

1 distribution required to be made under the Plan on a day other than a Business Day shall be made
2 on the next succeeding Business Day.

3 (e) Allocation of Plan Distributions. All distributions in respect of
4 Allowed Claims shall be allocated first to the portion of such Claims representing interest (as
5 determined for federal income tax purposes), second to the original principal amount of such
6 Claims (as determined for federal income tax purposes), and any excess to the remaining portion
7 of such Claims.

8 (f) Minimum Distributions. No payment of Cash less than one
9 hundred dollars (\$100) shall be made by the Debtor to any holder of an Allowed Claim or Equity
10 Interest unless a request therefor is made in writing to the Debtor.

11 (g) Unclaimed Distributions. All distributions under the Plan that are
12 unclaimed for a period of one (1) year after distribution thereof shall be deemed unclaimed
13 property under section 347(b) of the Bankruptcy Code and reverted in the Debtor and any
14 entitlement of any holder of any Claim or Equity Interest to such distributions shall be
15 extinguished and forever barred.

16 (h) Escrow for Disputed Claims.

17 (i) General Treatment. On the Effective Date (or as soon as
18 practicable thereafter), and after making all distributions required to be made on the Effective
19 Date, the Reorganized Debtor shall establish one or more separate escrows, each of which shall
20 be administered by the Disbursing Agent in accordance with the terms hereof and pursuant to the
21 direction of the Bankruptcy Court, and shall deposit or segregate into such escrow account(s)
22 sufficient Cash to make distributions in respect of Disputed Claims; provided, however, that this
23 provision shall not apply to Environmental Claims, Fire Suppression Claims, Pending Litigation
24 Claims, Tort Claims, FERC License Claims and Workers' Compensation Claims. No
25 distributions from the escrow(s) shall be made until such Disputed Claims have been Allowed or
26 otherwise resolved by the Bankruptcy Court and any such distributions shall be made in
27 accordance with the terms hereof. The Cash deposited into the escrow account(s) shall be
28 invested in either (i) money market funds consisting primarily of short-term U.S. treasury

1 securities, or (ii) obligations guaranteed by the United States of America or any agency thereof,
2 at the Debtor's option; provided, however, that a Disputed ISO, PX and Generator Claim shall
3 earn interest through the date of payment in accordance with Exhibit I to the Plan to the extent it
4 becomes an Allowed Claim as set forth herein. A Disputed ISO, PX and Generator Claim shall
5 become an Allowed Claim on the date designated by FERC when payments are to be made on
6 account of ISO, PX and Generator Claims, pursuant to an unstayed order in the FERC refund
7 proceeding, docket Nos. ER00-95-045 and EL00-98-042 (which proceeding is discussed in
8 Section IV.B of the Disclosure Statement); provided, however, that if no date is designated in
9 such order, a Disputed ISO, PX and Generator Claim shall automatically become an Allowed
10 Claim forty-five (45) days after the issuance of such order, provided such order has not become
11 stayed. To the extent a Disputed Claim becomes an Allowed Claim, such Allowed Claim will be
12 satisfied in the same manner as all other Allowed Claims of the same Class. In addition, the
13 holder of such a Claim will receive Post-Petition Interest (to the extent such holder is entitled to
14 Post-Petition Interest under the Plan). From and after the Effective Date, such Disputed Claim
15 will earn interest at the same rate earned on the Cash deposited in escrow.

16 (ii) Termination of Escrow(s). The escrow(s) shall be
17 terminated by the Reorganized Debtor when all distributions from the escrow account(s) have
18 been made in accordance with the Plan. If any Cash remains in an escrow account after all
19 Disputed Claims for which such escrowed property is being held have been resolved and
20 distributions made in respect thereof, then such Cash shall be used by the Reorganized Debtor
21 first to repurchase the securities to be issued under the Plan and then, if any Cash remains, such
22 Cash shall revert to and become property of the Reorganized Debtor. In determining the
23 aggregate amount necessary to fund any escrow account(s), the Debtor may deposit the estimated
24 allowable amount of any Disputed Claim, as determined by the Bankruptcy Court. Any such
25 escrow(s) established pursuant to this section 5.4(h) shall be subject to the continuing jurisdiction
26 of the Bankruptcy Court.

27 (iii) Additional Cash. If the amount of Cash deposited into the
28 escrow(s) is insufficient to make the required payments once certain Disputed Claims become

1 Allowed Claims, then the Reorganized Debtor will pay the holder of such Allowed Claim the
2 Cash necessary to satisfy the shortfall. Any deficiency in the amount of Cash deposited into the
3 escrow(s) shall not limit the Reorganized Debtor's obligation to satisfy Disputed Claims which
4 subsequently become Allowed Claims, and the Reorganized Debtor shall remain liable to satisfy
5 such Allowed Claims pursuant to the Plan.

6 5.5 Objections to and Resolution of Administrative Expense Claims and
7 Claims. Except as to applications for allowance of compensation and reimbursement of
8 Professional Compensation and Reimbursement Claims under sections 330 and 503 of the
9 Bankruptcy Code, the Reorganized Debtor shall, on and after the Confirmation Date, have the
10 right to make and file objections to Administrative Expense Claims and Claims. In addition, the
11 Proponents shall, on and after the Confirmation Date, have full party-in-interest status to make
12 and file objections to Administrative Expense Claims and Claims and to appear and be heard
13 with respect thereto. Except as to applications for allowance of compensation and
14 reimbursement of Professional Compensation and Reimbursement Claims under sections 330
15 and 503 of the Bankruptcy Code, and with respect to objections filed by the Proponents, on and
16 after the Effective Date, the Reorganized Debtor, shall have the authority to compromise, settle,
17 otherwise resolve or withdraw any objections to Administrative Expense Claims and Claims and
18 compromise, settle or otherwise resolve Disputed Administrative Expense Claims and Disputed
19 Claims without the approval of the Bankruptcy Court. Unless otherwise ordered by the
20 Bankruptcy Court, (a) all objections to Claims (except for Administrative Expense Claims) shall
21 be served and filed upon the holder of the Claim as to which the objection is made (and, as
22 applicable, upon the Debtor, the Committee and the Commission) as soon as practicable, but in
23 no event later than the Effective Date, and (b) all objections to Administrative Expense Claims
24 shall be served and filed upon the holder of the Administrative Expense Claim as to which the
25 objection is made (and, as applicable, upon the Debtor, the Committee and the Commission) as
26 soon as practicable, but in no event later than ninety (90) days after the Effective Date.

27 5.6 Payment of the Trustees' Issuer's and Certain Bank Fees. To the extent
28 allowed by law and any underlying agreement, any unpaid fees and expenses accrued through

1 the Confirmation Date (except for any unpaid fees and expenses previously disallowed by the
2 Bankruptcy Court) of the Bond Trustees and the trustees under the Mortgage, and various
3 indentures, including, but not limited to, the Southern San Joaquin Valley Power Authority
4 Agreement (acting in their capacities as trustees and, if applicable, acting in their capacities as
5 disbursing agents), the Issuer of the PC Bonds and their respective professionals, and Bank of
6 America, N.A., in its capacity as administrative agent under the Revolving Line of Credit
7 (including such administrative agent's attorney's fees), shall be paid by the Debtor within ten
8 (10) days after the Confirmation Date. Any such fees and expenses accruing after the
9 Confirmation Date shall be payable as provided in the applicable agreement providing for such
10 payment, or, in the case of Bank of America, N.A., in its capacity as administrative agent under
11 the Revolving Line of Credit, at least quarterly. Upon payment of such fees and expenses, such
12 Persons shall be deemed to have released their Liens securing payment of their fees and expenses
13 for all fees and expenses accrued through the Effective Date.

14 5.7 Cancellation of Existing Securities and Agreements. On the Effective
15 Date, the promissory notes, bonds, debentures and all other debt instruments evidencing any
16 Claim, including Administrative Expense Claims, other than those that are reinstated and
17 rendered unimpaired or renewed and extended pursuant to Article IV hereof, respectively, shall
18 be deemed canceled without further act or action under any applicable agreement, law,
19 regulation, order or rule and the obligations of the Debtor under the agreements and indentures
20 governing such Claims, as the case may be, shall be discharged. The Common Stock and
21 Preferred Stock representing Equity Interests shall remain outstanding. Holders of promissory
22 notes, bonds, debentures and any and all other debt instruments evidencing any Claim shall not
23 be required to surrender such instruments.

ARTICLE VI

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

24
25
26 6.1 Assumption and Rejection of Executory Contracts and Unexpired Leases.
27 Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and
28 unexpired leases that exist between the Debtor and any Person or Governmental Entity shall be

1 deemed assumed by the Debtor as of the Effective Date, except that any executory contract or
2 unexpired lease shall be deemed rejected by the Debtor as of the Effective Date (i) that has been
3 rejected pursuant to a Final Order of the Bankruptcy Court entered prior to the Confirmation
4 Date, (ii) as to which a motion for approval of the rejection of such executory contract or
5 unexpired lease has been filed and served prior to the Confirmation Date or (iii) that is set forth
6 in Schedule 6.1(a)(i) of PG&E's Plan Supplement (executory contracts) (which Schedule is
7 hereby amended to include the Existing Tax Sharing Agreement), or Schedule 6.1(a)(ii) of
8 PG&E's Plan Supplement (unexpired leases)⁵; provided, however, that the Debtor reserves the
9 right, on or prior to the conclusion of the Confirmation Hearing, to amend Schedules 6.1(a)(i)
10 and 6.1(a)(ii) to PG&E's Plan Supplement to delete any executory contract or unexpired lease
11 therefrom or to add any executory contract or unexpired lease thereto, in which event such
12 executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the Debtor or
13 rejected, as the case may be, as of the Effective Date. The Debtor will give notice of any such
14 amendment to each counterparty to any executory contract or unexpired lease the status of which
15 is changed as a result of the amendment (i.e., any executory contract which is to be assumed or
16 rejected as a result of the amendment) and to the Proponents. If the counterparty opposes such
17 proposed amendment, the Debtor and the Proponents (provided that the Proponents' Plan reflects
18 such amendment) will make all reasonable efforts to provide such counterparty a reasonable
19 opportunity under the circumstances to object prior to confirmation of the Plan, and to the extent
20 that such counterparty has the right to vote on the Plan, or becomes entitled to vote on the Plan as
21 a result of the amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, to
22 provide such counterparty a reasonable amount of time to cast a Ballot to accept or reject the
23 Plan and indicate its preference between this Plan and PG&E's Plan, or to amend its Ballot. The
24 listing of a document on Schedules 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement shall not
25

⁵ A copy of PG&E's Plan Supplement can be obtained through the "Pacific Gas & Electric
Company Chapter 11 Case" link available through the website maintained by the Bankruptcy
Court at <http://www/canb.uscourts.gov>. PG&E's Plan Supplement is listed under docket
number 4579.

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1 constitute an admission by the Debtor or the Proponents that such document is an executory
2 contract or an unexpired lease or that the Debtor has any liability thereunder. Notwithstanding
3 anything to the contrary, the Debtor waives its right to make amendments pursuant to this
4 Section 6.1 with respect to the assumption of the PG&E-Western Area Power Administration
5 Contract 2948A and related contracts, as described in Exhibit G to PG&E's Disclosure
6 Statement.

7 **6.2 Schedules of Rejected Executory Contracts and Unexpired Leases:**

8 Inclusiveness. Each executory contract and unexpired lease listed or to be listed on
9 Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement shall include (i) modifications,
10 amendments, supplements, restatements or other similar agreements made directly or indirectly
11 by any agreement, instrument, or other document that in any manner affects such executory
12 contract or unexpired lease, without regard to whether such agreement, instrument or other
13 document is listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, and
14 (ii) executory contracts or unexpired leases appurtenant to the premises listed on
15 Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, including, without limitation, all
16 easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal,
17 powers, uses, usufructs, reciprocal easement agreements or vault, tunnel or bridge agreements,
18 and any other interests in real estate or rights in rem relating to such premises to the extent any of
19 the foregoing are executory contracts or unexpired leases, unless any of the foregoing
20 agreements previously have been assumed or assumed and assigned by the Debtor.

