

**PACIFIC GAS AND ELECTRIC COMPANY**  
**General Rate Case 2011 Phase I**  
**Application 09-12-020**  
**Data Response**

PG&E Data Request No.:	DRA_158-01		
PG&E File Name:	GRC2011-Ph-I_DR_DRA_158-Q01		
Request Date:	February 19, 2010	Requester DR No.:	DRA-158-MRK
Date Sent:	March 4, 2010	Requesting Party:	DRA
PG&E Witness:	Redacted	Requester:	Marek Kanter

**SUBJECT: INCOME TAXES**

**QUESTION 1**

In response to data request DRA-117, question 5, PG&E provided information re interest deductions taken in the PG&E standalone tax return for the years 2003-2008 indicating that PG&E Stand Alone Corporation borrowed \$280 Million dollars each year in the period 2005-2008 (Convertible Subordinate Notes). Please give details as to the use and purpose of these loans to PG&E, given the fact that PG&E does not have any significant subsidiaries as defined by Rule1-02 of Regulation S-X. (See PG&E CORP-FORM 8-K –EX-1.1 –November 18, 2009.)

**ANSWER 1**

PG&E Corporation, not the Utility, issued the \$280 million of convertible subordinate notes in 2002. The net proceeds of the issuance were used for the purposes of PG&E Corporation, such as to fund PG&E Corporation working capital, repay certain indebtedness of PG&E Corporation, and fund two interest reserve accounts of PG&E Corporation. The notes were issued once in 2002, not each year in the period 2005-2008. Only PG&E Corporation could use the proceeds of the notes, which were issued during the Utility's bankruptcy, a time when any associated financial dealing between the two companies would have had to be approved in advance by the U.S. Bankruptcy Court.