ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Investigation into the ratemaking implications for Pacific Gas and Electric Company (PG&E) pursuant to the Commission's Alternative Plan of Reorganization under Chapter 11 of the Bankruptcy Code for PG&E, in the United States Bankruptcy Court, Northern District of California, San Francisco Division. In re Pacific Gas and Electric Company. Case No. 01-30923 DM.	Investigation 02-04-026 (Filed April 22, 2002)

SETTLEMENT AGREEMENT WITH RESPECT TO ALLOCATION AND RATE DESIGN ISSUES ASSOCIATED WITH THE DECREASE IN 2004 REVENUE REQUIREMENT ARISING FROM APPROVAL OF THE MODIFIED SETTLEMENT AGREEMENT IN COMMISSION DECISION 03-12-035

This Settlement Agreement ("Agreement" or "Settlement") is entered into as of January 15, 2004, by and among Pacific Gas and Electric Company ("PG&E"), the California Manufacturers and Technology Association, the California Large Energy Consumers Association, the California Farm Bureau Federation, the Silicon Valley Manufacturing Group, the Energy Users and Producers Coalition, the Agricultural Energy Consumers Association, the California City-County Street Light Association, the Building Owners and Managers Association of California, the California Retailers Association, Federal Executive Agencies, The Utility Reform Network, Aglet Consumer Alliance, and the Office of Ratepayer Advocates (collectively the "Parties").

This Agreement is intended to resolve issues and avoid further litigation and delay relating to cost allocation and rate design arising from the decrease in PG&E's annual 2004 revenue requirement resulting from California Public Utilities Commission (the "Commission" or "CPUC") Decision (D.) 03-12-035 modifying the Proposed Settlement Agreement of Pacific Gas & Electric Company, PG&E Corporation and the Commission Staff, and Approving the Modified Settlement Agreement.

This Agreement will be filed for approval in CPUC Docket I.02-04-026 pursuant to Commission Rule 51 and the Administrative Law Judge's August 19, 2003 ruling regarding consideration of cost allocation and rate design issues. In order to allow anticipated decreases in PG&E's annual revenue requirement to be provided to customers as soon as possible, the Parties will seek expedited approval of the Agreement without

change and subject to a shortening of time to 10 and 5 days, respectively, for parties to file comments and reply comments on the Agreement pursuant to Rule 51.4.

Whereas, the Commission has entered into the Modified Settlement Agreement pursuant to issued D.03-12-035 modifying the Proposed Settlement Agreement and Approving the Modified Settlement Agreement and its Executive Director has executed the Modified Settlement Agreement on the Commission's behalf; and

Whereas, on December 22, 2003, the Bankruptcy Court approved the Modified Settlement Agreement; and

Whereas, PG&E's annual revenue requirement for electric service is anticipated to decrease by approximately $800 million and potentially considerably more for bundled service customers, with the Bankruptcy Court's approval of the Modified Settlement Agreement entered into by the Commission pursuant Decision 03-12-035, and with revenue requirement changes anticipated from other proceedings; and

Whereas, the Parties desire to allocate the resulting decrease in annual revenue requirement among the several customer classes and rate schedules of PG&E in a manner that addresses and resolves several pending cost allocation issues that have arisen during and after the energy crisis.

Now, therefore, the Parties agree that the allocation of the revenue requirement decrease resulting from Commission approval of the Modified Settlement Agreement, or any successor ratemaking mechanism, such as a Dedicated Rate Component ("DRC"), should be accomplished using the following general principles and assumptions with respect to individual allocation issues, with the illustrative results indicated in Appendix 1:

1. The allocation of the PG&E revenue requirement reduction will be based, to the extent possible given the level of that revenue requirement reduction, on the principles and methods used to allocate the Southern California Edison Company ("Edison") post-PROACT revenue requirement reductions, as such were approved by the Commission in D.03-07-029.

2. The primary criterion for allocation of the revenue requirement decrease is to reverse the allocation of the revenue increases ordered by the Commission in D.01-01-018 and D.01-05-064, such that customer classes and rate schedules receiving the largest percentage increases in 2001 are afforded the largest percentage decreases now. The methods established in this Agreement for allocation of total revenue requirement will be used to set rates resulting from PG&E's Plan of Reorganization. Prior to a Decision in Phase 2 of PG&E's General Rate Case ("GRC"), which provides a full cost of service study and final allocation rules, the rate changes will be governed by rules set forth in Paragraph 10 of this Agreement.