21 **6.3 Approval of Assumption or Rejection of Executory Contracts and**

22 Unexpired Leases. Entry of the Confirmation Order shall, subject to and upon the occurrence of
23 the Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the
24 Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed
25 pursuant to Section 6.1 hereof, (ii) the extension of time, pursuant to section 365(d)(4) of the
26 Bankruptcy Code, within which the Debtor may assume or reject the unexpired leases of non-
27 residential property specified in Section 6.1 hereof through the date of entry of the Confirmation
28 Order, and (iii) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code,

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1 of the rejection of the executory contracts and unexpired leases rejected pursuant to Section 6.1
2 hereof.

3 6.4 Cure of Defaults. Except as may otherwise be agreed to by the parties,
4 within thirty (30) days after the Effective Date, the Debtor shall cure any and all undisputed
5 defaults under any executory contract or unexpired lease assumed by the Debtor pursuant to
6 Section 6.1 hereof, in accordance with section 365(b)(1) of the Bankruptcy Code. All disputed
7 defaults that are required to be cured shall be cured either within thirty (30) days of the entry of a
8 Final Order determining the amount, if any, of the Debtor's liability with respect thereto, or as
9 may otherwise be agreed to by the parties.

10 6.5 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and
11 Unexpired Leases Rejected Pursuant to, or Omitted from, the Plan. Claims arising out of the
12 rejection of an executory contract or unexpired lease pursuant to Section 6.1 hereof must be
13 properly filed in the Chapter 11 Case and served upon the Debtor no later than thirty (30) days
14 after the later of (i) notice of entry of an order approving the rejection of such executory contract
15 or unexpired lease, (ii) notice of entry of the Confirmation Order, and (iii) notice of an
16 amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement. All such Claims not
17 filed within such time shall be forever barred from assertion against the Debtor, its estate and its
18 property.

19 6.6 Assumed Indemnification Obligations. The Assumed Indemnification
20 Claims shall, in all respects, irrespective of whether such claims arise under contracts or
21 executory contracts, survive confirmation of the Plan, remain unaffected thereby, and not be
22 discharged irrespective of whether indemnification, defense, reimbursement or limitation is owed
23 in connection with an event occurring before, on or after the Petition Date.

24 6.7 Compensation and Benefit Programs. Except as provided in Section 6.1
25 hereof, all savings, health care, severance, performance-based cash incentive, retention,
26 employee welfare benefit, life insurance, disability and other similar plans and agreements of the
27 Debtor are treated as executory contracts under the Plan and shall, on the Effective Date, be
28 deemed assumed by the Debtor in accordance with sections 365(a) and 1123(b)(2) of the

1 Bankruptcy Code, and any defaults thereunder shall be cured as provided in Section 6.4 hereof.
2 With respect to the Debtor's Retirement Plan, the Debtor affirms and agrees that it is and will
3 continue to be the contributing sponsor of the Retirement Plan, as defined under 29 U.S.C.
4 § 1301(a)(13) and 29 C.F.R. § 4001.2, or a member of the contributing sponsor's controlled
5 group, as defined under 29 U.S.C. § 1302(a)(14) and 29 C.F.R. § 4001.2. As a contributing
6 sponsor (or member of the controlled group) of the Retirement Plan, the Debtor intends to fund
7 the Retirement Plan in accordance with the minimum funding standards under ERISA, 29 U.S.C.
8 § 1802, pay all required PBGC insurance premiums, 29 U.S.C. § 1307, and comply with all
9 requirements of the Retirement Plan and ERISA. The Retirement Plan is a defined benefit
10 pension plan insured by the Pension Benefit Guaranty Corporation under Title IV of ERISA,
11 29 U.S.C. §§ 1301-1461. The Retirement Plan is subject to the minimum funding requirements
12 of ERISA, 29 U.S.C. § 1084, and section 412 of the Internal Revenue Code, 26 U.S.C. § 412.
13 No provision of or proceeding within the Debtor's reorganization proceedings, the Plan, nor the
14 Confirmation Order shall in any way be construed as discharging, releasing or relieving the
15 Debtor, the Reorganized Debtor, or any other party in any capacity, from any liability with
16 respect to the Retirement Plan or any other defined benefit pension plan under any law,
17 governmental policy or regulatory provision. PBGC and the Retirement Plan shall not be
18 enjoined or precluded from enforcing liability resulting from any of the provisions of the Plan or
19 the Plan's confirmation.

20 6.8 Retiree Benefits. Payments, if any, due to any Person for the purpose of
21 providing or reimbursing payments for retired employees and their spouses and dependents for
22 medical, surgical, or hospital care benefits, or benefits in the event of sickness, accident,
23 disability, or death under any plan, fund, or program (through the purchase of insurance or
24 otherwise) maintained or established in whole or in part by the Debtor prior to the Petition Date
25 shall be continued for the duration of the period the Debtor has obligated itself to provide such
26 benefits.

ARTICLE VII

IMPLEMENTATION OF THE PLAN

7.1 Issuance of Securities. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more public or private offerings, new debt securities of and new preferred stock in the Reorganized Debtor, the net proceeds of which, in addition to the Debtor's available Cash, will be sufficient to satisfy in full in Cash all Allowed Claims under the Plan to be paid in Cash. The terms and estimated amounts of the debt securities to be issued under the Plan are described on Exhibit 3 hereto. THE TERMS AND ESTIMATED

AMOUNTS OF THE SECURITIES TO BE ISSUED HEREBY REMAIN SUBJECT TO CHANGE BASED UPON, AMONG OTHER FACTORS, ACTUAL OR PERCEIVED MARKET CONDITIONS AND RATING AGENCY REQUIREMENTS AT THE TIME OF ISSUANCE, THE AMOUNT OF THE REORGANIZED DEBTOR'S AVAILABLE CASH ON THE EFFECTIVE DATE, AND THE AMOUNT OF ALLOWED CLAIMS. The Proponents shall work together cooperatively with their financing and capital markets arranger and their respective legal and financial advisors in the process of structuring, marketing, pricing and selling the securities, including, without limitation, making such adjustments to the securities to be sold as may be necessary or desirable in light of then prevailing market conditions. The securities to be issued are described generally below:

(a) Reorganized Debtor New Money Notes. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, new debt securities in the original aggregate principal amount sufficient to yield net proceeds of approximately \$6.56 billion, the terms of which are set forth on Exhibit 3 (any and all such notes, collectively, the "Reorganized Debtor New Money Notes"), the net proceeds of which shall be used to fund payments to holders of Allowed Claims and Allowed Equity Interest.

(b) Reorganized Debtor New Preferred Stock. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, new preferred equity securities sufficient to yield net proceeds of approximately

6.9 Settlement and Stanislaus Commitments/Natural Gas.

(a) Settlement and Stanislaus Commitments. The obligations under

(1) the 1991 Settlement Agreement between NCPA and PG&E in a Nuclear Regulatory Commission (the "NRC") proceeding, implementing the Statement of Commitments accompanying the letter from PG&E to the U.S. Department of Justice of April 30, 1976 (the "1991 Settlement Agreement"); (2) the letter from PG&E to the U.S. Department of Justice of April 30, 1976, to the extent that it represents obligations (the "1976 Letter") and (3) the antitrust license conditions included in the Diablo Canyon Nuclear Power Plant NRC Licenses (the "License Conditions") (collectively, the 1991 Settlement Agreement, the 1976 Letter and the License Conditions are referred to herein as the "Settlement and Stanislaus Commitments") shall remain in effect and pass through the Chapter 11 Case unimpaired and unaffected so that the Debtor and Reorganized Debtor are obligated for the full performance, and shall be liable for the nonperformance, of the Settlement and Stanislaus Commitments. Under the Plan, the Debtor and Reorganized Debtor shall assume the 1991 Settlement Agreement.

(b) Natural Gas. On the Effective Date, the Reorganized Debtor shall continue to offer the City of Palo Alto gas transmission and storage services on terms and conditions that provide full parity of treatment with those provided by the Reorganized Debtor to its own retail gas distribution functions, including, but not limited to, the opportunity to reserve, in advance of any open-season process, a defined amount of transmission and storage capacity in any amount up to the amount sufficient to meet the City of Palo Alto's projected Abnormal Peak Day (the "APD") requirements, subject to applicable limits on the amount of each such form of capacity. Similarly, on the Effective Date, "vintage rates" for the Redwood Path capacity currently held by the City of Palo Alto (6,148 Dth/day) shall continue to be available to the City of Palo Alto for as long as vintage rates are available to any core customer served by the Reorganized Debtor.

1 \$1.75 billion (the "Reorganized Debtor New Preferred Stock"). The net proceeds of the
2 Reorganized Debtor's issuance and sale of new Equity Interests shall be used to fund payments
3 to holders of Allowed Claims and Allowed Equity Interests.

4 7.2 Reorganization Agreement. On or before the Effective Date, or as soon as
5 practicable thereafter, the Reorganized Debtor and the Commission shall have executed and
6 delivered the Reorganization Agreement substantially in the form attached hereto as Exhibit 5
7 (The "Reorganization Agreement").

8 7.3 Settlement of Litigation. On or before the Effective Date and pursuant to
9 the Reorganization Agreement, the Debtor shall dismiss the Rate Recovery Litigation, with
10 prejudice, and shall withdraw the applications filed by the Debtor in connection with PG&E's
11 Plan and listed in Article 3.2(a)-(c) of the Reorganization Agreement. At such time, the Debtor
12 shall execute and deliver to the Proponents all pleadings and release documents required by the
13 Proponents in connection with such dismissal and withdrawals, which shall be in form and
14 substance satisfactory to the Proponents, and shall specifically releasing any and all claims and
15 Causes of Action that the Debtor has or may have against the State of California and the
16 Commission and their respective present and former commissioners (in their official capacities),
17 officers, employees, advisors, consultants and professionals, that arise from:

18 (a) the facts alleged by the Debtor in the Rate Recovery Litigation,
19 including, without limitation, claims and Causes of Action based upon the filed rate doctrine,
20 takings, due process and commerce clause violations, except for claims and Causes of Action
21 based upon the Plan or as provided in the Confirmation Order;

22 (b) the Commission's implementation prior to the Effective Date of
23 Assembly Bill 1 of the 2001-02 First Extraordinary Session (Ch. 4, Stats. 2001-02 1st Ex. Sess.)
24 and Assembly Bill 6 of the 2001-02 First Extraordinary Session (Ch. 2, Stats. 2001-02 1st Ex.
25 Sess.), including CPUC Decision Nos. 01-03-081 and 01-04-005; and

26 (c) the Commission's Decision Nos. 01-03-082 (TURN Accounting
27 Decision).

1 7.4 New Tax Sharing Agreement. On or before the Effective Date, or as soon
2 as practicable thereafter, the Reorganized Debtor and the Parent shall have executed and
3 delivered the New Tax Sharing Agreement.

4 7.5 Corporate Governance.

5 (a) Board of Directors. The members of the Board of Directors of the
6 Debtor immediately prior to the Effective Date shall serve as the initial Board of Directors of the
7 Reorganized Debtor on and after the Effective Date. Each of the members of such initial Board
8 of Directors shall serve in accordance with the Debtor's Articles of Incorporation and the
9 Debtor's Bylaws, as the same may be amended from time to time.

