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Standard & Poor's

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California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3208
Attention: Gary M. Cohen, Esq.

Official Committee of Unsecured Creditors
In re: Pacific Gas and Electric Company
c/o Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street, 30th Floor
Los Angeles, CA 90017-5735
Attention: Paul S. Aronson, Esq.

November 19, 2002

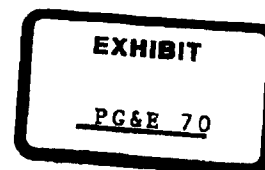
Ladies and Gentlemen:

Pursuant to your request, Standard & Poor's has performed a credit assessment of \$7.845 billion principal amount senior secured debt, \$1 billion principal amount senior unsecured debt and \$832 million par amount preferred stock ("Securities") anticipated to be issued or reinstated by Pacific Gas and Electric Company ("PG&E") in connection with its emergence from bankruptcy should the proposed Plan of Reorganization ("CPUC Plan") jointly filed in the Chapter 11 bankruptcy proceedings of PG&E by the California Public Utilities Commission ("CPUC") and the Official Committee of Unsecured Creditors ("OCUC") be adopted.

In arriving at this credit assessment, we have had discussions with the CPUC and its advisors, as well as with representatives of the OCUC. We have reviewed materials supplied to us by representatives of the CPUC and the OCUC including, but not limited to:

- The CPUC Plan;
- The Reorganization Agreement appended to the CPUC Plan;
- Regulations promulgated by the present Commission in furtherance of the CPUC Plan;
- The financial model ("Model") including financial forecasts and assumptions jointly supplied to Standard & Poor's by representatives of the CPUC and OCUC;

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- Details of the "regulatory asset" proposed to be created by the CPUC and its related amortization schedule;
- CPUC's and OCUC's Memorandum of Points and Authorities in Support of Confirmation of First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company dated August 30, 2002, as amended;
- Declaration of Paul S. Aronzon dated November 6, 2002 and the exhibits appended thereto;
- PG&E's Trial Brief in Opposition to the CPUC and OCUC Plan dated November 8, 2002; and
- Such other materials as we have deemed appropriate.

Based upon our review of the foregoing materials, it is Standard & Poor's credit assessment that the \$7.845 billion principal amount senior secured debt -- but not the \$1 billion principal amount senior unsecured debt or the \$932 million par amount preferred stock -- exhibits indicia of marginal investment grade credit quality based upon our credit metrics. Our conclusion with respect to the secured debt reflects the benefits of the over-collateralization provided by the assets pledged to secure the debt. The Issuer Credit Rating of PG&E under the CPUC Plan, however, has been determined to be speculative grade. Please note that the ultimate assignment of investment grade ratings on the \$7.845 billion principal amount senior secured debt hinges on the satisfaction of each of the issues cited in this letter and on the conditions below having been met.

A credit assessment is not a rating. A credit assessment is solely a credit opinion based on the facts and circumstances presented to us by CPUC and OCUC. In this case a credit assessment is warranted by the quantity and quality of the information provided to us and issues associated with the reliability of the Model. Please note, however, that as the Model is refined and supplemented a more definitive outcome may be possible.

This credit assessment should be understood as qualified by the fact that (i) additional information or changes to the information previously presented to us may result in credit risk stronger or weaker than that suggested by the credit assessment and, consequently, a different definitive rating; (ii) the credit assessment is not a prediction of the actual future performance of the Securities; (iii) Standard & Poor's does not warrant or endorse suitability of the credit assessment for any particular purpose or use; (iv) the credit assessment is provided without any express or implied warranties whatsoever; (v) the credit assessment is based solely on information provided to us by CPUC and OCUC and does not represent an audit by Standard & Poor's; (vi) Standard & Poor's relied upon CPUC and OCUC, their accountants, counsel and other experts for the accuracy and completeness of the information submitted in connection with the credit assessment; (vii) the credit assessment shall not be construed to have been undertaken with the rigor and level of detail required for Standard & Poor's to provide a definitive rating opinion; and (viii)

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Standard & Poor's does not and cannot guarantee the accuracy, completeness or timeliness of the information relied upon in connection with the credit assessment or the results obtained from the use of such information. Please note that the credit assessment speaks only as of the date hereof and is not subject to surveillance or update. As noted, a more comprehensive analysis might lead to an outcome different than the credit assessment. In addition, the credit assessment does not address the validity of the assumptions made by CPUC and OCUC in preparing the Model.