3. With respect to the Direct Access Cost Responsibility Surcharge ("DA CRS"), an estimated revenue shortfall from Direct Access (DA) customers of approximately $400 million for the period fourth quarter 2001 through end of year 2003 will be financed by bundled service customers, divided between large and small customers in the manner required by the DA CRS decision, D.03-07-030. The level of the DA CRS shortfall identified in this paragraph shall be subject to true-up after the final California Department of Water Resources (DWR) revenue requirements are approved by the Commission for 2001, 2002 and 2003.

4. This Agreement resolves for the period in which these rates are in effect and until rates are adopted in Phase 2 of PG&E's 2003 GRC, the question of the continued operation or elimination of the 10 percent bill reduction provided to residential and small commercial customers in Assembly Bill (AB) 1890. The credit for the 10 percent bill reduction will now be rolled into rates and no longer shown as a line item on customer bills.

5. The Commission's approval of expanded baseline quantities for residential customers in D.02-04-026 caused a reduction in the revenue received from residential customers due to the relative increase in the percentage of residential sales covered by Tier 1 and 2 rates. The Parties agree that, at this time and for purposes of this Agreement, residential rates will be adjusted to eliminate $95 million annual "going forward" revenue shortfall only. In addition, commercial rates will be adjusted $5 million to eliminate the shortfall resulting from the shift of Common Area Accounts to commercial rate schedules as directed in D.03-01-037. With the implementation of the rates proposed in this Agreement, further accruals to the Baseline Balancing Account ("BBA") resulting from the baseline quantity changes adopted in Decision 02-04-026 and the Common Area Balancing Account ("CABA") will cease, except for ongoing interest accruals. The treatment of the historic BBA and CABA balances will be addressed in a subsequent proceeding such as Phase 2 of PG&E's 2003 GRC.

6. In light of the Parties' mutual desire to avoid prolonged litigation over the rate design implementation at this time, the Parties agree that the residential class will be afforded a revenue allocation decrease equal to one-half the system average percentage change resulting from implementing the rate reduction provided by the Modified Settlement Agreement and Decision 03-12-035. While this revenue decrease treatment has been provided to the residential class in this Agreement, Parties agree that unless otherwise specifically provided by this Agreement, nothing in this Agreement will preclude litigation of revenue allocation and rate design issues in future proceedings, including Phase 2 of PG&E's 2003 GRC, *de novo*.

7. The revenue requirement associated with the Regulatory Asset established by the Modified Settlement Agreement, or a successor ratemaking mechanism

such as a Dedicated Rate Component (DRC), shall be allocated to all customers of the utility, including but not limited to bundled and direct access customers, on an equal cents per kWh, nonbypassable basis (except as noted in paragraph 9 below). Other than as required by this Agreement, no customer shall be required to pay any additional amount for past undercollections to facilitate PG&E's emergence from bankruptcy; provided that this provision shall not apply to undercollections resulting from the operation of normal regulatory balancing accounts other than those associated with the rate freeze and stranded cost recovery, such as the TCBA, TRA and GABA. In order to implement this prohibition, past contributions by DA customers during 2001 and 2002 through payment of the 1-cent surcharge and residual competition transition charges (CTC) shall be deemed the full and final obligation of these customers to PG&E's headroom, and these amounts shall not be altered, reclassified, reallocated or reconsidered in any future Commission proceeding. If approved by the Commission, the principles in this paragraph shall constitute a final resolution among the parties governing the allocation of the Regulatory Asset or a successor ratemaking mechanism, such as a DRC, among customer classes and shall not be subject to relitigation by the parties in a future Commission proceeding.

8. The Parties agree that the charge imposed on DA customers for recovery of the Regulatory Asset, or a successor DRC, shall be recovered from such DA customers on a non-bypassable basis under the current 2.7 cent per kWh DA CRS cap pursuant to Commission decisions regarding the cap, and the fact of the establishment of this charge alone will not be used by any of the Parties as a basis to increase or lift the cap. However, Parties may address the level of the cap in future proceedings in accordance with the criteria established in the DA CRS Decision 03-07-030. Consistent with D.03-07-030, the order of recovery of costs under the DA CRS cap is as follows: DWR Bond Charge, the Regulatory Asset rate, ongoing CTCs, and the DWR Power Charge, with the DWR Power Charge capped at the difference between the 2.7 cents per kWh and the sum of the DWR bond charge, the Regulatory Asset rate and ongoing CTC. If approved by the Commission, the principles in this paragraph shall constitute a final resolution among the parties governing the treatment of the Regulatory Asset, or a successor ratemaking mechanism such as the DRC, for purposes of the DA CRS cap and shall not be subject to relitigation by the parties in a future Commission proceeding, except as provided in this Agreement.

