

**NOTIFICATION OF APPLICATION BY PACIFIC GAS AND
ELECTRIC COMPANY (PG&E) TO RECOVER IN RATES THE COST
OF A PROGRAM TO IMPROVE THE RELIABILITY OF PG&E'S
ELECTRIC DISTRIBUTION SYSTEM (A.08-05-XXX)**

On May 15, 2007, PG&E filed an application requesting that the California Public Utilities Commission (CPUC) approve a six-year program designed to significantly improve the reliability of PG&E's electric distribution system, Cornerstone Improvement Program.

What is the Cornerstone Improvement Program?

The Cornerstone Improvement Program is a set of initiatives proposed by PG&E designed to decrease both the number and duration of electric outages experienced by PG&E's customers. This will benefit PG&E's customers by resulting in better, more reliable electric service.

Why is PG&E requesting approval for the Cornerstone Improvement Program?

Although PG&E's electric distribution system has generally met the reliability performance targets set by the CPUC, PG&E believes that in order to better serve its customers it can and should improve the reliability of its electric distribution system through its proposed Cornerstone Improvement Program. The program is designed to decrease both the frequency and the duration of electric service interruptions.

Detailed Information About PG&E's Application

PG&E's Application seeks CPUC approval for a six-year program designed to improve the reliability of PG&E's electric distribution system to bring its performance closer to that of other utilities in California and the rest of the country. Specifically, PG&E proposes to:

- increase the available capacity and interconnectivity of its distribution system in urban and suburban areas, so as to enable reconfiguration of its system in response to failures of critical system elements and variance in demand forecasts;
- substantially expand distribution automation in urban and suburban areas to reduce the frequency, extent and duration of outages; and
- increase mainline protection to reduce the frequency and extent of outages in rural areas.

PG&E believes these reliability initiatives, which it selected among several others considered, will provide both a high level of reliability in the near term as well as long-term benefits to customers. If the CPUC approves this Application by the end of this year as requested, PG&E will begin work on the program in 2008. PG&E believes that this is in the best interest of customers, who would otherwise have to wait to get the benefits associated with improving the reliability of PG&E's electric system. To emphasize PG&E's commitment to improving reliability, PG&E is proposing a Reliability Performance Incentive Mechanism (RPM) that would impose financial penalties to PG&E if PG&E does not meet its forecasted reliability improvements and provide rewards if PG&E exceeds approved targets. PG&E's performance will be tied to industry metrics regarding the frequency and duration of electric outages. PG&E believes that the improved infrastructure and expanded automation sought in the Application, along with the already approved SmartMeter™ deployment (D.06-07-027) and the proposed SmartMeter™ Upgrade (A.07-12-009), are building blocks that will move California toward a "Smart Grid." A Smart Grid can provide improved reliability and other customer benefits in the future, including power quality management capabilities, an improved ability to take advantage of new energy efficiency technologies, an enhanced potential for distributed and renewable generation storage technologies, and dynamic communications between customers and the electric system.

Does this mean that rates will increase?

Yes. Electric distribution rates will increase beginning as early as January 1, 2009 for the Cornerstone Improvement Program, and will continue in ensuing years. The increase to electric distribution rates will affect both bundled electric customers (customers who receive electric generation as well as transmission and distribution service from PG&E) and customers that purchase electricity from other suppliers, e.g., direct access customers. The bill for a typical bundled residential customer using 550 kWh per month would increase in 2009 by \$0.01 from \$72.13 to \$72.14. The bill for a typical bundled residential customer using approximately twice the average baseline allowance, or 850 kWh per month, would increase \$0.05 from \$148.44 to \$148.49 in 2009. As another example, the bill for a typical bundled residential customer using 550 kWh per month would increase in 2014 by \$1.02 over 2008 rates; the bill for a customer using 850 kWh per month would increase by \$7.75 over 2008 rates. Projected rate increases for these and other years are further illustrated in a bill insert that will be sent directly to customers starting in late May.