10 (b) Officers. The officers of the Debtor immediately prior to the
11 Effective Date shall serve as the initial officers of the Reorganized Debtor on and after the
12 Effective Date. Such officers shall serve in accordance with any employment agreement with
13 the Reorganized Debtor and applicable law.

14 (c) Articles of Incorporation and Bylaws. The articles of
15 incorporation and bylaws of the Reorganized Debtor shall be amended to contain provisions
16 necessary to (i) prohibit the issuance of nonvoting equity securities as required by
17 section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such articles of
18 incorporation and bylaws as permitted by applicable law, (ii) authorize the issuance and sale of
19 the Reorganized Debtor New Preferred Stock pursuant to Section 7.1(b) of the Plan, (iii) prohibit
20 the Parent from exercising its voting rights with respect to its Common Stock in the Reorganized
21 Debtor unless and until the Parent executes and delivers to the Reorganized Debtor the New Tax
22 Sharing Agreement, and (iv) effectuate the other provisions of the Plan, in each case without any
23 further action by the Debtor's shareholders or Board of Directors.

24 7.6 Regulatory Approvals. The Commission shall adopt such decisions or
25 orders as are necessary to implement the provisions of Article VII of this Plan, it being
26 understood that, as of and subject to the occurrence of the Confirmation Date, this Plan and the
27 Confirmation Order shall be irrevocably binding upon the Commission, notwithstanding such
28 future decisions and orders of the Commission. The Debtor shall timely seek any other

1 regulatory approvals from all applicable Governmental Entities that the Debtor believes are
2 necessary to effectuate the transactions specified herein.

3 7.7 Working Capital Facility. On or before the Effective Date, or as soon as
4 practicable thereafter, the Reorganized Debtor shall obtain and establish a working capital
5 facility (the "Exit Facility") for the purposes of funding operating expenses and seasonal
6 fluctuations in working capital and providing letters of credit, as well as funding distributions to
7 the holders of Allowed Claims, if necessary. The terms of the Exit Facility are set forth on
8 Exhibit 3.

9 7.8 Regulatory Issues. The Commission shall regulate the Reorganized
10 Debtor's operations to the full extent that it regulated the Debtor's operations prior to the Petition
11 Date in accordance with all applicable law. In that regard, the Reorganized Debtor shall operate
12 its business in accordance with all applicable laws and regulations promulgated or issued by the
13 Commission and all other Governmental Entities having jurisdiction over its business.

14 **ARTICLE VIII**

15 **CONFIRMATION AND EFFECTIVENESS OF THE PLAN**

16 8.1 Conditions Precedent to Confirmation. The Plan shall not be confirmed
17 by the Bankruptcy Court unless and until the following conditions shall have been satisfied:

18 (a) the Bankruptcy Court shall have entered an order or orders, which
19 may be the Confirmation Order, approving the Plan, authorizing and directing the Debtor to
20 execute, enter into and deliver the Plan, and to execute, implement and take all actions necessary
21 or appropriate to give effect to the transactions contemplated by the Plan; and
22 (b) the Confirmation Order shall be, in form and substance, acceptable
23 to the Proponents.

24 8.2 Conditions Precedent to Effectiveness. The Plan shall not become
25 effective unless and until the following conditions shall have been satisfied or waived pursuant to
26 Section 8.4 hereof:

27 (a) the Effective Date shall have occurred on or before January 31,
28 2003;

1 (b) all actions, documents, instruments and agreements necessary to
2 implement the Plan shall have been effected or executed;

3 (c) the Reorganized Debtor shall have consummated the sale of the
4 Reorganized Debtor New Money Notes and the Reorganized Debtor New Preferred Stock as
5 contemplated under Section 7.1 hereof and the proceeds thereof shall, in addition to the Debtor's
6 available Cash, be sufficient to pay all Allowed Claims to be paid hereunder and to fund the
7 escrows for Disputed Claims;

8 (d) The Reorganized Debtor shall have obtained and established the
9 Exit Facility;

10 (e) the Bankruptcy Court shall have entered an order, which may be
11 the Confirmation Order, approving the Debtor's dismissal with prejudice of the Rate Recovery
12 Litigation;

13 (f) the Reorganized Debtor and the Commission shall have executed
14 the Reorganization Agreement;

15 (g) pursuant to the Reorganization Agreement, the Debtor shall
16 dismiss the Rate Recovery Litigation, with prejudice, and shall withdraw the applications filed
17 by the Debtor in connection with PG&E's Plan and listed in Article 3.2(a)-(e) of the
18 Reorganization Agreement, and the Debtor shall have executed and delivered to the Proponents
19 all pleadings and release documents required by the Proponents in connection with such
20 dismissal and withdrawals, which shall be in form and substance satisfactory to the Proponents;

21 (h) S&P and Moody's shall have issued credit ratings for the
22 Reorganized Debtor and its debt securities of not less than BBB- and Baa3, respectively;

23 (i) the Debtor shall have received all authorizations, consents,
24 regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary
25 to implement the Plan; and

26 (j) the Plan shall not have been modified in a material way, including
27 any modification pursuant to Section 11.10 hereof, since the Confirmation Date.

1 8.3 Effect of Failure of Conditions. In the event that one or more of the
2 conditions specified in Section 8.2 hereof shall not have occurred or been waived on or before
3 January 30, 2003 (or such later date as may be hereafter provided in an amended Section 8.2(a)),
4 (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made,
5 (c) the Debtor and all holders of Claims and Equity Interests shall be restored to the status quo
6 ante as of the day immediately preceding the Confirmation Date as though the Confirmation
7 Order had never been entered, and (d) the Debtor's obligations with respect to Claims and Equity
8 Interests shall remain unchanged and nothing contained herein shall constitute or be deemed a
9 waiver or release of any Claims or Equity Interests by or against the Debtor or any Person or
10 Governmental Entity or to prejudice in any manner the rights of the Debtor or any Person or
11 Governmental Entity in any further proceedings involving the Debtor; provided, however, that
12 the amounts paid pursuant to Section 4.2(a) hereof on account of Post-Petition Interest may be
13 recharacterized as a payment upon the applicable Allowed Claims, in the Debtor's sole
14 discretion, but the Debtor will not otherwise seek to recover such amounts.
15 8.4 Waiver of Conditions. As provided in Section 11.10 hereof, the
16 Proponents may waive one or more of the conditions precedent set forth in Section 8.2 hereof,
17 provided however, that the condition set forth in Section 8.2(h) may only be waived pursuant to a
18 Final Order of the Bankruptcy Court obtained by motion filed by the Proponents and after notice
19 and a hearing on not less than ten (10) days' notice to the Debtor and the United States Trustee.

20 **ARTICLE IX**

21 **EFFECT OF CONFIRMATION OF PLAN**

22 9.1 Term of Bankruptcy Injunction or Stays. Unless otherwise provided, all
23 injunctions or stays provided for in the Chapter 11 Case under section 105 of the Bankruptcy
24 Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and
25 effect in accordance with the terms of such injunctions. Unless otherwise provided, the
26 automatic stay provided under section 362 of the Bankruptcy Code shall remain in full force and
27 effect until the Effective Date.

1 9.2 Revesting of Assets. On the Effective Date, except as otherwise
2 transferred, sold or otherwise provided for in the Plan, the property of the Debtor's estate shall
3 vest in the Reorganized Debtor.

4 9.3 Operations Following Effective Date. From and after the Effective Date,
5 the Reorganized Debtor may operate its business, and may use, acquire and dispose of property
6 free of any restrictions imposed under the Bankruptcy Code. As of the Effective Date, all
7 property of the Reorganized Debtor shall be free and clear of all Liens, claims and interests of
8 holders of Claims and Equity Interests, except as otherwise provided in the Plan.

9 9.4 Claims Extinguished. As of the Effective Date, any and all avoidance
10 claims accruing to the Debtor under sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the
11 Bankruptcy Code and not then pending, shall be extinguished. All other Causes of Action of the
12 Debtor, other than those expressly released or dismissed with prejudice hereunder, shall vest in
13 the Reorganized Debtor.

14 9.5 Discharge of Debtor. The rights afforded herein and the treatment of all
15 Claims and Equity Interests herein shall be in exchange for and in complete satisfaction,
16 discharge and release of Claims and Equity Interests of any nature whatsoever, including any
17 interest accrued on such Claims from and after the Petition Date, against the Debtor or any of its
18 assets or properties. Except as otherwise provided herein, as of the Effective Date (a) all such
19 Claims against and Equity Interests in the Debtor shall be satisfied, discharged and released in
20 full and (b) all Persons and Governmental Entities shall be precluded from asserting against the
21 Debtor, its successors, or its assets or properties any other or further Claims or Equity Interests
22 based upon any act or omission, transaction or other activity of any kind or nature that occurred
23 prior to the Confirmation Date.

24 9.6 Injunction. In addition to and except as otherwise expressly provided
25 herein, in the Confirmation Order or a separate order of the Bankruptcy Court, all entities who
26 have held, hold or may hold Claims against or Equity Interests in the Debtor, are permanently
27 enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any
28 action or other proceeding of any kind with respect to such Claim or Equity Interest, (b) the

1 enforcement, attachment, collection or recovery by any manner or means of any judgment,
2 award, decree or order against the Reorganized Debtor on account of any such Claim or Equity
3 Interest, (c) creating, perfecting or enforcing any Lien of any kind against the Reorganized
4 Debtor or against the Reorganized Debtor's property or interests in property on account of any
5 such Claim or Equity Interest, (d) asserting any right of setoff, subrogation or recoupment of any
6 kind against any obligation due from the Reorganized Debtor or against the Reorganized
7 Debtor's property or interests in property on account of any such Claim or Equity Interest, and
8 (e) commencing or continuing in any manner any action or other proceeding of any kind with
9 respect to any claims and Causes of Action which are extinguished, dismissed or released
10 pursuant to the Plan. The injunction shall also enjoin all parties in interest, including, without
11 limitation, all entities who have held, hold or may hold Claims against or Equity Interests in the
12 Debtor, from taking any action in violation of the Confirmation Order. Such injunction shall
13 extend to the successors of the Reorganized Debtor, their properties and interests in property.
14 Except as provided by Sections 11.4, 11.5 and 11.6 hereof, this Section 9.6 shall not enjoin, bar
15 or otherwise impair the commencement or prosecution of direct personal claims against any
16 Person other than the Reorganized Debtor, including claims against the Parent.

17 ARTICLE X

18 RETENTION OF JURISDICTION

19 As of and subject to the occurrence of the Confirmation Date, the Commission
20 shall be bound by the Confirmation Order and the Confirmation Order shall be enforceable
21 against the Commission notwithstanding the Commission's and the State of California's
22 objections and defenses based upon the Eleventh Amendment to the United States Constitution
23 or related principles of sovereign immunity or otherwise. After the Confirmation Date, the
24 Bankruptcy Court shall retain jurisdiction over all matters arising out of, or related to, the
25 Chapter 11 Case and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of
26 the Bankruptcy Code and for, among other things, the following purposes:

27 (a) to hear and determine matters related to the Plan;

1 (b) to hear and determine applications for the assumption or rejection
2 of executory contracts or unexpired leases, if any are pending, and the allowance of cure
3 amounts and Claims resulting therefrom;
4 (c) to hear and determine any and all adversary proceedings,
5 applications and contested matters;
6 (d) to hear and determine any objection to Administrative Expense
7 Claims or Claims;
8 (e) to enter and implement such orders as may be appropriate in the
9 event the Confirmation Order is for any reason stayed, revoked, modified or vacated;
10 (f) to issue such orders in aid of execution and consummation of the
11 Plan, to the extent authorized by section 1142 of the Bankruptcy Code;
12 (g) to consider any amendments to or modifications of the Plan, to
13 cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy
14 Court, including, without limitation, the Confirmation Order;
15 (h) to hear and determine disputes arising in connection with the
16 interpretation, implementation or enforcement of the Reorganization Agreement;
17 (i) to hear and determine all applications for compensation and
18 reimbursement of expenses of professionals under sections 330, 331 and 503(b) of the
19 Bankruptcy Code;
20 (j) to hear and determine disputes arising in connection with the
21 interpretation, implementation or enforcement of the Plan and/or the Confirmation Order;
22 (k) to hear and determine proceedings to recover assets of the Debtor
23 and property of the Debtor's estate, wherever located;
24 (l) to hear and determine matters concerning state, local and federal
25 taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;
26 (m) to hear and determine matters concerning the escrow(s), if any,
27 established pursuant to Section 5.4(h) hereof;

1 (n) to hear any other matter not inconsistent with the Bankruptcy
2 Code; and
3 (o) to enter a final decree closing the Chapter 11 Case.