Standard & Poor's credit assessment is predicated upon the satisfaction of the following conditions:

- a) The CPUC Plan is confirmed by January 31, 2003 and is implemented substantially in its current form with all preconditions to the CPUC Plan's confirmation and implementation being satisfied and not waived;
- b) All financial targets set forth in the Model are justified by provable assumptions and are substantially attained without any material deviation from the projected results;
- c) PG&E can access capital markets to the extent forecast, that PG&E can secure the assumed liquidity facilities, that forecast cash balances are available to discharge a portion of creditors' claims as contemplated, and that owned and contracted electric generation dispatches at prices and quantities consistent with the forecast;
- d) The Securities are amortized as forecast and interest costs do not materially exceed projected levels;
- e) Receipt of evidence of (i) the methodology employed by CPUC in preparing the Model and (ii) the propriety of the consolidation by CPUC of elements of the financial and operational forecasts for the four companies proposed to succeed the debtor as reflected in PG&E's proposed reorganization plan;
- f) Receipt of evidence that the Model reflects all decisions of the CPUC rendered subsequent to the filing by PG&E of its proposed reorganization plan;
- g) All CPUC regulations necessary to the implementation of the CPUC Plan and necessary for the maintenance of investment grade ratings on the Securities have been promulgated by the CPUC prior to the sale of the Securities;
- h) Receipt of a legal opinion from independent California counsel satisfactory in form and substance to Standard & Poor's to the effect that the Reorganization Agreement and the regulations referred to in the preceding paragraph will bind the CPUC throughout the life of the Securities;
- i) Receipt of a judicial determination that the Reorganization Agreement and the regulations referred to in paragraph (g) will bind the CPUC throughout the life of the Securities;
- j) The regulations referred to in paragraph (g) include, but are not limited to, the timely creation of the "regulatory asset" provided for in the CPUC Plan, and mechanisms that compel the CPUC to timely reconcile any imbalances between revenues and cash expended for fuel and electricity procurement;

- k) The regulatory asset (i) can be demonstrated to increase PG&E's rate base by the full amount presented in the financial forecast, (ii) is amortized in a time frame consistent with the Model, and, (iii) throughout the life of the Securities, neither the amortization nor the creation of the regulatory asset may be altered by the CPUC if such modification would compromise the Securities' projected financial performance or erode their credit quality;
- l) Receipt of any other regulatory approvals beyond those described in paragraphs (g), (j) and (k), whether state or federal, that are necessary for the implementation of the CPUC Plan and the realization of the projections contained in the Model are timely achieved by PG&E and/or CPUC, as the case may be;
- m) The "Reorganization Agreement," as defined in the Plan, is (i) executed in the form presented to us, (ii) validly adopted by the CPUC, (iii) approved by the bankruptcy court and (iv) pursuant to its terms, binding upon the CPUC throughout the life of the Securities;
- n) The quantum of claims made against the bankruptcy estate are substantially as estimated in the CPUC Plan;
- o) The Utility Reform Network appeal to the 9th Circuit Court of Appeals that challenges on both procedural and substantive grounds the settlement agreement reached between CPUC and Southern California Edison in Southern California Edison's "filed rate doctrine" litigation, does not establish legal precedents that defeat or diminish CPUC's capacity to validly execute a binding Reorganization Agreement or to act as a co-proponent of the Plan, does not impair cash balances PG&E's entitlement to recover historical power procurement costs;
- p) Prior to the assignment of financial responsibility for any DWR contracts to PG&E, CPUC shall deem all costs associated with such DWR contracts to be prudent and recoverable in rates by PG&E, such a determination will be a precondition to the transfer of financial responsibility for DWR contracts to PG&E, and the determination shall be binding upon the CPUC throughout the life of the Securities;
- q) Evidence that the amount of collateral that PG&E must post to procure residual net short power or other electricity is consistent with the levels that have been forecast in the CPUC Plan and procurement costs are recoverable in rates;
- r) Evidence that should CPUC reject any or all of PG&E's proposed electric procurement plans, or portions thereof, PG&E will be able to secure alternative wholesale electric supplies at prices acceptable to the CPUC and the costs associated with such electric supply are recoverable in rates;
- s) Evidence that CPUC has developed and implemented a methodology for the prospective approval of the prudence and reasonableness of PG&E risk management and risk tolerance activities and evidence that the CPUC will permit as a ministerial matter the recovery of PG&E's costs of securing risk management tools and also permit the recovery of costs associated with that portion of the power and fuel portfolio that is not hedged; and

- t) Evidence that the CPUC Plan will not be amended to include restrictions on dividends to PG&E Corp, the parent of PG&E.

You may use this credit assessment in connection with proceedings in *In re: Pacific Gas and Electric Company*. Standard & Poor's reserves the right to publish this credit assessment and the conditions attendant thereto and to advise its own clients, subscribers, and the public thereof.

CPUC and OCUC understand that Standard & Poor's has not consented to, and will not consent to, being named an "expert" under the federal securities laws, including without limitation, Section 7 of the Securities Act of 1933. In addition, it should be understood that the credit assessment is neither a "market" rating nor a recommendation to buy, hold, or sell the instruments.

We are pleased to have been of service to CPUC and OCUC. If we can be of further assistance, please do not hesitate to contact us.

Very truly yours,

