



FitchRatings

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November 18, 2002

Official Committee of Unsecured Creditors
in the Chapter 11 Proceedings of Pacific Gas
and Electric Company (the "Committee")
c/o Paul S. Aronzon, Esq.
Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street, 30th Floor
Los Angeles, California 90017

Ladies and Gentlemen:

Re: Credit Assessment for Joint Plan of Reorganization,
Reorganized Pacific Gas & Electric Co.

You have requested that Fitch Ratings assess the creditworthiness and indicative credit ratings of certain proposed securities to be issued by Reorganized Pacific Gas & Electric Co. (RPGE) pursuant to the Joint Plan of Reorganization proposed by the California Public Utilities Commission (CPUC) and the Official Committee of Unsecured Creditors (Committee). The Proposed Securities are:

- \$5,773 million new First Mortgage Bonds
- \$1,500 million new Secured Bank Term Loan Agreement
- \$1,000 million new unfunded Senior Secured Revolving Credit Facilities (collectively with the Term Loan agreements, the "Senior Secured Loans")
- \$1,000 million new Senior Unsecured Bonds
- \$ 500 million new Preferred Securities

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This credit assessment does not constitute a credit rating by Fitch of the Proposed Securities outlined above and is not meant for publication or distribution other than in the normal procedures of the US Bankruptcy Court in the bankruptcy proceedings of Pacific Gas & Electric Co. Please note that our procedures for issuing a credit rating differ from the procedures used by us in issuing this credit assessment, but the rating criteria employed are consistent with those used by Fitch Ratings in its normal credit ratings.

This letter is to advise you that, based upon our analysis, which included the review of summaries of the proposed Reorganization Plan and Agreement provided by the California Public Utilities Commission, financial projections for RPGE provided by UBS, information filed by PG&E Corporation with the Securities and Exchange Commission, and publicly available information regarding California laws affecting electric utility tariffs, power procurement and procurement cost recovery, Fitch's assessment of the creditworthiness of Reorganized Pacific Gas & Electric is in the general category of 'BBB'. This is an underlying rating, reflecting the credit of RPGE before taking into consideration two additional factors that would affect the actual ratings of securities to be issued in the transaction. These two factors are: (i) the features of the individual securities (collateral, seniority or subordination, and covenants); and (ii) the financial condition and credit standing of RPGE's parent. Fitch's rating criteria constrains the ratings of a regulated utility subsidiary of a parent company with weaker financial profile, as will be illustrated below.

At the present time, Fitch Ratings does not publish credit ratings of Pacific Gas & Electric's parent PG&E Corp., but we do maintain indicative ratings. Currently, our indicative rating of PG&E Corp. are in the range of 'CCC to B-'. For the purpose of assessing the likely constraint posed by the parent rating on the ratings of the Proposed Securities to be issued under the Alternate Plan of Reorganization, we considered that the likely range of indicative ratings of PG&E Corp. is from a low of 'B-' to a high of 'BB'. The parent's actual credit standing at the time of RPGE's reorganization will depend upon the circumstances of PG&E Corp.'s subsidiary PGE National Energy Group and upon a more detailed understanding of the tax position of the PG&E Corp, and other matters that would affect the parent company cash flow and ability to cover parent level obligations.

The grid on the following page represents the expected ratings of the Proposed Securities, taking into consideration a range of possible ratings for the parent company and the likely ratings for different classes of instruments proposed to be issued.

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However, Fitch Ratings has not considered the possibility of any special structuring or changes of ownership or corporate structure that could be designed to further insulate the credit of RPGE from that of PG&E Corporation.

<u>Indicative ratings of proposed RPGE securities</u>	Underlying ratings before considering parent credit quality	Security ratings if parent rating is BB or higher	Security ratings if parent rating is 'BB-'	Security ratings if parent rating is 'B' or 'CCC'	Security ratings with parent in default (DDD to D category), no higher than:
Sr. Secured Loans and First Mortgage Bonds	BBB	BBB	BBB-	BB+	BB+
Sr. Unsecured Debt	BB+	BB+	BB+	BB-	BB-
Preferred Securities	BB-	BB-	BB-	B	B

While we have not specifically assessed the terms of the \$900 million securitized credit facility proposed in the Joint Plan of Reorganization, we expect that a bankruptcy remote entity could be structured to achieve very high ratings (typically 'AAA'), assuming a portfolio of utility receivables of a size and quality consistent with and a structure that complies with our criteria for such facilities and entities.

This credit assessment is based on the documents and information provided to us as of the date of this letter by the Official Committee of Unsecured Creditors and the California Public Utilities Commission and their experts and agents and the assumptions discussed above. Fitch did not verify the truth or accuracy of any such information and does not take responsibility for the appropriateness of the information provided to us and used in the analysis.

Because this is only a general assessment of the creditworthiness of the proposed securities of Reorganized Pacific Gas & Electric and not an actual credit rating, there can be no assurance that an actual credit rating for the Proposed Securities, if issued by Fitch, will be the same as this assessment or that the assessment will not materially change over time. For example, if, for any reason, there are material changes in the documents, financial projections or actual results of operations, the credit rating of the Proposed Securities is likely to differ from this assessment.

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This credit assessment is not a recommendation to buy, sell, or hold any security or to enter into any agreement or arrangement relating to the Proposed Securities to be issued by RPGE. This credit assessment does not comment on the adequacy of market price, the suitability of any security, investment or other arrangement for a particular party, or the tax-exempt nature or taxability of payments made in respect of any security.

This credit assessment does not constitute consent by Fitch to the use of its name as an expert in connection with any registration statement or other offering document filed under, or prepared in accordance with, the U.S. federal securities laws, the Financial Services Act 1986 or any other domestic or international securities law applicable.

Fitch does not represent, warrant or guarantee, and the Committee acknowledges that Fitch does not represent, warrant or guarantee (i) that it is providing any financial advice, auditing, accounting, appraisal, valuation or actuarial services, (ii) the accuracy, correctness, integrity, completeness or timeliness of any part of this credit assessment, or (iii) that the information, analyses and assessment contained in, and constituting a part of, this credit assessment will fulfill any of the Committee's particular purposes or needs. Fitch is not responsible for any underwriting, credit, loan, purchase or investment decision, or damages or other losses resulting from use of this credit assessment.

This credit assessment may be shown only in its entirety.

We are pleased to have had the opportunity to provide this assessment to you. If we can be of further assistance, please contact me at (212) 908-0504 or ellen.lapson@fitchratings.com.

Sincerely,



Ellen Lapson, CFA
Managing Director