4 **ARTICLE XI**

5 **MISCELLANEOUS PROVISIONS**

6 11.1 Effectuating Documents and Further Transactions. Pursuant to section
7 1142 of the Bankruptcy Code, the Debtor (or the Reorganized Debtor after the Effective Date),
8 shall execute, deliver, file or record such contracts, instruments, releases, indentures and other
9 agreements or documents and take such other actions as may be necessary or appropriate to
10 effectuate and further evidence the terms and conditions of the Plan and any securities issued
11 pursuant to the Plan.

12 11.2 Corporate Action. On the Effective Date, all matters provided for under
13 the Plan that would otherwise require approval of the Debtor's shareholders or Board of
14 Directors shall be deemed to have occurred and shall be in effect from and after the Effective
15 Date pursuant to the applicable general corporation law of California, the state in which the
16 Debtor is incorporated, without any requirement of further action by the Debtor's shareholders or
17 Board of Directors. On the Effective Date, or as soon as practicable thereafter, the Debtor, shall,
18 if required, file its amended articles of incorporation with the Secretary of State of California, in
19 accordance with the applicable general corporation law of California.

20 11.3 Exemption from Transfer Taxes. Pursuant to section 1146(c) of the
21 Bankruptcy Code, the issuance, transfer or exchange of notes or issuance of equity securities
22 under the Plan, the creation of any mortgage, deed of trust or other security interest, the making
23 or assignment of any lease or sublease, or the making or delivery of any deed or other instrument
24 of transfer under, in furtherance of, or in connection with the Plan, shall not be subject to any
25 stamp, real estate transfer, documentary transfer, mortgage recording, sales, use or other similar
26 tax. All sale transactions consummated by the Debtor and approved by the Bankruptcy Court on
27 and after the Petition Date through and including the Effective Date, including, without
28 limitation, the sales, if any, by the Debtor of owned property or assets pursuant to section 363(b)

1 of the Bankruptcy Code, shall be deemed to have been made under, in furtherance of, or in
2 connection with the Plan and, therefore, shall not be subject to any stamp, real estate transfer,
3 documentary transfer, mortgage recording, sales, use or other similar tax.

4 11.4 Releases by Debtor.

5 (a) As of the Effective Date, and subject to the release by the
6 Releasees set forth in Section 11.5 below, the Debtor releases all of the Releasees from any and
7 all Causes of Action held by, assertable on behalf of or derivative of the Debtor, in any way
8 relating to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations
9 regarding or concerning the Plan and the ownership, management and operation of the Debtor;
10 provided, however, that the foregoing shall not operate as a waiver of or release from any Causes
11 of Action arising out of any express contractual obligation owing by any former director, officer
12 or employee to the Debtor or any reimbursement obligation of any former director, officer or
13 employee with respect to a loan or advance made by the Debtor to such former director, officer
14 or employee and is not a waiver of or release for any professionals retained in connection with
15 this Chapter 11 Case from claims by their respective clients.

16 (b) As of the Effective Date, the Debtor releases the Commission, its
17 present and former commissioners in their official capacities and their respective successors, the
18 State of California and its officers and commissioners and their respective successors, as well as
19 the Commission's and the State's present and former employees, advisors, consultants and
20 professionals from any and all Causes of Action held by, assertable on behalf of or derivative of
21 the Debtor, in any way relating to the Debtor as Debtor-in-Possession, the Chapter 11 Case, the
22 Plan, negotiations regarding or concerning the Plan and the ownership, management and
23 operation of the Debtor as Debtor-in-Possession.

24 11.5 Limited Release by Releasees. In consideration for release of the
25 Releasees in Section 11.4(a) and other valuable consideration, as of the Effective Date, each of
26 the Releasees, at its option, generally releases the Debtor and the Debtor-in-Possession and the
27 Reorganized Debtor, in each case in any capacity, from any and all Causes of Action held by,
28 assertable on behalf of or derivative from such Releasee, in any way relating to the Debtor, the

1 Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the
2 Plan and the ownership, management and operation of the Debtor. The release by the Debtor in
3 Section 11.4(a) hereof shall be provided only to Releasees who execute and deliver to the Debtor
4 a release as provided in this Section 11.5 and in a form acceptable to the Debtor.

5 11.6 Exculpation. As of and subject to the occurrence of the Confirmation
6 Date, (a) the Proponents shall have been deemed to have negotiated the Plan in good faith, (b)
7 the Proponents shall be deemed to have solicited acceptances of the Plan in good faith and in
8 compliance with the applicable provisions of the Bankruptcy Code, including, without limitation
9 section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy law, rule or
10 regulation governing the adequacy of disclosure in connection with such solicitation, and (c) the
11 Commission and its individual commissioners in their official capacities, the Committee and its
12 members, and the Commission's and the Committee's respective agents, employees, advisors
13 and attorneys shall be deemed to have participated in good faith and in compliance with the
14 applicable provisions of the Bankruptcy Code in connection with the offer and issuance of any
15 securities under the Plan, and therefore, neither the Commission nor its individual

16 commissioners, the Committee nor its members, nor any of the Commission's or the
17 Committee's respective agents, employees, advisors and professionals shall have or incur any
18 liability to any holder of a Claim or Equity Interest or other party in interest for any act or
19 omission in connection with, related to, or arising out of, the Chapter 11 Case, negotiations
20 regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of
21 the Plan, or the administration of the Plan or the property to be distributed under the Plan, except
22 for willful misconduct or gross negligence, and, in all respects, the Commission and its
23 individual commissioners, the Committee and its members, and the Commission's and the
24 Committee's respective agents, employees, advisors and professionals shall be entitled to rely
25 upon the advice of counsel with respect to their duties and responsibilities under the Plan.

26 11.7 Termination of Committee. The appointment of the Committee shall
27 terminate on the Effective Date, subject to continuation for specific purposes by a Final Order of
28 the Bankruptcy Court.

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11.8 Fees and Expenses.

1 (a) Upon the Bankruptcy Court's entry of a Final Order approving any
2 application by the Commission under section 503(b)(3) of the Bankruptcy Code and/or the
3 Commission's legal and financial advisors under section 503(b)(4) of the Bankruptcy Code, the
4 amounts authorized for payment thereunder shall be treated as an Administrative Expense Claim
5 and a Professional Compensation and Reimbursement Claim, respectively, and paid in
6 accordance with the provisions of Sections 2.1 and 2.2 hereof, respectively.

7 (b) From and after the Confirmation Date, the Reorganized Debtor
8 shall, in the ordinary course of business and without the necessity for any approval by the
9 Bankruptcy Court, pay the reasonable fees and expenses of professional Persons thereafter
10 incurred, including, without limitation, any fees and expenses incurred by the Commission's
11 professionals in connection with the implementation and consummation of the Plan; provided,
12 however, that any dispute regarding the reasonableness of such fees and expenses shall be
13 decided by the Bankruptcy Court.

14 11.9 Payment of Statutory Fees. All fees payable pursuant to Section 1930 of
15 title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation
16 Hearing, shall be paid on or before the Effective Date.

11.10 Amendment or Modification of the Plan.

17 (a) Alterations, amendments or modifications of or to the Plan may be
18 proposed in writing by the Proponents at any time prior to the Confirmation Date, provided that
19 the Plan, as altered, amended or modified, satisfies the conditions of sections 1122 and 1123 of
20 the Bankruptcy Code and the Proponents shall have complied with section 1125 of the
21 Bankruptcy Code. The Plan may be altered, amended or modified by the Proponents at any time
22 after the Confirmation Date and before substantial consummation of the Plan, provided that the
23 Plan, as altered, amended or modified, satisfies the requirements of sections 1122 and 1123 of
24 the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan, as
25 altered, amended or modified, under section 1129 of the Bankruptcy Code and the circumstances
26 warrant such alterations, amendments or modifications. A holder of a Claim or Equity Interest
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1 that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended or
2 modified, if the proposed alteration, amendment or modification does not materially and
3 adversely change the treatment of such holder's Claim or Equity Interest.

4 11.11 Severability. In the event that the Bankruptcy Court determines that any
5 provision in the Plan is invalid, void or unenforceable, such provision shall be invalid, void or
6 unenforceable with respect to the holder or holders of such Claims or Equity Interests as to
7 which the provision is determined to be invalid, void or unenforceable. The invalidity, voidness
8 or unenforceability of any such provision shall in no way limit or affect the enforceability and
9 operative effect of any other provision of the Plan.

10 11.12 Revocation or Withdrawal of the Plan. The Proponents (or either one of
11 them) reserve the right to revoke or withdraw the Plan prior to the Confirmation Date. If the
12 Proponents (or either one of them) revoke or withdraw the Plan prior to the Confirmation Date,
13 then the Plan shall be deemed null and void. In such event, nothing contained herein shall
14 constitute or be deemed a waiver or release of any claims by or against the Debtor or any other
15 Person or Governmental Entity, including the Proponents, or to prejudice in any manner the
16 rights of the Debtor or any Person or Governmental Entity, including the Proponents, in any
17 further proceedings involving the Debtor.

18 11.13 Binding Effect. From and after the Confirmation Date, the Plan shall be
19 binding upon and inure to the benefit of the Proponents, the Debtor, the Reorganized Debtor, the
20 holders of Claims and Equity Interests, other parties in interest, and their respective successors
21 and assigns.

22 11.14 Notices. All notices, requests and demands to or upon the Debtor, the
23 Commission, the Committee or the United States Trustee to be effective shall be in writing and,
24 unless otherwise expressly provided herein, shall be deemed to have been duly given or made
25 when actually delivered or, in the case of notice by facsimile transmission, when received and
26 telephonically confirmed, addressed as follows:

If to the Debtor:

Pacific Gas and Electric Company
77 Beale Street
P.O. Box 7442
San Francisco, California 94120
Attn: General Counsel
Telephone: (415) 973-7000
Facsimile: (415) 973-5320

with a copy to:

PG&E Corporation
One Market, Spear Street Tower, Suite 2400
San Francisco, California 94105
Attn: General Counsel
Telephone: (415) 267-7000
Facsimile: (415) 267-7265

and:

Howard, Rice, Nemerovski, Canady, Falk & Rabkin
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111
Attn: James L. Lopes
Telephone: (415) 434-1600
Facsimile: (415) 217-5910

If to the Commission:

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Attn: General Counsel
Telephone: (415) 703-2015
Facsimile: (415) 703-2262

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, New York 10019-6064
Attn: Alan W. Kornberg
Telephone: (212) 373-3000
Facsimile: (212) 757-3990

If to the Committee:

Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street, 30th Floor
Los Angeles, California 90017
Attn: Paul S. Aronzon
Telephone: (213) 892-4000
Facsimile: (213) 629-5063

If to the United States Trustee:

The Office of the United States Trustee
250 Montgomery Street, Suite 1000
San Francisco, California 94104
Attn: Patricia Cutler
Telephone: (415) 705-3333
Facsimile: (415) 705-3379

11.15 Governing Law. Except to the extent the Bankruptcy Code, Bankruptcy Rules or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise, the rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without giving effect to the principles of conflicts of law of such jurisdiction.