9. All Parties agree that Customer Generation Departing Load that is not required by D. 03-04-030 as modified by D.03-04-041 to pay the DWR Power Charge shall bear no responsibility for costs of the Regulatory Asset or any successor DRC. For purposes of this Agreement, "Customer Generation Departing Load" shall include load within the definition of Customer Generation Departing Load under D.03-04-030 as modified by D.03-04-041 and all load excluded from this definition by footnote 1 and pages 2-3 of that

decision, except that such load shall pay such charges for service actually taken under any otherwise applicable schedule following its departure in the same proportion paid by other customers. If approved by the Commission, the principles in this paragraph shall constitute a final resolution among the parties governing the treatment of the Regulatory Asset, or a successor ratemaking mechanism such as the DRC, for Customer Generation Departing Load and shall not be subject to relitigation by the parties in a future Commission proceeding.

10. In the event that additional rate changes are needed prior to the adoption of rates in Phase 2 of PG&E's 2003 GRC due to changes in PG&E's total revenue requirement, such as would occur if FERC refunds or El Paso settlement refunds are received, such additional interim rate changes will be implemented based on the following principles: Changes in the revenue requirement for any given component will be recovered as an equal percent change to the component that is changing. For example, if the distribution revenue requirement decreases relative to the revenue at then-current distribution rates, PG&E would lower all distribution rate components by the percent required to achieve the necessary reduction. Total rates would then be reduced commensurately. Similarly, if the generation revenue requirement increases, generation rates for all bundled service customers would be increased on a system average percentage basis and total rates would increase commensurately. The DA CRS cap shall not be modified solely as a result of such interim revenue requirement changes, but accruals of CRS cap undercollections may be affected, consistent with existing Commission policies and this Agreement.

11. The Parties agree to support this Agreement in all pending proceedings before the Commission and agree not to oppose this Agreement in other legislative, administrative and judicial proceedings relating to revenue allocation and rate design in connection with the Modified Settlement Agreement, D.03-12-035, or this Agreement. The provisions of this Agreement are not severable.

This Agreement applies solely to cost allocation and rate design issues and does not affect or waive any party's rights regarding D. 03-12-035, including any rights to appeal that decision.

Appendix 2 follows addressing implementation in more detail under the Agreement. Except as explicitly specified otherwise in paragraphs 7, 8, 9 and 10, the revenue allocation and rate principles established pursuant to this Agreement will remain in effect until revenue allocation and rate design issues are decided in Phase 2 of PG&E's 2003 GRC or successor proceeding as directed by the Commission. The actual revenue requirement changes will be made by PG&E by advice filing pursuant to the Modified Settlement Agreement and Decision 03-12-035, and will be effective January 1, 2004. The change to customer rates will be reflected in customer bills upon Commission approval of the new rates.

Executed January 15, 2004

Pacific Gas and Electric Company

By Thomas E. Bottorff
Title. Vice President Customer Service

Executed January 15, 2004

Aglet Consumer Alliance

By James Weil
Director

Executed January 15, 2004

The Agricultural Energy Consumers Association

By Michael Boccadoro
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The Building Owners and Managers Association of California

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The Utility Reform Network

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Appendix 1

Pacific Gas and Electric Company
Plan of Reorganization Settlement Rates
Appendix I
Illustrative $815 Million Reduction in
Bundled Service Rates

