquaculture is an agricultural end-use.

10. Cold storage, but not freezing, and other controlled environment storage which merely retards or accelerates the natural ripening of whole unaltered fresh fruits and vegetables is an agricultural end-use.

D. Guidelines for Applying the Applicability Criteria

The following guidelines shall be used to determine whether a customer shall be served under agricultural rates under the Applicability Criteria in Sections A and C.

1. Production for sale:
All agricultural products or a subsequent product derived therefrom must be produced for sale to qualify under this criteria. If an activity is primarily for the provision of an agricultural service, and not the production of an agricultural product for sale, it is not an agricultural end-use. Examples of activities that are agricultural services include animal boarding and training, agricultural research, brokering or resale of agricultural products, farming at correctional facilities, experimental or educational farming, and fish hatcheries for wild release. Other activities which do not involve the production of an agricultural product for sale

include cemetery, golf course, and park landscaping, wildlife habitat flooding, and zoo activities.

2. Packing and packaging:
   Qualifying packing and packaging are defined herein as otherwise qualifying activities performed by the first entity or individual to pack or package the agricultural product, following the first sale and before any subsequent sale, transfer of control of, or title to the agricultural product.

3. Qualifying activities performed by nonprofit cooperatives:
   This applicability criteria treats all otherwise qualifying activities performed by cooperatives as though they were performed before the first sale, transfer of control of, or title to the agricultural product. Cooperatives may engage in any qualifying activity that would be permitted by the producer of the agricultural product. In order to be a qualifying cooperative, the association must be a nonprofit cooperative association organized and functioning under, and in compliance with, the California Food & Agriculture Code.

4. "First Sale" defined:
   The first sale of, transfer of control of, or title to the agricultural product and refers to the demarcation between agricultural and non-agricultural end-uses. It applies to all activities other than qualifying packing and packaging activities described above in Section D(2) and activities performed by qualifying nonprofit cooperatives described above in Section D(3).

5. Processing:
   Any activity that qualifies the customer as a Processor as defined in the California Food & Agriculture Code § 55407 and any activity defined as Processing under the California Food & Agriculture Code § 42519 shall not qualify as an agricultural end-use under this applicability criteria, unless the specific product and process is identified as an agricultural end-use in Section C above.

   Food & Agriculture Code § 55407 – "Processor" means any person that is engaged in the business of processing or manufacturing any farm product, that solicits, buys, contracts to buy, or otherwise takes title to, or possession or control of, any farm product from the producer of the farm product for the purpose of processing or manufacturing it and selling, reselling, or redelivering it in any dried, canned, extracted, fermented, distilled, frozen, eviscerated, or other preserved or processed form. It does not, however, include any retail merchant that has a fixed or established place of business in this state and does not sell at wholesale any farm product which is processed or manufactured by him.

   Food & Agriculture Code § 42519 – "Processing" means canning, preserving, or fermenting, which materially alters the flavor, keeping quality, or any other property, the extracting of juices or other substances, or the making of any substantial change of form. It does not include refrigeration at temperatures which are above the freezing point nor any other treatment which merely retards or accelerates the natural processes of ripening or decomposition.

6. Processing operation:
   If any part of an operation processes an agricultural product, no portion of the operation will qualify as an agricultural end-use under this applicability statement. In addition, no activity or operation performed after processing of the agricultural product has occurred may qualify as an agricultural end-use.

7. Agricultural product:
   An agricultural product is defined as the crop yielded at the conclusion of the harvest operation. If the first primary wholesale product produced following the harvest operation is a processed item, such as oil, juice, seeds, or similar product, such processing is not an agricultural end-use under this Applicability Criteria.

8. Harvest operation:
   Harvest operation includes those activities most commonly performed in the field to yield the crop in PG&E service territory, as measured on a per tonnage basis.

E. Requests for Agricultural Rates and Complaints before the CPUC Regarding Agricultural Rate Applicability

1. If, after March 2, 2006, a customer submits a written claim to PG&E for agricultural rates, any applicable Rule 17.1 adjustments will be determined on the basis of this applicability statement.

2. If, on or before March 2, 2006, a customer submitted a written claim to PG&E for agricultural rates, any applicable Rule 17.1 adjustments will be determined as follows:

   (a) For the pre-March 2, 2006 time period, on the basis of the previous agricultural applicability statement.

   (b) For the post-March 2, 2006 time period, on the basis of this applicability statement.

(END OF APPENDIX B)