11.16 Withholding and Reporting Requirements. Except as otherwise provided by the Plan, in connection with the consummation of the Plan, the Debtor shall comply with all applicable withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements.

11.17 Proponents' Plan Supplement. The following documents will be contained in the Proponents' Plan Supplement, which shall be filed with the Clerk of the Bankruptcy Court at least ten (10) days prior to the Confirmation Date:

(a) The Reorganized Debtor's amended Articles of Incorporation and Bylaws.

Upon its filing with the Bankruptcy Court, the Proponents' Plan Supplement may be inspected in the office of the Clerk of the Bankruptcy Court during normal court hours or through the "Pacific Gas & Electric Company Chapter 11 Case" link available through the website maintained by the Bankruptcy Court at <http://www.canb.uscourts.gov>. In addition, a copy of the Proponents' Plan Supplement will be available on the Commission's website at <http://www.cpic.ca.gov>.

11.18 Exhibits/Schedules. All exhibits and schedules to the Plan, including the Proponents' Plan Supplement, are incorporated into and are a part of the Plan as if set forth in full herein.

11.19 Subrogation Rights. Nothing in the Plan shall affect (a) the subrogation rights of any surety, to the extent applicable or available, which, if available or applicable, shall remain in full force and effect, or (b) the rights of the Debtor to object, pursuant to the Bankruptcy Code, to the existence of such subrogation rights.

DATED: August 30, 2002

CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: Gary M. Cohen
General Counsel

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS

By: _____
[Name]
Chair, Official Committee of Unsecured
Creditors

APPROVED AS TO CONTENT AND FORM:

PAUL, WEISS, RIFKIND, WHARTON
& GARRISON

By: Paul Weiss Rifkind Wharton
& Garrison
Counsel for the California Public
Utilities Commission

MILBANK, TWEED, HADLEY & McCLOY LLP

By: _____
Counsel for the Official Committee
of Unsecured Creditors

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CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: Gary M. Cohen
General Counsel

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS

By: _____
[Name]
Chair, Official Committee of Unsecured
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PAUL, WEISS, RIFKIND, WHARTON
& GARRISON

By: Paul Weiss Rifkind Wharton
& Garrison
Counsel for the California Public
Utilities Commission

MILBANK, TWEED, HADLEY & McCLOY LLP

By: _____
Counsel for the Official Committee
of Unsecured Creditors

CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: Gary M. Cojter
General Counsel

OFFICIAL COMMITTEE OF UNSECURED
CREDITORS

By: _____
[Name]
Chair, Official Committee of Unsecured
Creditors

APPROVED AS TO CONTENT AND FORM:

PAUL, WEISS, RIFKIND, WHARTON
& GARRISON

By: _____
Counsel for the California Public
Utilities Commission

MILBANK, TWEED, HADLEY & McCLOY LLP

By: _____
Counsel for the Official Committee
of Unsecured Creditors

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PLAN EXHIBIT 1

Interest Rates for Allowed Claims

Contract Type	Class	Interest Rate/Calculation Method ¹	Compounding Interval Before First Payment	Interest Commencement Date	Payment Dates After First Payment
A. Contract¹—Other than FC Bonds or First and Refunding Mortgage Bonds					
Floating Rate Notes ³	5	Base Interest Rate: 7.583% ⁴	Quarterly	Last Date Interest Paid	Quarterly
Revolving Line of Credit ³	5	Base Interest Rate: 8.000%	Quarterly	Last Date Interest Paid	Quarterly
Medium Term Notes ³	5	Interest Rate: See Exhibit D of Disclosure Statement—"Security Description"	Semiannually	Last Date Interest Paid	Quarterly
Senior Notes ³	5	Base Interest Rate: 9.625%	Semiannually	Last Date Interest Paid	Quarterly
DWR	5	Per Contract	N/A	N/A	DWR Claims being offset against amounts due Debtor
San Joaquin Valley ³	5	Per Contract	Semiannually	Last Date Interest Paid	Quarterly
L/C Banks ³	4c	Per Contract	N/A	Last Date Interest Paid	Quarterly
Prior Bonds ³	4f	Per Contract	N/A	Last Date Interest Paid	Quarterly
MBIA Reimbursement ³	4c	Per Contract	N/A	Date Funds First Disbursed Under PC Bond Insurance Policy for Payment of Interest on MBIA Insured PC Bonds	Quarterly
QUIDS ³	11	Per Contract	Quarterly	Last Date Interest Paid	Quarterly
B. Contract¹—First and Refunding Mortgage Bonds					
First and Refunding	3	Per Contract	Semiannually	Last Date Interest Paid	Per Contract

C. Contract ¹ —FC Bonds					
	4a	4b	4d	4g	
Mortgage Backed	Per Contract	Per Contract	Per Contract	Per Contract	Per Contract
MBIA Backed ³	Per Contract	Per Contract	Per Contract	Per Contract	Per Contract
L/C Backed ³	Per Contract	Per Contract	Per Contract	Per Contract	Per Contract
Treasury ³	Per Contract	Per Contract	Per Contract	Per Contract	Quarterly
D. Non-Contract¹—OCC Contract Specified					
Commercial Paper ³	5	Base Interest Rate: 7.466% ³	Quarterly	Last Date Interest Paid	Quarterly
ISO/Generator ³	6	Determined pursuant to method set forth in Section 35.19a of the FERC regulations	Quarterly	When payment first became due	Quarterly
ISDA Claims ³	5	Floating LIBOR + 2%	Annually	Petition Date	Quarterly
E. Non-Contract					
Priority Tax Claims		Statutory	Statutory	Statutory	Statutory
ESP ³	7		Annually	Petition Date	Quarterly
Intercompany ³	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁷	Annually	Petition Date	Quarterly
Gas Procurement ⁷	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁷	Annually	Petition Date	Quarterly
Other Trade Payables ³	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁷	Annually	Petition Date	Quarterly
Convenience Class ^{7,10}	10	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁷	Annually	Petition Date	Quarterly
Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims Workers ³	8	As Applicable Under Non-Bankruptcy Law			
Workers ³	12	As Applicable Under Non-Bankruptcy Law			

- 1 See Exhibit D of the Disclosure Statement for specific interest rates on certain instruments.
- 2 "Contract" refers to contractual provisions regarding interest calculations.
- 3 The first payment will be made ten days after the date that FG&E's Disclosure Statement is approved for the period ended on February 28, 2001.
- 4 Calculated based on actual days elapsed over 360 days, with an implied yield of 7.690%.
- 5 Payments have been made when due in respect of these obligations by the Debtor, MBIA or the Letter of Credit Issuing Banks, as applicable.
- 6 Paid by Bond Trustee with payments on Mortgage Bonds.
- 7 The first payment will be made on July 30, 2002 for the period ended on June 30, 2002.
- 8 Determined on the Petition Date and each anniversary prior to the date of first payment and quarterly thereafter.
- 9 If no such Statute, indenture or instrument applies, or if the applicable Statute, indenture or instrument does not specify a non-default rate of interest, Post-Petition Interest shall be calculated and paid at the Federal Judgment Rate.
- 10 Certain claims of \$5,000 or less will be paid in full on or before July 31, 2002.

PLAN EXHIBIT 2

Schedule of Letter of Credit Issuing Banks

Series	Original Principal Amount	Letter of Credit Issuing Bank	Stated Amount of Letter of Credit	Letter of Credit Expiration Date
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$200,000,000 1996 Series C (the "96C Bonds")	\$200,000,000	Bank of America, N.A.	\$202,191,781	5/23/02
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$165,000,000 1996 Series E (the "96E Bonds")	\$165,000,000	Morgan Guaranty Trust Company of New York	\$166,808,220	5/23/03
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$100,000,000 1996 Series F (the "96F Bonds")	\$100,000,000	BNP Paribas	\$101,095,891	5/23/03
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series B (the "97B Bonds")	\$148,550,000	Deutsche Bank AG	\$150,177,946	9/16/02

PLAN EXHIBIT 3

Description of Debt Instruments

I. New Notes

Issuer	Reorganized Debtor.
Amount	Estimated to aggregate \$6,560,000,000
Credit Rating	At least BBB- by S&P and Baa3 by Moody's.
Coupon Rate	The coupon rates are expected to reflect market clearing yields for a primary offering for a comparable issue of this maturity size and credit rating, among other factors, at the time of issuance of issuers in the same industry.
Maturity	To be determined.
Amortization	To be determined – the New Notes will either amortize over an average life of not less than _____ years or will provide for principal payment at maturity.
Denominations	\$1,000
Interest Payment Date	Semi-annually.
Ranking	The New Notes will be Unsecured.
Optional Redemption	The New Notes are expected to be redeemable at the option of the issuer at any time in whole or in part, at a price equal to the aggregate of the principal amount to be redeemed, accrued and unpaid interest, and a "make whole premium." The amount of the "make whole premium" is expected to reflect market conditions at the time of issuance and be determined by negotiation between the issuer and the underwriter(s). The actual calculation in the event redemption is effected is expected to be made by an independent investment banking institution of national standing.

Covenants

The indenture (and any supplemental indentures) under which the New Notes will be issued is expected to include covenants in respect of actions the issuer must take or is precluded from taking similar to those included in indentures governing long term notes of a comparable credit rating at the time of the issuance of the New Notes, including, but not limited to, limitations on liens.

Events of Default

- Nonpayment of interest when due after thirty (30) days of grace period.
- Nonpayment of principal or premium at maturity.
- Breach of covenant or warranty in the indenture and continuation of such breach for ninety (90) days after notice given to the company.
- Occurrence of event or condition which results in acceleration of a bond, debenture, note or other evidence of money borrowed or the company does not honor its guarantee of any such debt guaranteed by the company in the event of such acceleration with an aggregate outstanding principal amount of more than \$50,000,000, and such indebtedness is not discharged or acceleration is not rescinded within thirty (30) days after notice to the issuing company.
- An involuntary bankruptcy petition is filed against the company and such petition is not dismissed within ninety (90) days of filing or entry of decree or order adjudging the company or any significant subsidiary to be insolvent or appointing a custodian, receiver, etc., which decree or order remains in effect for ninety (90) days.
- Commencing a voluntary case under federal or state bankruptcy or insolvency law or other similar law; making an assignment for the benefit of creditors; admission in writing of inability to pay debts when due.
- Ministerial amendments may be adopted without noteholder consent.
- Modification and amendments may be made by the

Amendments

issuer and the trustee with the consent of a majority in principal amount of the New Notes.

- Amendments to certain specified economic terms of the New Notes (e.g., maturity date, percentage of outstanding notes required to approve certain matters) may be adopted only with the consent of each noteholder.

Registration/Exemption Initial issuance of New Notes will be registered under the Securities Act.

Listing None -- traded in over-the-counter market.

Initial Trading Procedures None.

II. New Working Capital Facility Borrower

Reorganized Debtor.

Amount	Facility	Total Line
	a) Revolver	\$1,885,000,000
	b) Capital Expenditure Sub-Facility	
	c) Letters of Credit	

Sublimits The sublimit for Letters of Credit will be \$955,000,000.
The sublimit for Working Capital will be \$400,000,000.
The sublimit for Capital Expenditures will be \$500,000,000.

Credit Rating At least BBB- by S&P and Baa3 by Moody's.

Interest Rate TBD

Interest Frequency TBD

Default Interest Rate TBD

Maturity Facility Maturity
a) Revolver January 31, 2008
b) Letters of Credit January 31, 2008

Ranking Secured by inventory and receivables.