	Present Average Rate (¢/kWh)	Present Revenue ($/Millions)	Proposed Average Rate (¢/kWh)	Proposed Revenue ($/Millions)	Percent Change
Residential					
NonCARE	13.94	$3,360	13.30	$3,207	-4.5%
CARE	8.58	$370	8.58	$370	0.0%
Total Residential	13.13	$3,730	12.59	$3,577	-4.1%
Small L&P	16.82	$1,348	14.92	$1,195	-11.3%
A-10	15.53	$1,859	14.17	$1,695	-8.8%
E-19	13.97	$1,161	12.61	$1,047	-9.8%
Agriculture	13.26	$524	11.37	$450	-14.3%
Streetlighting	17.40	$66	14.80	$56	-14.9%
Standby	15.05	$32	13.49	$28	-10.4%
Large L&P					
E-20 T Firm	10.39	$304	8.84	$259	-15.0%
E-20 T NF	9.13	$35	7.58	$29	-17.1%
E-20 T	10.25	$339	8.69	$287	-15.2%
E-20 P Firm	12.18	$498	10.82	$443	-11.2%
E-20 P NF	11.34	$33	9.97	$29	-12.0%
E-20 P	12.12	$531	10.76	$472	-11.2%
E-20 S Firm	13.65	$345	12.36	$312	-9.5%
E-20 S NF	12.33	$8	11.04	$7	-10.4%
E-20 S	13.62	$353	12.32	$320	-9.5%
Total Large L&P	11.90	$1,223	10.49	$1,078	-11.8%
System	13.90	$9,943	12.76	$9,129	-8.2%

Appendix 2

Appendix 2

1) **Total Bundled Service Rates**
   a) Eliminate the frozen rate/generation surcharge distinction in rates.
   b) Eliminate the residential and small commercial customer 10 percent discount line item from the bill by incorporating that discount into the total rates.
   c) Reduce the residential minimum charge to $4.50 to incorporate in rates the residential 10 per cent discount that is currently shown separately on customer bills such that the net minimum charge does not increase. Similarly, reduce the CARE customer minimum charge to $3.60.
   d) Reduce the residential Minimum Average Rate Limiter (MARL) by 10 percent to incorporate in rates the residential 10 per cent discount that is currently shown separately on customer bills such that the net MARL charge does not increase.
   e) Medical baseline customers pay Tier 1 rates for baseline usage and Tier 2 rates for all usage over baseline. In addition, medical baseline customers are exempt from the DWR bond charge.
   f) Incorporate the residential allocated rate reduction into residential rates by first setting the Tier 5 rate equal to the Tier 4 rate, and then by reducing the Tier 3, Tier 4 and Tier 5 rates by the percentage required to provide the remainder of the allocated reduction to the residential class.
   g) Revise the commercial CARE discount so that the discount is determined as a discount rate multiplied by sales, such that the overall level of commercial CARE rates is not changed. (Some CARE bills will change somewhat in conversion from the current method to a rate.)
   h) Revise the employee discount to reflect the current employee discount percentage multiplied by total charges less DWR charges, i.e., employees will pay DWR charges in full. (The DWR rate will be obtained from the preliminary statement, part I.)
   i) Determine power factor as a rate multiplied by sales for both DA and bundled service. (Power factor is currently applied as a percentage of frozen rate revenue.)
   j) Revise the rate limiters to apply to the proposed total rate level. (Commercial/industrial rate limiters are currently applied based on frozen rate revenue.)
   k) Continue DAP/GAP discounts for certain agricultural customers at their current level relative to 6/10/96 rates until addressed in GRC-2 for approximately 48 customers currently receiving this benefit.

2) **Components of Rates**
   a) Include the regulatory asset in generation on bundled customer bills.
   b) Add a new rate for the RRB Memorandum Account. This will be shown separately on tariffs and combined with the TTA on bills. The RRB MA will be allocated to residential and small commercial classes in proportion to the estimated TTA revenue for the test period from each class.
   c) Allocate distribution revenue requirement and design distribution rates consistent with the method adopted in RAP (D.02-10-019).
   d) Allocate nuclear decommissioning on an equal cents per kWh basis.
   e) Allocate CARE surcharge based on equal cents per kWh to all classes except streetlighting and CARE. Allocate non CARE PPP based on a factor equal to the schedule's present revenue at frozen rates (excluding the 10 percent rate reduction), modified to reflect the cap on energy efficiency rates provided in PUC Section 399.8c.

3) **Direct Access**
   a) Show the regulatory asset on DA bills but do not increase the DA CRS in this proceeding. All DA customers are subject to the regulatory asset rate.
   b) Calculate franchise fee surcharge based on a rate multiplied by sales.

c) Provide Commercial CARE DA customers with approximately the same benefit as today, but calculated as a rate multiplied by usage. (Some bills will change as a result of changing to rate method.)
d) For employees that also elect DA, apply the 25 percent employee discount to the non-DWR utility charges applicable to DA customers.