PG&E's projected rate changes are based on projected costs associated with the Cornerstone Improvement Program. However, PG&E proposes that customers pay no more than the actual costs of the program, which PG&E will track separately from other costs. Amounts not spent will be returned to PG&E's customers. PG&E will use the requested funds only for work associated with the Cornerstone Improvement Program. PG&E will continue to record costs associated with the program until they can be included in a subsequent general rate case, currently expected in 2017. The average bundled rates for 2015 and 2016 will increase over 2008 rates by approximately 3.5 percent and 3.4 percent, respectively.

THE CPUC PROCESS

The CPUC's Independent Division of Ratepayer Advocates (DRA) will review this application, analyze the proposal and present an independent analysis and recommendations for the CPUC's consideration. Other parties of record will also participate. The CPUC may hold evidentiary hearings where parties of record present their proposals in testimony and are subject to cross-examination before an Administrative Law Judge (ALJ). These hearings are open to the public, but only those who are parties of record can present evidence or cross-examine witnesses during evidentiary hearings.

After considering all proposals and evidence presented during the hearing process, the CPUC will issue a draft decision for the application. When the CPUC acts on this application, it may adopt all or part of PG&E's request, amend or modify it or deny the application. The CPUC's final decision may be different from PG&E's proposed application filing.

FOR FURTHER INFORMATION

For more details call PG&E at 1-800-PGE-5000

Para más detalles llame 1-800-660-6789

詳情請致電 1-800-893-9555

For TDD/TTY (speech-hearing impaired) call 1-800-652-4712

You may contact the CPUC's Public Advisor with comments or questions as follows:

Public Advisor's Office

505 Van Ness Avenue, Room 2103

San Francisco, CA 94102

415-703-2074 or 866-849-8390 (toll free) TTY 415-703-5282, TTY 866-836-7825 (toll free)

E-mail to public.advisor@cpuc.ca.gov

If you are writing a letter to the Public Advisor's Office, please include the name of the application to which you are referring. All comments will be circulated to the Commissioners, the assigned Administrative Law Judge and the Energy Division staff.

Reviewed by the California Public Utilities Commission

May 20, 2008
TO: STATE, COUNTY AND
CITY OFFICIALS

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**NOTIFICATION OF APPLICATION FILING BY PACIFIC GAS AND ELECTRIC
APPLICATION FOR APPROVAL OF PROGRAMS AND BUDGETS FOR YEARS
2009–2011 FOR THE CALIFORNIA LOW INCOME ENERGY EFFICIENCY (LIEE)
AND CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE) APPLICATION**

The California Public Utilities Commission (CPUC) ordered PG&E to file an Application proposing programs and budgets for PG&E's 2009–2011 low-income assistance programs—i.e., California Alternate Rates for Energy (CARE) and Low Income Energy Efficiency (LIEE). On May 15, 2008, PG&E filed Application of Pacific Gas and Electric Company for Approval of the 2009—and 2011 California Alternate Rates for Energy and Low Income Energy Efficiency Programs and Budget (Application). The LIEE program offers free weatherization services, energy efficient appliances and energy education to qualifying low-income customers. The CARE program provides a 20 percent discount on the PG&E bill of qualifying low-income customers. The Application requests an annual LIEE budget of \$112.1 million in 2009, \$152.0 million in 2010, and \$157.6 million in 2011. This represents an increase of \$35 million in 2009 over the approved 2007-2008 LIEE program budget. For the CARE program, the Application requests an annual administrative budget of \$8.8 million for 2009, \$9.2 million for 2010, and \$9.5 million for 2011. This represents an increase of \$1.03 million in 2009 over the approved 2007-2008 CARE administrative budget.

How Does this Affect Rates?

If this application is approved, it would result in less than one percent of PG&E's total annual revenue. The average increase in electric rates for 2009 is 0.2 percent and the average increase in gas rates for 2009 is 0.9 percent.

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