Structuring Fee TBD

Unused Commitment Fee TBD

Excess Cash Flow Sweep TBD

Covenants TBD

Events of Default TBD

Collateral Terms TBD

Plan Exhibit 4

TAX SHARING AGREEMENT

THIS TAX SHARING AGREEMENT (the "Agreement"), dated as of _____, 2002, is entered into between PG&E Corporation, a California corporation ("Parent"), and Pacific Gas and Electric Company, a California corporation ("Subsidiary").

Parent is the common parent corporation of an affiliated group of corporations within the meaning of Section 1504(g) of the Internal Revenue Code of 1986, as amended (the "Code"), that has elected to file consolidated federal income tax returns, and Subsidiary is a member of such group.

Parent and Subsidiary desire to set forth in this Agreement their agreement as to certain matters relating to the inclusion of the Subsidiary Consolidated Group (as defined below) in the Parent Consolidated Group (as defined below), including the allocation of tax liabilities for years in which Subsidiary is so included, and certain other matters relating to taxes.

The parties agree as follows:

1. DEFINITIONS.

"Adjustment" shall have the meaning set forth in Section 8.

"Agreement Year" shall mean any taxable year beginning on or after January 1, 2002 during which the Subsidiary Consolidated Group is included in the Parent Consolidated Group.

"Balance Payment" shall have the meaning set forth in Section 4.

"Code" shall have the meaning set forth above.

"Estimated Tax Payments" shall have the meaning set forth in Section 4.

"Final Determination" shall mean the final resolution of any tax matter, including, but not limited to, a closing agreement with the IRS or the relevant state, local or foreign taxing authority, a claim for refund which has been allowed, a deficiency notice with respect to which the period for filing a petition with the Tax Court or the relevant state, local or foreign tribunal has expired, or a decision of competent jurisdiction that is not subject to appeal or as to which the time for appeal has expired.

"TRS" shall mean the Internal Revenue Service.

"Parent" shall have the meaning set forth above.

"Parent Consolidated Group" shall mean the affiliated group of corporations (including any predecessors and successors thereto) within the meaning of Section 1504(a) of the Code electing to file consolidated federal income tax returns and of which Parent is the common parent.

"Parent Consolidated Return" shall have the meaning set forth in Section 2.

"Post-Consolidation Year" shall have the meaning set forth in Section 6 of this Agreement.

"Pro Forma Subsidiary Attribute" shall have the meaning set forth in Section 5.

"Pro Forma Subsidiary Return" shall have the meaning set forth in Section 3.

"Records" shall have the meaning set forth in Section 8.

"Regulations" shall mean the Treasury regulations promulgated under the Code.

"Total Periodic Payments" shall have the meaning set forth in Section 4.

"Subsidiary" shall have the meaning set forth above.

"Subsidiary Consolidated Group" shall mean the affiliated group of corporations (including any predecessors and successors thereto) within the meaning of Section 1504(a) of the Code, of which Subsidiary would be the common parent if it were not included in the Parent Consolidated Group.

"Subsidiary Return Items" shall have the meaning set forth in Section 8.

"Subsidiary Tax Package" shall have the meaning set forth in Section 7.

2. FILING OF CONSOLIDATED RETURNS AND PAYMENT OF CONSOLIDATED TAX LIABILITY.

For all taxable years in which Parent files consolidated federal income tax returns (any such return of the Parent Consolidated Group for any taxable year, a "Parent Consolidated Return") and is entitled to include the Subsidiary Consolidated Group in such returns, Parent

shall include the Subsidiary Consolidated Group in the consolidated federal income tax returns that it files as the common parent corporation of the Parent Consolidated Group. Parent, Subsidiary and the other members of the Parent Consolidated Group shall file any and all consents, elections or other documents and take any other actions necessary or appropriate to effect the filing of such federal income tax returns. For all taxable years in which the Subsidiary Consolidated Group is included in the Parent Consolidated Group, Parent shall pay the entire federal income tax liability of the Parent Consolidated Group and shall indemnify and hold harmless Subsidiary and each member of the Subsidiary Consolidated Group against any such liability provided, however, that Subsidiary shall make payments to Parent or receive payments from Parent as provided in this Agreement for any Agreement Year.

3. PRO FORMA SUBSIDIARY RETURN.

For each Agreement Year, Parent shall prepare a pro forma federal income tax return for the Subsidiary Consolidated Group (a "Pro Forma Subsidiary Return"). Except as otherwise provided in this Agreement, the Pro Forma Subsidiary Return for each Agreement Year shall be prepared as if Subsidiary filed a consolidated federal income tax return on behalf of the Subsidiary Consolidated Group for such taxable period. The Pro Forma Subsidiary Return shall reflect any carryovers of net operating losses, net capital losses, excess tax credits, or other tax attributes from prior Pro Forma Subsidiary Returns (excluding those attributes that are carried back pursuant to Section 5) that could have been utilized by the Subsidiary Consolidated Group if the Subsidiary Consolidated Group had never been included in the Parent Consolidated Group and all Pro Forma Subsidiary Returns had been filed as actual returns. The Pro Forma Subsidiary Return shall be prepared in a manner that reflects all elections, positions and methods used in the Parent Consolidated Return that must be applied on a consolidated basis and otherwise shall be prepared in a manner consistent with the Parent Consolidated Return. The provisions of the Code that require consolidated computations, such as Sections 861, 1201-1212 and 1231, shall be applied separately to the Subsidiary Consolidated Group as if the Subsidiary Consolidated Group and the Parent Consolidated Group (excluding the members of the Subsidiary Consolidated Group) were separate affiliated groups, except that the Pro Forma Subsidiary Return prepared for the last taxable year, or portion thereof, during which the Subsidiary Consolidated Group is included in the Parent Consolidated Return shall also include any gains or losses of the members of the Subsidiary Consolidated Group on transactions within the Subsidiary Consolidated Group that must be taken into account pursuant to Section 1.1502-13 of the Regulations and reflected on the Parent Consolidated Return when the Subsidiary Consolidated Group ceases to be included in the Parent Consolidated Return. For each Agreement Year, Section 1.1502-13 of the Regulations shall be applied as if the Subsidiary Consolidated Group were not a member of the Parent Consolidated Group. For purposes of the Agreement, all determinations made as if the Subsidiary Consolidated Group had never been included in the Parent Consolidated Group and as if all Pro Forma Subsidiary Returns were

actual returns shall reflect any actual short taxable years resulting from the Subsidiary Consolidated Group joining or leaving the Parent Consolidated Group.

4. TAX PAYMENTS.

(a) Estimated Income Tax Payments. For each Agreement Year, Subsidiary shall make periodic payments ("Estimated Income Tax Payments") to Parent in such amounts as shall be equal to the estimated tax payments that would be payable by the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group, no later than the dates on which such estimated tax payments would be due from the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group.

(b) Balance Payment. For each Agreement Year, Subsidiary shall pay to Parent an amount equal to the tax payment that would be payable by the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group, no later than March 15 of the following year (the "Balance Payment").

(c) Payments based on Pro Forma Subsidiary Return. For each Agreement Year, Subsidiary shall pay to Parent, within 10 days after the filing of the Parent Consolidated Return for such Agreement Year, an amount equal to the sum of (i) the federal income tax liability shown on the corresponding Pro Forma Subsidiary Return prepared for such Agreement Year and (ii) the additions to tax, if any, under Section 6655 of the Code that would have been imposed on the Subsidiary Consolidated Group (treating the amount due to Parent under (i) above as its federal income tax liability and treating any Estimated Tax Payments to Parent pursuant to clause (a) as estimated payments under Section 6655 of the Code) and which result from the inaccuracy of any information provided by Subsidiary to Parent pursuant to Section 7 hereof or from the failure of Subsidiary to provide any requested information, reduced by (iii) the sum for such Agreement Year of the amount of the Estimated Tax Payments and the Balance Payment (collectively, the "Total Periodic Payments"), plus (iv) any interest and additions to tax (other than under Section 6655 of the Code) that would be due under the Code if the Total Periodic Payments were actual payments of tax. If the Total Periodic Payments to Parent for any Agreement Year exceed the amount of Subsidiary's liability for such Agreement Year under the preceding sentence, Parent shall pay to Subsidiary an amount equal to such excess within 10 days after filing the Parent Consolidated Return for such Agreement Year. For purposes of this Agreement, the term "federal income tax liability" includes the tax imposed by Sections 11, 55 and 59A of the Code, or any successor provisions to such Sections. Parent shall notify Subsidiary of any amounts due from Subsidiary to Parent pursuant to this Section 4 at least 5 business days prior to the date such payments are due, and such payments shall not be considered due until the later of the due date described above or the fifth day after Parent gives such notice.

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5. LOSSES; REFUNDS.

If a Pro Forma Subsidiary Return for any Agreement Year reflects a net operating loss, net capital loss, excess tax credit or other tax attribute (a "Pro Forma Subsidiary Attribute"), then, within 10 days after filing the relevant Parent Consolidated Return for such Agreement Year, Parent shall pay to Subsidiary an amount equal to the refund that the Subsidiary Consolidated Group would have received as a result of the carryback of such Pro Forma Subsidiary Attribute to a Pro Forma Subsidiary Return for any prior Agreement Year or Years, assuming that all Pro Forma Subsidiary Returns had been filed as actual returns and that the Subsidiary Consolidated Group had filed returns as a separate affiliated group for all prior taxable years. All calculations of deemed refunds pursuant to this Section 5 shall include interest computed as if the Subsidiary Consolidated Group had filed a claim for refund or an application for a tentative carryback adjustment pursuant to Section 6411(a) of the Code on the date on which the relevant Parent Consolidated Return is filed.

6. PAYMENTS FOR TAXABLE YEARS AFTER DECONSOLIDATION.

(a) Payments By Subsidiary To Parent. If for any taxable year after the Subsidiary Consolidated Group ceases to be included in the Parent Consolidated Group (a "Post-Consolidation Year"), (i) the federal income tax liability of the Subsidiary Consolidated Group is less than (ii) the federal income tax liability that would have been imposed with respect to the same period if the Subsidiary Consolidated Group had not been included in the Parent Consolidated Group for any Agreement Year and all Pro Forma Subsidiary Returns had been actual returns for such years, then Subsidiary shall pay to Parent an amount equal to the excess of the amount specified in clause (i) over the amount specified in clause (ii) within 10 days after the filing of the Subsidiary Post-Consolidation Year return.

(b) Payments By Parent To Subsidiary. If for any Post-Consolidation Year, (i) the federal income tax liability of the Subsidiary Consolidated Group is greater than (ii) the federal income tax liability that would have been imposed with respect to the same period if the Subsidiary Consolidated Group had not been included in the Parent Consolidated Group for any Agreement Year and all Pro Forma Subsidiary Returns had been actual returns for such years, then Parent shall pay to Subsidiary an amount equal to the excess of the amount specified in clause (i) over the amount specified in clause (ii) within 10 days after notification by Subsidiary to Parent of the filing of the Subsidiary Post-Consolidation Year return.

(c) Documentation. Prior to the payment of any amounts due pursuant to this Section 6, the parties shall exchange such information and documentation as is reasonably satisfactory to each of them in order to substantiate the amounts due pursuant to this Section 6. Any disputes as to such amounts and documentation that cannot be resolved prior to the date on

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which a payment is due shall be referred to an independent accounting firm whose fees shall paid one-half by Subsidiary and one-half by Parent.

(d) No Post-Consolidation Year Carrybacks. If the Subsidiary Consolidated Group federal income tax return with respect to a Post-Consolidation Year reflects a net operating loss, net capital loss, excess tax credits or any other tax attribute, such attribute shall not be carried back to a Parent Consolidated Return without the express written consent of Parent, and (unless such consent is given) Subsidiary shall make any available elections or filings that are necessary or desirable to avoid such carrybacks.

7. PREPARATION OF TAX PACKAGE AND OTHER FINANCIAL REPORTING INFORMATION.

Subsidiary shall provide to Parent, in a format determined by Parent, all information requested by Parent as necessary to prepare the Parent Consolidated Return and the Pro Forma Subsidiary Return (the "Subsidiary Tax Package"). The Subsidiary Tax Package with respect to any taxable year shall be provided to Parent on a basis consistent with practices of the Parent Consolidated Group no later than April 1 of the following year. Subsidiary shall also provide to Parent information required to determine the Total Periodic Payments, current federal taxable income, current and deferred tax liabilities, tax reserve items and any additional current or prior information required by Parent on a timely basis consistent with practices of the Parent Consolidated Group.

8. RETURNS, AUDITS, REFUNDS, AMENDED RETURNS, LITIGATION, ADJUSTMENTS AND RULINGS.

(a) Returns. Parent shall have exclusive and sole responsibility for the preparation and filing of the Parent Consolidated Returns (including requests for extensions) and any other returns, amended returns and other documents or statements required to be filed with the IRS in connection with the determination of the federal income tax liability of the Parent Consolidated Group.

(b) Audits; Refund Claims. Parent will have exclusive and sole responsibility and control with respect to the conduct of IRS examinations of the returns filed by the Parent Consolidated Group and any refund claims with respect to such returns, including without limitation the right to select counsel, the right to determine the court or other body in which any contest shall be brought, the right to determine whether to contest a proposed deficiency or to pay a tax and sue for a refund and the right to determine whether and how to appeal any adverse determination. Subsidiary shall assist and cooperate with Parent during the course of any such proceeding. Parent shall give Subsidiary notice of and consult with Subsidiary with respect to any issues relating to items of income, gain, loss, deduction or credit

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of Subsidiary (any such items, "Subsidiary Return Items"). Parent shall not settle or otherwise compromise any Subsidiary Return Item that would result in additional liability for Subsidiary under this Agreement without the written consent of Subsidiary, which consent shall not be unreasonably withheld. If Subsidiary does not respond to Parent's request for consent within 30 days, Subsidiary shall be deemed to have consented.

(c) Litigation. If the federal income tax liability of the Parent Consolidated Group becomes the subject of litigation in any court, the conduct of the litigation shall be controlled exclusively by Parent. Subsidiary shall assist and cooperate with Parent during the course of litigation, and Parent shall consult with Subsidiary regarding any issues relating to Subsidiary Return Items.

(d) Expenses. Subsidiary shall reimburse Parent for all reasonable out-of-pocket expenses (including, without limitation, legal, consulting and accounting fees) in the course of proceedings described in paragraphs (b) and (c) of this Section 8, to the extent such expenses are reasonably attributable to Subsidiary Return Items for any Agreement Year.

(e) Recalculation Of Payments To Reflect Adjustments. To the extent that there is a Final Determination with respect to a Parent Consolidated Return that results in a change in an item relating to such return (an "Adjustment") that affects the treatment of a Subsidiary Return Item for an Agreement Year, a corresponding adjustment shall be made to the corresponding Pro Forma Subsidiary Return. All calculations of payments made pursuant to Sections 4, 5 and 6 of this Agreement shall be recomputed to reflect the effect of any Adjustments on the relevant Pro Forma Subsidiary Return. Within 10 days after any such Adjustments, Subsidiary or Parent, as appropriate, shall make a payment to the other party reflecting such Adjustment, plus interest pursuant to Section 9 of the Agreement, calculated as if payments by and to Subsidiary pursuant to Sections 4, 5 and 6 of this Agreement and this Section 8 were payments and refunds of federal income taxes. Subsidiary shall further pay to Parent the amount of any penalties or additions to tax incurred by the Parent Consolidated Group as a result of an adjustment to any Subsidiary Return Item for an Agreement Year.

(f) Rulings. Subsidiary shall assist and cooperate with Parent and take all actions requested by Parent in connection with any ruling requests submitted by Parent to the IRS.

(g) Applicability With Respect To All Consolidated Returns. The provisions of Sections 8(a), (b) and (c) above shall apply to Parent Consolidated Returns and Subsidiary Return Items for all taxable years in which Subsidiary is includable in the Parent Consolidated Group.

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(h) Document Retention, Access To Records and Use Of Personnel. Until the expiration of the relevant statute of limitations (including extensions), Subsidiary shall (i) retain records, documents, accounting data, computer data and other information (collectively, the "Records") necessary for the preparation, filing, review, audit or defense of all tax returns relevant to an obligation, right or liability of either party under the Agreement; and (ii) give Parent reasonable access to such Records and to its personnel (insuring their cooperation) and premises to the extent relevant to an obligation, right or liability of either party under the Agreement. Prior to disposing of any such Records, Subsidiary shall notify Parent in writing of such intention and afford Parent the opportunity to take possession or make copies of such Records at its discretion.

9. INTEREST.

Interest required to be paid by or to Subsidiary pursuant to the Agreement shall, unless otherwise specified, be computed at the rate and in the manner provided in the Code for interest on underpayments and overpayments, respectively, of federal income tax for the relevant period. Any payments required pursuant to the Agreement which are not made within the time period specified in the Agreement shall bear interest at a rate equal to the rate provided in the Code for interest on underpayments of tax.

10. FOREIGN, STATE AND LOCAL INCOME TAXES.

(a) In the case of foreign, state or local taxes based on or measured by the net income of the Parent Consolidated Group, or any members of the Parent Consolidated Group (other than solely with respect to the Subsidiary Consolidated Group or solely with respect to members of the Parent Consolidated Group other than members of the Subsidiary Consolidated Group) on a combined, consolidated or unitary basis, the provisions of this Agreement shall apply with equal force to such foreign, state or local tax for each Agreement Year, whether or not the Subsidiary Consolidated Group is included in the Parent Consolidated Group for federal income tax purposes; provided, however, that interest pursuant to the first sentence of Section 9 of this Agreement shall be computed at the rate and in the manner provided under such foreign, state or local law for interest on underpayments and overpayments of such tax for the relevant period, and references to provisions of the Code throughout the Agreement shall be deemed to be references to analogous provisions of foreign, state and local law.

(b) For any Agreement Year, Parent shall have the sole and exclusive control of (a) the determination of whether a combined, consolidated or unitary tax return should be filed for any foreign, state or local tax purpose and (b) all foreign, state or local income tax audits and litigation with respect to the Subsidiary Consolidated Group to the same extent as provided in this Agreement for federal income tax matters (including the right in its sole

discretion to have Subsidiary pay any disputed taxes and sue for a refund in the forum of Parent's choice). Subsidiary shall reimburse Parent for all reasonable out-of-pocket expenses (including, without limitation, legal, consulting and accounting fees) in the course of proceedings described in the preceding sentence, to the extent such expenses are reasonably attributable to the Subsidiary Consolidated Group.

(c) Parent will provide notice of and consult with Subsidiary with respect to any issue relating to such audits and litigation, and Subsidiary will provide to Parent any information necessary to conduct such audits and litigation. Parent shall not settle or otherwise compromise any audits or litigation that would result in additional liability for Subsidiary under this Section 10 without the written consent of Subsidiary, which consent shall not be unreasonably withheld. If Subsidiary does not respond to Parent's request for consent within 30 days, Subsidiary shall be deemed to have consented.

11. SUCCESSORS AND ACCESS TO INFORMATION.

The Agreement shall be binding upon and inure to the benefit of any successor to any of the parties, by merger, acquisition of assets or otherwise, to the same extent as if the successor had been an original party to the Agreement, and in such event, all references in this Agreement to a party shall refer instead to the successor of such party. If for any taxable year Subsidiary is no longer included in the Parent Consolidated Group, Parent and Subsidiary agree to provide to the other party any information reasonably required to complete tax returns for taxable periods beginning after Subsidiary is no longer included in a Parent Consolidated Return, and each of Parent and Subsidiary will cooperate with respect to any audits or litigation relating to any Parent Consolidated Return.

12. GOVERNING LAW.

The Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and to be fully performed within the State of California.

13. HEADINGS.

The headings in the Agreement are for convenience only and shall not be deemed for any purpose to constitute a part or to affect the interpretation of the Agreement.

14. SECTION REFERENCES.

References to Sections shall, unless otherwise specified, be references to Sections of this Agreement.

15. COUNTERPARTS

The Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, and it shall not be necessary in making proof of the Agreement to produce or account for more than one counterpart.

16. SEVERABILITY

If any provision of the Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the maximum extent practicable. In any event, all other provisions of the Agreement shall be deemed valid, binding, and enforceable to their full extent.

17. TERMINATION

The Agreement shall remain in force and be binding so long as the applicable period of assessments (including extensions) remains unexpired for any taxes contemplated by the Agreement; provided, however, that neither Parent nor Subsidiary shall have any liability to the other party with respect to tax liabilities for any taxable year in which Subsidiary is not included in the Parent Consolidated Return for such year, except as provided in Sections 5 and 10.

18. SUCCESSOR PROVISIONS

Any reference herein to any provisions of the Code or Treasury Regulations shall be deemed to include any amendments or successor provisions thereto, as appropriate.

19. COMPLIANCE BY SUBSIDIARIES

Parent and Subsidiary each agrees to cause all members of the Parent Consolidated Group and the Subsidiary Consolidated Group (including predecessors and successors to such members) to comply with the terms of this Agreement.

IN WITNESS WHEREOF, each of the parties to this Agreement has caused this Agreement to be executed by its duly authorized officer on this _____, 2002.

PG&E CORPORATION

By: _____

Name:
Title:

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

REORGANIZATION AGREEMENT

THIS REORGANIZATION AGREEMENT ("Agreement") is entered into by and among the undersigned Parties on this ____ day of _____, 200_, with reference to the following:

RECITALS OF THE PARTIES

- A. Pacific Gas & Electric Company ("PG&E") is the Debtor in a Chapter 11, Case No. 01-30923 DM (the "Case") pending in the United States Bankruptcy Court for the Northern District of California (the "Court"). The Commission has filed the Plan in the Case to reorganize PG&E.
- B. The Parties are also currently engaged in the Litigation. This Agreement and the Plan will resolve, among other matters, the Litigation.
- C. The refinancings and issuance of Securities contemplated by the Plan and this Agreement create an opportunity for PG&E (i) to reorganize and to pay in full in cash Allowed Claims or to reinstate Allowed Claims as provided in the Plan, (ii) to issue, and pay, retire, redeem or defease the Securities, and (iii) to achieve Investment Grade Credit Ratings. Nothing contained in this Agreement shall change the proposed treatment for Creditors' claims contained in the Plan.
- D. In the exercise of its police and regulatory powers, the Commission is entering into this Agreement and shall adopt such decisions and orders as

it deems necessary to implement and carry out the provisions of this Agreement, including but not limited, to establishing retail electric rates to provide for payment in full of the Securities in accordance with their respective terms.

NOW, THEREFORE, in consideration of the foregoing, the agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Certain Defined Terms. When used in this Agreement, the following terms shall have the following meanings:

- (a) "Agreement" shall have the meaning set forth in the introductory paragraph.
- (b) "Allowed Claims" shall have the meaning ascribed to it in the Plan, including claims that may be allowed from time to time in the Case.
- (c) "Case" shall have the meaning set forth in the Recitals to this Agreement.
- (d) "Court" shall have the meaning set forth in the Recitals to this Agreement.

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(e) "Commission" shall mean the California Public Utilities Commission, or such successor agency, and the Commissioners thereof in their official capacities and their respective successors.

(f) "Debt" shall mean the debt to be issued or reinstated, as the case may be, in accordance with the Plan, by PG&E, from time to time to satisfy Allowed Claims and to fund the escrow for Disputed Claims in the Case, including any and all interest thereon or associated costs as provided in such debt instruments.

(g) "Disputed Claims" shall have the meaning set forth in the Plan.

(h) "Effective Date" shall have the meaning set forth in the Plan.

(i) "FERC" shall mean the Federal Energy Regulatory Commission.

(j) "Investment Grade Credit Ratings" shall mean credit ratings for the Securities and PG&E from both Standard & Poor's Corporation of BBB- or better and Moody's Investors Service, Inc. of Baa3 or better.

(k) "Litigation" shall mean Pacific Gas & Electric Company, Plaintiff, vs. Loretta M. Lynch, et al., Defendants, Case No. C-01-3023-VRW, presently pending in the United States District Court for the Northern District of California.

(l) "Parties" shall mean the Commission and PG&E.

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(m) "Person or Persons" shall mean an individual, partnership, joint venture, corporation, limited liability company, trust, association or unincorporated organization, any governmental authority, or any other entity.

(n) "PG&E" shall mean Pacific Gas & Electric Company, a California corporation, and its successors.

(o) "Plan" shall mean the Commission plan of reorganization for PG&E in the Case, as amended from time to time.

(p) "Preferred Shares" shall mean the equity interests to be issued by PG&E, from time to time to satisfy Allowed Claims and to fund the escrow for Disputed Claims in the Case, in accordance with the Plan, including any and all interest or dividends thereon and associated costs as provided in such equity interests.

(q) "Recoverable Costs" shall mean the amounts PG&E is authorized by the Commission to recover in retail electric rates in accordance with historic practice for all of its prudently-incurred costs, including capital investment in property, plant and equipment, a return of capital and a return on capital and equity to be determined by the Commission from time to time in accordance with its past practices.

(r) "Recovery Rates" shall mean gross electric retail rates (including surcharges) sufficient (i) to pay the interest and dividends payable on, and to provide funding of required reserves for, the Securities, (ii) to allow PG&E to meet its obligations in respect of scheduled amortization and redemption of the Securities in

accordance with their terms, (iii) to pay all Recoverable Costs, and (iv) to facilitate achieving and maintaining Investment Grade Credit Ratings.

(s) "Securities" shall mean the Preferred Shares and the Debt.

(t) "Securities Repayment Period" shall mean the period commencing on the Effective Date of the Plan and ending on the date that the last of the outstanding Securities have been paid, redeemed or defeased in full.

Section 1.2. Capitalized Term. All terms defined in this Agreement shall have the meanings ascribed to them in this Agreement or in the Plan.

Section 1.3. Incorporation of Recitals. The Recitals are incorporated herein by reference.

ARTICLE II

RATE STABILIZATION AND COST RECOVERY

Section 2.1 Issuance of Securities. From and after the Effective Date of the Plan, PG&E shall issue or reinstate Securities as provided in the Plan in an amount equal to the sum of (a) the Allowed Claims, together with amounts required to be deposited in escrow for Disputed Claims under the Plan, less (b) PG&E's available cash and cash equivalents. The Commission shall adopt such orders or decisions as it deems necessary to authorize PG&E to issue (or to reinstate) and to fully meet its obligations in respect of such Securities in accordance with their respective terms and with the Plan. Amounts deposited in the escrow for Disputed Claims under the Plan which are not required to satisfy Allowed Claims shall be used by PG&E to repurchase Securities.

Section 2.2 Rate Stabilization. PG&E shall be authorized to recover in retail electric rates the interest and dividends payable on, funding of required reserves for, and other amounts which may be necessary to allow PG&E to meet its obligations in respect of scheduled amortization and redemption of, the Securities in accordance with their respective terms. The Commission shall establish retail electric rates for retail electric customers in PG&E's service territory at rates sufficient (i) to pay the interest and dividends payable on, funding of required reserves for, and collection of other amounts which may be necessary to allow PG&E to meet its obligations in respect of scheduled amortization and redemption of the Securities in accordance with their terms, (ii) to pay all Recoverable Costs, and (iii) to facilitate achieving and maintaining Investment Grade Credit Ratings, provided, however, that in no event may such rates be less than Recovery Rates. The Commission shall evaluate the Recovery Rates of PG&E from time to time, and shall adjust such rates as may be necessary to assure sufficient revenues to satisfy the requirements of clauses (i) - (iii) above.

Section 2.3 Credit Rating. The parties acknowledge and agree that the achievement and maintenance of Investment Grade Credit Ratings is important to the reorganization of PG&E. All of the Securities shall have terms and conditions customary for securities that are similar to the Securities and enjoy or have Investment Grade Credit Ratings. Each of the Parties agrees to provide such information as may be required by the rating agencies, and to cooperate fully with the rating agencies and the other party in obtaining Investment Grade Credit Ratings as expeditiously as possible.

Section 2.4 Commission Continuing Jurisdiction. Subject to Article V, PG&E agrees that the Commission shall retain jurisdiction over PG&E's retail rates, and

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the assets and business of PG&E, in accordance with California law, and shall not seek during the Securities Repayment Period to contest such jurisdiction.

Section 2.5 Financial Reporting. The Parties will cooperate in accounting for and reporting the transactions described in the Plan and this Agreement.

Section 2.6 Acknowledgment. The Parties acknowledge and agree that, until this Agreement has terminated in accordance with Section 4.1, the Recovery Rates shall include the amounts necessary for PG&E to pay all costs associated with the Securities including, but not limited to, the interest and dividends payable on, and other amounts which may be necessary to allow PG&E to meet its obligations in respect of scheduled amortization and redemption of the Securities in accordance with their terms. The costs associated with the Securities shall be deemed to have been prudently incurred.

ARTICLE III

LITIGATION

Section 3.1 Dismissal of Litigation. On the Effective Date of the Plan PG&E shall file a motion to dismiss the Litigation, with prejudice.

Section 3.2 Withdrawal of Certain Applications. Promptly upon the Effective Date of the Plan, PG&E shall withdraw certain applications filed with FERC, the Nuclear Regulatory Commission ("NRC"), and the Securities and Exchange Commission ("SEC"), as follows:

(a) Applications to Transfer Regulatory Assets filed with the FERC in Docket Nos. EC02-31, EL02-36, ES02-17, ER02-456, ER02-455

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(b) Applications to Transfer Hydro Assets filed with FERC in Project Nos. 77-116, 96-031, 137-031, 175-018, 178-015, 233-082, 606-020, 619-095, 803-055, 1061-056, 1121-058, 1333-037, 1354-029, 1403-042, 1962-039, 1988-030, 2105-087, 2106-039, 2107-012, 2130-030, 2155-022, 2310-120, 2467-016, 2661-016, 2687-022, 2735-071, 2118-006, 2281-005, 2479-003, 2678-001, 2781-004, 2784-001, 4851-004, 5536-001, 5828-003, 7009-004, and 10821-002.

(c) Applications for Certificates of Public Convenience and Necessity filed with FERC in Docket Nos. CP02-38, CP02-39, CP02-40, CP02-41, and CP02-42.

(d) License Transfer Application filed with the NRC in Docket Nos. 50-275-LT, 50-323-LT.

(e) Filing with the SEC for Approval under the Public Utilities Holding Company Act of 1935 to create Electric Generation LLC, ETrans LLC, and GTrans LLC.

ARTICLE IV

TERMINATION

Section 4.1 Termination. This Agreement and any orders entered by the Court contemplated by or required to implement this Agreement shall terminate at the end of the Securities Repayment Period, *provided that* all rights of the Parties under this Agreement and any orders entered by the Court contemplated by or required to implement this Agreement that vest on or prior to such termination, including any rights arising from any default under this Agreement or the terms of any such orders, shall

survive any such termination for the purpose of enforcing such vested rights.

ARTICLE V
GENERAL PROVISIONS

Section 5.1 Validity and Binding Effect. The Parties and their respective successors and assigns agree not to contest the validity and enforceability of this Agreement or any order entered by the Court contemplated by or required to implement this Agreement and the Plan. This Agreement and any such orders are intended to be enforceable under federal law, notwithstanding any contrary state law. This Agreement, the Plan, upon becoming effective, and the orders to be entered by the Court as contemplated hereby and the Plan, shall be irrevocable and binding upon the Parties, notwithstanding any future decisions and orders of the Commission.

Section 5.2 Enforcement. The Parties agree that the Court shall retain jurisdiction over the Parties for all purposes relating to this Agreement and the Plan, including, but not limited to, enforcing any order contemplated by or required to implement this Agreement and the Plan.

Section 5.3 Waiver of Sovereign Immunity. In connection with any action or proceeding concerning the enforcement of this Agreement, the Plan or other determination of the Parties' rights under this Agreement or the Plan, the Commission hereby knowingly and expressly waives all existing and future rights of sovereign immunity, and all other similar immunities, as a defense. Accordingly, the Commission hereby consents to the jurisdiction of any court or other tribunal or forum for such actions or proceedings including, but not limited to, the Court. This waiver is irrevocable and

applies to the jurisdiction of any court, legal process, suit, judgment, attachment in aid of execution of a judgment, attachment prior to judgment, set-off or any other legal process with respect to the enforcement of this Agreement, the Plan or other determination of the Parties' rights under this Agreement. It is the intention of this Agreement that neither the Commission, nor any other California entity acting on the Commission's behalf, may assert immunity in an action or proceeding, as discussed herein, concerning the Parties' rights under this Agreement or the Plan.

Section 5.4 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 5.5 Captions and Paragraph Headings. Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

Section 5.6 Entire Agreement. This Agreement, together with the Plan, contains the entire understanding of the Parties concerning the subject matter of this Agreement and, except as expressly provided for herein, supersedes all prior understandings and agreements, whether oral or written, among them with respect to the subject matter hereof and thereof. There are no representations, warranties, agreements, arrangements or understandings, oral or written, between the Parties hereto relating to the subject matter of this Agreement and such other documents and instruments which are not fully expressed herein or therein. This Agreement may be amended or modified only by an agreement in writing signed by each of the Parties hereto which is filed with and, if necessary, approved by, the Court.

Section 5.7 Time of Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement. The Parties acknowledge that each will be relying upon the timely performance by the other of its obligations hereunder as a material inducement to each Party's execution of this Agreement.

Section 5.8 No Third Party Beneficiaries. Except as may be specifically set forth in this Agreement or the Plan, nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any Persons (including, without limitation, any Persons holding claims against or interests in PG&E) other than the Parties and their respective permitted successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third Persons to any Party, nor give any third Persons any right of subrogation or action against any Party.

Section 5.9 Authority, Enforceability. Each Party represents and warrants to the other that this Agreement has been duly authorized by all action required of such Party to be bound thereby, and that this Agreement is valid, binding and enforceable obligations of such Party.

Section 5.10 Waiver of Compliance. To the extent permitted by applicable law, any failure of any of the Parties to comply with any obligation, covenant, agreement or condition set forth herein may be waived by the Party entitled to the benefit thereof only by a written instrument signed by such Party, but any such waiver shall not operate as a waiver of, or estoppel with respect to, any prior or subsequent failure to

comply therewith. The failure of a Party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

Section 5.11 California Law. This Agreement shall be governed by, and shall be construed and enforced in accordance with, the laws of the State of California, without giving effect to the conflict of law principles thereof.

Section 5.12 Admissions. This Agreement is a compromise believed by the Parties to be in the best interests of all concerned parties. Nothing in this Agreement shall be construed or deemed to be an admission by any of the Parties of any liability or any material fact in connection with the Litigation.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

PACIFIC GAS & ELECTRIC COMPANY

By: _____

Title: _____

CALIFORNIA PUBLIC UTILITIES COMMISSION

By: _____

Title: _____

COMMISSIONERS IN THEIR OFFICIAL CAPACITY

Loretta M. Lynch

Henry M. Duque

Carl W. Wood

Geoffrey F. Brown

Michael Peevey